

# Otkritie Formalizes Nomos-Bank Take Over

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One of Russia's few public banks, Nomos-Bank raised more than \$700 million in an initial public offering in London last year.

Trading of Nomos-Bank shares was briefly suspended in Moscow on Friday as the stock rocketed more than 20 percent in 10 minutes after the announcement that Otkritie Financial Corporation was looking to obtain full control of Russia's eighth-largest banking group.

The official confirmation of the long-rumored merger, which would include a buyout of minority investors, means the formation of the biggest privately owned bank in the country after Alfa Bank is now almost certain to go ahead.

MICEX froze trading of Nomos-Bank equity between 11:54 a.m. and 12:24 p.m. after Otkritie Financial Corporation said in a statement posted on its website that minority shareholders in the bank will be offered "no less than \$14 per Global Depositary Receipt" as part of a takeover. The deal was corroborated by Nomos-Bank in an e-mailed statement.

“Otkritie Financial Corporation plans over the coming two years to consolidate up to 100 percent of shares in Nomos-Bank,” Otkritie said in its statement.

The deal is a sign that the long-awaited consolidation of the Russian banking sector, with over 1,000 players, might be becoming a reality. The intense competition among top private banks and state-owned behemoths VTB and Sberbank is forcing some to seek economies of scale.

“Bigger is better, and Otkritie is now going to be one of the big boys,” said Jason Hurwitz, a financial-sector analyst at Alfa Bank.

Otkritie is currently the country’s 35th-largest bank by asset size, according to Banki.ru. The combined entity of Nomos-Bank and Otkritie will have assets of over 1 trillion rubles (\$32.3 billion), according to Otkritie.

Preparing the ground for Friday’s announcement, earlier this month PPF Group, a Czech private equity firm, gave 19.9 percent of its 26.5 percent stake in Nomos-Bank to Otkritie in exchange for a slice of potash-producer Uralkali. Metals and finance billionaire Alexander Nesis, who is believed to control almost 50 percent of Nomos-Bank via his ICT investment vehicle, provided the Uralkali equity.

The remainder of the 26.5 stake was acquired by billionaire Alexander Mamut, a business partner of Nesis, and telecoms investor Oleg Malis. The financial details were not disclosed.

The Aug. 9 deal caused a slump in Nomos-Bank’s share price and prompted credit rating agency Fitch to cut its outlook on Nomos-Bank’s debt to negative, citing potential corporate governance issues.

Otkritie has now agreed with the owners of 58.5 percent Nomos-Bank’s shares about their purchase, the financial group said Friday.

“Upon completion of the consolidation of Nomos-Bank shares by Otkritie Financial Corporation, the distribution of shares among major shareholders will be as follows: [Otkritie chief executive] Vadim Belyaev and the Otkritie management team will control up to 25 percent of shares; stakes of up to 10 percent will be owned by companies affiliated with ICT Group shareholders, by VTB Group, by [Otkritie chairman] Boris Mints and by Alexander Mamut,” Otkritie said.

But it was not immediately clear why Otkritie had offered such a premium to minority shareholders, causing the spike in the share price.

It may have been mandated by the value at which the buyout of PPF took place, ING Bank financial analyst Andrzej Nowaczek said.

And there was also bafflement about where Otkritie intends to find the funds.

“Ultimately, we have no idea yet how Otkritie would be financing this deal,” Troika Dialog analysts wrote in a note to investors Friday. “We see rapidly diminishing incentive to remain in the stock as this plays out.”

But others pointed to the powerful organizations behind the bank, which is 24.2 percent owned by the Deposit Insurance Agency and 19.9 percent by state-owned VTB.

“At least a portion of the financing looks like it will have to come out of Otkritie in cash,” said Hurwitz. “With such shareholders you might assume they have strong backing from big money.”

One of Russia’s few public banks, Nomos-Bank raised more than \$700 million in an initial public offering in London last year. While it abandoned plans for an IPO in 2011, Otkritie said Friday that it intends to try again within two to three years.

Now that both banks have publicly committed to the merger, the risk of the transaction falling through is limited, analysts said. Alfa Bank raised Nomos stock to overweight, or a buy rating, Friday.

Nomos-Bank stock stabilized Friday afternoon in trading on MICEX, closing up 12.5 percent over Thursday’s close, at 784.4 rubles. Nomos-Bank will announce its first half results Monday with management hosting a conference call at 3:30 p.m. in Moscow.

“There’s an economic benefit to becoming larger that there wasn’t before,” said Richard Hainsworth, director of independent bank rating agency RusRating. “This is visible evidence of something that is already a trend in the Russian banking sector.”

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