

THE RUSSIAN BANKING SECTOR IN Q3 2013

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In Q3 2013, the banking sector faced a shortage of customer resources. The major source of liabilities became refinancing on the part of the Bank of Russia and MinFin's deposits. Meanwhile, by results of the lending market's performance in Q3, it was for the first time this year that lending to corporate borrowers consumed volume of resources greater than loans to individuals.

In September, banks' assets posted a 1.4% growth¹, which proved greater a figure compared to the two prior months (in August, the rise was 0.8%, and in July – 0.9%). Nonetheless, the volume of assets added just 3.2% over Q3, while their annual growth rate as of end-September slid to 17.2%. Without regard to each Q1 of a year during which, affected by seasonality, growth rates of financial indicators slow down, the growth rate in bank assets in Q3 2013 has proved the lowest one since mid-2010.

It was monetary authorities' resources that formed a significant contribution to dynamics of the banking sector's indicators in Q3 – they secured 46% of the sector's resources². Without account of these resources, the dynamic of expansion of banks' assets would have accounted: in September -0.5%, in Q3 – 1.1%, and in the last 12 month – 14.6%.

As to active bank operations, in the last quarter, the banking sector increased the proportion of funds dedicated to lending to individuals and corporations, with the proportion of those operations having hit 72% of the volume of redistributed resources (a peak level in a period after 2009). That became possible largely at the expense of corporate lending, whose prominence among other directions of use of resources also became record-breaking over the whole post-crisis period.

The banking sector's regulatory capital⁴ posted a 1.3% growth in September, with risk assets having remained practically unchanged, as they expanded by a meager 0.1%. The capital adequacy rate by end-September accounted for 13.4%.

The banking sector's earnings in September 2013 accounted for Rb 98bln, equivalent of a ROTA rate of 2.2% annualized and a 19.4% rate in terms of return on eq-

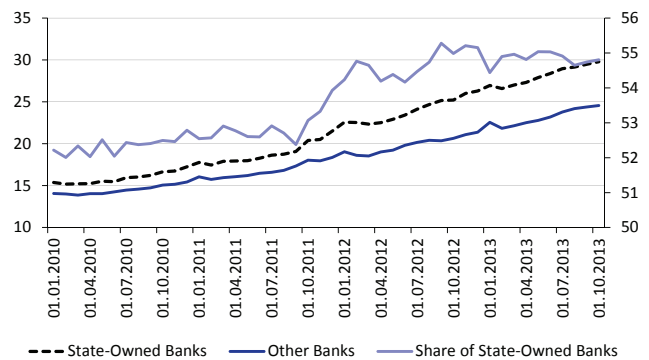


Fig. 1. Dynamics of Assets of State-Owned and Other Banks (as Rb Trln) and the Share of State-Owned Banks in Assets (as %, the right scale)

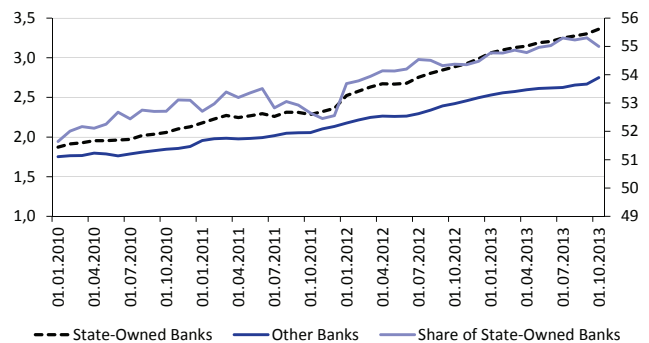


Fig. 2. Dynamics of Capital Base³ of State-Owned and Other Banks (as Rb Trln) and the Share of State-Owned Banks in Capital (as %, the right axis)

uity, which proved slightly above the respective figures on a year-on-year basis (2.0% and 17.2%, respectively). The healthy performance in September should be ascribed to both a high profit prior to creation of reserves (Rb 134bln with an average figure over the 9 months of the year being Rb 127bln) and a slowdown in deductions in contingency provisions, which in September added just Rb 36bln, with the average monthly level since the beginning of the year accounting for Rb 44 bln. That said, even with account of the above factors, the banking sec-

1 Hereinafter growth rates of balance-sheet ratios are cited with adjustment to the re-valuation of the forex component unless indicated otherwise.

