

## RUSSIAN BANKS IN Q1 2014

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*Substantial outflow of retail deposits from the banking sector in Q1 2014 forced banks to increase their liability to the regulators – the Central Bank of Russia and the Ministry of Finance – reaching record values. The quality of the retail credit portfolio keeps deteriorating while the banking business facing decline in profitability.*

More banks had their banking license revoked in March 2014. Forty banking licenses were revoked in the period of July 2013 thru February 2014, 5 licenses per month, 6 licenses were revoked in December 2013 and January 2014 each. In March 2014, 11 credit institutions lost their license, nine of which saw revocation of their retail services license. In March 2014, assets of a license-revoked bank totaled a bit less than Rb 7bn while retail accounts and deposits totaled Rb 3,8bn. As of March 1, 2014, the assets of such banks totaled Rb 75,5bn or 0.13% of the banking sector's total assets while their retail accounts and deposits totaled Rb 34bn or 0.2% of the total bank retail accounts and deposits. The State Agency for Deposit Insurance is to compensate Rb 29bn of retail deposits in these banks, i.e. more than 85% of the retail accounts and deposits held in the banks whose license was revoked in March 2014 are to be reimbursed from the deposit insurance fund. A total of 900 credit institutions including 841 banks remained in business in Russia as of April 1, 2014.

The banking sector's total assets increased 0.8%<sup>1</sup> in March 2014 and 1.3% in Q1 2014, annual growth rates reached 15.5% (14.2% at 2013 year end).

The banking sector's profit dropped to Rb 64bn in March 2014, the lowest value in 2014 and much lower than the monthly average profit in 2013 (Rb 83bn). Therefore, in March, the return on assets fell to 1.3% p.a., reaching a total 1.6% p.a. (1.9% in 2013) in Q1 2014. The return on banking sector's equity stood at 11.9% p.a. in March and 14.7% p.a. in Q1 2014 relative to a total of 16.8% in 2013.

### Fundraising

March 2014 saw a decline in retail accounts and deposits in banks for the first time since the fall of 2008 (exclusive of seasonal setbacks in January). They fell 1.7% or Rb 279bn during the month. In Q1 2014,

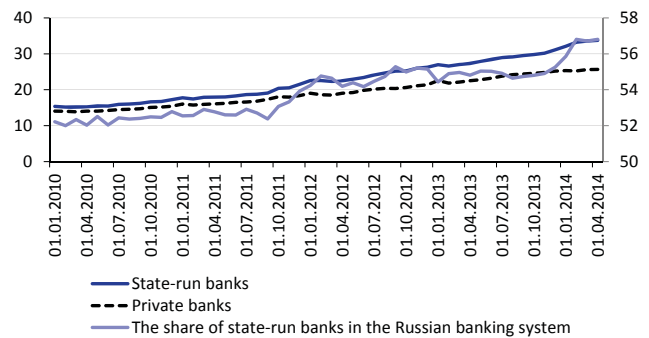


Fig. 1. Dynamics of assets in state-run banks and other banks (trillions of rubles), and the share of state-run banks in the assets (% , right-hand scale)

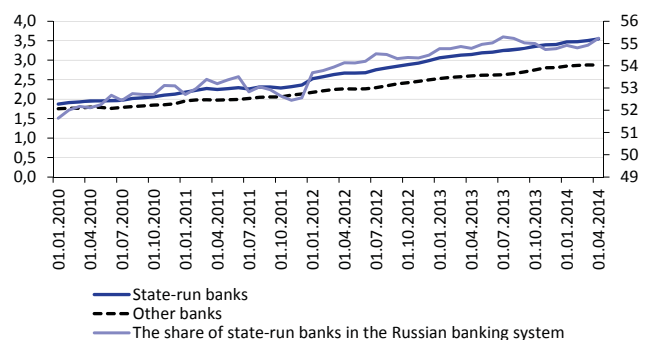


Fig. 2. Dynamics of equity in state-run banks and other banks<sup>2</sup> (trillions of rubles), and the share of state-run banks in the capital (% , right-hand scale)

bank retail accounts and deposits lost a total of 4% or Rb 683bn. Annual growth rates in retail accounts and deposits denominated in foreign exchange fell to 9.3%, reaching the bottom line since the fall of 2009.

Ruble-denominated retail accounts contracted 2.2% during the month, whereas retail accounts denominated in foreign exchange increased merely 0.4% in dollar terms. The share of retail accounts and deposits denominated in foreign exchange reached 20.4%, far less than the value recorded early in 2009 (33.6%). However, the total amount of retail accounts and deposits denominated in foreign exchange in Russian hit a new record of \$94,8bn relative to just \$67,6bn, the highest in 2009.

<sup>1</sup> Hereinafter, growth rates in balance-sheet indicators are presented with adjustment for revaluation in foreign currency but with no adjustment for banks with revoked banking license, unless otherwise indicated.

<sup>2</sup> Calculated according to balance-sheet accounts (form No. 101).

