

# Russia's Economic Success: Financial Aspects

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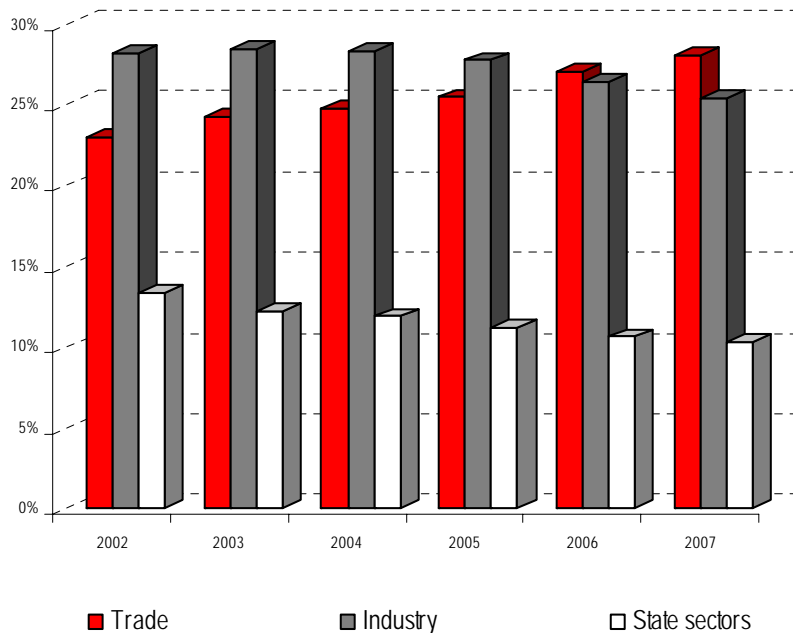
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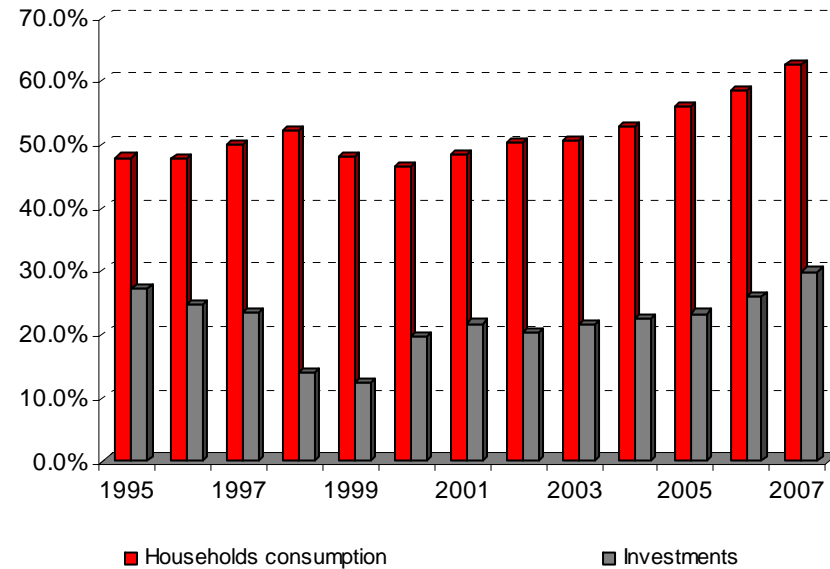
# Consumption growth boosted trade sector

- Russia's GDP growth was driven by a rapid acceleration in private consumption
  - Recovery in real disposable incomes (+140% since 2000) and access to financial resources were the key factors behind the consumption boom
- Investment, despite accelerated growth of last two years, is still modest

