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"Foreign activity of Russian banks:

reconsidering multinational banking theory"

Victor Gorshkov

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Foreign activity of Russian banks: reconsidering multinational banking theory

Victor Gorshkov

PhD student, Graduate School of Economics, Kyoto University, Kyoto, Japan
gorshkov.andreyanovich.44z@st.kyoto-u.ac.jp

Abstract

The present paper targets activity of Russian banks expanding their businesses abroad. Within the framework of existing multinational theory we examine motivation, entry modes and strategies of Russian foreign banks. We demonstrated on the example of Russia that distinctive features of banking sectors of host and home countries, offshore business of Russian banks, hidden forms of expansion through third countries, role of banks in other outward foreign investments, non-transparency of legal actors of foreign banks and their strong interrelation with the state and recourse-based TNCs and large financial and industrial groups, cultural and historical background among the host and home countries, all these factors in fact do matter and should be considered when investigating the foreign expansion of banks. Some suggestions were made in order to extend existing theoretical base on multinational banking theory.

JEL Classification Numbers: F23, F30, G20, G21, P29, P33

Keywords: *multinational banking theory, foreign banks, motivation, entry modes, strategies, Russian banks*

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Introduction

The role of emerging economies and BRICs countries particularly in the export of capital has increased in recent years. This fact is mostly explained by the growing liberalization process in these countries especially in the financial sphere. Generally this group of countries became more open and has successfully implemented reforms of financial and capital markets and took measures for integrating their national economies into the global financial system. From simply being importers of capital, these countries now became the sources of foreign direct investments (FDI) themselves (Shishkina, 2011; Shavshukov, 2012). In accordance with the UNCTAD statistic, Russia together with China has the biggest share in outward FDI that in 2009 was amounted to 4. 1%[1)]. The total share of BRICs in export of capital is only 5%, but the absolute volume of outward FDI from these countries increased by 12 times for the last 15 years[2)]. While the statistics on FDI has its own specifics in Russian conditions (there are considerable discrepancies in the volume of both inward and outward FDI in the data of Central Bank of Russia (CBR) and Rosstat due to the metrological issues[3)]), we in the present study mostly rely on the CBR data[4)].

The investment boom in outward FDI in Russia is mostly driven by the emerging transnational corporations (TNCs). The research on Russian TNCs is a prominent issue in the sphere of world economy and international economic relations. Kuznetsov (2007, 2008, 2009, 2010a, 2010b, 2011, 2012), Ivanov (2009), Bereznoy (2008), Filatotchev (2007), Katolay (2008), Panibratov (2012) and many other researches devote their researches to the investigation of questions on how Russian TNCs emerge, why do they expand their business abroad and what are their major business strategies on the foreign markets. Some researches focus on specific features of Russian MNCs and advocate for the revision of the multinational corporations theory (Mizobata, 2011).

On the other side, researches on transnational (multinational) banks TNBs from emerging economy, including Russia are scarce in number in comparison to the researches on non-financial TNCs. In the process of liberalization and globalization of financial system both inward and outward FDI should be considered. While the literature on foreign banks' activity in Russia is quite extensive and the topic is a very debated one, the activity of Russian banks is not fully covered in the existing literature. There are some detailed studies on the activity of Russian banks abroad from the point of view of the international economics (Avakumova, 2011). Nevertheless, issues of TNBs from Russia are often addressed in relation to the general analysis of Russian TNCs (Panibratov, 2010) or in relation to the issues of the internationalization of the Russian banking sector (Panibratov et al., 2011; Jari et al., 2002), or investigated as the part of the FDI analyses (Abalkina, 2010) or as the part of studies on Russian TNCs in the service sector (Kuznetsov, 2011).

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1) Russian outward FDI in 2004 were amounted to 13.9 billion USD, in 2005 – 12.8 billion USD, 2006 – 20.0 billion dollars. General trend is up-growing.

2) World Investment Report (2010).

3) The amount of accumulated inward FDI in 2010 was 369.1 billion dollars (15% less than the preliminary calculations). So-called reinvestments (returning of the Russian capital in the form of FDI) are also calculated in CBR statistics. Affiliated businesses of Russian companies are registered in offshore businesses (Cyprus, British Virgin Islands, Bermuda) and are the main sources of these so-called pseudo-FDI (for further details refer to Kuznetsov, 2012; Kheyfets, 2008). Katolay (2005) distinguishes legal FDI (including investments in oil tankers), pseudo-FDI (mainly round-tripping FDI via Cyprus and other offshores, but also some other categories of investments), illegal FDI, other forms of "capital flight".

4) For the purpose of comparison some data from Rosstat and UNCTAD is also being used.

In our opinion, the most detailed survey close to the study we plan to implement was implemented by Panibratov (2010, 2011) who concludes that internationalization of the banking sector of Russia is mainly going to CIS, but there are some selected countries of Western Europe, UK and US, while Russian banks showed slow interest towards the countries of Africa, China and Singapore. The author defined subsidiary banks and representative offices as the entry modes of expansion of Russian banks, and noted that expansion approach is a conservative one through organic growth and a series of strategic acquisitions (most active in the countries that actively trade with Russia). Panibratov (2010) also highlighted the role of the state in foreign expansion of Russian banks, showing its great importance for the state-owned banks. However, the author has not fully explained reasons for emergence of Russian MNBs within the framework of the existing literature on MNBs and limited his research only to consideration of largest banks – Sberbank, Alfa-Bank, Gazprom and Vneshtorgbank. In Panibratov (2011, 2012) key points of international expansion of the Russian banking sector are presented in more details, author argues that while being significantly state-owned, Russian banks are most likely guided by economic motives (as opposed to political ones) and are leaning towards safer expansion destinations in conditions of suffering from home market immaturity.

In the present study we stress the importance of ***multinational banking theory***[5)] in explaining the issues with Russian banks' foreign expansion, however we are not advocating for the full acceptability of it. We use approaches of MNBs in exploring the activity of Russian banks abroad. We particularly aim to summarize and re-assess the existing literature on motivation, entry modes and strategies of Russian banks abroad. Using the approaches of MNB theory we aim to define the driving forces that stimulate Russian banks to go abroad (PULL/PUSH reasons) and stress the point that behavioral activity cannot be fully explained within the frameworks of the existing literature on MNBs (TNBs).

The structure of the paper is as follows. ***Chapter I*** provides some theoretical background for the present study. We shape the methodology of the present study here and also analyze the dynamics of both inward and outward FDI of the Russian banking sector. ***Chapter 2*** deals with motivation of the Russian banks expanding their businesses abroad. In ***Chapter 3*** we outline entry modes and strategies of Russian banks in foreign markets and provide short case studies on Sberbank, VneshTorgBank (VTB) and Alfa-Bank' foreign expansion. ***Chapter 4*** summarizes the major problems in foreign expansion of Russian banks and shows the specific features of Russian

[5)] Multinational bank theory (MNBs) emerged from the theory on multinational corporations (MNCs) developed by many researches, such as Rugman (1981), Dunning (1992), Bryant (1987), Grubel (1977) and so on. Researchers on foreign banking and multinational banking recently apply the term "theory of multinational banking" in their studies, though initially United Nations Center on Transnational Corporations introduced the term "multinational bank" in 1981. According to their definition multinational bank is "a bank having more than 5 affiliates or subsidiaries abroad and organizing commercial banking activity". Grubel (1977) first developed his theory of multinational banking based on the theory of FDI in manufacturing. According to it, MNBs have some comparative advantages. Banks go abroad to better serve their domestic clients ("follower strategy" or "gravitational pull effect"). Banks' internationalization grows in parallel with FDI as banks try to meet the demand for banking services of MNCs abroad. But due to the diversification and complication of the banking transactions at the present stage of development of banking activity in general, we argue that the definition of MNB (TNB) needs some revision. In essence, any foreign bank doing business abroad nowadays can be categorized as a multinational one to some extent (Gorshkov, 2011; Gorshkov, 2012). For the simplicity of analysis here we assume that Russian banks having foreign affiliates or subsidiaries can be regarded as MNBs (or TNBs), due to the fact that the main condition (expansion of business to other countries is fulfilled and the ownership structure of major banks going abroad, namely Sberbank, Vneshtorgbank, Gazprombank) is represented by participation of foreigners (though only through minor shareholder participation).

