

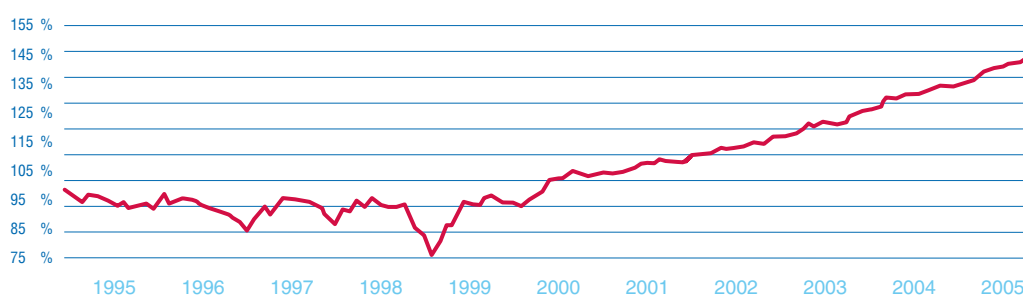
Economic Situation in Russian Federation and Global Situation

Global economic situation in 2005 has been favorable for Russia. Price level of practically all groups of raw materials and oil in particular remained high, which facilitated the strengthening of the national financial power: federal budget surplus increased up to 7.5 % of GDP, gold and foreign exchange reserves exceeded US\$ 182 billion; RUR 1.24 trillion have been accumulated in the Stabilization Fund.

External debt of Russia in 2005 decreased from 19.3 % to 10.6 % of GDP. Stabilization Fund disbursements were used to prepay the obligations to the World Monetary Fund (US\$ 3.3 billion) and Paris Club (US\$ 15 billion).

GDP growth by the results of 2005 amounted to 6.4 %, thus exceeding the forecast, but still below the result of 2004 (7.2 %). Inflation decreased to 10.9 % per annum, which, however, resulted to be higher than the annual 8.5 % planned by the Government. Real exchange rate of Ruble gained strength by 10.5 %.

Russia GDP Dynamics (1995 - 100 %)



In 2005, Standard & Poor's upgraded Russia's rating to the investment level; similar ratings previously given to Russia by Moody's Investors Service and Fitch Ratings were also upgraded.

In the second half of 2005, foreign and national investors boosted their activities significantly; so, the hiatus that had emerged in 2004 due to the case of YUKOS was overcome. While in the middle of the period under review the investments were growing at an annual rate of 5 %, by November that rate had reached 15 % per annum. Though raw materials producing sector still retained its leading position in the volumes of investments raised, the companies working in infrastructure and consumer market gained upper hand in investments dynamics. The process was stimulated by the Russian Government which has been keeping in check domestic investments in the oil and gas sector, while maintaining high tax burden.

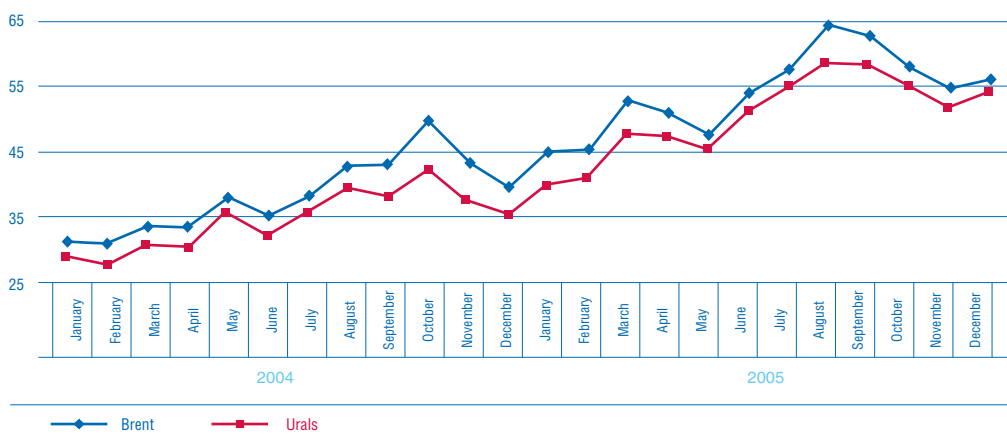


Wisdom and faith of young Constantine were so strong that he managed to gain the victory in dispute with Annum, the leader of image-breakers. It was not the only dispute, and Constantine was sent by the emperor to head the dispute about the Holy Trinity with

Saracens (the Muslims), and he got the victory as well. Upon the return St. Constantine went to his brother St. Methodius to Olympus and he spent his time in continuous preaching and reading the manuscripts of holy fathers.



World Oil Price Dynamics (USD/Barrel)



Budget surplus made it possible to finance additional expenses of the state which, along with the monetization of social benefits, expected inflation and booming loans to individuals, resulted in a sharp growth of domestic consumption. That factor was the main catalyst of economy development. In addition, on the background of continuing protection measures in foreign trade, medium business focused on the industries oriented to satisfying consumer demand, in particular the food industry and agriculture.

