

## Russian banking sector

Russian banks are steadily returning to the pre-crisis parameters, and growing volume of the ruble credits offers hope for soon restoration of economic growth.

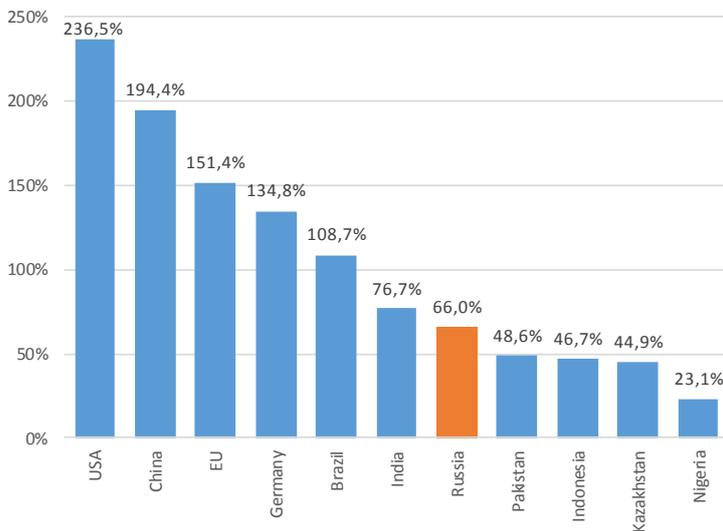
15.02.2017

### Banking credits as a parameter of economy maturity

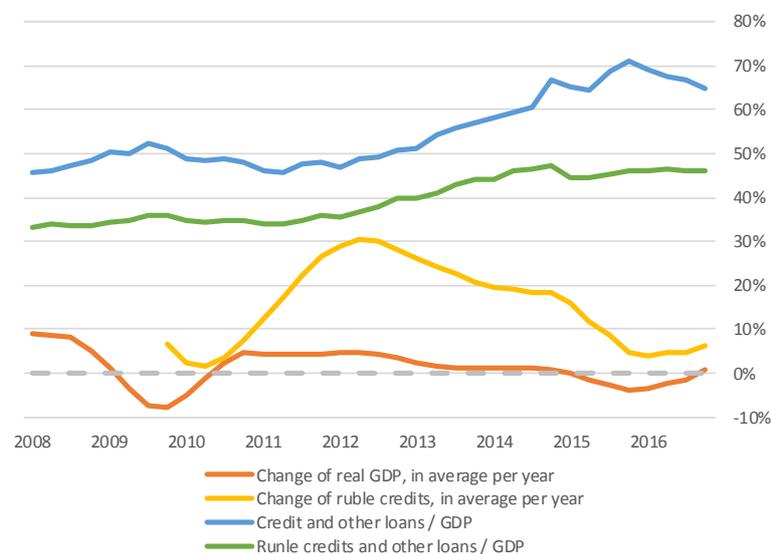
Ratio of banking credits' volume to the country's GDP is considered to be one of key parameters of economic development. Among the largest economies, Russia has one of the lowest values. In Russia such ratio is 66%, at that, it decreased from 70% a year before due to appreciation of the ruble and formal decrease of currency credit share. As a comparison, it should be mentioned, that such ratio for the EU is 151%, for China - 194%, and for the USA - 236%. Russia is inferior even to the large developing economies, such as Brazil (108.7%) and India (76.7%).

Since 2011 bank credits in Russia have been growing with a speed, advancing GDP, but in 2016 a downtrend was outlined. In a year this parameter was reduced from 70 to 65%, having returned to the level of the beginning of 2015.

Ratio of the banking system credits to GDP for different countries (in average for 2016)



