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**The banking system is stable, but questions remain**

Russian banking sector: forecast until 2022

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**The banking sector has passed the acute phase of deterioration of the operating environment without incurring significant losses.** This year the sector has recorded significant growth in assets (expected growth for 2020 exceeds 14%) while maintaining profitability (net profit is expected at around RUB 1.4 tln) thanks to its stability on the eve of the crisis and also due to active support from the regulator.

**Limited recovery in economic activity will stimulate further growth of banking assets in 2021.** The Agency expects the loan portfolio to grow by 10.5% in 2021, driven mainly by retail lending.

**The “delayed” need to create additional reserves for the loan portfolio will impact the profitability and capitalization of banks in 2021.** According to the Agency's estimates, the volume of “delayed” reserves in the system may exceed RUB 1.5 tln. After the easing of regulatory requirements is cancelled in 2021, additional creation of reserves will lead to ROE declining from 13.4% in 2020 to 6.5% in 2021 and capital adequacy (N1.2) falling from 10.7% to 10.2%.

**Banks' ability to maintain profitability of operations will weaken.** The need to maintain a stable inflow of client funds to finance growth of the loan portfolio, as well as strong competition between major banks, will lead to NIM falling to 3.5% by the end of 2021.

**Banks' capital and liquidity positions are still stable.** Continued profitability of operations and the Bank of Russia's easing of requirements with regard to using risk weights and/or premiums to them support the capitalization of the sector. Furthermore, the sector is generally coping with the outflow of funds from fixed-term deposits of individuals.

**Growth in problem debt is unavoidable in 2021.** The large-scale restructuring of loans that banks are carrying out allows the realization of risks related to lower solvency of borrowers in 2020 to be delayed but not avoided. The Agency expects that in 2021, the share of overdue loans provided to non-financial companies will reach 8.8% and for retail clients it will grow to 6%. However, the cost of risk in 2021–2021 will be lower than the indicators recorded in 2008–2009 and 2015–2015.

**Mortgage lending continues to be one of the main driving forces behind the development of the banking sector.** In the Agency's opinion, growth of the mortgage lending market is based on fundamental factors and is not yet characterized by high risks of overheating. At the same time, the government's decision regarding the future of subsidized mortgages next year will be decisive for the market.

Table 1. Performance of key indicators of the Russian banking system in 2017–2022

Indicator	UoM	Actual			Forecast		
		2017	2018	2019	2020	2021	2022
<b>Balance sheet items</b>							
Assets	%	6.4	10.4	2.7	14.6 <sup>1</sup>	10.2	10.5
Securities portfolio	%	7.5	6.4	3.5	16.7	14.1	10.3
Loans and other credit, total	%	4.5	12.0	3.0	13.4	10.5	10.0
<i>Corporate loans</i>	%	0.2	10.5	1.2	14.0	9.3	8.8
<i>Retail loans</i>	%	12.7	22.4	18.5	12.5	16.8	15.4
<i>incl. mortgage loans</i>	%	12.7	24.9	18.5	18.7	17.8	16.8
<i>Due from banks</i>	%	7.8	-4.8	-4.0	8.4	5.0	4.0
Due to banks	%	6.9	0.3	-12.1	15.2	6.7	5.6
Client deposits, total	%	7.4	14.2	4.5	15.6	11.6	11.0
<i>Corporate deposits</i>	%	7.4	18.7	2.1	23.3	15.3	13.7
<i>Retail deposits</i>	%	7.4	9.5	7.3	8.0	7.2	7.5
Capital <sup>2</sup>	%	4.1	3.8	7.6	10.6	5.0	10.4
<b>Asset quality</b>							
Past due loans <sup>3</sup>	%	5.2	4.7	5.4	5.7	6.5	6.1
Cost of risk	%	2.5	2.0	1.7	2.5	2.8	1.5
<b>Financial ratios</b>							
Net interest margin	%	3.8	4.1	3.7	3.7	3.5	3.4
ROA	%	0.6	1.1	1.8	1.4	0.6	1.2
ROE	%	6.1	10.7	17.5	13.4	6.5	13.2
C/I	%	39.5	39.8	39.6	38.4	43.8	45.1
Net profit	RUB bln	535 <sup>4</sup>	974	1,685	1,410	735	1,613
Capital adequacy <sup>5</sup>	%	8.5	8.9	9.2	10.7	10.2	10.3

Sources: Bank of Russia, ACRA

### The banking sector has passed the acute phase of the crisis without incurring significant losses

The Russian banking system will wrap up 2020 with indicators that do not fully correspond to the changes that have occurred in the operating environment. Amid ACRA's expectations of GDP falling by 4.3% in 2020, real disposable income of the population declining by 4.7%, and unemployment growing to 5.8%, Russian banks have recorded a net profit of around RUB 1.3 tln rubles for 9M (15% ROE in annual terms), 13% growth of the corporate loan portfolio, and 23% growth in retail loans. Mortgage lending and lending to SMEs have driven this growth. However, profit was largely generated by banks due to the option to forgo creating full-fledged reserves due to regulatory concessions, as well as income from operations with financial instruments.

