

## RUSSIAN BANKS IN DECEMBER 2013

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*In December 2013 customers kept migrating to largest banks, above all, state-run ones regarding the key segments of the banking service market while basic balance sheet figures slowed down. A new highest value of the debt owed by banks to the monetary authorities overtopped Rb 4,5 trillion. For the first time after the crisis of 2009 banks made less money than they did in the preceding year.*

The process of banking license revocation continued intensively in December 2013. Investbank is the largest bank, listed among the top-100 largest banks ranked by total assets, who lost its banking license. A total of five banking licenses were revoked during the month and more than 30 during the year. As of January 1, 2014, 925 credit institutions, 31 less than in the preceding year, held the banking license.

The total assets in the banking sector increased 2.4% in December 2013<sup>1</sup>. Annual growth rates at the December 2013 month-end contracted to 14.2% from 20.4% in the preceding year and 16.0% at the November 2013 month-end.

It is small and medium-sized banks that saw most visible growth in assets. Banks other than the top-30 ones ranked by total assets saw a 0.1% contraction in their assets in December 2013 after a 1.5% fall in November 2013. Annual growth rate in assets in this group of banks slowed down to 8.3%, although the assets of small and medium-sized banks were growing 1–2 p.p. faster than in the banking sector at large until and including October 2013.

It is the largest state-run banks<sup>2</sup> whose assets gained most (3.6%) in growth rates in December 2013, including Sberbank whose assets gained 5.4% during the month. As a result, state-run banks' assets gained up to 55.9%, having reached the highest value.

The banking sector's equity increased 1.7% in December 2013. Large banks, especially state-run ones saw a rapid growth in this indicator. However, the gap in equity growth rates was much more moderate vs. assets growth rate. For instance, the equity of small and medium-sized banks, the largest banks, and state-run banks increased 1.5%, 1.8%, and 2.0% respectively during the month.

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

2 This group comprises the banks within the VTB Group: VTB, VTB24, Bank of Moscow, and Transcreditbank (until November 1, 2013, when it merged with VTB24), as well as Gazprombank and Russian Agricultural Bank.

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

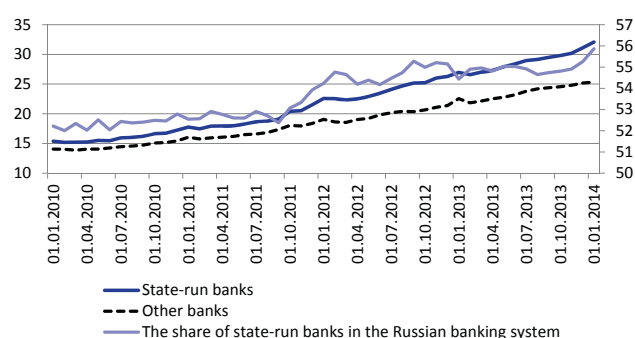


Fig. 1. Dynamics of state-run banks' and other banks' assets (trillions of rubles), and the share of state-run banks in the assets (% , right-hand scale)

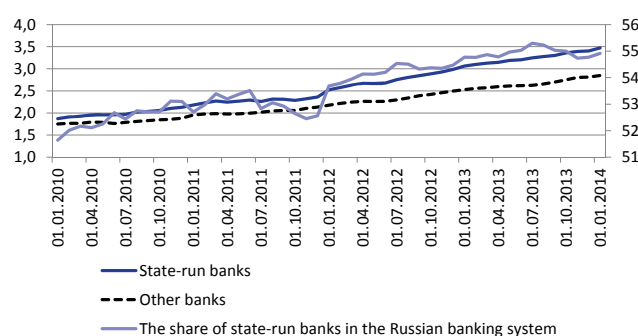


Fig. 2. Dynamics of state-run banks' and other banks' equity capital<sup>3</sup> (trillions of rubles), and state-run banks' equity stake (% , right-hand scale)

The banking sector's profit reached highest (Rb 109bn) in December 2013. All in all, however, banks made less money in 2013 than they did in the preceding year, having earned Rb 994bn in 2013 against Rb 1012bn in 2012. Banks' ROA dropped from 2.3% in 2012 to 1.9% in 2013 while equity from 19.8% to 16.8%.