Ratio of credits and other loans to GDP

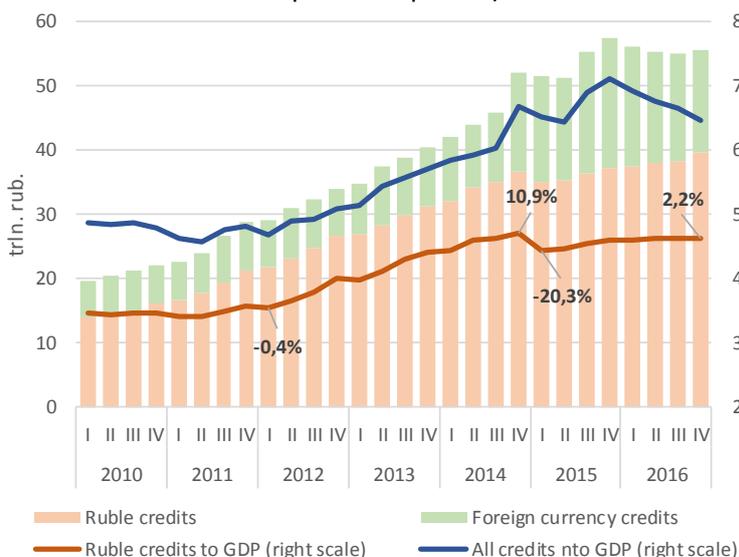


A certain correlation exists between the growth of GDP and growth of outstanding credit volume. At that, volume of the ruble credits and currency credits is often moving in reverse phase, as the companies try to take a credit in such currency, which tends to weaken.

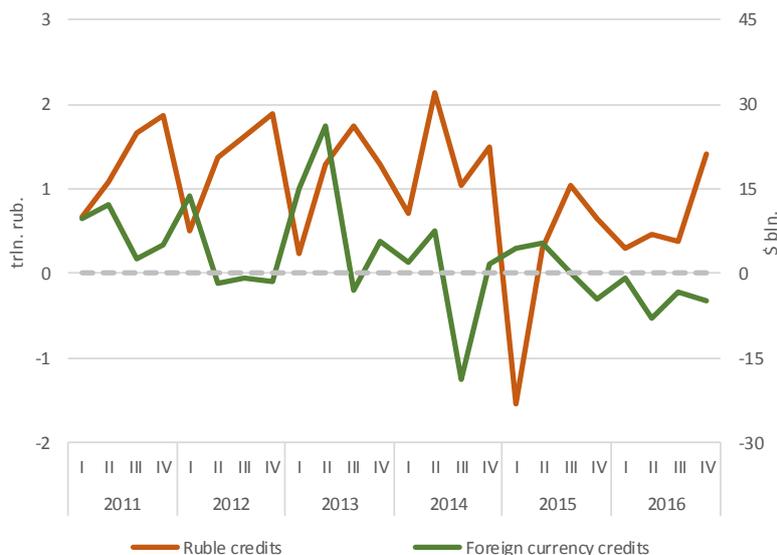
Beginning of 2015 was marked by the dramatic events for the Russian credit market. After sudden devaluation of the ruble, Russian companies faced with the closure of limits for evergreen credits, resulting in the strongest (within recent years) decline of ruble credits' volume (about 1.5 trln per quarter).

Within the last year and a half, volume of ruble credits is on the rise, even though with far more slow pace than in 2012-14. This parameter is very significant for the diagnostics of the economy perspectives of the country. Total volume of outstanding credits is less demonstrative, as it includes currency credits, which cost fluctuates strongly due to revaluation.

**Volume of the outstanding credits  
(change in absolute value in comparison  
with the previous quarter)**



**Dynamics of ruble and currency credits**



Figures in the diagram specify annual average growth rate since the moment of completion of previous trend  
\* GDP value for the 4 quarter of 2016 is preliminary; with the revision by Federal State Statistics Service of quarter values, ratio of the credits to GDP shall grow.

### Interim results of the banking sector clearing

As of the beginning of 2016, liquidation of 304 banks was completed, and 260 banks are in the process of liquidation. Total 'gap' in the balance of the largest 80 liquidated banks (its assets are 75% from all the liquidated banks<sup>1</sup>) exceed 1.1 trln. rubles<sup>2</sup>. In absolute value maximum difference between the liabilities and assets was at the balance of Vneshprombank (210 bln rubles). In relative value - in Arksban, almost 200% of assets (it turned out that the liabilities were three times larger, than it was specified in the reports).