While maintaining the profitability of operations, banks were able to build up a buffer to absorb contingent losses. As of October 1, 2020, the N1.0 (total capital) and N1.2 (Tier 1) capital adequacy ratios amounted to 12.7% and 10.4%, respectively (12.2% and

For more information, see ACRA's macroeconomic forecast "[Structural and temporary factors of economic growth in Russia](#)" from November 19, 2020.

<sup>1</sup> In 2020, the Bank of Russia changes its approach to calculating individual sector development indicators and switched to the "chain" method; according to this approach, assets grew by 11% in January–October 2020.

<sup>2</sup> Funds and profit.

<sup>3</sup> 1+ day past due loans according to the Bank of Russia's accounting standards.

<sup>4</sup> ACRA's assessment.

<sup>5</sup> Assessed using the N1.2 ratio.

*For more information, see ACRA's research ["Retail lending has received a "vaccine" against the crisis"](#) from September 2, 2020.*

9.2% as of January 1, 2020, respectively, which provides for a safety margin of about RUB 4 tln (RUB 3 tln including premiums) under the N1.0 ratio.

The Agency notes that such positive indicators are largely due to major concessions provided by the Bank of Russia, the most important of which is the option to not create reserves for loans whose quality has deteriorated (in ACRA's opinion, Banks decided to not create more than RUB 1.5 tln in reserves, or around 85% of forecasted pre-tax profit for 2020). A significant role was also played by the possibility of banks not applying premiums to risk ratios for retail loans (without this, lending growth would have led to a decrease in the adequacy ratios by 1.2–1.5 percentage points), the option to not reflect the cost of securities at market value, use a fixed exchange rate, etc.

ACRA believes that in 2020 the banking sector has passed through the acute phase of the crisis without incurring significant losses and will be able to maintain stability in 2021 if the economic situation does not worsen. In the Agency's opinion, amid an expected recovery of the Russian economy in 2021 (real GDP may grow by 3.8% and real wages may increase by 2.9%), the sector's assets should grow by more than 10%. Banks will be relatively active in terms of lending, with the loan portfolio projected to grow by around 10%. However, the quality of new loans in 2021 will remain stable.

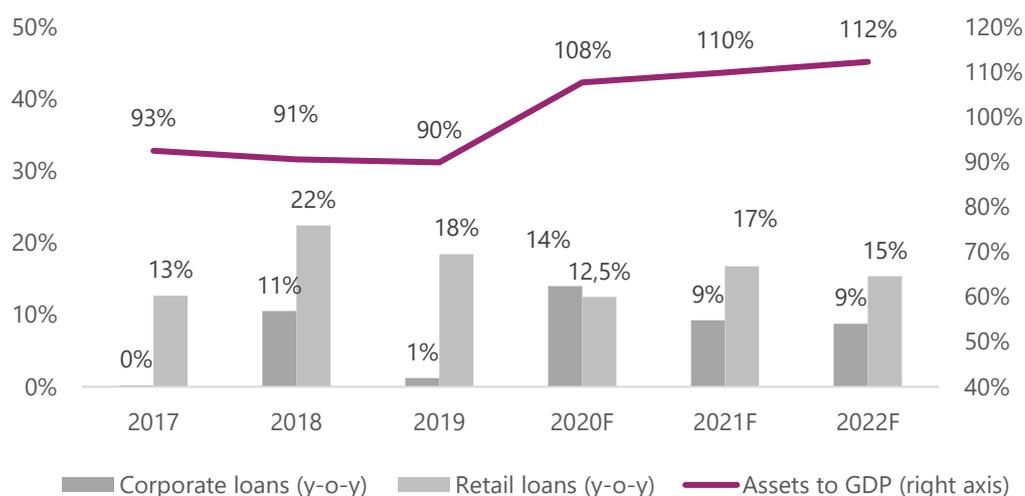
At the same time, the realization of "deferred" risks (i.e. the creation of reserves for loans that were restructured in 2020) and an adequate reflection of problems that have accumulated due to this in reporting will have a negative impact on the sector's metrics over the next 12 to 18 months.

Russian banks began increasing transfers to reserves in 2020, although this process will peak in 2021. This will largely affect net profit, which by the end of 2021 may drop to RUB 735 bln (6.5% ROE) under the influence of additional reserves and lower interest rates, which will limit the growth of net interest income. In addition, the Agency expects N1.2 capital adequacy to decrease to 10.2%.

