Russian Banks After the Crisis

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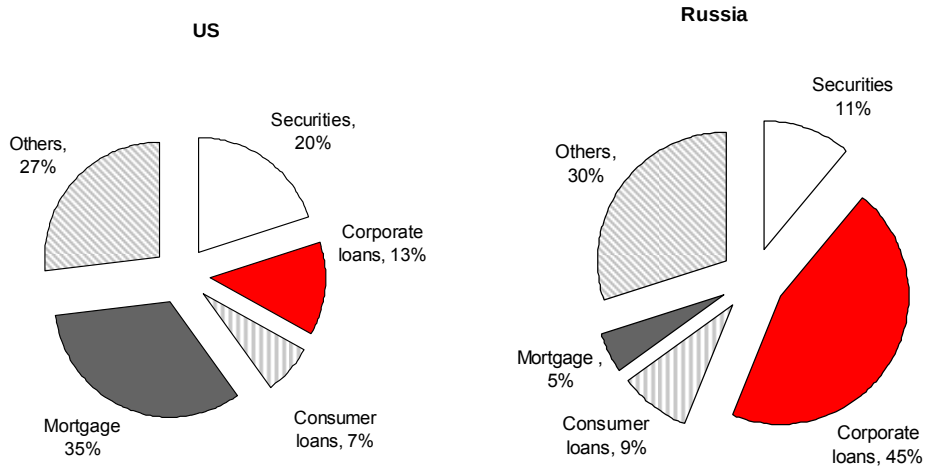
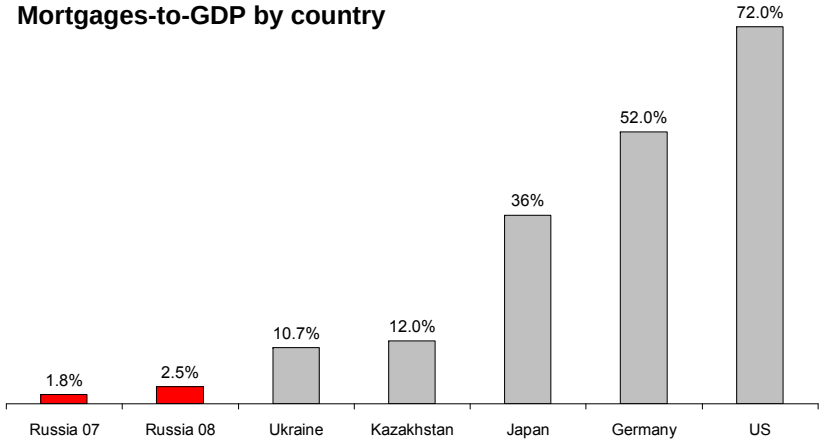
Russia 2007: Unaffected by subprime turmoil

Assets breakdown US vs. Russia, % of assets

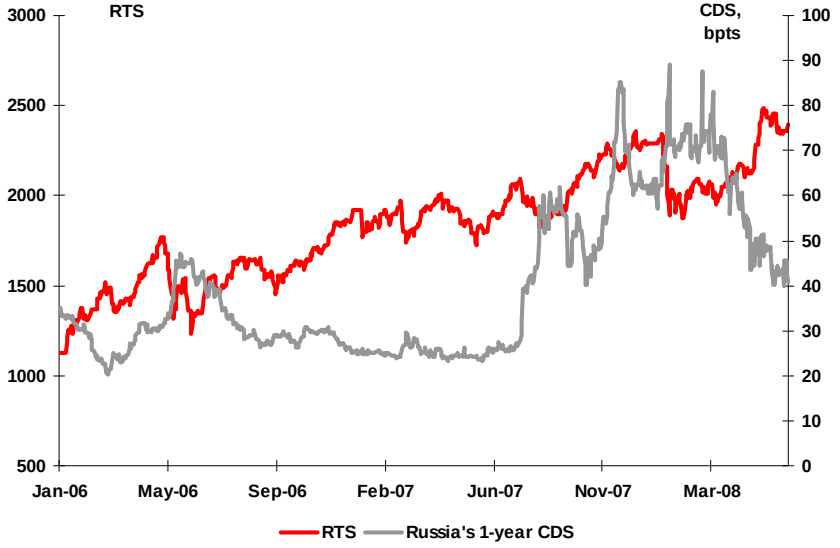


- Russia was not affected by the subprime crisis, as mortgages represented only 5% of banks' assets versus 35% in the US
- Russian mortgage market was a small 1.8% of GDP in 2007
- The RTS and Russia's sovereign CDS continued to perform well until mid-2008

Mortgages-to-GDP by country



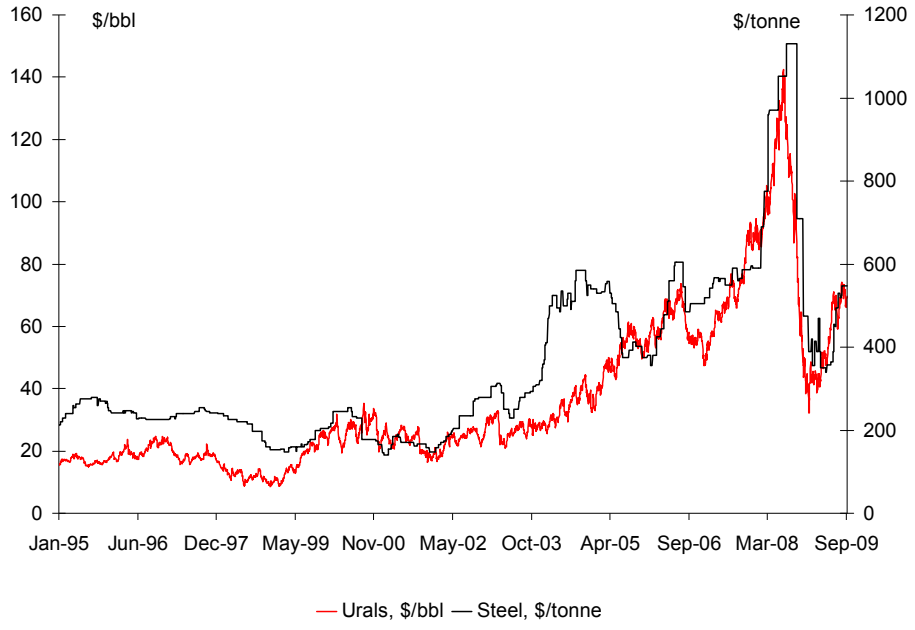
RTS and Russia's CDS remained unchanged in 2007