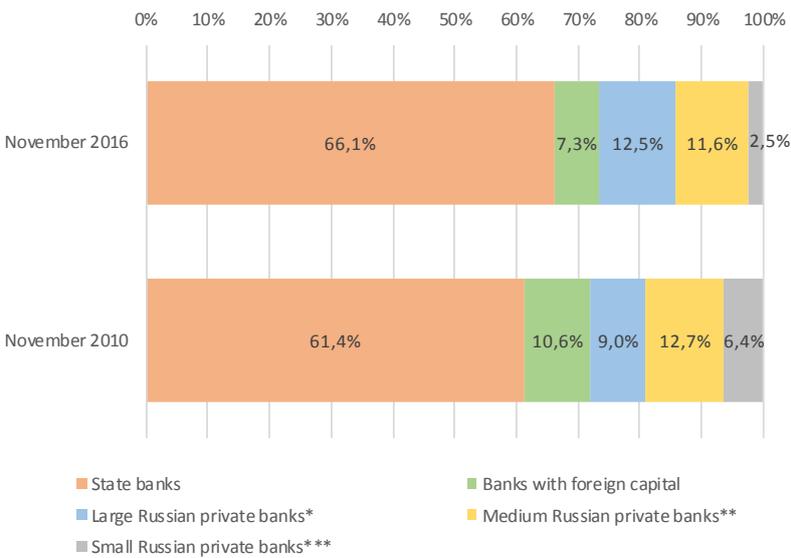
In the course of acting cleaning of the Russian banking sector by the Central Bank, its structure has changed greatly. As the licenses were, generally, recalled from the small banks, its share in the total volume of bank assets reduced greatly, from 19 to 14%. Share of very small banks, not included into the first 100, dropped from 6.4% to 2.5%.

In two years total volume of assets of sanitized and liquidated banks increased twofold, but it still remains in rather moderate range, a bit more than 10% from the rest of banks. With consideration of Vnesheconombank, suffering real challenges (see insert concerning VEB), assets of the problem banks achieves 15% from all bank assets.

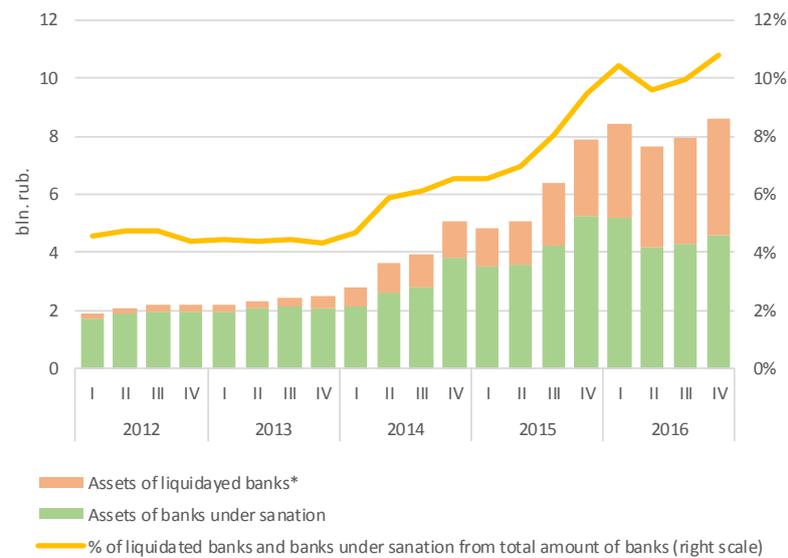
<sup>1</sup> According to the book records month before the revocation of a license

<sup>2</sup> That is about 37% of its assets

## Share of the banking groups in the assets of all banking system



## Assets of sanitized and liquidated banks

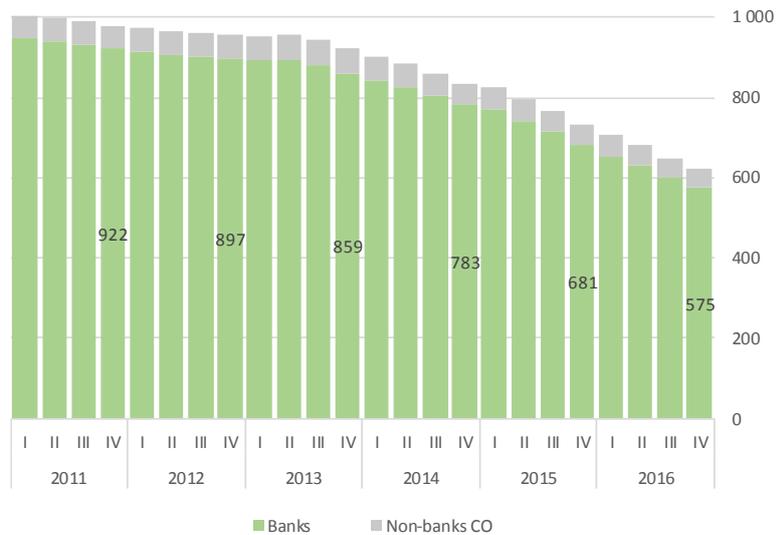


\*taking 1 - 10 places concerning assets  
 \*\*11 - 111 places concerning assets  
 \*\*\* from 112 place