Mortgages will continue to drive growth in retail lending, with growth of mortgages provided expected at approximately 17–18%. The Agency believes that growth in this area is based on fundamental prerequisites and is relatively safe for the banking system.

Corporate lending is growing faster than retail lending in 2020, but this trend is not expected to continue into 2021. Growth of lending to the corporate segment will continue to be limited by companies' moderate interest in increasing investments in common capital (this indicator may grow by 9.4% in 2021). This growth will be partly supported by active lending to SMEs, which is largely stimulated by government support programs and subsidized interest rates.

Figure 1. Retail lending will continue to outpace the corporate segment\*



Sources: Bank of Russia, ACRA

### Profitability of operations will decline

In 2020, the Bank of Russia gradually lowered its key interest rate from 6.25% to 4.25% in order to support economic activity amid low inflationary risks. This easing of monetary policy is intended to have a positive impact on the economy and stimulate lending. However, it leads to a decrease in interest rates on banking products. As a result, the ability of banks to maintain the profitability of operations is under pressure once again.

So far, banks have managed to maintain the level of interest margins due to a relatively rapid revaluation of the value of liabilities, which is also facilitated by a slight reduction in the maturity of liabilities. This increases interest rate risk, but allows banks to maintain the profitability of their lending operations (according to the IFRS reporting of Russia's largest banks for 9M 2020, the decrease in the net interest margin (NIM) was relatively small).

However, in the Agency's opinion, banks' capacity to support the profitability of their operations will begin to gradually decline in 2021. This will partly be related to an increased share of loans provided at new low interest rates. At the same time, the need to finance the growth of loan portfolios (primarily in the retail segment) will force banks to raise the cost at which they raise funds in order to maintain an inflow of client liabilities.

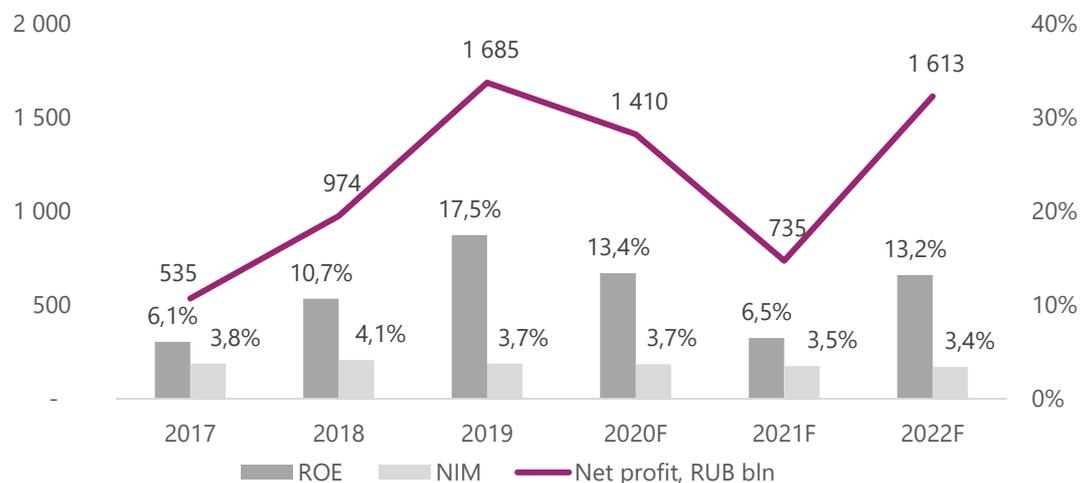
This need stems from the fact that lower interest rates triggered an outflow of client funds (primarily funds of individuals) from bank deposits to other instruments that offer potentially higher yield (including stock market instruments) and are becoming an increasingly serious alternative to deposits. Although lower rates have pushed up demand for credit products, particularly in the mortgage segment, competition in the sector remains high, especially among the largest banks. As a result, banks will be forced to limit loan interest rates, which will also put pressure on profitability.

Given the trends described above, ACRA expects NIM to amount to 3.5% in 2021 (vs. 3.7% in 2020). This indicator should continue to gradually decline in 2022.

In the base case scenario of its macroeconomic forecast, ACRA expects the Bank of Russia to hike its key rate in 2022. Growth of the share of mortgages in bank portfolios will result in moderate growth of banks' exposure to interest rate risk, which may put a

certain degree of pressure on profitability. This factor could be mitigated by transitioning to floating rate lending. However, in ACRA's opinion, the active development of this product in the Russian market would create additional risks of reducing the population's creditworthiness.