GDP structure by production, in fixed 2002 prices



GDP structure by spending, in fixed 2002 prices

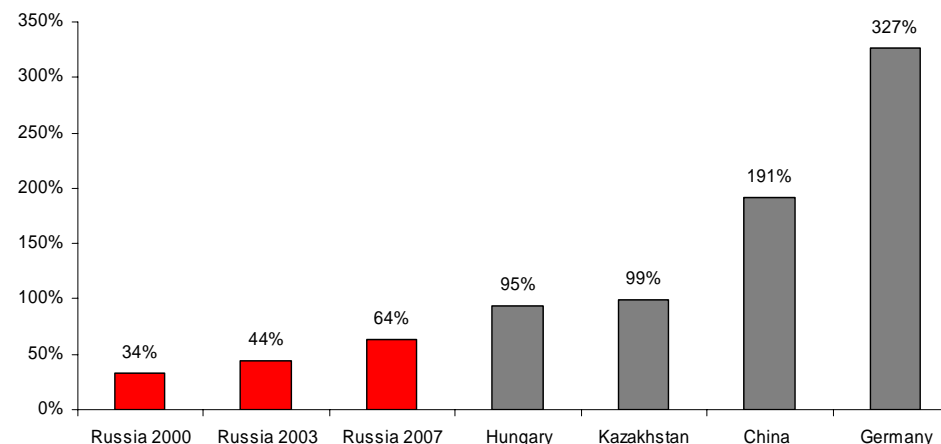


- Increase in household consumption was reflected in more services-focused industrial growth
  - The share of the trade sector increased to 28% of GDP from 23% in 2002, partially reflecting strong growth in imports
  - The role of industry decreased from 28% of GDP to 25%
  - State sectors declined from 13% of GDP to 10%

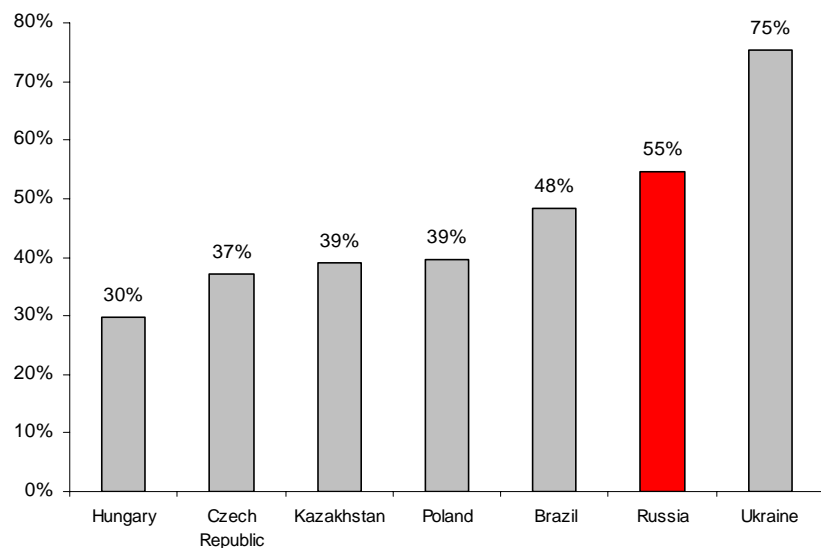
# Recovery in financial sector an important trend

- The recovery in the Russian banking sector was an important part of Russia's macro success
  - As of end-2007, total assets had risen to 64% of GDP from 34% in 2000
- The Russian banking sector is maintaining very strong growth relative to other countries
- Strong growth coincided with tighter regulation and the launch of deposit insurance, credit bureau and obligatory IFRS

Assets-to-GDP by country



2007 banking assets growth by countries



In 2005-2006 the CBR implemented stricter monitoring of banks

	2000-2005
Elimination of foreign banks' 12% quota in banking capital	2000
Reduction in bank profit tax from 43% to 24%	2000
Deposit insurance system	2005
Establishment of credit bureau	2006
Obligatory IFRS for all banks	2005

