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## **FINANCIAL STABILITY OF SBERBANK OF RUSSIA AND BANK FOR FOREIGN TRADE (VTB) ACTIVITY IN CONDITIONS OF THE WORLD CRISIS**

***Abstract:** The stability analysis of Sberbank of Russia and the Bank for Foreign Trade (VTB) activity is carried out on the basis of consolidated financial statement relative to key activity figures. Main destabilizing factors acting on the Russian banking system during 2007-2008 are revealed and evaluated. The influence of these factors on liquidity, profitability, asset quality and state of capital of the adopted targets of research is also determined in the paper.*

***Keywords:** financial crisis, stability, liquidity, profitability, capital*

**JEL:** E 44, E 5

### **Introduction**

There are two main characteristics that are common to the banking system of today's Russia – instability and sharp structural changes under conditions of the world financial crisis. At the moment banks suffer from the lack of proper economic risk protection. In its turn, it is one of the main reasons for bankruptcy and activity discontinuation of a number of these banks.

Because of the existence of the inverse link, damage caused by a bankruptcy of any bank can have an impact on the whole banking community and on an economic system of a country as a whole. That is why the main task of the stability analysis research is of great concern.

The concept of stability is one of the fundamental in science. Its definition depends on a subject being analyzed. In economics stability problems were considered in particular by V. V. Leontev, Nobel Laureate. Basics of mathematical theory of stability were worked out by A. M. Lyapunov over a century ago. [1] Ever since thanks to efforts of a number of scientists there are carried out numerous researches in the sphere of amplification of its theory and its application to different problems.

This research paper contains the analysis of the stability of Sberbank of Russia and Bank for Foreign Trade (VTB) activity under conditions of the world financial crisis relative to the main key figures of their activity, namely: profitability, liquidity,

asset quality, condition of capital. The current condition of these banks is largely typical of all the credit organizations with the state participation. In such a case, stability is considered as an ability of a bank to back out its initial or nearby performance indicators under conditions of disturbing influence.

## **1 The Russian Banking System in Conditions of the World Financial Crisis**

Signs of the crisis in the world financial markets, problems with liquidity, that have been started as early as in the middle of 2007 and continuing today bring pressure on the Russian banking market. Today there are numerous serious problems in the banking sector of the country. A high level of the banking sector sensitivity and mistrust of clients remain unchanged. The main risk exposure factors for the Russian banking sector under conditions of the world economic crisis were a significant access limitation to international capital market resources and degradation of external refunding opportunities of earlier taken loans. [2] Besides, there are high lending risks, caused by an ineffective economic structure, defects of a management and low transparency of lots of businesses, that is in its turn the most important factor of building of trust and banking sector stability. Today we can state an expansion of a number of factors of risk, identifying instability of the banking sector activity. They are as follows: growing dependence of banks on financial condition of a borrower; increasing, primarily, of nonfinancial sector lending volume. Risks connected with the stock market and the dynamics of prices on different segments of the financial market start to play an increasingly important role.

## **2 Research Methodology**

Research methodology is based on the comparative analysis of operating results of Sberbank of Russia and the Bank for Foreign Trade (VTB) activity, in getting of economic condition indicators of the above-mentioned banks on the basis of the Central Bank of Russia technique in accordance with the Central Bank standing order of 30. 04. 2008 № 2005-U “On valuation of economic condition of banks” based on the estimations of capital, assets, profitability, liquidity, statutory ratios of the Bank of Russia, quality of management and transparency of shareholders’ equity structure. [3]

## **3 Investigation of Sberbank and Bank for Foreign Trade (VTB) Stability of Activity**

It is worthwhile to say that V. V. Leontev’s words that “changes in using statistic data, as well as many other political or administrative processes of reformation are carried out with significant time lag; that is why it is no wonder that consumers of official statistics, just as in the system of government institutions, so out of it, getting even the last numerical and factual data, generally considered them as outdated” still

remain reasonable. In order to be in step with time it is just necessary for the information system to dip into the future.” [4]

Let us begin with an analysis of Sberbank of Russia financing activities. According to the consolidated financial statement data net profit of Sberbank in 2007 amounted to Rub 106489 mln, which in accordance with the Annual Report of the bank exceeded similar indicator for 2006 by 28.6% (Table 1). Sberbank of Russia assets as of 31 December 2007 amounted to Rub 4928808 mln, rate of asset increase per year – 42.2%. Shareholders’ own funds at year-end of 2007 reached Rub 637 197 mln, gross growth of banks’ own funds – 6.5%.

