

MIXED BLESSINGS OF FOREIGN OWNERSHIP IN THE BLACK SEA

Levels of foreign ownership vary widely among the banks of the eastern Black Sea countries. While foreign-owned banks went too far, too fast before the crisis, they may be more resilient than locally owned players in a downturn. **WRITER Philip Alexander**

Although there are growing economic ties among the countries of the Organisation of the Black Sea Economic Co-operation (BSEC), their banking sectors are at widely varying stages of development. *The Banker* has looked at five of the more eastern members of BSEC, namely Ukraine, Moldova and the three Caucasus countries of Armenia, Azerbaijan and Georgia.

Ukraine is by far the largest banking market among these countries, with Tier 1 capital accounting for 78% of the total. This is not so surprising, since its population is five times the size of the next largest country (Azerbaijan), while its gross domestic product (GDP) is almost eight times the size of Azerbaijan's.

At the other end of the scale, Moldova's Tier 1 capital accounts for just 3% of the sample. Its population is larger than Armenia's, but it is the most underbanked in the sample, with bank assets of less than \$860 per capita. This is clear evidence of an underdeveloped economy, with GDP about half the size of the next smallest (Armenia). In fact, bank assets in Moldova are relatively high as a proportion of GDP, at 63%.

Only Ukraine, the most heavily banked economy in the region, has a higher proportion of assets to GDP, at 65%, but bank penetration is also clearly greater – assets are \$1880 per capita, the highest in the sample by some distance. As a percentage of the economy, Azerbaijan's bank assets are the lowest, at just 22% of GDP. But this is partly a sign of the soaring economic growth generated by the oil and gas sector, which is cash-rich and has little need for bank lending.

FOREIGN PENETRATION

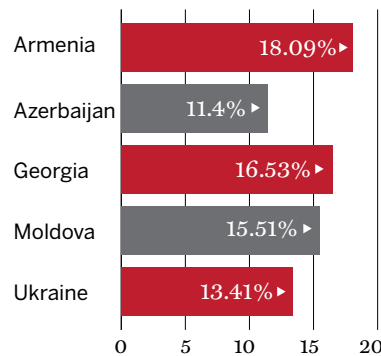
The level of bank penetration in Ukraine is partly explained by the high degree of foreign investment in the sector, with 42% of assets on the balance sheets of banks that are majority foreign-owned. This is more than double the next most foreign-owned sector, in Armenia.

By contrast, foreign ownership in Azerbaijan is just 2.3% of total assets. This partly reflects the continued dominant role of state-owned International Bank of Azerbaijan, which has assets more than four times the size of the next-largest bank. It is also a product of high ownership concen-

tration in the sector – two of the five largest privately owned banks, Pasha Bank and Kapital Bank, are owned by the same family, the Pashayevs, through their holding company Pasha Holding.

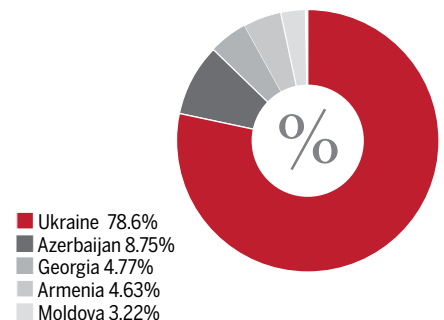
However, the foreign subsidiary figures do not pick up the significant role of interna-

Capital to assets ratios – country aggregates



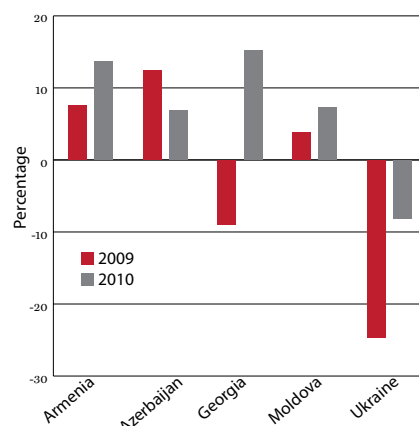
Source: thebankerdatabase.com. Data as at end-2010