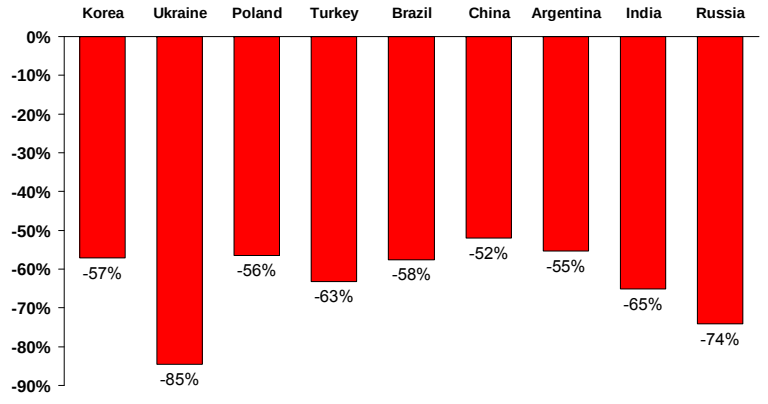
Sources: CBR, Bloomberg, Alfa Research

Drop in oil prices triggered capital outflow

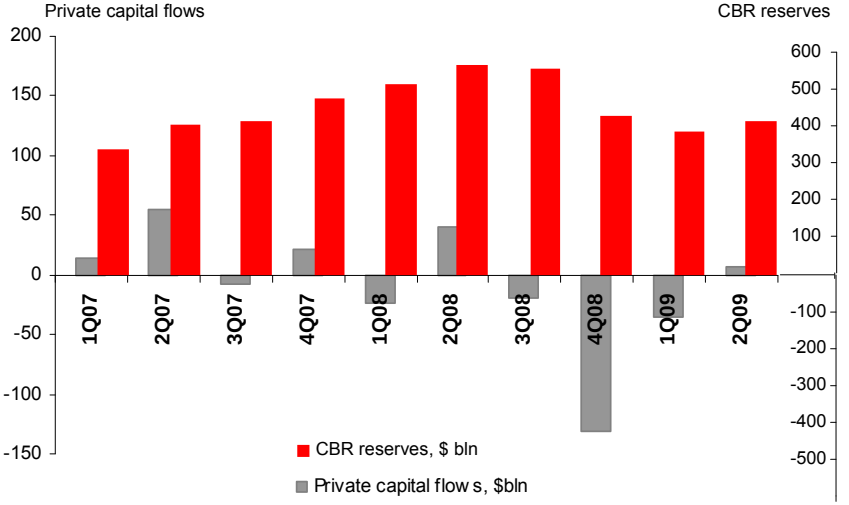
Steel and Urals international prices



Russia vs. other equity indexes in 2008, %



CBR reserves and capital outflows, $ bln



- Sudden decline in commodity prices triggered reconsideration of Russia's growth story
- Russia's RTS market fell 74% in 2008, one of the largest drops in the world
- CBR reserves declined from $597 bln in summer 2008 to $427 bln as of the end of 2008; 4Q08 capital outflow totaled $131 bln

Sources: Bloomberg, CBR, Alfa Research

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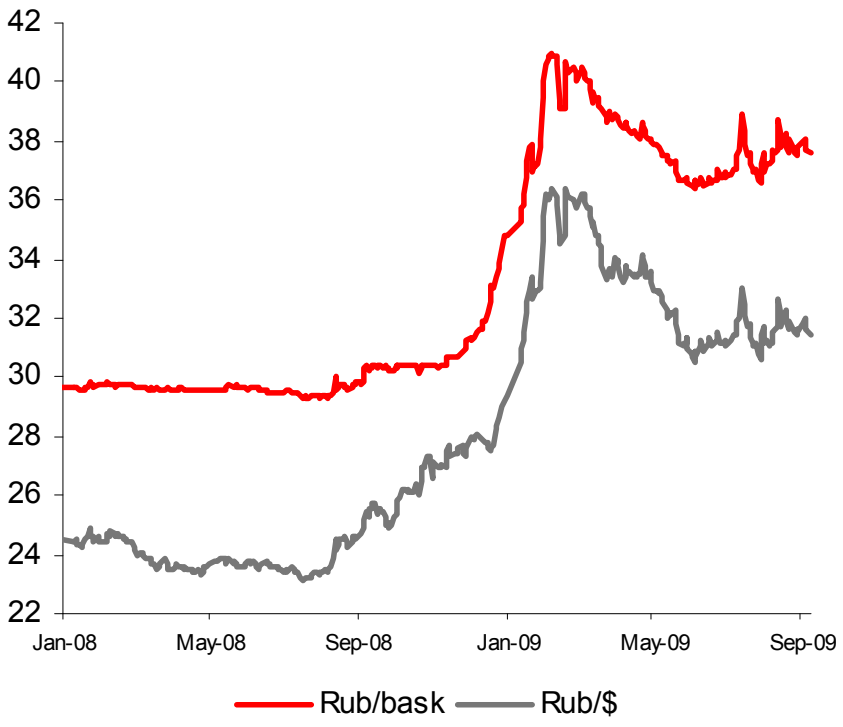
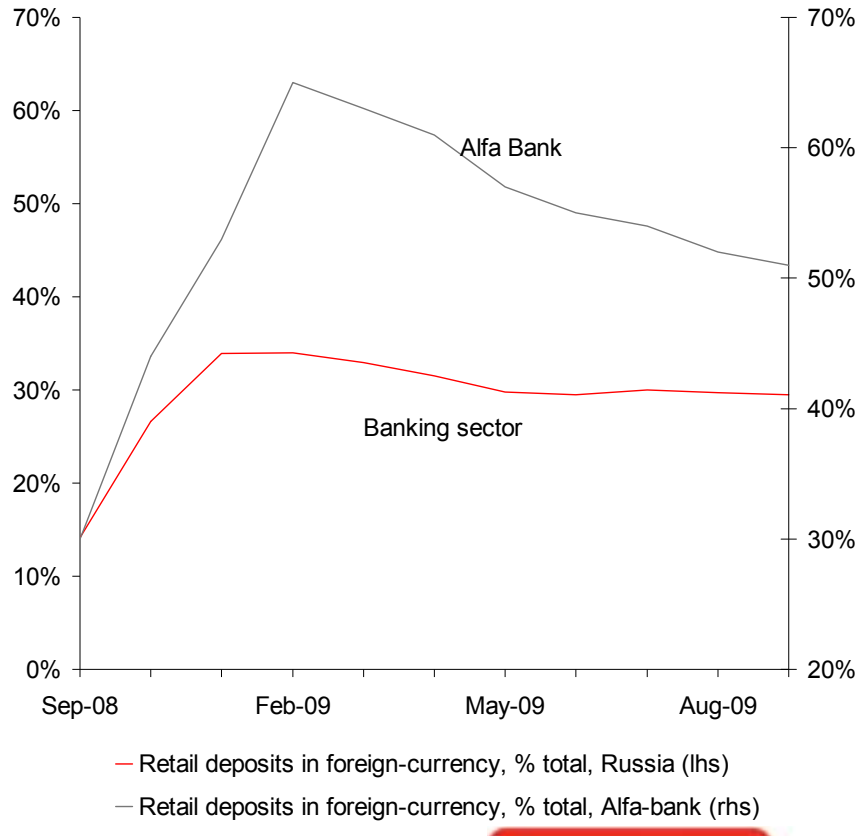
Banks became vulnerable in 2H08