Table 1

**Sberbank of Russia and Bank for Foreign Trade (VTB)  
consolidated financial statements data, 2007, mln Rub**

Bank	Total assets	Total liabilities	Own funds (capital)	Overdue repayment of debts	Debt after deduction of reserves for possible losses	Total income	Net profit for the period
Sberbank of Russia	4,928,808	4,291,611	637,197	80,059	2,543,095	1,863,591	106,489
Bank for Foreign Trade (VTB)	2,273,202	1,963,586	279,280	17,129	1,436,792	375,048	38,700

Calculated according to: [5, 6]

Profitability ratio of the banks’ own funds, indicating percentage of profits by 1 ruble of own funds, amounted to 13.8%, asset profitability – 2.54 % (Table 2). Capital adequacy ratio in 2007 amounted to 14.5% (minimal permissible value – 10%). As for liquidity ratios in 2007, quick liquidity ratio (H2) – 40.3% (minimal permissible value – 15%); current liquidity ratio (H3) – 51.8 %, (minimal permissible value – 50%); long-term liquidity ratio - 103.3%; (maximum permissible value – 120%).

Table 2

## Key Performance Indicators of Sberbank of Russia and Bank for Foreign Trade (VTB), 2007

Bank	H1 (capital adequacy ratio)	H2 (quick liquidity ratio), %	H3 (current liquidity ratio), %	H4 (longterm liquidity ratio), %	Net interest margin, %	ROAA (return on assets), %	ROE (return equity), %	Share of overdue payment
Sberbank of Russia	14,5	40.30	51.80	103.30	6.40	2.54	13.80	3,15
Bank for Foreign Trade (VTB)	16,30	-	-	-	4.40	2.20	12.3	1,2

Calculated according to: [the Bank of Russia methodology on the basis of statistical data from the banks official sites: [www.cbr.ru](http://www.cbr.ru); [www.sbrf.ru](http://www.sbrf.ru); [www.vtb.ru](http://www.vtb.ru)]

On the whole, the year 2007 was rather successful as for the Russian economy so for the Russian banking sector, that is why Sberbank results of activity can be assessed as “good”, because all statutory requirements were satisfied, a profit earned at year-end.

The year 2008 was a period of fundamental changes which occurred in the global economy. Signs of a crisis appeared to the full extent in the second half of the year, affected, particularly, Russia. In these complicated conditions in proportion to the development of the world economic crisis the maintaining of the financial sector stability was defined as one of the priority of the Russian Government antirecessionary policy. In this connection in October 2008 it was passed the law “Of provisional measures of the Russian Federation financial system”, the volume of state participation in banks resources increased from 0.2% up to 12%. In the fourth quarter-year of 2008 within the limits of the law passed the state provided to Sberbank a subordinated loan in the amount of Rub 500 bln. Received funds were sent to the financing of the banks clients’ activity in key segments of the economy, and also for supporting the market.

Table 3

**Sberbank of Russia and Bank for Foreign Trade (VTB)  
consolidated financial statements data, 2008, mln Rub**

Bank	Total assets	Total liabilities	Own funds (capital)	Overdue repayment of debts	Debt after deduction of reserves for possible losses	Total income	Net profit for the period
Sberbank of Russia	4,928,808	4,291,611	637,197	80,059	2,543,095	1,863,591	106,489
Bank for Foreign Trade (VTB)	2,273,200	1,963,586	279,280	17,129	1,436,792	375,048	38,700

Calculated according to: [5, 6]

According to consolidated financial statement data of Sberbank for 2008 net profit of the bank amounted to Rub 97,746 mln, by 8.3% less than it was in 2007 (Table 3). One of the factors that exerted the influence on a decreasing of Sberbank profit was the increase of an allocation to reserves for credit portfolio possible losses in 5.5 times in comparison with 2007 owing to turbulence in the world financial market. Maximum growth was observed in IV quarter of 2008 - 40.8%. It was the period of time when the financial crisis had already started to involve all spheres of the world economy. Capital adequacy ratio –18.9 % (Table 4), which is the evidence of the fact that in 2008 Sberbank of Russia in spite of the world economic crisis remained a very reliable bank.

