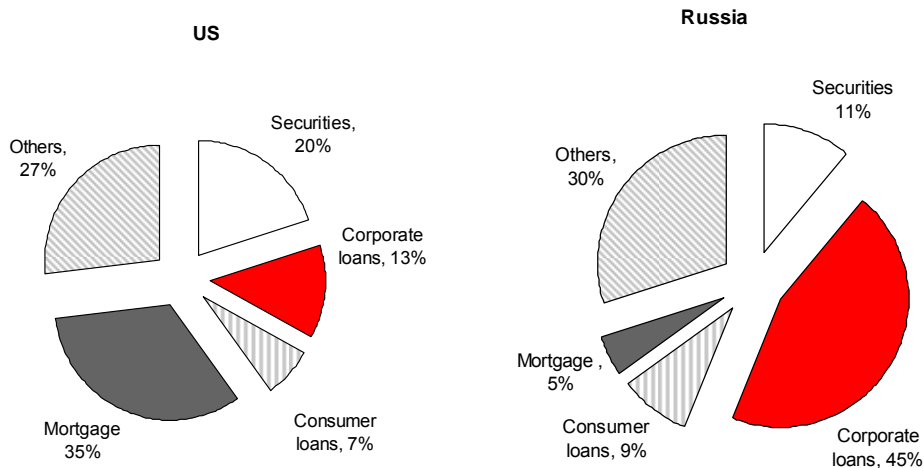

Russian Banks After the Crisis

Natalia Orlova
Chief Economist
Alfa-Bank

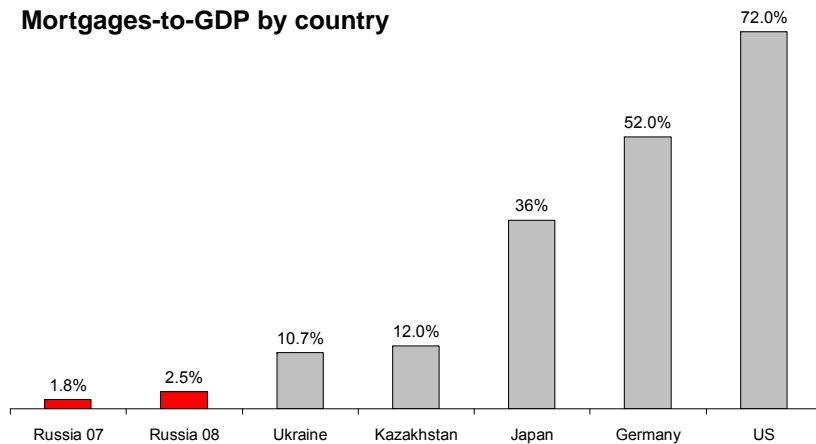


Russia 2007: Unaffected by subprime turmoil

Assets breakdown US vs. Russia, % of assets

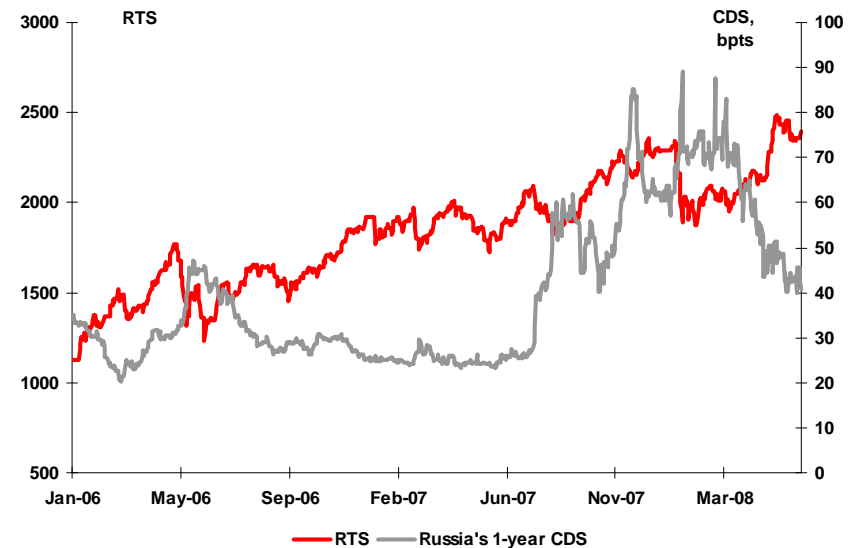


Mortgages-to-GDP by country



- 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

RTS and Russia's CDS remained unchanged in 2007