Ruble depreciated against the basket and USD



- Ruble exchange rate came under pressure in 2H08 and fuelled run on deposits

Retail deposits became more dollarized

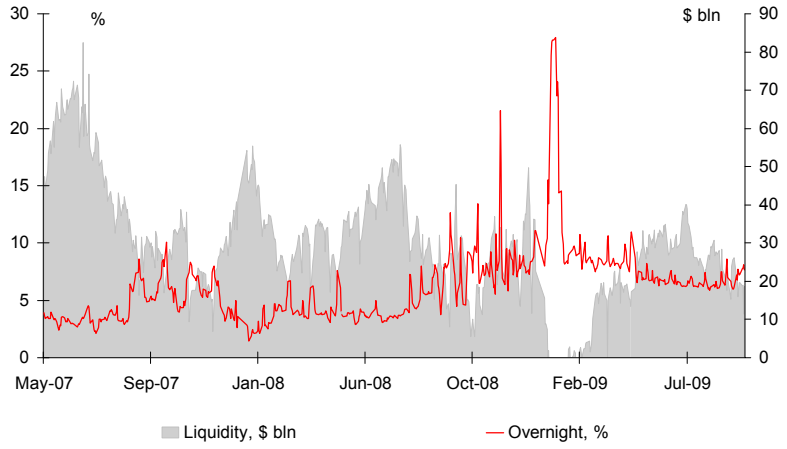


- Retail deposits become more dollarized: the share of foreign-currency deposits jumped from 13% to 33% in 2H08 in the Russian banking system and from 30% to 65% at Alfa Bank

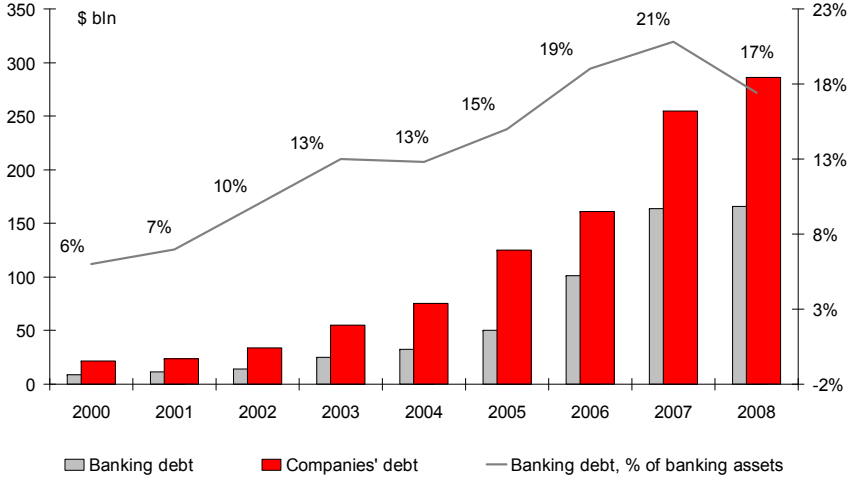
Sources: Bloomberg, CBR, Alfa Research

Liquidity crisis successfully resolved

Banking liquidity and overnight rates



Banks' foreign debt made up 20% of assets in mid-2008



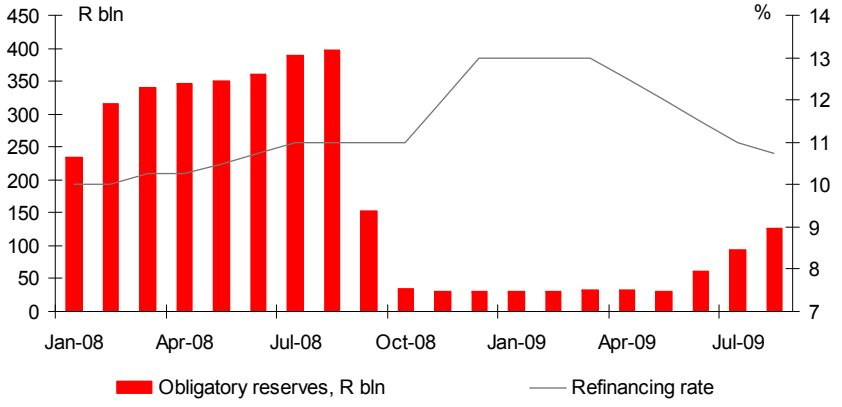
State money in total banking liabilities went up from 2% at the beginning of 2008 to 9%

Banking sector liabilities, % of total

$ bln	2Q08	%	4Q08	%	7M09	%
Total state money:	24	2%	123	13%	78	9%
CBR	2	0%	115	12%	61	7%
Finance Ministry	22	2%	8	1%	17	2%
Retail deposits	246	25%	201	21%	208	24%
Corporate accounts	352	36%	297	31%	285	33%