Table 4

**Key performance indicators of Sberbank of Russia and Bank for Foreign Trade (VTB), 2008**

Bank	H1 (capital adequacy ratio)	H2 (quick liquidity ratio),%	H3 (current liquidity ratio),%	H4 (longterm liquidity ratio),%	Net interest margin, %	ROAA (return on assets), %	ROE (return equity),%	Share of overdue payment
Sberbank of Russia	18,90	48.29	60.81	73.43	7.10	1.68	14.1	4.87
Bank for Foreign Trade (VTB)	17,00	76.46	78.94	78.59	4.80	0.48	6.02	1,9

Calculated according to: [the Bank of Russia methodology on the basis of statistical data from the banks official sites: www.cbr.ru; www.sbrf.ru; www.vtb.ru]

Net profit of Sberbank in 2009 was equal to Rub 24,396 mln - in 4 times less than in 2008 (Table 5). Capital adequacy ratio amounted to 18.1% – by 0, 8% less than in 2007.

Table 5

**Sberbank of Russia and Bank for Foreign Trade (VTB)  
consolidated financial statements data, 2009, mln Rub**

Bank	Total assets	Total liabilities	Own funds (capital)	Overdue repayment of debts	Debt after deduction of reserves for possible losses	Total income	Earnings before interest and tax (EBIT)	Net profit for the period
Sberbank of Russia	7,105,100	6,326,100	778,936	163,712	4,864,031	5721033, 575	29,280	24396
Bank for Foreign Trade (VTB)	3,610,800	3,105,900	488,675.9	45,165.,58	2,446,635	2,755,029	-68,300	-59600

Calculated according to: [5, 6]

Assets of the bank per annum increased by 5.8% – up to Rub 7,105,100 mln, generally thanks to the growth of credit portfolio of corporate clients to the amount of around Rub 4000 mln. In comparison with 2008 the level of overdue repayment of debts declined by Rub 83 727 mln in 2009. It happened because in the second quarter of 2009 the world borrowing market was again opened for Russian big companies and Sberbank met with a great number of prescheduled repayments of credits. As for liquidity ratios, in 2009 they showed a stable growth: H2 – 69,62% (2008 – 48.49%), H3 – 108.92% (2008 – 60.81%), H4 – 71,55% (2008 – 73.43%). Thus, Sberbank saved its ability to incur liabilities (Table 6).

Table 6

## Key performance indicators of Sberbank of Russia and Bank for Foreign Trade (VTB), 2009

Bank	H1 (capital adequacy ratio)	H2 (quick liquidity ratio), %	H3 (current liquidity ratio),%	H4 (longterm liquidity ratio),%	Net interest margin, %	ROAA (return on assets),%	ROE (return equity),%	Share of overdue payment
Sberbank of Russia	18,10	69.62	108.92	71.55	7.80	0.40	1.7	3,37
Bank for Foreign Trade (VTB)	20,70	50.98	105.39	75.05	5.30	-1.60	-13.7	1,85

Calculated according to: [the Bank of Russia methodology on the basis of statistical data from the banks official sites: [www.cbr.ru](http://www.cbr.ru); [www.sbrf.ru](http://www.sbrf.ru); [www.vtb.ru](http://www.vtb.ru)]

Let us consider activity analysis of Bank for Foreign Trade (VTB). Net profit of JSC “Bank VTB” and its subsidiaries (VTB Group) in 2007 was equal to Rub 44,110,75 mln (Table 1). The growth of profit was due to the growth of credit portfolio. At the year-end of 2007 the credit portfolio of the bank was Rub 1,436,792 mln, exceeding the rate of 2006 by 50%. It was the evidence of the fact that the Russian economy on the whole and also retail business developed successfully in 2007. Earnings of VTB Group amounted to Rub 375,048 mln. Thanks to a strong capital base, the level of capital adequacy ratio was 16.3 %, providing thereby a framework for the further growth of assets and being special competitive advantage of the bank in the market.

In 2008 the Russian Government provided to VTB a subordinated loan in the amount of Rub 200 bln within the passed law “Of provisional measures of the Russian Federation financial system”. At that from September to December 2008 size of financing, provided by the bank exceeded Rub 800 bln.