MNBs. In conclusion we summarize major ideas of each chapter and try to propose some revisions to the existing multinational (transnational) banking theory.

I. Some theoretical background and overview of the inward and outward investments of the Russian banking sector

Firstly, some remarks should be made on the subject of the present study. We try to investigate the activity and behavioral patterns of the Russian banks that expand their businesses abroad from the view of both *home country* (Russia) and *host countries* (countries where Russian banks penetrate). Some clarification is requested in regard to the definition of a ***foreign bank (transnational bank, multinational bank)***[6]. In the present paper we consider a bank to be a foreign one, if it is registered as a banking institution in a foreign country. This definition is used by the Russian Central Bank (CBR) and also common in some other countries (Japan). Therefore, organizational representation forms like representative offices are also considered to be foreign banks though normally in the host countries they are not engaged in banking operations[7]. The general conception of a foreign bank is shown in ***Figure 1***.

Therefore, Russian banks are considered to be foreign ones from the point of view of host countries to where they penetrate. Simultaneously, we consider large banks like Sberbank, VneshTorgBank and Gazprombank to be multinational (small foreign participation in the ownership structure is present) and transnational ones (these banks operate in many countries and are actively engaged in transnational transactions). We recognize that this distinction is a controversial and conditional one, but even though we argue that the perhaps a sort of new ***theory of foreign banking***[8] allows making a better analysis of the behavior patterns of banks from the views of both home and host countries and with a closer consideration of the peculiar systems of their banking sectors (for details refer ***Figure 2***).

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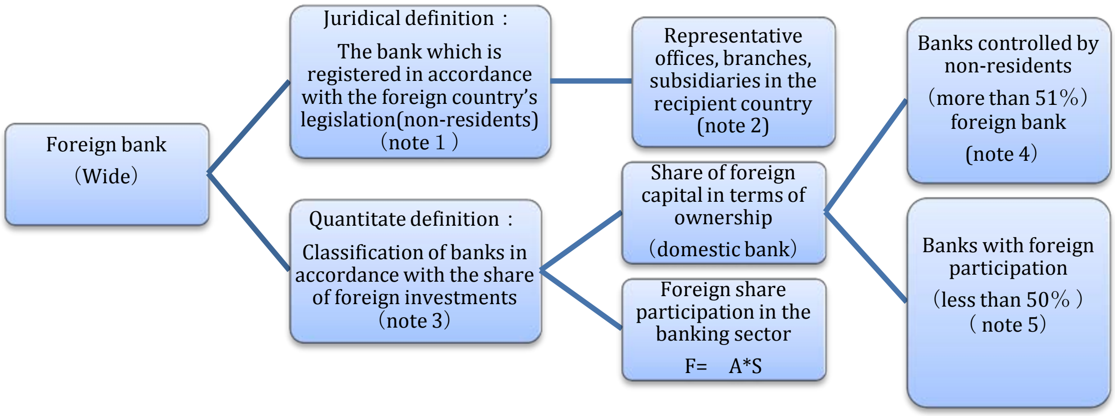
[6] The difference between transnational banks (TNCs) and multinational banks (MNBs) is often vague in the literature and causes a lot of confusion. We support the general definition of UN Center on Transnational corporations, in accordance with which TNBs are banks operating in more than 5 countries (though operating even in more than 1 country is a sufficient condition in our understanding). Transnationality of banks is shown by Transnationality Banking Index (TNBI), while multinationality of banks mainly refers to their ownership structure, meaning participation of foreign investors. However, for the simplicity of our research we use the term "*foreign bank*" in relation to Russian banks going abroad in order to avoid misunderstanding. However, we apply the methodology of TNB theory (motivation: PUSH/PULL analysis; follower, escape, leadership strategies, comparative advantages of banks (location factors, ownership, internalization); entry modes; entry strategies; host and home country approach, etc.).

[7] There are two definitions of a foreign bank: juridical and a quantitative one. Foreign bank (juridical definition) – the bank that is registered in accordance with the foreign country's legislation (non-resident). Bank with foreign participation (less than 50% shares), bank controlled by non-residents (more than 51% shares). Foreign bank (quantitative definition) – classification of banks in accordance with the share of foreign investments. For details see Vernikov (2006).

[8] Some researches stress the importance of analyzing the activity of foreign banks in national economies (Vernikov (2002,2004,2006), Rozinskij (2006, 2008, 2009). The theory of foreign banking as a definite concept is not acknowledged in the literature, but while acknowledging the importance of MNBs approach, we argue in the paper that this approach allows a proper investigation of foreign banks' behavior from the viewpoint of a both host home and countries.

Figure 1 - Definition of a foreign bank

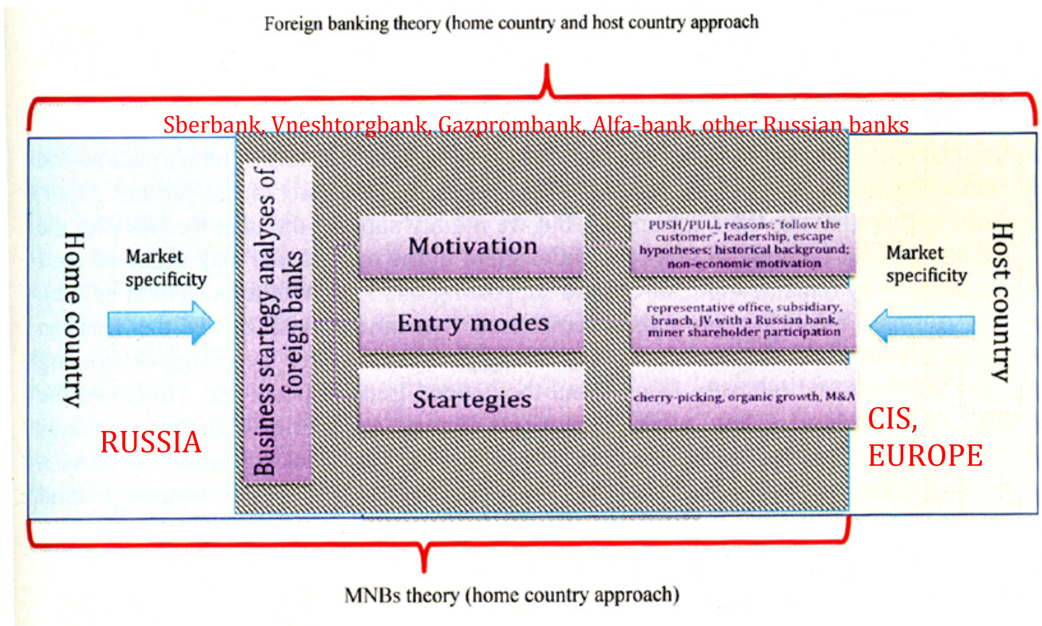


Notes:

1. Definition given in the Russian Law. Some other countries use the same approach. Number of branches is not considered
2. When analyzing foreign banks' motivation, modes of entry, etc. representative offices should be considered
3. Quantitative definition is used to define the share of foreign capital in the banking system of a particular country
4. Domestic banks with foreign capital participation of more than 51%
5. Domestic banks with foreign capital participation of less than 50%