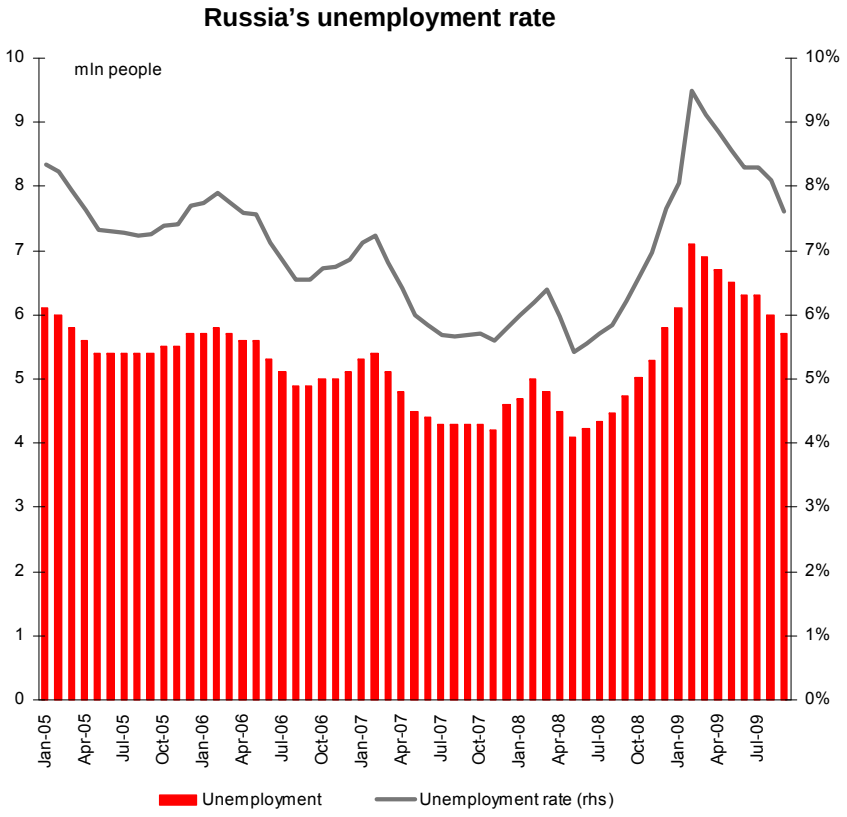
Foreign debt financed around 20% of banks' assets until mid-2008

CBR rate and reserves requirement

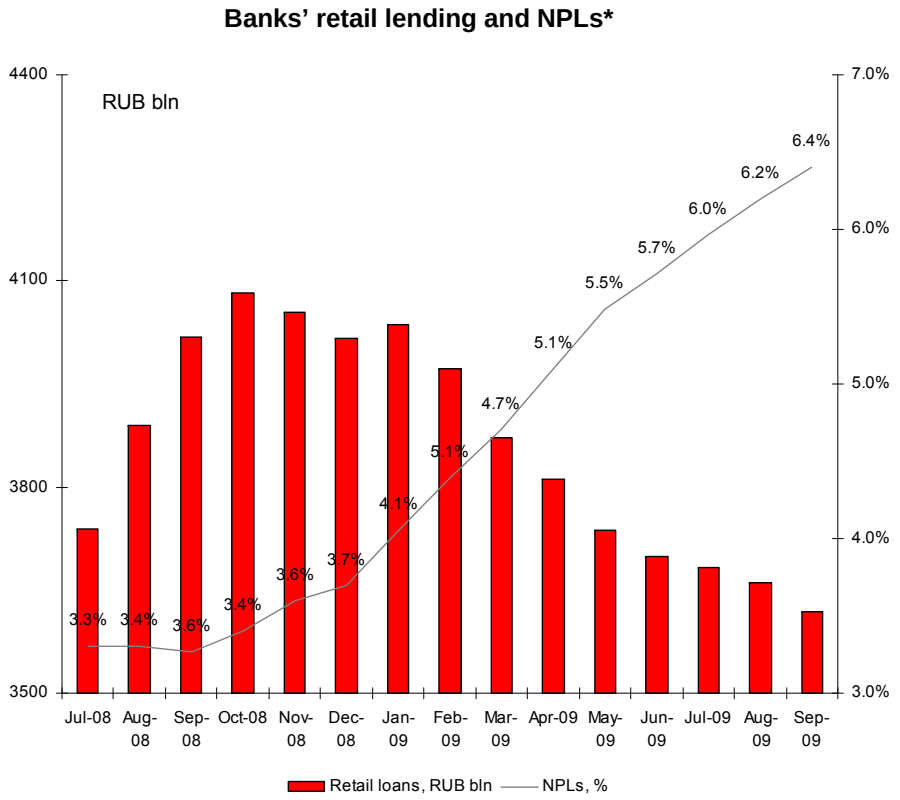


Sources: CBR, Reuters, Alfa Research

Macro trends affected retail loan quality



Unemployment stabilized at 7.6% in September, but wage arrears still pose a serious threat to loan-payment discipline