**Figure 2. Additional creation of reserves will have a negative impact on banks' profits until 2022**



Sources: Bank of Russia, ACRA

In 2021, the main drag on banks' profitability will stem from the need to create additional reserves for credit losses as the Bank of Russia cancels its concessions. An increase in the volume of created reserves has already been observed this year, but in 2021 it will reach its peak. The Agency considers that this will result in the cost of risk (CoR) reaching 2.8% in 2021 and then declining to 1.5% in 2022.

Assessing the financial performance of Russian banks, ACRA expects net profit to total RUB 1.4 tln (13.4% ROE) in 2020 and then shrink to RUB 739 bln (6.5%) in 2021. ACRA also expects operating efficiency to deteriorate — CTI is expected at 38.4% in 2020 and 43.8% in 2021.

### The sector is sufficiently capitalized

As of October 1, 2020, the average N1.0 and N1.2 ratios of Russian banks were 12.7% and 10.4%, respectively. This is 0.5 and 1.2 percentage points higher than these indicators as of January 1, 2020. Banks' capital adequacy positions are stable due to the preservation of profitability of operations and certain concessions granted by the Bank of Russia in terms of risk weights and/or premiums to them for certain categories of assets (primarily retail loans).

The regulator's measures have stimulated banks' lending activity. Asset growth of 14% and loan portfolio growth of 13% over 9M 2020 has only been accompanied by 1.4% growth in risk-weighted assets (RWA). At the same time, common capital has grown by almost 15%, while the buffer for unsecured loans has reached RUB 440 bln, according to information published by the Bank of Russia. ACRA believes that had assets and RWA grown synchronously, the capital adequacy ratios would be 1.2–1.5 percentage points lower than their current values.

The Russian banking sector is currently characterized by a relatively high level of capitalization. As of October 1, 2020, 67.3% of Banks had N1.0 ratios exceeding 12%, which points to a sufficient loss absorption buffer (even taking premiums into account).

ACRA believes that in 2021 the capitalization of Russian banks will, on average, decline due to the growth of the loan portfolio, while the profitability of operations will decrease. At the same time, ratios will decline at a controllable rate — the value of N1.2 in the banking system will not fall below 10% in 2021. The Agency also assumes the likelihood that with the rapid growth of the retail portfolio (both mortgages and unsecured lending), the Bank of Russia may return to increasing risk premiums. Banks are expected to react by reducing lending, as the desire to maintain a high level of capitalization will prevail over the interest in increasing business volumes.

### **Risks of deteriorating liquidity in the banking sector are limited**

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Despite a marked decline in the structural liquidity surplus, considerable instability of funds in retail deposits, and relatively fast growth of the total lending portfolio, ACRA views the liquidity of the Russian banking sector as stable. The volume of cash and equivalents as of October 1, 2020 was RUB 6.56 tln, or 6.4% of all assets. The volume of liquid assets was 19.3% (19.6% as of the start of the year), including deposits held with the Bank of Russia and unencumbered securities. In ACRA's opinion, the regulator's willingness to provide the required amount of liquidity via a wide range of mechanisms is an additional factor of stability. In addition, the Bank of Russia's decision in 2020 to not regard actual decline in the N26 (N27) short-term liquidity ratio of systemically important banks as a violation allowed the aforementioned banks to more freely manage funds, and also expanded the limit of irrevocable credit lines and reduced their cost.

Funds needed by banks to finance a growing loan portfolio have largely been provided by an adequate inflow of money to client accounts. ACRA notes that inflows of corporate funds are usually related to increasing lending to the corporate segment. At the same time, the outflow of funds from fixed-term deposits of retail clients is largely offset by the growth of balances on current accounts.

In 2021, bonds may become more important as a source of funding. This will be facilitated by both a decrease in rates in the economy and new investors entering the securities market who are ready to accept certain risks in exchange for additional income. In addition, the role of mortgage-backed securities may increase, which will serve as a source of funding for the growing mortgage lending market and an instrument for placing cash. According to JSC "DOM.RF", the spread of mortgage bonds to OFZs was 130 bps as of October 31, 2020.

The behavior of banks this year is has also been characterized by a significant increase in investments in OFZs. The Agency notes that, to a large extent, the source of funds for such investments are funds from various government agencies, as well as funds attracted by credit institutions from the Bank of Russia through repo mechanisms. Therefore, a situation arises where, on the one hand, the volume of liquid assets on the balance sheets of banks increases, but on the other hand, the share of unstable and relatively short-term liabilities also increases. Taking into account the fact that the expected budget deficit in 2021 will be RUB 2.8 tln, the increase in the issue of OFZs will also be quite large. According to ACRA, the growth of the securities portfolio by the end of 2020 will amount to 16.7%, and in 2021 it will grow by 14.1%. Banks will continue to

actively use funds of the Bank of Russia to finance OFZ portfolios, however, in the context of stable rates, the interest risks of such transactions are insignificant.

