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Abstract: This paper provides an overview of foreign entry of Asian banks from China, Japan, and South Korea into the Russian banking market, particularly focusing on the analysis of their business activities. The author demonstrates that despite relatively high positions of Asian banks in the global rankings, the scope of their activities in Russia remains rather limited. Historically, it is possible to define three stages of foreign entry of Asian banks, namely, 1990s, 2007-09, and 2011-14, however, the majority of banks has entered Russia in 2000s, following Russia's high economic growth. Chinese banks entered as pioneers; nevertheless, Japan is currently leading in terms of number of domestic subsidiaries. The analysis of credit and deposit portfolios, allowed to identify the following market segments in which Asian banks operate: support to their domestic clients under the follow the customer approach, corporate loans to both Russian and large foreign companies, corporate loans to Russian SMEs, and investment into federal bonds of Russia's government. The retail banking is mostly comprised of automobile loans with the Japanese banks having the leading positions in this market segment. The paper also highlights the fact that the quality of the current credit portfolio structure is highly concentrated, industry-biased, and short-term. Thus, Asian banks can hardly be regarded as the providers of the manufacturing FDI that are crucial for Russia's economy.

Keywords: foreign banks, FDI, Japan, South Korea, China, Russia

JEL Classification Codes: F23, G21

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1. Introduction

The expansion of Asian banks into the global market has been remarkable in recent years. From 1980 to 2010, Chinese, Japanese, and South Korean banks expanded to 20, 15, and 13-fold, respectively. Asia's banking market demonstrates continuous growth since 2010.

According to the bank ranking published by *Bankers Almanac*, in 2018, TOP 5 banks in the world in terms of assets were all from China, namely Industrial & Commercial Bank of China Limited, China Construction Bank Corporation, Agricultural Bank of China Limited, and Bank of China². The role of Chinese banks in the world economy has been steadily growing as the Chinese government aims to internationalize RMB and to realize the One Belt, One Road Initiative: Their presence in the international market is increasing and their foreign branch networks are maturing. Chinese banks are likely to strengthen their cooperation with countries along the belt and road by establishing their affiliates in Mongolia, Russia, and other Central Asian countries (International Monetary Institute, 2016).

Japanese banks also demonstrated remarkable results: Japan Post Bank Co Ltd. (8th place), MUFG Bank Ltd. (10th), Sumitomo Mitsui Banking Corporation (15th), Mizuho Bank Ltd. (20th), and the Norinchukin Bank (30th). According to *Japanese Bankers Association*, in 2017, 116 Japanese banks had 179 affiliated overseas banks and offices. Japanese banks have been traditionally following manufacturing FDI of its domestic customers (Gorshkov, 2017).

According to *Korea Federation of Banks*, foreign affiliates of South Korean banks in 2017 amounted to 174 banks and geographically they were located in Americas (15%), Europe (12%), Oceania (3%), and Africa (3%). Global ratings of South Korean banks are low, and lag far behind *chaebol* when it comes to internationalization, however, recently they demonstrate interest towards internationalization by buying assets and opening branches across southeast Asia. For instance, the largest domestic bank Shinhan opened branches in Sydney, Yangon, acquired ANZ's Vietnam retail business, thus taking its global presence to 150 branches in 20 countries. Woori Bank has 275 outlets in 25 nations, including Indonesia (144 branches), Myanmar (21), Cambodia (15), and the Philippines (17). The recent wave of foreign expansion of South Korean banks is presumably due to the fact that the domestic market protected from

² Other Chinese banks within TOP 50 include Bank of Communications Co. Ltd. (21st), Post Savings Bank of China Co. Ltd (22nd), Industrial Bank Co. Ltd. (31st), China Merchants Bank Co. Ltd (33rd), China Minsheng Banking Corporation Limited (38th), China Civic Bank Corporation Ltd. (CNCB) (39th), The Agricultural Development Bank of China (42nd), and China Everbright Bank Co. Ltd.

foreign competition for many years has reached its limit and there is a growing need for new sources of growth in conditions of aging population (Wilson, 2018).

In light of Western sanctions, Russia has high expectations towards Asian markets as they are viewed as potential new sources of capital financing. The politically proclaimed “pivot to Asia (East),” however, is not bearing any satisfactory results. The true nature of the relationships between Russian business and Asian financial markets is yet to be discovered. Nevertheless, it is important to evaluate the present condition and scope of business activities of Asian banks in Russia in order to understand whether there are windows of opportunity for the future mutual cooperation.

