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**МОЖЛИВІ НАСЛІДКИ ВИХОДУ РОСІЙСЬКОГО КАПІТАЛУ З
РИНКІВ УКРАЇНИ**

**ВОЗМОЖНЫЕ ПОСЛЕДСТВИЯ ВЫХОДА РОССИЙСКОГО
КАПИТАЛА С РЫНКОВ УКРАИНЫ**

**THE POSSIBLE CONSEQUENCES OF THE WITHDRAWAL OF
RUSSIAN CAPITAL FROM MARKETS OF UKRAINE**

Анотація: Досліджено деякі аспекти діяльності банків з російським капіталом на фінансовому ринку України. З'ясовано реакцію банків з російським капіталом на застосування до них санкційних заходів. Визначено ймовірні наслідки продажу підсанкційних російських банків.

Ключові слова: банки з російським капіталом, санкції, материнські структури, кредитування, продаж банків.

Аннотация: Исследовано некоторые аспекты деятельности банков с российским капиталом на финансовом рынке Украины. Выяснено реакцию банков с российским капиталом на применение к ним санкционных мер. Определены возможные последствия продажи российских банков, которые находятся под санкциями.

Ключевые слова: банки с российским капиталом, санкции, материнские структуры, кредитование, продажа банков.

Summary: Certain aspects of activity of banks' with Russian capital in the financial market of Ukraine are investigated. The reaction of banks with Russian capital to introduced sanction measures is examined. The possible consequences of selling of Russian banks, which are under sanctions, are determined.

Key words: banks with Russian capital, sanctions, mother companies, lending, sale of banks.

During the long period of time, banks with Russian capital carried notable positions in Ukrainian financial market, while Ukrainian institutions hold small

share of the total assets of mother companies: the Sberbank of Russia was less than 0,5%, Vnesheconombank Group – 2%, VTB – 0,4%.

As of the 1st January 2014, 13 banks operated in Ukraine, whose shares in the authorized capital (directly or indirectly) belonged to residents of Russia, and which accounted for 13,7% of the total shareholder's equity of the banking sector; 14,3% of assets (15,8% of corporate loans and 17,2% of consumer loans) and 14,7% of deposits (Table 1).

Table 1

**The main indicators of banks with Russian capital in Ukraine
as of 01.01.2014, thousand UAH**

Banks with Russian capital	Corporate loans	Consumer loans	Corporate deposits	Consumer deposits	Shareholder's equity
Alfa-Bank	15 396 959	4 831 174	6 573 054	9 258 121	4 198 756
Sberbank*	24 658 781	1 253 259	4 952 870	13 957 528	3 666 785
Prominvestbank*	28 205 576	194 540	5 792 375	8 105 549	5 384 190
VTB Bank*	15 678 163	3 010 258	4 085 420	7 062 446	3 206 944
VS Bank*	1 214 537	385 499	396 357	656 386	539 969
Bank Forward (former Bank Russian Standard)	43 256	2 942 578	96 793	1 738 008	335 387
BM Bank*	1 687 321	395 431	721 919	949 667	267 914
Radabank	181 973	4 879	62 695	127 161	140 827
Bank Trust	120 434	285 844	19 592	230 828	127 386
Energobank	1 024 262	209 598	623 521	923 141	304 575
Petrocommerce-Ukraine Bank	619 269	14 594	202 769	375 142	153 303
First Investment Bank	778 847	52 467	353 874	593 135	254 222
<i>Total in banks with Russian capital</i>	103 638 155	24 979 936	33 542 359	55 927 098	26 521 905
<i>Total in solvent banks</i>	654145824	145082122	261021859	441892374	192598964
<i>Share of banks with Russian capital in banking system, %</i>	15,84%	17,22%	12,85%	12,66%	13,77%

*Banks, which are included in the sanction list according to NBU's Resolution № 25 of 21.03.2017

Source: compiled by authors based on data from [1]

Subsidiaries of Russian banks attracted significant amounts of deposits and conducted active operations mainly in corporate lending being represented by large and small institutions with private and government capital.

Banks with Russian capital lent the following companies:

- Prominvestbank, NNEGC Energoatom, Ukrenerhoatom, Industrial Union of Donbass, DTEK, Naftogaz of Ukraine, Odessa Railway, agricultural enterprises, construction industry;
- Sberbank, Ukrtelecom, DTEK Pavlogradugol, Azot, Electrotyazhmash, Interpipe Novomoskovsk Pipe Plant, Ukrainian railways (Odessa, Lviv, Pivdenna, Donetsk, Prydniprovsk), Azovzahalmash, UkrGasVydobuvannya, Donetsksteel Group, Kryukov Railway Car Building Works, Luhansk Cartridge Works, etc.

Some Ukrainian subsidiaries of Russian banks were pro-active investors, particularly investing in securities (bonds) of Ukrainian enterprises. For example, Sberbank (3,5 billion UAH of the total securities portfolio – 6th position), Prominvestbank (2,9 billion UAH – 7th position) and Alfa-bank (1,0 billion UAH – 15th position) stood out for their terms of portfolio securities.

