

RUSSIA'S BANKING SECTOR IN AUGUST 2015

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In August 2015, certain symptoms of corporate lending pickup popped up and contraction of the retail credit portfolio practically halted. Main sources of profit for banks were revaluation of foreign currency accounts resulting from accelerated ruble devaluation.

Table 1

BANK STOCK AND CAPITAL ADEQUACY NORMATIVE IN 2015

	1.12.2014	1.01.2015	1.07.2015	1.08.2015	1.09.2015
Capital adequacy (normative H1), %					
Banking system	11.9	12.5	12.9	13.0	n/a
Major state banks	11.1	11.8	12.3	12.8	13.0
Other banks	13.1	13.4	13.6	13.2	n/a
Amount of bank stock, Rb bn					
Banking system	7 862.2	7 928.4	8 166.4	8 454.3	n/a
Major state banks	4 214.7	4 285.7	4 465.0	4 785.0	4 965.9
Other banks	3 647.5	3 642.7	3 701.4	3 669.3	n/a

In August 2015, banking sector assets up 1.4%¹. At the same time, over eight months of the current year the total bank assets down 4.3%. In relation to the corresponding date of the previous year as of 1 September 2015, assets up 6.5% which indicates a slowdown of intermediate surge of the bank assets.

Capital adequacy in the banking sector as of 1 August 2015 came to 13.0%. From the bottom level as of 1 December 2014 (11.9%), its value surged by over one p.p. Meanwhile, growth both of capital adequacy and absolute bank capital requirements were ensured by major state banks².

From December 2014 to July 2015, bank stock of major state banks up Rb 570bn and of all other banks increased by Rb 22bn. In August 2015, the bank stock of major state banks went up by additional Rb 181bn.³ As of 1 September 2015, among other (private) banks

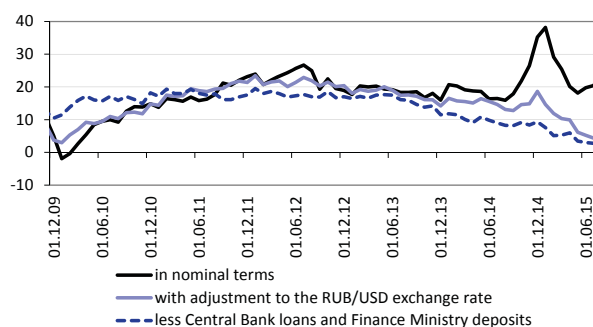


Fig. 1. The dynamics of the banking sector assets as compared with the corresponding date of the previous year (growth, %)

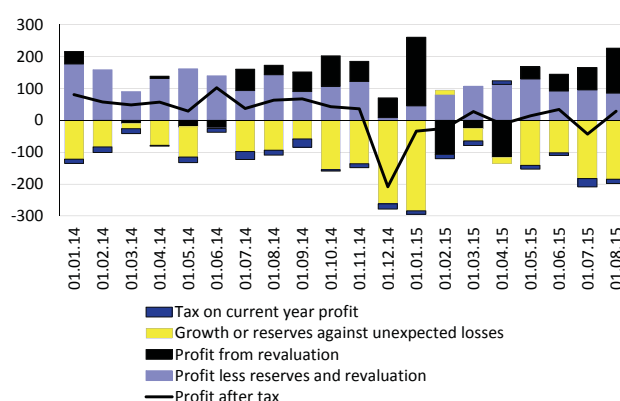


Fig. 2. The main components of the banking sector's monthly profits, Rb bn

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components denominated in foreign currencies, but without the adjustment by the data for banks whose licenses have been revoked.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

2 Sberbank, banks of VTB group (VTB, VTB24, Bank Moscow), GPB, RSHB

3 As of the date of drafting this paper, information about the total bank stock in the banking sector as of 1 September 2015 was not released.

14 banks had H1 below 10%, of which 5 had negative minimum capital adequacy standard. Fifty-two banks had capital adequacy in the range of 10 to 11% and 68banks – from 11 to 12%.