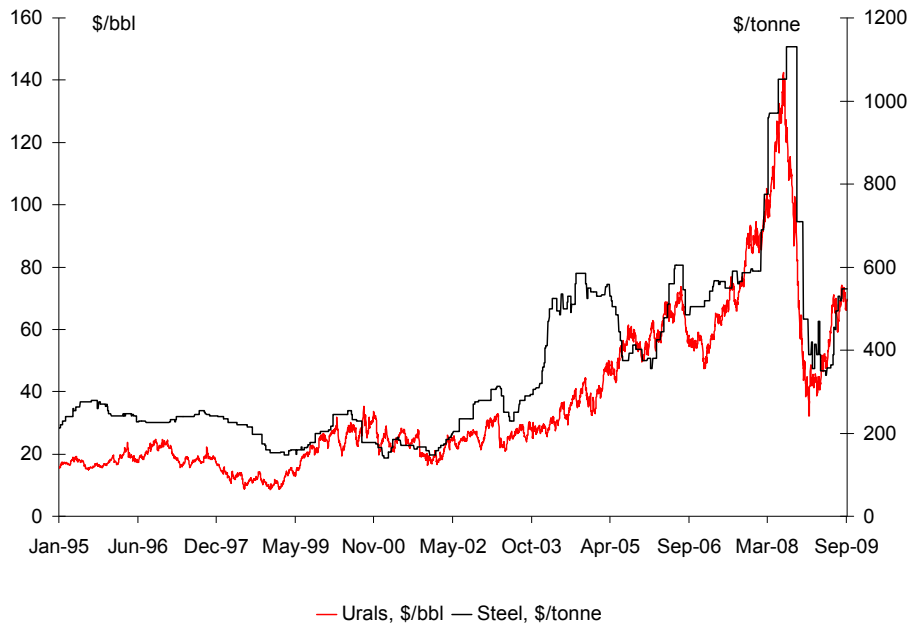


Sources: CBR, Bloomberg, Alfa Research

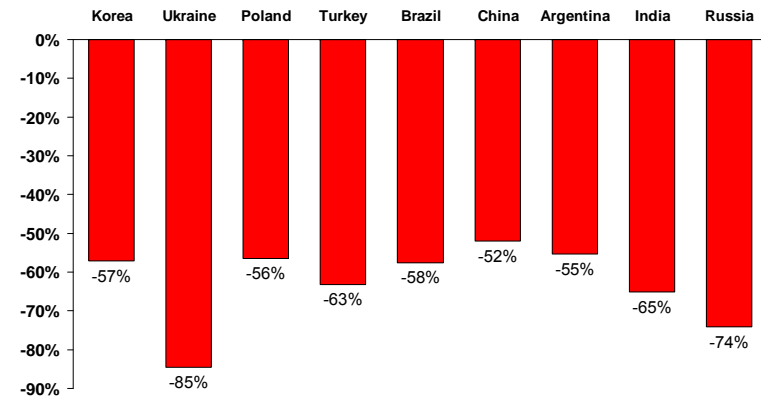


Drop in oil prices triggered capital outflow

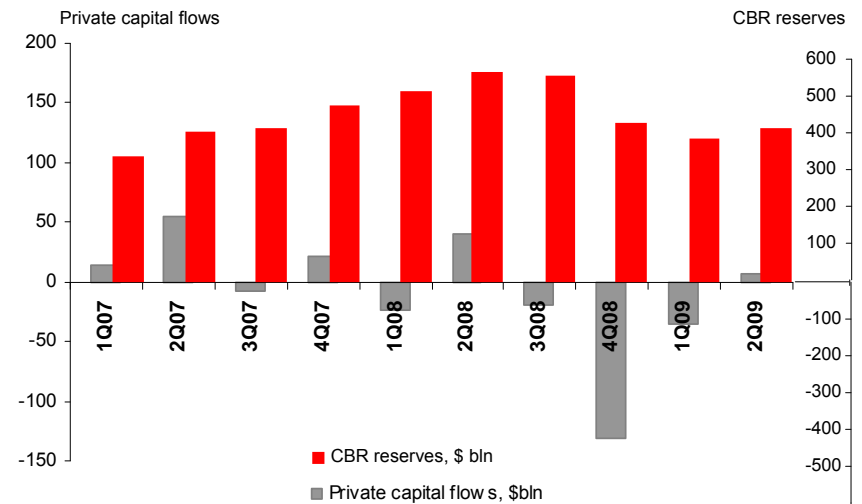
Steel and Urals international prices



Russia vs. other equity indexes in 2008, %



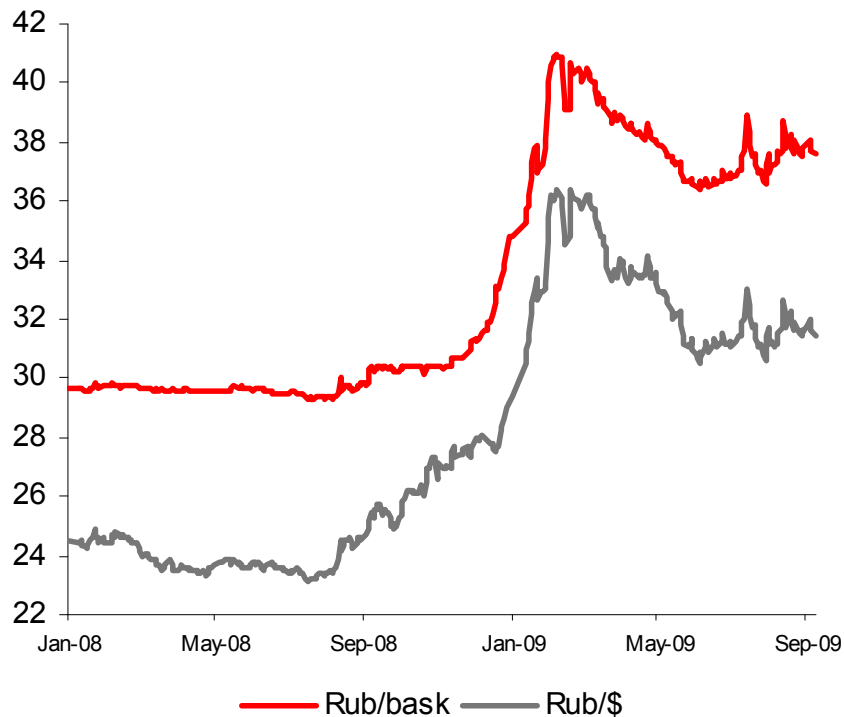
CBR reserves and capital outflows, \$ bln