Pre-provision profit hiccup over the past few months in 2013 is the most alarming factor. While the banking sector's pre-provision monthly profit averaged Rb 126bn in January–October 2013, it dropped to Rb 81bn in November 2013 and Rb 59bn in December 2013. In other words, it is operations with provi-

sions for losses that were responsible for the record profit in December.

**Fundraising**

A trend towards customer migration to major state-run banks was evident in the retail deposit sector in December 2013, however the deposit base saw a fairly moderate growth for the final month of the year. In December 2013, объем средств на retail bank accounts and deposits increased 4.7%, being less than a pre-crisis value of 5.3% in 2008 and the lowest since 2000 growth rate in retail bank accounts and deposits in December 2013. All in all, retail bank accounts and deposits increased barely 17.1% in 2013 (19.4% in 2012).

Small and medium-sized banks saw outflow of retail bank deposits within two months (November 2013 and December 2013). The outflow was 1.2% in December 2013 after a 3.2% contraction in November 2013. Retail bank accounts and deposits with small and medium-sized banks increased 8.0% in 2013, therefore the growth rate more than halved against 2012 (18.2%). In December 2013, the top-30 largest banks showed the same growth rate in retail bank deposits as in the preceding year, 6.6% against 6.7% in December 2012. Furthermore, state-run banks showed a 8.3% increase in deposits during the month, including Sberbank (9.2%) (6.6% and 6.8% respectively in 2012), whereas large private banks had almost zero deposit inflow (0.5%).

In terms of foreign currency structure, the entire December inflow of bank deposits was represented by ruble-denominated accounts whose volume increased 5.9% during the month. The amount of bank deposits denominated in foreign currencies remained unchanged during the month while their dollar volume shrank 0.6% in December 2013.

Corporate bank accounts increased 9.3% in December 2013 and 14.5% in the year of 2013. State-run banks have had a certain advantage over the recent months in this segment of the banking service market which stay within the scope of the fluctuatins observed over the past few years. Corporate bank accounts and deposits increased 10.7% at state-run banks, 10.2% at the top-30 largest banks, and 6.7% at small and medium-sized banks in December 2013.

Non-bank organizations' buble-denominated bank accounts and accounts denominated in foreing currencies increased 10.9% and 3.9% respectively in US dollar terms during the month. Term bank deposits accounted for 54.9% of the total corporate accounts and deposits as of January 1, 2014, having shown an insignificant increase during the year (54.4% as of January 1, 2013).

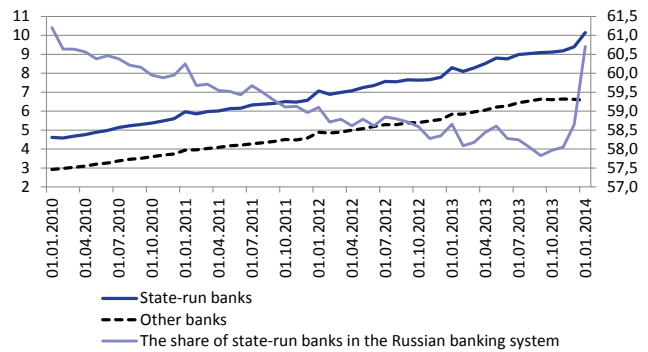


Fig. 3. Dynamics of state-run banks' and other banks' retail deposits (trillions of rubles), and the share of state-run banks in the retail deposit market (% , right-hand scale)



