

Ambition and targets



Bank UralSib has become the largest privately-owned bank in Russia. Christopher Moore talks to Anton Zur, head of trade finance at the bank, about ambitions and targets in trade and export finance and leasing.

Anton Zur has been head of trade finance at UralSib Bank since October 2005. In 2004 he relocated to Moscow from the regional city of Ufa in Bashkortostan to become deputy head of trade finance. Zur has been actively managing trade finance activities for Bank UralSib since 1997, first at the pre-merged Bank UralSib, formerly known as BashCreditBank until 2001. He began his career at the bank in Ufa, around 1200km from Moscow.

He talks here to **GTR** about the bank's ambitions in trade and export finance and leasing.

GTR: Are there any particular competitive advantages, as a result of your bank's size, in your trade finance business?

AZ: Apart from the advantages that we have as a large bank, like our substantial asset base and strong credit rating, we

also have the third largest branch network in the country (after Sberbank and VTB) and a strong focus on SMEs and second and third-tier corporates. The latter are the most common consumers of trade finance products.

GTR: Do you have a favourite trade finance deal from 2006?

AZ: I have several favourite trade finance deals from 2006. One includes a tailor-made solution where financing of construction services (construction of an office building in Moscow) was successfully completed for a client.

The initial plan was to finance a US\$12mn contract between a foreign contractor and a Russian company through an ECA-covered loan, however, it turned out that due to prohibitive local costs the portion of the loan that the ECA was to

cover could not be obtained. We therefore structured the deal using several letters of credit (LCs) issued in favour of the contractor (engineering and construction services) payable against presentation of certificates of completion at specific stages of construction. The LC was confirmed and financed by a US bank without any ECA cover.

Also noteworthy was a single large transaction of US\$60mn provided as pre-export financing to a major Russian exporter. The deal was challenging due to time pressures and its size. We were unable to arrange a syndicated loan for these reasons and as a result split the transaction into several parts and distributed them by ourselves among several of our partner banks. The entire deal was closed in three weeks – this includes from initial approach by the exporter to the time they received access to the loan.

We also had success organising a flexible approach to the origin of goods, which involved the financing of Ukrainian supplies by European banks for an aggregate amount exceeding US\$70mn between March and October 2006.

GTR: What is UralSib's expectation for its trade finance book in 2007?

AZ: At the end of 2006 our trade finance, including off-balance sheet items (LCs and bank guarantees), reached

US\$963mn, and by the end of this year we have a goal to achieve \$1.409bn.

We believe this is fully achievable by:

- Increasing the volume of business with our existing clients alongside our clients' growth as well as attracting new clients;
- Increasing foreign banks' trade finance limits opened for UralSib and diversifying our global investor base;
- Increasing our product diversification, including introduction of trade finance products (primarily trade-related loans) in Russian roubles
- Continuing our regional development of trade finance

by appointing and training dedicated trade finance specialists in our major localities who will be motivated and responsible to develop trade finance

relationships with corporate clients in their regions.

GTR: Similarly, your wholesale funding (syndicated and bilateral loans), which are mainly trade related, at the end of 2006 were US\$1.364bn and the bank's target has been raised to US\$2.109bn by end of 2007. Are you off to a good start towards what would be a 50% increase?

AZ: Yes. In addition to organic growth in wholesale funding (through an increase in the number and value of transactions) we are planning

“The deal was challenging due to time pressures and its size”

further diversification of our investor base (through two regional deals targeted at Asia and GCC) and product range (with new bilateral loans and borrowing in Russian roubles).

GTR: Obviously, UralSib has a large number of corporate customers. Are most of these corporate firms exploiting the full range of trade finance products offered to them by the bank?

AZ: Indeed, UralSib's corporate client base is well diversified. However, utilisation of trade finance products depends on our clients' activities and profile. Clients that sell imported products (retailers of home appliances, cell phones, computers, cars, etc) use LCs, guarantees and standby LCs, trade-related cash loans. Exporters need pre-export financing loans; manufacturing companies are interested to use medium-term financing (with or without ECA cover) to purchase capital goods and essential materials.

