

RUSSIA'S BANKING SECTOR IN NOVEMBER 2015

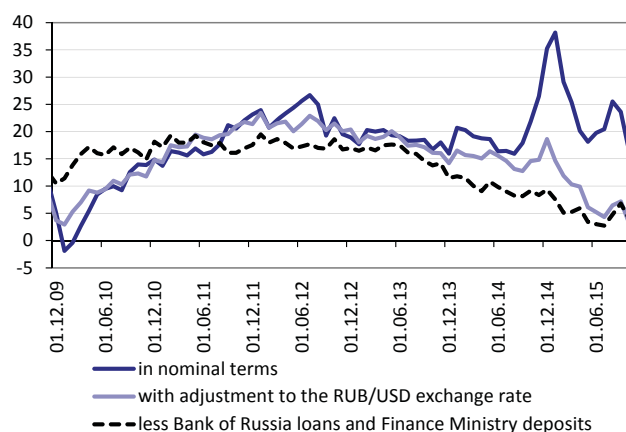
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In November, in the wake of the number of revoked licences the growth rates of bank assets have reached their highest level since the end of the 1990s. Banks continue reducing their dependence on the monetary authorities amid the lack of the credit market recovery. The November profit of the banking sector reached its peak in the current year.

November set a record for the number of lending institutions losing the right to continue their activity. Over the month, the Bank of Russia cancelled 17 licences to carry out bank operations. Previous highest number of licences cancelled during a month was hit in July of the current year when the regulator terminated activity of 13 lending institutions. Just in 11 months of 2015, the Bank of Russia decided to cancel 87 licences, which is more than during the entire 2014 (86). Average amount of credit institution's assets losing a licence in November 2015 constituted Rb 13bn totalling to Rb 229bn. In other words, despite the fact that predominantly small banks were losing their licences total amount of their assets was significant. Among them, 17 credit institutions had the right to attract deposits from population. As of 1 November (last reporting date before licence cancelation), the volume of households' funds deposited with these banks amounted to Rb 81bn of which Rb 72bn were subject for compensation by the Deposit Insurance Agency.

In November 2015, growth rate of the total banking sector assets constituted 0.0%¹. Annual growth rate fell to 1.4%, which is below minimum of 2008–2010 crisis reached in early 2010 (2.9%).

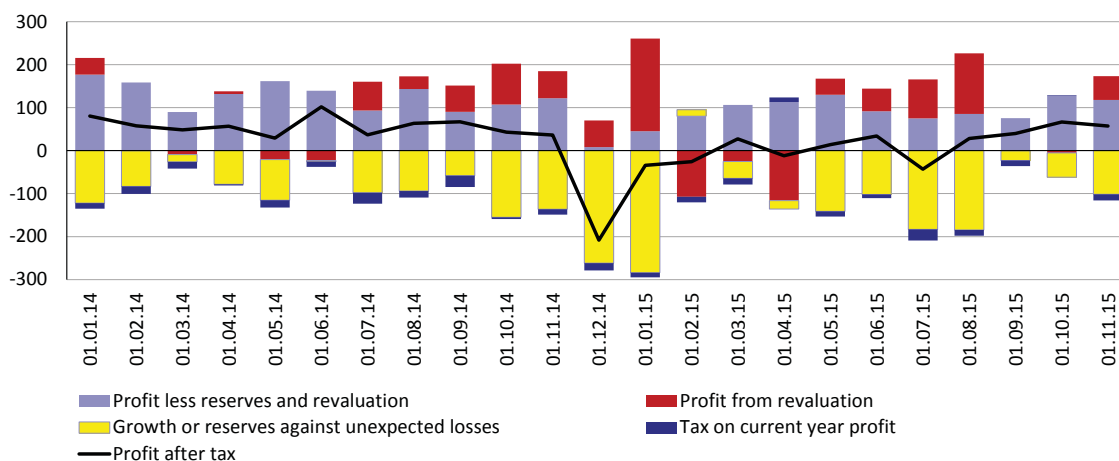
In November 2015, the banking sector financial outcome has come to Rb 71bn before profit tax, which is the peak of monthly profit in the current year. During previous ten months, the banking profit amounted to Rb 193bn or Rb 19bn on average per month. For the second month in a row the banking sector earns higher profit against the same



Source: Bank of Russia.

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

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.



Source: Bank of Russia.