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

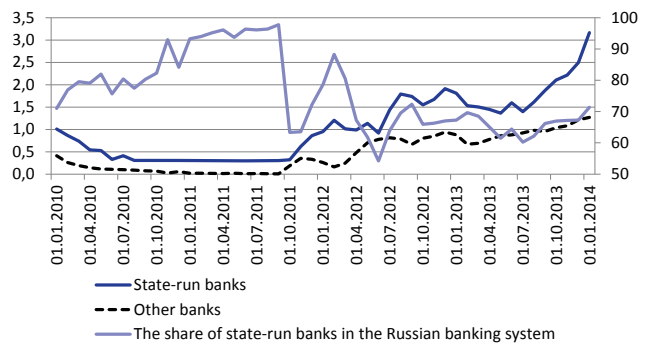


Fig. 5. Dynamics of Bank of Russia's loans extended to state-run banks and other banks (trillions of rubles), and the share of state-run banks in Bank of Russia's loans. (% , right-hand scale)

Banks' total debt to the money market regulators – the Bank of Russia and Ministry of Finance of Russia – increased Rb 216bn in December 2013, being untypical of the recent years when banks needed no additional liquidity because of substantial budget deficit in December. While the amount of Ministry of Finance's deposits with banks declined Rb 516bn during the month, the Bank of Russia issued extra Rb 732bn to banks. As a result, the banking sector's total liabilities to the Bank of Russia and the Ministry of Finance

Table 1

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

	12.08	12.09	12.10	12.11	06.12	12.12	03.13	06.13	09.13	10.13	11.13	12.13
Liabilities, billions of rubles	28022	29430	33805	41628	44266	49510	49839	52744	54348	54981	56259	57423
Equity	14.1	19.3	18.7	16.9	16.8	16.2	16.7	16.3	16.5	16.5	16.2	16.0
Loans from the Bank of Russia	12.0	4.8	1.0	2.9	5.1	5.4	4.5	4.4	5.8	6.0	6.6	7.7
Interbank operations	4.4	4.8	5.5	5.7	4.8	5.6	5.4	5.2	5.1	5.2	5.4	5.1
Foreign liabilities	16.4	12.1	11.8	11.1	11.3	10.8	10.4	10.8	10.1	10.0	10.3	9.9
Retail accounts and deposits	21.5	25.9	29.6	29.1	29.4	28.9	29.6	29.6	29.3	29.2	28.9	29.4
Corporate accounts and deposits	23.6	25.9	25.7	26.0	24.0	24	23.9	23.5	22.9	22.3	22.4	23.8
Accounts and deposits of government agencies and local government authorities	1.0	1.0	1.5	2.3	1.5	1.6	1.4	2.4	2.9	3.2	2.6	0.9
Outstanding securities	4.1	4.1	4.0	3.7	4.5	4.9	5.2	5.1	4.7	4.8	4.7	4.5

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

of Russia reached a new highest level of Rb 4,5 trillion, outstripping by Rb 900bn the highest volume of bank refinancing observed in the middle of the crisis of 2008-2009. Accounting for 7.9% of the banking sector's assets, the volume of state support has already reached the level observed in the fall of 2008. State support contributed more only within a short period of October 2008 thru July 2009. Furthermore, state-run banks are accounting for more than 2/3 of the financing from regulators to banks.

### Loans issued

Households' loan debt to banks increased 1.9% in December 2013, having increased barely 27.7% during the year, showing much slower growth rates vs. the preceding year (39.1%).

Small and medium-sized banks managed to show in December 2013 a minimum but positive growth of 0.3% in the consumer loan market, unlike the retail bank deposit market. Moreover, the retail credit portfolio increased 2.5% at the top-30 largest banks, 3.1% at state-run banks' portfolio, including 3.2% at Sberbank during the month. The share of state-run banks in the retail credit market began to grow as early as October 2013 and reached 52.4% at year end (51.3% at the preceding year).

Balance-sheet figures of retail loans in December 2013 saw insignificant changes. The share of overdue debt contracted from 4.6% to 4.5% during the month. Note that the share of overdue debt slid even more from 4.4% to 4.1% in December of the previous year. The ratio of provisions for losses and total debt remained unchanged (7.2%).