- 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

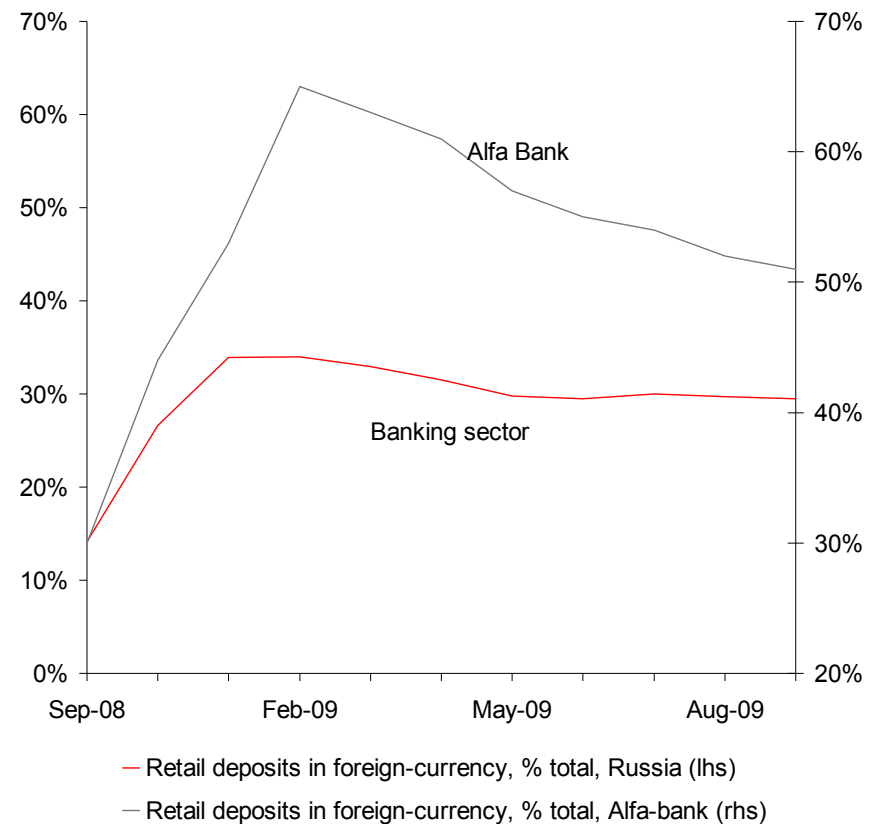
Banks became vulnerable in 2H08

Ruble depreciated against the basket and USD



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

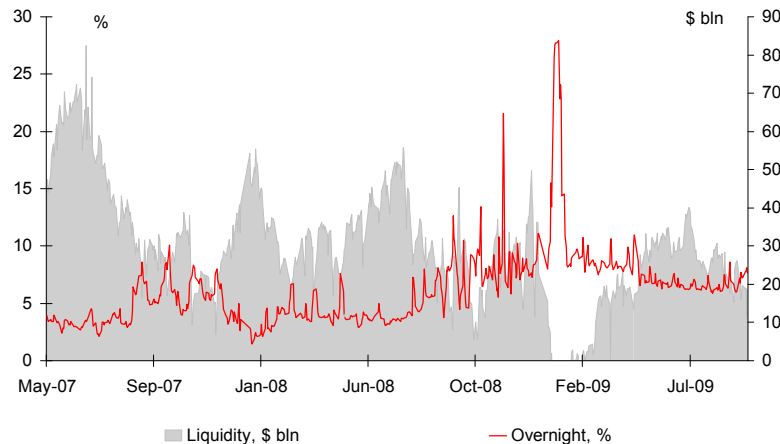
Retail deposits became more dollarized



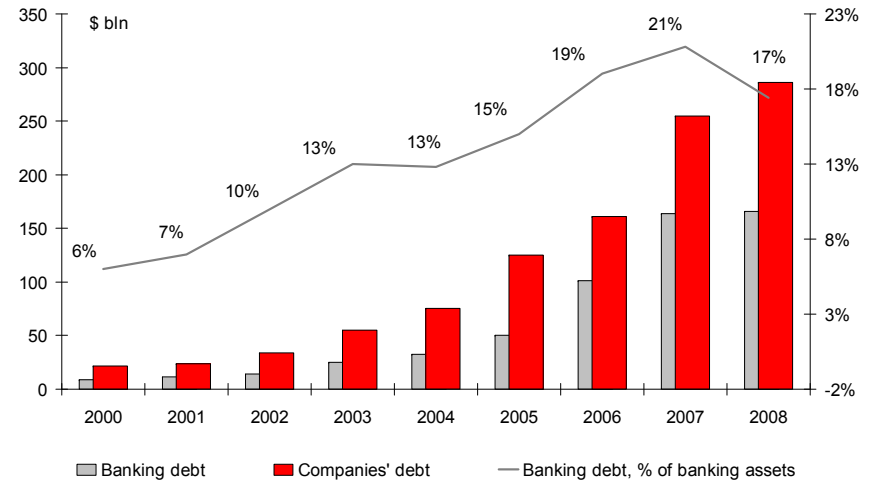
➤ Retail deposits become more dollarized: the share of foreign-currency deposits jumped from 13% to 33% in 2H08 in the Russian banking system and from 30% to 65% at Alfa Bank

