

October 2007

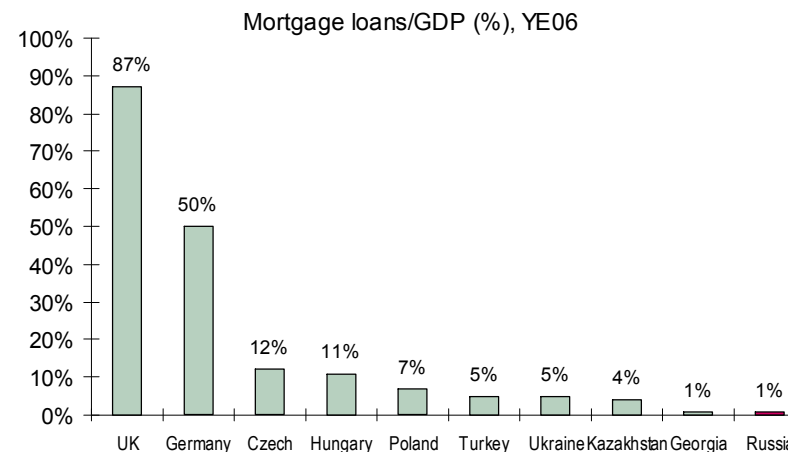
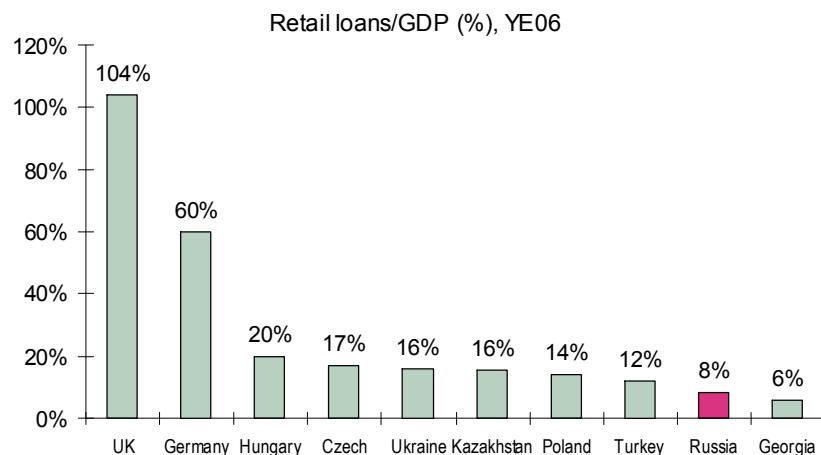
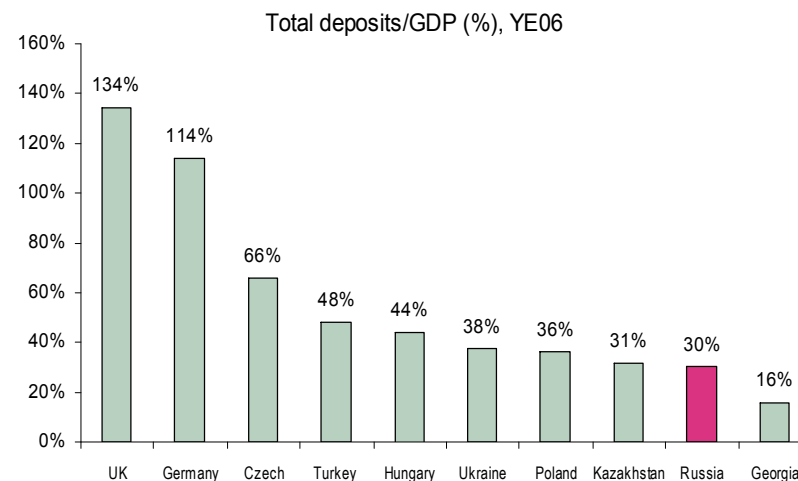
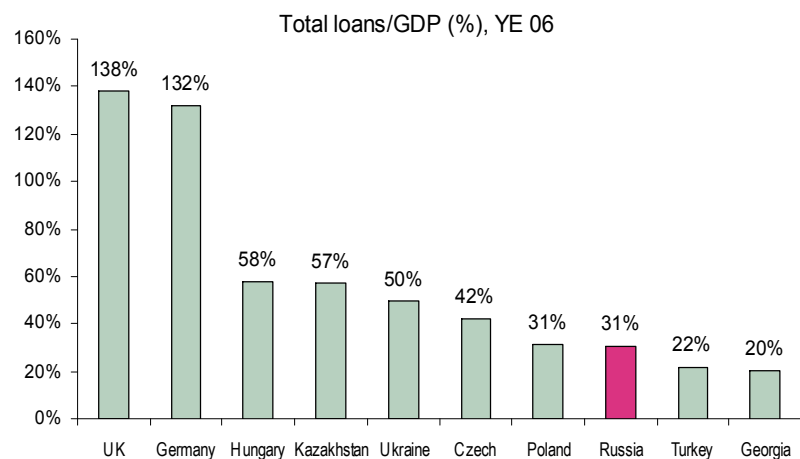
Renaissance
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Russian Consumer lending How Sustainable is current credit growth?