2 In this context, the resources are construed as a quarterly growth in liabilities and fall in assets, while the active use of resources constitutes a quarterly growth in assets and decrease in liabilities.

3 Calculated on the basis of balance-sheet accounts (form № 101).

4 Calculated by credit organizations' statement № 134.

tor's earnings in Q3 (Rb 751bln) have remained practically unchanged on a year-on-year basis (Rb 750bln over the same period in 2012).

Attracted capital

The volume of private individuals' deposits rose just 0.4%, or by Rb 70bln, in September (2.1%, or Rb 328bln over Q3, and 19.8% – in annualized terms. That said, the September rise was practically fully fueled by forex-denominated accounts: while the volume of Rb-denominated savings added just 0.1% in September, forex-denominated accounts increased 2.2% in USD equivalent (USD 2.0bln).

In all, the growth in bank deposits over Q3 2013 accounted for 3.3% of households' real disposable incomes, which proved slightly less than the figure reported over the respective period of the prior year (3.6%). However, with account of an increase in cash, the savings ratio shrank practically by 1 p.p., i.e. down from 3.7% to 2.8% of the population's real disposable incomes over the quarter concerned.

The average private bank deposit yield rate (without account of current and checking accounts) in Q3 2013 was at a level of 6.8% annualized vs. 6.2% reported a year ago. Interest payments on private individuals' accounts totaled Rb. 228bln in Q3 2013, meaning that over two-thirds of the influx of private capital into banks over the quarter was secured by interest accrued on deposits.

Corporate clients' capital on their accounts grew just by 0.9% (Rb 109bln.) in September 2013 (by merely 0.5%, or Rb. 61bln over Q3), with the annual growth rate having plummeted to 15.3% vis-à-vis 16.8% reported in the prior month.

Like private individuals, corporate clients in September preferred forex-denominated accounts, whose volume rose 4.5% (USD 3.7bln), over Rb-denominated ones (down 0.1%).

The monetary authorities' capital has recently formed the basis of the banking sector's resource base. In September, the banks' debts to the Bank of Russia grew by Rb 311bln, and those before the MinFin – by Rb 211bln. As of October 10, 2013, the aggregate volume of the banking sector's liabilities before the Bank of Russia and MinFin exceeded Rb 4trln, which proved greater than the peak volume of the government cushion during the crisis, which at the time in nominal terms accounted for Rb 3.7trln.

Relative value-wise, the banking sector refinancing volume has so far fell short of hitting the level of early 2009 (12.3% of assets and 8.2% of GDP), albeit it proved a maximum one for a period since early 2010 (7.4% of banking assets and 6.1% of GDP).

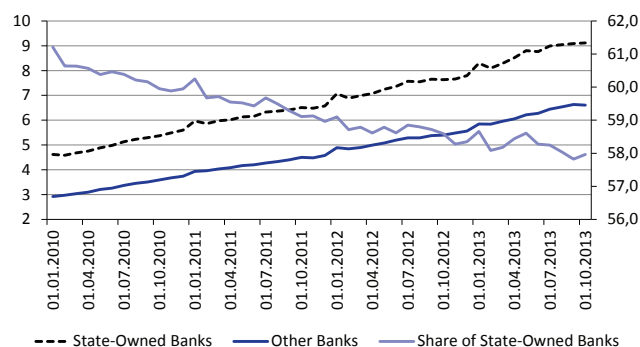


Fig. 3. Dynamics of the Residents' Deposits with State-Owned and Other Banks (as Rb. Trln.) and the State-Owned Banks' Share on the Market for Private Deposits (as %, the right scale)

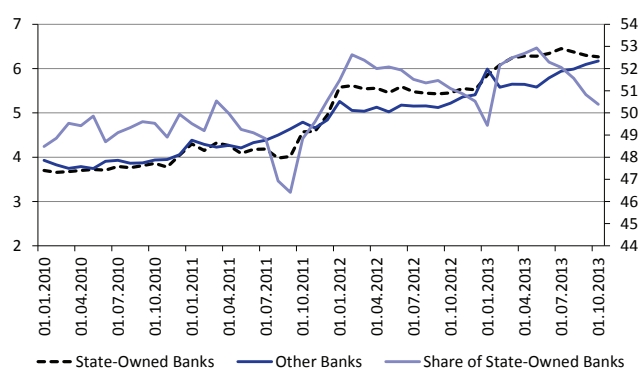


Fig. 4. Dynamics of Corporate Accounts with State-Owned and Other Banks (as Rb. Trln) and the State-Owned banks' Share on the Market for Corporate Accounts (as %, the right scale)

