

## RUSSIA'S BANKING SECTOR IN JULY 2015

M.Khromov

*In July, main negative trends observed in the banking sector over the recent months persisted: deterioration of assets quality, reduction of the credit activity and unprofitability of banking activity.*

In the course of July 2015, banking sector assets shrank by 0.6%<sup>1</sup>, and overall for the period from the turn of the current year bank assets decreased by 5.7%. Annual rate of bank assets increment (as compared with the corresponding date of the previous year) by the period-end results for July 2015 fell to 4.3% and nearly reached the bottom line registered during 2008-2010 crisis (2.9%).

In July, the banking sector financial performance results have again turned out to be negative. Profit after taxes amounted to –Rb43bn. Taking into account the fact that over H1 2015 this indicator was close to zero (+Rb4.0bn), financial performance results of the first seven months of the current year were in the red.

The main factor responsible for the losses in the banking sector remains the deterioration of the assets' quality and growth of deductions to reserves against potential losses. Over July 2015, the book value of the accumulated reserves increased by Rb 183.0bn, which is practically twice as much as the monthly average level of H1, in the course of which the value of the reserves increased by Rb 571bn or at a monthly rate of Rb 95bn. Additional reason for the increased growth of reserves could be ruble devaluation and growth of the ruble equivalent of the risk assets denominated in foreign currency.

### Borrowed Funds

Over July 2015, the volume of assets borrowed from households increased by 0.6%. Over the period from the beginning of the year, the value of private assets on bank accounts and deposits has already gone up by 7.8%, and despite that annual increment

<sup>1</sup> 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components denominated in foreign currencies, but without the adjustment by the data for banks whose licenses have been revoked.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.

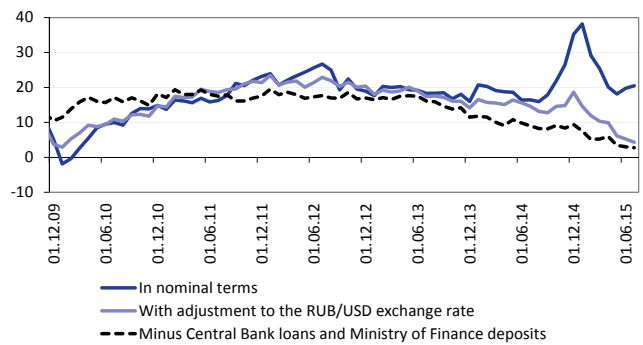


Fig. 1. The dynamics of the banking sector assets as compared with the corresponding date of the previous year (growth, %)

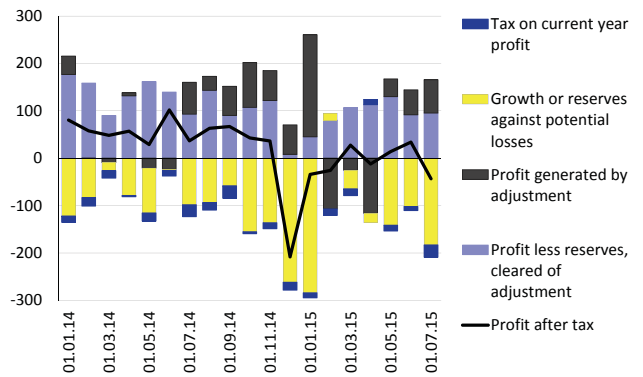


Fig. 2. The main components of the banking sector's monthly profits, Rb bn

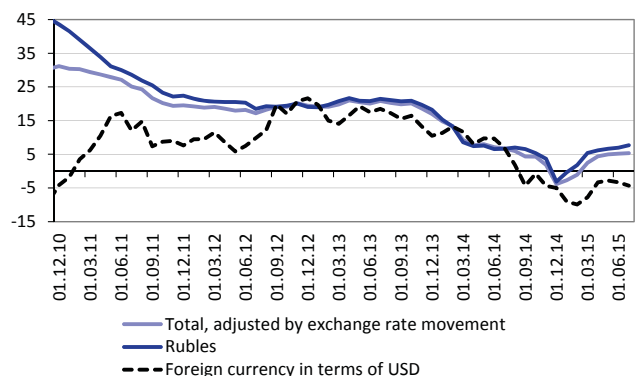


Fig. 3. The Dynamics of retail deposits as compared to the corresponding date of the previous year (increment, %)

still remains reasonably low (5.4%) due to outflow of household assets from accounts and deposits at the end of 2014.