\* accrued since the end of 2011,  
 assets are calculated one month before the recall of the license

Since the beginning of 2001 and till the middle of 2013 (when E.S. Nabiullina was appointed as a head of the Central Bank), number of the acting banks was decreased by 378. These results were achieved by Elvira Sakhizadovna only in three years and a half at the position of the head of the Central bank, within this time number of banks was decreased by 383. In total, within the time of its existence, Central Bank of the Russian Federation recalled 1 694 licenses of the credit organization (without consideration of recalls, connected with re-organization).

## Number of acting credit organizations

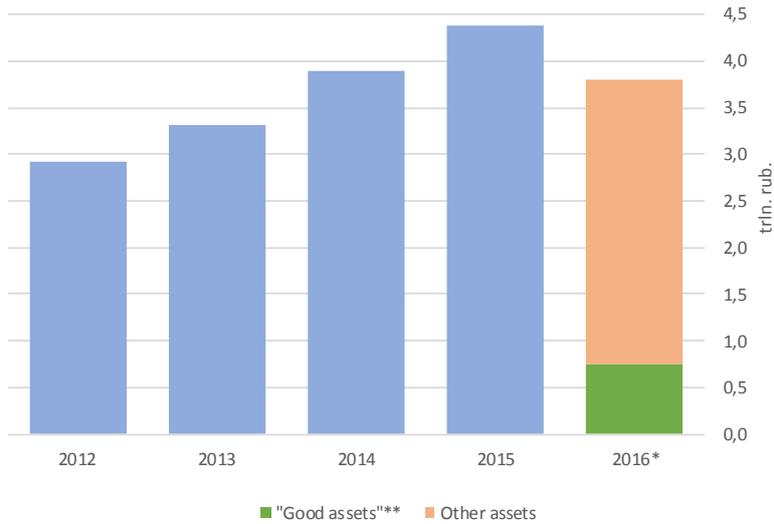


## Vnesheconombank problems

Vnesheconombank (VEB), which was initially founded for the financing of measures for economic development of the countries, after the crisis of 2008-09 undertook financing of politically motivated projects, such as construction of the Olympic objects, crediting of East-Ukrainian enterprises and reorganization (sanation) of the certain banks. As a result, Vnesheconombank has become an owner of bad assets portfolio, and a huge gap developed in its balance - according to the recent assessments, it increases 1.5 trln rubles.

Problems are exacerbated by the fact, that due to the western sanctions VEB has lost access to the foreign credits, which were about a half of the attracted funds. Within next seven years VEB shall have to pay out more than 11 bln USD (640 bln rubles at current exchange rates) for the servicing of its debts. Vnesheconombank is preparing an active divestiture of non-core assets and is waiting for financial injections from the state.

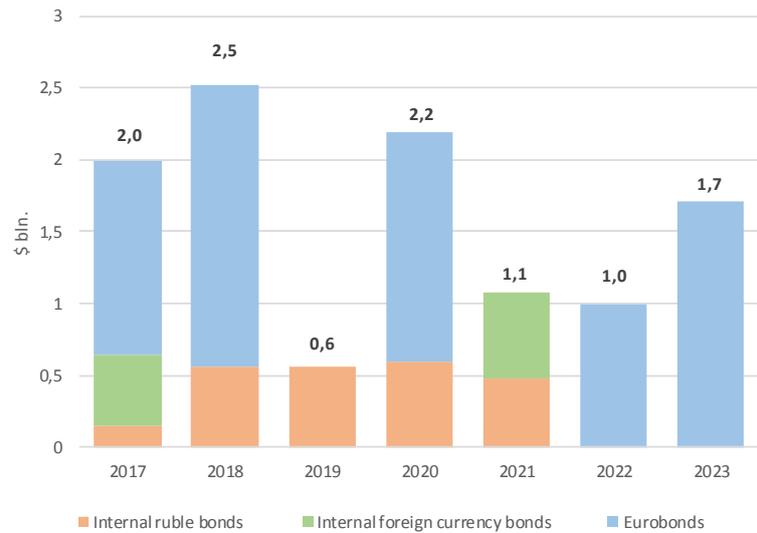
### Assets of Vnesheconombank



\*as o the end of the third quarter of 2016

\*\* according to the estimates of VEB Head Sergei Gorkov  
VEB 'good' assets are about 20%