Source: made by author

Figure 2 – Conceptive representation of the foreign banking theory



Source: made by author

To start with, we outline the general dynamics of investments in the Russian banking sector. ***Table 1*** below shows that Russian banking sector is a *net-debtor*, due to the fact that international banking position was negative in the beginning of 2012. Inward investments into the banking sector were amounted to 216 million USD with other investments accounting for more than 72%. Inward FDI and portfolio investments were approximately the same in volume. But in comparison to 2005 inward FDI into the banking sector increased almost by 10 times, proving the fact of further gradual expansion of foreign banks into the Russian market[9]. Similar trend is observed with the dynamics of the outward FDI. As of January 2012 total assets of the Russian banking sector abroad amounted to 215 billion USD. The breakdown of the assets structure was as follows: 78.9% - other investments, 15.6% - portfolio investments, 3.2% - outward FDI, 2.3% - financial FDI. Therefore, majority of Russian outward investments in the banking sector are in the form of trade credit and intra-banking loans. This is typical for the whole international investment position of Russia. The low figure of outward FDI seems to be astonishing at first sight, in a sense proving low-motivation of Russian banks to expand their business abroad. But in comparison to 2005 the FDI from Russian in the banking sector increased by 8 times, which is a significant raise. Below we consider how the increase in outward banking FDI is related to the activity of Russian banks abroad.

Table 1 – Dynamics of inward and outward FDI of the Russian banking sector (million dollars)

	2005	2006	2007	2008	2009	2010	2011	2012
Assets	*25 989*	*39 182*	*65 351*	*96 843*	*167 825*	*165 965*	*170 212*	*215 359*
FDI from Russia	818	1 498	1 570	2 533	3 413	5 062	6 665	6 870
Portfolio investments	3 714	6 964	7 645	12 855	15 774	26 258	29 727	33 673
Other investments	21 304	30 669	55 914	80 032	143 336	132 423	132 211	169 697
Financial derivatives	153	51	222	1 423	5 302	2 222	1 609	5 119
Liabilities	*37 337*	*60 009*	*123 927*	*214 771*	*206 259*	*179 123*	*204 621*	*216 017*
FDI to Russia	3 020	4 975	9 127	20 682	22 670	25 911	28 674	29 091
Portfolio investments	3 756	6 858	17 171	36 445	12 160	26 516	34 740	25 149
Other investments	30 372	48 124	97 451	156 769	161 033	121 614	138 392	156 198
Financial derivatives	189	52	178	875	10 396	5 082	2 814	5 579
Net investment position	*-11 348*	*-20 827*	*-58 576*	*-117 928*	*-38 434*	*-13 158*	*-34 409*	*-658*

Source: www.cbr.ru,data as of January 1st for each year

Table 2 below demonstrates the dynamics of outward investments of the banking sector and non-banking corporations (balance of operations) from 2007 – 2011. In general all indicators (FDI from Russia, participation in capital, reinvestments of earnings, other capital) show positive growing dynamics. The exception is only the crisis year 2008-2009, where there was a slump in all types of outward investments of the banking sector. Outward investments abroad (far abroad) significantly exceed those to CIS region. Major destinations of outward FDI in 2011 are also presented in ***Table 2***. The majority of all investments is directed to offshore zones (Cyprus[10], British Virgin Islands, St. Kiss and Nevis, Bermuda, Gibraltar) which represents the general situation with Russian inward and outward FDI. The capital is circulated through offshore-based territories in order to avoid taxation and regulation on the domestic market (capital flight) or simply to attract cheaper financing (Mizobata, 2011; Kheyfets, 2011). Needless to say that the CBR statistic includes the illegal investments and pseudo-investments: one-day companies, illegal establishment of

[9] There were 230 banks with foreign capital participation as of 01.01.2012 (2001 – 130) in accordance with the statistic of the CBR. Their share in capital of the Russian banking sector was 27.7%.

[10] As of November 2009 10 billion euro of Russian deposits were placed at the banking sector of Cyprus (total volume of foreign deposits – 15 billion euro). Majority of these deposits return to Russia in the form of reinvestments: in 2010 Cyprus investments to Russian economy amounted to 52 billion USD, including 36 billion USD in the form of FDI. Low tax rate on dividends attracts Russian business into this offshore region (Kuznetsov, 2010b).

juridical entities. The weight of CIS region in distribution of both total inward and outward FDI is also significant with Belorussia, Ukraine and Kazakhstan having the prominent positions[11]. As it will be demonstrated below, for the banking outward FDI proximity plays an important role as well. Banks prefer to invest in countries where they already have business contacts and can easily form business networks.

Table 2 – Outward investments of the banking sector and non-banking corporations in 2007 – 2011 (million USD), balance of operations

Years	**2007**	**2008**	**2009**	**2010**	**2011**	**Main destinations in 2011 (share in total investments, %) TOP 5 destinations for both abroad and CIS**
FDI	45 897	55 540	43 632	51 886	67 221	Cyprus (33.3%), Netherlands (14.7%), St. Kiss and Nevis (6.9%), British Virgin Islands (6.2%), Luxemburg (6.2%), Switzerland (5.8%), Belorussia (4.8%), Ukraine (1.2%), Kazakhstan (0.95%), Uzbekistan (0.14%), Armenia (0.09%)
Abroad	42 423	51 977	39 734	50 618	62 748	
CIS	3 473	3 563	3 898	1 268	4 473	
Participation in capital	17 770	29 355	26 823	19 620	23 255	Cyprus (19.4%), Belorussia (11.1%), Switzerland (10.3%), Luxemburg (6.7%), Turkey (4.9%), Australia (4.8%), Germany (3.8%), British Virgin Islands (3.6%), Spain (3.6%), Ukraine (1.8%), Kazakhstan (0.9%), Armenia (0.27%), Uzbekistan (0.12%)
Abroad	16 338	26 930	23 940	18 675	19 950	
CIS	1 382	2 425	2 883	945	3 305	
Reinvestment of earnings	16 667	24 654	7 571	14 049	15 831	Cyprus (55.8%), British Virgin Islands (14.8%), Gibraltar (7.4%), Bermuda (4%), Kazakhstan (2.4%), Germany (2.32%), Ukraine (1.3%), Belarus (1.03%), Uzbekistan (0.4%)
Abroad	15 775	23 780	7 103	13 462	15 008	
CIS	902	874	468	587	823	
Other capital	11 450	1 532	9 238	18 216	28 136	Netherlands (34.7%), Cyprus (34.6%), St. Kiss and Nevis (16.9%), Switzerland (5.4%), UK (4.6%), Ukraine (0.75%), Kazakhstan (0.22%), Belarus (0.21%), Tajikistan (0.17%)
Abroad	10 259	1 269	8 692	18 481	27 792	
CIS	1 190	263	546	-264	344	

Source: made by author on the base of CBR data, www. cbr. ru

The great role of off-shore business for the banking sector doesn't not necessarily imply that Russian banks actively penetrate into those regions. Instruments of other investments are mostly used by Russian banks as speculative mechanisms, methods of legal "capital flight" of Russian companies abroad or simply intra-banking loan and deposit activities. For the analyses of motivation and entry modes of Russian banks expanding their businesses abroad we precisely look at outward FDI, in other words banking institutions established by Russian banks abroad.

[11] In general the CIS and EU are the main recipients of the Russian FDI. The share of CIS is about 30%, but more than 80% of these investments are concentrated in three neighboring countries (Ukraine, Kazakhstan, Belarus). The share of EU is almost 40% with offshore regions dominating in this structure. Thus, Russian investments are distributed in accordance with the so called "neighboring effect" (for details see Kuznetsov, 2008).

