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For Bailout, VTB Needs 75% of Bank of Moscow

By The Moscow Times

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VTB will have to boost its stake in Bank of Moscow to 75 percent or let the state buy a stake to enable a bailout of Russia's No. 5 bank, sources said Wednesday.

Authorities have been rushing to put together a rescue package for Bank of Moscow after VTB launched a hostile bid but failed to win outright majority control.

After VTB ousted Bank of Moscow management and secured operational control, it found a huge hole in the bank's books that, it said, resulted from related-party loans sunk into real estate projects that will be hard to recover.

Bank of Moscow failed this week to present its 2010 accounts at its annual shareholders meeting. If it fails to do so within days, that could trigger early redemption clauses on $2.5 billion of eurobonds it has outstanding.

Sources close to the bailout talks said a number of options were under discussion under which VTB would receive assistance from the Deposit Insurance Agency.

"A restructuring involving VTB is one of the options. The Central Bank will provide funds to the Deposit Insurance Agency that would be transferred to VTB or Bank of Moscow," one source familiar with the situation said.

To be entitled to the state aid, VTB would need to boost its stake in Bank of Moscow to at least 75 percent, which would cost about $1.3 billion, the source said.

Another option was to cut Bank of Moscow's capital to zero, with VTB, its affiliates or the DIA buying up an additional share issue to secure the necessary stake.

A final decision on the amount and scheme of rescue was expected within days, after the Central Bank completes an inspection of Bank of Moscow's books this week.

VTB may put up to 100 billion rubles ($3.6 billion) into Bank of Moscow as a part of the bailout, in addition to the state possibly adding up to 150 billion rubles, sources said earlier in the week.

"The restructuring scheme is difficult — there will be no buyout of toxic loans," a third source said.

VTB directly controls 46.5 percent of Bank of Moscow and a blocking minority stake in insurer Stolichnaya Strakhovaya Gruppa, which itself owns 17.3 percent in the lender. Those stakes cost $3.5 billion.

Another 19.91 percent is owned by a company affiliated with businessman Vitaly Yusufov, who bought the stake from former chief executive Andrei Borodin and associates before they fled Russia earlier this year.

"In the restructuring scenario, the bank is most probably close to bankruptcy. If it is so, it was caused by significant losses, with half attributable to VTB," said Rustam Botashev, an analyst with UniCredit Securities. "The Bank of Moscow deal was a big mistake for VTB."

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