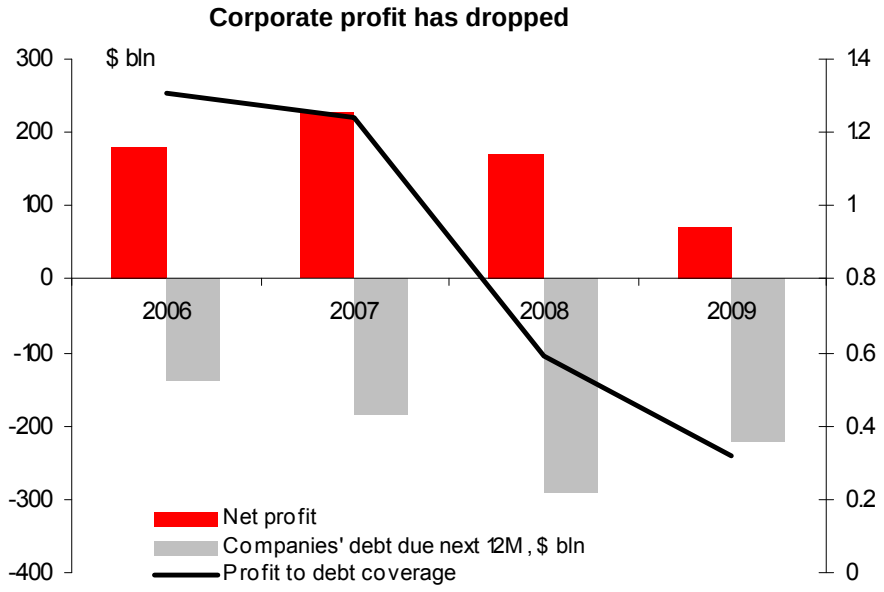


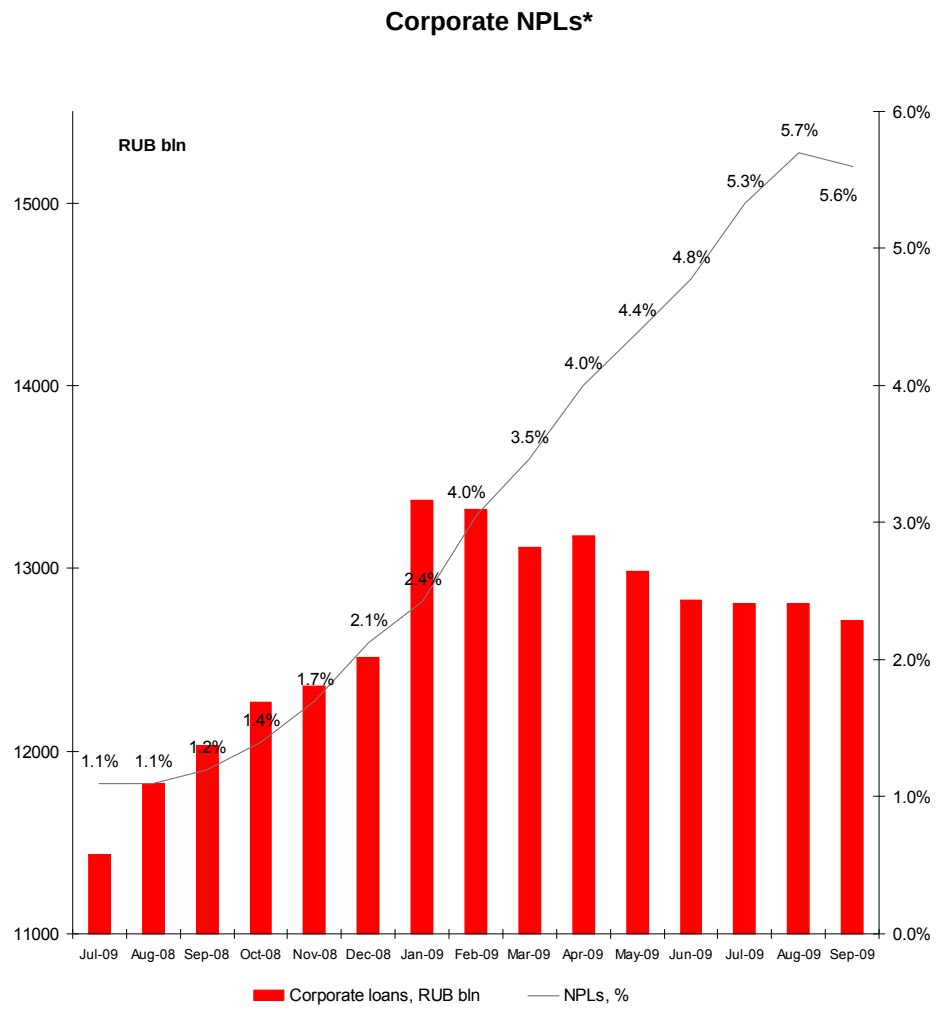
*Figures under RAS

Retail loans are down 10% YTD; NPLs were reported at 6.4% of loan books as of September 2009, double their level of last summer

Sources: CBR, Rosstat, Alfa Research

Corporate NPLs jumped from 1.1% to 5.6%





*Figures under RAS

- Decline in asset prices hit local borrowers hard
- Real sector net profits fell 62% y-o-y in 1H09 ($51 bln vs. $134 bln in 1H08)
- Corporate profits will cover only 30% of debt payments over the next 12 months
- Corporate NPLs are a major threat, rising from 1.1% to 5.6% over the last 12 months