In the present paper, we focus on the foreign entry of Asian banks from China, Japan, and South Korea, by particularly analyzing their time of entry, motivation, entry modes, and business activities in Russia. In order to evaluate the scope of business activities of Asian banks in Russia, we examine their financial statements and aim to evaluate the quality of their current credit and deposit portfolios.

The structure of the paper is as follows. In Section 2, we aim to aim to evaluate the scope of activities of Asian banks on the Russian market. We present the evolution of foreign entry of Asian banks and provide relative statistics on ratings of Asian banks in Russia in terms of assets, capital, deposits, net profit, and corporate lending. Also, in order to assess the scope of activities of Asian banks, we analyze country case-studies on all Chinese (4), Japanese (7), and South Korean (2) banks with 100% foreign capital participation. Section 3 briefly examines issues of motivation, entry modes, and major activities of Asian banks in Russia. Section 4 concludes.

2. Evolution and Scope of Activities of Asian Banks in Russia

As of October, 2017, there were 66 banks with 100% foreign capital participation registered as domestic legal entities in Russia. These include 61 bank and 5 non-credit banking organization. The result of the analysis by home country (ultimate shareholders) is presented in Table 1.

Europe remains the main investor into the banking sector of Russia which is explained by historical, geographical reasons, as well by cultural proximity (Gorshkov, 2015). Offshore banks registered in Cyprus represent cases of Russian banking FDI round-tripping. In the respected period, there were five banks with Russian citizens as ultimate shareholders. The share of Asian banks is slightly under-evaluated in the Bank of Russia statistics (18.2%), as

some Asian banks (AO “RN Bank”, AO “MS Bank Rus,” AO “Toyota Bank) expand their operations to Russia via third countries. This is a typical feature of Japanese banks that tend to minimize the costs of entry (Gorshkov, 2017). The total number of banks in the respected period was Japan (7), China (4), South Korea (2), India (1), Singapore (1).

Table 1. Banks with 100% Foreign Capital Participation by Home Country Investor

Region	Bank of Russia	Author’s Estimation
North America	6.1%	9.1%
Europe	50.0%	42.4%
Middle East	7.6%	7.6%
Offshore Territories and SPEs	9.1%	0.0%
Asia	18.2%	21.2%
Russian banking round-tripping FDI	0.0%	7.6%
TOTAL	100%	100%

Source: shares of regions of home country banks are calculated by author based on the Bank of Russia statistics (Information on Credit Organizations with Non-Residents Participation as of 1 October 2017).

The rankings of Chinese, Japanese, and Korean banks on the Russian market are presented in Table 2. Chinese and Japanese banks have relatively high positions in assets and capital with Japanese banks generally demonstrating better results. However, both of these Asian investors lack far behind the state-owned Russian banks and European banks operating in Russia. High rankings in terms of assets and capital can be explained by the fact that Chinese and Japanese banks generally have high positions in global rankings of banks. Conventionally, Japanese banks tend to provide larger amount of corporate loans in Russia, despite the fact that Chinese banks have larger amount of total assets. None of Asian banks have high ratings in terms of deposits, implying that Asian banks in Russia prefer to operate with corporate clients rather than developing retail banking.

Historically, Chinese banks were the first one to expand to the Russian market: Bank of China established a subsidiary in Russia in 1993. Japanese banks demonstrated interest in the Russian market in 1999, when a regional Japanese bank Michinoku opened a subsidiary in Moscow. Tokyo Mitsubishi UFJ that had a representative office in Moscow established in 1992, was the first one among Japanese *megabanks* to open a subsidiary in 2006.

In 2007, three banks, namely Toyota Bank (Japan via Germany), Woori Bank (south Korea), and ICBC Bank (China) were established. In 2008, Michinoku bank (Moscow) was acquired

by Mizuho Bank. SBI Holdings, Japan has acquired the majority of shares in the former OOO³ “YAR-Bank” in 2011 and changed its name into OOO “SBI Bank.”

