

## RUSSIA'S BANKING SECTOR IN H1 2015

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The June dynamics were a natural continuation of the trends formed in the banking sector in early 2015. Banks' profits remain at the zero level. The funds of the population remain the single main source of banks' liabilities. Retail lending is contracting while corporate lending has noticeably slowed down. Meanwhile, all segments of the banking sector register deterioration of the lending portfolio's quality.

In June 2015, the growth of bank assets constituted 0.0% against the previous month<sup>1</sup>. Just over H1 2015, bank assets declined by 5.1% or by nearly Rb4 trillion without the adjustment for the foreign currency component. Annual growth rate (on the corresponding date of the previous year) slowed down to 5.2%. Such low dynamics of bank assets growth is linked with the banks' funding base stagnation. In H1 2015, the funds of individuals remain the single source of attraction of borrowed funds. Corporate sector funds and foreign loans demonstrated negative dynamics. Moreover, banks were reducing their debt to the regulator.

June was the third month in 2015 after March and May for the banking sector positive financial performance as a whole. The banking sector pre-tax profit in June amounted to Rb 42bn and Rb 34bn after tax. Just as of the period-end results for H1, the banking sector financial sector reported positive results – Rb 51bn before tax. Over the course of H1, net pre-tax profits turned practically to zero – Rb 4bn. This result is linked to the fact that taxes are paid by profitable banks while the tax base is much wider than the total profits across the whole of the banking sector due to the loss-making banks. Over the course of H1 2015, profits of the profit-making banks amounted to Rb 308bn.

The main factor responsible for the losses in the banking sector was the deterioration of the assets' quality and growth of deductions to reserves against potential losses. Over the course of H1 2015, the book value of the accumulated reserves increased by Rb 571bn, including Rb 102bn in June. However, net operating income minus operations with reserves and

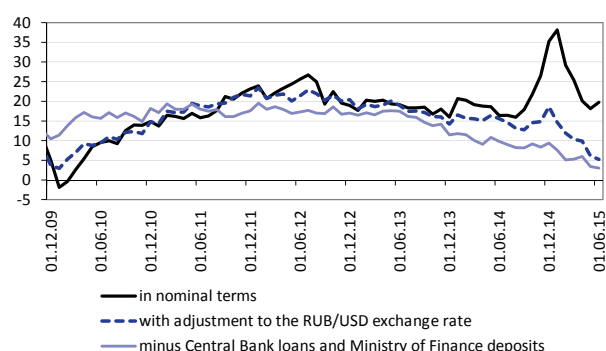


Fig. 1. The dynamics of the bank sector assets as compared with the corresponding date of the previous year (growth, %)

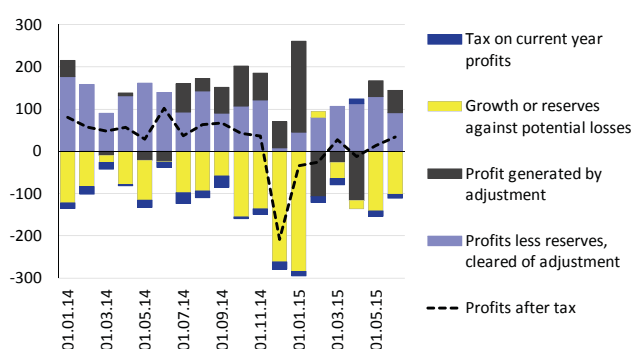


Fig. 2. The Main Components of the Banking Sector's Monthly Profits, Rb bn

revaluation of bank accounts denominated in foreign currency declined noticeably. Over six months 2015, it was down 34% than a year earlier (Rb 566bn in H1 2015 against Rb 858bn in H1 2014).

### Borrowed Funds

Over June, the volume of funds borrowed from individuals increased by 1.4% (Rb 259bn). Just over the first six months 2015, increment of funds of individuals on their bank accounts and deposits amounted to 7.2% or Rb1.3 trillion, in contrast with 2014 when over the course of H1 deposits declined by 1.2% (or by Rb 196bn).

