

RUSSIAN BANKS IN JANUARY–FEBRUARY 2014

M.Khromov

In the first months of 2014 the focus of active operations of banks has been the build-up of foreign assets as a result of the dollarisation of their domestic liabilities. At the same time there was a considerable decrease in household savings deposits with banks compared with last year. The quality of the retail loan portfolio in early 2014 has also deteriorated significantly.

In February 2014 the Bank of Russia continued its campaign for clearing the banking sector. During this one month, the licences of 5 credit institutions were revoked, of these, 4 were banks with the right to attract funds from the public. The total assets of these banks were Rb 21bn as of 1 February, or 0.036% of the aggregate assets of the banking sector. The volume of funds attracted from individuals by these credit organisations as of the same date was Rb 5bn (0.03% of the total volume of individuals' funds in the banking sector). The Deposit Insurance Agency estimated its liability to the depositors with these banks at Rb 4bn. A further bank, "Moi Bank. Ipoteka", was subjected to a reorganisation procedure in February¹.

The total assets of the banking sector increased by 0.5%² in February 2014. During the 12 months from March 2013 to February 2014 banks' assets grew by 15.7%. The main sources of resources for banks in February were the funds of enterprises, while the loan debt of corporate clients showed almost no increase. The main direction of asset allocation was an increase in funding provided to non-residents.

Banking sector profit in February was Rb 76bn. This result was more modest than the one in January (Rb 94bn) and even below the average monthly level of 2013 (Rb 83bn). The low level of profit was due to the worsening quality of the banks' assets and an increase in the provision of reserves for use against possible losses. For a month formed reserves have grown by Rb 83bn while, for the first two months of the year there was a growth of Rb 205bn, which is equal to half of the entire growth of reserves in 2013 (Rb 411bn).

As a result, the profitability of the banking sector in February was much lower than in the preceding months. ROA (return on assets) was only 1.5% while ROE (return on equity) was 14.2%.

¹ This bank's licence was revoked in March.

² Hereinafter the growth rates of balance indicators are specified as adjusted for revaluation in foreign currency, unless otherwise stated.

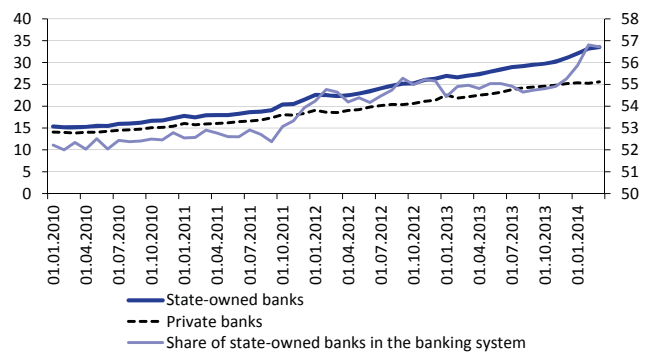


Fig. 1. Dynamics of the assets of state-owned and other banks (Rb trillion) and the share of state banks in total assets (% , right scale)

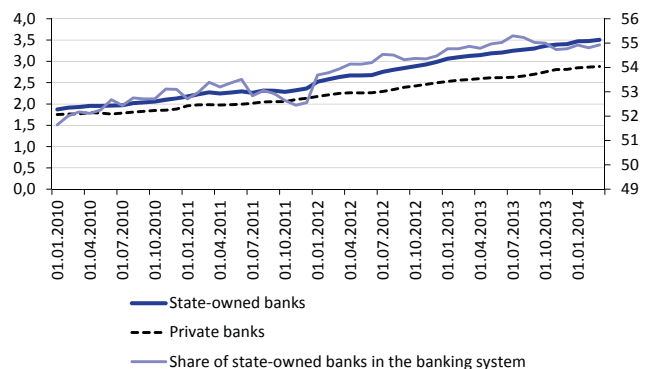


Fig. 2. Dynamics of the equity³ of state-owned and other banks (Rb trillion) and the share of state-owned banks in equity (% , right scale)

Borrowings

The volume of individuals' funds placed in bank accounts and deposits has increased by 0.7% for the month. The 12-month growth rate of individuals' funds in banks decreased to 13.4% (in 2013 it was 17.0%), which is its lowest level since autumn 2009. In February individuals placed 3.3% of their monetary income in bank accounts and deposits, whilst, in February 2013, the figure was 8.1%. If the rate of

³ Calculated based on balance accounts (form 101).

savings in bank accounts remains at the level of last year the banks could receive an additional Rb 170bn.

