

RUSSIA'S BANKING SECTOR IN OCTOBER 2015

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Banks continue shedding liabilities before the monetary authorities and non-residents amid the credit market stagnation. In October, for the first time the banking sector's profit has reached the level of last year, however, the operating profit remains rather low on the whole.

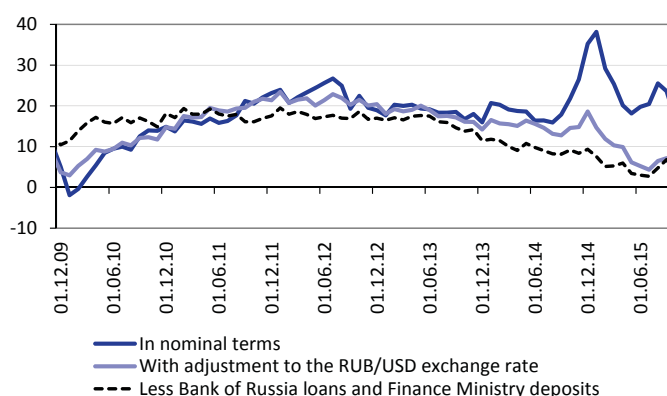
During October 2015, the Russian banking sector's total assets have contracted by 0.7%¹. Annual growth rate of assets as of the period-end for October has moved down to 3.3%, which is the lowest indicator since January 2010. Thus, our hypothesis that the assets growth rate passes the bottom mark failed to materialize² and the bank operations volume growth rate still remains minimal.

By the period-end for ten months of 2015, the banking sector financial outcome has come to Rb 193bn. Return on assets (ROA) for January–October 2015 year-on-year fell to just 0.3% and profitability of the capital base down to 3.4%. This year, all these indicators turned out to be 3.5–5 times less than a year earlier. Over ten months of 2014, the banking sector profit constituted Rb 723 bn (in 2015 reduction by 3.8-fold), return on assets – 1.4% year-on-year (reduction by 4.7-fold), and profitability of the capital base – 13.5% year-on-year (reduction by 4-fold).

Significant number of credit institutions boasted negative financial results. By the period-end for ten months of 2015, two hundred and fifteen credit institutions have shown losses totalling Rb 413bn. Meanwhile, profit of the remaining 538 institutions came to Rb 606bn. The magnitude of profitability of the profitable banks' assets (1.3% year-on-year) has turned out to be noticeably below the absolute value of the negative profitability of the loss-making banks (-2.3% year-on-year). Thus, the losses have proved to be more significant than the profit. The share of the bank assets which accrue to the loss-making banks constitute 27% of the total volume of assets.

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components denominated in foreign currencies, but without the adjustment by the data for banks whose licenses have been revoked.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 rouble exchange rate movement, all the components of the banking sector's balance sheets 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 rouble-denominated component's changes are estimated by applying the monthly average rouble to USD exchange rate.

2 See previous issue of the review Russian Economic Developments, № 11, 2015.



Sources: CBR, IEP calculations.

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

Main roots for the sharp drop of the banking profit, as we stated before¹, consisted in the decrease of the bank assets quality resulting in considerable increase of provision for reserves against potential losses as well as reduction of profitability generated by the main banking operation.² These causes have revealed themselves especially in relation to the loss-making credit institutions.

Overall, the banking sector's provisions for reserves came to more than Rb 1 trillion during 10 months of 2015 and the ratio of reserves to potential losses to total assets have moved up by 1.3 p.p. (from 5.2% to 6.5%). This indicator reflects estimate of the soft assets in the overall volume of bank assets. The loss-making banks were marked both by lower assets quality and by higher rate of soft assets growth. The ratio of reserves against potential losses to total assets regarding the loss-making banks has moved up in 2015 from 7.2 to 9.2%, meanwhile for the profitable banks – from 4.4 to 5.3%. This being said, the growth of reserves in both groups of banks in nominal terms has turned out to be comparable: Rb 546bn for the profitable and Rb 539bn for the loss-making banks, wherein the assets of the profitable banks 2.6-fold exceed assets of the loss-making banks.