Liquidity crisis successfully resolved

Banking liquidity and overnight rates



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



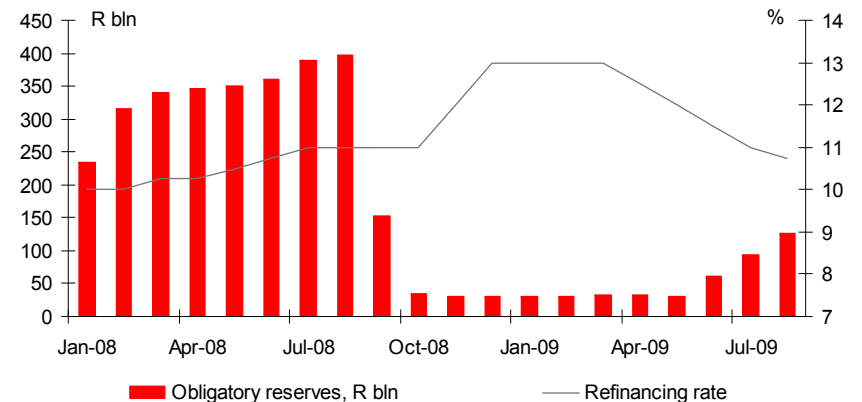
State money in total banking liabilities went up from 2% at the beginning of 2008 to 9%

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

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%

CBR rate and reserves requirement

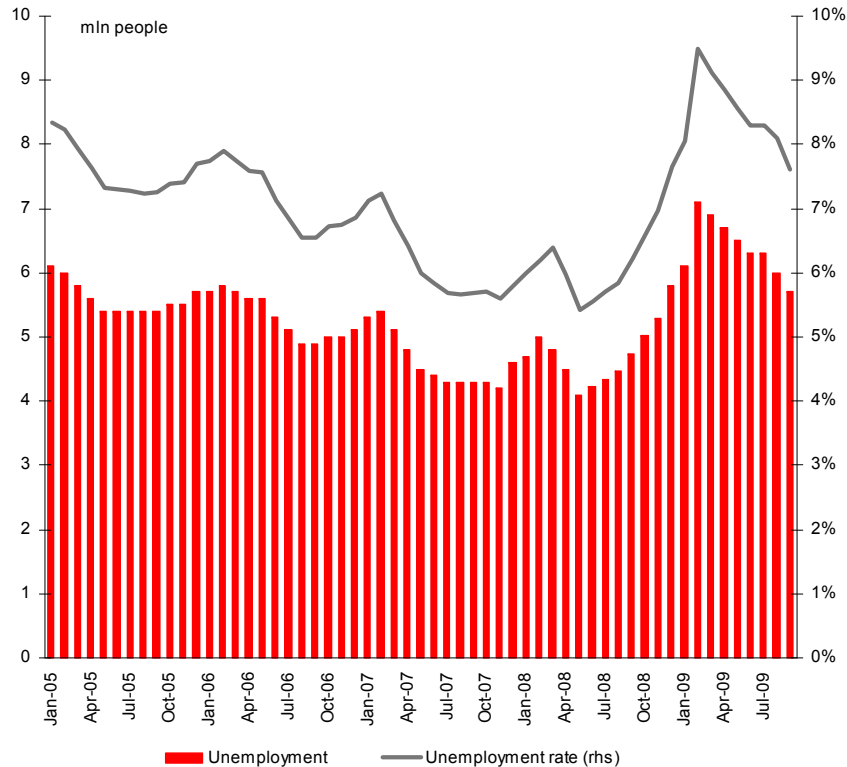


Sources: CBR, Reuters, Alfa Research



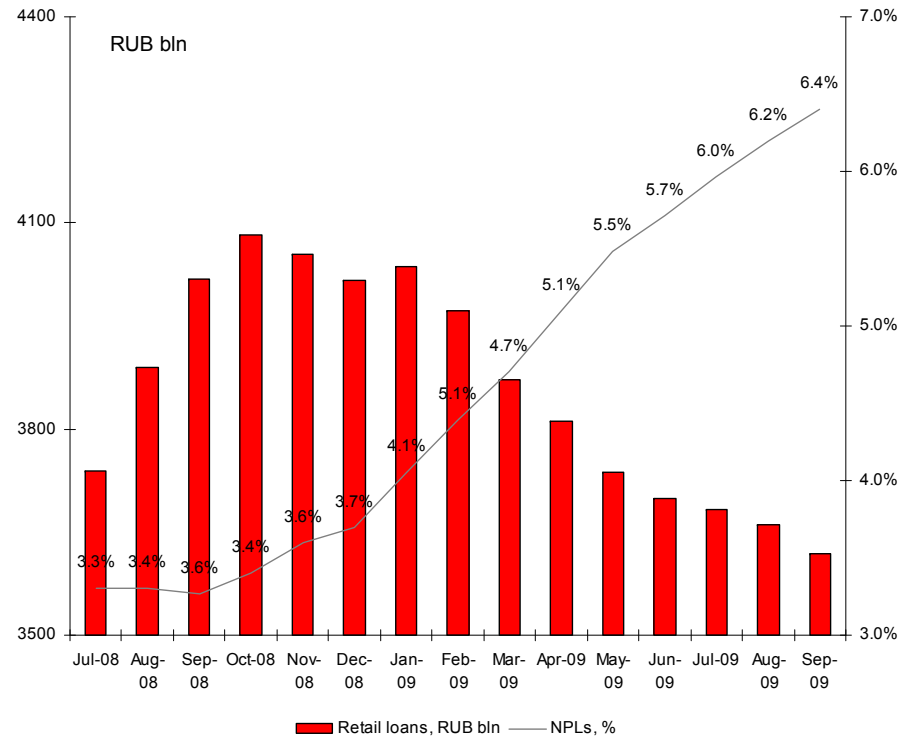
Macro trends affected retail loan quality

