

RUSSIAN BANKING SECTOR IN H1 2013

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In H1 2013, the Russian banking sector focused basically on the retail sector. Household bank deposits accounted for almost 40% of increased liabilities, whereas for 33% of increased assets. Corporate loans accounted for as little as 25% of increased assets. Furthermore, retail loan yield hit the record of 18% p.a.

Russian banking sector's assets increased 1.6%¹ in June 2013. The assets grew up at a rate of 19.0% over 12 months following the results in June 2013. This value has been remaining stable within a range between 19 and 21% since the fall of 2012.

Russian private banks showed most intensive growth rates in June 2013: 3.1% – large private banks, and 1.8% – small- and medium-sized private banks. State banks, including Sberbank, retained moderate growth rate dynamics (1.2%), whereas large subsidiary foreign banks even saw a contraction of 0.7% in their asset volume.

Banking sector's² regulatory capital increased by 2.9% during the month. Banks' capital saw growth basically in response to an additional issue by VTB, the second largest bank, with was recognized in its reports for June. VTB accounted for Rb 134bn of Rb 182bn total banks' capital increase. It should be noted that VTB managed to increase added capital included into the calculation of own funds.

Banking sector's capital adequacy (H1 regulation) remained unchanged, 13.5%. A substantial growth in VTB's capital adequacy (from 12.3 to 15.2%) was compensated by lowering Sberbank's capital adequacy (from 13.6 to 13.2%) and other banks (from 13.6 to 13.2%) due to outrunning growth in the volume of risk-bearing assets.

Banking sector's profit amounted to Rb 100bn in June 2013, having shown the maximum volume of monthly profit in 2013 (Rb 78bn on average within the first five months). This record was driven by the two factors. First, June 2013 saw a minimum increase in provisions for losses (Rb 30bn, against Rb 46bn on average within the first five months). Second, as we forecasted in the previous month, banks managed to generate extra revenues from their active foreign currency position when the ruble was devaluated. Net income

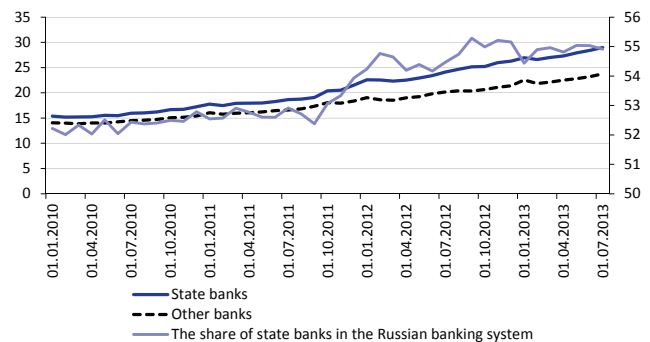


Fig. 1. Dynamics of state and other banks' assets (trillions of rubles), and the share of state banks in the assets (% , right-hand scale)

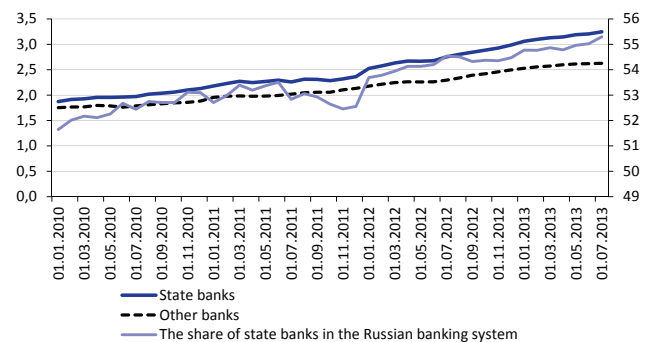


Fig. 2. Dynamics of state and other banks' equity capital³ (trillions of rubles), and the share of state banks in capital (% , right-hand scale)

from revaluation of foreign currency accounts in June was Rb 36bn, having shown an increase of Rb 30bn over the average value of such income generated in the period between January and May.

However, banking operation profitability saw an insignificant increase. In June 2013, ROA stood at 2.3% p.a. (2.0% in H1 2013), ROE at 20.6% (17.1% p.a. in H1 2013).