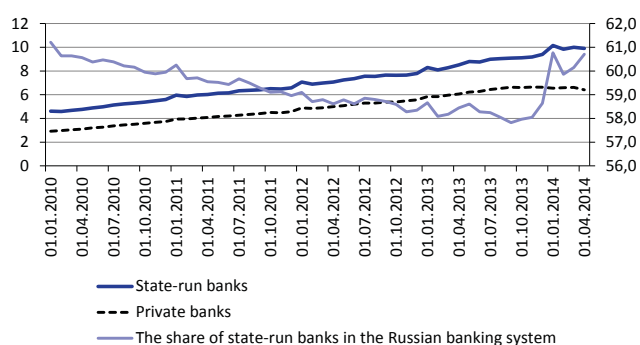


Fig. 3. Dynamics of retail deposits in state-run banks and other banks (trillions of rubles), and the share of state-run banks in the retail deposit market (% , right-hand scale)

All the key groups of banks were affected by retail cash outflow in March 2014. Small and medium-sized banks and large private banks were hit most, 3.3% and 3.5% respectively. Sberbank saw the slowest retail cash outflow of just 0.5%. Therefore, the share of state-run banks bounced back to the level recorded early in the year, accounting for 60.7% of the total retail bank deposits.

In March 2014, banks lost 0.4% of corporate accounts and deposits as ruble accounts and deposits kept being converted into foreign exchange. For example, ruble-denominated corporate accounts and deposits contracted 2.2%, whereas those denominated in foreign exchange increased 4.9% in dollar terms, reaching a historical highest value of \$106,6bn.

While the share of fixed-term corporate deposits remained more than 50%, it declined from 54.9% to 51.3% relative to the beginning of the year. This was caused by an ongoing trend towards converting ruble-denominated fixed-term deposits, which lost 10.7% (Rb 584bn) since the beginning of the year, into current accounts denominated in foreign exchange which increased 67.8% (\$13,3bn) over the first three months

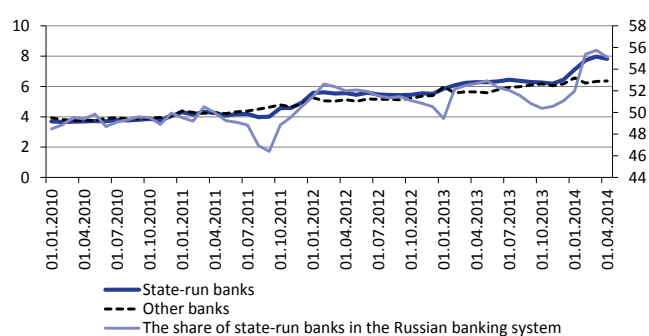


Fig. 4. Dynamics of corporate accounts with state-run banks and other banks (trillions of rubles), and the share of state-run banks in the corporate account market (% , right-hand scale)

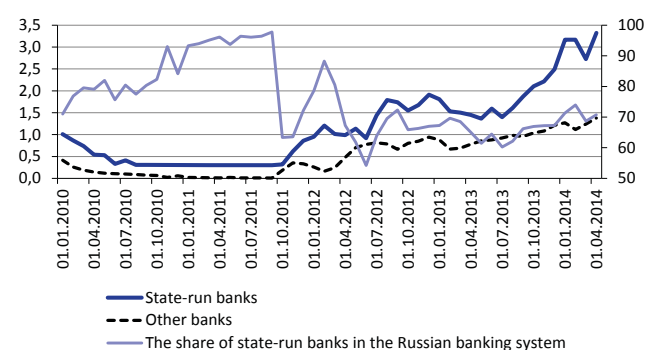


Fig. 5. Dynamics of Bank of Russia's loans extended to state-run banks and other banks (trillions of rubles), and the share of state-run banks in Bank of Russia's loans. (% , right-hand scale)

of the year. Fixed-term deposits denominated in foreign exchange saw a much more moderate increase of 18.6% (\$5,1bn).

In March 2014, banks raised by Rb 820bn their debt to the monetary authorities including the Ministry of Finance of Russia (Rb 85bn) and the Bank of Russia (Rb 735bn). Banks owed more than Rb 5,1 trillion to the Bank of Russia and the Ministry of Finance, includ-

Table 1

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

	12.08	12.09	12.10	12.11	12.12	03.13	06.13	09.13	12.13	01.14	2.14	3.14
Liabilities, billions of rubles	28022	29430	33805	41628	49510	49839	52744	54348	57423	58445	59137	59377
Equity	14,1	19,3	18,7	16,9	16,2	16,7	16,3	16,5	16,0	16,1	16,0	16,0
Loans from the Bank of Russia	12,0	4,8	1,0	2,9	5,4	4,5	4,4	5,8	7,7	7,4	6,7	7,9
Interbank operations	4,4	4,8	5,5	5,7	5,6	5,4	5,2	5,1	5,1	5,2	5,0	4,7
Foreign liabilities	16,4	12,1	11,8	11,1	10,8	10,4	10,8	10,1	9,9	10,3	10,7	10,6
Retail accounts and deposits	21,5	25,9	29,6	29,1	28,9	29,6	29,6	29,3	29,4	28,7	28,5	27,8
Corporate accounts and deposits	23,6	25,9	25,7	26,0	24	23,9	23,5	22,9	23,8	24,1	24,2	23,9
Accounts and deposits of government agencies and local government authorities	1,0	1,0	1,5	2,3	1,6	1,4	2,4	2,9	0,9	1,4	1,6	1,8
Outstanding securities	4,1	4,1	4,0	3,7	4,9	5,2	5,1	4,7	4,5	4,5	4,2	4,2