Russia's unemployment rate



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

Banks' retail lending and NPLs*

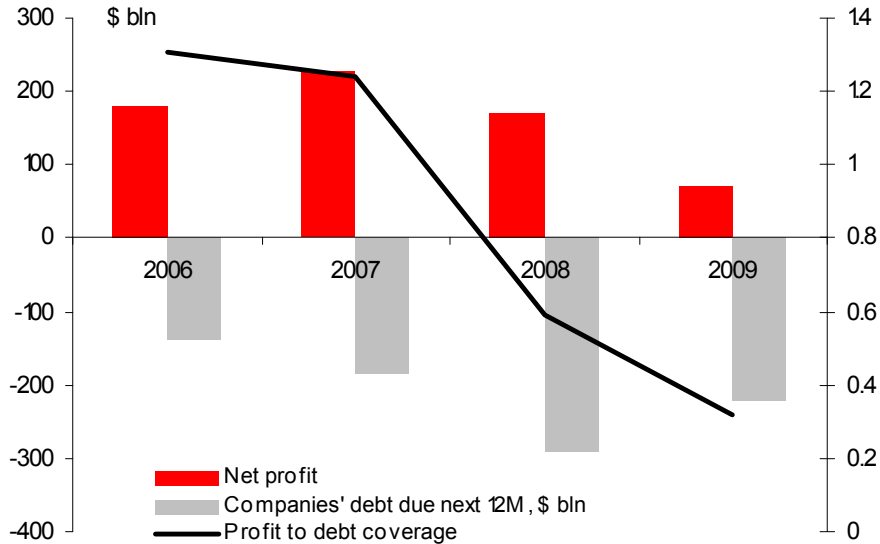


Retail loans are down 10% YTD; NPLs were reported at 6.4% of loan books as of September 2009, double their level of last summer

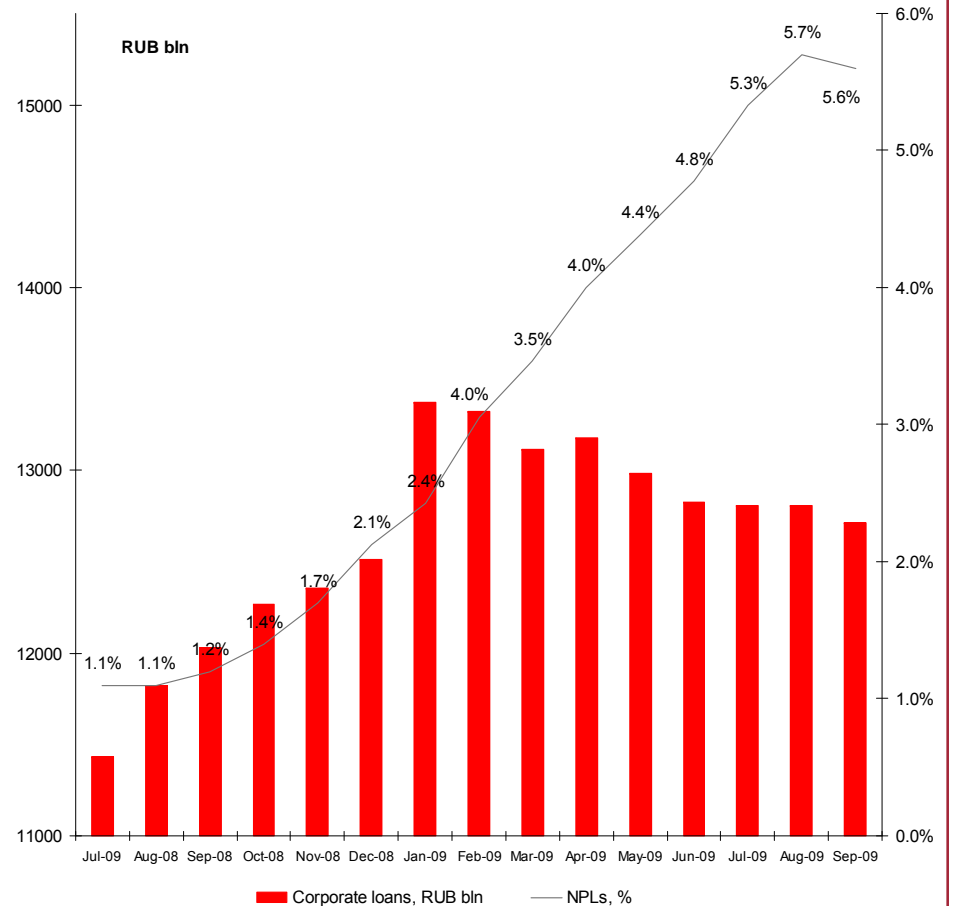
*Figures under RAS

Corporate NPLs jumped from 1.1% to 5.6%

Corporate profit has dropped



Corporate NPLs*



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)

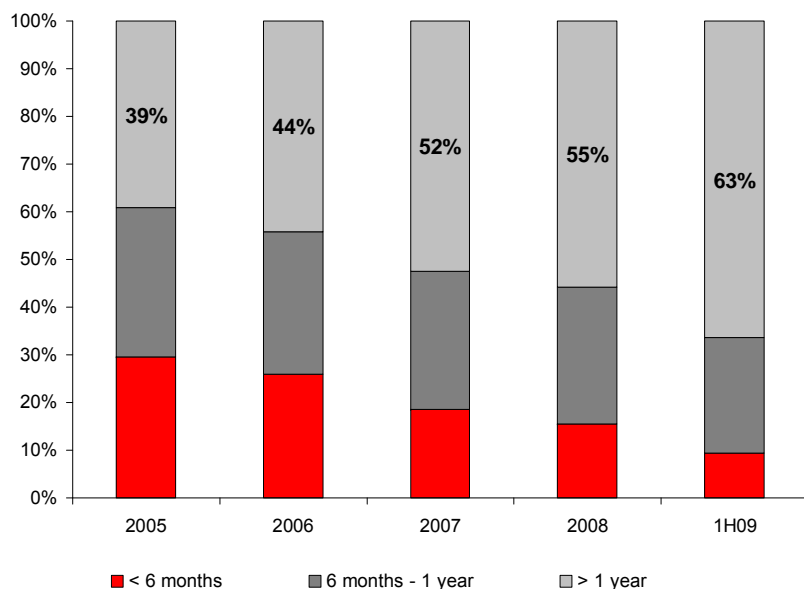
Corporate profits will cover only 30% of debt payments over the next 12 months