### Vnesheconombank liabilities payment schedule



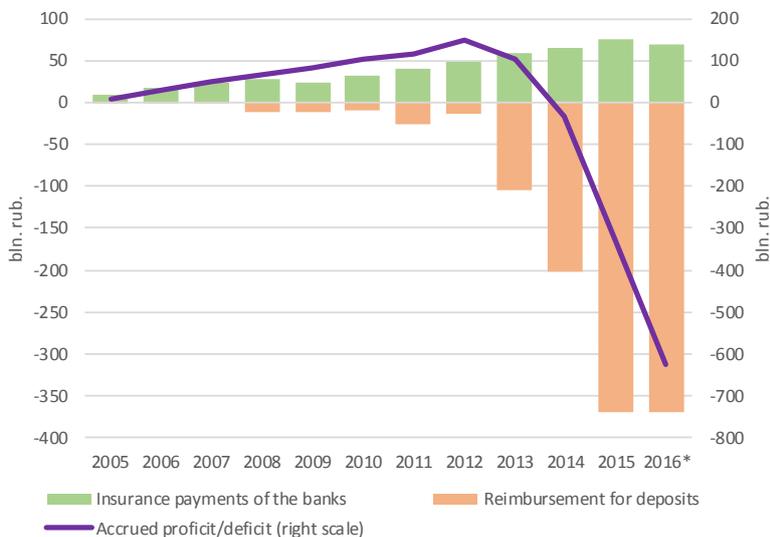
Amount in rubles and Euro are recalculated into USD  
at the official rate of the Bank of Russia as of September 30, 2016

### Deposit Insurance Agency activity

Deposit Insurance Agency (DIA) manages Statutory Deposit Insurance Fund (SDIF) and Guaranteed Pension Savings Fund (GPSF). Basic activity of DIA is sanation of banks, which is officially called bankruptcy preventive measures. Besides DIA stimulates banks to credit significant branches, providing them subordinated credits.

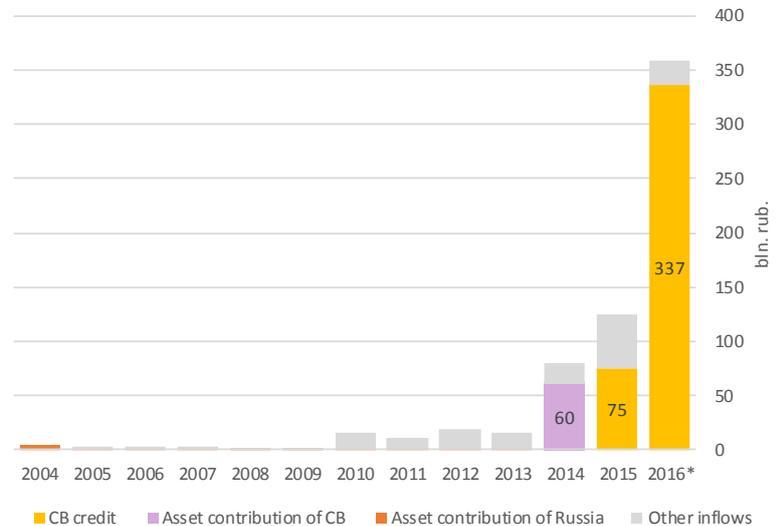
Funds for securing of payments to the depositors of liquidated banks (at the moment insurance indemnity limit is 1.4 are accumulated in SDIF. Total volume of insured deposits as of the end of 2016 is 24 trln rubles. Amount of reimbursements for deposits is permanently growing, constituting 591 bln. rubles in 2016. Since 2014 insurance payments of the banks fails to cover the reimbursements for deposits. Accumulated deficit as of the fourth quarter of 2016 was 626 bln rubles. That is why Central Bank has to finance SDIF.