Sources: CBR, Bloomberg, Rosstat, Alfa Research

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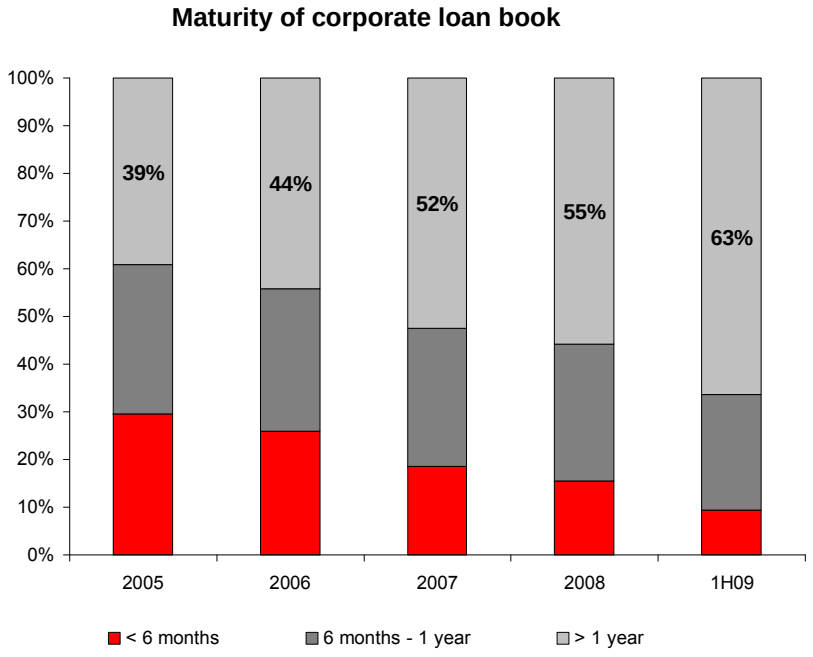
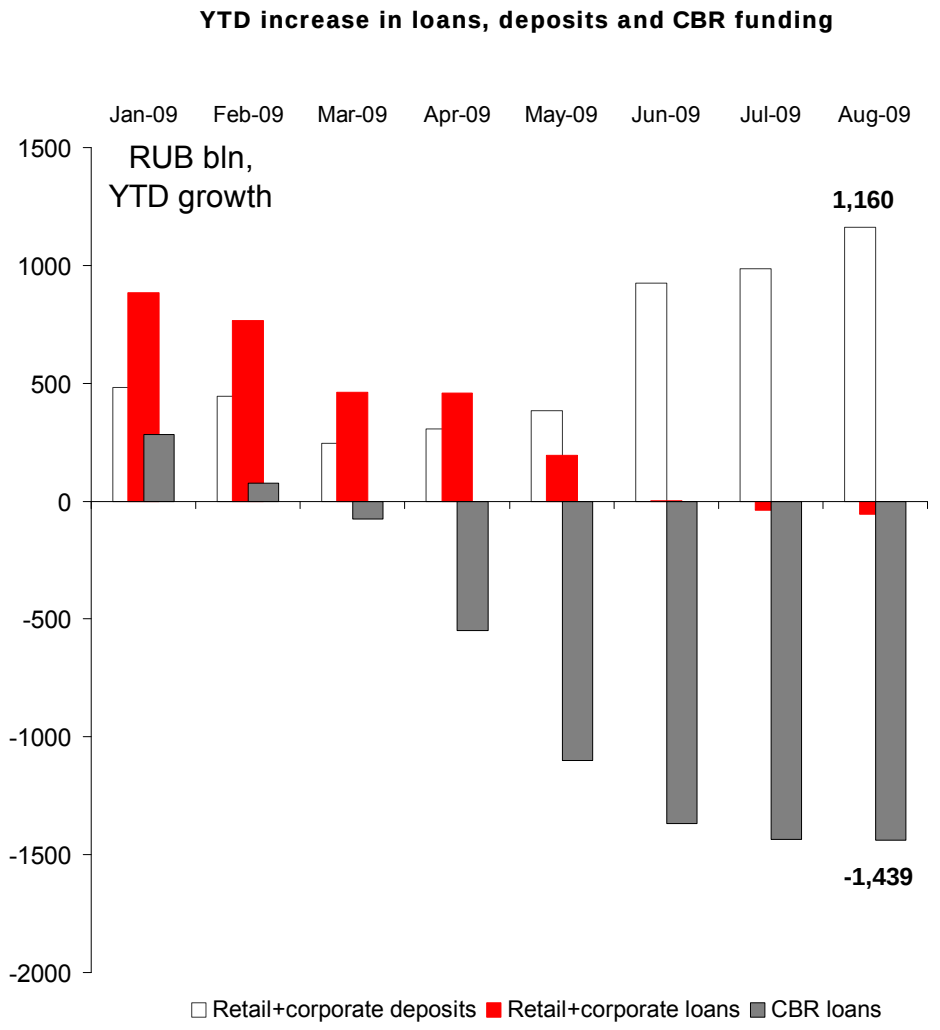
Banks' response to the crisis





- Banks are rolling over bad loans to avoid losing equity capital
- Bank's are unable to increase lending exposure, so they are compelled to increase retail and corporate accounts in order to reduce exposure to the CBR
- Building a position in financial instruments is another way to avoid lending