At the same time, some clients use a varied range of products. For example, some exporters not only use pre-export financing but also employ LCs and ECA-covered financing to renovate their production facilities and expand their business. Basically, the larger the client, the more opportunity that exists to accommodate several trade finance products in their overall credit facility.

GTR: The 'blue chips' are not a target market for you, simply because they are either self-financed or have access to capital market funds directly. Is that a fair assessment?

AZ: Yes, that's true. I think, however, that with the further growth of successful private banks like UralSib and the consolidation of Russia's banking

sector in general, over time there may be opportunities available to offer some added value products and services to the blue chips.

GTR: What is UralSib's current credit rating?

AZ: Our current credit rating is B+ stable from Fitch and B+ positive from S&P. Both ratings were upgraded at the end of 2006, and our Moody's rating is still Ba3 stable.

The upgrades at the end of 2006 were the first that reflected the financials of the new merged bank. These financials were first published in July 2006. We are expecting further upgrades in the future.

GTR: Tenors are over three years and are increasing for Russian banks, while the banking market grows at a fast and steady pace. So are you expecting increased competition as a result of these positive trends?

AZ: Yes, we expect and plan for substantial growth and structural changes in the market. Some of the challenges include:

- Traditional trade finance products (LCs and guarantees) are facing increasing competition alongside growing open account trading (or, rather increasing share of such trading falling into the scope of banks' financing).
- Increasing competition, with more and more players in all market segments. In 2006 we noticed that a number of banks that previously bought our risk in the secondary market

expressed their interest to work directly.

- The full convertibility of the Russian rouble declared in 2006 has encouraged more foreign banks to introduce rouble finance products. Although liquidity is still fairly low, we expect significant growth rates in this segment as an increasing number of players come to the market.

- Diversification of product range, with increasing supply of non-trade-related financing products (general working capital, construction financing, and acquisition financing).

GTR: Is the market pricing Russian banking risk correctly?

AZ: More or less, the risks are correctly priced. In general, pricing for Russian financial institutions is going down, which is explained by improving country ratings and credit quality of individual banks. On the other hand, I think that pricing for tenors over one year is still too high and does not reflect correctly the maturity-based risk curve. Providing financing for longer tenors (at least two-three years) is rather a means of securing favourable pricing for lenders now for longer tenors on the background of narrowing margins.

GTR: What is the impact of the increased use of banker's acceptances? Is the market fluid?

AZ: Increased use of bankers'

acceptances (which is a unique US product regulated by the Federal Reserve) leads to a widening of our lenders' base in the US. I understand that our partners in the US quite actively trade UralSib's bankers' acceptances.

GTR: How much have you raised in the international markets in the past three years?

AZ: On the wholesale fundraising side (when funds are raised to finance a number of clients/transactions rather than individual clients' deals as in case of trade finance) UralSib has raised over US\$1.4bn in eight syndications between 2004 and 2006.

In 2006 alone three transactions accounted for an aggregate sum of US\$833mn. There were also two SME financing loans provided by the EBRD and IFC, each loan amounting to US\$30mn.

Also a number of banks provided bilateral loans totalling US\$270mn.

UralSib raised US\$1.74bn between 2004 and 2006 of which US\$1.08bn or nearly two thirds of this funding was raised last year.

GTR: What details can you share with GTR about the US\$50mn UralSib recently raised in a one-year Asian deal and the bank's plans to raise US\$100mn in a one-year Middle East deal in the first quarter of 2007?

AZ: The first one, an Asian one-year US\$50mn deal, was successfully closed in the end of January. The second syndication is in process. However, there is already an indication that the syndication is oversubscribed. These two are not only a fundraising exercise but are aimed at widening our partner base and strengthening our position in Asia and in the Middle East.

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GTR

GTR: How much growth have you seen in your trade finance portfolio over the past three years?

AZ: The exact overall volume of trade finance deals between 2004 and 2006 is much harder to determine than our total external borrowing because of the large number of deals with different maturities in the trade finance portfolio.

The overall outstanding trade finance portfolio was approximately US\$580mn, US\$800mn and US\$960mn in 2004, 2005, and 2006 respectively.