According to consolidated financial statement data, net profit at the year-end reached Rub 4600 mln, which was in 8 times less the amount of profit that had been earned in 2007 (Table 3). That reduction was caused by difficult economic conditions and by the necessity of the increasing debt provisioning expenses. Assets of the Group rose by 37.4% and amounted to Rub 3,697,400 mln. The state support gave VTB an opportunity to shore up its position in the segment of corporate and retail business – as a result – growth of credit portfolio by 46%, in 2008 it was Rub 2,555,590 mln. According to VTB in the fourth quarter of 2008 allowances for provisions grew by USD 1,100 mln, and it was equal to Rub 73,450 mln. Significant growth of the reservation size was determined by the growth of VTB credit portfolio and also by an expectation of the economic situation deterioration. Thus, VTB raised reserves up to 3.2% of the total sum of principal receivable. In 2008 capital adequacy ratio was 17%, by 0.7% higher than it was in 2007 (Table 4). The bank, gathered Government support in 2008, gave steadfast attention to funding and capital provision matters. In the period of difficult market conditions return on VTB assets dropped in 4.5 times. In 2008 indicator value was 0.48% in comparison with 2.2 % in 2007.

In 2008 the bank on the whole was able to choose the right policy and in spite of the worsening economic situation, rising of loan loss provision got positive financial result.

In 2009 VTB shored its positions in the key segments of business and in the market in whole. Despite the obtained negative financial result (losses), amounted to - Rub 59600 mln at the year-end, VTB Group hand over hand raised its earnings as compared to the similar period of 2008 (Table 5). In 2008 VTB earnings were equal to Rub 1,358,917 mln, but in 2009 they grew up to Rub 755,029 mln. VTB Group successfully got through all its strategic goals, connected with the building of retail investment business. Capital adequacy ratio amounted to 20.7% (Table 6). Negative financial result (losses) was caused by the significant growth of credit portfolio reserves. At the year-end of 2009 the total sum of reserves reached Rub 154,700 mln or 6% of the total credit portfolio.

In that way, 2009 was a fairly good year for VTB; the bank managed to maintain its leading positions in the market, continued developing its business in times of the world financial crisis and was among the first banks that started using the government guarantee mechanism for the lowering of risk at the time of domestic enterprises' lending.

## Conclusion

1. The main destabilising factors on Sberbank and the Bank for Foreign Trade (VTB) from the middle of 2007-2008 were as follows:

- 1) world financial markets fluctuations;
- 2) access limitation to international capital market resources;
- 3) problems in the Russian stock market;

4) building of the chain of REPO operations non-payments.

2. Indicated destabilising factors exerted a negative influence on:

1) The liquidity of Sberbank and Bank for Foreign Trade (VTB): all liquidity ratios (quick liquidity ratio, current liquidity ratio, long-term liquidity ratio) shrank due to the increase of banks liabilities in consequence of the Russian Government and Bank of Russia rendered support and also due to an observed growth of retail deposits in too-big-to-fail banks and not so significant increase of its assets. However, it is necessary to mention that all the Bank of Russia requirements about observation of statutory ratios over the analysed period were adhered to.

2) Profitability: Growth of operating income, interest yields before establishing reserves for possible losses by 27-40%, increase of the size of loan loss provisions (Sberbank – 5.5 times, VTB – twice), growth of trading securities dealing losses – in 2009 all these factors led to the cutting of a net profit margin (Sberbank – 4 times, VTB – 8 times).

3) Quality of assets: increment of credit exposure growth in Sberbank and Bank for Foreign Trade (VTB) at an average by 28% in 2008-2009 in consequence of executing of the Government and the Bank of Russia order on non-financial sector support, declining of credit portfolio quality in consequence of the growth of the overdue payment share, reduction of return on assets on the average 4.5 times.

4) Condition of capital: growth of banks capital adequacy ratio on the average by 1%.

3. Liquidity squeeze caused by the outflow of foreign investors and also by the meltdown of the Russian stock market in 2008 brought the Russian Government and the Bank of Russia to start implementing anti-recessionary measures, which include: reducing of ratio transfers to the obligatory reservation fund, increase of refunding operations sizes, and extension of budgetary funds to state banks. Monetary authorities' efforts on banking sector support promoted an improvement of liquidity. Actions taken also stopped the outflow process of Sberbank and Bank for Foreign Trade clients' account fund balances and also regained the trust of depositors following the result of 2009.

### Literature

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