Sources: CBR, Bloomberg, Alfa Research

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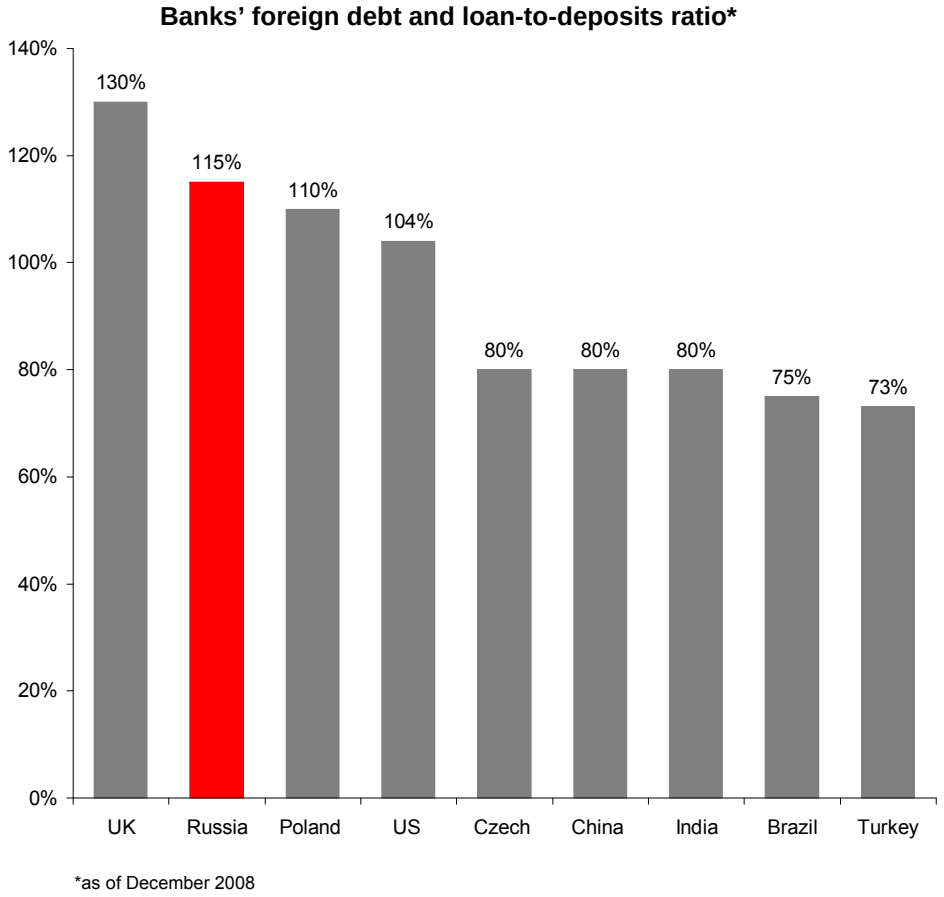
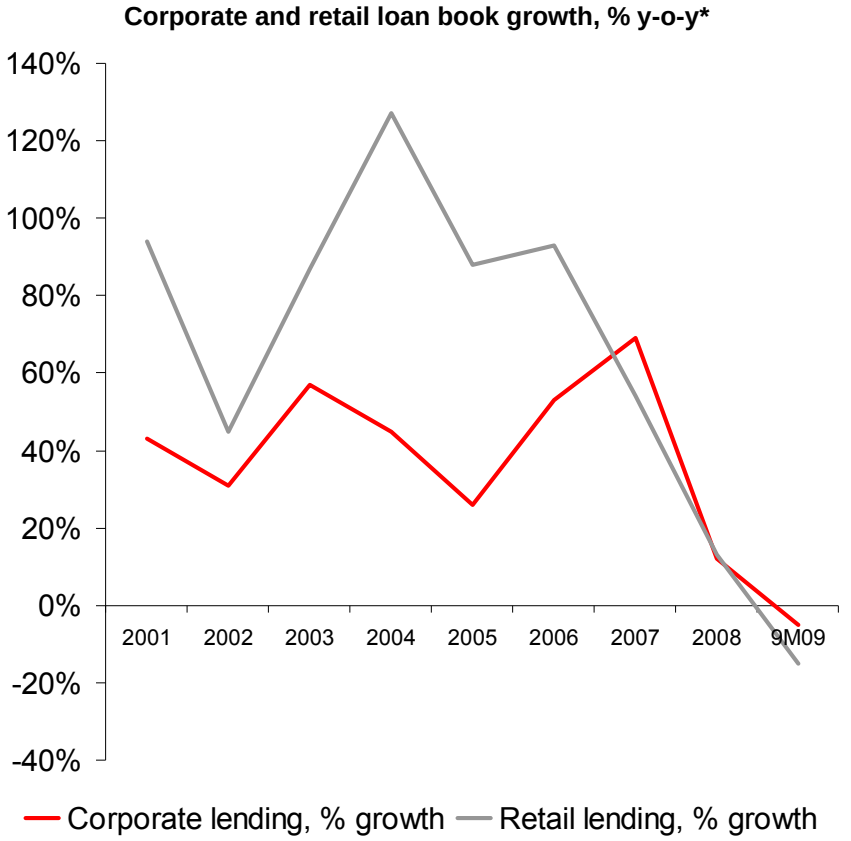
State liquidity helping to keep loan/deposit ratio high



Even though Russia's loan-to-deposit ratio declined to 105% in September 2009 from 115% in December 2008, it is still well above those of the other BRICs, suggesting a lack of local funding



After a long period of strong growth, both retail and corporate loans declined in 9M09

*Calculated based on figures in dollar terms

Sources: CBR, Reuters, BIS, Alfa Research

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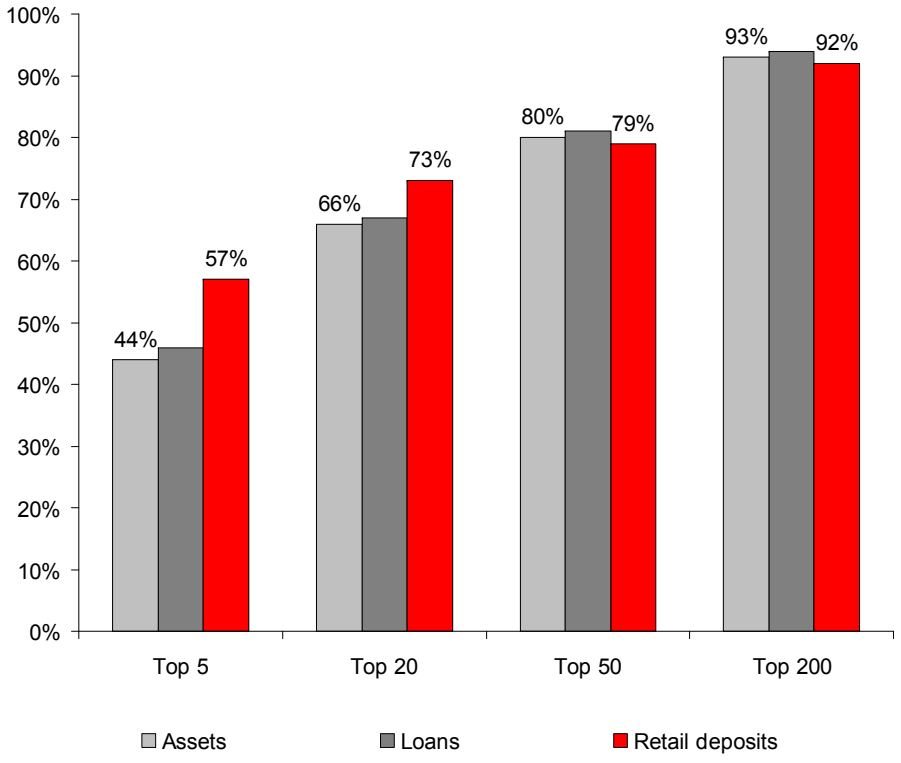
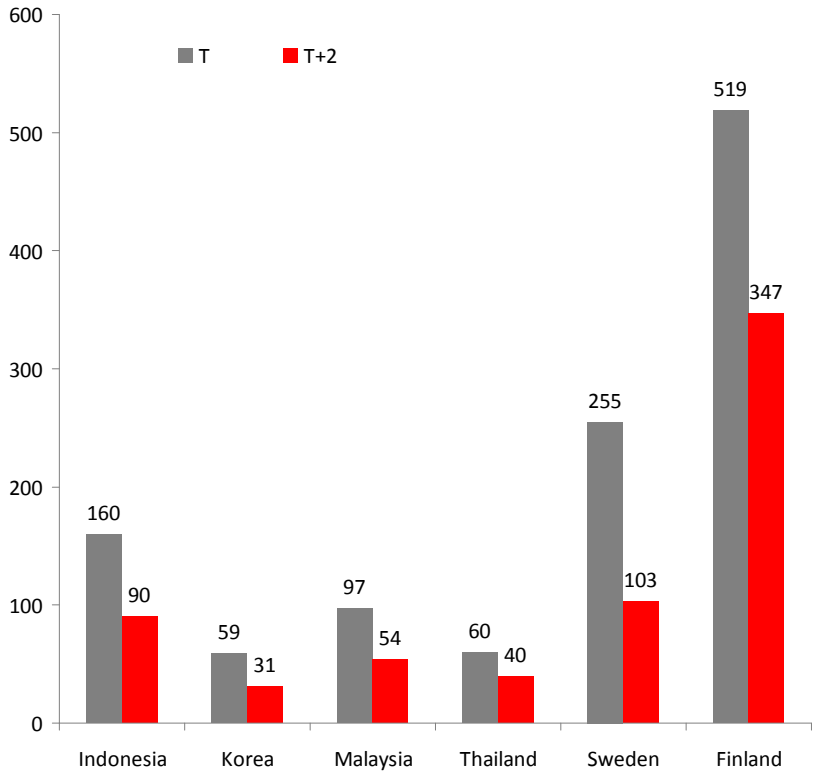
Banking sector consolidation a priority