II. Motivation of foreign entry

To start our analysis we propose to briefly consider market specificity of the home country of foreign banks (namely Russia in our research). This will allow us to understand under which conditions the expansion of Russian banks abroad is being implemented. While omitting deeper analyses, we recognize the major extensive research results on the Russian banking sector and assume that it has distinctive features that have deep historical roots. In USSR banks were established by the state for implementing particular functions in major industries of the economy. This has resulted in a very high concentration level of current banking sector (Panibratov, 2011).

Some *specific features of the Russian banking sector* at present include the following[12)]:

1. Strong government participation
2. Strong linkages of some banks with financial industrial groups
3. The function of converting deposits into investments is not effectively working (companies tend to issue bonds or attract capital from foreign markets)[13)]
4. Concentration towards large banks with the existence of many small banks
5. Difficulties with attracting long-term borrowings
6. Low share of loans in GDP (Germany – 108%, UK – 105%, France – 1-3%, Ukraine -76%, Russia – 40% (corporate loans – 30%, retail and consumer banking – 10%).
7. Revenue structure of banks is unbalanced (revenues from foreign exchange operation are considerably high)[14)]
8. High interest rates
9. Low level of capitalization
10. Low productivity of the banking sector (Ireland – 35.1%, Netherlands – 24.1%, Poland – 28.5%, Russia – 1%)
11. Low level of returns on equity (ROE) (Brazil – 28.9%, Indonesia – 28.5%, Russia – 22.7%)
12. Increasing presence of the foreign banks

Russian banking landscape was highly fragmented in the end of 2000s. Some researches show that there has been a rapid increase in banking and financial services in Russia during 2000 - 2008 (Panibratov, 2010). The diversification of banking and financial products as well as further liberalization and integration of the banking sector continue nowadays. 982 banks operated in Russia as of 01.01.2012, and even the largest private banks had less than 4 - 5% of the market. In turn, state-owned banks held about 50% of the market[15)]. On the other hand, foreign banks had only

12) For details see Gorshkov (2009, 2012). For details on specific features 6, 9 and 10 refer to Vedev A., Grigoryan S. (2011), Razvitie rossijskoi bankovskoj sistemi v tyakushem desyatiletii: rezultati oprosa krupnejshih bankov.

13) Russia positioned modernization as the priority goal for its development. In order to reach this goal huge capital investments are needed for the economy. Despite the fact that during 2000-2008 financing increased up to 24%, in 2009 loans from the banks amounted only to 7% in the whole structure of financing. Companies still tend to use government equity and other types of financing.

14) The total revenue structure for the Russian banks as of 01.01.2011 was as follows: revenue from interest rates to companies – 7.1%, to households – 2.7%, investments in securities – 3.3%, foreign exchange commission – 62.5%, operating commission – 62.5%, revenues from reserves in CB – 18.2%, other – 3.9%). Most banking profits come form foreign exchange operations.

15) Share in banking assets of TOP 5 banks (including Sberbank, VneshTorgBank, Gazprombank, VneshEkonomBank, Rossselhozbank) was 49.6% as of 01.01.2012. They also account for the majority of deposits and lending. www.cbr.ru

about 10% in 2009 (Panibratov, 2010), but the share in total assets, capital, deposits and lending shows stable growth (Gorshkov, 2012).

Technologies in Russian banking sector were somewhat simplistic, with corporate loans usually extended against collateral rather than against forecast cash flows. Fee-based products played a negligible role, rendering many Russian banks overly dependent on interest and trading income (Panibratov, 2010). Distortion of the market represent opportunities for some foreign banks, at the same time there are cases of Russian banks aiming to internationalize their business by opening subsidiaries in the neighboring countries.

Due to the large number of Russian bank-like institutions and their special functions, it can be concluded that the Russian banking sector has not reached its maturity in servicing its clients either domestically or abroad. Therefore, it is understandable that the foreign activities of Russian banks abroad are rather limited (Jumpponen et al., 2004).

However, by the time of collapse of the USSR banks were on leading positions in outward investments. In 1991 outward FDI from the banking sector were 2 - 10 billion USD, while total share in capital of foreign banks amounted to 540 million. Therefore some banks (namely Sberbank, VneshTorgBank, VneshEkonomBank) in some cases simply succeeded the banking assets of the soviet foreign banks (government simply transferred its credit institutions and shares in foreign banks to them).

Table 3 – Geographical representation of Russian banks abroad

Bank	BTNI*	Major destinations	Entry modes	Strategy
Sberbank (state-owned)	N/A	CIS, Eastern Europe, China, India (branch), Germany	Subsidiaries	Expanding subsidiary network via green-field, brown-field investments, mostly major deals supported by the government
VneshTorgBank (VTB) (state-owned)	N/A	Subsidiary banks in Ukraine, Armenia, Georgia, Belarus and Azerbaijan; banks in UK, France, Austria, Germany, Cyprus, Switzerland, Angola, Singapore, India; financial company in Namibia. Representative offices in Italy, Kazakhstan, Kyrgyz Republic, China, Vietnam; Shares in Donau-Bank (Austria), East-West United Bank (Luxemburg), Ost-West Handelsbank (Germany)	Subsidiaries, branches, representative offices	Widest network of foreign presence. Expansion strategy is driven by both bank's management and government as the main shareholder
Alfa-Bank (private)	12	Subsidiaries in Kazakhstan, Netherlands (full European banking license), United States, Luxemburg, UK; branches in CIS (Ukraine)	Subsidiaries, purchase of major shares	Careful expansion via greenfield/brownfield investments into CIS or developed markets without state support, hence the affinity to maximizing control
Gazprombank (state-owned)	N/A	Branches in Armenia, Belarus, Switzerland; representative offices in China, Mongolia	Branches, representative offices	Clearly biased towards parent company interests in gas industry and portfolio investments
Promsvyazbank	9	Cyprus, Kyrgyzstan		
Petrokommerz (79.3903% of shares belong to Reserve Invest Holding (Cyprus)	N/A	Subsidiaries in Ukraine	Subsidiaries	Petrokommerz holds 96.48% of shares in Petrokommerz (Ukraine). Mainly engaged in corporate banking and serving employees of corporate companies
Bank of Moscow	N/A	Belarus, Latvia, Estonia, Serbia	Subsidiary	VTB is the main shareholder of Bank of Moscow (94.87%)
Moscow Industrial Bank	N/A	Austria	Representative office	N/A
Centrocredit	N/A	UK	Representative office	N/A

Krasbank	N/A	UK	Representative office	N/A
Rosbank (Russia, France)	N/A	Switzerland, CIS	Subsidiary	Rosbank is at present owned by Societe Generale (France)

* Bank Transnationality Index is calculated as the average of three rations: foreign assets to total assets, foreign profits to total profits and foreign employment to foreign employment. The data is for 2001 based on Jumpponen et al. (2003)

Source: made by author with references to Kuznetsov (2007, 2008, 2009, 2010a, 2010b, 2011), Jumpponen (2003), Ivanov (2009), Panibratov (2011, 2012), official information of banks, homepages of banks

Before analyzing the motivation of business expansion of Russian banks we briefly introduce the geographical representation, entry modes and strategies (where applicable) of Russian MNBs in ***Table 3***.