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

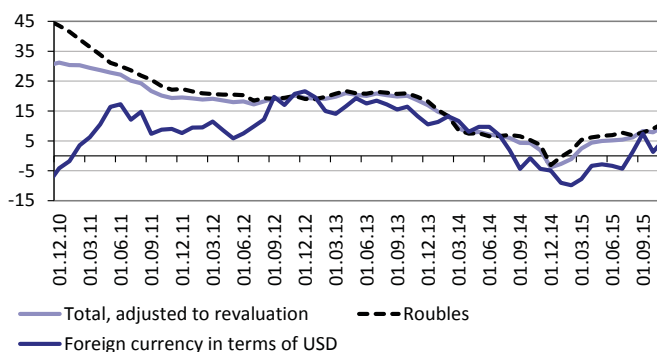
month of 2014 – Rb 65 and 71bn in October and November 2015 against Rb 47 and 49bn in October –November 2014.

In November 2015, the financial result of the banking sector consisted of Rb 55bn of profit generated by revaluation of foreign currency deposits, Rb 102bn of allocations to reserve against potential losses and Rb 118bn of net operating income. Compared to the same month of 2014, growth was ensured by fewer allocations to reserve (Rb 102 against Rb 136bn a year earlier). Compared to the previous 10 months of 2015, November financial result went up due to profit generated by revaluation and net operating income.

Borrowed assets

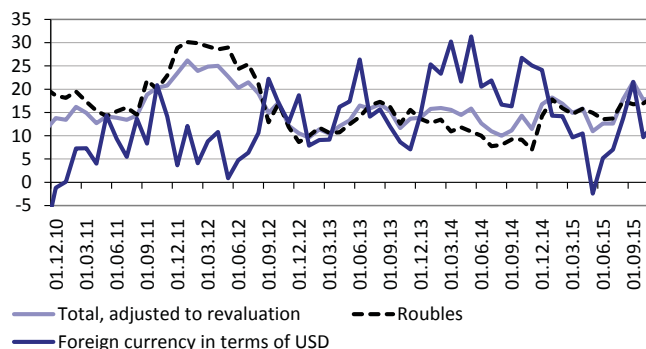
In November, the volume of retail assets on bank accounts and deposits up 0.4%. Deposits growth was due to rouble deposits which volume went up over the month by 1.1%. Foreign currency deposits shrank by 1.4% over the month in dollar terms. However, due to dollar exchange rate growth their share in the total volume of funds of the population remains stable at 29%.

Annual growth of retail deposits gradually increased and by end-November reached 9.8% (in 2014, the volume of deposits fell by 3.9%). The volume of inflow of population's funds into the banking sector constituted Rb 1.8 trillion during



Sources: Bank of Russia.

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



Sources: CBR, IEP calculations.

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

Table 2

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	11.15
Liabilities, Rb bn	29430	33805	41628	49510	57423	61385	77 663	74447	73513	78413	79211	78123	79031
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	15.9
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	6.2
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	6.0
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	8.8
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	27.0
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	25.9
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	3.1
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	3.2

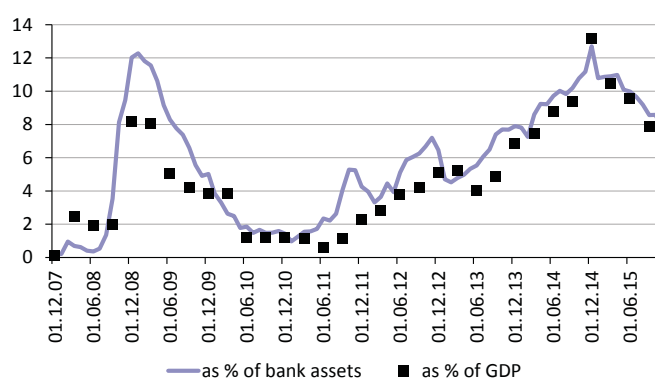
Sources: CBR, IEP calculations.

12 months. However, it is highly unlikely that in the coming months the saving activity of the population will reach the level of 2011–2013 when deposits grew by 17–19% per year and the volume of attracted funds was coming close to Rb 2.5 trillion in 2013.

In November 2015, the volume of corporate customers' assets on bank accounts and deposits up 1.1%. Growth was relevant solely to the corporate customers' rouble assets, which volume moved up by 3.0%. Accounts and deposits denominated in foreign currency shrank during the month by 1.7% in dollar terms.

Annual inflow of corporate customers' funds to the banking sector remains more stable than the inflow of population's funds. During the year, bank accounts and deposits belonging to corporate customers increased by 18.3% or by Rn 2.9 trillion, which is by 64% more than the inflow of retail deposits. At the same time, the total volume of corporate customers' funds with banks remains below the volume of deposits (Rb 20.4 trillion against Rb 21.3 trillion as of 1 December 2015). However, enterprises and organizations keep on their bank accounts more funds denominated in foreign currency (\$121bn against \$89bn by population for the same date).