In February the rapid growth in foreign currency deposits continued. While the volume of ruble accounts of the population grew by 0.5% for the month, the dollar equivalent of foreign currency deposits increased by 1.4%. The volume of foreign currency accounts and deposits of individuals reached \$94 billion and their share in the total volume of the funds of individuals on deposit exceeded 20.3%, having returned to the level of November 2010.

In February, individuals preferred the state-owned banks when placing their funds into the banking system. The volume of accounts and deposits of individuals in Sberbank grew by 1.2%, and in the other state-owned banks it grew by 1.3%. At the same time the funds of individuals in the large private banks decreased by 0.5% while in the small and medium-sized banks it increased by only 0.1%.

For the month the volume of the funds of corporate customers in bank accounts and deposits grew by 1.6%, so, an annual growth rate, based on the results of February, this would reach 15.8%.

In contrast to January, when corporate customers dramatically increased the dollarisation of their accounts (by 14.4%, or \$12.6bn) and decreased the volume of their ruble accounts (by 3.5%, or Rb 383bn), in February the growth of funds was more balanced in terms of its currency structure. Ruble accounts increased by 1.9% while foreign currency accounts grew by 1.0% in dollar equivalents. Due to ruble depreciation, the share of foreign currency accounts of corporate clients, however, increased slightly, having reached 25.7%, its maximum level for the last 4 years.

Whilst, in January, corporate clients dramatically redistributed their funds in banks from ruble depos-

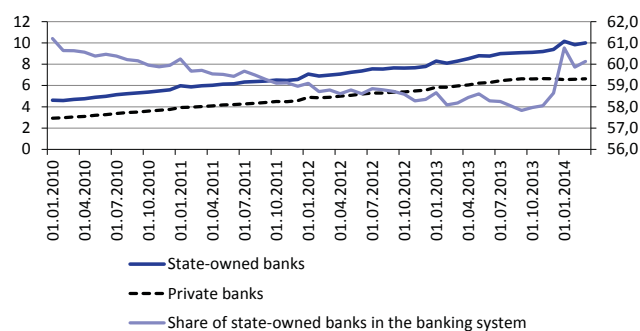


Fig. 3. Dynamics of deposits of individuals in state-owned and other banks (Rb trillion) and the share of state-owned banks in the market of private deposits (%; right scale)

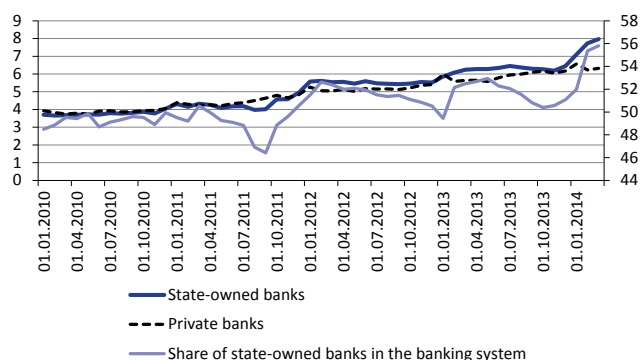


Fig. 4. Dynamics of the accounts of corporate clients in state-owned and other banks (Rb trillion) and the share of state-owned banks in the market of corporate accounts (%; right scale)

decreased by Rb 315bn. Indebtedness of banks to the Bank of Russia decreased as a result of funds provided under short-term repo transactions. Most of these repo transactions have maturity periods of 7 days. At the same time, indebtedness under “long” loans from the

Table 1

STRUCTURE OF LIABILITIES OF RUSSIA’S BANKING SYSTEM (AS OF THE END OF THE MONTH), AS % TO THE TOTAL

	12/08	12/09	12/10	12/11	12/12	03/13	06/13	09/13	10/13	11/13	12/13	01/14	2/14
Liabilities, Rb billion	28,022	29,430	33,805	41,628	49,510	49,839	52,744	54,348	54,981	56,259	57,423	58,445	59,137
Equity	14.1	19.3	18.7	16.9	16.2	16.7	16.3	16.5	16.5	16.2	16.0	16.1	16.0
Loans of the Bank of Russia	12.0	4.8	1.0	2.9	5.4	4.5	4.4	5.8	6.0	6.6	7.7	7.4	6.7
Interbank transactions	4.4	4.8	5.5	5.7	5.6	5.4	5.2	5.1	5.2	5.4	5.1	5.2	5.0
Foreign liabilities	16.4	12.1	11.8	11.1	10.8	10.4	10.8	10.1	10.0	10.3	9.9	10.3	10.7
Funds of individuals	21.5	25.9	29.6	29.1	28.9	29.6	29.6	29.3	29.2	28.9	29.4	28.7	28.5
Funds of companies and enterprises	23.6	25.9	25.7	26.0	24	23.9	23.5	22.9	22.3	22.4	23.8	24.1	24.2
Accounts and deposits of state administration authorities and local government bodies	1.0	1.0	1.5	2.3	1.6	1.4	2.4	2.9	3.2	2.6	0.9	1.4	1.6
Issued securities	4.1	4.1	4.0	3.7	4.9	5.2	5.1	4.7	4.8	4.7	4.5	4.5	4.2

