

Gref Sees No Fallout for Sberbank From Ukraine

By [The Moscow Times](#)

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As the Ukrainian financial system is wobbling, Sberbank's Moscow branches are draped in festive decorations. **Vladimir Filonov**

Sberbank, Russia's largest bank, sees no threat to its business from the political upheaval in Ukraine for now and will be able to absorb losses there thanks to its strong capital base, chief executive German Gref said in an interview.

Sberbank had exposure of 130 billion rubles (\$4 billion) to Ukraine — or less than 1 percent of its balance sheet of \$460 billion — at the end of the third quarter.

Ukrainian President Viktor Yanukovich has faced massive protests over the last couple of weeks after he pulled out of a free-trade deal with the European Union and sought closer ties with former Soviet master Moscow.

The turmoil has put further strain on Ukraine's finances, as the government seeks help

to cover an external funding gap of \$17 billion next year — almost the level of the central bank's depleted currency reserves.

Ratings agency Moody's estimates the Ukraine exposure of Russia's leading state banks at \$20 billion to \$30 billion, posing risks to their asset quality and capital adequacy.

"If there will be problems in Ukraine we will be the last who will feel it," Gref said, pointing to a strong tier one capital adequacy ratio of Sberbank's Ukrainian unit of 13 percent, which is higher than for the group as a whole.

"The question is how long this situation will last and how it will hit economic indicators. If it will be a manageable process ... they will take a walk and remember to return to work ... If the process will linger then problems may arise."

He said Sberbank had not yet created any additional provisions for its Ukrainian portfolio, whose quality Gref described as "high."

Sberbank has not been officially approached by Ukraine for any financial support. Its investment banking unit, Sberbank CIB, arranged and participated in a \$750 million syndicated loan to Ukraine in September.

Russia acknowledged last month that its economy would grow by just 2.5 percent a year to 2030, lagging global growth and setting the stage for an era of stagnation.

Gref, a former economy minister who took charge at Sberbank in 2007, said the weaker economy was already starting to undermine the quality of the bank's corporate loan portfolio and that it was setting aside provisions to cover doubtful loans.

"The deterioration is happening almost everywhere — only telecoms and retail do not yet feel it strongly," he said. "We are starting to hedge [with higher provisions] some deals in our corporate portfolio."

In the third quarter, Sberbank's loan-loss provisions quadrupled to 44 billion rubles. New loans needed to be covered, Gref said, while business conditions had weakened for some big clients.

"There are significant sectoral risks, risks related to a group of some large borrowers," he said. "But I think we have the capacity to absorb those risks."

Metals and mining companies face particular difficulty. Aluminum producer RusAl, coal miner Mechel and steelmaker Evraz, have sought state aid to help them restructure loss-making operations.

Sberbank has just agreed to waive covenants on \$1.4 billion in loans to Mechel as part of a restructuring of the New York-listed miner's total debts of \$9.6 billion.

Gref said there was no need for the type of state bailouts handed out after the 2008 financial crash, which hit the prices of Russia's raw materials exports and caused the economy to shrink by 8 percent the following year.

"During the crisis of 2008-09, capital markets were closed and [metal and mining companies] could not refinance their external debts. Now fund raising is happening internally," Gref said.

Aluminum giant RusAl — another big Sberbank borrower — is battling weak aluminum prices as it tries to cope with net debts of \$10.1 billion at the end of the third quarter.

Sberbank took on a state bailout loan to RusAl, now worth \$4.6 billion that matures in September 2016. The loan is secured against RusAl's stake in Norilsk Nickel, the world's leading miner of nickel and palladium.

Asked about RusAl, Gref said the company had not yet asked to restructure its Sberbank loan, but there could be a discussion of extending the maturity of the loan.

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