Table 2. Rankings of Asian Banks in Russia as of July, 2018

Home country	Bank	Net Profit	Assets	Capital	Individual Deposits	Corporate Loans
China	AO “AKB Bank of China” (1993)	71	113	96	203	155
	AO “ICBC Bank (Moscow)” (2007)	83	89	47	414	112
	OOO “China Construction Bank” (2013)	111	145	108	371	206
	OOO “China Agricultural Bank” (2014)	442	257	144	516	236
Japan	AO “Mizuho Bank (Moscow)” (2008[1999 - Michinoku Bank])	126	79	59	398	85
	AO “MUFG Bank (Eurasia)” (2006)	47	87	54	520	84
	AO “Toyota Bank” (2007)	76	86	80	294	57
	AO “Sumitomo Mitsui Rus Bank” (2009)	101	78	64	511	99
	OOO “SBI Bank” (2011[1994])	190	234	175	292	249
	AO “RN Bank” (2013[1989])	70	76	66	232	61
	AO “MS Bank Rus” (2014[1994])	495	171	191	366	111
South Korea	AO “Woori Bank” (2007)	160	175	166	375	229
	AO “KEB HNB Bank” (2013)	353	197	270	476	308
<i>For reference:</i>						
Italy	AO “UniCredit Bank”	7	10	8	14	8
Austria	AO “Raiffeisenbank”	8	11	9	8	10
United States	AO “KB Citibank”	19	24	20	25	30

Source: compiled by author with references to www.banki.ru (accessed August 20, 2018)

Note: There were 524 banks in July, 2018.

In 2013, Japan, China, and South Korea has opened one subsidiary each - OOO “China Construction Bank,” AO⁴ “RN Bank,” AO “KEB HNB Bank,” respectively. OOO “China

³ OOO stands for *Obshestvo s Ogranichennoj Otvetstvennostiyu* (Limited Liability Company).

⁴ AO stands for *Aktsionernoe Obshestvo* (Joint Stock Company).

Agricultural Bank” and AO “MS Bank Rus” were the last among Asian banks to enter Russia in 2014.

Thus, most of the banks have entered the Russian market in 2000s, following high economic growth spurred by favorable conditions on the world petroleum market. Principally, it possible to define three stages of foreign entry: 1990s, 2007-09, and 2011-14.

Below, we provide an overview of major activities of Asian banks in Russia by analyzing their financial statements, particularly focusing on credit and deposit portfolios.

2.1. Chinese Banks

At present, there are four Chinese banks operating in Russia, namely AO “AKB Bank of China,” AO “ICBC Bank (Moscow),” OOO “China Construction Bank,” and OOO “China Agricultural Bank.” The parent banks of domestically established Russian subsidiaries are the largest global banks in the world backed by the Chinese government and they are in the top 5 global banks according to the *Banker*. The history of market entry dates back to 1993 with the Bank of China that established a 100% subsidiary in Russia. Chinese banks generally prefer this method of entry as these banks had no representative offices in Russia prior to their establishment.

Despite sanctions imposed by the United States, Russia remains the leading world economic power and a neighboring country of China. Russia is also a core partner in further promotion of the One Belt, One Road Initiative. Two countries continue to enhance comprehensive strategic partnership, coordinate economic and financial policies, and promote internationalization of RMB and international settlements in local currencies. Presumably, these initiatives should provide favorable conditions for further development of Chinese banks business in Russia.

2.1.1. AO “AKB Bank of China”

The bank was established in 1993 and was one of the first foreign banks that opened a subsidiary in Russia (AO “AKB Bank of China” April, 2018). The parent bank, Bank of China Ltd., owns 100% shares and has more than 800 affiliated offices in more than 30 countries. The bank is providing services both to corporate and individual customers. Corporate customers include Russian and Chinese companies as well as customers from other countries.

The total amount of loans to customers as of December 31, 2017 amounted to RUB 8.6 billion⁵, loans to corporate clients amounted to 99% with majority being large companies

⁵ Here and below we use the data before the subtraction for impairment allowance. The amount of credit

(94%). Corporate loans have increased by 2.6 times in 2016-17, particularly for large companies⁶. Chinese investors have accelerated the provision of funds in conditions of instability and uncertainty over traditional sources of financing of Russian business. Corporate loans were provided to companies operating in the following economic sectors: wholesale and retail trade - 33%, manufacturing - 31%, mining - 18%, transport and storage - 3%, construction - 1%, individual customers - less than 1%.

Retail loans have slightly declined and amounted to RUB 15.8 million, with the majority comprised of mortgage loans (68%). AO “AKB Bank of China” is also placing financial assets in Russian banks, namely in the Bank of Russia and domestically registered foreign banks. The amount of such loans and assets in 2017 amounted to RUB 12.5 billion.