Net operating income for the profitable banks also remains at a significantly higher level than for the loss-making ones. Over ten months of 2015, all credit institutions have gained Rb 929bn (1.5% year-on-year) less provision for reserves and revaluation of deposits in foreign currency of which Rb 889bn (2.0% year-on-year) accounts for profitable banks and merely Rb 106bn (0.6% year-on-year) for the loss-making banks.

A year earlier (over ten months of 2014), net operating income amounted to Rb 1.29 trillion or 2.4% of assets year-on-year. This speaks for a notable reduction of this component of the banking sector financial performance.

Borrowed assets

In October, the volume of retail assets on bank accounts and deposits up 0.3%. Slowdown against the previous months when their growth constituted 0.8-0.9%, was due to contraction of assets denominated in foreign currency. Over the month, their volume down 0.3% in dollar terms meanwhile during previous two months retail currency deposits grew on average at 2.0% per month. The volume of retail rouble deposits has increased by 0.6%.

In October 2015, the volume of corporate customers' assets in Russian banks has moved up barely by 0.7% compared to 4.0% on average for the previous two months. The annual increment nevertheless remains at a high level of 20.5%.

From the point of view of currency structure, the October increment has equally divided on ruble and foreign currency components: both have moved up by 0.7%. The share of foreign assets in the overall volume of corporate bank deposits and accounts remains on an exceptionally high level of 39.4%.

1 See, for example, 'Income tax have resulted in losses for the banking sector', The Online Monitoring of Russia's Socio-economic Outlook, № 7 2015; 'Banks: deterioration of assets quality and earnings reduction', The Online Monitoring of Russia's Socio-economic Outlook, № 13 2015.

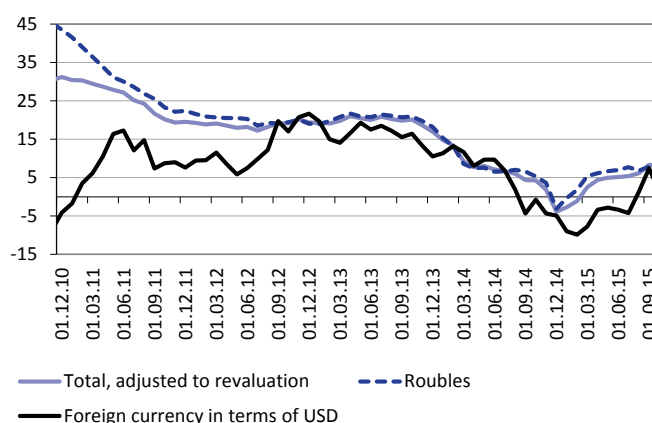
2 Income less operation with reserves and adjustment to revaluation of accounts denominated in foreign currency.

The banking sector continues to get rid of liabilities before the money market regulators. In October 2015, the total volume of assets of the Bank of Russia and the Finance Ministry deposited in the banks has dropped by Rb 136bn in nominal terms or by Rb 98bn adjusted to revaluation before the Bank of Russia. Herewith, as during previous months, the liabilities before the Bank of Russia were partially replaced by the Finance Ministry deposits. In October 2015, for instance, the rouble assets attracted by the banks from the Bank of Russia have fallen by Rb 232bn and the liabilities on loans denominated in foreign currency have decreased by Rb 486bn. Meanwhile, the volume of the Finance Ministry deposits in the Russian banks has grown over a month by Rb 164. Due to contraction of the total volume of assets and liabilities of the banking sector, the share of liabilities before the monetary authorities of a month has gone down barely by 0.1 p.p. from 8.6 to 8.5% of the total volume of the bank liabilities.