As of the 1st January 2017, there were 9 banks, whose shares in the authorized capital were directly or indirectly owned by residents of Russia.

During 2014 – 2017 banks with Russian capital withdrew partially from Ukrainian market. However, most of them stayed and in terms of stagnation, shrinkage of market, massive «cleaning», the share of Russian capital increased significantly. In January 2017 these institutions already accounted for 24,7% of shareholder's equity, 35,2% of assets (22,6% of corporate loans, 33,9% of consumer loans) and 14,5% of deposits (Table 2). Mentioned banks made loan loss reserves in the amount of 94,8 billion UAH.

**The main indicators of banks with Russian capital in Ukraine
as of 01.01.2017, thousand UAH**

Banks with Russian capital	Corporate loans	Consumer loans	Corporate deposits	Consumer deposits	Shareholder's equity
BM Bank*	477 554	339 580	302 956	696 178	715 754
Alfa-Bank	20 389 335	5 240 164	13 661 716	15 491 390	3 311 724
Bank Forward	0	1 179 669	38 635	1 033 712	346 640
VS Bank*	969 817	437 365	560 372	459 672	899 075
VTB Bank*	12 219 421	464 633	4 339 163	4 535 760	3 394 730
Prominvestbank*	27 121 327	34 651	3 572 926	5 301 996	5 149 421
Sberbank*	40 038 332	355 453	7 381 423	11 416 645	3 722 340
Ukrsotsbank	2 666 079	20 786 527	10 621 827	16 154 423	12 816 948
First Investment Bank	777 588	7 283	318 748	498 991	238 555
<i>Total in banks with Russian capital</i>	104 659 453	28 845 325	40 797 766	55 588 767	30 595 187
<i>Total in solvent banks</i>	463 643 548	85 120 326	422 001 367	427 910 421	123 687 446
<i>Share of banks with Russian capital in banking system, %</i>	22,57%	33,89%	9,67%	12,99%	24,74%

* Banks, which are included in the sanction list according to NBU's Resolution № 25 of 21.03.2017

Source: compiled by authors based on data from [1]

According to reports, during 2014 – 2015 some banks continued to lend to Ukrainian companies¹ and developed profitable business segments to the extent possible. In particular, in this period foreign exchange earnings built up a

¹In accordance to banks' financial statements of 2015-2016:

During 2016 Sberbank increased insignificantly its lending to the transport, aviation, space, food processing, chemical and metallurgical industry and trade amid the overall reduction of credit portfolios.

During 2016 Prominvestbank increased inappreciably its credit portfolio by lending to the field of mechanical engineering and transport, although overall it had a significant reduction in the credit portfolio – 10 billion UAH.

In 2016 VTB Bank increased slightly overall its credit portfolio. It lent extensively the energy, mechanical engineering and metallurgy industries.

According to reports above mentioned banks lend mainly to one-two dozen large companies. For instance, in 2015 VS Bank attracted over 130 new corporate customers to service, which provided 6% increase in the clients base. Among VS Bank's corporate customers 95% are privately-owned companies (mainly wholesale and retail trade, manufacturing), and the rest – public sector entities, government agencies, community organizations and insurance companies.

significant fraction of income and NBU's deposit certificates were the main component of banks' security portfolios.

According to NBU, banks with Russian capital received refinancing loans: in 2014 – 5,931 billion UAH; in 2015 – 802 million UAH; in 2016 – 0,848 billion UAH. Alfa-Bank received a large portion of this refinancing. In 2014 – 2016 refinancing for Russian banks accounted for 5,1%; 4,6% and 22% in total volume.

Banks with Russian capital carried compliance with NBU's requirements concerning recapitalization mainly by the mother companies. According to State Statistics Service of Ukraine in 2016 Ukraine received 1,67 billion dollars USA of investment from Russia [2]. According to the statement of NBU's head, the bulk of these funds were mother companies' loans to Russian banks with the aim of recapitalization of their subsidiaries in Ukraine.

Specifically, in accordance with banks' financial statements, in April 2016 Sberbank increased its equity capital by 4,3 billion UAH (166,4 million dollars USA) by shareholders' capital contributions. By the end of the third quarter of 2016 Prominvestbank increased its equity capital by 21,6 billion UAH (860,8 million dollars USA) by mother company's contributions. In 2015 VTB Bank received two loans from mother company of 5,2 billion UAH (225,5 million dollars USA), which were converted into authorized capital in 2016.

Up to now, two groups of banks with Russian capital are operating in Ukraine:

– *Banks that are in contact with government institutions of the Russian Federation.* According to NBU's Resolution № 25 of 21.03.2017 sanctions against 5 banks were introduced. These sanctions include a ban on the withdrawal of funds outside of Ukraine, as well as payment of dividends, interest, return of interbank deposits and loans, funds from correspondent accounts of subordinated debt (Table 3);

– Banks, whose capital sources are related to the Russian Federation (Russian citizens or legal entities, which belong to Russian companies, formed the capital of banks).

