Russia's Banking Sector Overview

Banking risk rating comparison and SWOT analysis

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Agenda

- Peer group comparison of Russia's IHS Global Insight Banking Risk Rating

- Overview of Russia's banking sector
  - Strengths
  - Risks
  - Challenges
  - Opportunities

Banking Risk Ratings

Rank	Country	IHS Banking Risk Rating		Rating Outlook
13=	India	35	Medium	▼
18=	Brazil	40	Medium	▶
25=	**Russia**	50	Significant	▶
36=	China	65	Very High	▶

BRICs

Banking Risk Ratings

Rank	Country	IHS Banking Risk Rating		Rating Outlook
15=	Slovakia	35	Medium	▶
18=	Czech Republic	40	Medium	▶
22=	Croatia	45	Significant	▼
25=	Poland	50	Significant	▶
25=	**Russia**	50	Significant	▶
25=	Serbia	50	Significant	▼
25=	Turkey	50	Significant	▶
30=	Bulgaria	55	High	▶
30=	Hungary	55	High	▶
36=	Azerbaijan	65	Very High	▶
36=	Kazakhstan	65	Very High	▶
36=	Romania	65	Very High	▲
36=	Ukraine	65	Very High	▶

CEE & CIS

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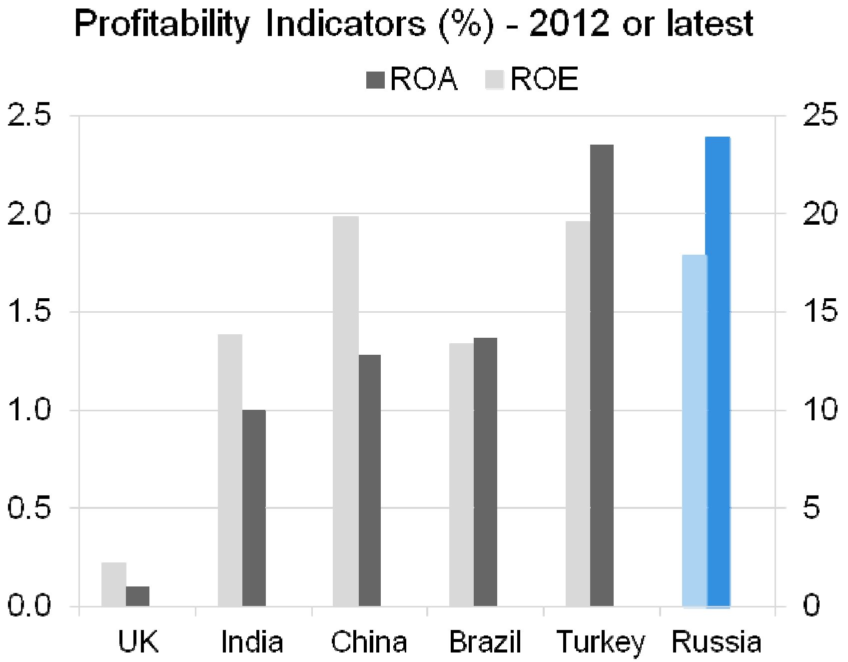
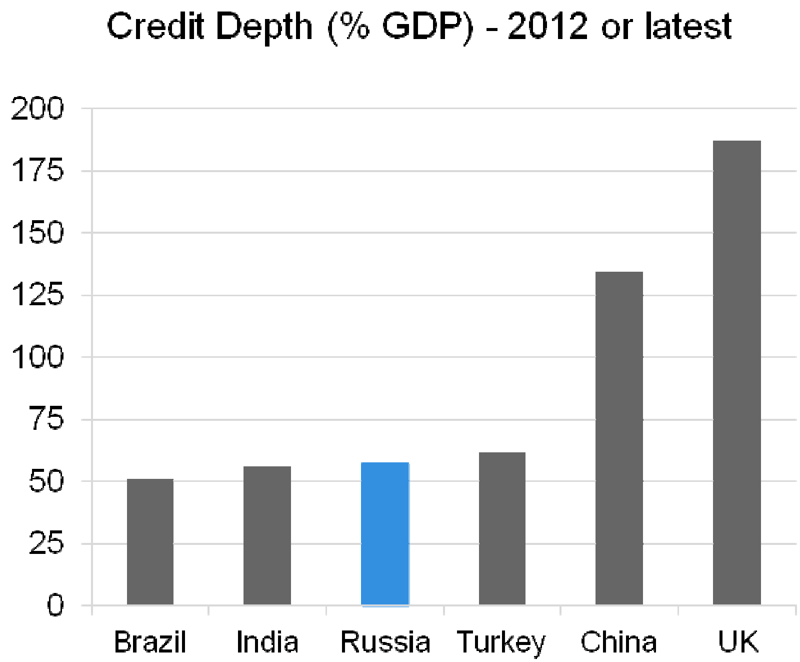
Strong profitability & low credit depth