GTR: Is trade finance starting to blur with project finance in Russia, for example, you mentioned a US\$110mn luxury hotel development that UralSib will help to finance, taking a stake of over 60%, and that an ECA will also be involved? What details, if any, can you share about this specific project? Can you explain why a developer would bother to involve an ECA?

AZ: Project finance is a way of taking risks in a project rather than in a particular client. However, as UralSib's credit policy is fairly tight (conservative), normally we do not do pure project finance: more often it is combined with bank loan features, such as collateral for at least a part of our participation in the project, involvement of initiators of the project through providing personal surety, and so on. Trade finance is a way of arranging the required financing for the deal. For example, a construction project risk on which UralSib takes on the basis of a combination of project finance and a secured bank loan may be financed through LCs, ECA-covered loan(s), and other

documentation. Given the fact that trade finance provides more attractive conditions, developers are able to obtain financing at cheaper rates and for longer tenors that are normally available in the domestic Russian market. We believe that it is not only developers who should be interested in using various trade finance schemes, such as LCs and ECA-covered loans, but also other sectors of the Russian economy. As you indicated, in the case of hotel construction, we are working with several of the world's leading hotel management companies who are interested to work with the ECAs and banks. Using ECAs and the bank's financing, without which the construction sometimes would never be possible, creates new growth opportunities for whom without the hotel there would be nothing to manage.

GTR: Is it necessary to increase your volume of ECA-covered finance projects from US\$120mn to US\$215mn by end of 2007 if you can borrow from other banks cheaper than the funds available from ECAs? What is the impact of the OECD's category upgrade of Russia from category 3 to category 4?

AZ: The upgrade of Russia by the OECD from category 3 to category 4, which occurred on January 25, 2007 will have a positive influence on ECA-

covered business. In fact, the previous upgrade of Russia took place in the middle of 2004, which means that the ECAs' insurance premiums have remained at the same level for over two and a half years (approximately in the range of 4-5% flat for a five-year loan). This premium did not reflect the market correctly (market rates for Russian borrowers went down significantly year over year from 2004-06). We expect that the upgrade will lead to a reduction of ECAs' premiums by around 30%, thus increasing competitiveness of this product and allowing us to achieve the indicated growth plans you mentioned.

GTR: Leasing is becoming one of your core businesses. Can you tell GTR readers what recent achievements have been made in this business?

AZ: UralSib Financial Corporation started providing leasing services in 1999 and the group's leasing business has grown from a complimentary business to a full subsidiary company that today is one of the leaders in the Russian leasing market. UralSib Leasing has a well-diversified portfolio and offers a wide

range of services to all client segments from individuals (eg, car leasing) to small and large businesses (manufacturing equipment, rolling stock, and agricultural machinery). UralSib Leasing's portfolio grew from US\$347mn to US\$721mn

year over year from 2005-06. This growth of 107% was the strongest growth recorded in the industry last year. The leasing company has an estimated market share of over 5.2%, employs 200, and has 30 branches across Russia and is the number one universal leasing company in Russia. Due to the rapid growth of UralSib Leasing during the last few years (and the resultant pressure with regards to the single borrower exposure ratio imposed on UralSib Bank by the Central Bank of Russia) since mid 2006 the company has begun to look for external sources of financing. As a result, UralSib Leasing works actively with a number of foreign banks, ECAs and other lenders: there are several outstanding loans from foreign banks, a number of deals approved by banks and ECAs and ongoing negotiations to expand our financing options. We expect 2007 to be another breakthrough year for UralSib Leasing in terms of its ability to raise capital from the international markets.

GTR: Is UralSib uniquely positioned to take advantage of opportunities in the gold sector?

AZ: Yes. We have a varied customer base in this sector, which ranges from key market players to small regional companies. In fact, sometimes the small regional companies do not even have export licences and therefore export through UralSib. We are also capable of supporting our clients with financing on competitive terms and conditions with the help of a number of products developed together with our foreign partners specifically for gold miners such as unallocated gold loans, cash pre-export financing for exporters of gold, and other tailor-made products.

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