Source: Bank of Russia, calculation of the IEP.

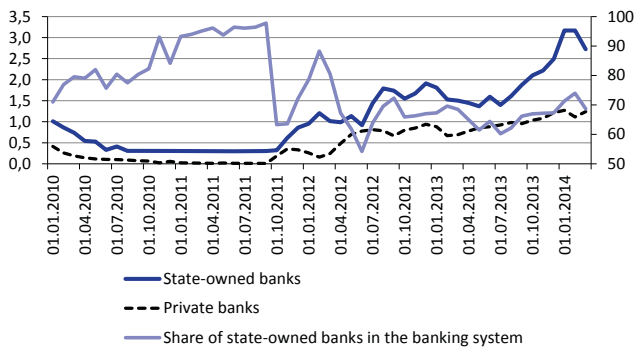


Fig. 5. Dynamics of loans from the Bank of Russia to state-owned and other banks (Rb trillion) and the share of state-owned banks in loans from the Bank of Russia (% , right scale)

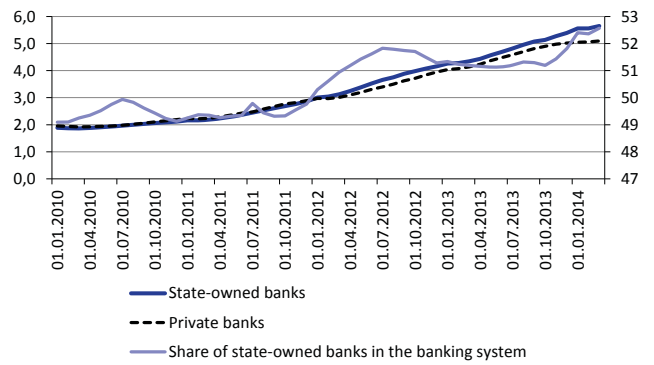


Fig. 6. Dynamics of loans to individuals in state-owned and other banks (Rb trillion) and the share of state banks in loans to individuals (% , right scale)

Bank of Russia increased by Rb 78bn for the month. Hence, indebtedness within the framework of other borrowings decreased by Rb 393bn.

Deposited funds

The loan indebtedness of individuals to banks increased by 1.1% in February. The tendency towards a slowdown in the annual growth of the banks' retail loan portfolio continued and the volume of indebtedness increased by 26.1% for the 12 months from March 2013 to February 2014 (by 27.7%, based on the results of 2013).

During these two months the quality of the retail loan portfolio was worsening significantly faster than in 2013. The volume of overdue debt and the provision of reserves for possible losses on loans to individuals have grown by more than 11% for these two months. As a result, the share of overdue indebtedness in total indebtedness has increased from 4.5% to 4.9%, while the ratio of reserves to the total loan portfolio has increased from 7.2% to 7.9%. In 2013 it took the whole year (from 1 January, 2013 to 1 January 2014) to see equivalent growth in the share of overdue indebtedness (0.4 p.p.) and nine months to reach the same growth in the reserves to loans ratio (from 1 April 2013 to 1 January 2014).

The proportion of loans to individuals, not repaid within the period set forth in the loan agreement, is increasing. Whilst, in January-February 2013, 10.4% of loans were not repaid in due time, in January-February 2014 this figure reached 12.5%. For consumer loans (with the exception of mortgages and car loans) this indicator was 14.5% versus 11.4% in the previous year.

The growth rate the corporate loan portfolio of banks in February was close to zero, being just 0.1%. Its annual growth rate did not exceed 12.3%.