- Strong and stable profitability – ROA averaging 2.4% over last 10 years
- Low level of credit penetration – credit-to-GDP = 55%, assets-to-GDP = 80%
- Door to other banking markets in CIS



Source: IMF, national central banks

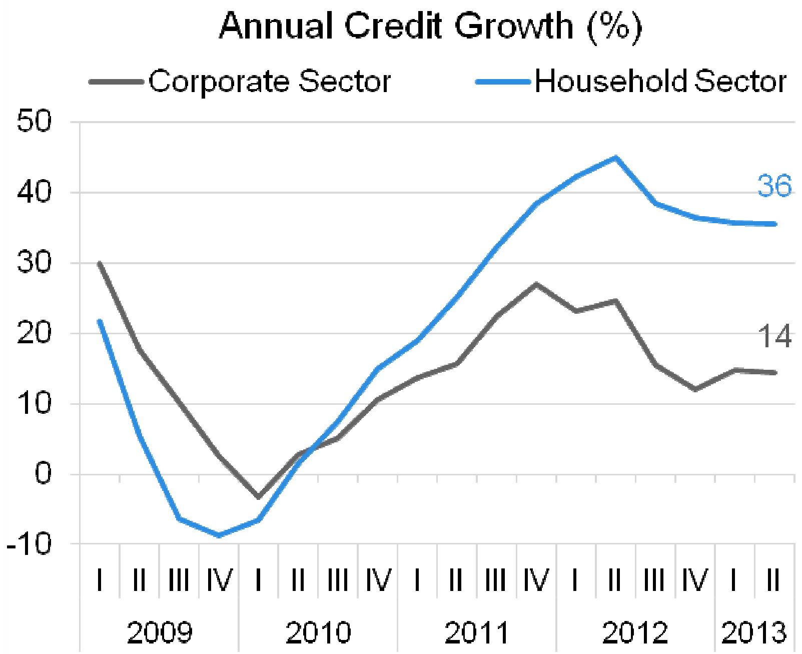


Source: IMF, WB, national central banks

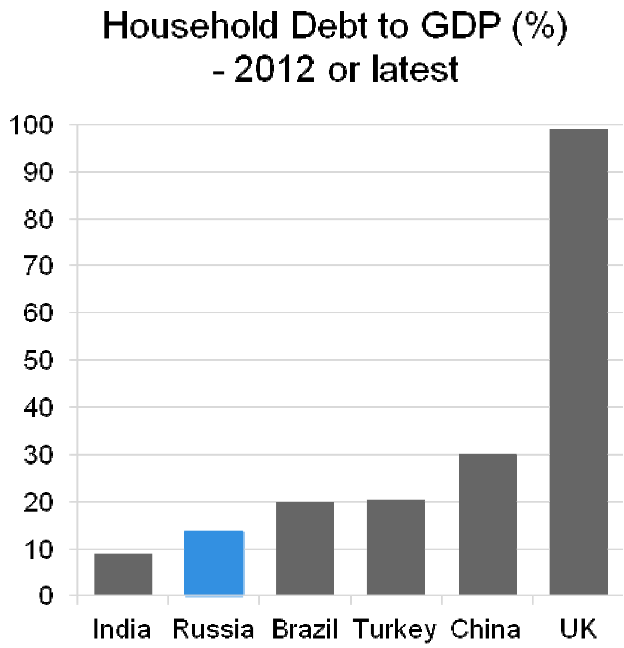
Russia’s Banking Sector Overview

Retail credit boom

- Average annual household-sector credit growth close to 40% since 2011
- Unsecured lending growing by 60–80%
- Individual borrowers with 5 or more loans 19% in 2012 from 6% in 2011
- Low level of household credit depth



Source: CBR



Source: IMF, national central banks

Russia’s Banking Sector Overview

Economic slowdown & Basel III implementation

- Economic slowdown
  - Weaker near-term economic growth prospects
  - Waning income growth and risk of rising unemployment
  - CBR’s dilemma – inflation control & financial stability VS stimulus

- New Basel III capital requirements
  - CAR ≥ 10%
  - Tier 1 ≥ 5.5% (6.0% 2015)
  - Core Tier 1 ≥ 5.0%
  - “Old” subordinated debt wind down over 10 years

Russia’s Banking Sector Overview

Capital needs, consolidation, FFMS integration into CBR

- Capital needs
  - Basel III rules
  - Rapid expansion of banking services/credit depth

- Consolidation process
  - Filling the gap between small and large (state-owned) banks
  - The UK sector withnessed a large consolidation process

- Integration of financial markets oversight into CBR
  - Overhaul and improvement of supervisory framework
  - The UK has recently finished a similar transition
  - Scope for cooperation, advcice, and knowlege sharing

Thank you

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