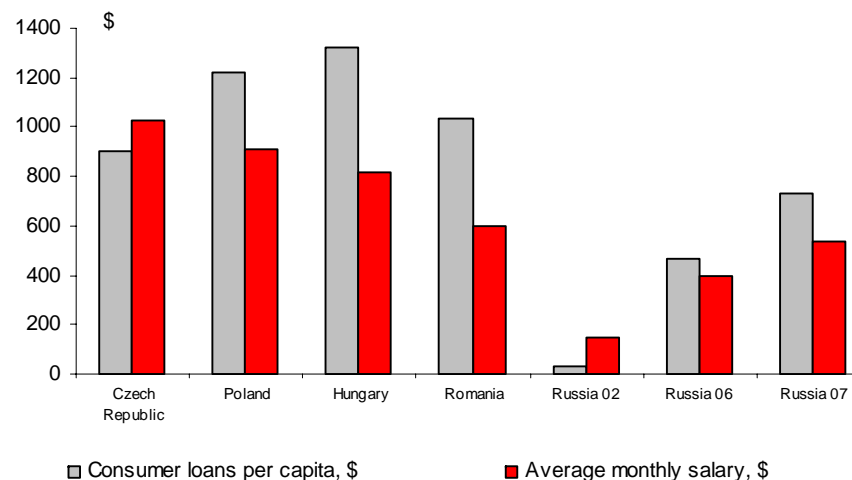
Sources: CBR, Bloomberg, Alfa Research



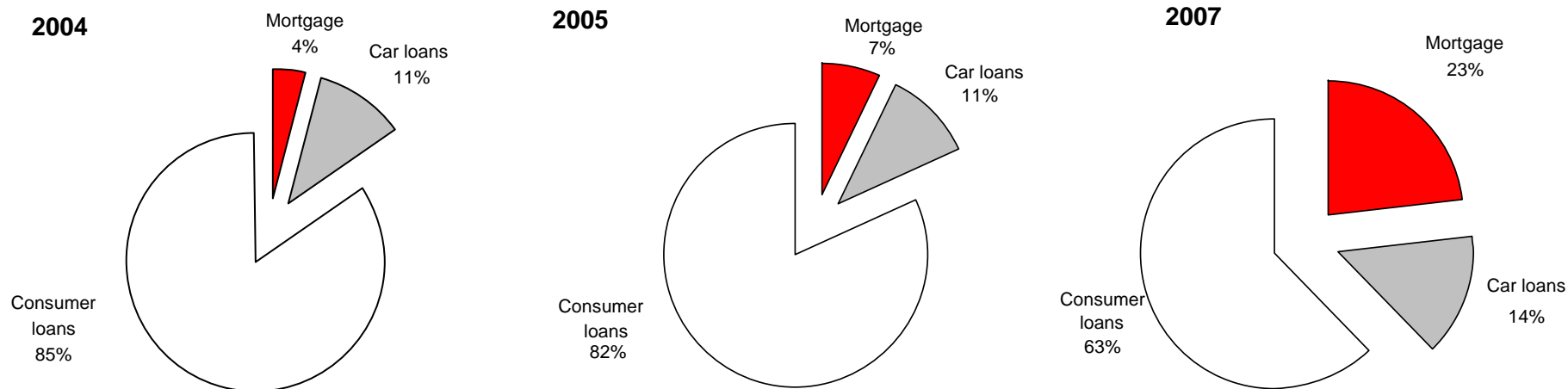
# Retail lending growth emerged from zero

- Retail loans financed around 30% of consumption growth in 2007; retail loans equaled only 0.6% of GDP in 2000 and grew to 9.1% by 2008
- Mortgages equal only 2.3% of GDP, so they still have strong upside potential
- Consumer loans per capita are already close to average salary per capita, so upside is directly linked to revenue growth

Consumer loans per capita vs. average salary



Structure of retail market



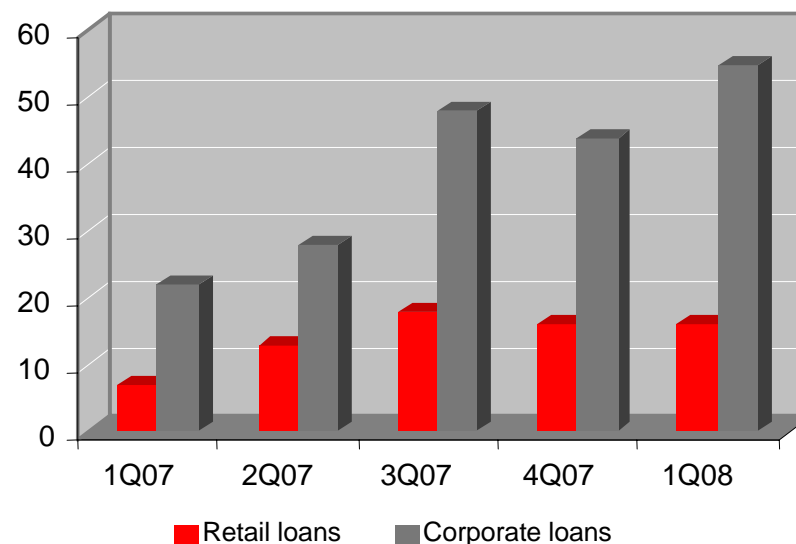
# Corporate lending growth remains strong

