

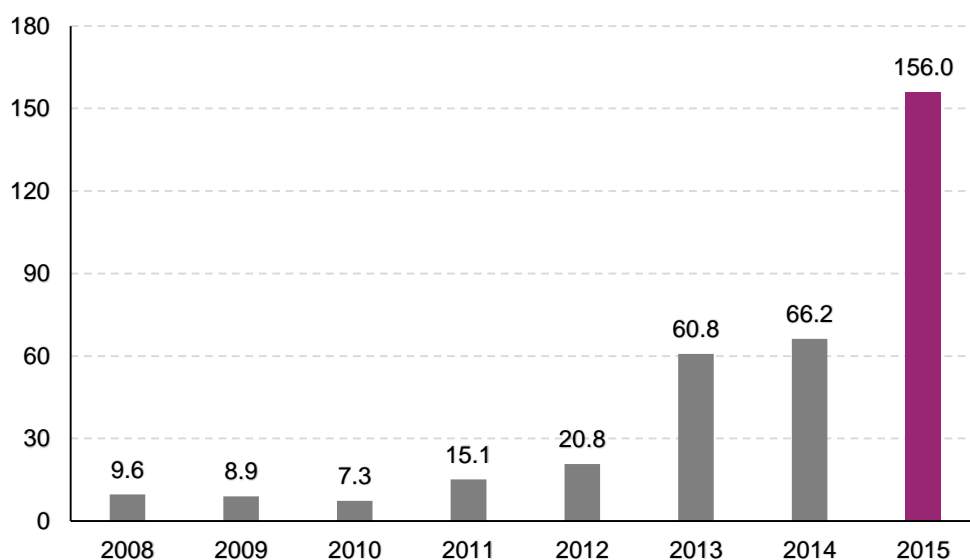
January 27, 2016

Russian banks raised record financial aid from shareholders

The amount of financial aid received by Russian banks in 2015 more than doubled y-o-y

According to financial statements of banking institutions, published by the Bank of Russia on January 26, 2016, Russian banks raised an unprecedented amount of financial aid as non-repayable financial assistance from shareholders in 2015. By estimate of the Analytical Credit Rating Agency (ACRA), the volume of raised funds more than doubled y-o-y – from RUB 66 bln in 2014 to RUB 156 bln in 2015. At that, equity of banking institutions increased 12.6% (ACRA's estimate based on banks' financial statements disclosed by January 1, 2016). In the first instance such buildup of the volume of non-repayable financial assistance supported capitalization of certain credit institutions against the increasing cost of risk and declining profitability of banking operations.

Non-repayable financial assistance from shareholders, RUB bln



* Taking into account RUB 17.63 bln, received by Bank URALSIB for 9M 2015

Sources: Bank of Russia, ACRA estimates

Income from donated property (financial aid) allows a bank to get support without an extended approval procedure with the Bank of Russia and to increase its income and, consequently, its equity (in case of net income generation) very quickly. A shareholder (or any other person, which is acceptable) is motivated to choose this method of supporting bank's capitalization because it makes possible to avoid complicated approval procedures with the Bank of Russia, which has the right to request the information about the sources of capital increase, but it happens after the event. In case of non-repayable financial assistance, the size of equity shares belonging to shareholders remains the same as opposed to the classical capital increase.

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Thus, in case of banks with several shareholders rendering non-repayable financial assistance can be regarded as a debt investment with horizon of 3-5 years. Return on investment in this case will be received in another form.

ACRA classifies this income as one-off non-operating income (in accordance with the international financial reporting standards these funds lead directly to the capital increase and are not included into the financial result). In order to assess the total financial result of the banking system correctly ACRA does not take into account non-repayable financial assistance. Thus, by ACRA estimate, adjusted profit of the Russian banking sector amounted to RUB 53 bln in 2015.

86 banks reported a substantial amount of finance (over RUB 50 mn) within the reporting item "Non-repayable financial assistance". At that, the share of 10 banking institutions, which raised the largest amount of non-repayable financial assistance, composed 82.5% of the whole amount of financial aid raised by the sector.

ACRA expects stagnation of the Russian economy to persist through 2016. Given negative macroeconomic environment along with the budget deficit, it is highly possible that the observed trend of banks' capital increase through non-repayable financial assistance from shareholders will continue in the future.

Largest recipients of financial aid, RUB bln

| | | Non-repayable financial assistance, RUB bln | Profit/loss 2015, RUB bln |
|----|-----------------------|---|---------------------------|
| 1 | Russian Standard Bank | 43.90 | 16.53 |
| 2 | Promsvyazbank | 29.55 | 10.96 |
| 3 | AK BARS Bank | 9.50 | -9.80 |
| 4 | Bank URALSIB | 17.63* | -5.2* |
| 5 | JUGRA Bank | 7.48 | 6.14 |
| 6 | Leto Bank | 7.37 | 1.23 |
| 7 | StarBank | 4.58 | 2.32 |
| 8 | FINPROMBANK | 3.19 | 2.02 |
| 9 | Vneshprombank** | 3.11 | -75.28 |
| 10 | iMoneyBank | 2.39 | -0.02 |

* Data for 9M 2015

** The license was revoked on January 21, 2016

Sources: Bank of Russia, ACRA estimates

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