Banks draw investor interest

Low capitalization has been the main weak point of Russian banks; this regards both equity indicators and market value of credit institutions. Equity indicators significantly impact confidence in banks, and their capitalized value determines their attractiveness to investors.

Low market cap of credit institutions has caused a growth in Russian companies' external debt over the past years. Equity-related performance guidelines prevent Russian banks from satisfying the non-financial sector's needs for funding. To address these needs, companies used to resort to self-financing or borrow foreign funds. Following the world's stock markets collapse, Russian banks now find themselves in yet more complicated conditions.

First, the US financial downturn affected value of Russian credit institutions. The Savings Bank papers fell more than 50 percent from the historical highest, and Vneshtorgbank's securities decreased as much as 70 percent. Secondly, a large external debt, 70 percent of which are made up by obligations with two years' maturity period, also hurts the banking system. To crown it all, current funding problems have impacted not only mid- and small-sized banks, but also large state-orchestrated banks.

Stockholders' financial support is seen as one of the ways to shore up banks facing liquidity deficit. Finance and industry groups (FIG) illustrate this most vividly. However, in the post-1998 Russian setting cooperation between credit institutions and production companies became less efficient. At the time, many FIG owners would let non-performing banks collapse for the sake of rescuing their industrial companies.

Nevertheless, finance and industry groups continue to play an important role as structures able to secure a sound economic effect from direct interaction between financial, industrial and trading institutions.

A bank benefits from entering a finance and industry group as it receives possibilities to increase equity by attracting investors interested in this bank's further integration in the group. Besides, using funds of various non-banking institutions (such as funds and insurance companies) banks receive extra opportunities to enhance their financial standing by expanding the customer base and the range of services. In critical situations, lack of support from stakeholders leads to banks having to resort to the state's aid or agreeing to be taken over by competitors. At the moment, some banks are being rescued this way. Facing the impossibility to settle REPO debts, shareholders of the KIT Finance bank agreed to sell 100% of its shares to Leader Asset Management. The next bank to be sold is Svyaz-bank. Russian Onexim's acquisition of 50% minus one share of Renaissance Capital for $500 million has been the most impressive deal of the time. As a result, the bank will get a number of industrial partners and Onexim – one of the world's largest investment banks. Obviously, the Russian and world's financial systems are yet to face a series of mergers and acquisitions. On the one hand, current prices for bank assets are very competitive, on the other, investors are seeking new investment options. Bank acquisition in this sense might appear one of the most efficient ways of fund allocation.

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