### Insurance payments of banks and reimbursement for deposits



\*for nine months of 2016

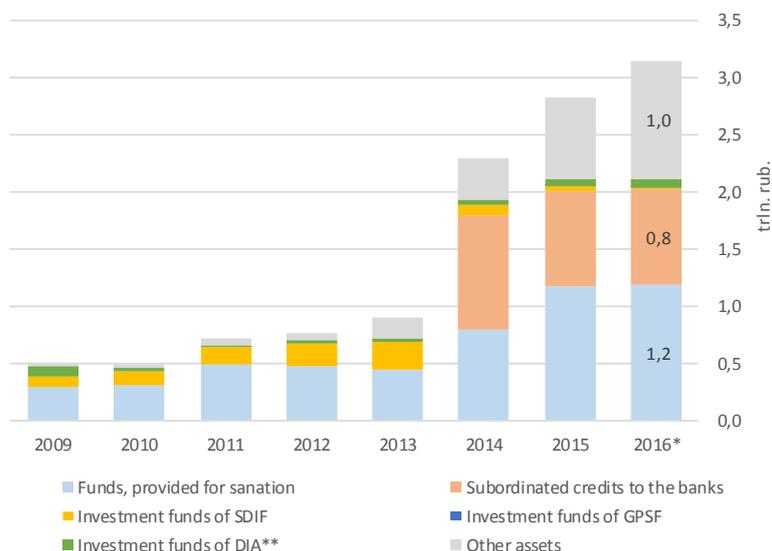
### Additional sources of SDIF financing



\*for nine months of 2016

Together with the beginning of the banking sector cleaning, DIA balance shall grow more than twofold. Volume of the funds, provided for sanitation, is being increased. DIA is acquiring a new function - provision of subordinated loans to the banks. DIA activity is financed, primarily, by the asset contributions of the RF, as well as by the credits of the Central Bank, which within the recent years constitutes up to 80% of its liabilities.

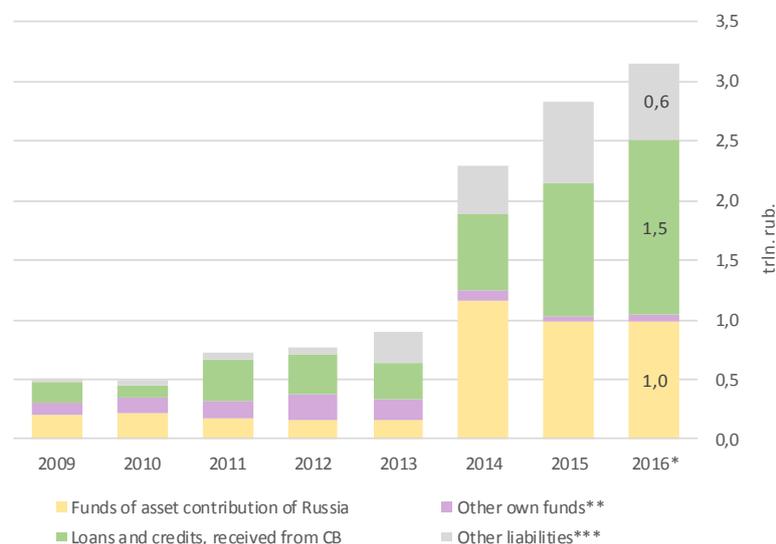
Asset structure of the consolidated balance of DIA and the funds



\*as of 30.09.2016

\*\*not related with the funds

Liabilities structure of the consolidated balance of DIA and the funds



\*as of 30.09.2016

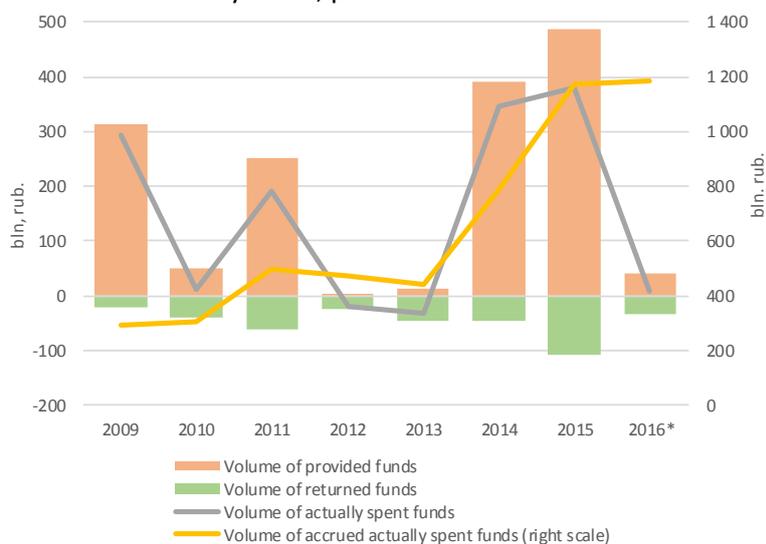
\*\*include funds of SDIF, GPSF, foundations and reserves, undistributed profit (unrecovered loss).