Source: Central Bank of Russia, Gaidar Institute's estimates.

ing Rb 4,7 trillion owed to the Bank of Russia. Both indicators hit their historical highest as of 01.04.2014.

Monetary authorities' funds reached 8.6% in total liabilities, of which 7.9% is owed to the Bank of Russia. It is state-run banks that are responsible for a major part of the debt owed to the Bank of Russia, accounting for 70.7% of the total volume of refinancing of the banking sector.

### Loans issued

The debt on retail bank loans increased 1.4% (Rb 148bn) in March 2014, annual growth rates slowed down to 25.2%. The quality of the retail credit portfolio remained unchanged in March 2014. The share of overdue debt remained at 4.9% of the total debt, while the ratio of loan loss provisions to total debt increased 0.1 p. p., reaching 8.0%. Therefore, March 2014 saw a slowdown in the deterioration of the quality of retail loans. The share of overdue debt was the same as in the mid-2012 while the provisions-to-loans ratio was similar to that recorded at the end of 2011.

The corporate credit portfolio gained 1.4% (Rb 298bn) in March 2014. Annual growth rates stood at 12.7%. The quality of corporate loans also remained unchanged. The share of overdue debt accounted for 4.2% of the total debt while the ratio of built up loan loss provisions to total loan debt declined by 0.1 p. p., staying at 6.8%.

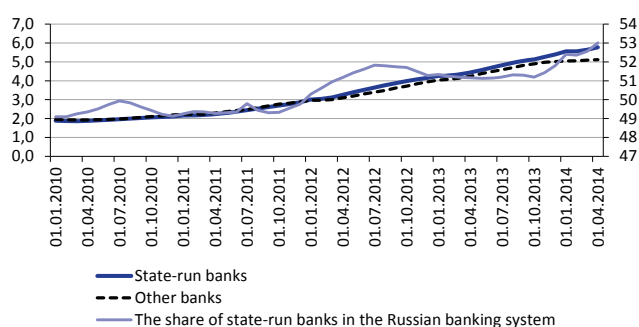


Fig. 6. Dynamics of retail loans issued by state-run banks and other banks (trillions of rubles), and the share of state-run banks in the retail loan market (% , right-hand scale)

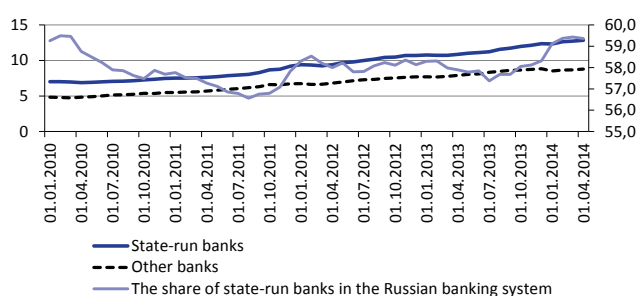


Fig. 7. Dynamics of corporate loans issued by state-run banks and other banks (trillions of rubles), and the share of state-run banks in the corporate loan market (% , right-hand scale)

Table 2

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

	12.08	12.09	12.10	12.11	12.12	03.13	06.13	09.13	12.13	01.14	2.14	3.14
Assets, billions of rubles	28022	29430	33805	41628	49510	49839	52744	54348	57423	58445	59137	59377
Cash and precious metals	3,0	2,7	2,7	2,9	3,1	2,5	2,4	2,3	2,8	2,3	2,2	2,8
Deposits with the Bank of Russia	7,5	6,9	7,1	4,2	4,4	3,3	3,3	3,5	3,9	3,0	2,7	3,5
Interbank operations	5,2	5,4	6,5	6,4	6,8	6,4	6,0	5,8	5,7	6,1	5,8	5,3
Foreign assets	13,8	14,1	13,4	14,3	13,0	14,5	15,1	13,6	13,3	14,7	15,5	14,4
Retail sector	15,5	13,1	13,0	14,4	16,8	17,4	17,9	18,5	18,5	18,4	18,2	18,4
Corporate sector	44,5	44,5	43,6	44,0	41,3	41,9	40,8	41,2	39,3	40,0	39,8	39,6
State	2,0	4,2	5,1	5,0	3,2	3,2	3,2	2,9	3,1	3,3	3,7	3,0
Property	1,9	2,7	2,6	2,3	2,2	2,2	2,2	2,1	2,0	2,0	1,9	1,9

Source: Central Bank of Russia, Gaidar Institute's estimates.