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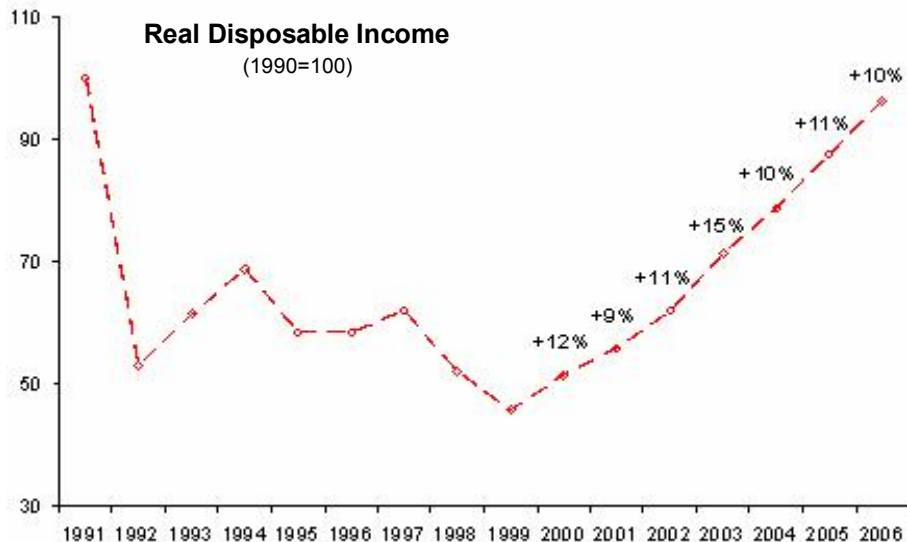
**Russian Banking Sector:
Driven by International Trends**

Natalia Orlova

Chief Economist

NOrlova@alfabank.ru

Russian living standards have improved

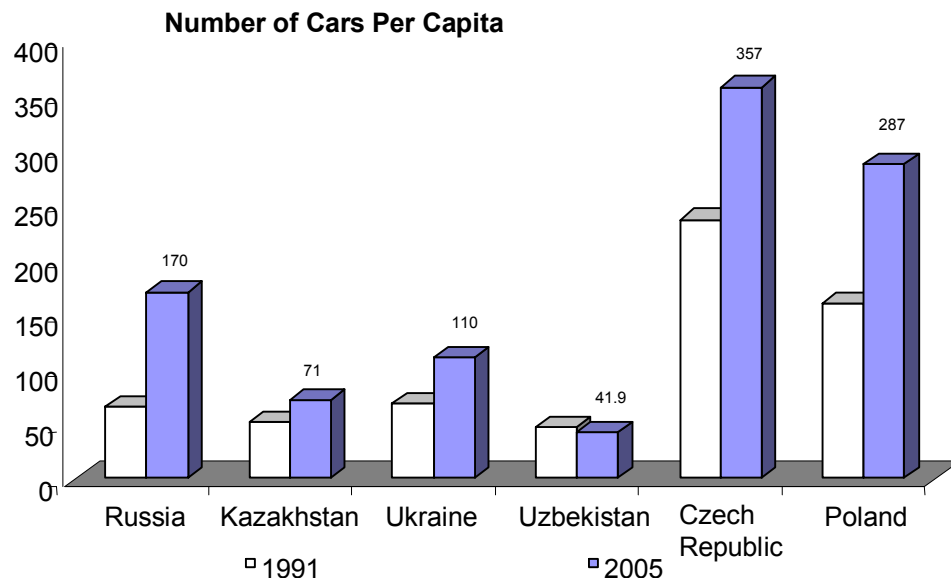


Living standards have generally improved since 1991:

- Real disposable income is back to the 1991 level, up 35% over the past 3 years
- Russia's GDP on a PPP basis is approaching CEE levels

A middle class is gradually emerging:

- The number of cars per capita has tripled in the past 15 years
- Over 10 mln Russians travel abroad annually