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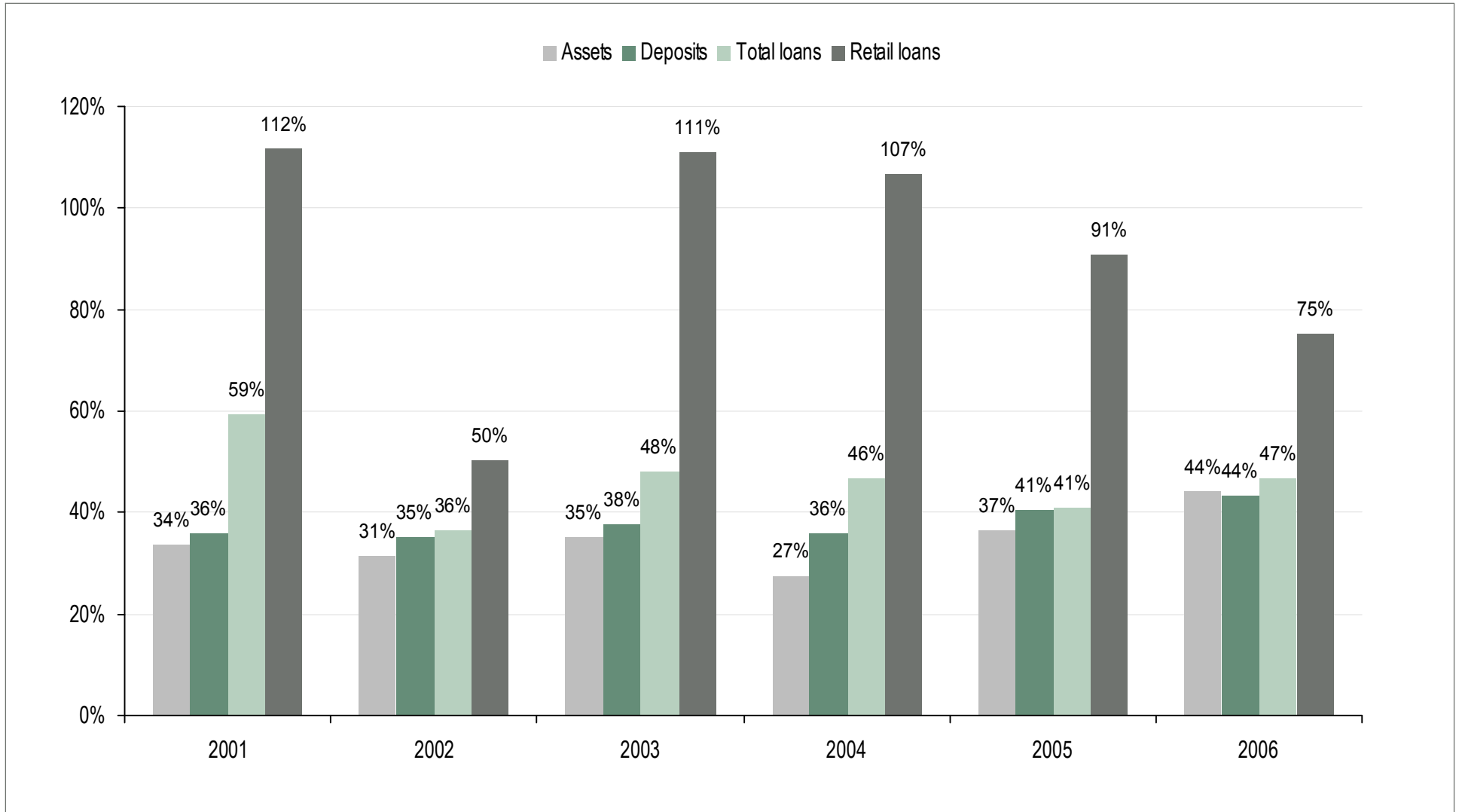
Russian market penetration