### A large volume of loan restructurings disguises asset quality

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According to ACRA's previous outlook on possible deterioration in the quality of assets of Russian banks, losses caused by the current economic downturn could exceed the losses observed during the 2014–2015 crisis. However, today, one can assume that the impact of the situation in the Russian economy on the solvency of borrowers has turned out to be less severe than expected.

According to the Bank of Russia, as of November 1, 2020, the share of overdue loans in the aggregate portfolio of banks was 6.1% (6% as of January 1, 2020), the share of overdue loans granted to non-financial entities was 7.9% (7.7%) and to individuals — 4.7% (4.3%). The Agency also notes that the share of loans falling into IV and V quality categories amounted to 9.3% as of January 1, 2020 and did not change in January–September this year.

ACRA has analyzed the IFRS financial statements of the largest Russian banks for H1 2020 and identified no clear trends for deterioration in the quality of loan portfolios. IFRS reports for 9M 2020 published by some credit institutions also confirm the general stability of the borrowers' solvency.

The Agency notes that the easing measures introduced by the Bank of Russia have a significant impact on the quality of portfolios as reflected in the RAS financial statements.

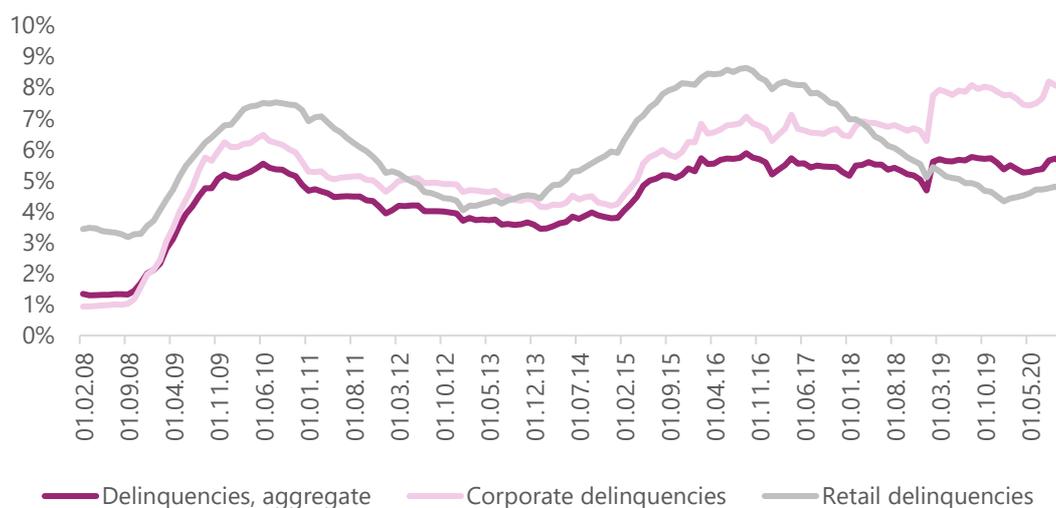
At the same time, a number of factors suggest that the deterioration in the real quality of Russian banks' assets turned out to be not as significant as expected due to both the overall reduction in the debt burden of the Russian economy (in 2016–2020, the ratio of loans to non-financial entities and individuals to GDP decreased from 52.7% to 46.7%), and other factors, including the clear-up of the financial sector and the minimization of credit institutions' exposure to risks associated with fluctuations in the ruble exchange rate. Measures of state support for industries and companies affected by the COVID-19 pandemic have also become a strong factor contributing to the stability of borrowers' quality.

In addition, during past crises, the housing construction sector was among the most affected ones, but in the current recession, the rapid growth of mortgage lending creates favorable conditions for developers, which, in turn, supports the adjacent sectors of the economy.

Nevertheless, the Agency notes that in periods of crisis, the situation when the accumulation of delinquencies takes a long time is typical for the Russian banking system. For example, during the crisis of 2008–2009, the peak in the growth of delinquencies fell on May–June 2010, and after the crisis of 2014–2015, the maximum level of delinquencies was recorded in August 2016.

*For more information, see ACRA's analytical comment: [Corporate loans are on hold](#) dated October 2, 2020.*

Figure 3. Growth rates of delinquencies increase after crises



Sources: Bank of Russia, ACRA

The reasons for this could be both the gradual aggravation of problems among borrowers and the consequences of forced loan restructurings carried out by banks, which made it possible to postpone, but not avoid, the appearance of bad debts on their balance sheets. The Agency notes that large-scale loan restructuring is also typical for 2020.