In November, the banking sector continues to get rid of liabilities before the monetary authorities. The nominal volume of funds attracted by banks from the Bank of Russia and the Finance Ministry shrank during the month by Rb 542bn. Of which, the Finance Ministry deposits fell by Rb 15 bn and banks liabilities before the Bank of Russia declined by Rb 526bn. The volume of funds borrowed from the Bank of Russia fell over the month by Rb 380bn and the volume of loans denominated in dollars shrank by \$3.1bn.



Sources: CBR, IEP calculations.

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)

As of 1 December 2015, the total banks liabilities before the monetary authorities constituted Rb 6.2 trillion of the overall banking sector liabilities. According to this indicator, the share of liabilities formed due to state support, the current level corresponds to year-end 2013. Hence, one can state that the crisis peak of direct state support of banks is fading away. However, this affirms lack of expectations for potential development of the credit market. The high interest rates and low quality of bank loans servicing determine slack of the credit market dynamics and, correspondingly, low demand of the banking sector for additional funding.

Invested assets

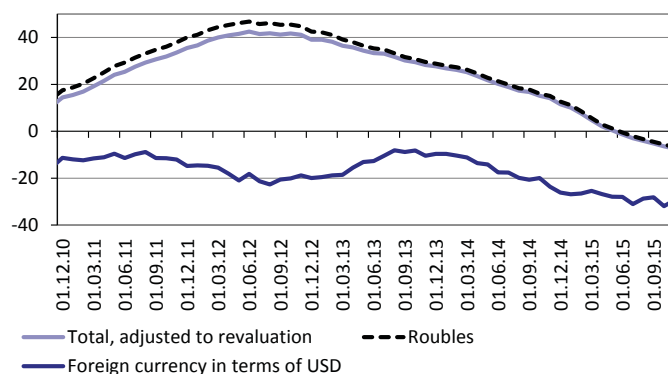
In November, the credit exposure of the population shrank by 0.6%. During the year from December 2014, the population's credit exposure fell by Rb 7.4 or by Rb 889bn.

In November, the retail credit quality portfolio has stabilized. The volume of outstanding debt during the month has even shrunk by Rb 7bn to Rb 940bn and its share in the overall bank debt of the population has stayed on hold during the month remaining at the level of 8.4%. The volume of reserves against potential losses on retail loans during the month remained unchanged at the level of Rb 1,268bn and the ratio of reserves to loan debt of the population remained at the same level of 11.3%.

The current payments arrears by individual loan borrowers remain stable. In November, as during previous two months, 16% of principal payments failed to be made on time. This is less than in the spring when arrears concerned 20% of principal payments but remain significantly above the pre-crisis period, which is characterized by about 10% of arrears in payments per month.

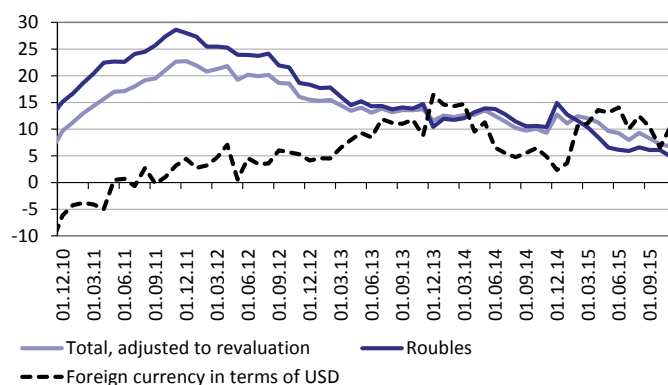
In November, the corporate loan debt growth constituted 0.0%. This indicator consists of a slack growth of the rouble debt by 0.3% per month and contraction of currency loans by 0.7% in dollar terms. Nevertheless, for the rouble loans November became sixth month in a row posting growth although registering lowest result (during previous five months the rouble component of the credit portfolio grew by 1.0% on average per month).

In November, the corporate loan portfolio has noticeably deteriorated following several months of relative stability. The share of corporate outstand-



Sources: CBR, IEP calculations.

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



Sources: CBR, IEP calculations.

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

Table 3

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	11.15
Assets, Rb bn	29430	33805	41628	49510	57423	61385	77 663	74447	73513	78413	79211	78123	79031
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	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	2.5	2.7
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	8.0
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	16.7
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	14.2
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	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	4.7
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	1.6

Sources: CBR, IEP calculations.

ing debt in the overall volume of debt went up during the month from 5.6 to 6.0%, including on rouble loans from 6.9 to 7.3%, and on currency loans – from 2.4 to 2.8%. The ratio of reserves against potential losses to the loan portfolio volume increased during the month from 8.1 to 8.4%. ●