\*\*\*include funds of the financial organizations in the course of competition management and liquidation, other liabilities.

2014-2015 were a period of active bank sanitation, more than 900 bln rubles were provided for these purposes. But in 2016 Central Bank strategy was reduced to cutbacks to funding of the banks' liquidation. Within nine months of the previous year, volume of the funds, provided for sanitation, was only 42 bln rubles.

In total, within the whole term more than 1.5 trln rubles were provided for sanitation, 372 bln rubles of which was returned. As of the beginning of 2016, sanitation of 20 banks was completed, and 24 banks are in the process of sanitation.

Monetary funds, provided as loans for sanitation



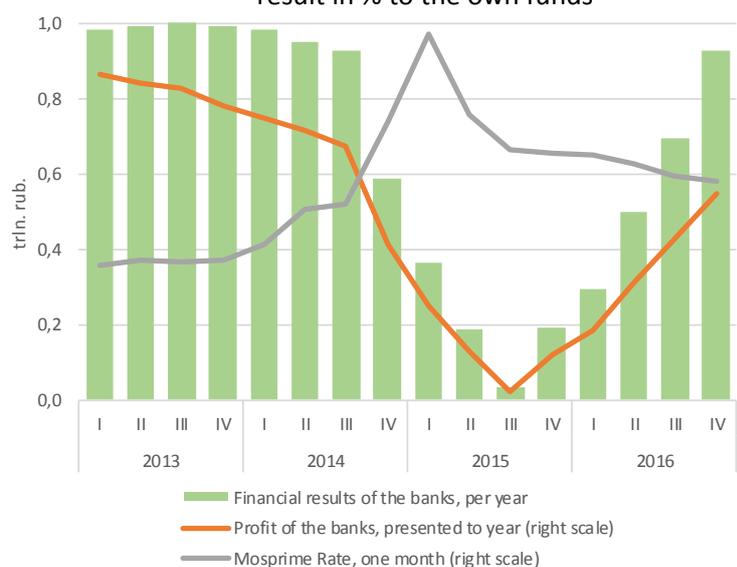
\* for nine months of 2016

## Return to pre-crisis parameters

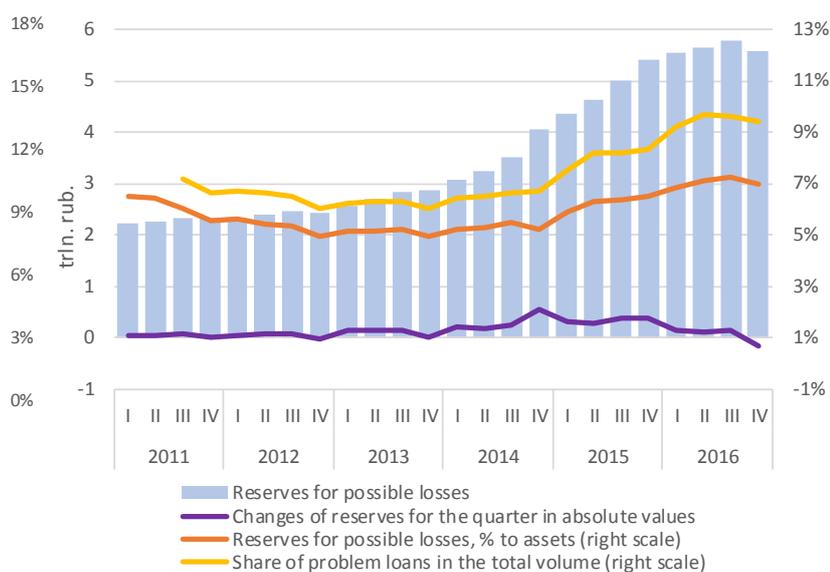
In 2016 according to all the parameters banking system manages to overcome consequences of the crisis. Bank profit, which achieved minimum value in the third quarter of 2015, since that time was increasing steadily, almost having gained pre-crisis parameters. Bank annualized gain, which in the end of 2014 dropped significantly lower than MosPrime monthly rate, at the moment has come close to it.