Still plenty of room for growth



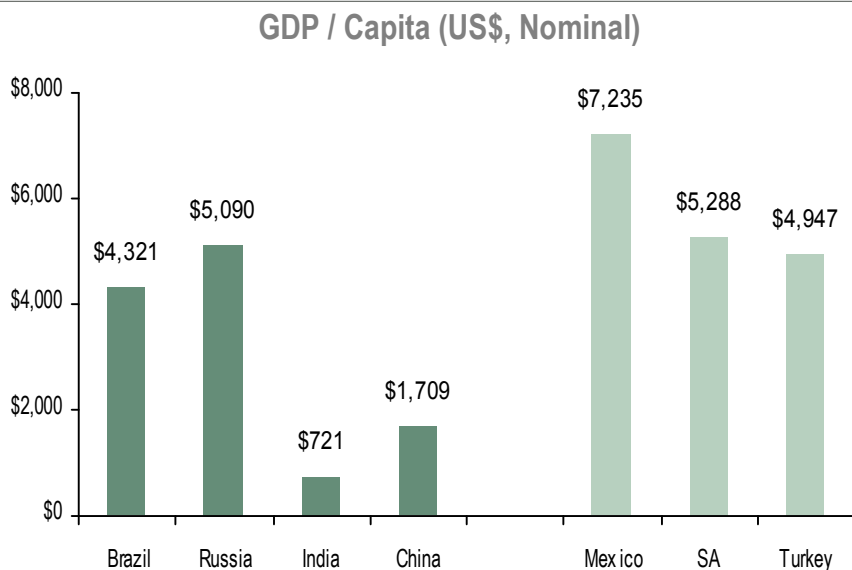
Strong balance sheet growth across the board

Retail leading the way

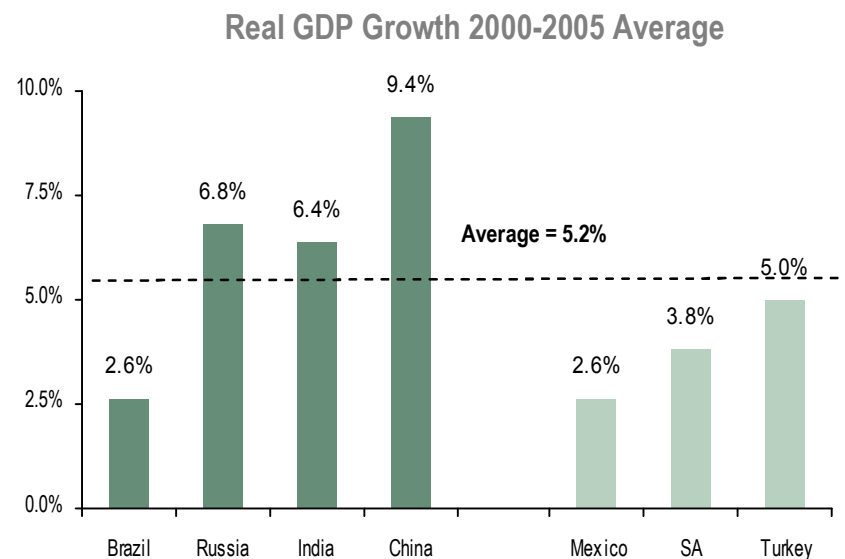


Economic conditions remain favourable

Russia – high GDP per capita and strong real GDP growth



Source: IIF, CSO, Renaissance Capital estimates



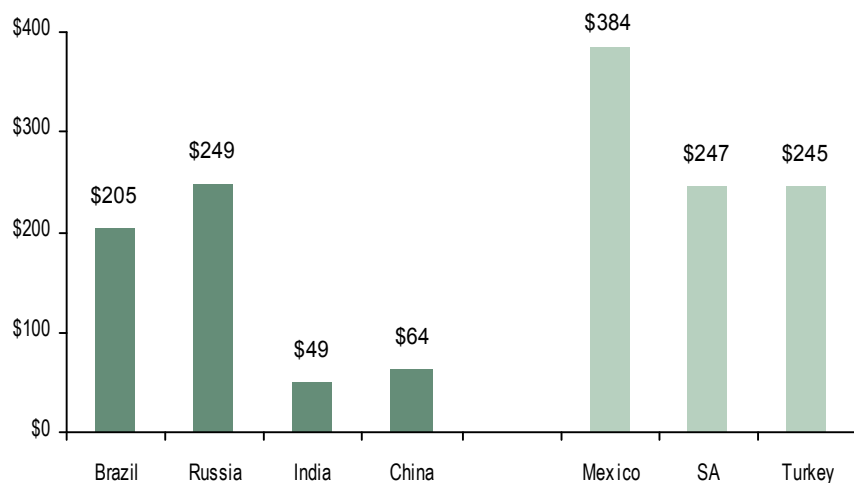
Source: IIF, CSO, Renaissance Capital estimates

- **Russia - impressive growth, although resource-led and inflation headwinds**
- China is the powerhouse – high growth, low inflation, constructive external and fiscal balances
- Indian growth rates capped by infrastructure bottlenecks and tight capacity utilisation
- Brazil has been held back by high interest rates and negative debt dynamics
- Turkey stands out in our extended space while SA has had an excellent run in the current cycle.