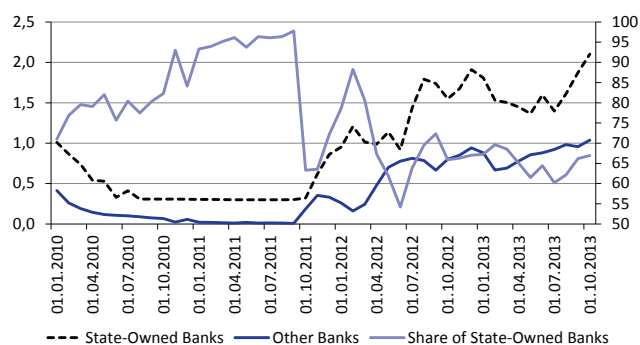


Fig. 5. Dynamics of the Bank of Russia's Lending to State-Owned and Other Banks (as Rb. Trln.) and the State-Owned Banks' Share in the Bank of Russia's Lending (as %, the right scale)

Placed Capital

In September, the increase rate in the residents' credit exposure continued to decelerate in annualized terms. Over the month, the banks' retail credit portfolio was up 1.5% (Rb 148bln), while the annual increase rates having slid to 30.2% compared with 31.7% a month before and 39.1% as of the beginning of the year.

Table 1

**THE STRUCTURE OF LIABILITIES OF RUSSIA'S BANKING SYSTEM
(AS OF END-MONTH), AS % TO RESULT**

	12.08	12.09	12.10	12.11	06.12	12.12	03.13	05.13	06.13	07.13	08.13	09.13
Liabilities, Rb bln..	28022	29430	33805	41628	44266	49510	49839	51587	52744	53353	53876	54348
Own capital	14.1	19.3	18.7	16.9	16.8	16.2	16.7	16.5	16.3	16.3	16.3	16.5
Bank of Russia's loans	12.0	4.8	1.0	2.9	5.1	5.4	4.5	4.8	4.4	4.9	5.3	5.8
Interbank transactions	4.4	4.8	5.5	5.7	4.8	5.6	5.4	4.9	5.2	5.1	5.1	5.1
Foreign liabilities	16.4	12.1	11.8	11.1	11.3	10.8	10.4	10.7	10.8	10.6	10.4	10.1
Private individuals' capital	21.5	25.9	29.6	29.1	29.4	28.9	29.6	29.5	29.6	29.6	29.6	29.3
Corporate capital	23.6	25.9	25.7	26.0	24.0	24	23.9	23.5	23.5	23.2	23.0	22.9
Accounts and deposits of public administration agencies and local governance	1.0	1.0	1.5	2.3	1.5	1.6	1.4	2.0	2.4	2.6	2.7	2.9
Securities issued	4.1	4.1	4.0	3.7	4.5	4.9	5.2	5.1	5.1	4.9	4.9	4.7

Source: CBR, IEP calculations.

The quality of the portfolio in question continued to exacerbate. Increase rates of both overdue debts and loan loss provisions with regard to private borrowers proved more than twice as much as the loan increase rate (3.1 and 3.4%, respectively). Consequently, both the proportion of outstanding debt and the reserves to payables ratio were also up – to 4.5% and 7.1%, respectively.

The average loan yield rate with respect to private customers hit the mark of 18.3% annualized in Q3 2013, up 2.2 p.p. over the quarter and 0.9 p.p. since the beginning of the year. The recent decline in rates of newly extended loans has not yet resulted in a lower value of the whole volume of debt, as borrowers keep servicing loans extended at higher rates.

In Q3 2013, private individuals spent Rb 417bln in interest payments on bank loans, while the figure having hit Rb 1.15trln since the beginning of the year, which is in excess of the final result of the whole 2012. Let us also note that by results of the quarter in question the volume of interest payments proved greater than the volume of influx of deposits.

