

## THE RUSSIAN BANKING SECTOR IN APRIL 2014

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In April 2014, Russia's banking sector witnessed a continuation of the trends observed over the several previous months: the share of state-owned banks continued to increase in all major segments of the banking services market; the growth rate of retail lending remained on the decline, while the quality of this type of lending continued to deteriorate – moreover, it grew increasingly dependent on allocations from money market regulators. The only positive factor worth mentioning was the discontinuation of private-customer deposit outflows. However, in spite of this positive development, the annual growth rate of the deposit base continued to decline.

In April 2014, the Bank of Russia withdrew licenses from 5 lending organizations, three of which had been attracting private finance. As of early April, their assets and private customer deposits amounted to Rb 54bn and Rb 31bn respectively. The Deposit Insurance Agency's total liabilities to the depositor against the deposits held at those banks amounted to Rb 28bn. On the whole, from January through April 2014, licenses were withdrawn from 27 lending organizations, including 20 lending organizations attracting private finance. As of 1 May 2014, in the aftermath of this culling, Russia's banking sector comprised 894 lending organizations, 742 of which were participants in the Deposit Insurance System.

During April, the size of the banking sector's assets increased by 1.3%. Over the course of May 2013 – April 2014, the banking sector's assets grew by 15.1%. Over the course of April 2014, the assets of state-owned banks increased by 1.6%, while their share in the aggregate volume of assets climbed to 57.0%, thus hitting a record high.

In April 2014, the banking sector's profit amounted to Rb 58bn, which represents its record low since October 2011. The main reason for this drop in profit was a Rb 79bn growth in reserves against possible loan losses over the course of April 2014 (in Q1 2014, the average monthly allocation to reserves against possible loan losses amounted to Rb 74bn, while in Q1 2013 it amounted to Rb 34bn). As a consequence, the profitability of the banking sector's equity dwindled in April to a puny 10% per annum, the lowest monthly result since July 2010. During the period since the beginning of 2014, the profitability of the banking sector's equity amounted to 13.7% per annum. Over the course of the period May 2013 – April 2014, it amounted to 15.7% per annum.

**Attracted Funds<sup>1</sup>**

In April 2014, the bank accounts and deposits of the population resumed their growth, increasing by 1.6%

<sup>1</sup> Calculated on the basis of balance-sheet accounts (Form No 101).

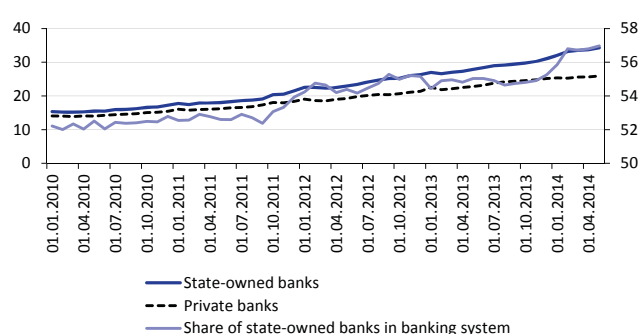


Fig. 1. The Movement of Bank Assets (State-owned Banks vs. Other Banks, Trillion Rb) and State-owned Banks' Share in Aggregate Assets (% , Right-hand Side Scale)

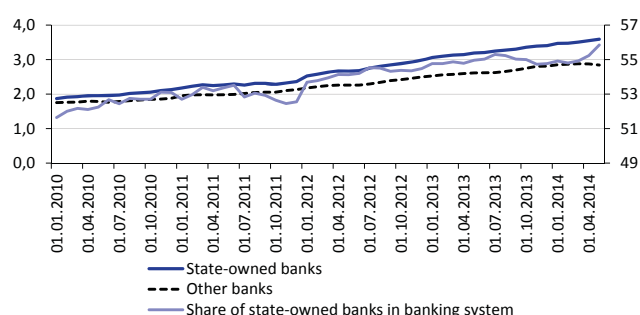


Fig. 2. The Movement of Equity<sup>1</sup> of State-owned and Other Banks (Trillion Rb), and State-owned Banks' Share in Equity (% , Right-hand Side Scale)

or Rb 359m on the previous month. However, their annual growth-rate continued to decline: over the period May 2013 – April 2014, the bank accounts and deposits of the population increased by a mere 7.7%. Thus, their growth rate slumped close to its lowest level registered at the height of the crisis, in the period September 2008 – August 2009 (6.1%).