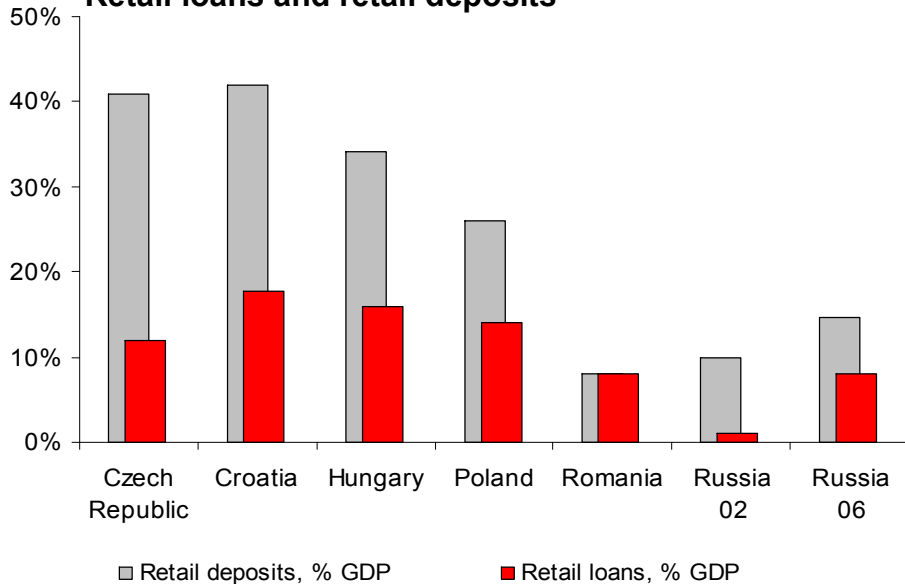


The number of students has more than doubled over the past 10 years:

- The birth rate has increased compared with 1995
- Infant mortality has dropped from 15% to 11%

Retail lending is becoming the driving force

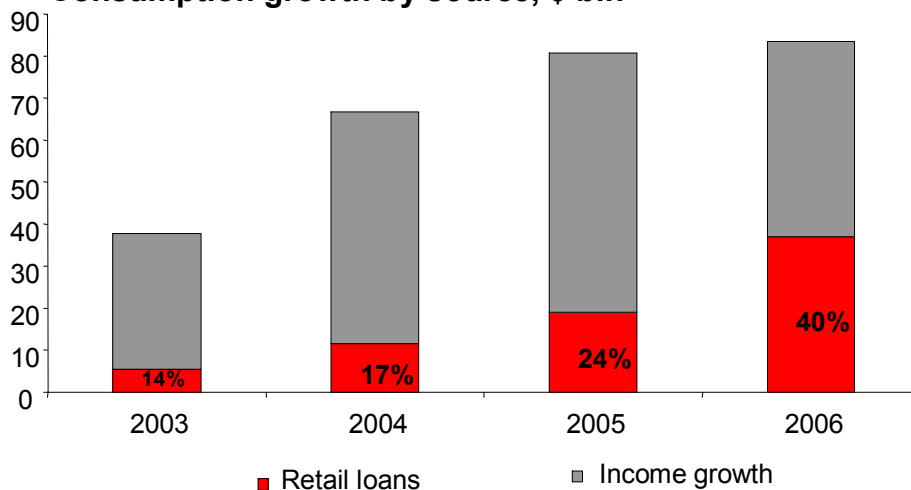
Retail loans and retail deposits



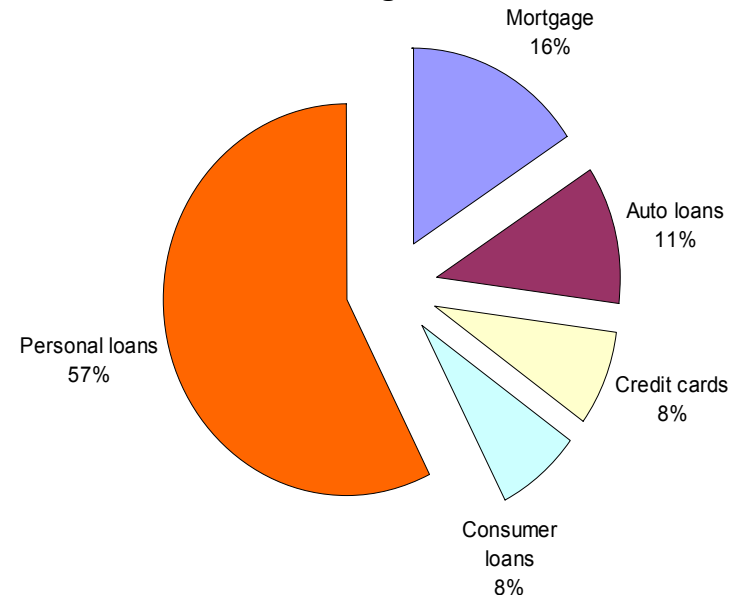
Russian banks have dramatically increased their penetration in the retail market:

- While in 2002 the retail lending market made up just 1.3% of GDP, in 2006 it reached 8.0%
- Retail loans financed 40% of consumption growth in 2006
- Personal loans (payroll loans) represent more than half of the market

Consumption growth by source, \$ bln



Structure of retail lending market in Russia



Sources: Rosstat, CBR, Alfa Bank

The banking sector does not face a bad-loan crisis

- Underdeveloped retail lending market – just 8% of GDP, compared with 15-25% in the CEE
- Only 15 mln people, or 10% of the population, have a loan burden
- Non-performing loans have been occurring in just two segments: personal and consumer loans
- A big chunk of NPLs are related to fraud; social reasons for failure to pay back debts are uncommon
- The emergence of credit history bureaus should help (likely to become effective in 3-5 years)
- The lion's share of retail loans are short-term, thus a bad-loan crisis will not occur for economic reasons
- Retail loans account for just 20% of banks' lending portfolios, or around 15% of total assets
- While certain banks may face problems, a bad-loan crisis is unlikely to damage the entire banking system

The impact of US instability on Russia

- The first issue is fundamental vulnerability. There are four main factors: balance of payments, fiscal policy, foreign debt and exchange rate policy. Russia's position is very stable: Its trade surplus is above 10% of GDP, fiscal surplus is around 7% of GDP, state foreign debt is just 5% of GDP and CBR reserves exceed \$400 bln.
- Second issue: the weakness of the mortgage market. The mortgage segment in Russia accounts for just 1.3% of GDP, and the foreign liabilities of Russian banks are relatively small.
- Third issue: the liquidity problem. This is the most significant risk facing Russian banks.

	1999	2000	2001	2002	2003	2004	2005	2006
Banking assets, % GDP	31.3%	33.4%	33.6%	36.7%	43.9%	44.3%	44.6%	54.4%
% growth	53%	49%	34%	31%	35%	27%	37%	57%
Retail loans, % GDP	0.5%	0.6%	1.0%	1.3%	2.3%	3.8%	5.4%	8.0%
% growth	38%	62%	112%	50%	111%	107%	84%	91%
Retail deposits, % GDP	5.9%	6.4%	7.3%	9.3%	12.1%	12.4%	12.6%	14.7%
Number of institutions	1,349	1,311	1,319	1,329	1,329	1,299	1,253	1,201

Forecast for 2008 market growth cut to 20%

1H07, \$ bln

	1H07
Assets	+ 134 (100%)
Retail deposits	+24 (18%)
Corporate deposits	+40 (30%)
Equity capital	+30 (22%)
<i>IPO</i>	+17 (13%)
Foreign borrowing	+30 (22%)
Other	+10 (8%)

Russian banks borrowed aggressively from international markets in 1H07:

- Banking sector debt increased by \$30 bln in 1H07, contributing 22% of asset growth
- Receipts from the IPOs of the two largest banks amounted to \$17 bln, or 13% of asset growth
- We cut our forecast for market growth to 20%, expecting that a slowdown in IPOs will reduce growth in corporate deposits, while lower demand for Russian debt instruments will push banks and companies to redeem their foreign obligations
- The mortgage market will suffer the most, while the retail lending segment will show strong 33% growth

Market forecast for 2008, \$ bln

	Forecast 2008	% growth	Revision, \$ bln	New market, \$ bln	% growth
Assets	938	25%	-50	888	20%
Retail deposits	250	25%	+20	270	29%
Corporate deposits	306	21%	-20	286	19%
Retail loans	178	42%	-38	140	33%
Corporate loans	380	20%	-30	350	17%