The total amount of deposits in 2017 amounted to RUB 17.9 million, of which 56.5% were deposits of Russian customers and 43.5% were assets provided by Chinese customers. The deposit structure is presented by state and municipal organizations (0,021%), juridical entities (86.21%), and individual customers (13.65%).

2.1.2. AO “ICBC Bank”

The bank was established in 2007 as a 100% subsidiary of “Industrial and Commercial Bank of China.”

The credit portfolio of ICBC Bank is 100% comprised of corporate loans, which increased by 32% in 2016-17 and amounted to RUB 18 billion as of December 31, 2017. Working capital financing amounted to 43.4%, refinancing of existing loans - 41.5%, capital investments - 10%, trade and export financing - 5.1%. Thirty-nine-point eight percent of loans were allocated to the manufacturing sector and 31.3% to petroleum, gas, and chemical industries. Other loans were directed to transport (10.7%), trade and services (8.3%), financing (4.5%), communication and telecommunication (3.2%), and energy (2.1%) sectors. The largest corporate clients of ICBC bank are OAO “Akron,” SUEK Ltd., PAO “Uralkali”, and OJSC “Gazprom”.

The deposit portfolio of ICBC bank is presented by Chinese private and state companies registered in Russia, large Russian companies, and trade companies that are mostly small and medium enterprises (SMEs).

portfolio after the subtraction for impairment allowance was RUB 8.1 billion.

⁶ 847,752,000 RUB are loans to foreign companies outside Russia.

Despite negative market trends in conditions of sanctions imposed by the United States and some European countries, ICBC bank continues the expansion of its operations in Russia. In 2018, the bank aims to finance large Russian companies and Chinese business in Russia (AO “ICBC Bank,” 2018).

In 2017, ICBC bank signed a special agreement with the Russian government to issue Russia’s federal bonds in RMB. Thus, the shortages in the capital procurement from the Western market can be partially resolved.

2.1.3. OOO “China Construction Bank”

The bank was established on March 4, 2013 and is a 100% domestic subsidiary of China Construction Bank Corp. owned by the Ministry of Finance and the Government of China. In Russia, the bank is solely engaged in commercial lending. The motivation of entry is to support and strengthen China-Russia relations. Major customers are Chinese companies operating in Russia and large Russian companies and banks.

The amount of corporate loans has declined in 2015-17 by 2.9 times and amounted to RUB 3 billion as of December 31, 2017. Corporate loans were provided to customers in Russia (49%), China (1.71%), Kazakhstan (16.1%), and Kyrgyz Republic (33.2%). Ninety-four percent are corporate loans to oil production and refining (33.2%), transport (16.1%), metallurgy (15.6%), mining (12.8%), paper production (9.7%), construction (6.9%), while 5.7% are loans to individual customers.

The clients’ funds amounted to RUB 26.3 billion in 2017 and were primarily comprised of corporate customers (75%) from construction (39.3%), commercial trade (26.8%), and metallurgy (24.0%) sectors (OOO “China Construction Bank,” 2018).

2.1.4. OOO “China Agricultural Bank”

The bank was established on September 25, 2014 by China Agricultural Bank, Ltd. that has the Ministry of Finance of China (39.21%) and Central Huijin Investment Ltd. representing the Chinese government (40.03%) as their ultimate shareholders.

In Russia, the bank is providing commercial banking services to solely corporate clients. Corporate loans in 2017 amounted to RUB 2.95 billion and were provided to nine companies operating in the following economic sectors: mining and processing (36%), telecommunications (22%), chemical industry (19%), metallurgy (16%), and pulp, wood pulp, paper and cardboard production (7%). Forty-two percent of corporate loans were provided to European companies.

The clients' funds in 2017 amounted to RUB 487.7 million and were raised by companies primarily operating in leasing and commercial trade (OOO "China Agricultural Bank," 2018).

2.2. Japanese Banks

Foreign entries of Japanese banks into Russia's market were implemented in several stages starting from 1992 and were mostly motivated by *follow the customer approach*. During the initial stages of entry, Japanese banks actively applied the *organic growth strategy* and established representative offices in Russia that were later converged into domestic subsidiaries (Russia's domestic juridical entities with Japanese capital participation).

From 2006, Japanese banks preferred the brownfield type of investments and acquired a few Russian banks in order to minimize entry and other transaction costs. Japanese banks in Russia operate in the following market segments: support of Japanese companies and their affiliated businesses in Russia, financial services procurement to large Russian companies and banks, retail business (automobile credits), and internet-banking (Gorshkov, 2017).