According to the Bank of Russia, the total volume of loans provided to legal entities (excluding SMEs) and restructured in the period from March 20, 2020 to October 1, 2020 exceeded RUB 5 tln. The total volume of loans issued to individuals (restructuring in the period from March 20, 2020 to November 18, 2020) exceeded RUB 0.8 tln, to SMEs (restructuring in the period from March 20, 2020 to November 18, 2020) — RUB 0.8 tln. Thus, the total volume of the restructuring exceeded RUB 6.6 tln, or almost 10% of the aggregate loan portfolio.

In ACRA's opinion, the restructuring of retail loans was caused by a decrease in borrowers' income, while in the corporate segment, the bulk (about two-thirds) of restructuring is associated with borrowers' efforts to reduce the cost of loans amid falling interest rates. Taking this into account, the total volume of loans restructured due to a decrease in the solvency of borrowers may be as high as RUB 2–3 tln (3–4% of the portfolio). The aggregate amount of reserves that banks had to create to cover such loans adequately may exceed RUB 1.5 tln.

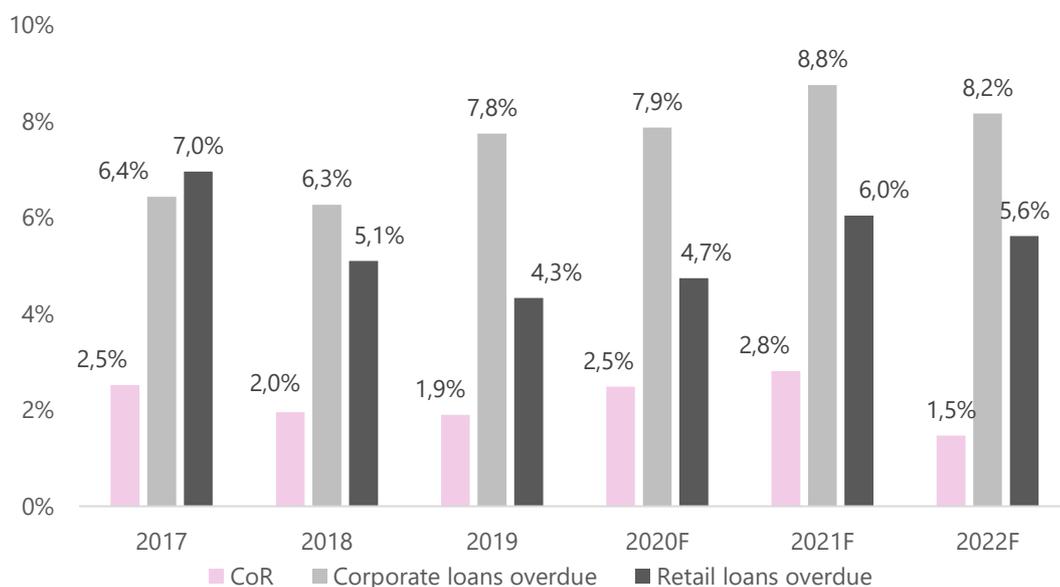
According to the estimates of ACRA's client banks, borrowers whose loans have been restructured are generally able to continue making payments. However, the Agency is of the opinion that it is this category of borrowers that will mainly push the delinquencies up in the aggregated loan portfolio of Russian banks in 2021.

The materialization of this risk and the likelihood of a deterioration in the quality of loans unaffected by restructuring will depend on the response of federal and regional authorities to the second wave of the pandemic. Having reviewed the trends in the new restrictions, the Agency believes that the response will be significantly softer than that during the first wave. This, in turn, will allow a significant decline in the economy to be avoided and ensure the relatively high ability of borrowers to repay their loans.

The recovery in economic activity in 2021 will help improve the solvency of borrowers in both retail and corporate segments. Thanks to this and the rapid growth of the loan portfolio, the share of delinquencies will grow moderately.

According to the Agency's estimates, the share of delinquencies will reach 5.7% of the aggregate loan portfolio in 2020 and 6.5% in 2021. The share of delinquencies in the debt portfolio of non-financial companies will amount to 7.9 and 8.8%, respectively, and in the retail portfolio — 4.7 and 6.0%, respectively. After 2021, delinquencies of individuals will remain at a level higher than the pre-crisis level due to the gradual maturation of mortgage loans and the materialization of risks accumulated in the unsecured lending segment.