In June and in H1 2015, the volume of funds of the population increased on both ruble and foreign currency accounts. The value of the ruble deposits of indi-

1 Hereinafter, if not otherwise specified, the growth rates of balance-sheet indices are adjusted by changes in the value of their components denominated in foreign currencies, but without the adjustment by the data for banks whose licenses have been revoked. To eliminate the effects of the ruble exchange rate movement, all the components of the banking sector's balance sheet denominated in foreign currencies are recalculated in terms of US dollar's exchange rate as of a given date, all changes are recalculated in terms of USD, and the ruble-denominated component's changes are estimated by applying the monthly average ruble to USD exchange rate

viduals went up over month by 1.7% (Rb 245bn), and since the beginning of the year – by 7.9% (Rb 1.06 trillion). Deposits denominated in foreign currency over the month went up by 0.3% and since the beginning of the year – by 5.7% in dollar terms. As of 1 July 2015, total value of accounts and deposits denominated in foreign currency amounted to \$91.5bn or 25.9% of the overall volume of funds of the population deposited with the Russian banks.

The volume of corporate customers' funds following a decrease during three months in a row, in the course of June went up by 0.2% (Rb 30bn). However, over the period since the beginning of the year, negative dynamics of this type of attraction of bank assets persisted. Over six months, their volume shrank by 1.3% or by Rb 235bn.

June dynamics of currency components of the corporate customers' assets were differently directed. The value of the corporate assets in the national currency over the course of June fell by 1.2% (by Rb 145bn), and accounts and deposits denominated in foreign currency over the course of month went up by 2.9% in dollar terms. The volume of corporate customers' funds in the banks denominated in foreign currency as of 1 July 2015 amounted to \$112bn or 34.6% of the total amount of the corporate customers' funds deposited with the Russian banks.

Major share of the corporate customers funds remains on time deposits. Time deposits account for 58.8% of the overall volume of the corporate customers' accounts and deposits with the Russian banks.

In June 2015, banks' ruble denominated debt to the Bank of Russia increased by Rb 41bn (to Rb 5.07 trillion), and in foreign currency decreased by \$0.8bn (\$33.3bn). Total debt went up by Rb93bn to Rb 6.93 trillion which is due to the debt revaluation in foreign currency.

Deposits and other allocated assets of the Russian Ministry of Finance in banks decreased over the month by Rb 55bn to Rb 405bn. Thus, total banks' debt to the

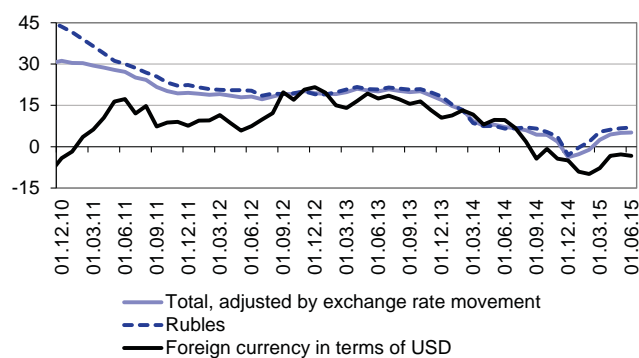


Fig. 3. The Dynamics of Retail Deposits as Compared to the Corresponding Date of the Previous Year (increment, %)

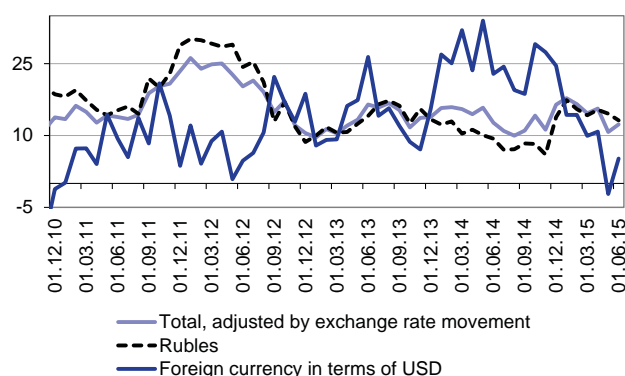
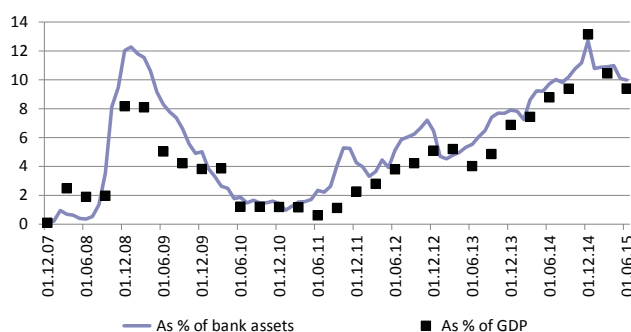