Fundraising

Household bank deposits increased by 2.1% in June 2013 and 20.0% during 12 months. According to preliminary estimates, savings ratio of household bank deposits accounted for 6.3% of total cash income in

1 Hereinafter, unless otherwise indicated, growth rates in balance sheet figures are presented with allowance for revaluation of the foreign currency component.

2 Calculated according to the credit institution reporting form No. 134.

3 Calculated according to balance-sheet accounts (form No. 101)

H1 2013, having increased 1 p.p. year-on-year. The increase was triggered by growth in relatively investment potential of bank deposits. In H1 2013, actual value of term retail bank deposits reached 6.7% p.a., having increased 0.7 p.p. year-on-year. Given the circumstances, individuals preferred to allocate most of their savings in bank deposits, thereby reducing the demand for cash. The national currency in cash increased by Rb 20bn for the first time within six months of 2013 (against Rb 65bn within the six months of 2012), whereas foreign currencies in cash contracted by \$4,3bn (in H1 2013, foreign currencies in cash saw a growth of \$1,2bn). Therefore, in January–June 2013, total savings ratio in bank deposits and cash stood at 5.7% against 6.0% in January–June 2012.

In spite of a negative trend in the ruble exchange rate in May–June, individuals kept favoring ruble accounts and deposits in building up their savings portfolio. For instance, ruble bank accounts and deposits increased 2.4% during the month, whereas foreign exchanged bank accounts and deposits increased as little as 0.9%.

Corporate bank accounts increased by 1.5% in June and 3.0% in H1 2013, having shown a much better trend vs. the previous year when corporate funds on accounts and deposits contracted 2.3% during the first six months of 2012. Therefore, annual growth rates reached 16.5% in June 2013 against 10.5% as of beginning of the year.

Throughout the entire June, corporate settlement and current accounts with banks saw growth, having

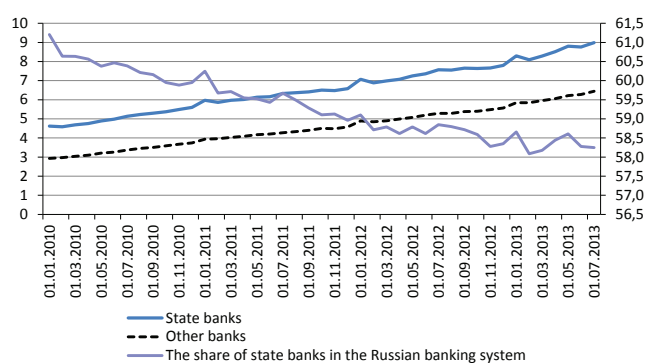


Fig. 3. Dynamics of state and other banks' retail deposits (trillions of rubles), and the share of state banks in the retail deposit market (% , right-hand scale)

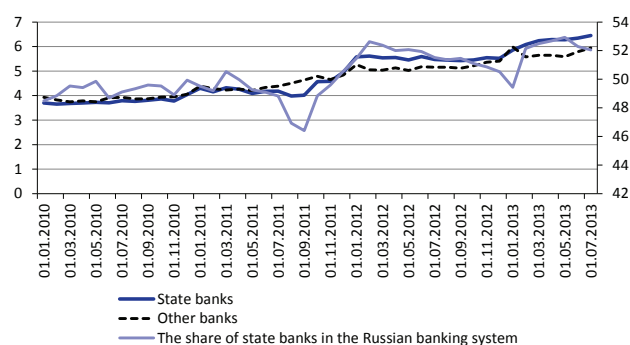


Fig. 4. Dynamics of corporate accounts with state and other banks (trillions of rubles), and the share of state banks in the corporate account market (% , right-hand scale)

increased by Rb 206bn in nominal volume, whereas term deposits contracted by Rb 14bn during the month. Nevertheless, term deposits has kept prevail-