Invested Assets

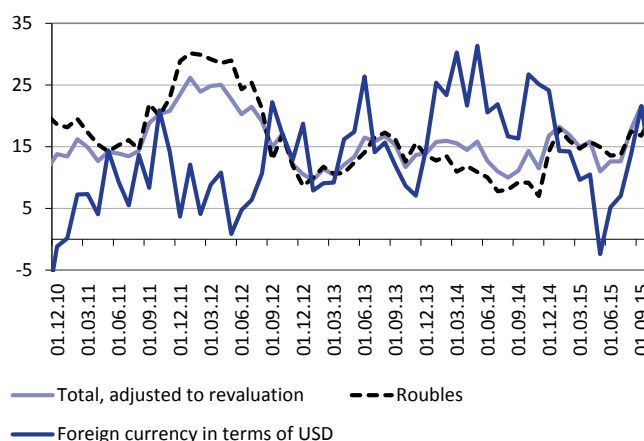
Loan debt of the population before banks goes on contracting. In October 2015, its pace has even increased: 0.5% against 0.1-0.2% during previous three months. Annual contraction of the retail-lending portfolio amounted to 5.6% as of the period-end for October.

Retail credit quality continues deteriorating gradually. The share of outstanding debt in the overall volume of retail debt before banks has moved up from 8.3 to 8.4% and the ratio of reserves against unexpected losses to the volume of loan debt – from 11.1 to 11.2%. To note, the share of debt overdue since June 2015 has been exceeding maximum



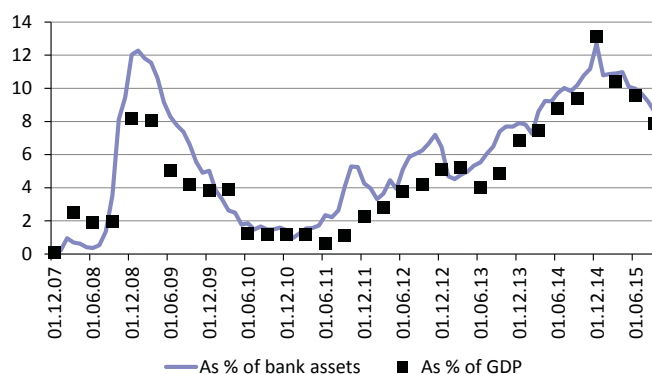
Sources: CBR, IEP calculations.

Fig. 2. The Dynamics of retail deposits as compared to the corresponding date of the previous year (increment, %)



Sources: CBR, IEP calculations.

Fig. 3. The dynamics of corporate customers' accounts to the corresponding date of the previous year (increment, %)



Sources: CBR, IEP calculations.

Fig. 4. 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

COMPOSITION OF RUSSIA'S CREDIT INSTITUTIONS' LIABILITIES (AS OF MONTH END), % TO TOTAL

	12.09	12.10	12.11	12.12	12.13	06.14	12.14	03.15	06.15	08.15	09.15	10.15
Liabilities, Rb bn	29430	33805	41628	49510	57423	61385	77 663	74447	73513	78413	79211	78123
Bank stock	19.3	18.7	16.9	16.2	16.0	15.8	13.6	14.8	15.5	15.4	15.3	15.8
Credits allotted by Bank of Russia	4.8	1.0	2.9	5.4	7.7	8.7	12.0	10.2	9.4	8.3	7.3	7.0
Interbank operations	4.8	5.5	5.7	5.6	5.1	5.9	6.1	4.5	5.0	5.1	5.9	5.8
Foreign liabilities	12.1	11.8	11.1	10.8	9.9	9.4	10.2	9.5	8.8	9.4	9.0	8.7
Assets of individuals	25.9	29.6	29.1	28.9	29.4	27.4	23.7	25.4	26.8	26.7	26.6	26.6
Corporate sector assets	25.9	25.7	26.0	24	23.8	22.9	23.8	25.0	24.6	25.0	25.7	25.5
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	2.0	2.3	2.7	3.2
Securities issued	4.1	4.0	3.7	4.9	4.5	3.9	3.5	3.5	3.5	3.2	3.1	3.2

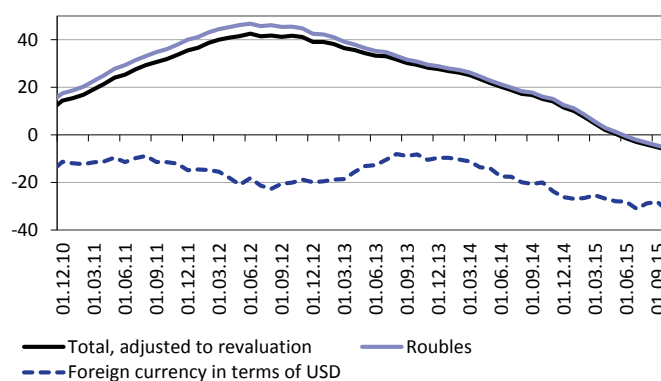
Sources: CBR, IEP calculations.

volume of 2008–2010 crisis (7.7%) and the ratio of reserves to loan debt – since September.