In August 2015, the banking sector financial performance returned to the positive territory and came to Rb 42bn prior to profit tax and Rb 28bn after tax. Compared to July 2015, increase of banks profit was determined by over twofold growth of profit generated by the revaluation of foreign currency accounts: Rb 141.0 bn in August against Rb 70.0bn in July. At the same time, net profit of the banking sector from the main type of activity (profit less revaluation and operations with reserves) in August amounted to Rb 84bn which is both below monthly average level of the previous seven months (Rb 95bn) and monthly average volume of 2014 (Rb 118bn). Thus, the ruble devaluation became the main source of bank profit.

Borrowed Funds

In August 2015, the volume of retail assets on bank accounts and deposits up 0.8% and total for the period from the beginning of the year up 8.7%. Annual rate of depositors' funds increment went up slowly over several recent months and so far remains at a low level of 6.1% as of the period-end results for August 2015.

In August, practically entire growth of retail funds increment fell on the foreign currency assets. The value of ruble accounts increased by 0.2% a month, meanwhile the volume of foreign currency assets went up by 2.3%. Total volume of foreign currency public savings on bank accounts and deposits came to \$92.2bn as of 1 September 2015 which amounts to 29.4% of the total volume of public deposits in banks. This is the maximum level of the foreign currency deposits in the current year. Although it is a bit below the absolute maximum observed on 1 April 2014 (\$94.8bn). The share of foreign currency accounts in the current year exceeded 30% as of 1 March 2015 (30.5%). In 2009, dollarization ceiling of public funds deposited on bank accounts came to 33.6% (as of 1 March 2009) and the all-time record on this indicator was set in early 2003 when the share of foreign currency funds in the total volume of retail bank accounts and deposits constituted 39.0%.

In August 2015, the volume of corporate customers' assets on accounts and deposits up 3.2% which is the maximum monthly increment for the last year. At the same time, over the period from the beginning of the year the volume of assets of enterprises and organizations deposited in banks remained practically flat. Growth rate came to barely 0.2%. Nevertheless, annual growth of this type of bank resources accelerated to 17.1% as of the end of August 2015.

From the point of view of foreign currency composition, the corporate customers' assets on bank accounts and deposits were growing relatively smoothly unlike private depositors, funds. Over the month the value of

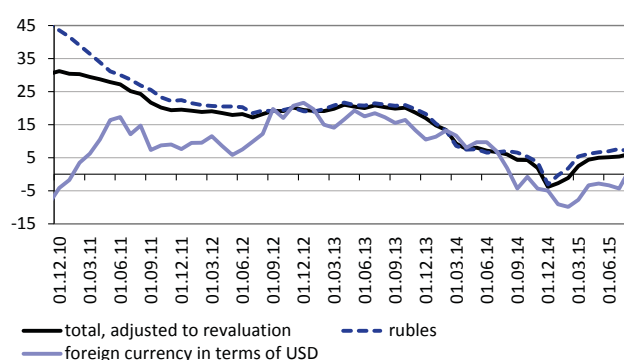


Fig. 3. The Dynamics of retail deposits as compared to the corresponding date of the previous year (increment, %)

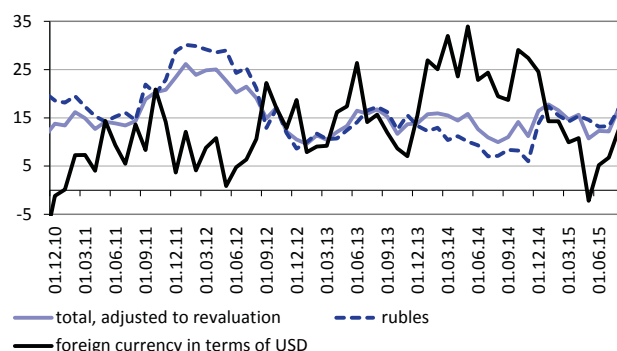


Fig. 4. The dynamics of corporate customers' accounts to the corresponding date of the previous year (increment, %)