RUSSIAN BANKING SYSTEM'S STRUCTURE OF LIABILITIES (AT MONTH END),
AS PERCENTAGE OF TOTAL

	12.08	12.09	12.10	12.11	06.12	09.12	12.12	01.13	02.13	03.13	04.13	05.13	06.13
Liabilities, billions of rubles	28022	29430	33805	41628	44266	45861	49510	48429	49165	49839	50693	51587	52744
Equity	14.1	19.3	18.7	16.9	16.8	16.9	16.2	16.8	16.7	16.7	16.6	16.5	16.3
Loans from the Bank of Russia	12.0	4.8	1.0	2.9	5.1	5.1	5.4	4.5	4.5	4.5	4.4	4.8	4.4
Interbank operations	4.4	4.8	5.5	5.7	4.8	5.1	5.6	5.4	5.4	5.4	5.0	4.9	5.2
Foreign liabilities	16.4	12.1	11.8	11.1	11.3	11.0	10.8	10.5	10.6	10.4	10.8	10.7	10.8
Retail accounts and deposits	21.5	25.9	29.6	29.1	29.4	28.7	28.9	29.1	29.3	29.6	30.0	29.5	29.6
Corporate accounts and deposits	23.6	25.9	25.7	26.0	24.0	23.3	24	24.1	24.2	23.9	23.4	23.5	23.5
Accounts and deposits of government agencies and local government authorities	1.0	1.0	1.5	2.3	1.5	2.5	1.6	1.1	1.0	1.4	1.9	2.0	2.4
Outstanding securities	4.1	4.1	4.0	3.7	4.5	4.8	4.9	5.2	5.3	5.2	5.2	5.1	5.1

Source: Central Bank of Russia, IEP's estimates.

ing among total corporate customers' funds in banks: they account for 54.6% of total corporate funds held in banks, or around Rb 6,5 trillion.

Loans issued

The retail segment of the loan market increased by 2.4% in June 2013. Over the last 12 months retail loans were growing at a rate of 33.3% against 39.1% as of the beginning of 2013, and 42.5% in the previous year. It should be noted that the post-crisis ceiling of growth rate in household debt to banks was reached by the end of H1 2012. Thereafter, household debt growth gradually slowed down.

The quality of banks' retail credit portfolio remained unchanged in June 2013, which an insignificant declined in overdue debt, perhaps, after banks sold a part of bad loans to collectors. The share of overdue debt stood at 4.3% as of 1.07.2013, the ratio of provisions for losses to outstanding debt on loans was 6.8%.

In spite of slowdown in growth rates of household debt on bank loans, their role in the household income-spending balance has been increasing. For instance, in H1 2013, household loans totaled Rb 4,0 trillion, having shown an increase of 22% year-on-year, whereas nominal value of cash income and consumer spending increased as little as 12% in the same period. For instance, in H1 2013 the ratio of new loans to consumer spending was 25.0% against 27.5% in the same period of 2012. Furthermore, the ratio reached as much as 29.6% in Q2 2013.

Loan debt servicing burden upon household disposable income has been increasing in the same manner. Households' costs on interest payment and principal redemption (according to schedule, net of early repayments) accounted for 11.5% of disposable income in the period of January thru May 2013 against 9.7% in the previous year.

Household debt on loans has been growing along with their actual cost. For instance, in Q2 2013, weighted average yield on household loans was 18.1% p.a. on the bank balance-sheet, having shown annual growth of 1 p.p. and reached a new ceiling for average cost of retail lending in the Russian Federation. To compare, in 2006–2008 this value was 16% p.a. or less. Moreover, weighted average cost of new ruble loans has exceeded 20% p.a. year-to-date for both loans issued for a year or less, and traditionally more expensive loans issued for a year of more whose cost never reached this value before. Average actual loan life is 13–14 months (three years for housing loans and 10–11 months for other types of loans). This suggests that at least in the next year retail loans may cost more than 20% p.a. and loan servicing burden upon disposable income may reach 13–14%, while retaining the existing credit portfolio term.