Table 3

The list of sanctioned banks

Bank	Nominee shareholders	Ultimate beneficiaries
Sberbank of Russia	Sberbank of Russia, the Russian Federation, 100%	The Central Bank of the Russian Federation, 50% + 1 share
Prominvestbank	Vnesheconombank, the Russian Federation, 99,7%	The Government of the Russian Federation, 99,7%
VTB Bank	VTB Bank, the Russian Federation, 99,9%	The State Corporation Deposit Insurance Agency, 47,2%, Ministry of Finance of the Russian Federation, 32,9%, The Federal Agency for State Property Management, the Russian Federation, 12,1%
BM Bank	Bank of Moscow, the Russian Federation, 99,9%	The Russian Federation through VTB Bank
VS Bank	Sberbank Europe AG, Austria, 99,9%	The Central Bank of the Russian Federation through Sberbank of Russia

Source: compiled by authors based on data from publicly available sources

Until the last moment, the majority of banks' owners with Russian capital (besides Alfa-Bank, which expanded due to purchase of UkrSotsbank) marked time maintaining financial conditions and market potential of their institutions. After sanctions announcement in March 2017, the representatives of banks assured of compliance with the same strategy.

Thus, the chairman of the board of directors of VTB Bank (Ukraine) announced that they wouldn't expand business actively, but would concentrate on improving the effectiveness of cost management, network optimization, back-office administrative costs and development of remote customer service channels [3].

VS Bank's top management assured that they aimed to keep the usual financial and economic activities to meet the needs of all their clients [4].

The selling of Ukrainian subsidiaries of Russian banks, against which sanctions were introduced, might be the next consequent step for their owners.

According to NBU management, all banks with the state Russian capital, which are operating in Ukraine now, are negotiating potential sales. In addition to the above NBU considers that selling is the best way to withdraw from Ukrainian market, because «in the current climate, unfortunately, it's impossible to talk about some development of these banks in Ukraine» [5].

However, taking into account the specificity of current situation in Ukraine, the realizable sale of these banks to foreign or domestic investors at a bargain price is impossible. The selling of them to companies affiliated with the current beneficiaries would be more probable.

In particular, it is confirmed by published on 28 of March 2017 data on sell transactions of Sberbank to consortium of investors, which include Norvik Banka (Latvia) and a Belarussian private company. In addition, AS Norvik Banka have business relations with other Russian bank (it is a part of the same group of companies) and belongs to a British citizen of Russian origin and as well Belarussian company is tied up with the same businessman of Russian origin [6].

On the one hand, the facts of selling of Russian banks, which are under Ukrainian sanctions, (even with evident artificial transactions) will remove the factor of political leverage on these institutions that will have a positive impact on their business.

On the contrary, today it is not completely clear how far the initiative of displacement of Russian capital from the Ukrainian banking system will reach. Under that logic, the next step will be the pressure on tangentially related banks, in particular Alfa-Bank. It is not under sanctions, but appears as Russian bank in mass media and street actions (and then UkrSotsbank, which was bought by Alfa-Bank). In this case, the process of reducing of the domestic banking market will extend indefinitely and the situation of mopping up Ukrainian banking system of 2014 – 2016 will occur again. At that time the confidence in all institutions in the banking market was lost due to uncertain process parameters and unexplained criterias of banks withdrawal.

To sum up, under current law, all banks with Russian capital within Ukrainian jurisdiction operate as residents. Redouble attention to them by society is mainly due to political factors. Along with that, their concentration in the Ukrainian banking sector is quite noticeable (especially in the shareholder's equity and corporate loans) that carries certain risks. In particular, the sanctioned banks accounted 11,2% of shareholder's equity of the banking sector, 20% of assets (109 billion UAH of assets, including 80,8 billion UAH of corporate loans), 5,2% of consumer deposits (22,4 billion UAH) and 3,8% of corporate deposits (16,2 billion UAH).

The funding base of sanctioned banks is made mainly by interbank loans from mother companies. That fact to some extent mitigates the risk of runs by depositors under the conditions of information attacks and potential popular frustration. Total loans of sanctioned banks from mother companies amount to (in equivalent) more than 1,3 billion dollars USA. The potential volume of these loans' interest withdrawal (about 90 million dollars USA per year) doesn't affect largely the financial position of mother companies.

Along with that, a significant amount of corporate loans to Ukrainian industrial companies in the portfolios of sanctioned banks (80,8 billion UAH) comes under notice. This factor creates a potential risk for domestic companies, as it will be difficult to refinance these loans in the current circumstances.

The behaviour pattern of Ukrainian banks with Russian capital demonstrates their management's wait and see attitude with mitigation of damage to reputation: limitation of loan-granting and deposit-taking, abiding by the schedule of recapitalization institutions, focusing on optimization of networks and costs.

Under the present circumstances, the probable sales transactions of these banks are likely to have formal (conditionality or scheme) nature. If there is basic premise of Russian political circles concerning Ukrainian financial market presence, then the change of the legal form will occur.

Taking these circumstances into account, it is advisable to keep a fixed official public communications policy with explaining of further relation to banks with Russian beneficiaries to overcome the common factors of uncertainty.

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