Corporate NPLs are a major threat, rising from 1.1% to 5.6% over the last 12 months

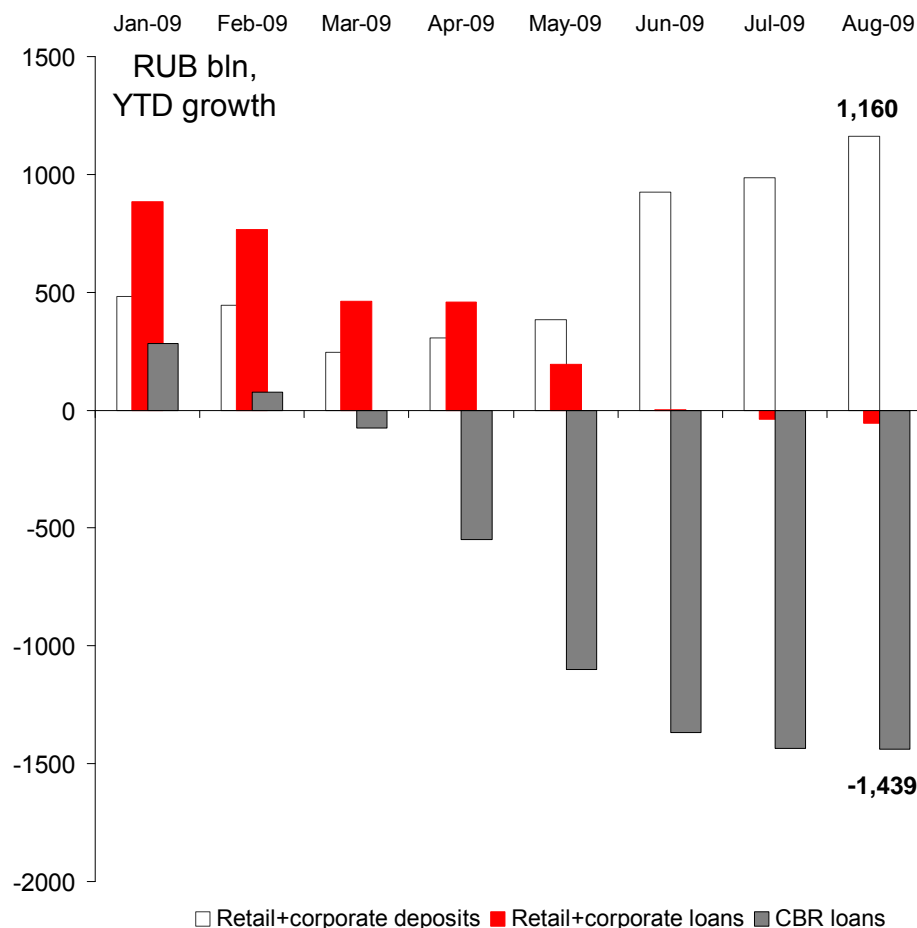
*Figures under RAS

Banks' response to the crisis

Maturity of corporate loan book



YTD increase in loans, deposits and CBR funding



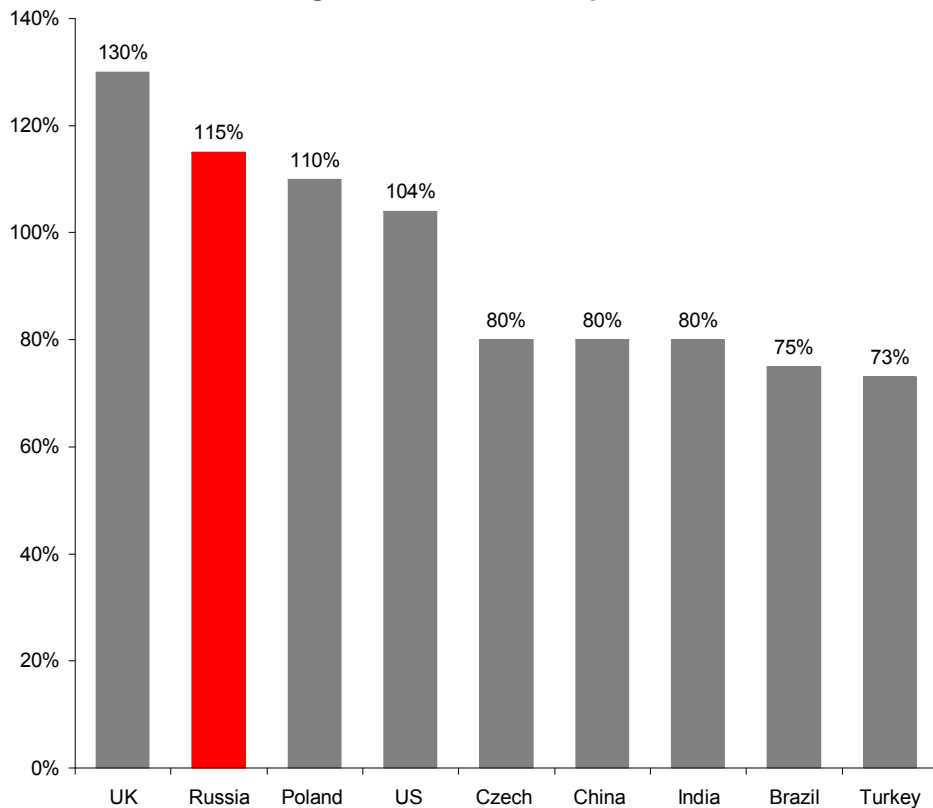
Banks are rolling over bad loans to avoid losing equity capital