Fig. 4. The dynamics of corporate customers' accounts to the corresponding date of the previous year (growth, %)



Puc. 5. The Dynamics of Banks' Total Debt to the Bank of Russia and the Ministry of Finance of Russia (as % of bank assets and GDP)

Table 1

**THE STRUCTURE OF RUSSIA'S CREDIT INSTITUTIONS' LIABILITIES (AS OF MONTH'S END), AS % OF TOTAL**

	12.09	12.10	12.11	12.12	12.13	06.14	12.14	01.15	02.15	03.15	04.15	05.15	06.15
Liabilities, bn Rb	29,430	33,805	41,628	49,510	57,423	61,385	77,663	80,753	76,378	74,447	72,328	72,289	73,513
Equity	19.3	18.7	16.9	16.2	16.0	15.8	13.6	13.3	14.2	14.8	15.4	15.6	15.5
Credits allotted by Bank of Russia	4.8	1.0	2.9	5.4	7.7	8.7	12.0	9.6	10.1	10.2	10.4	9.5	9.4
Interbank operations	4.8	5.5	5.7	5.6	5.1	5.9	6.1	4.7	4.6	4.5	4.5	4.8	5.0
Foreign liabilities	12.1	11.8	11.1	10.8	9.9	9.4	10.2	11.2	10.2	9.5	8.7	8.7	8.8
Funds of individuals	25.9	29.6	29.1	28.9	29.4	27.4	23.7	23.7	24.7	25.4	26.1	26.5	26.8
Corporate sector funds	25.9	25.7	26.0	24	23.8	22.9	23.8	24.9	25.4	25.0	24.6	24.5	24.6
Accounts and deposits of state government bodies and local administrations	1.0	1.5	2.3	1.6	0.9	2.3	1.4	2.1	1.8	1.8	1.9	2.1	2.0
Securities issued	4.1	4.0	3.7	4.9	4.5	3.9	3.5	3.4	3.4	3.5	3.6	3.5	3.5

Sources: CBR, IEP's calculations.

regulators of the money market, the Bank of Russia and the Ministry of Finance, as of 1 July 2015, amounted to Rb 7.34 trillion or 10% of the banking sector liabilities' volume.

### Invested Assets

In June 2015, the population's debt to the banks was sliding. Over the month, its value fell by 0.6% (by Rb 71bn), and since the beginning of the year, it fell by 5.7% (by Rb 684bn). By the period-end results of H1 2015, annual growth of the retail lending portfolio of banks was negative: as of 1 July 2015, the population's debt to the banks declined by 1.3% against 1 July 2014.

The quality of the retail lending portfolio continues deteriorating. In June 2015, the volume of debt in arrears of individuals increased by Rb 15bn, and over six months – by Rb 158bn. As of July 2015, the share of debt in arrears in the overall amount of loans extended to individuals reached 7.8% which for the first time exceeded the maximum level of 2009 recession year (7.7%). In June 2015, the amount of reserves against potential losses from retail lending grew by Rb 10bn, and since the beginning of the year – by Rb 138bn. As of July 2015, the ratio of reserves against potential losses from retail lending to the volume of individual debt reached 10.6% (against 8.9% at the beginning of the year). However, regarding this indicator the peak value of the last crisis (10.9%) has not been reached yet.

In June 2015, corporate debt in arrears remained practically unchanged. Its volume declined by Rb 6bn which amounts to less than 0.1%. At the same time, in the course of H1 2015, corporate lending growth rate remained positive, although exceptionally low: 2.1% or Rb 547bn. During stable periods of the banking sector development, such growth of the lending portfolio usually happens in a month and not over 6 months.