2.2.1. AO "Mizuho Bank (Moscow)"

The bank was initially established in 1999 by Michinoku Bank, Japan. In 2008, it was acquired by Mizuho Bank Ltd., Japan. As of January 1, 2018, the shareholders of the bank were Mizuho Bank, Ltd., Japan (99.9%) and Mizuho Bank Europe NV, Netherlands (0.1%). Mizuho Bank, Ltd. is a part of Mizuho Financial Group that has more than 500 affiliates in the world.

AO "Mizuho Bank (Moscow)" has been providing services to Japanese companies investing in Russia and plans to expand its share of this market segment. The bank is ultimately financed by the headquarter company and has no liquidity problems. The bank is also not subject to economic fluctuations in Russia.

Corporate loans in 2017 amounted to RUB 21 billion and were provided to Japanese companies operating in Russia (primarily in Moscow City - 64.6%) in the following economic sectors: manufacturing (3.2%), metallurgy (4.0%), machinery and equipment (18.3%), transport (0.1%), commercial trade (50.6%), real estate (0.9%), and other sectors (15.5%). Eighty-two percent of corporate credits are for financing of current operations. Investment into Russia's federal bonds remain insignificant and amounted to RUB 150 million.

Deposits are funded by financial organizations (RUB 16.4 billion), corporate business (RUB 19.2 billion), and individual clients (RUB 90 million). The share of liabilities is 69.4% and the share of equity is 30.56% (AO "Mizuho Bank (Moscow)," 2018).

2.2.2. AO “MUFG Bank (Eurasia)”

The bank was established in 2006 and is a 100% subsidiary of MUFG Bank, Ltd., Japan. The bank is providing banking services primarily to the corporate clients and is present in Moscow, Saint-Petersburg, and Vladivostok.

Corporate loans in 2017 amounted to RUB 17.6 billion and were mostly provided to SMEs (95.2%), engaged in the following main economic activities: commercial trade (31.4%, incl. sales of imported automobiles - 16.3%), vehicle (transport) manufacturing (20.9%), transport agencies (13.0%), tires and chambers manufacturing (9.1%), leasing (5.6%), and oil and gas extraction (3.0%). The credit portfolio of the bank is one of the most diversified among the respected group of banks as it also includes financing of blast furnace production, manufacturing of vehicle parts and components, manufacturing of toilet and cleaning items, real estate business, printing services, extraction of metal ores, production of chemical fertilizers, and other financial services.

The concentration of the credit portfolio is high: In 2017, the bank had seven borrowers or groups of affiliated borrowers. About 50% of corporate loans are short-term (AO “MUFG Bank (Eurasia),” 2018).

2.2.3. AO “Toyota Bank”

The bank was established in 2007 and is a part of Toyota Financial Services Corporation, Japan by its main shareholder Toyota Kreditbank GmbH, Germany (99.94% of shares). The principal activities are retail auto-lending and corporate lending of official dealers of motor vehicles Toyota and Lexus. As of December 31, 2016, the bank had presence in 68 cities across Russia in 155 dealers’ offices. The credit portfolio is comprised by the following borrowers: retail auto loans - RUB 38.3 billion, loans to auto dealers - RUB 10.8 billion, and loans to banks (deposits with the Bank of Russia) - RUB 3.4 billion.

Liabilities are primarily comprised of loans from banks (RUB 18 billion), borrowings from Toyota Motor Finance B.V., Netherlands (RUB 17.8 billion), settlement of accounts of auto dealers (RUB 1 billion), and current accounts of individuals (RUB 410 million) (AO “Toyota Bank,” 2017).

2.2.4. AO “Sumitomo Mitsui Rus Bank”

The bank was established in April 2009 by Sumitomo Mitsui Banking Corporation, Japan (99%) and Sumitomo Mitsui Banking Corporation Europe Ltd., United Kingdom (1%).

The credit portfolio is comprised of loans to other banks (RUB 7.5 billion), loans to large Russian enterprises (RUB 444 million), loans to subsidiaries of large multinational companies (MNEs) (RUB 20.8 billion), and loans to other Russian companies (RUB 224.7 million). In 2017, corporate loans were provided to six borrowers or affiliated groups of borrowers operating in the manufacturing (63.1%), commercial trade (20.2%), leasing (14.7%), and gas, and mining (2.1%).