Banking sector concentration in Russia



The top 200 banks in Russia control 90-95% of all key banking markets

Number of banks at the beginning of the crisis (T) and two years later (T+2)*



*Data collected for 1990s

In many countries, a period of economic slowdown has been used to consolidate the banking sector and reduce the number of banks

Sources: CBR, IMF, Alfa Research

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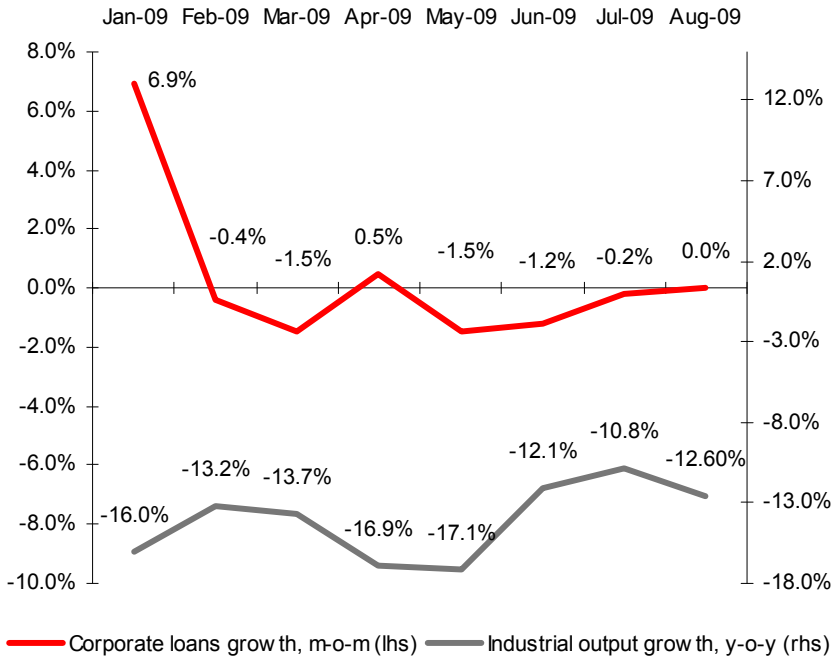
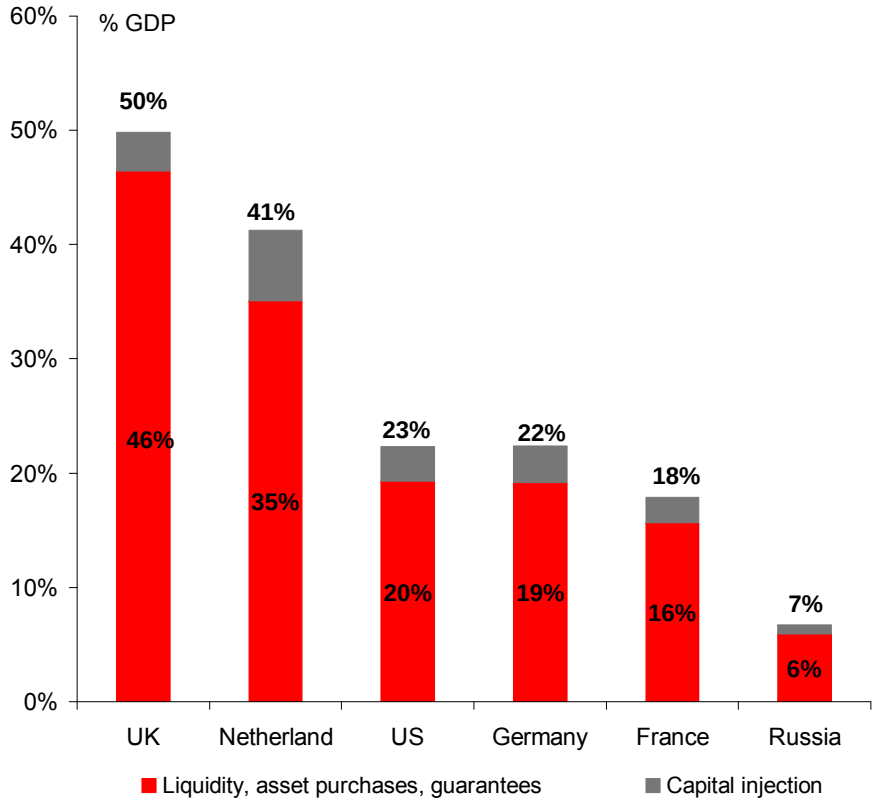
Capital injections crucial to boosting growth

Economic trends stabilized in 2Q09



Industrial output began to show signs of recovery in June-July, and loan books stabilized

Countries' financial rescue packages as % GDP



Russia's entire financial rescue package is only 7% of GDP, well below developed economies

In developed economies, capital injections equaled up to 3-6% of GDP; Russia lags behind, with 1% of GDP allocated for direct recapitalization

Sources: CBR, Rosstat, BIS, Alfa Research

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