

Uralsib on a growth spurt



Dmitri Lebedev at Uralsib in Moscow

Dmitri Lebedev, head of trade finance at Uralsib in Moscow speaks to *Trade Finance*.

TF: What were the results of your trade finance activity during 2007? How did you cope with the difficult external market conditions?

Dimitri Lebedev (DL): 2007 turned out to be a breakthrough year for our trade finance business. By the end of December, the overall book had grown by 75%, and reached a record level of \$1.7 billion. It accounted for almost 30% of the bank's exposure to corporate customers. It is interesting to note that the main growth phase coincided with difficulties in the international credit market, from August. That growth was stimulated by the lack of liquidity offered by banks to finance the short-term working capital of Russian borrowers involved in trade.

Consequently, those borrowers had to switch to more sophisticated trade-related facilities, based on tied foreign funding that still provided sufficient amounts and competitive rates – tied trade-related cash loans, or letters of credit with a built-in financing mechanism, such as sight payment post-financing or discounting of deferred payment. Sometimes importers elected to lose price discounts offered by foreign suppliers on advance open-account settlements, and to use LCs. That was driven by the availability of respective service and funding opportunities.

As a result, Uralsib raised around \$650 million of new trade finance facilities between August and the end of December. The bank's LC portfolio, a substantial portion of which is originated through our regional branch network, exceeded \$700 million at the end of December.

TF: What is the effect of the credit crunch on the ability of Uralsib, and Russian banks in general, to raise syndicated loans? In December syndication of a one-year loan to Uralsib was completed by ING and Dresdner, with an interest rate of Libor + 100 bp. Will you be able to raise similar loans in the coming year if need be?

DL: I don't see any substantial decrease in appetite for Russian risks related to trade finance facilities. I would like to improve origination a bit; I would like my sales people to sell more documentary products – letters of credit, bank guarantees, that are easily placed with foreign partners. With cash facilities, yes, there are some difficulties, and there has been an increase in pricing. But there are still adequate opportunities to raise loans on which the underlying link to cross-border trade contracts is obvious.

TF: Will we see tighter security structures on trade-related loans?

DL: On the liability side, we do not borrow from foreign banks on a structured basis, all facilities we receive are unsecured. Obviously, trade-related nature of the facilities provides sufficient comfort to our foreign lenders, so that no security is required. For us as a lender to Russian corporates, the security is collateral. Any risk we are assuming on the corporate borrower in Russia, be it associated with an overdraft facility, or short-term working capital facility, or LC, is provided on a collateralised basis.

TF: What about the market for ECA-backed deals, which have been booming among Russian corporate clients?

DL: We much appreciated the decision to assign OECD risk category 3 to Russia, which led to substantial decrease in ECA premium rates associated with Russian corporate/bank risk. This beneficial change enabled us more actively to market tied ECA-covered facilities.

Before that decision, ECA-backed loans had been facing serious competition from unsecured bilateral trade finance facilities, as clean lines to Russian banks from foreign partners started to provide for longer tenors – up to five years – and larger amounts, sufficient to cover imports of expensive capital equipment.

ECA-backed facilities become even more competitive in the current volatile market conditions, as their availability and pricing is less sensitive to markets than those of clean bilateral lines.

Uralsib's asset side of medium-term capital goods/equipment import financing is structured as leasing in most cases. Holding the title of the financed asset provides better risk mitigation. Leasing facilities are provided by a specialised subsidiary, Uralsib Leasing. The bank's trade finance team intends further to support Uralsib Leasing in accessing direct ECA-covered and clean trade-related borrowings.

TF: Please tell us about the rouble-denominated trade loans you have made use of.

DL: Uralsib took advantage of beneficial international market conditions in early 2007 to start raising rouble-denominated trade related loans from several international banks, covering both cross-border and domestic trade contracts of our customers.

By September 2007 the total volume of such loans exceeded 2 billion roubles. But increased rouble funding costs have recently driven us to switch from straight rouble loans to more complex structure, under which original US dollar trade-related funding is converted into rubles under a separate swap transaction. Assuming a growing demand for rouble-denominated financing of domestic trade, we plan to develop this type of financing further. ■