The bank holds Russia's federal bonds (RUB 102 million) and bonds of the Bank of Russia (RUB 352 million) (AO "Sumitomo Mitsui Rus Bank," 2018).

2.2.5. OOO "SBI Bank"

The bank was initially established in 1994 and over the years its shares were gradually acquired by SBI Holdings, Inc., Japan which is a 100% shareholder as of December 31, 2017. SBI Holdings, Inc. is a large financial holding specializing in the introduction and development of internet technologies and its main business activities include but not limited to assets management, investment banking, financial services, real estate, and program solutions. In Russia, the bank is actively involved in internet banking. The bank held RUB 87.6 million of Eurobonds and federal bonds of the Russian Federation; the amount of such financial assets has declined by 80% in 2016-17.

The credit portfolio has decreased from RUB 2.2 billion in 2016 to RUB 273 million in 2017 and is primarily comprised of corporate loans (84%). In 2016-17, the bank has experienced the problem of bad loans as impairment allowances have significantly increased.

The credit portfolio by sector is presented by companies operating in finance and investments (75.8%), individuals (15.7%), commercial trade and services (3.4%), construction (2.6%), and food industry and agriculture (2.5%). The concentration of the credit portfolio is high as six main borrowers account for 68.6%.

Liabilities are presented by corporate (RUB 976 million, 47.4%) and individual (RUB 1 billion, 52.6%) clients (OOO "SBI Bank," 2018).

2.2.6. AO "RN Bank"

The bank was initially opened in the city of Omsk on March 9, 1989 as CJSC "Bank Sibir." Since 2013, the bank is located in Moscow City and at present it has extremely complicated structure of affiliated shareholders and is 100% owned by BARN B.V., Netherlands. BARN

B.V. is 40% financed by AO “Unicredit Bank” (100% owned by UniCredit S.p.A., Italy) and 60% by PN SF Holding B.V. that has RENO S.A. and Nissan Motor Co., Ltd. as its ultimate beneficiaries.

The primary business is auto-lending to individual customers interested in purchasing automobiles of the Renault-Nissan-Mitsubishi Alliance. The credit portfolio of the bank in 2017 was comprised of corporate loans (factoring) - RUB 21.6 billion and loans to individuals - RUB 47. 6 billion. The credit portfolio has increased by 25% in 2016-17.

2.2.7. AO “MS Bank Rus”

The bank was initially established in 1994 and later acquired by ES-Invest B.V., Netherlands owned by Mitsubishi Corporation (85%) and a Russian citizen (15%). The bank provides banking services to individual customers, such as retail auto loans and other consumer loans, money transfer, and foreign exchange operations. The bank also provides financial services to corporate clients. Auto loans are a strategic market niche of the bank on the Russian market. Main customers of the bank are individuals, companies related to automobile business, and corporate clients that are automobile holdings.

In 2017, the credit portfolio of the bank has increased by 40%; the bank provided corporate loans in the amount of RUB 161 million (commercial trade) and RUB 9.6 billion of retail auto loans.

The liabilities structure is mostly comprised of deposits from customers: Corporate deposits amounted to RUB 8.7 million (97%) and were raised from companies operating primarily in the financial sector (9%), while individual deposits amounted to a moderate RUB 254 million (AO “MS Bank Rus,” 2018).

2.3. South Korean Banks

2.3.1. AO “Woori Bank”

The bank was established in November, 2007 and is a 100% subsidiary of Woori Financial Group, South Korea. The bank is providing services to Korean and Russian companies operating in Russia and Commonwealth of Independent States (CIS) and has one domestic branch in Saint-Petersburg and a representative office in Vladivostok.

The corporate portfolio is comprised of loans to other banks (RUB 5.2 billion), corporate loans to large companies (RUB 2.8 billion) and SMEs (RUB 474.4 million). Corporate loans to large enterprises were provided to companies operating in the following economic sectors: manufacturing (55.2%), real estate (18.4%), wholesale and retail commercial trade (10.3%),

and other sectors (16.1%). The bank also holds federal bonds of Russia in the amount of RUB 1.2 billion (AO “Woori Bank,” 2018).

2.3.2. OOO “KEB HNB Bank”

The bank was established in October 2013 as a subsidiary of KEB Hana Bank, South Korea that owns 99,999997% of shares. The remaining 0,000003% of shares belong to a Korean citizen. KEB Hana Bank is a 100% owned by HANA Financial Holding, South Korea. In Russia, the bank is engaged in the following activities: deposits, corporate loans, opening and servicing of bank accounts, and settlement and cash services.