Tier 1 capital – country aggregates



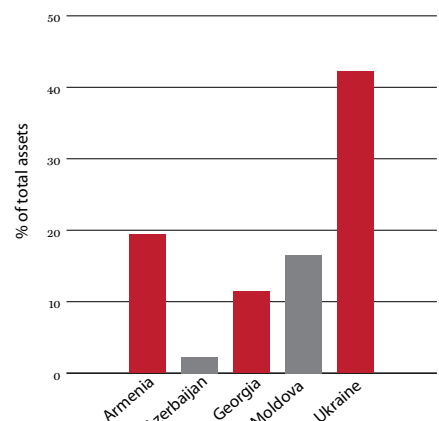
Source: thebankerdatabase.com. Data as at end-2010

Return on Tier 1 capital – country aggregates



Source: thebankerdatabase.com

Black Sea banks – foreign ownership



Source: thebankerdatabase.com. Data as at end-2010

tional development institutions in Azerbaijan's banking sector. These own the whole of Access Bank, and strategic stakes in Bank Respublika and Unibank, bringing international expertise and standards to the local banking sector.

POST-CRISIS HANGOVER

The surge in lending by foreign-owned banks in central and eastern Europe before the financial crisis came at the expense of solid underwriting standards. In the Black Sea region, Ukraine was the main victim of this trend. As banks grapple with soaring non-performing loan rates and goodwill write-downs, aggregate return on Tier 1 capital for Ukraine is still negative, at -8.16% in 2010, although this was a marked improvement from the -24.6% in 2009. Losses at BNP Paribas subsidiary UkrSibbank, the Ukrainian subsidiary of Russia's VTB and Prominvestbank (owned by Russia's state development bank), more than offset profits at some of the locally owned banks.

However, high levels of local ownership

do not make banking sectors immune from boom and bust. The bust came later to Azerbaijan than to Ukraine, but it has arrived, with return on capital almost halving to 6.8% in 2010 – just as the other countries in this sample were beginning to recover.

Moreover, large international banking groups do have more capacity than locally owned institutions to recapitalise subsidiaries that represent a small part of their total assets. Hence Ukraine's capital-to-assets ratio rose in 2010 as banks were recapitalised, whereas Azerbaijan's capital adequacy is the lowest in the sample by some distance.

The country to watch may be Armenia, which has the second highest level of foreign ownership but has not yet seen the kind of banking services penetration witnessed in Ukraine. That may be about to change. Its banks are still the best capitalised in the sample by some distance, but asset growth is accelerating sharply – by 32% in 2010, the fastest in the region by about 10 percentage points. ¹⁸



THE LEVEL OF BANK PENETRATION IN UKRAINE IS PARTLY EXPLAINED BY THE HIGH DEGREE OF FOREIGN INVESTMENT IN THE SECTOR, WITH 42% OF ASSETS ON THE BALANCE SHEETS OF BANKS THAT ARE MAJORITY FOREIGN-OWNED ●●

