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Russian Banking Woes Mount as Central Bank Pulls Probusinessbank License

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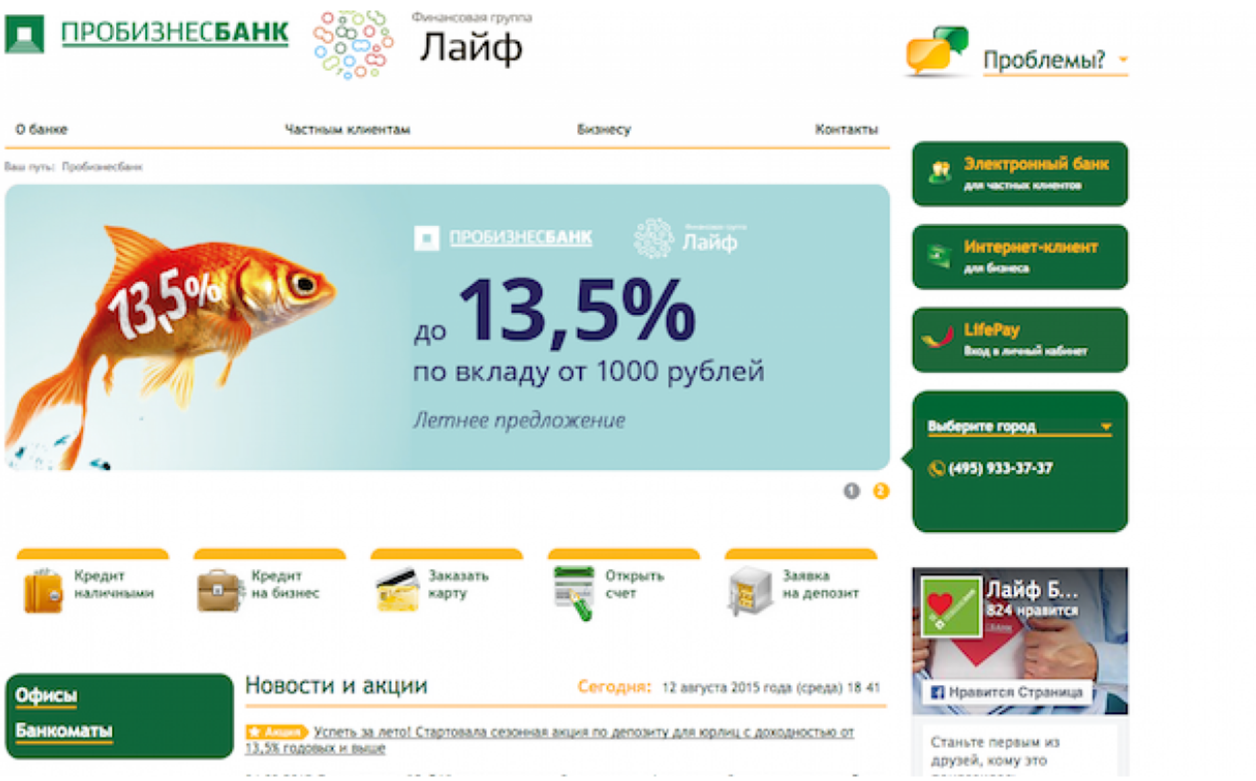

Screenshot from Probusinessbank website

More Russian banks are feeling the strain from the country's economic slump, highlighted on Wednesday by the Central Bank's decision to pull the license of mid-sized Probusinessbank.

Banks are under pressure as low oil prices and Western sanctions over the Ukraine crisis have caused a sharp economic contraction, leading to a deterioration in banks' assets.

"The financial crisis of the last year has definitely accelerated and increased the need to reduce the number of banks, because banks are facing a new round of bad loans," said Alfa Bank economist Natalya Orlova.

The Central Bank said it had revoked Probusinessbank's license as the bank had failed to meet minimum capital requirements.

Probusinessbank had "carried out a high-risk policy connected with placing its monetary means in low-quality assets," the Central Bank said, adding that the bank had exhausted its capital as a result.

Probusinessbank managers have not publicly responded to the Central Bank's decision and calls to the bank went unanswered on Wednesday.

The bank was the 51st largest by assets, making it a relatively big player in a country with over 700 banks, but not one of systemic importance. Russia's top 20 banks account for three quarters of the sector's assets.

Maxim Osadchiy, head analyst at CFB bank, said that while there was little likelihood of an immediate domino effect from Probusinessbank's closure, the trend of bank failures could yet dent public confidence in the sector.

"The situation is getting worse and worse," he said. "If there are several more cases then even the closure of relatively small banks could cause a banking crisis — it can't be excluded."

Bolstering Banks

So far, government measures to bolster banks appear to have been effective in preventing recent financial turmoil from eroding overall public trust in the banking sector.

The most recent June data shows retail deposits up 15.7 percent compared with a year earlier.

The support measures have included a 1 trillion ruble ($15.45 billion) capital injection for 27 of the largest banks, financed from the government budget.

The government has also doubled the size of the payouts it makes to compensate depositors in failed banks, insuring 1.4 million rubles per person per bank.

While the insurance scheme has helped to reassure savers, it also means that the government is facing a growing bill as more mid-sized banks are closed.

Probusinessbank held some 27 billion rubles ($417.12 million) in retail accounts and deposits, according to its second-quarter accounts.

The withdrawal of its license comes two weeks after the Central Bank closed mid-sized Rossiisky Kredit Bank and three smaller banks linked to it, which the state deposit insurance agency said would cost it an estimated 62.2 billion rubles ($955.31 million).

Last December the Central Bank took measures to shore up Trust Bank, another sizable mid-sized bank, providing 127 billion rubles in emergency financing.

Alfa Bank's Orlova said that although the economic downturn was exacerbating banks' problems, the recent wave of closures also needed to be seen in the context of a tougher approach to regulation adopted by Central Bank governor Elvira Nabiullina since her appointment in 2013.

The Central Bank now appears to be further toughening its approach as it concludes closing down problem banks and compensating depositors is cheaper than trying to bail out the banks — as often attempted in the past, she said.

"It seems that the recovery from the [economic] crisis will not be very easy," she said. "Now the Central Bank has to be even more aggressive. It can no longer pay all the obligations — it has to share responsibility with shareholders."

She predicted that the main effect of the intensified crackdown would be to accelerate a flow of business toward the larger banks, reinforcing trends toward mergers and acquisitions in the sector as the smaller banks disappear.

"For clients this means that they will need to keep their money in the larger banks," she said. "It is a self-fulfilling prophecy that is pushing sector consolidation."

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