Corporate loans amounted to RUB 1.1 billion in 2017 and were provided to six companies operating in the manufacturing sector (49.7%), construction (25.3%), and commercial trade (24.6%). The majority of these companies are subsidiaries of Korean companies operating in Russia.

KHB bank also holds federal bonds (RUB 814 million) and Eurobonds (RUB 193 million) of the Russian Federation. The amount of federal bonds has doubled in 2016-17.

Clients’ funds are represented by 10 corporate clients that invested RUB 7.6 billion in 2017 (OOO “KEB HNB Bank,” 2018).

3. Motivation, Entry Modes, and Major Activities of Asian Banks in Russia

Motivation of entry of Asian banks into the Russia market is rather diverse and changes over time. Many banks entered to support their domestic clients in their home countries, however, over time they explore other market segments.

Currently, Asian banks in Russia operate in the following market segments: 1) following the customers in home countries and support of their business; 2) corporate loans to Russian customers; 3) corporate loans to customers located in Europe, CIS, and other regions; 4) corporate loans to Russian SMEs; 5) loans to Russian banks; 6) internet banking; 7) retail banking (auto loans, mortgage, foreign exchange operations); and 8) investments into federal bonds of Russia.

Many of Asian banks support activities of their home clients. This strategy is typical for Japanese banks that tend to enter foreign markets in order to follow their domestic clients (Gorshkov, 2017). However, Chinese banks and Korean banks also tend to support their domestic clients in Russia.

Despite the fact that many Asian banks provide corporate loans to large Russian companies, majority of them are allocated into mining, petroleum refining, and commercial trade sectors.

Thus, Asian banks presumably have limited impact on the manufacturing sector in Russia and structures of their corporate portfolios are industry-biased. In addition, Asian banks tend to provide financing to other domestically registered banks that lack adequate capitalization rather than finance manufacturing industries that are the priority of Russia's government.

Chinese and South Korean banks entered the Russian market by greenfield-type of investments by establishing domestically registered subsidiaries in Russia. This approach is different from Japanese banks that prefer *organic growth strategy* by establishing representative offices for the purpose of the market data collection and business consultation and later converting them into subsidiaries or establishing domestic subsidiaries while maintaining representative offices. Consequently, Japanese banks are more sensitive to institutional and market imperfections of the host country.

4. Conclusion

Despite relatively high ratings of Asian banks in the world, the scope of their activities in Russia remains rather limited.

Chinese banks were the first one to enter the Russian market and they have significantly increased the amount of banking liabilities in Russia in recent years, however, Japan has the largest number of banks operating in Russia. Historically, it is possible to define three stages of foreign entry of Asian banks, namely, 1990s, 2007-09, and 2011-14, however, the majority of banks has entered Russian market in 2000s, following high economic growth due to favorable conditions on the world petroleum market.

Chinese and Japanese banks have rather strong positions among 524 banks in Russia but they are significantly lower than the rankings of Russian state-owned and large private banks.

The analysis of financial statements of banks, particularly focusing on credit and deposit portfolios, allowed to identify the market segments in which Asian banks operate. Apart from the support of their domestic clients under *follow the customer approach*, Asian banks are providing corporate loans to both Russian and foreign large companies (non-residents in Russia), a few Asian banks do business with Russian SMEs, and some also invest into federal bonds of Russia. Retail banking is mostly comprised of automobile business with Japanese banks having leading positions in this market segment.

There are obvious problems with the current credit portfolio structure of Asian banks. First, corporate portfolio for almost all banks is highly concentrated: Banks only have a few large corporate clients. Second, the amount of corporate loans provided to mining and commercial trade sectors remains significant, thus Asian banks can hardly be regarded as providers of

manufacturing FDI that are crucial for Russia's economy. Third, the analysis of individual financial statements of banks has demonstrated that a lion's share of corporate loans is refinancing of the current operations of Russian large and SMEs, thus, these loans are short-term and can hardly be regarded as investments to launch new production facilities. Fourth, Asian banks as well as other foreign banks channel financial resources to low capitalized Russian banks.

The uncertainty regarding Russia's further economic development in conditions of a new wave of sanctions imposed by the United States pushes Russia's government to further shift East, particularly towards strengthening its foreign relations with China. However, it is unclear whether there will be new windows of opportunity in this direction in the short term.

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