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# Bank of Moscow Provisions Squeak By

By The Moscow Times

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Although Bank of Moscow avoided an early payment on a eurobond issue, analysts remain skeptical of its health. **Maxim Stulov**

Bank of Moscow avoided a eurobond default Friday as its annual report revealed that 105 billion rubles ($3.8 billion) of provisions for doubtful loans sent it into the red in 2010.

If Bank of Moscow had failed to present 2010 accounts by the end of July, it could have violated covenants attached to some $2.5 billion in eurobonds, allowing bondholders to demand immediate repayment.

The ailing bank is due a $14 billion state bailout to cover doubtful loans revealed after previous management was ousted by shareholder VTB in April.

"Bank of Moscow fully complies with public debt covenants. There are no grounds for default," the lender said in a statement.

Bank of Moscow's 2015 dollar eurobond yielded about 5.1 percent Friday, compared with about

4.6 percent on VTB's bonds of similar maturity.

"Formally, Bank of Moscow managed to avoid a technical default, but the market has got the short version of the report," said Yegor Fedorov, an analyst with ING in Moscow.

Herbert Moos, a chief financial officer with VTB, said Bank of Moscow needs to allocate a total of some 220 billion rubles in provisions to cover loans related to its former management.

"We allocated 80 billion rubles in 2010 and will cover the rest in 2011," he said.

Bank of Moscow said Friday that the provision charges for 2010, almost three times bigger than the 30.8 billion rubles allocated in the year-earlier period, cut its capital to 40.3 billion rubles from 86.6 billion in 2009.

Its capital adequacy ratio fell to 8.7 percent from 18.9 percent by the end of 2009.

"The lender has allocated as much in provisions as was needed to keep the capital adequacy ratio at an allowable level. The rest will be put into reserves this year," said Rustam Botashev, an analyst with UniCredit Securities.

Under the terms of the bailout, VTB must raise its stake to 75 percent before the Central Bank disburses a low-interest loan of 295 billion rubles.

That will allow Bank of Moscow to book an accounting gain to cover the worst of its loan book. VTB will then have until the end of 2012 to pump in a further 100 billion rubles in capital.

The lender, which recently slipped to seventh from fifth among domestic banks in terms of assets, said it swung to a 2010 net loss of 68.2 billion rubles from a year-earlier profit of 717 million.

Bank of Moscow's former chief executive Andrei Borodin, who had led the bank since its establishment in the early 1990s, fled to London in the spring. He called VTB's takeover "political."

Bank of Moscow shares lost 0.5 percent by 12:50 Moscow time Friday but outperformed VTB and the broader MICEX Index.

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