The corporate loan debt continues growing at low pace (0.7% in October), although the annual growth rate remains negative. As of end of October, it has dropped to 7.2% in comparison with 9.3% as of end-H1 2015 or with 12.7% as of end-2014.

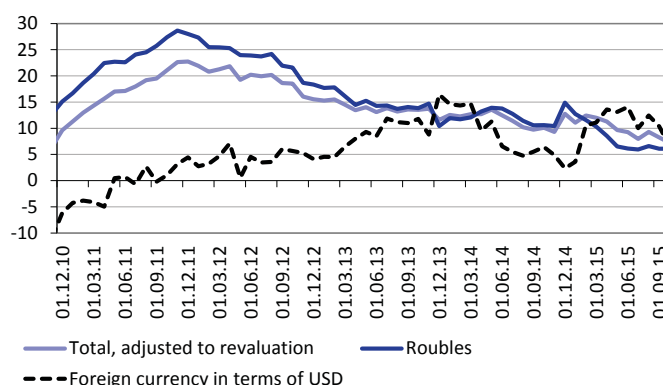
Therewith, positive monthly growth of the rouble debt remains since June of which 1.4% in October. Simultaneously, the amount of foreign currency debt has been contracting (by 1.1% in October).

Following two months of relative stability (see previous issues of the bulletin), in October, the quality of corporate debt has again demonstrated negative dynamics. The share of outstanding debt in the total corporate liabilities has grown from 5.5 to 5.6% and the ratio of reserves against unexpected losses to the outstanding debt – from 8.0 to 8.1%. The share of outstanding debt, nevertheless, demonstrates trends, which unfolded over two previous months: improved situation with rouble loans with simultaneous deterioration with loans denominated in foreign currency. In



Sources: CBR, IEP calculations.

Fig. 5. The dynamics of the retail-lending portfolio to the corresponding date of the previous year (%)



Sources: CBR, IEP calculations.

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

October, the share of outstanding rouble debt has fallen from 7.0% to 6.9% and in foreign currency has gone up from 1.9% to 2.4%.

Table 2

**COMPOSITION OF RUSSIA'S CREDIT INSTITUTIONS ASSETS
(BY MONTH-END), % TO TOTAL**

	12.09	12.10	12.11	12.12	12.13	06.14	12.14	03.15	06.15	08.15	09.15	10.15
Assets, Rb bn	29430	33805	41628	49510	57423	61385	77 663	74447	73513	78413	79211	78123
Cash and precious metals	2.7	2.7	2.9	3.1	2.8	2.4	3.5	2.3	2.2	2.1	2.0	1.9
Assets allocated in Bank of Russia	6.9	7.1	4.2	4.4	3.9	3.3	4.2	3.2	2.9	2.7	2.7	2.8
Interbank operations	5.4	6.5	6.4	6.8	5.7	6.9	7.5	6.6	7.3	7.2	8.0	7.9
Foreign assets	14.1	13.4	14.3	13.0	13.3	14.1	13.8	15.1	15.6	16.6	16.5	16.4
Population	13.1	13.0	14.4	16.8	18.5	18.5	15.5	15.5	15.4	14.5	14.3	14.4
Corporate sector	44.5	43.6	44.0	41.3	39.3	38.8	35.9	38.6	39.1	39.3	38.9	39.6
State	4.2	5.1	5.0	3.2	3.1	3.4	3.1	3.9	4.0	4.6	4.5	4.5
Property	2.7	2.6	2.3	2.2	2.0	1.9	1.6	1.6	1.7	1.6	1.5	1.6

Sources: CBR, IEP calculations. ●