- In 2H07 corporate clients returned to the local market, while before they had been borrowing internationally:

- Quarterly corporate loans growth in 1Q08 totaled \$55 bln versus \$22 bln in 1Q07

- Growth potential also stems from SMEs' demand for loans; this sector in Russia equals only 17% of GDP and has a low exposure to financial resources

Quarterly corporate and retail loan growth, \$ bln



SMEs by country

	Hungary	Czech Republic	Poland	China	Kazakhstan	Russia
No. of SMEs	856 000	992 132	3 610 800	12 000 000	500 000	1 550 000
% of GDP	45%	53%	50%	60%	20%	17%
% of sales	N/A	52%	63%	64%	N/A	N/A
% of employment	65%	62%	68%	78%	40%	20%

# Corporate loans may outperform retail

- Corporate lending growth is more cost-effective as banks do not need retail branches, staff or complicated risk-management to serve corporate clients
- Retail lending growth was supported by the securitization boom, but now this option is less obvious
- Access to cheap and long-term foreign funding was an important factor behind mortgage growth
- The government sees increases in retail lending rates as a negative social trend
- Tighter retail lending regulation is another reason to switch to corporate loans

Banks	Loans, 9M07	Dep-ts, 9M07	Net position	Loans, '07	Dep-ts, '07	Net position
Sberbank	34,762	97,229	62,467	38,596	107,640	69,044
VTB	4,726	9,062	4,335	6,377	10,077	3,700
Bank of Moscow	2,343	4,436	2,093	2,821	4,942	2,121
UralSib	2,106	2,617	511	2,523	2,815	292
Rosbank	3,534	2,377	-1,157	3,957	2,854	-1,103
Vozrozhdenie	611	1,762	1,151	682	1,986	1,304
Bank St. Pete	317	861	544	411	1,209	797
URSA Bank	2,469	1,269	-1,200	2,486	1,447	-1,038