Employment and Income

Russia outperforms the rest of BRIC

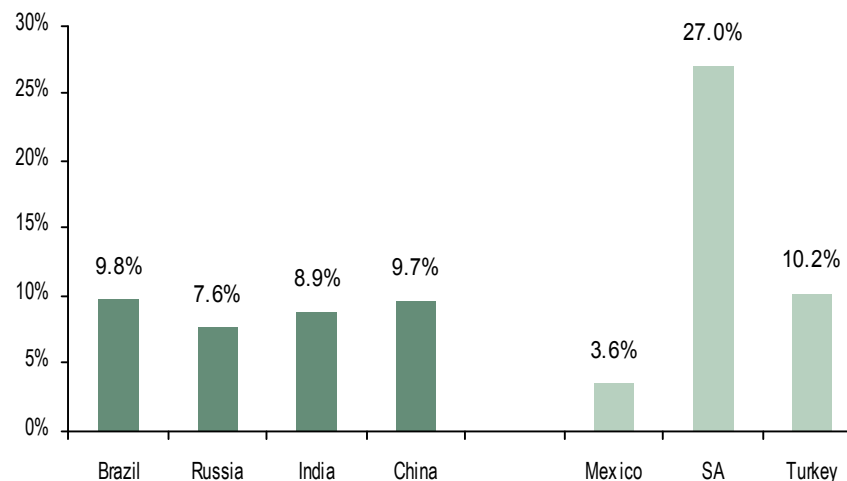
Average monthly disposable income per capita (US\$)



Source: EIU, CSO, Renaissance Capital estimates

Note: Figures are non PPP (purchasing power parity) weighted

Unemployment rate (%)



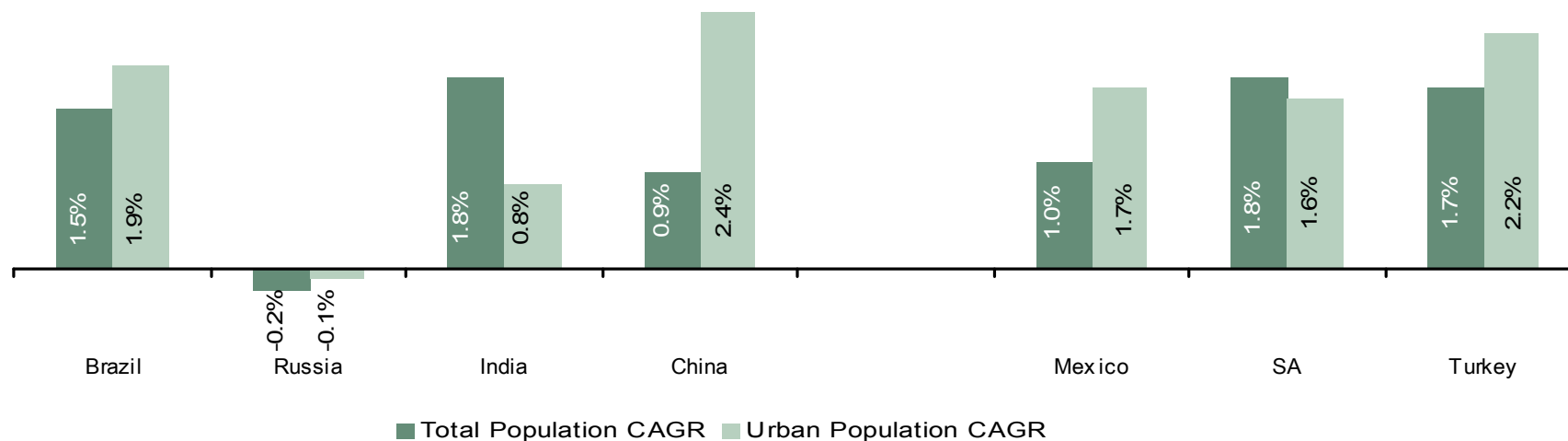
Source: EIU, Datastream, Renaissance Capital estimates

- Successful economic liberalisation has lowered structural unemployment in the Asian powerhouses, but rural poverty remains an issue
- Government policies towards job creation impact banking sector – “priority sectors” in India, “directed lending” in China and reserve requirements in Brazil
- SA has a chronic unemployment problem given their economic legacy, low level of skill and lack of labour intensive manufacturing— presents a serious-long term challenge