In April, for the first time since the beginning of the year, the ruble-denominated accounts of the population grew faster than its accounts denominated in foreign currencies. Thus, during April 2014, the former increased by 2.2%, while the latter, recalculated in

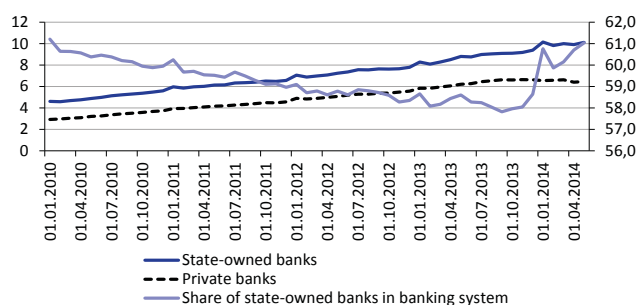


Fig. 3. The Movement of Individual Deposits with State-owned and Other Banks (Trillion Rb), and State-owned Banks' Share in the Private Deposit Market (% , Right-hand Side Scale)

USD, dwindled by 0.8%. It can therefore be concluded that, at long last, both the flight of depositors and the process of personal savings dollarization took a pause.

However, April saw a continuation of the outflow of private customer deposits from private banks to state-owned banks. Over the course of that month, the aggregate amount of money kept by private customers at state-owned banks increased by 2.1%, while the share of state-owned banks in the private deposit market grew to 61.1%, which represents its all-time high.

During April 2014, the volume of monies kept in the bank accounts of corporate clients declined by Rb 191bn (-1.3%). As of 1 May 2014, its growth rate in annual terms amounted to 14.5%.

Over the course of April, the ruble-denominated monetary assets of non-banking organizations were declining at almost the same rate as their monetary assets denominated in foreign currencies and recalculated in USD. They dwindled by 1.3% and 1.6% respectively.

The decline in the monetary assets of corporate clients was caused by the outflow of monies from their current and settlement accounts, which contracted

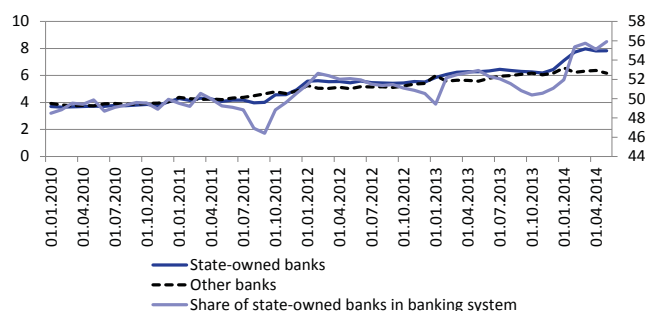


Fig. 4. The Movement of Corporate Clients' Deposits with State-owned and Other Banks (Trillion Rb), and State-owned Banks' Share in the Market for Corporate Clients' Accounts (% , Right-hand Side Scale)

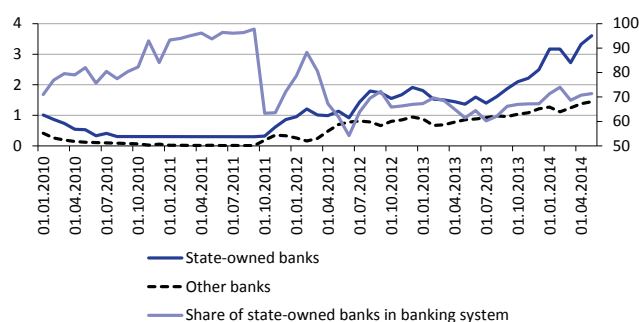


Fig. 5. The Movement of the Bank of Russia's Loans to State-owned and Other Banks (Trillion Rb), and State-owned Banks' Share in the Loans Issued by the Bank of Russia (% , Right-hand Side Scale)

by 3.7% over the course of April, while the volume of fixed date deposits, on the contrary, rose by 2.2%. As a consequence, the share of fixed date deposits in the aggregate funds of corporate clients increased from 51.3% as of 1 April 2014 to 54.43% as of 1 May 2014, thus nearly hitting its record high achieved one year earlier (55.5% as of 1 May 2013).

Table 1

THE STRUCTURE OF RUSSIA'S BANKING SYSTEM'S LIABILITIES (AS OF MONTH'S END), AS % 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	04.14
Liabilities, bn Rb	28022	29430	33805	41628	49510	49839	52744	54348	57423	58445	59137	59377	60208
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	15.9
Credits allotted by 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	8.4
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	4.8
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	10.3
Physical persons' monies	21.5	25.9	29.6	29.1	28.9	29.6	29.6	29.3	29.4	28.7	28.5	27.8	27.9
Enterprises and organizations' monies	23.6	25.9	25.7	26.0	24	23.9	23.5	22.9	23.8	24.1	24.2	23.9	23.3
Accounts and deposits of state administrative bodies and local governments	1.0	1.0	1.5	2.3	1.6	1.4	2.4	2.9	0.9	1.4	1.6	1.8	2.2
Securities issued	4.1	4.1	4.0	3.7	4.9	5.2	5.1	4.7	4.5	4.5	4.2	4.2	4.1

Source: RF Central Bank; the IEP's estimates.

The April 2014 outflow of corporate clients' monetary assets was totally accounted for by non-state-owned banks. While the volume of such assets kept at state-owned banks remained practically unchanged (+0.1% over the course of April), the volume of corporate clients' monetary assets kept at big foreign banks and big private banks declined by 5.0% and 1.3% respectively, while that of the assets kept at small and medium-size banks dropped by 3.4%.