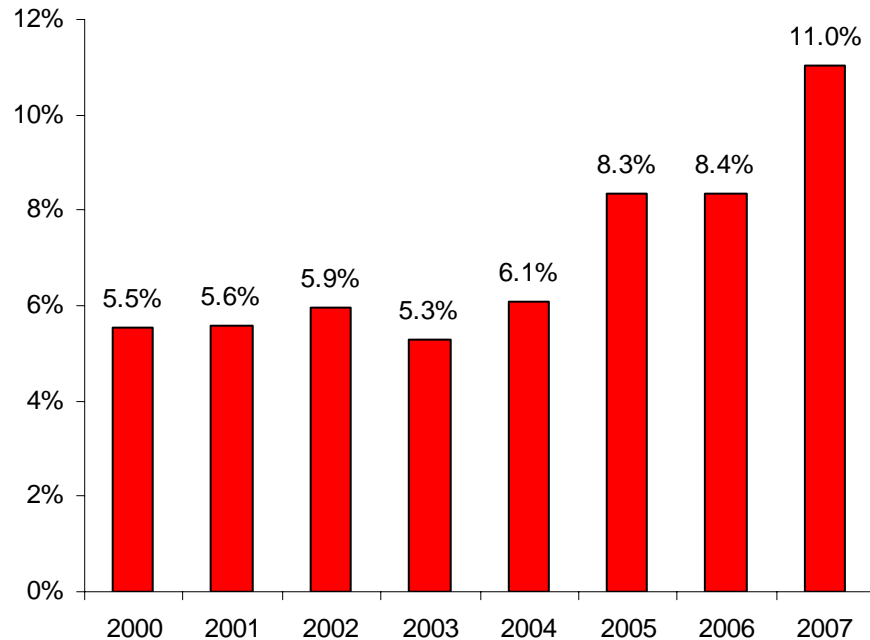
Sources: CBR, Interfax, Alfa Research

# Interest rates still high

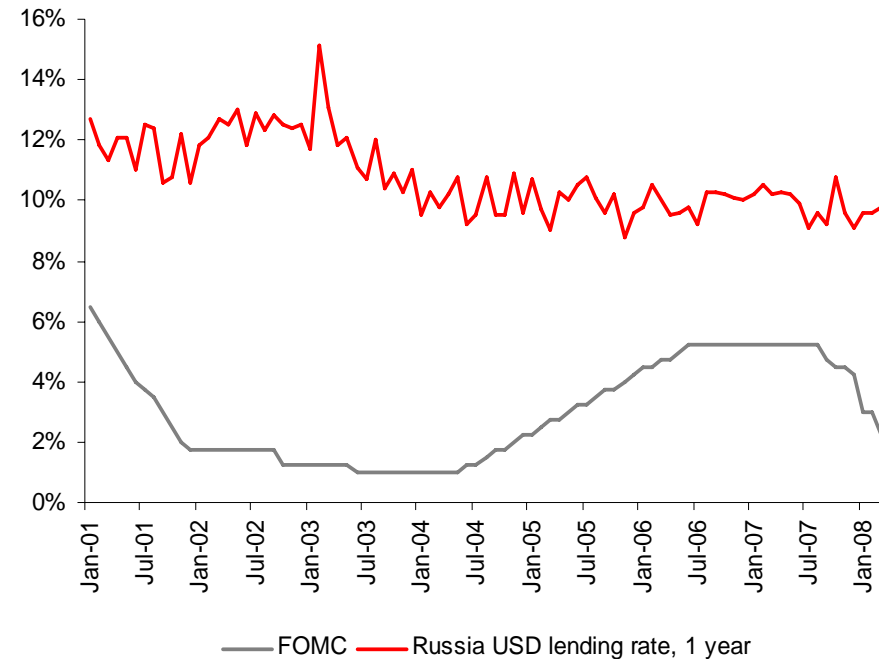
- Despite substantial demand for loans and strong banking sector growth, interest rates did not decline substantially:

- Interest rates for large corporate clients have remained at 10-12% since 2001

Foreign banks, % of Russian banking assets



Local lending rates vs. FOMC rate



- Russian banks' margins have not declined substantially, reflecting a lack of competition and foreign banks' very modest penetration in the Russian market

## State banks still dominate the landscape

Assets	Market share, 2006	Market share, 1Q07	Market share, 2Q07	Market share, 3Q07	Market share, 4Q07	Market share, 1Q08
Sberbank	24,8%	25,3%	24,9%	24,0%	24,4%	24,6%
VTB	7,7%	7,6%	8,4%	8,6%	10,1%	10,3%
Gazprombank	5,1%	7,0%	6,9%	6,4%	3,9%	4,3%
Bank of Moscow	2,6%	2,5%	2,5%	2,6%	2,5%	2,5%
Rosagrobank	1,7%	1,7%	2,1%	2,2%	2,4%	2,4%
<b>State banks</b>	<b>41,8%</b>	<b>44,1%</b>	<b>44,8%</b>	<b>43,8%</b>	<b>43,3%</b>	<b>44,1%</b>

Retail deposits	Market share, 2006	Market share, 1Q07	Market share, 2Q07	Market share, 3Q07	Market share, 4Q07	Market share, 1Q08
Sberbank	53,3%	53,3%	53,0%	52,5%	51,2%	51,1%
VTB	4,7%	4,8%	4,9%	4,9%	4,8%	4,8%
Gazprombank	1,8%	1,6%	1,7%	1,6%	1,7%	1,6%
Bank of Moscow	2,2%	2,4%	2,4%	2,4%	2,4%	2,2%
Rosagrobank	0,3%	0,3%	0,3%	0,4%	0,5%	0,5%
<b>State banks</b>	<b>62,3%</b>	<b>62,4%</b>	<b>62,2%</b>	<b>61,8%</b>	<b>60,5%</b>	<b>60,3%</b>

