

Ukraine Crisis Pulls Russia's VTB Q1 Profit Down 98%

By [The Moscow Times](#)

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VTB's first-quarter net profit dropped 98 percent, a sign of the damage caused by the crisis in Ukraine.

Russia's second-largest bank, VTB, laid bare the economic damage being inflicted by the Ukraine crisis, missing forecasts with a 98-percent plunge in first-quarter net profit as it set aside more money to cover potential bad loans.

Russian banks have been increasing their provisions against potential loan defaults for some time as economic growth slowed.

But the country's economy is now flirting with recession, hurt by tensions between Russia and Ukraine that prompted the West to impose sanctions against some Russian individuals and entities, as well as an outflow of capital and falls in Russia's currency and stock markets.

VTB said Tuesday its provision charge for bad loans more than doubled in the first quarter of its financial year to 47.6 billion rubles (\$1.4 billion) from the same period last year, hitting

net profit which fell to 400 million rubles — far below analysts' average forecast of 12.9 billion.

"They charged a lot [for provisions] and the cost of risk was far above our estimates. The main [driver] was probably the corporate sector due to the economy slowing," said Gazprombank analyst Andrei Klapko.

VTB's shares were down 4 percent to 4.5 kopecks in Moscow at 1:15 p.m., while its London-listed depositary receipts were down 3.6 percent to \$2.62.

The volatile economy and geopolitical tensions had a significant impact on VTB's profit, said CEO Andrei Kostin in a statement, leading the bank "to be prudent and more conservative in our lending and provisioning policies."

Return on equity, RoE — a measure of a bank's profitability — sank to 0.2 percent from 8.1 percent a year earlier, putting it far below European peers such as HSBC which reported 11.7 percent for the first quarter, and Deutsche Bank which reported 7.9 percent.

VTB's cost of risk rose to 2.8 percent from 1.6 percent. A bank's cost of risk is a measure of its loan losses expressed as a percentage of its total loan portfolio.

The bank's net loss from foreign currencies was 8.2 billion rubles, hit by a fall in the Ukrainian hryvna, which is down more than 40 percent this year.

VTB had previously said its exposure to Ukraine was 20 billion rubles and its operations there amounted to about 2 to 3 percent of its total operations.

Ukraine's economy is expected to slide deeper into recession this year, while Russia is on the brink of recession after quarterly GDP fell by 0.5 percent in the first quarter.

VTB's non-performing loan ratio jumped to 5.8 percent of gross customer loans from 4.7 percent three months earlier. Its retail bank VTB 24 has "considerably reduced approval rates for the riskiest customer segments," the bank said.

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