In April 2014, the banking sector's dependence on assistance from Russia's monetary authorities continued to be on the rise. Over the course of that month, the banking sector's debt to the Bank of Russia and the RF Ministry of Finance grew by Rb 348bn and Rb 101bn respectively. As of the end of April 2014, the banking sector's aggregate debt to the monetary regulators climbed to yet another record high of Rb 5,557bn, or 9.2% of the banking sector's aggregate liabilities. State-owned banks accounted for 80% of the April 2014 rise in the banking sector's debt to the Bank of Russia, while their share in the banking sector's aggregate debt thereto amounted to 71.4%.

### Invested Monies

In April 2014, the retail credit portfolio of Russia's banking sector increased by Rb 191bn (1.8%). As seen by the results of April, its growth rate in annual terms declined to 23.5%. The quality of retail credits continued to worsen. As of 1 May 2014, the share of credits with repayment in arrears amounted to 5.1%, having increased over the course of April by 0.2 p.p. and by 0.6 p.p. since the beginning of the year. The ratio of reserves against potential losses to the population's aggregate accounts payable climbed to 7.9%, which represents a 0.1 p.p. rise on March 2014 and a 0.8 p.p. rise on the beginning of the year.

The growth-rate of the retail credit portfolio of small and medium-size banks dropped almost to zero. While physical persons' payables to state-owned and

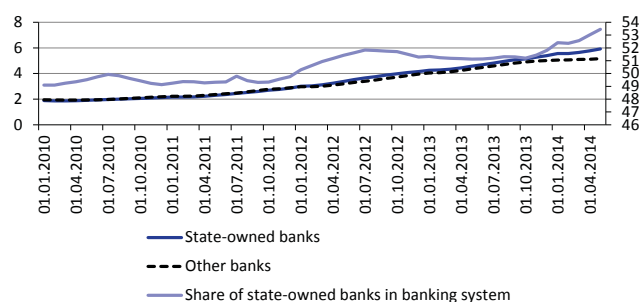


Fig. 6. The Movement of Retail Loans Issued by State-owned and Other Banks (Trillion Rb), and State-owned Banks' Share in Retail Lending (%), Right-hand Side Scale)

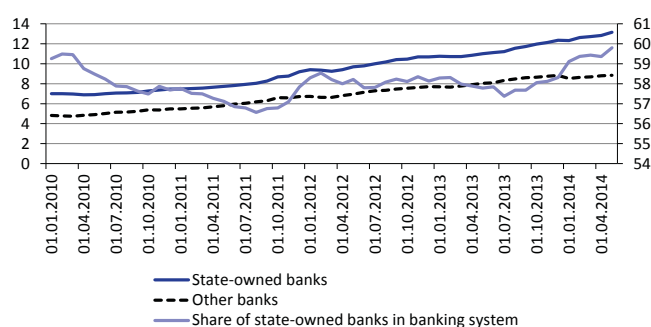


Fig. 7. The Movement of Loans Issued to Enterprises and Organizations by State-owned and Other Banks (Trillion Rb), and State-owned Banks' Share in the Market for Loans to Enterprises and Organizations (%), Right-hand Side Scale)

big private banks increased in April by 2.6% and 2.0% respectively, such payables to small and medium-size banks grew by a rickety 0.1%. The share of state-owned banks in this segment of the credit market climbed to a new record high of 53%.

In April 2014, the volume of corporate debt against bank loans increased by Rb 353bn (1.6%). The growth-rate of corporate debt against bank loans continued to hover around 12.7%. The formal indicators of credit portfolio quality in the market's corporate segment displayed opposite trends. The volume of outstanding

Table 2

### STRUCTURE OF RUSSIA'S BANKING SYSTEM'S ASSETS (AS OF MONTH'S END), AS % 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	04.14
Assets, bn Rb	28022	29430	33805	41628	49510	49839	52744	54348	57423	58445	59137	59377	60208
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	2.7
Monies placed with 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	3.4
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	5.7
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	15.1
Population	15.5	13.1	13.0	14.4	16.8	17.4	17.9	18.5	18.5	18.4	18.2	18.4	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	39.0
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	2.7
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	1.9

Source: RF Central Bank; the IEP's estimates.

debt increased by 0.1 p.p. to 4.3%, while the ratio of reserves to the size of credit portfolio, on the contrary, dropped, declining by 0.1 p.p. to 6.6%.

In April 2014, the highest growth rate of corporate debt against bank loans was registered at state-owned banks (2.4%, while the RF Savings Bank displayed an even higher corporate debt growth rate, of 2.9%). At

the same time, the growth-rates of corporate debt against bank loans recorded at big private banks amounted to a mere 0.1%, while corporate debt to small and medium-size banks increased by 0.5%. As of 1 May 2014, the share of state-owned banks in the total volume of loans issued to non-banking borrowers amounted to 59.8%. ●