**Figure 4. The share of overdue loans will grow insignificantly thanks to an expanding portfolio**

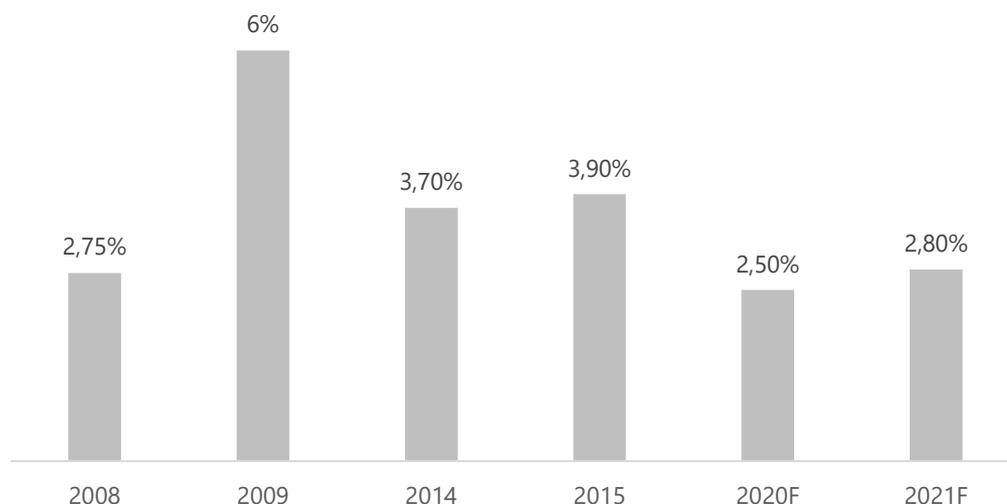


Sources: Bank of Russia, ACRA

With the Bank of Russia curtailing its easing measures, credit institutions will have to build up reserves for bad debts. The Agency notes that as early as this year, banks were actively increasing their reserve coverage (in January–September 2020, net additional reserves amounted to about RUB 1.5 tln, one-and-a-half times more than in the same period of 2019). This allows banks to deter growing risks to some extent. In 2021, banks will continue to build up reserves, which will lead to an increase in the CoR to 2.8% (in 2020, the value of this indicator, according to the Agency's forecast, will be 2.5%).

Nevertheless, those indicators are not critical for Russian banks. In the Agency's opinion, after additional reserves are built up, CoR will go down below its levels recorded in 2008–2009 and 2014–2015.

Figure 5. CoR will be lower than in previous crises



Sources: Bank of Russia, ACRA

### The fast growing mortgage sector still poses no danger to the banking system's stability

One of the most significant trends in the mortgage market in 2020 is the rapid growth in lending volume, which is likely to outrun growth in 2019 (ACRA expects a growth rate of 18–19%). Other factors include lower interest rates (including loans granted under subsidized programs) and the fast growth in prices, first, in the primary housing market and, respectively, the secondary housing market.

ACRA assumed the rapid growth in mortgage lending volume in its banking system outlook until 2021. However, at times of economic downturn, active growth of the loan portfolio is generally associated with increased risks of further deterioration in the portfolio's quality, and therefore the Agency is paying special attention to the current situation.

Since the rise in housing market prices is driven by rush demand, there is a certain likelihood of a mortgage bubble, a situation where the key factor for making a decision to purchase an asset is the rapid growth of its value.

In such situations, borrowers actually turn into investors, and the desire to improve their living conditions is added to the desire to earn on the increase in the value of the acquired asset, or at least significantly reduce the borrowing costs.

In the current economic environment, the desire to capitalize on the rising prices in the residential real estate market is also facilitated by the decrease in interest rates offered on bank deposits. Interest in bank savings accounts is declining, and customers are forced to rely on other investment instruments, which include residential real estate.

Risks associated with the current situation in the real estate market also include the fact that the demand from some borrowers may be explained by their fears of being unable to purchase real estate at relatively affordable prices, which pushes them to make less balanced mortgage loan decisions and, as a result, may lead to a significant increase in the risk of excessive debt load.

For more information, see ACRA's outlook [Banking system to remain stable amid slow economic growth](#) dated October 14, 2019.

In an effort to meet the growing demand, lenders, in turn, may soften their risk policies to attract less solvent customers.

ACRA notes that the current quality of the mortgage loan portfolio remains high (the share of overdue loans does not exceed 1%, regardless the growth in overdue loans in Q3 2020). In addition, the Agency believes that the high demand for mortgage lending is primarily determined by the following fundamental factors:

1. Falling interest rates. The main driver of demand for mortgage loans is the decline in their costs, which is generally natural for this market. The weighted average rate on mortgage loans decreased from 9% to 7.3% in January–September 2020, which significantly expanded the circle of potential borrowers.
2. Customers' desire to improve their living conditions. In Russia, dilapidated housing stock is still a problem, as up to 30% of all houses were built before 1970. According to the Ministry of Construction of Russia, in 2017, up to 50% of families would like to improve their living conditions. The Ministry of Construction also noted Russia's lag behind a number of developed countries in terms of living space per capita.
3. Relatively low degree of mortgage lending penetration in Russia. According to the Bank of Russia, only 6% of the population are mortgage loan borrowers, which is lower than in the developed countries.

