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Sberbank Expands Its Defense Industry Loan Portfolio to $14.6Bln

By Alexander Bratersky

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Sberbank average interest rates for defense loans range from 9.5 to 10 percent, lower than at VTB, which credited defense industry projects for 11 percent, according to Sberbank deputy head Vladimir Yashin.

The nation's biggest lender, Sberbank, said Thursday that it had increased its loan portfolio to the defense industry to almost 500 billion rubles, in a sign that it will continue to support the sector despite low returns.

Sberbank deputy head Vladimir Yashin said the lender had 464 billion rubles ($14.6 billion) in loans to Russian military equipment producers at the end of 2012, an increase of 38 percent over the previous year.

The bank said it has 36.4 percent share of the defense industry financing market, up 2.4 percent over 2011.

"This kind of financing doesn't bring big revenues, but it works well for us since there is very

little default taking place," said Yashin, who oversees the defense and heavy machinery segments at the bank.

Sberbank estimated that the default rate went down from 0.77 percent to 0.36 percent in .

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According to Yashin, the defense industry is also a major account holder at the bank, with deposits up 77 percent to 131 billion rubles at the end of 2012. The bank now services almost 1,400 defense industry companies.

Yashin clearly expressed his patriotic views while speaking about the defense industry, which will receive 20 trillion rubles of financing by 2020, based on orders by President Vladimir Putin.

"While there is a defense sector, there is Russia; without it, Russia will not exist," said Yashin, adding that the financing of state defense orders is a priority for the bank. The lender finances almost 50 percent of the state's orders to defense contractors.

Funding an upgrade of the Il-76 transport plane ordered by the Defense Ministry and lending money to the United Shipbuilding Corporation to buy 76 percent of Severnaya Verf shipyard in are two highlights of this activity, Yashin said.

Yashin also said Sberbank would continue to finance the long-delayed project of upgrading former Soviet aircraft carrier Admiral Gorshkov for the Indian Navy.

"We believe in this project," said Yashin, who added that the Sevmash shipbuilding company doing the work on the Admirial Gorshkov received a $300 million credit last year to fund its role in the refit, on top of a $200 million credit provided earlier.

The Russian side started to upgrade the carrier, renamed by India as the INS Vikramaditya, in 2004. The cost of the refit went from $970 million to $2.3 billion by 2009, Vedomosti reported last year. The money includes purchases of jets for the ship.

While defense officials said last year that the ship would be ready by summer, in March the date was changed to mid November

Despite the fact that weaponry sales still bring huge revenues, the huge manufacturing sector needs serious reforms, defense industry experts said.

Defense Minister Sergei Shoigu said in March that he wanted to transfer the ministry's service firms and their personnel to defense industry companies, so the ministry could concentrate on combat readiness only. Sberbank's Yashin said that he fully supports this initiative.

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