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RANKINGS

TOP 20 UKRANIAN BANKS

Bank	Consolidation level	Year end	Strength		Size			Soundness		Profits		Performance		
			Tier 1 capital \$m	Tier 1 capital %ch.	Assets \$m	Assets rank	Assets %ch.	Capital assets ratio %	Capital assets ratio % previous	Pre-tax profits \$m	Pre-tax profits %ch.	Profits on av. capital % latest	Profits on av. capital % latest	Return on assets %
State Export-Import Bank of Ukraine	BHC	12/10	2034.45	68.03	9024.68	2	28.31	22.54	33.21	482.78	2.05	0.37	12	
State Savings Bank of Ukraine	BHC	12/10	1816.75	-11.47	7228.87	3	-3.68	25.13	103.87	-14.36	5.37	1.44	5	
PrivatBank	BHC	12/10	1797.04	31.61	14247.33	1	26.84	12.61	186.80	-27.02	11.81	1.31	6	
Raiffeisen Bank Aval	FOS	12/10	759.20	2.00	7132.83	4	1.94	10.64	23.99	L->P	3.19	0.34	13	
UkrSibbank	FOS	12/10	647.54	8.54	5826.78	5	7.43	11.11	-484.10	-1.10	-77.82	-8.31	20	
Prominvestbank	BHC	12/10	576.87	-2.72	4347.69	7	14.78	13.27	-106.17	69.00	-18.15	-2.44	18	
UkrSotsbank	FOS	12/10	522.86	0.13	5196.94	6	-3.68	10.06	20.72	-31.44	3.97	0.40	11	
VTB Bank Ukraine	FOS	12/10	375.36	91.92	4052.14	8	15.92	9.26	-171.82	-10.58	-60.19	-4.24	19	
OTP Bank Ukraine	FOS	12/10	324.37	15.51	3139.01	9	-17.15	10.33	27.47	L->P	9.08	0.88	8	
First Ukrainian International Bank	BHC	12/10	269.29	-3.48	2222.18	11	11.82	12.12	71.49	L->P	26.08	3.22	2	
Finance & Credit Bank	BHC	12/10	226.27	-5.44	2809.19	10	15.29	8.05	-26.72	52.69	-11.48	-0.95	16	
Pivdennyi Bank	BHC	12/10	173.01	6.73	1545.83	13	7.92	11.19	15.12	818.91	9.03	0.98	7	
ING Bank Ukraine	FOS	12/10	158.73	-11.36	1209.86	15	-0.64	13.12	43.78	35.07	25.92	3.62	1	
Kreditprombank	BHC	12/10	147.18	-17.35	1782.96	12	4.76	8.25	3.73	L->P	2.29	0.21	14	
Erste Bank Ukraine	FOS	12/10	145.27	32.36	1234.85	14	16.18	11.76	-14.49	75.62	-11.37	-1.17	17	
Astra Bank	FOS	12/10	141.44	3.50	200.52	20	8.16	70.54	5.60	2.96	4.02	2.79	3	
UniCredit Bank Ukraine	FOS	12/10	121.62	23.43	1081.07	16	-0.69	11.25	17.72	1152.09	16.09	1.64	4	
KredoBank Ukraine	FOS	12/10	114.94	40.68	593.43	18	-12.84	19.37	-4.61	93.48	-4.69	-0.78	15	
Imexbank	BHC	12/10	110.54	N/A	788.57	17	N/A	14.02	3.96	N/A	N/A	0.50	9	
Industrialbank	BHC	12/10	90.11	27.48	451.80	19	7.83	19.94	2.22	-41.91	2.76	0.49	10	

TOP 25 BLACK SEA BANKS (EXCLUDING UKRAINE)