Banking System Development

In 2005, the pace of Russian banking sector development was quicker than the general economic performance indicators. By the year results, assets of lending entities increased by more than 33 % (up to RUR 9.5 trillion), capital – by 30 % (up to RUR 1.2 trillion). Operations with individuals acquired great importance. Thus, the volume of loans granted grew by almost 90 %; borrowings amounted to approximately RUR 1.1 trillion by the year end; deposits amounted to RUR 2.6 trillion which exceeds the result of 2004 by one third.

In the conditions of bitter competition state-owned banks managed to strengthen their positions; non-residents also became more active: in the eleven months of 2005 the number of banks where foreign participation interest exceeded 75 % increased from 43 to 47.

Last year the Bank of Russia continued to pursue its practice of revoking licenses from lending entities violating the law. As a result, their number decreased from 1,520 to 1,404 as of January 1, 2006.

Extensive regional expansion still was the most important institutional process. 500 new branches had been opened throughout the country by December 2005 (against 350 branches a year before), while almost half of those branches were opened by major Moscow banks.



The emperor of Byzantium summoned the two brothers from the monastery and sent them to Khazars on mission to preach the New Testament. On their way they made a stop in Korsuny in preparation for the preaching mission. There the brothers by a

mysterious chance obtained the holy relics of martyr Saint Clement, the Pope of Rome. It was there that St. Constantine discovered Gospel and the Book of Psalms written in an unknown language – those were supposedly "Russian letters". He met a per-

son speaking Russian and began to learn reading and writing in his language.

Positive dynamics of quotations on stock and bonds market was observed throughout the year, which was caused by high interest of non-residents in the Russian assets. In its turn, such attention was attracted mostly thanks to extensive offer of second- and third-tier bonds on the primary market.

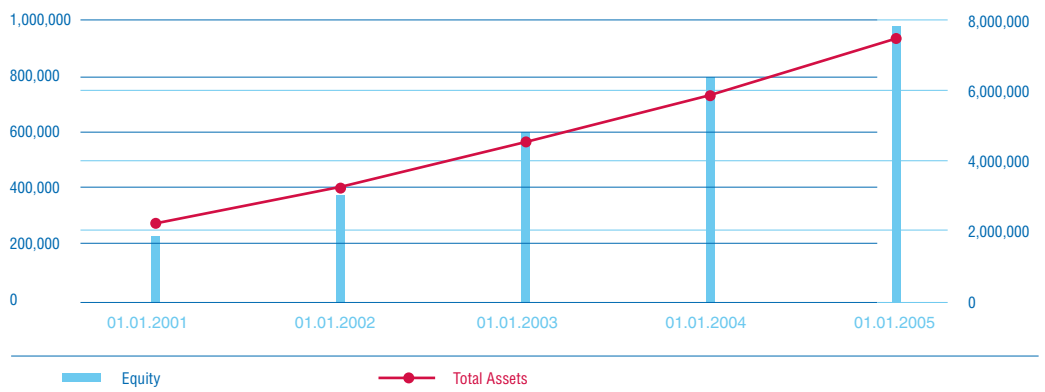
National banks have significantly built up their securities portfolios. Investments in equities grew by almost 120 %; in bonds – by almost 30 % on the whole approaching the level of RUR 1 trillion. Lending entities have been actively issuing Eurobonds: while in the beginning of the year the volume of Eurobonds issued had been equal to US\$ 7.2 billion, by the end of the reported period it made up US\$ 15.3 billion.

Growth of stock indices and active participation of investors conditioned the predilection for IPOs; some banks announced preparation for IPOs.

Volume of loans extended to companies grew by approximately one-third approaching RUR 3 trillion. At the same time, the loans/broad money ratio reached 0.75, while for the 2002–2004 period it had been around 0.60–0.65.

Banking Sector Development Strategy up to Year 2008 was approved in 2005. According to that document, by 2009 banks' assets would make up 56-60 % of GDP; capital would reach 7-8 % of GDP and loans to non-financial entities would make up 26-28 %. Real increment rate of assets, capital, loans and deposits are expected to outpace the GDP dynamics.

Russian Bank System Assets and Capital Growth Dynamics in 2001–2005 (RUR million)



40

163

While in Rome St. Constantine fell sick and he had a miraculous vision – he was told by the Lord about his soon death. He accepted schema and was named Cyril. In 50 days upon the acceptance of schema Cyril died at the age of 42 years on February 14,

869. Dying St. Cyril addressed his brother St. Methodius and asked to continue their mission and to teach Slavic peoples preaching the true religion. There was a very positive fact in favor of Slavic alphabet in the Middle Ages: the Greek letters were created by

pagans, while the Slavic alphabet was created by a saint.