Sources: CBR, Interfax, Alfa Research





## State banks still dominate landscape

Corporate loans	Market share, 2006	Market share, 1Q07	Market share, 2Q07	Market share, 3Q07	Market share, 4Q07	Market share, 1Q08
Sberbank	32,7%	31,3%	29,9%	32,1%	33,6%	33,8%
VTB	8,6%	8,5%	9,0%	10,1%	11,6%	12,0%
Gazprombank	4,2%	4,7%	5,8%	4,6%	4,4%	4,7%
Bank of Moscow	3,1%	3,0%	3,2%	3,3%	2,9%	2,9%
Rosagrobank	2,3%	2,4%	2,7%	2,7%	2,8%	2,7%
<b>State banks</b>	<b>50,9%</b>	<b>49,8%</b>	<b>50,6%</b>	<b>52,8%</b>	<b>55,3%</b>	<b>56,2%</b>

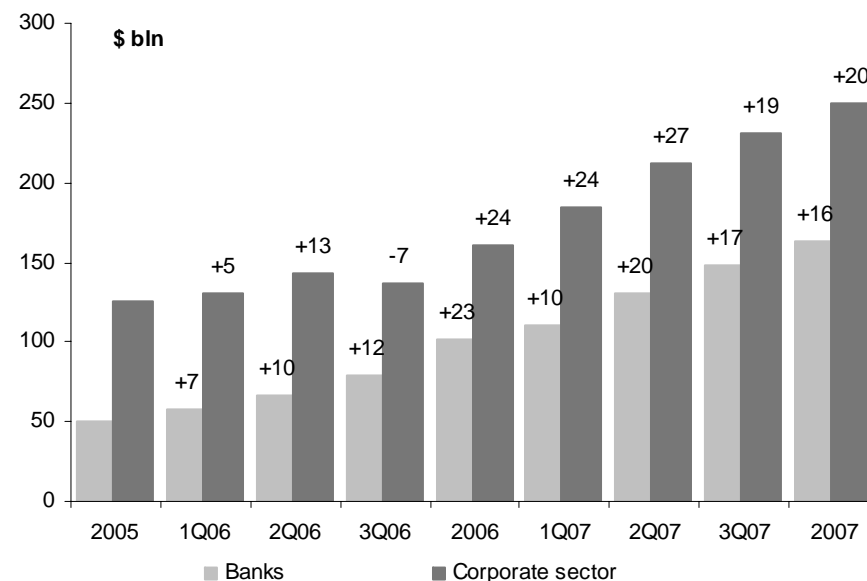
Retail loans	Market share, 2006	Market share, 1Q07	Market share, 2Q07	Market share, 3Q07	Market share, 4Q07	Market share, 1Q08
Sberbank	33,7%	32,2%	31,2%	29,9%	30,2%	30,0%
VTB	2,6%	2,9%	3,5%	4,1%	5,0%	5,6%
Gazprombank	1,0%	1,0%	1,0%	1,0%	1,1%	1,0%
Bank of Moscow	1,6%	1,7%	1,9%	2,0%	2,2%	2,3%
Rosagrobank	1,0%	1,2%	1,4%	1,4%	1,4%	1,4%
<b>State banks</b>	<b>39,8%</b>	<b>39,1%</b>	<b>38,9%</b>	<b>38,4%</b>	<b>39,8%</b>	<b>40,4%</b>

Sources: CBR, Interfax, Alfa Research

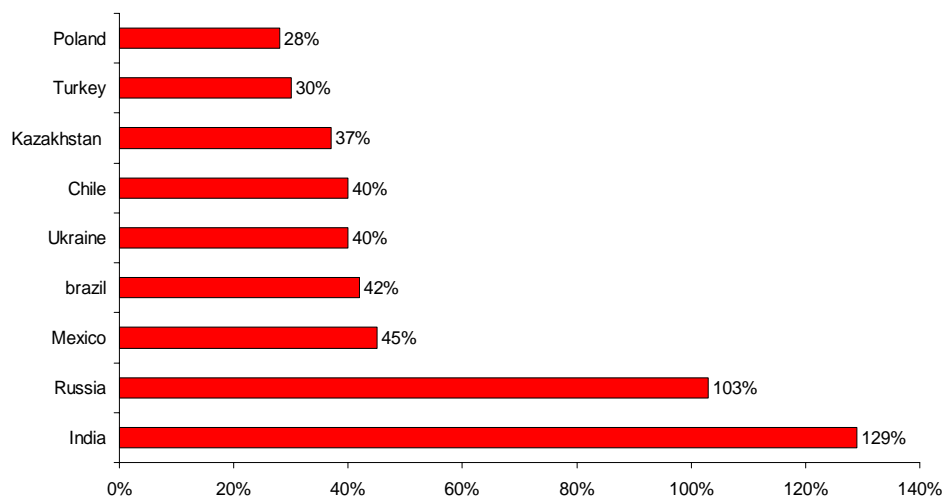
# Russian companies are now global borrowers