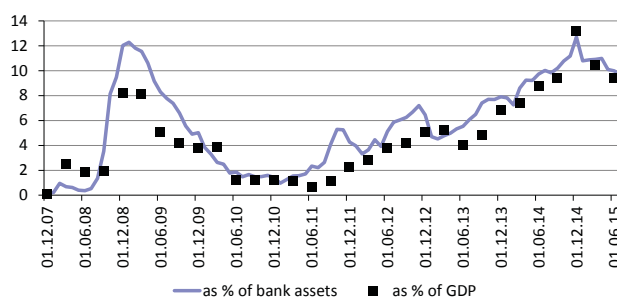


Fig. 5. The Dynamics of banks' total debt to the Bank of Russia and the Ministry of Finance of Russia (as % of bank assets and GDP)

ruble balance of accounts and deposits up 2.8% and foreign currency balance of accounts and deposits denominated in USD up 3.4%. The total volume of corporate customers' assets denominated in foreign currency as of 1 September 2015 constituted \$112.6bn and their share in the total volume of corporate customers' accounts and deposits came to 38.4%.

The total banks debt to the money market regulators, Bank of Russia and the Finance Ministry, continued falling: from Rb 7.17 trillion as of 1 August 2015 to Rb 7.05 trillion as of 1 September 2015. The value of the Finance Ministry deposits allocated in banks at the same time went up over the month by Rb 45bn.

Table 2

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

	12.09	12.10	12.11	12.12	12.13	06.14	12.14	03.15	05.15	06.15	07.15	08.15
Liabilities, bn Rb	29430	33805	41628	49510	57423	61385	77 663	74447	72289	73513	74841	78413
Equity	19.3	18.7	16.9	16.2	16.0	15.8	13.6	14.8	15.6	15.5	15.7	15.4
Credits allotted by Bank of Russia	4.8	1.0	2.9	5.4	7.7	8.7	12.0	10.2	9.5	9.4	8.9	8.3
Interbank operations	4.8	5.5	5.7	5.6	5.1	5.9	6.1	4.5	4.8	5.0	5.0	5.1
Foreign liabilities	12.1	11.8	11.1	10.8	9.9	9.4	10.2	9.5	8.7	8.8	8.9	9.4
Funds of individuals	25.9	29.6	29.1	28.9	29.4	27.4	23.7	25.4	26.5	26.8	27.0	26.7
Corporate sector funds	25.9	25.7	26.0	24	23.8	22.9	23.8	25.0	24.5	24.6	24.4	25.0
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	2.1	2.0	2.2	2.3
Securities issued	4.1	4.0	3.7	4.9	4.5	3.9	3.5	3.5	3.5	3.5	3.4	3.2

Sources: CBR, IEP calculations.

Thereby, debt before the Bank of Russia contracted by Rb 165bn. Regarding operations with the Bank of Russia, debt was decreasing both in ruble and foreign currency instruments. The value of banks liabilities denominated in foreign currency before regulator fell in August from \$ 32.0 to 31.0bn and in rubles – from 4.76 to 4.46 trillion.

As of the period-end results for August 2015, the share of monetary authorities fell to 9.0% in the total volume of banking passives.

Invested Assets

Retail lending in August 2015 remained negative. Private debt before banks declined over the month by 0.2%. This was the bottom reduction pace of the retail-lending portfolio observed from the turn to the negative growth pace registered in December 2014.

The quality of the retail lending remains low, at the same time the August movement of the main indicators of the quality of the retail lending was mixed. The amount of stale debt over the month went up by 1.9% to Rb 928bn and its share in the total volume of private liabilities amounted to 8.2%. Meanwhile, the amount of reserves for unexpected losses on loans issued to individuals contracted over the month by 0.3% and the ratio of the reserves to the total public credit exposure fell to 10.8%.

In August 2015, corporate customers crediting demonstrated certain signs of pickup. The total volume of the corporate debt before banks increased over the month by 1.4% which was the minimum increment pace in the current year. The corporate customers' debt on ruble loans went up for the third month in a row (by 0.9% for August). Moreover, the corporate debt outstanding denominated in foreign currency in terms of USD increased by 2.4%. Total for the period from the beginning of the year the corporate lending portfolio went up by 3.7% and its annual growth came to 9.3%.