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	03.15	04.15	05.15	06.15	07.15
Liabilities, bn Rb	29430	33805	41628	49510	57423	61385	77 663	74447	72328	72289	73513	74841
Equity	19.3	18.7	16.9	16.2	16.0	15.8	13.6	14.8	15.4	15.6	15.5	15.7
Credits allotted by Bank of Russia	4.8	1.0	2.9	5.4	7.7	8.7	12.0	10.2	10.4	9.5	9.4	8.9
Interbank operations	4.8	5.5	5.7	5.6	5.1	5.9	6.1	4.5	4.5	4.8	5.0	5.0
Foreign liabilities	12.1	11.8	11.1	10.8	9.9	9.4	10.2	9.5	8.7	8.7	8.8	8.9
Funds of individuals	25.9	29.6	29.1	28.9	29.4	27.4	23.7	25.4	26.1	26.5	26.8	27.0
Corporate sector funds	25.9	25.7	26.0	24	23.8	22.9	23.8	25.0	24.6	24.5	24.6	24.4
Accounts and deposits of state government bodies and local administrations	1.0	1.5	2.3	1.6	0.9	2.3	1.4	1.8	1.9	2.1	2.0	2.2
Securities issued	4.1	4.0	3.7	4.9	4.5	3.9	3.5	3.5	3.6	3.5	3.5	3.4

Sources: CBR, IEP calculations.

From the point of view of the currency components of household assets, July registered growth of deposits denominated in rubles. Over July, their value up 1.3% or up Rb 193bn. On the contrary, deposits denominated in foreign currency shrank by 1.6% and those denominated in terms of dollar went down \$1.4bn. Most likely, this is due to spending of previous currency savings on the current consumption.

Nevertheless, in July, the share of private currency denominated accounts and deposits went up due to the reduction of the ruble exchange rate to foreign currencies from 25.9% as of 1 July 2015 to 26.9% as of 1 August 2015.

In July, the volume of corporate customers' assets on accounts and deposits down 1.7%. Over the period since the turn of the current year, negative dynamics of this this type of bank liabilities persists: -2.9% over seven months. In recent months, annual increment of corporate customers' assets on bank accounts and deposits has stabilized at the level close to 12.0%.

July contraction of corporate clients' value of assets on bank accounts and deposits hurt both ruble and hard currency accounts. The value of the corporate assets in the national currency on accounts and deposits down 1.0% (Rb 116bn), and the value of the corporate assets on accounts and deposits denominated in foreign currency down 2.9% in dollar terms (\$3.2bn). At the same time, as in the case of household deposits, the share of assets in foreign currency in the overall value of assets of corporate clients accounts and deposits in July went up to 35.9% despite a lower increment of assets denominated in hard currency.

In July, banks debt to the money market regulators, Bank of Russia and the Finance Ministry, decreased by Rb 166bn to Rb 7.17 trillion. Its share in the overall volume of bank liabilities has also gone down to 9.6%. Debt reduction before regulators is, most likely, due to a reduction of credit activity (see chapter "Invested

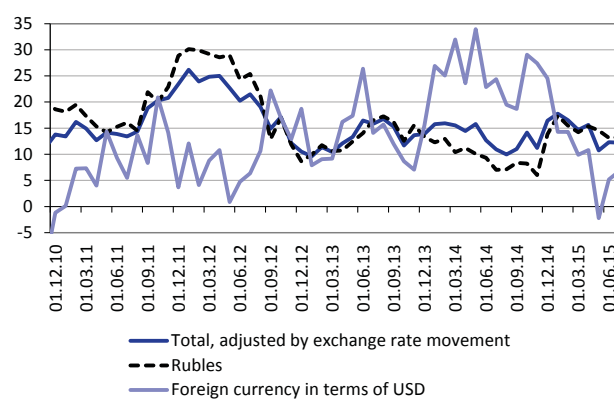


Fig. 4. The dynamics of corporate customers' accounts to the corresponding date of the previous year (increment, %)

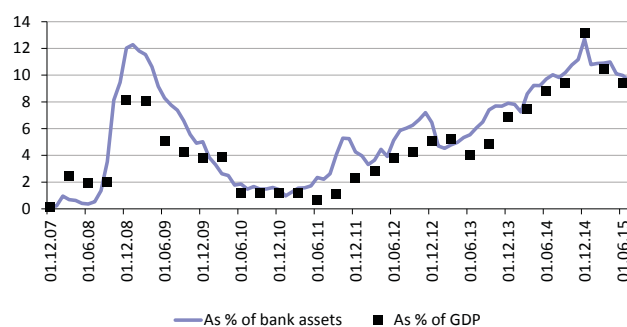


Fig. 5. The Dynamics of banks' total debt to the Bank of Russia and the Ministry of Finance of Russia (as % of bank assets and GDP)

Assets") and the lack of significant requirements of the banks in additional liquidity. It should be pointed out that funds received by the banks within the program of recapitalization with the use of OFZ (federal loan bonds) are indicated in banks' balance sheets as assets borrowed not from the state but from corporations because the state corporation Deposit Insurance Agency (DIA) served as a mediator in their placement. By the period-end results for July, in the framework of

banks recapitalization DIA transferred to eight banks federal loan bonds for Rb 424bn.