- Russian banks and companies actively funded their growth from abroad:
  - In 2H07 corporate debt went up by \$72 bln and totaled \$413 bln as of end-2007
- CBR reserves covered 103% of Russia's entire foreign debt obligations, well above other countries' level
- Strong demand for loans pushed Russian banks to fund lending with short-term interbank and repo exposure

Corporate foreign debt, \$ bln



Russia maintained good coverage of debt by reserves, 2007



Assets growth funding, \$ bln and %

	1Q07	2007	1Q08
Assets growth	+66 (100%)	+286 (100%)	+88 (100%)
Retail deposits growth	+10 (15%)	+66 (23%)	+16 (18%)
Corporate accounts growth	+23 (35%)	+93 (33%)	+27 (31%)
Equity capital growth	+13 (20%)	+45 (16%)	+7 (8%)
Foreign debt growth	+10 (15%)	+63 (22%)	+1 (1%)
Others	+10 (15%)	+19 (7%)	+37 (42%)

Sources: CBR, Bloomberg, Alfa Research



# Funding is the most important issue

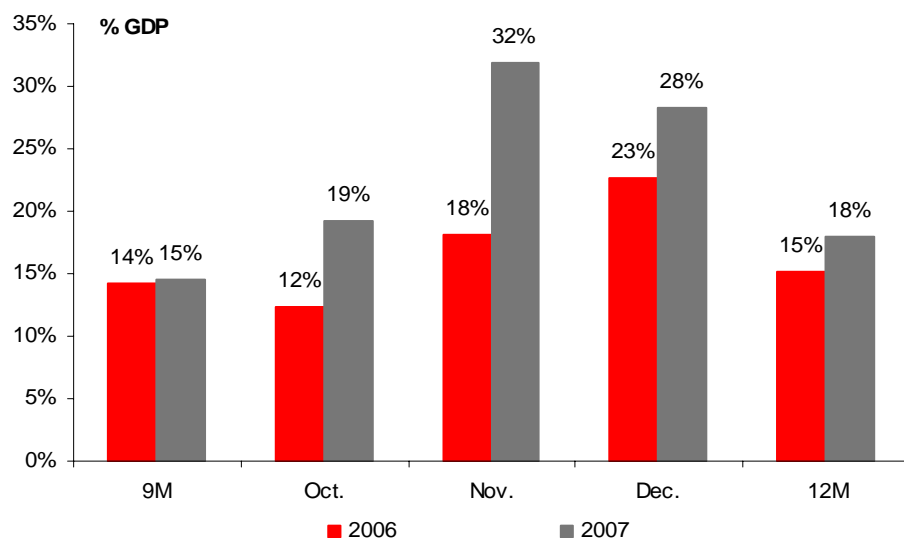
- Russian banks lack local funding, retail deposits equal only 16% of GDP

- Retail deposits are weak because of high inflation
- The real estate market is absorbing a significant portion of savings

Retail deposits represent only 16% of GDP

	2004	2005	2006	2007
Saving, % of income	10.8%	13.6%	12.2%	11.4%
Increase in ruble deposits	4.2%	5.0%	7.3%	7.2%
Increase in currency deposits	0.6%	1.2%	-0.3%	0.0%
Real estate	2.7%	2.8%	3.9%	3.7%
Currency cash	3.3%	4.5%	1.3%	0.5%

Russian budget supported by banking system in 4Q07



- The increase in corporate deposits, which often come from state companies, is seen as a more stable source of funding than retail deposits

- Thus the risk of an increase in state spending through injections into state corporations is material

- Curbing inflation seems to be crucial to generating retail confidence and preventing the continuing reinforcement of state banks

# Disclosures

## IMPORTANT INFORMATION

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