On the other hand, banks' risk appetite is constrained by the small scale of the securitization market, which does not allow banks that are building up their mortgage portfolios to shift risks onto other financial institutions.

According to JSC "DOM.RF", more than 90% of all mortgage loans remain on the balance sheets of banks. In such conditions, the financial stability of banks depends on their own requirements to the quality of loans issued.

The above factors give reason to believe that the current rapid expansion of mortgage lending is healthy enough not to result in major negative consequences for the banking system.

Market stability is further supported by new regulations, which reduced the risks of developers misusing borrowers' funds.

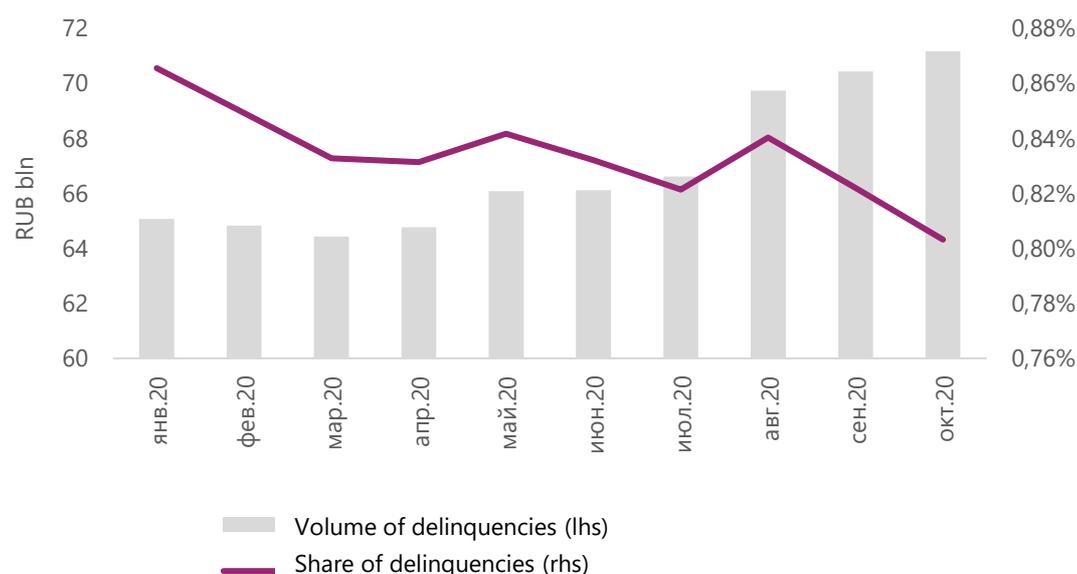
The Agency believes that in 2021, the mortgage portfolio of Russian banks will continue to grow rapidly (by approximately 17.8%), but the growth rate will be lower than in 2020. ACRA considers the exhaustion of the potential to reduce interest rates and the continuing rise in prices on the real estate market to be the main factors hindering growth rates.

The potential curtailment of the mortgage program offering an interest rate of 6.5% and persisting demand for mortgage loans will drive the weighted average interest rate up to 8% in 2021. This interest rate is not high enough to cool demand down, which will support price growth in the real estate market and, in the long term, will lead to a decrease in demand for mortgages, mainly from families with relatively low incomes. The Agency notes that in 2020, the trend towards an increase in the average amount of mortgage loans (by 6.7% in January–September of 2020) has continued, and the average loan maturity has remained stable (219.4 months). This may indicate the limited possibility to reduce regular repayments by extending loan maturities,

which, coupled with growing interest rates and prices, will lead to a significant increase in monthly payments. This will restrain the demand for mortgage loans in the future.

ACRA is quite optimistic about the prospects of the quality of mortgage portfolios. The volume of delinquencies will grow in 2021 (either due to the recognition of problems put off through restructuring, or due to the maturation of new loans granted to borrowers whose financial situation deteriorated under the unfavorable macroeconomic conditions in 2020), but the scale of the problem will not be significant, and the share of overdue mortgage loans will not exceed 1.5% in 2021.

**Figure 6. The volume of overdue mortgage loans is growing, but their share is fairly stable**



Sources: Bank of Russia, ACRA

The 2.9% growth in real disposable incomes expected by the Agency in 2021 may support the solvency of some borrowers and compensate the risks of the deteriorating quality of the mortgage portfolio associated with the factors mentioned above.

On the other hand, product bundling policies (bundled packages of low-rate mortgage loans and non-credit products, including insurance, etc.) so popular among banks in their effort to compensate low margins push up the customers' debt burden, which can be especially critical for low-income borrowers.

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