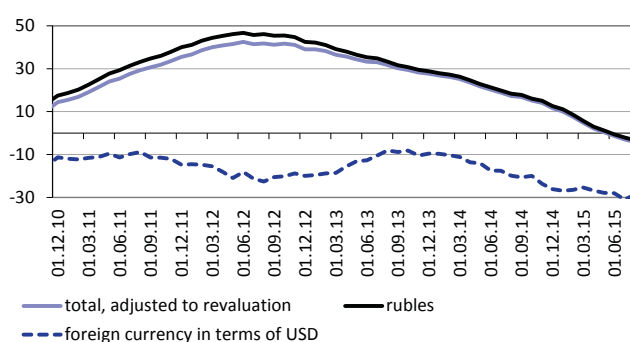


Fig. 6. The dynamics of the retail-lending portfolio to the corresponding date of the previous year (%)

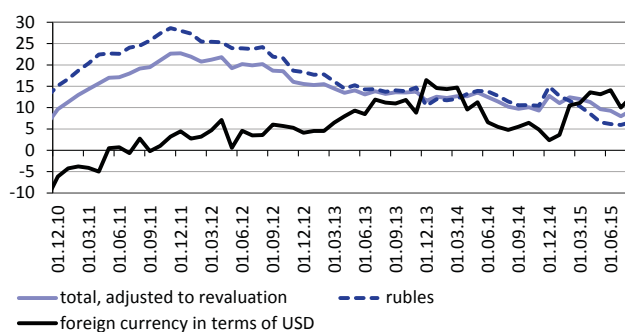


Fig. 7. The dynamics of the corporate lending portfolio to the corresponding date of the previous year (%)

The share of loans past due in the total volume of corporate debt outstanding declined over the month by 0.2 p.p. from 5.7% as of 1 August 2015 to 5.5% as of 1 September 2015. At the same time, the foreign currency composition of debt outstanding was mixed. The share of ruble loans past due fell from 7.3 to 7.2% and the share of foreign currency loans past due, on the contrary, went up from 1.8 to 1.9%. Moreover, additional impact in the reduction of the share of loans past due was contributed by the ruble devaluation which resulted in value growth

Table 3

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

	12.09	12.10	12.11	12.12	12.13	06.14	12.14	03.15	05.15	06.15	07.15	08.15
Assets, Rb bn	29430	33805	41628	49510	57423	61385	77 663	74447	72289	73513	74841	78413
Cash and precious metals	2.7	2.7	2.9	3.1	2.8	2.4	3.5	2.3	2.2	2.2	2.1	2.1
Assets allocated in Bank of Russia	6.9	7.1	4.2	4.4	3.9	3.3	4.2	3.2	2.7	2.9	2.8	2.7
Межбанковские операции	5.4	6.5	6.4	6.8	5.7	6.9	7.5	6.6	7.1	7.3	7.2	7.2
Foreign assets	14.1	13.4	14.3	13.0	13.3	14.1	13.8	15.1	15.2	15.6	15.9	16.6
Population	13.1	13.0	14.4	16.8	18.5	18.5	15.5	15.5	15.7	15.4	15.1	14.5
Corporate sector	44.5	43.6	44.0	41.3	39.3	38.8	35.9	38.6	39.3	39.1	39.4	39.3
State	4.2	5.1	5.0	3.2	3.1	3.4	3.1	3.9	4.2	4.0	4.3	4.6
Property	2.7	2.6	2.3	2.2	2.0	1.9	1.6	1.6	1.7	1.7	1.6	1.6

Sources: CBR, IEP calculations.

of foreign currency loans which quality remains better (smaller share of loans past due). The ratio of reserved to unexpected losses on loans extended to

corporate customers to the total volume of corporate debt before banks surged in August from 8.1 to 8.2%. ●