Bank reserves for possible losses ceased its growth. In the fourth quarter of 2016, reserves experienced the most significant reduction during the last few years (by 173 bln rubles, up to 5.6 bln). In 2014 reserves were, in average, 5.3% from assets, and in the fourth quarter of 2016 - 7%. In case if situation normalization shall be continued, return to the pre-crisis level may be expected.

Financial result of the banks for the report period (annual average value per quarter) and financial result in % to the own funds



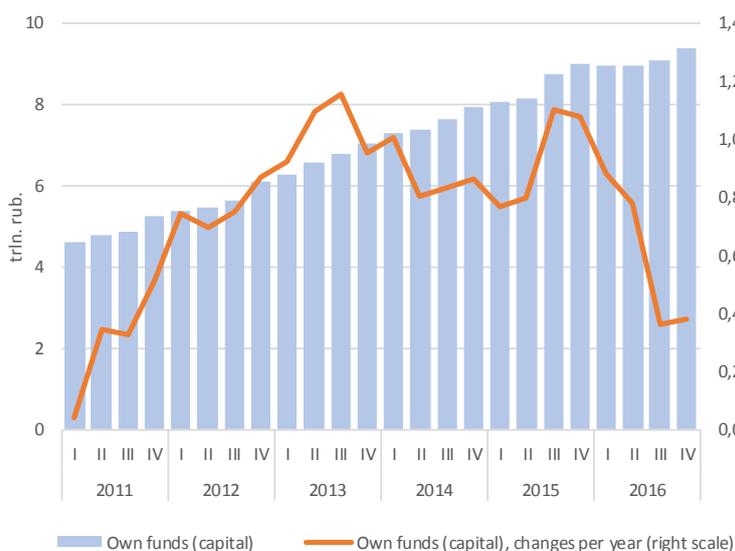
Reserves for possible losses



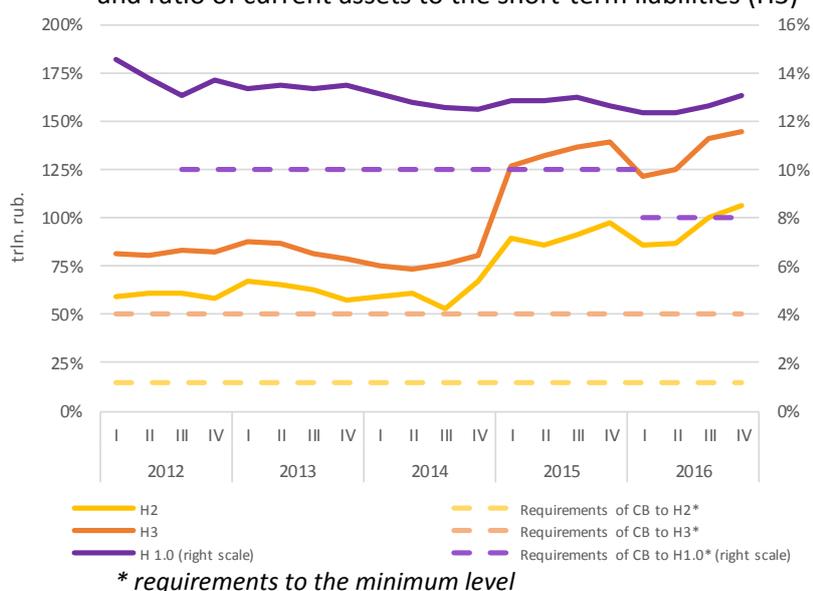
Annual rates of growth of banks' own funds stopped to reduce for the first time in a year and a half. As of the beginning of 2017, own funds were more than 9.4 trln rubles.

Liquidity criteria H2 and H3 are at the maximum levels for the last years, significantly exceeding CB requirements to the minimum level. H1 is also at the comfortable level, especially with consideration of reduction of requirements to its minimum level.

Own funds (capital, changes per year)



Parameter of capital adequacy (H1), ratio of readily obtainable asset to the demand liabilities (H2) and ratio of current assets to the short-term liabilities (H3)



High level of assets liquidity, good capital adequacy ratio and permanent flow of ruble deposits allow to say about the readiness of the banks to increase crediting in rubles. And as credits are considered to be one of the most significant drivers of economic development, restoration of banking sector shall improve the rest of Russian economy.