CIS region and Europe can be identified as the major destinations where Russian banks establish their affiliated credit and financial institutions. TOP banks in the ranking of Russian banks, namely Sberbank, VTB, Gazprombank, Alfa-bank established their subsidiaries and representative offices here. In CIS region mot popular destinations are Ukraine, Belarus, Kazakhstan and Armenia, while in Europe Russian banks are mostly represented in UK, Luxemburg, Austria, Germany and Cyprus. However, the presence of Russian banks is very limited, in most cases there are no extensive branch network. Banks registered in offshore regions (Cyprus) or countries with simplified tax systems (Netherlands, Luxemburg) are mostly oriented to work with Russian capital going abroad. The astonishing fact here is that the major destinations of Russian banking sector outward foreign investments are not the same. Other investments tend to be concentrated in offshore regions, while direct representation of banks in the form of subsidiaries and representative offices is salient in CIS and EU regions. Another interesting feature worth mentioning here is that the expansion abroad is mostly driven by the largest state-owned banks (or banks with a strong direct or indirect state influence like Sberbank, VTB, Gazprombank, proving the fact that only banks that possess significant financial resources (sometimes in the form of government assistance) can allow to “go global”. Among private banks the widest foreign network has only Alfa-Bank with representation in CIS, Europe and USA. Asian and African regions are not major destination of Russian banks, due to the fact that trade and investment relations with these countries are less developed. Major positions here belong to VTB that has the most diversified foreign geographical network among Russian banks. Some other private banks (Promsvyazbank, Petrokommerz, Centrocredit) also try to establish their businesses abroad driven by industrial financial groups that are closely connected to them.

The existing literature on motivation of Russian banks (and MNCs) is quite extensive. ***Table 4*** briefly summarizes major motives that drive Russian banks to go abroad. We attempted to carry out a PUSH/PULL analysis here.

Table 4 – Motivation of foreign entry

Motivation	PUSH/PULL	Example of banks
Growing interest to CIS, similarities in transformation process of the banking sector, potential of growth. Expansion on already existing directions	PULL	Sberbank, Vneshtorgbank (VTB Austria, VTB France, VTB Deutchland, Russian Commercial Bank Ltd).
Servicing of companies in post-Soviet region ("follow the customer") and Europe	PUSH	Vneshtorgbank, Promsvyazbank, Gazprombank, International Bank of St. Petersburg
Acquisition of low-estimated assets in CIS	PULL	Sberbank, Vneshtorgbank
Presence in international financial centers of EU and CIS	PUSH /PULL	Alfa-Bank, Vneshtorgbank
Expansion as the result of the domestic environment in Russia (state pressure, non-transparent legislation, political and economic instability, M&A as a way to keep distance from government intervention)	PUSH	N/A
Competitive advantages on the CIS market; cheap financial resources in CIS	PULL/PUSH	Ukraine – Alfa-Bank, VTB, Sberbank; Belorussia – VTB, Gazprombank; Kazakhstan – Sberbank, Alfa-Bank; Georgia – VTB; Armenia – VTB, Gazprombank

Source: made by author with references to Kuznetsov (2007, 2008, 2009, 2010a, 2010b, 2011), Panibratov (2010, 2011, 2012), Katolay (2005), Filippov (2008), Jumpponen J. et al. (2004); official information of banks; homepages of banks

The motivation for penetration to foreign countries is quite diverse. In general, many researches name geographical, historical and economic proximity to CIS as the major driving force for Russian banks establishing their business there. Many Russian TNCs operate in the region; therefore Russian banks are pushed to penetrate here in accordance with the "*follow the customer*" strategy applied in the theory of multinational banking. Same is partially true for the European countries. Russian banks tend to establish their presence here in order to serve interests of large Russian industrial financial corporations mainly in mining, metallurgy, crude oil and gas sectors. Close trade relations with CIS and Europe (both regions account for about 70% of the Russian trade) also create preconditions for entry.

At the end of 2005 there were 1600 banks in CIS region, but their financial resources didn't allow to actively develop economic integration. 77% of these banks were based in Russia (Murichev, 2006).

Foreign expansion of banks in CIS region has intensified. At present there are 30 credit institutions in CIS with their home countries located in the CIS region. Needless to say, that Russia is a prominent investor here. As of end 2008, there operated 60 banks with capital control from CIS countries (Abalkina, 2010).

Table 5 - Dynamics of assets and capital in CIS region controlled by investors of the region, million dollars

Year	Intraregional investments into the banking capital of CIS	Assets of banks controlled by investors from CIS
2005	384.2	2 355.5
2006	1 034.4	7 949.8
2007	2 354.1	16 552.9
2008	4 035.5	26 771.2

Source: Abalkina (2010), p. 30

At the initial stages of internationalization banks tended to use the so-called "*follow the customer*" expansion strategy (PUSH factor). Banks provided services to their clients expanding their businesses in CIS region. Today the situation has changed, and motives of penetration to CIS region diversified. Banks showed interest in stock markets (e.g., Russian banks were attracted by the low level of capitalization of the Ukrainian banks).

Expansion of Russian banks into CIS should be considered from the viewpoint of *host countries*. Difficulties with expanding businesses to the developed countries (institutional barriers of entry, regulations on charter capital, difficulties with competition) and competitive advantages in CIS stipulate the penetration of Russian banks into this region. Intraregional investments into the banking sector within the region increased by 10 times (***Table 5***) with Russia having most salient positions in this positive change. Russian banks actively penetrate by M&A, due to the abundance of undercapitalized banks in the region. Major investors into banking sector of CIS in 2008: Russia – 65% (29 affiliated banks, mostly Ukraine, Belarus, Kazakhstan), Kazakhstan – 30% (20 affiliated banks, mostly Russia), Ukraine – 5 affiliated banks, Georgia, Azerbaijan – 2 banks each, Uzbekistan, Armenia – 1 bank each (Abalkina, 2010). The biggest players on the market are undoubtedly Russian players, as demonstrated in ***Table 6*** below with VTB being the most active player among other Russian banks.

Table 6 – Biggest Russian TNBs in CIS region in 2008

Bank	Total assets, million USD	Total capital, million USD	Number of subsidiary banks in CIS
VTB	4 887.9	520.1	5
Alfa-Bank	4 608.3	521.9	3
Vneshekonombank	4 283.1	621.3	2
Sberbank	1 436.0	422.6	2
Moscow Bank	945.7	110.2	2
Gazprombank	790.9	160.4	2
Rosbank	494.1	31.7	1

Source: Abalkina (2010), p. 32

Thus, Russian banks view CIS as a potential emerging market (Panibratov, 2012) where there exists a high demand for financial services (PULL factor). However, we argue that this motive fully explains the behavior of Russian banks here. *Market specificity of host countries* do matter, but Russian banking system lacks capital, the total level of capitalization is rather low, and therefore it is difficult for the banks to go abroad. Only large state-owned banks or large private banks (the only proper example is Alfa-Bank) can allow go and expand their businesses in CIS. Despite the brand awareness of many Russian banks operating in CIS, majority of their operations are directed to support of the corporate sector of Russian TNCs in particular. Moreover, physical representation of Russian banks abroad is mostly limited to state-owned bank, where motives for penetration might be significantly "*politically-oriented*". Oil, gas sector being the key industries and strategically important ones for Russia stipulate the national foreign strategy to some extent and the role of Russian state-owned banks is undoubtedly concerned here. For example, expansion of Gazprombank to Belarus is hard to explain by simply "*economical motivations for entry*". Here the expansion strategy is closely correlated to that of Gazprom and the Russian government as the main shareholder of it, therefore being somewhat "*customer-oriented*" and "*state-oriented*". We do not claim for the *political motives of expansion* of all Russian state-owned banks, but the political factor in banks expansion in case of Russia where basically only large state-owned banks are successful in foreign markets should not be underestimated (PUSH factor as the result of domestic environment and distinct features in strategy of banks). Some researches also point to the fact that Russian banks tend to behave like typical natural resource TNCs (Panibratov, 2012; Kuznetsov, 2011).