Corporate lending in Q3 saw some upturn. In September, the corporate borrowers' debt was up 1.9% (Rb 384bln), while the quarterly aggregate added 5.6%, which has become a peak quarterly rate since late 2011. Meanwhile, the annual increase pace remained at a fairly low level of 13.6%.

The September quality of corporate lending retained a slight trend to improvement. The share of overdue loans was down 0.1 p.p. and accounted for 4.2%, while the loan loss provisions ratio with regard to corporations, less banks, was also down by 0.1 p.p. and slid to 7.0%.

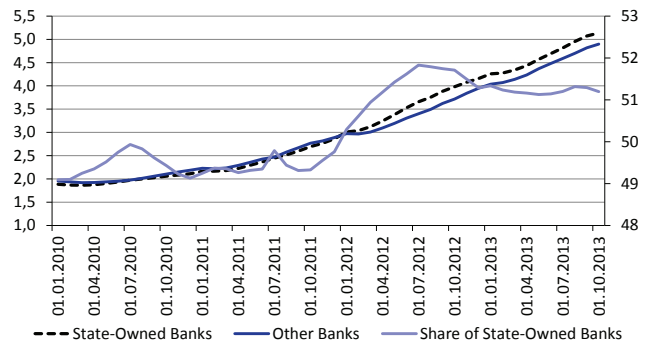


Fig. 6. Dynamics of Loans to the Population of State-Owned and Other Banks (as Rb Trln) and the Share of State-Owned Banks in Loans to the Population (as %, the right scale)

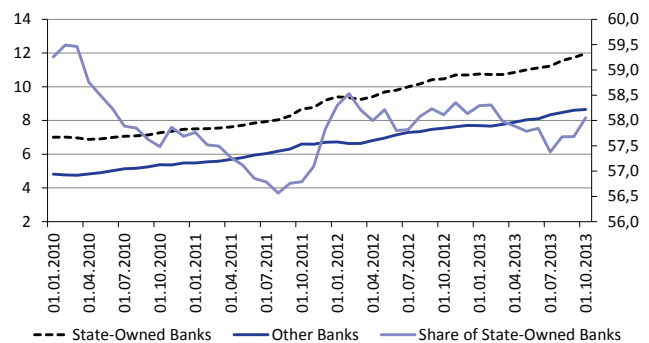


Fig. 7. Dynamics of Lending by State-Owned and Other Banks to the Corporate Sector (as Rb Trln) and the Share of State-Owned Banks on the Market for Corporate Lending (as %, the right scale)

Table 2

**THE STRUCTURE OF THE RUSSIAN BANKING SYSTEM'S ASSETS БАНКОВСКОЙ СИСТЕМЫ РОССИИ
(AS OF END-MONTH), AS % TO RESULTS**

	12.08	12.09	12.10	12.11	06.12	12.12	04.13	05.13	06.13	07.13	08.13	09.13
Assets, Rb bln	28022	29430	33805	41628	44266	49510	50 693	51587	52744	53353	53876	54348
Cash and pre- cious metals	3,0	2,7	2,7	2,9	2,5	3,1	2,7	2,4	2,4	2,3	2,3	2,3
Deposits with the CBR	7,5	6,9	7,1	4,2	3,0	4,4	3,0	3,1	3,3	3,0	2,9	3,5
Interbank transactions	5,2	5,4	6,5	6,4	5,8	6,8	6,1	6,0	6,0	5,9	5,8	5,8
Foreign assets	13,8	14,1	13,4	14,3	14,2	13,0	15,0	15,6	15,1	15,0	14,5	13,6
Residents	15,5	13,1	13,0	14,4	16,0	16,8	17,7	17,8	17,9	18,1	18,4	18,5
Corporate sector	44,5	44,5	43,6	44,0	43,6	41,3	41,5	40,9	40,9	41,0	41,1	41,2
Government	2,0	4,2	5,1	5,0	3,8	3,2	2,9	2,8	3,2	3,4	3,0	2,9
Property	1,9	2,7	2,6	2,3	2,3	2,2	2,2	2,2	2,2	2,1	2,1	2,1

Source: CBR, IEP calculations.