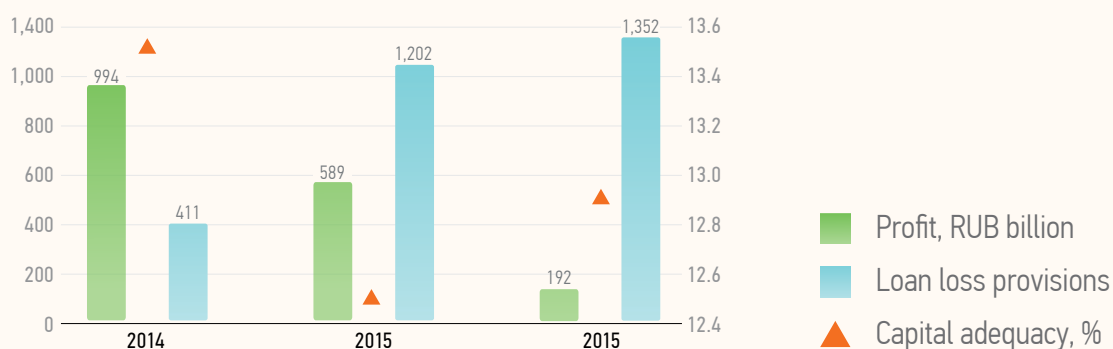


RUSSIA'S BANKING SECTOR

THE SITUATION IN THE BANKING SYSTEM

Crisis developments in the economy reduced the banking system's profitability. In 2015, Russian banks generated profit before tax of RUB 192 billion¹, three times lower than the 2014 result.

| THE BANKING SECTOR IN 2015 SHOWED THREE TIMES LESS PROFIT THAN IN 2014



Source: Bank of Russia

92 RUB billion

EXCLUDING SBERBANK, BANKS INCURRED LOSSES

The key loss driver in 2015 was a 19% decrease in net interest income, by RUB 470 billion.

A decrease in the key rate during the first half of 2015 facilitated some recovery of the banking sector's margin; however, a further decrease in the key rate is required for further recovery of the banking sector's profitability.

Individual deposits showed substantial growth after the 2014 outflow. Foreign currency deposits increased by USD8 billion during the year, and rouble deposits increased by RUB 2.7 billion. This has resolved the problem of the rouble and currency liquidity deficit across the system, and even generated a liquidity surplus due to low demand for loans.

¹ Here and further in this section according to the Bank of Russia report "Banking sector dynamic development in Russia in 2015".

The inflow of customer funds during 2015 enabled banks to decrease their dependency on Bank of Russia from RUB 9.3 trillion to RUB 4.4 trillion and decrease their interest rate risk sensitivity.

Macroeconomic problems and increased uncertainty in 2015 resulted in a substantial decline in demand for loans, both from private and corporate clients. On their part, the banks tightened their lending requirements in the face of growing overdue debt and deterioration of borrowers' financial status. The amount of corporate loans issued decreased by 11.4% in 2015, and the amount of mortgage loans issued went down by one-third.

As a result, the amount of private loans went down by 5.7%, and loans to nonfinancial institutions increased by 12.7%; however, this increase was primarily due to currency revaluation. Excluding revaluation, the portfolio of loans to nonfinancial institutions increased by only 2.5%.

In 2015, banks created provisions for possible loan losses in the amount of RUB 1.6 trillion—that is, RUB 100 billion less than in 2014. The share of overdue loans in the total loans made to nonfinancial institutions increased from 4.1% to 6.2% and from 5.9% to 8.1% for loans to private customers.

The worst deterioration in quality was recorded for consumer loans, in particular, in the segment of high-margin consumer lending. Mortgage loan quality remains high—the share of overdue loans is only 1.7% (1.1% excluding foreign currency mortgages).

Corporate lending showed the deepest decline in loan portfolio quality in the construction, real estate, air transportation, and trade sectors. The drop in global prices for Russia's exports is affecting second- and third-tier metal and oil companies.

SUPPORT FOR THE BANKING SYSTEM

As part of the anticrisis plan, the Russian Government allocated RUB 840 billion for recapitalisation of the banking system through the Deposit Insurance Agency (DIA). In 2015, the DIA provided subordinated loans and purchased preferred shares in 25 banks for RUB 803 billion. The National Wealth Fund (NWF) and the federal budget made contributions to increase the capital of some state-owned banks (including Vnesheconombank) by RUB 300 billion.

840 RUB billion

THE RUSSIAN GOVERNMENT ALLOCATED
FOR RECAPITALISATION OF THE BANKING
SYSTEM THROUGH DIA

As a temporary measure, Bank of Russia allowed banks to calculate their risk-weighted assets at a rate below the market rate, gradually increasing the calculation rate over the course of 2015. This measure was revoked as of 1 February, 2016. Additionally, banks were granted a deferral on the creation of provisions for loans to companies under sanctions.

In 2015, the DIA paid RUB 369 billion in compensation to investors in banks whose licence has been revoked. In 2015, 700,000 people applied to the DIA for compensation.

The significant amount of payments diminished the deposit insurance fund, and Bank of Russia approved a RUB 110 billion loan to the DIA and another RUB 140 billion loan for 2016.

DEALING WITH PROBLEM BANKS

In 2015, Bank of Russia revoked 97 banking licences (11.6% of the total number of banks registered at the beginning of the year), including several large-scale banks.

Another 15 banks were rehabilitated. Total Bank of Russia rehabilitation loans exceeded RUB 1 trillion. In 2015, Bank of Russia tightened its approach to bank rehabilitation, given the substantial resources required to rehabilitate banks.

At the same time, Bank of Russia accelerated the procedure for revoking the licences of banks that fail to satisfy creditor claims and expanded the imposition of temporary administrations and moratoriums on creditor settlements soon after the appearance of the first information on delays in payments or defaults on deposits to decrease asset outflow before licence revocation.

THE BANK'S MARKET POSITION AND COMPETITIVE ADVANTAGE

Sberbank strengthened its leading positions in all segments of Russia's financial market.

| SBERBANK'S SHARE OF THE KEY FINANCIAL MARKET SEGMENTS IN 2015 (%)

Indicators	Year				
	2011	2012	2013	2014	2015
Assets	26.8	28.9	29.6	29.1	28.7
Loans to corporate customers	32.9	33.6	33.3	35.0	32.2
Loans to private customers	32.0	32.7	33.5	35.9	38.7
Corporate deposits	14.5	17.2	17.2	21.9	25.0
Retail deposits	46.6	45.7	46.7	45.0	46.0