Demographics: population growth

Russia the real loser here, with terrible demographics

Population average growth rate 2000-2004



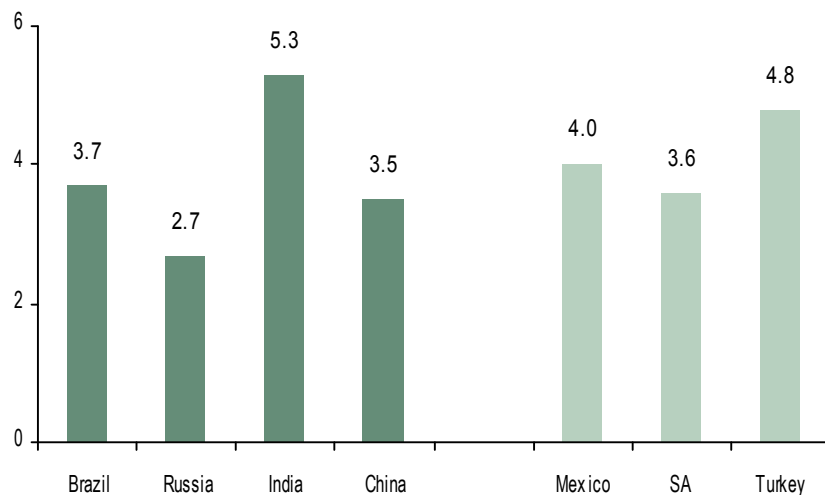
Source: World Development Indicators

- Banking is a scale business and population growth is a key driver of long term economic fortunes
- **Russia** loses out here with declining growth rates, while China stands out for outstanding urban population growth
- We downplay demographics in the short to medium term – low adoption of banking services by the current population is more impactful on growth

Demographics: households and home ownership

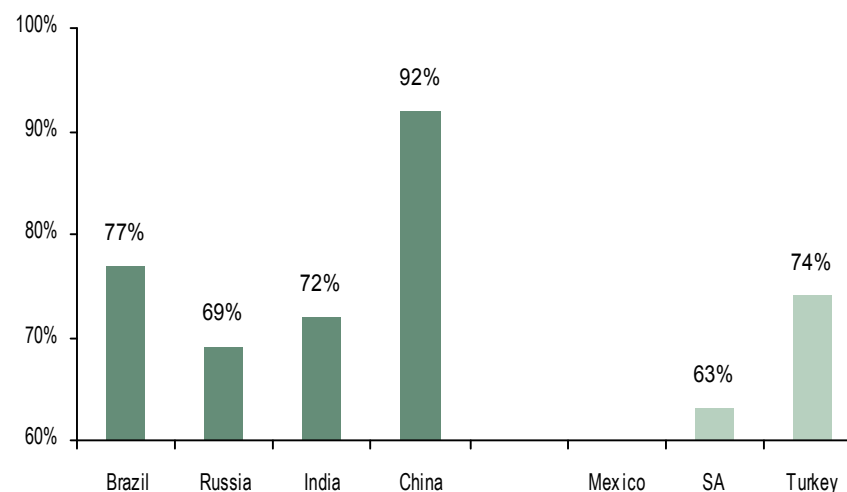
Household creation and rising home ownership are powerful themes

Average household size



Source: EIU, UN, Renaissance Capital estimates

Home ownership (% of total dwelling stock)



Source: EIU, UN. Mexico data not available

- Falling household sizes is a growing trend across the sample countries
- High levels of home ownership often positive – indicative of “property owning culture” and offer opportunities for home equity loans, not to mention “upgrade” demand
- SA long term attractive with strong home ownership culture and relatively big household size
- Turkey looks remarkably attractive – poorly housed, but on the fringe of Europe

Interest rates & Trends

Russia has been steadily improving

Short-term interest rates: BRIC



Short-term interest rates: extended sample

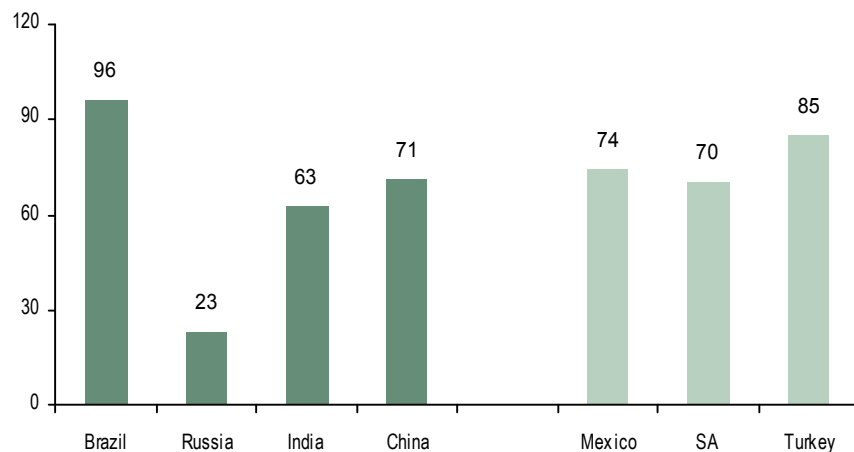


- **Russia** has been steadily improving, although monetary mechanism highly undeveloped
- Volatility and high level of Brazilian rates have constrained banking development
- Low rates in Asian markets are a positive but future direction clouds outlook
- In our extended space, low rates have tremendously boosted SA credit growth
- Mexico and Turkey have made progress –last year's hikes in Turkey have temporarily halted this