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

State liquidity helping to keep loan/deposit ratio high

Banks' foreign debt and loan-to-deposits ratio*

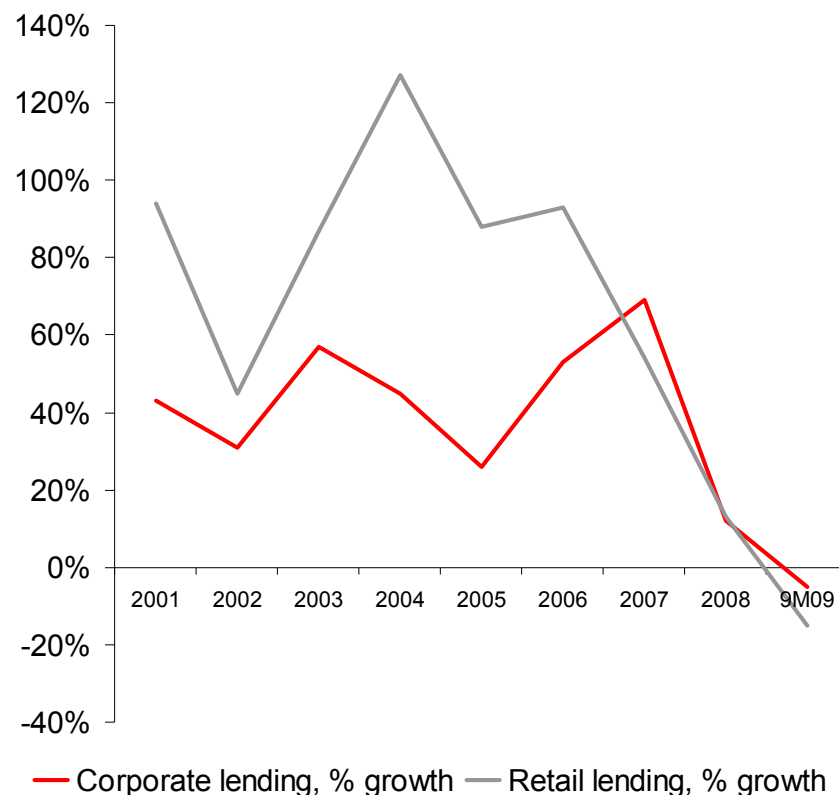


*as of December 2008

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

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

Corporate and retail loan book growth, % y-o-y*



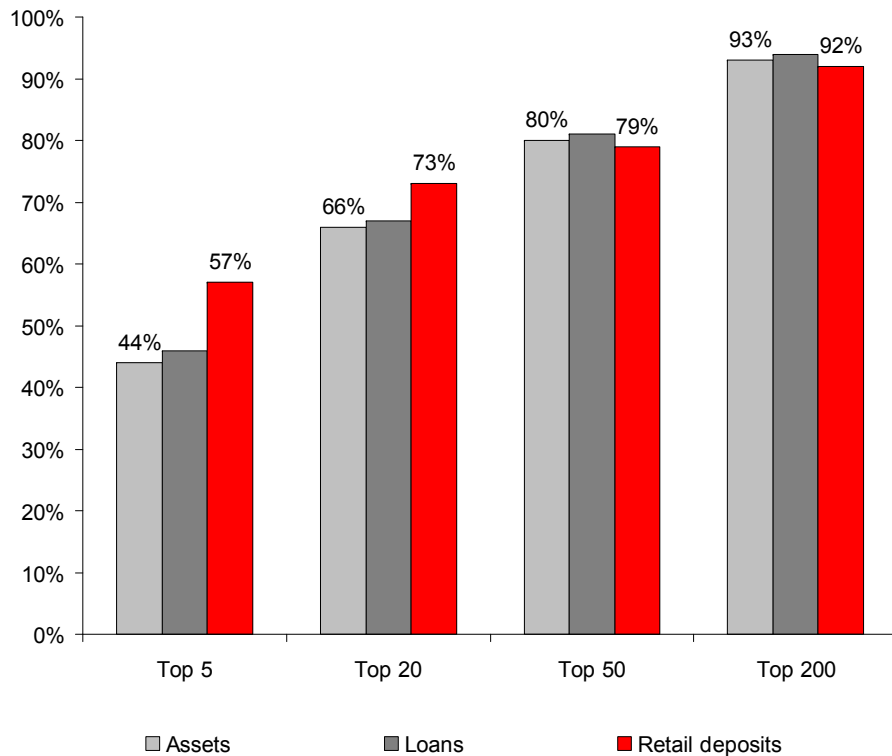
*Calculated based on figures in dollar terms

