

2009 BANKING SECTOR PERFORMANCE DISTRESSING

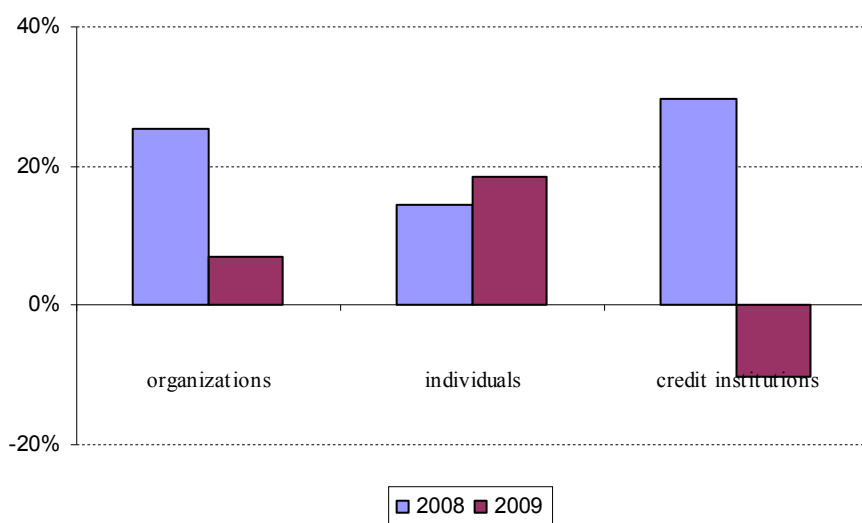
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2009 is over, but information about Russia's banking performance will be available only after the Bank of Russia receives banks' financial reports. So far, the last year's efficiency of credit institutions can be assessed with the help of 'An Overview of the Russian Federation Banking Sector' (as of December 1, 2009)¹ provided on the central bank's website.

The year 2009 was tough for the banking industry. The January-November 2009 reports show that Russia's banking sector performance has worsened significantly. The financial result of banks' activities fell 76.5% (to 96.4 billion rubles or 0.4% of assets) compared to a 19.5% drop (to 409.2 billion ruble or 1.5% of assets) in 2008. 42 credit institutions closed in 2009 (against 28 in 2008), the number of profitable financial institutions fell by 179 (in 2008 – by 73), and 138 banks turned unprofitable in 2009 (against 45 in 2008).

As far as banking liabilities are concerned, customer confidence in banking started to revive in the beginning of 2009 and people ceased closing their savings accounts with banks (see Figure 1). Saving guarantees and banks' flexibility in converting personal savings from one currency into another at a time of increased exchange rate uncertainty rebuilt customer confidence in credit institutions.

Figure 1. Russian banks liabilities (by different client categories)

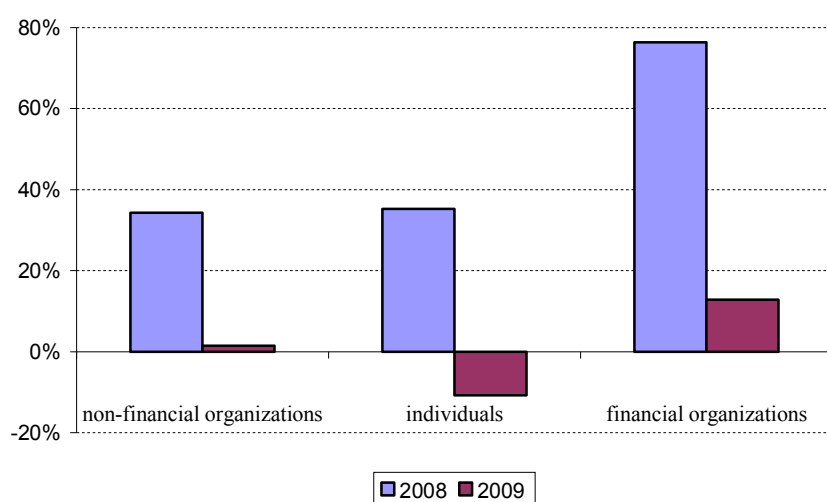


Source: Bank of Russia

¹http://www.cbr.ru/analytics/bank_system/obs_ex.pdf. The data below is of January 1, 2009

In respect of assets, the situation is more dramatic: lending growth rates in 2009 fell almost to zero (+0.7%) versus almost a 40% rise in 2008. Lending to non-financial and financial organizations observed a rise, while personal loans dropped (see Figure 2). The fall in lending was caused by financial difficulties faced by the key category of borrowers – non-financial companies.

Figure 2. Loans issued by the Russian banks to different categories of borrowers



Source: The Bank of Russia

A comprehensive analysis of the banks' performance in 2009, an overview of the current conditions of Russia's banking industry and predictions for the 2010 banking development will come shortly. Yet, it is already clear that the attempt to revive the banking sector through injecting money into it has not brought the expected result, namely failed to shore up the real economy. According to some estimates, the 2009 production fall will amount to 11.5%. A lack of funding from credit institutions can be explained by banks' reluctance to take more risks. Loan delinquencies grew from 2.2% in early 2009 to 5.2% at the end of the year, while bad debts, according to Moody's estimates, reached 20% of all loans issued.

Efficiency and prospects of credit institutions has been always determined by the state of the real economy, the main factor to influence profits of Russian banks.