Thus, the behavior of Russian banks might be explained to some extent in the framework of multinational banking theory, namely the *OLI paradigm*[16]. Russian banks have better structure of assets and capital in comparison to the banks form CIS, as the result they have an *ownership-competitive advantage* on the market. In addition, lower level of development of the banking sector in the region and extensive possibilities for growth precondition *location-specific advantages* for foreign entry. In Europe the situation is quite difference. Here it is hardly to imagine any competitive advantages (ownership, location, internalization) of Russian banks, due to the impossibility to compete with financial giant-banks from Europe and USA. Access to European banking markets is mostly driven by aspiration to establish image of "global" presence in the international financial centers or motivated by following Russian companies operating in Europe. Participation of banks in syndicated loans, investment schemes, corporate lending of European foreign companies is not common.

Some literature provides reasoning for foreign expansion of Russian banks as the result of the domestic environment in Russia (state pressure, non-transparent legislation, political and economic instability, M&A as a way to keep distance from government intervention), which in multinational banking theory mostly explained by "*escape hypothesis*" (PUSH, unfavorable conditions on the domestic market) in foreign expansion of banks. However, we haven't found any persuasive reasoning for this motive of expansion, nor could provide any examples of banks actually implemented this approach of foreign expansion. In our opinion PUSH motives for foreign expansion are mostly explained by direct and indirect influence of Russian banks with the government, which makes it difficult to purely distinguish the government strategy from that of the banks. In addition, behavior of banks is strongly correlated with its major Russian clients and foreign expansion is therefore a sort of synergy of banks, Russian TNCs (Panibratov, 2012) and Russian government to some extent.

In the existing theory on multinational banking issues of historical, non-economic, political motivations of entry are not covered explicitly. Though in the case of Russian banks' foreign expansion, such driving forces for building a global strategy are present. Some banks got credit institutions abroad in the form of the "Soviet legacy". This trend is typical for some Russian TNCs as well.

III. Entry modes and strategies of foreign expansion

As for the entry modes of Russian banks, the most common ways are establishment of 100% subsidiaries and representative offices. While in the Soviet times, banks tended to establish correspondent relations and actively participated in the capital of foreign banks mainly in countries that were leading trade and investment partners of the USSR. After the collapse of the Soviet system, banks like Sberbank and VTB simply got capital shares abroad (details will be covered below in the analysis of foreign strategies of selected banks), so the preconditions for entry existed in the form of the "Soviet legacy" (Mizobata, 2011; Panibratov, 2012). Representative offices are mostly established for fulfilling the market-research function, evaluating the opportunities of growth on the market as well as for

[16] Proposed by Dunning (1977, 1979) in order to explain the behavior of MNCs abroad. Later OLI paradigm was applied in the theory of multinational banking. Ownership-specific advantages, location specific advantages and internalization advantages were later extended into eclectic theories.

providing consulting services about the Russian market and general trends in Russian economy for foreign investors planning to enter on the market. This motivation of business expansion is a salient feature of the Russian banks trying to attract investors to the Russian economy, but without providing any particular banking services. According to various estimates, there were 44 representative offices abroad (13 in CIS) (Abalkina, 2010). Representative offices are normally established in countries where the direct penetration in the form of a subsidiary is somehow bounded by high institutional barriers, coordination by financial supervising authorities, etc. The practice of converting of representative offices into subsidiaries is not very common. Therefore, Russian banks tend to use the so-called "*organic growth strategy*"[17)] in expanding their foreign business. The subsidiary choice, as shown in the existing literature (Panibratov, 2011, 2012), is provided with the grounding that Russian banks have no other entry modes as to use this "forced choice".

M&A were not common form of entry into the foreign market for Russian banks. However, in CIS region recently this trend is quite strong (e.g., entry of Gazprombank into Belorussian banking market). Some researches report on splash of M&A in the CIS region (Abalkina, 2010; Vinokurov, 2010), due to low level of capitalization of banks and cheap financial resources. In Europe, on the contrary, banks can hardly allow themselves to acquire or merge with the domestic banks. Therefore, within the existing MNBs theory, we conclude that both *brown-field* and *green-field* strategies of expansion are being used by Russian banks.

However, there are some distinct features in foreign expansion of Russian banks. Banks like Rosbank and Petrokommertz at present are owned by foreign capital. The share of Societe Generale (France) in Rosbank is 82,3%, while 94,87% of shares in Petrokommertz belong to Reserve Invest Holding (Cyprus). Therefore, further foreign expansion of these banks will not be purely driven by the motivation of Russian capital. Foreign banks operating on the Russian market will be also involved. For them expansion through Russian subsidiaries to CIS might be a strategic move and the easiest way to expand their presence in the region. Further research on motivation of such banks in the form of "*hidden expansion under other countries' flag*" will be somewhat difficult to explain within the framework of existing TNB (MNB) theory[18)].

In general, Russian banks are quite conservative investors and their direct presence abroad is limited in number. Nevertheless, as it was mentioned earlier their role in other investments is incontestable. As the motivations for entry into the foreign markets differ, so do the strategies of particular banks. Internal linkages with state and natural resource-based TNC that are major clients of Russian banks are significantly strong and unquestionably have some impact on the strategies of particular banks. Below we briefly consider strategy of international expansion of three major banks – Sberbank, Vneshtorgbank and Alfa-Bank as the largest global players among Russian banks.

[17)] Organic growth strategy is the one aiming expansion of business and is fully based on the internal resources of a foreign bank. It is normally very costly and takes a lot of time to implement.

[18)] Similar issues were found by author for Toyota Group that established Toyota bank in Russia through Toyota Kreditbank GmbH (99.75% of shares) and Toyota Leasing GmbH (0.25%), both located in Germany. For details see Gorshkov (2011). Therefore, from the Russian point of view and in accordance with the conservative approach to foreign banking, FDI in this case should be counted as German ones, though it is obvious that Japanese capital (namely Toyota Financial Group and Toyota Group as the whole) are behind this motivation for expansion.

A. Sberbank

Sberbank is the largest bank in Russia[19] and CEE and considers the international expansion to be the important part of its strategy. The bank got considerable stake in foreign assets as the “Soviet legacy”. At present Sberbank aims to attract foreign capital on foreign markets on favorable conditions for financing of the Russian economy, full support of its clients engaged in foreign trade and investment activity. The bank is expanding its international influence and at present it has correspondent relations with 220 leading banks in the world. The expansion of Sberbank started in 2006 when a bank in Kazakhstan was acquired. In 2007 Sberbank entered on the Ukrainian market, in 2009 launched its business in Belarus. At the next stage of its international expansion, Sberbank opened representative offices in Germany, China and branch office in India. Sberbank aims to acquire new assets in these countries, establish subsidiaries, branches and representative offices, as well as non-banking financial corporations. The bank plans to increase the share from its international activity to 5% by 2014. ***Table 7*** represents the list of affiliated foreign institutions of Sberbank as of July 2012.

Table 7 - Affiliated foreign institutions of Sberbank

Name	Sberbank share	Note
OJSC “BPS-Sberbank” (Belarus)	97.91%	One of the leading banks in Belarus. The share of corporate loans on the market is planned to be increased to 12% by 2015
JSC “Sberbank” (Kazakhstan)	100%	Acquired by Sberbank in 2006. Wide branch network (13 branches, 100 offices)
Volksbank international AG (Austria)	100%	First acquisition of Sberbank out of CIS region. 2012 – 100% shares acquired. The bank has 295 affiliated divisions and more than 600 000 clients. The bank is widely present in CEE
JSC “Sberbank” (Ukraine)	100%	Acquired in 2007. Regional network is about 80 divisions. Mainly serving Russian companies working on the Ukrainian market or Ukrainian companies with Russian investments
Representative office of JSC “Sberbank” (Germany)	-	Representation and protection of interests of Sberbank and its clients in Europe; consulting services; business relations with state and commercial institutions of the EU
Representative office of JSC “Sberbank” (China)	-	Expansion of opportunities in order to serve client doing business on the Chinese market; consulting services to both Russian and Chinese companies
JSC “Sberbank” branch office in New Deli (India)	100%	Strategic development on the market is declared as the major motivation

Source: www.cbr.ru (accessed on 10.07.2011)

B. VneshTorgBank (VTB)

Vneshtorgbank is the largest transnational financial corporation in Russia. The bank was established in October 1990 as a closed joint-stock company aimed to servicing foreign economic relations of the Russian Federation. Bank is currently operating in 15 countries (geographic distribution of destinations is presented in ***Figure 3***). The main motivation is servicing foreign operations of its clients in EU and CIS market. The foreign correspondence network of the bank is large and includes over 100 foreign corresponding units (Jumpponen, 2004).