Bank	Consolidation level	Year end	Country	Strength		Size			Soundness		Profits		Performance		
				Tier 1 capital \$m	Tier 1 capital %ch.	Assets \$m	Assets rank	Assets %ch.	Capital assets ratio % latest	Capital assets ratio % previous	Pre-tax profits \$m	Pre-tax profits %ch.	Profits on av. capital % latest	Profits on av. capital % latest	Return on assets %
International Bank of Azerbaijan	BHC	12/10	Azerbaijan	519.40	40.38	5885.51	1	25.32	8.83	7.88	8.28	-86.15	1.86	52	0.14
Bank of Georgia	BHC	12/10	Georgia	359.83	10.56	2258.84	2	30.72	15.93	18.83	71.54	L->P	20.88	12	3.17
TBC Bank	BHC	12/10	Georgia	194.02	12.04	1279.19	3	24.09	15.17	16.8	32.15	1270.15	17.51	18	2.51
Pasha Bank	BHC	12/10	Azerbaijan	171.45	8.77	641.98	4	68.23	26.71	41.3	18.24	-6.19	11.08	33	2.84
Moldova Agroindbank	BHC	12/10	Moldova	132.36	19.29	712.76	5	8.59	18.57	16.9	23.32	186.83	19.16	15	3.27
Ameriabank	BHC	12/10	Armenia	103.08	86.48	498.77	6	82.57	20.67	20.23	12.59	188.68	15.91	22	2.52
Ardshinvestbank	BHC	12/10	Armenia	84.49	34.35	383.38	7	21.98	22.04	20.01	10.02	145.56	13.6	27	2.61
ACBA-Crédit Agricole Bank	BHC	12/10	Armenia	81.88	6.97	467.79	8	10.57	17.50	18.09	14.50	6.7	18.31	16	3.10
Bank Standard	BHC	12/10	Azerbaijan	81.23	9.86	735.92	9	15.12	11.04	11.57	1.54	-88.74	1.99	51	0.21
Technikabank	BHC	12/10	Azerbaijan	69.42	20.50	613.69	10	9.46	11.31	10.28	9.88	-6.61	15.56	23	1.61
Kapital Bank	BHC	12/10	Azerbaijan	69.03	-13.90	965.63	11	41.96	7.15	11.79	-7.08	-24.39	-9.49	64	-0.73
Victoriabank SA	BHC	12/10	Moldova	68.70	0.50	605.77	12	24.68	11.34	14.07	29.38	456.03	42.87	3	4.85
JSBC Eximbank	FOS	12/10	Moldova	68.62	-12.28	295.52	13	-4.16	23.22	25.37	-10.59	P->L	-14.43	67	-3.58
ProCredit Bank Georgia	FOS	12/10	Georgia	67.43	15.91	487.06	14	13.7	13.85	13.58	13.79	-0.83	21.95	11	2.83
Banca de Economii	BHC	12/10	Moldova	66.60	-0.05	435.94	15	4.69	15.28	16	0.54	-76.88	0.81	57	0.12
HSBC Bank Armenia	FOS	12/10	Armenia	64.74	42.82	403.68	16	12.37	16.04	12.62	16.48	144.21	29.95	6	4.08
AccessBank	BHC	12/10	Azerbaijan	60.51	n/a	458.68	17	n/a	13.19	n/a	32.89	n/a	n/a	n/a	7.17
Yapi Kredi Bank Azerbaijan	FOS	12/10	Azerbaijan	53.29	13.40	257.19	18	35.15	20.72	24.69	10.25	69.48	20.44	14	3.98
Unibank	BHC	12/10	Azerbaijan	52.85	8.47	464.47	19	3.03	11.38	10.81	-12.62	P->L	-24.85	71	-2.72
Moldindconbank	BHC	12/10	Moldova	50.58	12.60	424.12	20	13.7	11.93	12.04	4.81	321.55	10.08	34	1.13
Armbusinessbank (ABB)	BHC	12/10	Armenia	48.29	18.82	381.63	21	36.04	12.65	14.49	5.62	62.8	12.64	30	1.47
Converse Bank	BHC	12/10	Armenia	43.80	62.59	288.66	22	38.68	15.17	12.94	6.03	L->P	17.06	19	2.09
Unibank	BHC	12/10	Armenia	43.66	91.86	342.97	23	19.14	12.73	7.91	4.26	4331.1	12.82	29	1.24
Bank Respublika	BHC	12/10	Azerbaijan	38.85	2.61	314.54	24	-26.49	12.35	8.85	-2.51	-2.68	-6.53	62	-0.80
Banca Sociala	BHC	12/10	Moldova	35.24	20.32	232.67	25	15.52	15.14	14.54	4.62	78.57	14.32	24	1.99

Key: FOS = foreign-owned subsidiary, BHC = bank holding company. Source: thebankerdatabase.com