### Invested Assets

Increment of the private debt on bank credits remains negative. Over July, the amount of debt fell by 0.2%, and over first seven months 2015 went down by 5.9%. Moreover, second month in a row the amount of private debt is less than a year earlier. Its annual growth as of 1 August 2015 constituted -3.0%.

Indices of the quality of the retail-lending portfolio continue deteriorating. The share of private debt in arrears in its overall volume of the period-end results for July 2015 reached 8.1%, which exceeds the maximum level registered in 2010 (7.7%). From the turn of the year, the share of debt in arrears went already up by more than 2 p.p. As of 1 August 2015, the ratio of reserves against potential losses from retail lending to the overall private debt volume climbed to 11%, which also exceeds the maximum level registered in 2010 (10.9%). Deterioration of debt servicing by retail borrowers is reflected by the fact that from April 2015 over 18% of payments of principal made on the loans are delayed.

In July, corporate debt in arrears on extended bank loans remained practically unchanged. Monthly growth came to 0.1%, and overall from the turn of the year corporate credit exposure has increased barely by 2.2%. As a result, annual growth fell from 12.7% in 2014 to 8.0% by the end of July 2015.

The quality of the corporate lending portfolio also continues to deteriorate. As of 1 August 2015, the volume of corporate debt in arrears increased to 5.7% against 5.6% on 1 July and against 4.1% on 1 January 2015. At the same time, the share of debt in arrears denominated in rubles was growing faster and reached 7.3% by the end of July against 5.0% at the

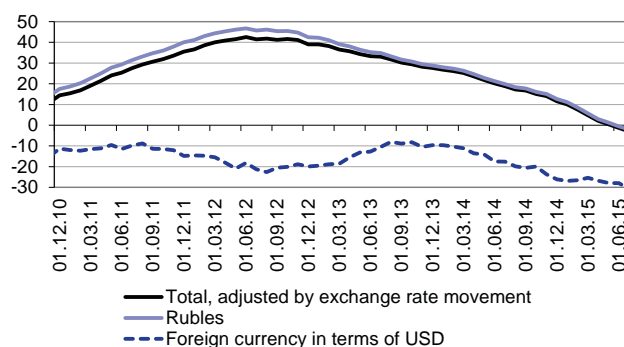


Fig. 6. The dynamics of the retail lending portfolio to the corresponding date of the previous year (%)

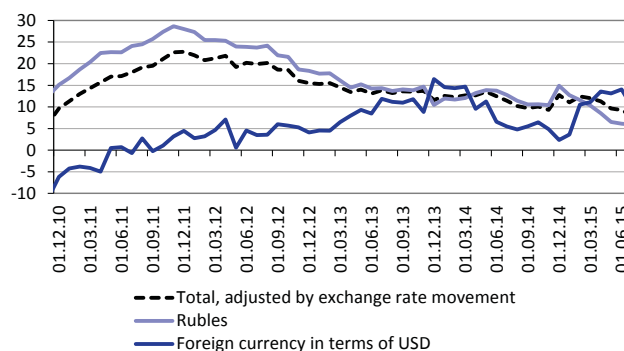


Fig. 7. The dynamics of the corporate lending portfolio to the corresponding date of the previous year (%)

beginning of the year. Debt in arrears denominated in foreign currency remains more modest – barely 1.8% by the period-end results for July, which even means its reduction during last month by 0.1 p.p.

The ratio of reserves against potential losses to the overall volume of corporate clients' debt arrears as of 1 August 2015 came to 8.1% against 7.9% a month before and against 6.9% at the turn of the year.

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	03.15	04.15	05.15	06.15	07.15
Assets, bn Rb.	29430	33805	41628	49510	57423	61385	77 663	74447	72328	72289	73513	74841
Cash and precious metals	2.7	2.7	2.9	3.1	2.8	2.4	3.5	2.3	2.3	2.2	2.2	2.1
Assets allocated in Bank of Russia	6.9	7.1	4.2	4.4	3.9	3.3	4.2	3.2	3.0	2.7	2.9	2.8
Interbank operations	5.4	6.5	6.4	6.8	5.7	6.9	7.5	6.6	6.7	7.1	7.3	7.2
Foreign assets	14.1	13.4	14.3	13.0	13.3	14.1	13.8	15.1	15.1	15.2	15.6	15.9
Population	13.1	13.0	14.4	16.8	18.5	18.5	15.5	15.5	15.8	15.7	15.4	15.1
Corporate sector	44.5	43.6	44.0	41.3	39.3	38.8	35.9	38.6	38.8	39.3	39.1	39.4
State	4.2	5.1	5.0	3.2	3.1	3.4	3.1	3.9	3.7	4.2	4.0	4.3
Property	2.7	2.6	2.3	2.2	2.0	1.9	1.6	1.6	1.7	1.7	1.7	1.6

Sources: CBR, IEP calculations.