The quality of the corporate lending portfolio also continues to deteriorate. Since the beginning of the

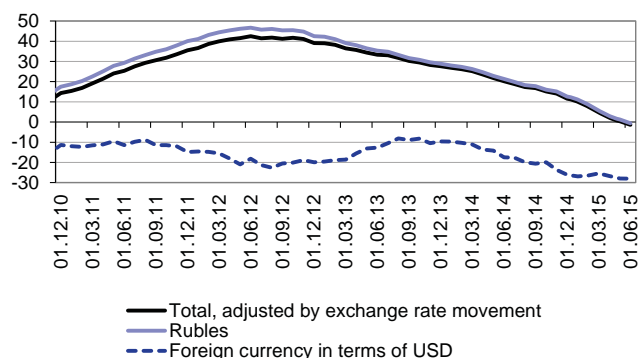


Fig. 6. The dynamics of the retail lending portfolio to the corresponding date of the previous year (%)

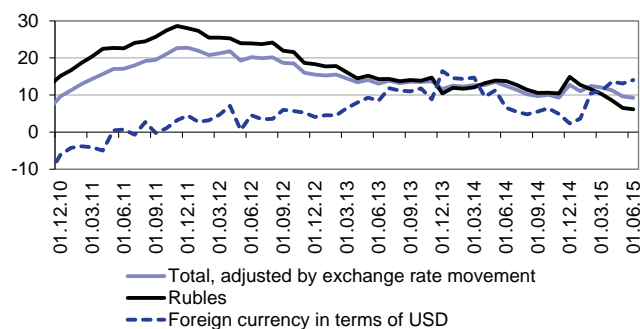


Fig. 7. The dynamics of the corporate lending portfolio to the corresponding period of the previous year (%)

year, the volume of corporate debt in arrears went up by Rb 418bn, including by Rb 50bn in June. As of 1 July 2015, the share of debt in arrears in the overall volume of loans constituted 5.6%. At the same time, the share of debt in arrears denominated in rubles reached 7.0% meanwhile, on debt denominated in foreign currency constitutes barely 1.9%. The volume of the reserves against potential losses on corporate lending increased over six months by Rb 287bn, including Rb 36bn in June. The ratio of reserves against the potential losses to the volume of debt in arrears came to 7.9% as of 1 July 2015.

Table 2

### STRUCTURE OF RUSSIA'S CREDIT INSTITUTIONS' ASSETS (AS OF MONTH'S END), AS % OF TOTAL

	12.09	12.10	12.11	12.12	12.13	06.14	12.14	01.15	02.15	03.15	04.15	05.15	06.15
Assets, bn Rb	29,430	33,805	41,628	49,510	57,423	61,385	77,663	80,753	76,378	74,447	72,328	72,289	73,513
Cash and precious metals	2.7	2.7	2.9	3.1	2.8	2.4	3.5	2.7	2.5	2.3	2.3	2.2	2.2
Funds allocated in Bank of Russia	6.9	7.1	4.2	4.4	3.9	3.3	4.2	3.0	2.8	3.2	3.0	2.7	2.9
Interbank operations	5.4	6.5	6.4	6.8	5.7	6.9	7.5	6.7	6.7	6.6	6.7	7.1	7.3
Foreign assets	14.1	13.4	14.3	13.0	13.3	14.1	13.8	16.6	15.7	15.1	15.1	15.2	15.6
Population	13.1	13.0	14.4	16.8	18.5	18.5	15.5	14.8	15.4	15.5	15.8	15.7	15.4
Corporate sector	44.5	43.6	44.0	41.3	39.3	38.8	35.9	36.5	38.0	38.6	38.8	39.3	39.1
State	4.2	5.1	5.0	3.2	3.1	3.4	3.1	3.5	4.0	3.9	3.7	4.2	4.0
Property	2.7	2.6	2.3	2.2	2.0	1.9	1.6	1.5	1.6	1.6	1.7	1.7	1.7

Sources: CBR, IEP's calculations.