Banking Infrastructure: Russia clearly lacking

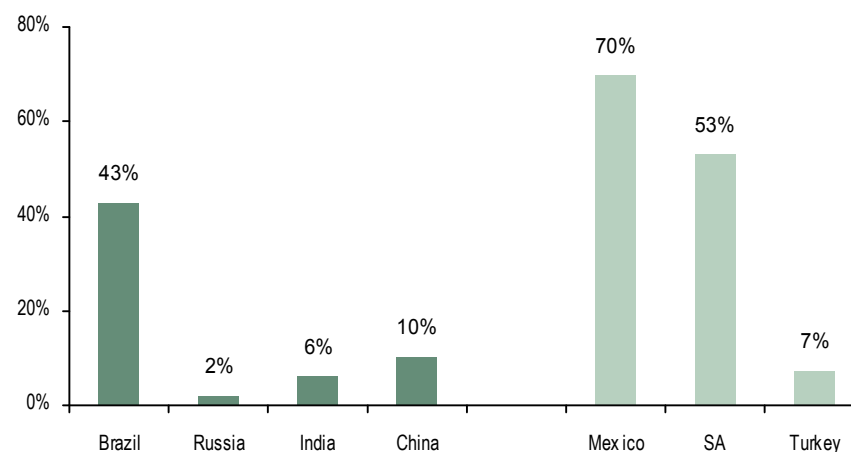
The physical and regulatory infrastructure in Russia is weak

Bank branches per million people



Source: World Bank

Credit bureau coverage (% of the adult population)



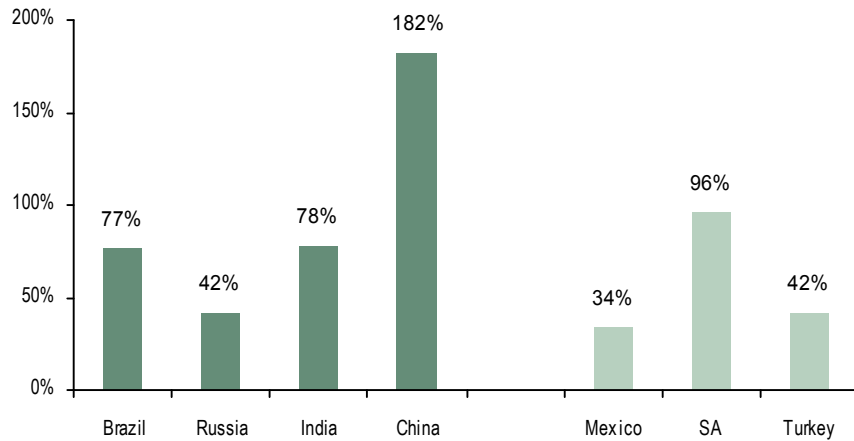
Source: World Bank

- Credit bureau coverage is an important precursor for lending in consumer and SME markets
- **Russia** is the outlier here. Branch infrastructure is expensive, but Sberbank has the lion's share of Russian branches. Vast proprietary knowledge mitigates poor bureau coverage.
- Brazil and Turkey, former 'high inflation' economies have the highest branch penetration - this is typical
- South Africa ticks all the boxes in terms of regulatory and corporate governance

Yet basic banking penetration is still low

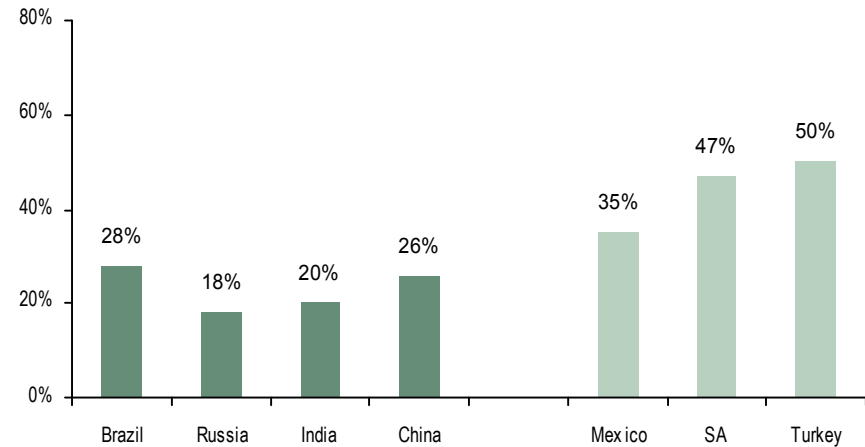
BRICs are especially undeveloped, but all countries have a way to go