The quality indicators for corporate loans in February 2014 decreased slightly. The share of overdue

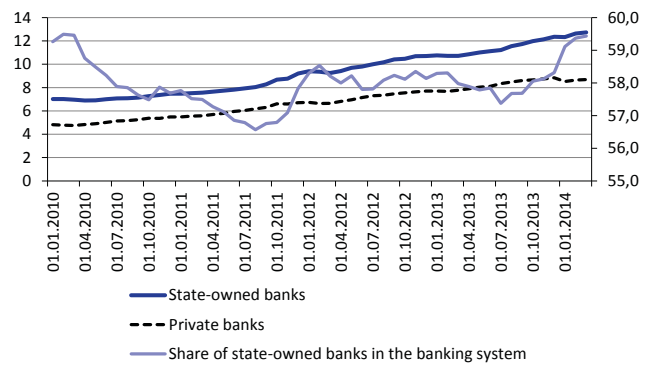


Fig. 7. Dynamics of loans to companies and enterprises in state-owned and other banks (Rb trillion) and the share of state-owned banks in the market of corporate loans (% , right scale)

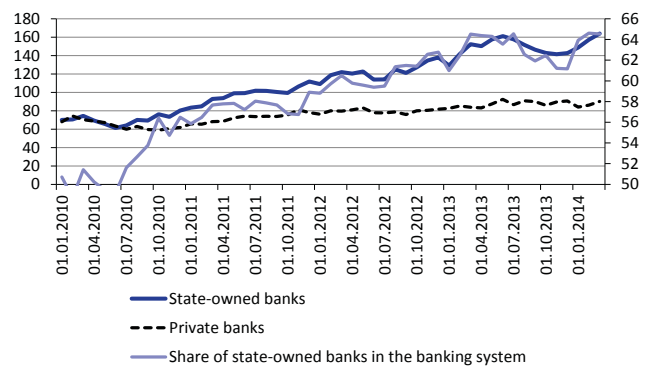


Fig. 8. Dynamics of the foreign assets of state-owned and other banks (\$ billion) and the share of state-owned banks in the total volume of foreign assets (% , right scale)

debt in the total volume of loans increased from 4.1 to 4.2% and the ratio of reserves against possible loss to loan indebtedness increased from 6.8 to 6.9%. Both of these indicators, as of 1 March 2014 were lower than the same indicators throughout 2013.

The main direction of growth of bank assets in the first two months of 2014 was in the allocation of

Table 2

STRUCTURE OF ASSETS OF RUSSIA'S BANKING SYSTEM (AS AT THE END OF THE MONTH), AS % TO THE TOTAL

	12/08	12/09	12/10	12/11	12/12	03/13	06/13	09/13	10/13	11/13	12/13	01/14	2/14
Assets, Rb billion	28,022	29,430	33,805	41,628	49,510	49,839	52,744	54,348	54,981	56,259	57,423	58,445	59,137
Cash and precious metals	3.0	2.7	2.7	2.9	3.1	2.5	2.4	2.3	2.3	2.2	2.8	2.3	2.2
Funds deposited with the Bank of Russia	7.5	6.9	7.1	4.2	4.4	3.3	3.3	3.5	3.1	3.0	3.9	3.0	2.7
Interbank transactions	5.2	5.4	6.5	6.4	6.8	6.4	6.0	5.8	6.0	6.1	5.7	6.1	5.8
Foreign assets	13.8	14.1	13.4	14.3	13.0	14.5	15.1	13.6	13.4	13.7	13.3	14.7	15.5
Individuals	15.5	13.1	13.0	14.4	16.8	17.4	17.9	18.5	18.7	18.5	18.5	18.4	18.2
Corporate sector	44.5	44.5	43.6	44.0	41.3	41.9	40.8	41.2	41.5	41.0	39.3	40.0	39.8
State	2.0	4.2	5.1	5.0	3.2	3.2	3.2	2.9	3.1	3.0	3.1	3.3	3.7
Property	1.9	2.7	2.6	2.3	2.2	2.2	2.2	2.1	2.1	2.1	2.0	2.0	1.9

Source: Bank of Russia, calculation of the IEP.

funds abroad. During these two months, the foreign assets of banks grew by \$21.4bn. For comparison, the total indebtedness of resident individuals and of legal entities for the same two months increased only by the equivalent of \$12.6bn, i.e. the capital outflow from the banking sector exceeded within the domestic economy by almost two times.

Mainly, this was the banks' response to the dollarisation of internal liabilities. The foreign currency ac-

counts of resident customers have grown by \$17.0bn since the beginning of the year. At the same time, despite weakening of the ruble, residents have shown no wish for loans in foreign currency. Their foreign currency indebtedness to banks for January-February 2014 decreased by \$2.6bn. This is why the only way for the banks to maintain a balanced currency position, without taking additional foreign exchange risks, is to increase the funds allocated in foreign assets. ●