JSC VTB Bank and its subsidiaries (VTB Group) is a leading Russian financial group, offering a wide range of banking services and products in Russia, CIS, Europe,

[19] As of 01.01.2012 Sberbank is rated as the top bank in terms of assets, capital, deposits to both corporate and individual customers, lending (see rating of Russian banks)

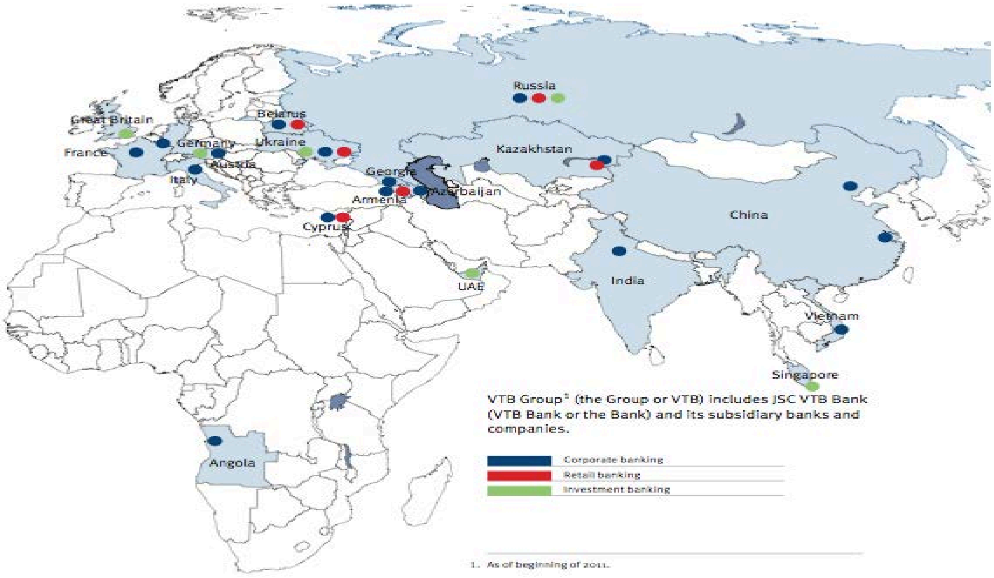
Asia, Africa and the US. The government holds 75.5% of shares, 10% of shares belong to foreign investors. The group conducts its banking business in Russia through VTB bank as a parent company and 5 subsidiary banks. The group's largest subsidiary banks are VTB 24, Bank of Moscow (95% of shares) and TransCreditBank (78% of shares). The Group operates outside Russia through 15 bank subsidiaries, located in CIS (Armenia, Ukraine (2 banks), Belarus (2 banks), Kazakhstan and Azerbaijan), Europe (Austria, Cyprus, Germany, France, UK and Serbia), Georgia, Africa (Angola); 2 representative offices located in Italy and China; 2 branches in China and India; 4 branches of VTB Capital in Singapore, Dubai, Hong Kong and New York. CIS region is the second perspective direction for VTB group. The main purpose here in accordance with the company's strategy is to increase the market share, improvement of credit portfolio, clients base and maintenance and increase of deposits. VTB aims to establish banking institutions with universal banking services for Russian companies operating in the region, local and international corporate clients and development of retail banking. The group also entered into the markets of Asia and Africa, due to the fact that there are many joint investment projects in this region. South-East Asia and Middle East are important regions for the development of investment banking, therefore VTB has institutions in Singapore and Dubai.

In Soviet Union times there existed a system of soviet foreign banks that were controlled by Gosbank. In the beginning of 2000-s these banks were bought by VTB in accordance with the Strategy of the development of the Russian banking system. This is how VTB got shares in Soviet foreign credit institutions – Moscow Narodny Bank, BCEN-Eurobank (France), Donau Bank (Vena), Ost-West Handelsbank (Austria), Russiche Kommerzial Bank (Switzerland), East-West United Bank (Luxemburg). These banks were mostly oriented to support international trade of the Soviet Union.

Kuznetsov (2007) considers VTB to belong to the Russian TNCs type named "successor of the Soviet Union", due to the fact that VTB inherited the oldest foreign assets under the Russian control. For instance, the main subsidiary of state-owned Vneshtorgbank is Moscow Narodny Bank (a part of VTB Europe) that was established in London in 1912. It was nationalized after the Bolshevik revolution and nowadays VTB controls 88.9% of its shares. Another VTB's subsidiary is former Banque Commerciale pour l'Europe du Nord – EUROBANK, which was acquired in Paris in 1925 (87% of share are controlled by VTB at present). Several VTB's subsidiaries were established in other countries in the 1970s and supported the Soviet trade. Therefore their status became indefinite in 1990s, but later the government gave it to VTB. In the market conditions VTB tries to transform itself into the "classic" bank and develops mainly its business within Russian and establishes subsidiaries in countries where Russian trade reputation is relatively high (Ukraine, Armenia, Vietnam, Angola, China).

In market conditions VTB considerably reconstructed these banks, banking institution in Luxemburg and Switzerland were sold. Office in London merged with VTB capital, while banks in Austria, Germany and France were consolidated within the framework of European sub-holding. The share of foreign network in the total amount of profits is about 10%, the number of employees in foreign subsidiaries is about 9000 people (*Profil*, June 2012, p. 56-57).

Figure 3 - Affiliated foreign institutions of VTB



Source: VTB today, www. vtb.com (accessed on 11.07.2012)

C. Alfa Bank

Founded in 1990 and at present is a member of Alfa Group. Alfa Bank offers wide range of services: corporate and retail lending, deposits, payment and account services, operations with foreign exchange, investment banking and others. Alfa-Bank is the largest private bank in Russia, which is constantly in TOP 10 banks in terms of assets, capital, deposit and lending. The management team of the bank has both Western and European specialists who deeply understand the needs of Russian market and considerably builds its strategy both on domestic and international directions. Emerging markets were considered as great opportunities for business expansion, therefore Alfa Bank established subsidiary and three representative offices in Kazakhstan. By the end of 2000s Alfa Group operated in Belarus, Ukraine and entered on European markets. Affiliating banks of Alfa-Bank are presented in ***Table*** below. The motivation of entry is to be present at the major international financial centers of EU and CIS.