Total banking assets / GDP (%)



Source: Central Banks data, Renaissance Capital estimates

Proportion of adult population with a bank account (%)



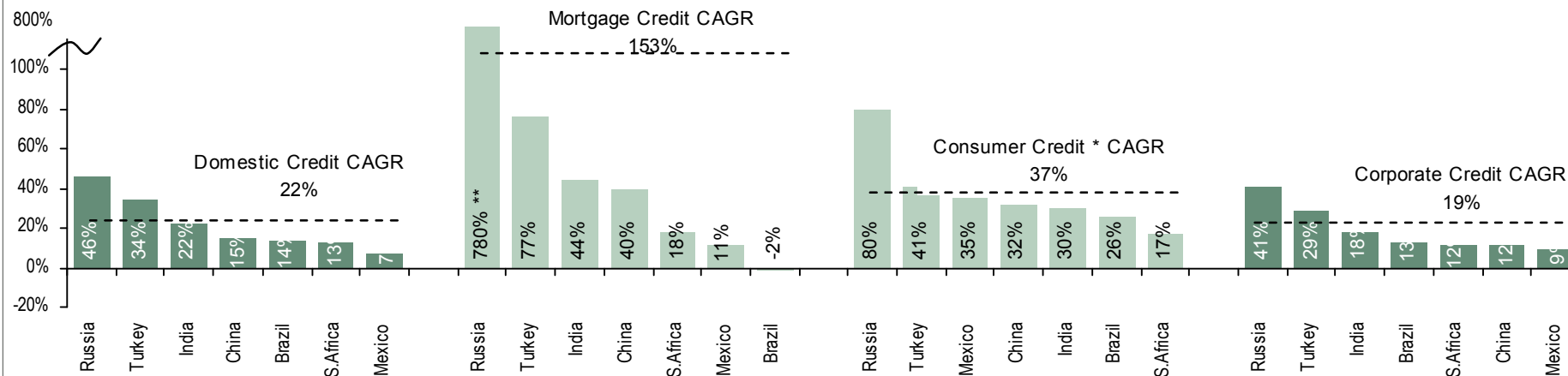
Source: World Bank, Economist, Renaissance Capital estimates

- **Russia** has the lowest penetration of banking assets amongst the BRICs as a truly post-communist system plays 'catch-up'
- South Africa comes up well banked – with top proportion of population having a bank account and high banking assets/GDP. For banks, we look at levels of cross-selling, not necessarily new client acquisition
- China looks relatively well-banked – vastly influenced by lending to SOEs and also extremely high savings rates

Lending: Dynamic growth across segments

Although from a low base, the credit markets have really taken off

Credit Growth by Segment CAGR 2000-2005 (%)



Source: CB data, IMF, Renaissance Capital estimates

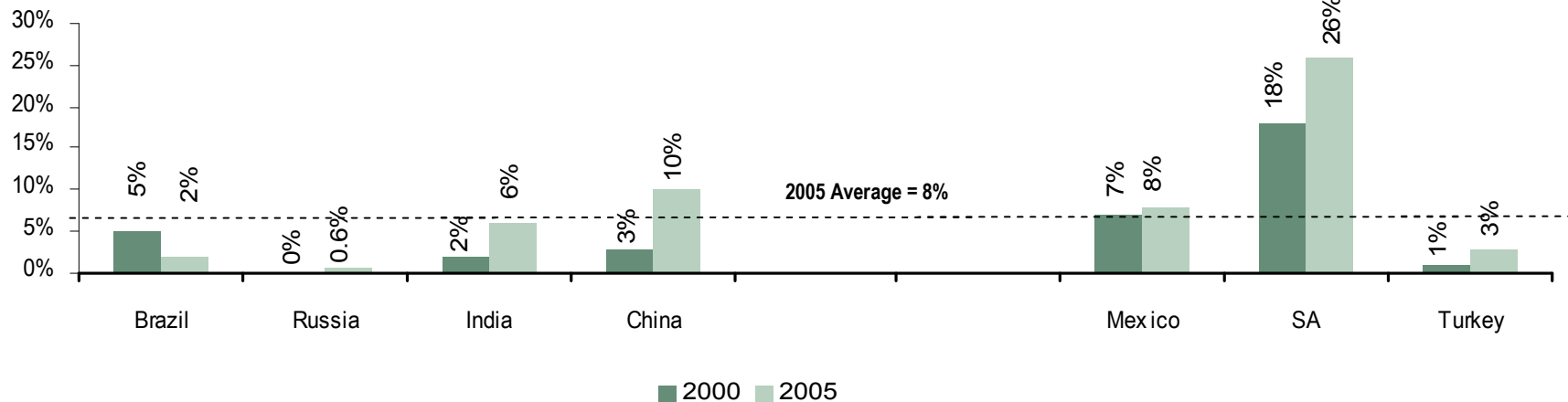
* Consumer credit includes all retail loans other than mortgages (ie installment loans, credit cards etc.) ** Russia's CAGR calculated on the basis that there were nil mortgages in 2000