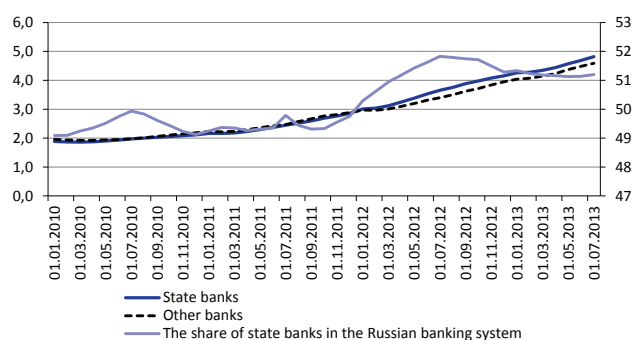


Fig. 5. Dynamics of state and other banks' retail loans, (trillions of rubles), and the share of state banks in the retail loan market (% , right-hand scale)

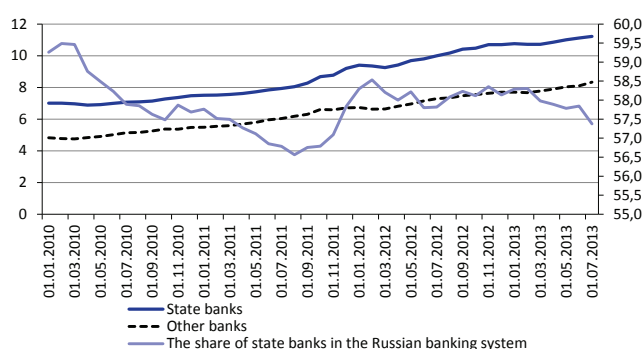


Fig. 6. Dynamics of state and other banks' corporate loans (trillions of rubles), and the share of state banks in the corporate loan market (% , right-hand scale)

Corporate customers' debt on bank loans increased in volume by 1.3% in June 2013, whereas annual growth rate contracted to 13.1% as of July 1, 2013. Furthermore, in H1 2013, growth in corporate debt on loans has consistently been falling behind growth in household debt. For instance, the volume of loans to corporate borrowers increased by Rb 852bn and household debt by Rb 1091bn within the first 6 months. Therefore, banks have been shifting towards higher-yield retail lending. In Q2 2013, average cost of loans to non-financial business organizations was half as much as that in the retail segment (9.8% p.a.). Moreover, the volume of interest income from corporate loans to residents (save for banks) was as little as 17% higher than that from retail loans: Rb 906bn against Rb 773bn in H1 2013.

The quality of corporate loans deteriorated in June 2013. The share of overdue debt contracted to 4.4% and the ratio of provisions for losses to loan volume to 7.3%, having resumed the level recorded in the summer of 2009, but more often exceeding the pre-crisis level recorded in the summer of 2008 (1.0% and 3.3% respectively).

Table 2

RUSSIAN BANKING SYSTEM'S STRUCTURE OF ASSETS (AT MONTH END), AS PERCENTAGE OF TOTAL

	12.08	12.09	12.10	12.11	06.12	09.12	12.12	01.13	02.13	03.13	04.13	05.13	06.13
Assets, billions of rubles	28022	29430	33805	41628	44266	45861	49510	48429	49165	49839	50 693	51587	52744
Cash and precious metals	3.0	2.7	2.7	2.9	2.5	2.6	3.1	2.6	2.5	2.5	2.7	2.4	2.4
Deposits in the Bank of Russia	7.5	6.9	7.1	4.2	3.0	2.8	4.4	2.9	3.1	3.3	3.0	3.1	3.3
Interbank operations	5.2	5.4	6.5	6.4	5.8	5.8	6.8	6.7	6.6	6.4	6.1	6.0	6.0
Foreign assets	13.8	14.1	13.4	14.3	14.2	13.9	13.0	14.0	14.6	14.5	15.0	15.6	15.1
Retail sector	15.5	13.1	13.0	14.4	16.0	16.8	16.8	17.3	17.3	17.4	17.7	17.8	17.9
Corporate sector	44.5	44.5	43.6	44.0	43.6	43.4	41.3	42.3	42.1	41.9	41.5	40.9	40.9
State	2.0	4.2	5.1	5.0	3.8	3.3	3.2	3.7	3.3	3.2	2.9	2.8	3.2
Property	1.9	2.7	2.6	2.3	2.3	2.3	2.2	2.3	2.3	2.2	2.2	2.2	2.2

Source: Central Bank of Russia, IEP's estimates.