



INTERVIEW

UralSib manages mergers to become a "federal local bank"

Ben Aris
in Moscow

In the wake of the 1998 crisis in Russia, a handful of commercial banks stepped up to become market leaders simply because their larger competitors collapsed. Not UralSib. It emerged several years later as the result of a series of unprecedented mergers to become Russia's biggest commercial bank and marked a change in the way that banking is done in Russia.

UralSib has been largely insulated from the brouhaha on the international credit markets. Being a big Russian retail bank in a world suffering from the fallout from the sub-prime fiasco has been a boon for UralSib, as it can fund 90% of its operations using its deposit base. "The

Eurobond and syndicated loan market in Russia has slowed down and those Russian institutions that are dependent on foreign borrowing have seen some difficulty in financing their further growth," says Donskikh. "However, UralSib has

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never relied heavily on international financing and loans from international financial institutions make up only 19% of our liabilities. For us, the crisis in the

US is opening up opportunities, not dangers, as new customers come to us from other banks that can no longer provide them with the finances that they need. In Russia this is not a crisis but a squeeze."

Still, since the start of the crisis UralSib has been able to raise \$1.1bn between August and December 2007 - mainly trade financing deals, some bilateral deals and a small syndicated loan. And as the bank had no repayments to make in the last six months there has been no need to refinance existing borrowing. "So we have been able to raise fresh money to continue fund lending to our corporate customer base, such as the small and medium-sized enterprises that account for most of this business," says Donskikh. "The overall cost of borrowing has not been affected. The margins that banks charge have gone up, but the Libor rate has fallen and so the effective cost of money remains about the same."

Multiple mergers

Few have attempted bank mergers in Russia because they are so hard to do. The Central Bank of Russia has been promising for years to simplify the rules, but still hasn't got round to it. By contrast, at the start of 2005 the UralSib group was made up of 12 banks, five of which were restructured and merged into UralSib bank. Bringing all these banks together has been no easy feat nor is the work entirely complete, but the merger of so many banks into one entity is unprecedented in Russia. "At the time, [the 2005 merger] was the biggest single banking merger deal in all of Eastern Europe," claims Donskikh.

The second stage of the consolidation of the group's assets started in 2007 when another member of the group, Stroinvest-

bank, and five more banks became part of the UralSib group. Today, there are three main entities in the group: UralSib Bank, UralSib Yug (South) bank

and Stroinvestbank. However, there are a number of other subsidiaries in the group that deal with specific business lines such as UralSib Asset Management, UralSib Investment Bank, UralSib Leasing Company and others. UralSib is now present in one form or another in almost all of Russia's 84 regions.

"From the start, our plan was to become a 'federal local bank' that is focused more on regional business than Moscow. We moved into the regions through acquisition, but now the focus has changed to organic growth. That is not to say we are not still eyeing some possible acquisitions, but the main thrust of developing the business is now organic growth," says Donskikh.

It is an obvious strategy, as Russia's regions are where most of the growth is today. According to a poll held by the Romir Agency in March, in cities with a population of 100,000 to 1m people the number of people intending to take out a mortgage is twice as high as that in the rural areas - but interestingly it is also twice as high as in the 11 biggest millionki cities - those with a population of more than 1m people, which Moscow banks target first when moving out of the capital. This suggests the big city mortgage markets are already approaching saturation and the retail banking is starting to penetrate more deeply into the 11 time zones of the Russian hinterland.

To capture this fast growing market, UralSib has already opened 45 new branches in 2007 and plans to open a total of 1,000 new offices over the next five years. These new branches are first targeting the most attractive and dynamic of the increasingly vibrant regional market of the Volga region, Western Siberia, the Far East and the South of Russia, including the Black Sea resort town and host of the 2014 Olympics Sochi.

Corporate banking

Most of Russia's leading banks have been targeting the retail banking business, because that's where the growth is. But corporate banking remains the bread and butter of the business, because that's where the profits are. However, here too the trick has been to go downmarket from

the handful of massive Russian blue-chips to target the SMEs. "The development of the corporate banking sector has two main objectives," says Donskikh. "The first is to diversify the client base by the developing the small- and medium-sized enterprise sector. In 2007, we extended the most loans to the SME sector in terms of both volume and number. So we are constantly developing products that allow clients to borrow faster with less red tape."

"The second is to cater to the top echelon of medium-sized and major corporations. Part of this is to develop investment banking services. We are already one of the organisers of fixed income products in Russia and we are expanding the options for the corporate clients to give them access to debt and equity products. We don't just sell money, but services," says Donskikh.

The growing retail client base of 3.5m individual and 200,000 corporate depositors is the foundation on which the corporate business is being built. At the same time, the growing number of SME and medium-sized companies spreads the risk: the 20 major borrowers account for less than 20% of the bank's liabilities.

And the bank is growing with its customers, which are becoming evermore sophisticated in their demand for services. UralSib has been developing its brokerage services to meet the dual goal of diversification of both the product lines and the clients.

As part of the expansion, the UralSib brokerage opened a London office in 2006 and more recently hired several well-known analysts, which have raised the bank's profile amongst international investors. Traditionally the bank has catered to domestic investors but the proportion of foreign investors had risen to 40% by the end of 2007.

"The investment banking division has brought in new clients and we are providing more services for clients. However, the goal is not just to bring in more international clients but to be in a better position to offer corporate banking services to Russian clients," says Donskikh. ●



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