State-run banks keep showing the best quality of retail loans in certain groups of banks whose overdue debt accounted for 2.9% of the total retail debt as of January 1, 2014, including 2.0% in Sberbank. The big-

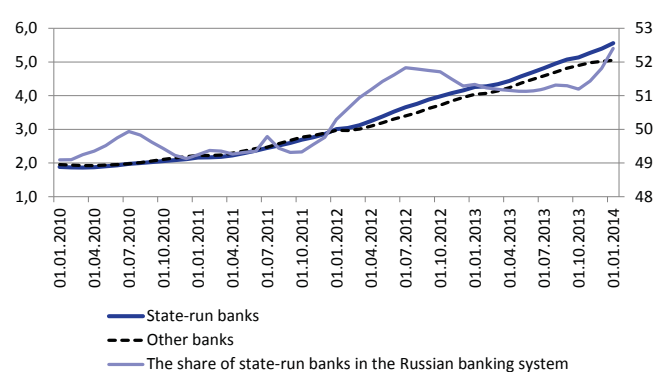


Fig. 6. Dynamics of state-run banks' and other banks' retail loans (trillions of rubles), and the share of state-run banks in the retail loan market (% , right-hand scale)

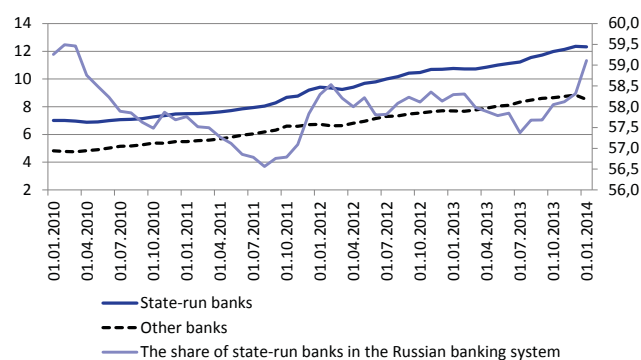


Fig. 7. Dynamics of state-run banks' and other banks' corporate loans (trillions of rubles), and the share of state-run banks in the corporate loan market (% , right-hand scale)

gest amount of overdue debt at large foreign banks and private Russian banks (7.1 and 6.6% respectively) can be explained by the figures of certain banks (Home Credit Finance, Russky Standard, etc.) whose retail business is aimed at most risk- and income-bearing segment of borrowers. These banks has an overdue debt of 12–14%.

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	12.12	03.13	06.13	09.13	10.13	11.13	12.13
Assets, billions of rubles	28022	29430	33805	41628	44266	49510	49839	52744	54348	54981	56259	57423
Cash and precious metals	3.0	2.7	2.7	2.9	2.5	3.1	2.5	2.4	2.3	2.3	2.2	2.8
Deposits with the Bank of Russia	7.5	6.9	7.1	4.2	3.0	4.4	3.3	3.3	3.5	3.1	3.0	3.9
Interbank operations	5.2	5.4	6.5	6.4	5.8	6.8	6.4	6.0	5.8	6.0	6.1	5.7
Foreign assets	13.8	14.1	13.4	14.3	14.2	13.0	14.5	15.1	13.6	13.4	13.7	13.3
Retail sector	15.5	13.1	13.0	14.4	16.0	16.8	17.4	17.9	18.5	18.7	18.5	18.5
Corporate sector	44.5	44.5	43.6	44.0	43.6	41.3	41.9	40.8	41.2	41.5	41.0	39.3
State	2.0	4.2	5.1	5.0	3.8	3.2	3.2	3.2	2.9	3.1	3.0	3.1
Property	1.9	2.7	2.6	2.3	2.3	2.2	2.2	2.2	2.1	2.1	2.1	2.0

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

Corporate borrowers' debt volume on loans from Russian banks contracted 1.3% in December 2013 and increased as little as 11.6% during 2013. The December contraction had an effect on all groups of banks, save for Sberbank where growth was just symbolic (0.1%). Other state-run banks and the top-30 largest banks saw a contraction in the volume of corporate custom-

ers' debt of 0.2% and 0.6% respectively. Small and medium-sized banks showed a much higher contraction of 4.0%. The quality of credit portfolio improved in this segment of the market in December 2013 despite decreased total debt. The share of overdue debt fell from 4.3% to 4.1% while the ratio of reserves to debt on loans from 7.0 to 6.8% during the month. ●