- Recent credit growth trends in **Russia** have been spectacular, across all segments, while most markets have consistently beaten more developed countries
- SA growth although off highs of BRIC, keeps surprising on the upside for a penetrated country

Development of mortgages: barely beginning

The physical and regulatory infrastructure in Russia is especially weak

Mortgage debt / GDP (%)



Source: Central Banks data, Renaissance Capital estimates

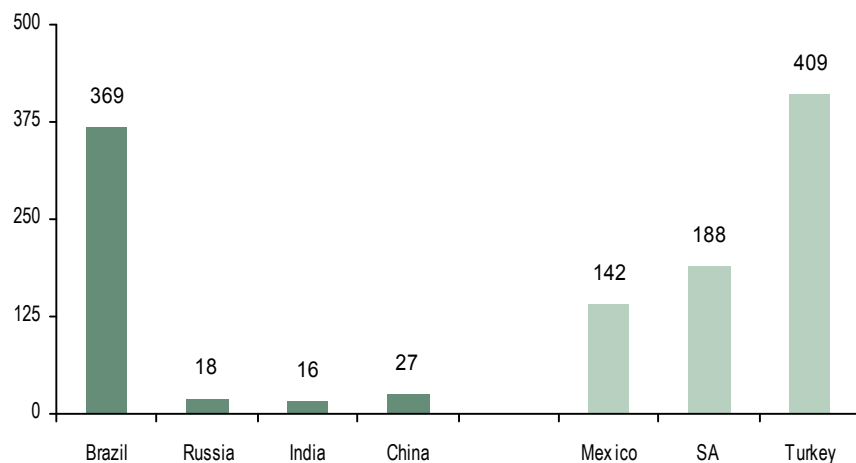
Note: SA's mortgage penetration includes retail mortgages only.

- We see mortgage lending as a “killer application” for emerging banks
- SA mortgage market one of the most leveraged in EM world. Key challenge to near term is mortgage affordability with headwinds from price increases, skewed income distribution and shortage of low cost housing.
- **Russia** is the next “big thing”, India and China have huge potential, but the latter has run ahead in the near term. Russian mortgage debt is microscopic compared to its potential.

Credit cards business: stark differences

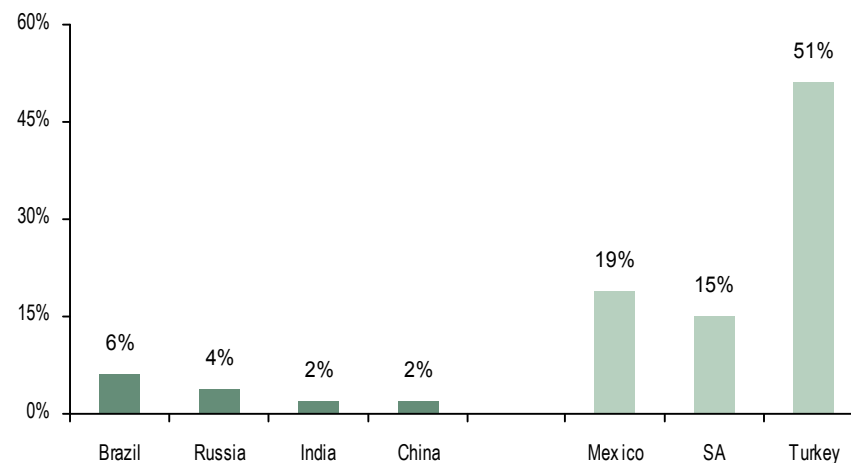
Card acquiring and issuance can be a fee-generating machine

Credit cards per '000 capita



Source: Euromonitor, Renaissance Capital estimates

Credit card debt / total consumer credit (%)



Source: CB data, Euromonitor, Renaissance Capital estimates

- **Russian** credit cards market will be big
- Credit cards could be the next “Chinese category killer”
- Brazil and Turkey have highest credit card penetration – more than half of consumer financing in Turkey is carried on cards
- South African cards growth has been extraordinary; more debt is taken on cards, which are also seen as instrumental in extending unsecured credit
- India making a transition towards plastic culture - but relative debt aversion favours debit cards

How Sustainable is Russia's consumer finance growth?

It is clearly very sustainable

Both Fundamental and relative research supports this

Pace of growth is key question – past/current/future

Different products will come through and be drivers at different times