Sources: CBR, Reuters, BIS, Alfa Research



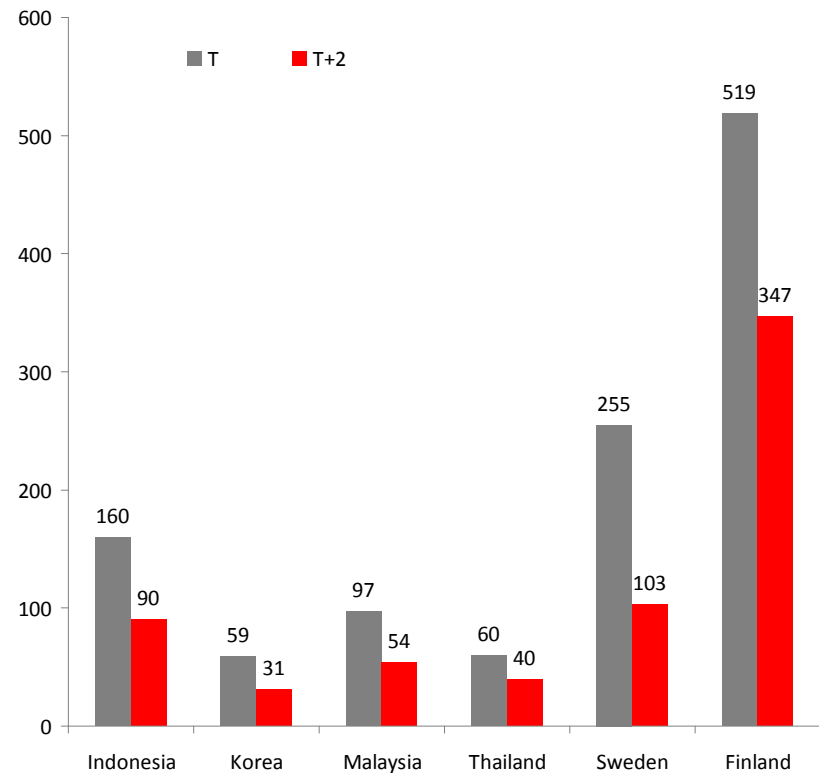
Banking sector consolidation a priority

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)*

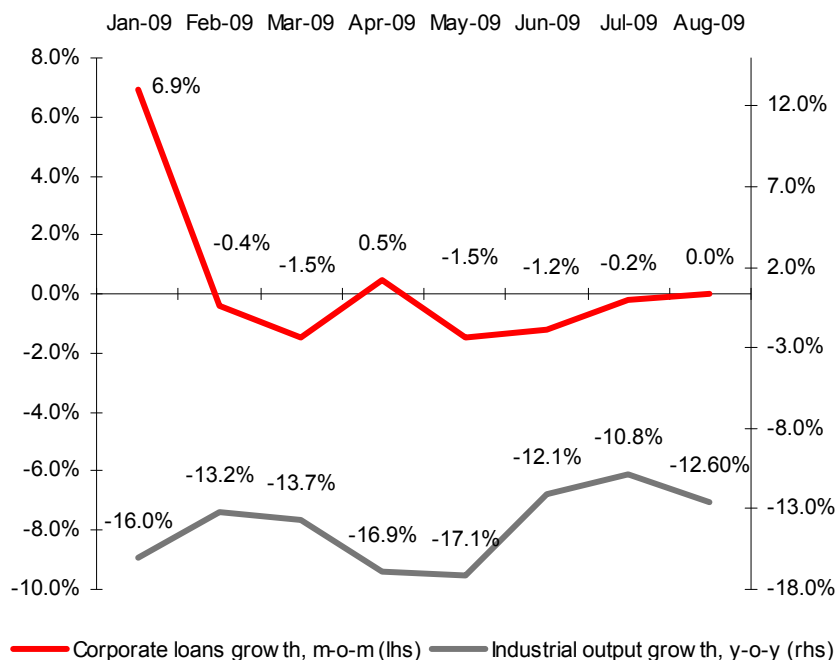


In many countries, a period of economic slowdown has been used to consolidate the banking sector and reduce the number of banks

*Data collected for 1990s

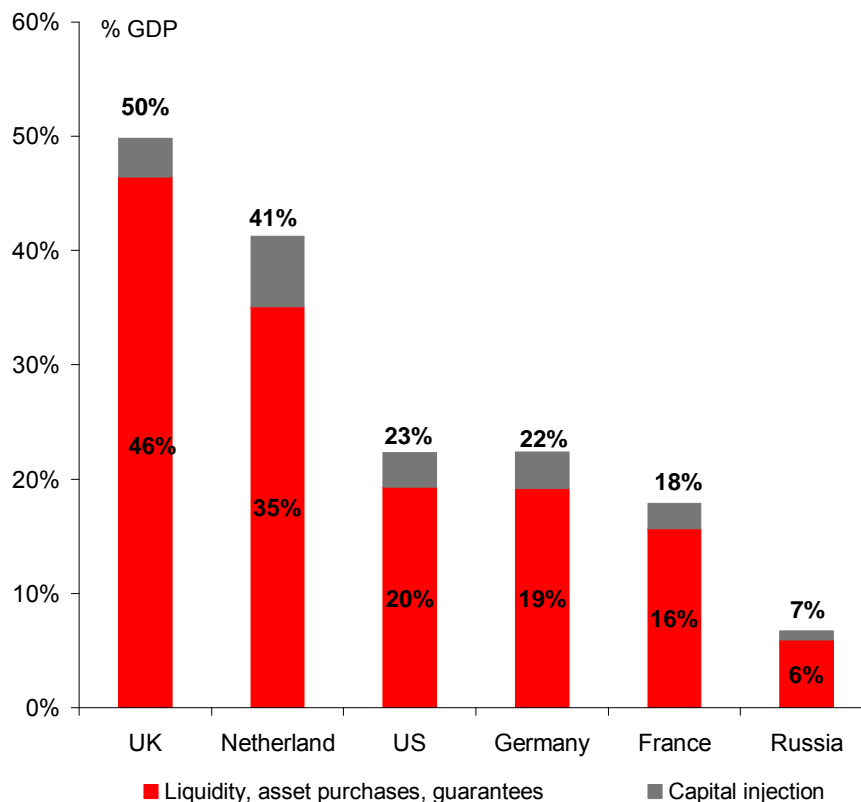
Capital injections crucial to boosting growth

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