Table 8 - Affiliated foreign institutions of Alfa Bank

Name	Alfa Bank share	Note
Alfa Capital Markets (UK)	100% owned by Alfa Capital Holdings (Cyprus) Ltd.	International investment banking, attracting international investors to the Russian equity markets, providing expertise and assistance to Russian and Ukrainian companies accessing London capital markets. Branch of Alfa Capital Holdings (Cyprus) Ltd.
Alfa Capital Holdings (Cyprus) Ltd.	N/A	Brokerage services to international clients in the Russian, Ukrainian and UK capital markets
Alforma Capital Markets, Inc. (US)	N/A	Brokerage and investment services to US institutional clients investing in Russia and CIS

Amsterdam Trade Bank N.V (Netherlands)	100%	Standard and tailor-made products in the field of Russian, CIS and East European related structured trade and commodity finance, corporate banking and international money transfers. Amsterdam Trade Bank has a representative office in Moscow.
Alfa-Bank (Ukraine)	Second largest shareholder	9th largest bank in Ukraine in terms of assets. All types of traditional services, investment banking, online banking
Alfa-Bank (Belarus)		Established in 1999, one of the most reliable and dynamic banks. Head-office in Minsk and 17 branches across the country. Large companies in crude oil refining, wholesale of oil products, metallurgy, building material and food industries are major customers. Also engaged in business with government bonds, short-term bonds of the National Bank, corporate bonds and shares, auto lending and consumer financing, individual deposits, money transfers.
Alfa-Bank (Kazakhstan)		Established in 1994. Full package of banking services to corporate ad individual clients. 4 branches and 3 representative offices.

Source: Info from banks' homepage www.alfabank.com (accessed on 11.07.2012)

IV. Major obstacles in foreign expansion and specific features of Russian foreign banks

While there is no clear policy towards Russian outward investments, expansion of Russian banks abroad is an on-going process, however there are many boundaries or restrictive factors that influence on banks' strategy of foreign expansion and predetermine behavior of Russian banks. We categorize obstacles of foreign expansion of Russian banks into there major groups.

The first group of factors consists of *host-country* related issues. Specific structure of the Russian banking sector (over-concentration and over-segmentation), strong participation of government in banks, image of Russia on the world arena, level of corruption and political instability, etc. all contribute to the image creation of Russian banks abroad (Kuznetsov, 2010b). Only large banks and mostly state-owned ones have access to foreign markets. Some Russian TNCs are viewed negatively abroad due to some political issues, their profit-oriented and "cherry-picking behavior". Some researches hardly call Russian TNCs to be the "classic" ones (Kuznetsov, 2012). Same is true for the Russian foreign (transnational, multinational) banks. Majority of banks do not have sufficient resources and experience enough in order to expand further than to neighboring countries with whom they established close historical economic and political ties. In other words, limited competitive advantages predetermine their choice of expansion to CIS. However, in CIS countries Russian banks still enjoy ownership and location advantages.

The second group of factors is represented by *home-country* boundaries. These might include phobias existing abroad towards Russian investment expansion, peculiarities of banking systems of host countries accepting Russian banking investments, high standards of institutional barriers (regulation on minimum charter capital, successful history of business (5 million euro and 3 years of successful history in many European countries as a precondition), economic nationalism and protectionism of host countries (Vernikov, 2005).

The third group of boundaries is *subjective limitations of the Russian banks* themselves and their *specific features* formulated by the domestic market specificity of the banking sector (interrelations with the state and large industrial groups). These might include also quality characteristic and scale of banks, scarcity of banking capital (called objective restrictive factor by Vernikov (2005)), as well as the distinct strategies of Russian foreign banks (historical, cultural ties predetermine neighboring motivation of entry; follow the customer approach; difficulties in understanding the real actors of management strategy).

The banking poll of 2011 (Vedev A., Grigoryan S. (2011) defines the following obstacles of lenient expansion of Russian banks: (a) banking in Russia is more profitable than abroad; (b) no financial resources for expansion; (c) restrictions in the foreign target market to establish banking institutions; (d) no need to expand abroad (e) no experience in operating abroad; (f) Russian government makes it difficult to expand abroad[20].

Thus, Russian banks can be regarded as rather conservative investors abroad in direct form. The share of outward FDI is extremely low and existing obstacles minimize the number of banks operating abroad. However, the role of Russian banks in providing trade credits, loans to other banks, as well as attracting them is rather high. This fact explains the high proportion of other investments in the total structure of outward investments of the banking sector.

Conclusion

Recent trends in outward FDI position BRIC countries as exporters of capital. In accordance with the *theory of investment development* BRICs might be regarded as potentially strong suppliers of FDI in the near future. This fact is partially proved by emergence of TNCs (MNCs) from emerging economies.

Simultaneously with the expansion of TNCs, expansion of TNBs (MNBs) from emerging economies is of some interest. Contemporary national financial and banking systems are implementing important functions from the point of view of national economies. In conditions of globalization, liberalization of foreign markets and integration of financial resources and capital, national banking systems get more access to opportunities of foreign capital markets in in order to diversify their risks and in order to achieve additional speculative income. Some financial institutions of course tend to increase their presence abroad as part of expansion of their international strategy.

We considered the foreign expansion of Russian foreign (multinational, transnational) banks within the framework of existing multinational (transnational) banking theory. Soviet and Russian banks started foreign expansion in the late 1980s and actively expanded their businesses abroad. First, as the correspondent banks and later in the form of representative office and subsidiaries. Needless to say, that internationalization of the banking sector stimulates the improvement of competition, concentration and centralization of capital, activation of M&A.

Motivation of foreign entry of Russian banks is mostly driven by "*follow the customer*" strategy into CIS countries where there is a cultural and historical proximity and where they are still relatively competitive. Both PUSH/PULL reasons can be identified as factors driving the expansion of Russian banks. We particularly stressed the historical factor (close ties with CIS and the "Soviet legacy") as the one having a key role in explaining reasons of foreign expansion. With references to the existing literature we confirmed that Russian banks mostly penetrate in the forms of establishing representative offices and subsidiary banks. Russian banks mostly use both green-field and brown-field expansion modes. Strategies of many banks are sometimes dependent with the government policy since majority of banks are directly or indirectly controlled by the state. Foreign expansion is limited to state banks and large-capital private banks, though there are cases of expansion of banks that are

[20] In the poll (2011) obstacles are presented in the ascending order from (a) – the most frequently mentioned answer to (f) the least mentioned one.

members of large industrial corporations (Promsvyazbank, Gazprombank). The pioneer in the international expansion is VTB.

Geographical destinations for expansion might be a result of business motives or caused by environmental constraints. As other researchers show, affinity to CIS, Europe and BRICs markets is likely to be caused by traditionally close ties, some brand awareness and other Russian companies activities on the market and high demand for financial services in developed or rapidly developing emerging economies (banks behave like typical natural resource-based TNCs here). Non-transparency of real actors of Russian banks' international expansion strategy, high involvement in offshore businesses in the form of other investments, "*hidden penetration under other country' flag*" are other distinct features that characterize Russian type TNBs.

In the present study we found out that there are some boundaries in MNB theory approach. While it is possible to implement general analysis of motivation, entry modes and strategies of Russian banks going abroad, multinational banking theory needs revision in the part of understanding the *essence of foreign banks* going abroad (ambiguity of definitions among TNB and MNB) and the role of *host* and *home country approach* in investigating activities of foreign banks. Needless to say, that there are researches in this sphere targeting salient features of the banking systems of both host and home countries, so perhaps they should be summarized and theoretically extend the existing theory of multinational banking. We impudently attempted to suggest an eclectic approach in the form of a *foreign banking theory* that relies on approaches of MNB theory and points out to the necessity of investigating expansion of foreign banks from the point of view of home and host countries, as well as from the viewpoint of banks strategies. As it was demonstrated on the example of Russia, distinctive features of banking sectors of host and home countries; offshore businesses of banks; hidden forms of expansion through third countries; role of banks in other outward foreign investments; non-transparency of legal actors of foreign banks and their strong interrelation with the state and recourse-based TNCs and large financial and industrial groups; cultural and historical background among the host and home countries, all these factors in fact do matter and should be considered when investigating the foreign expansion of banks. The form of internationalization (multinational, transnational or simply foreign one) in fact is not the priority here when we simply try to understand why do banks go international and what are the driving forces providing reasoning for that.

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