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VTB Could Offer More Bonds, Putin Sees Consolidation

By The Moscow Times

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State-controlled VTB , the country's second-largest bank, may top up a recent $1 billion issue of perpetual eurobonds this autumn, chief executive Andrei Kostin said on Friday.

Speaking on the sidelines of the Asia-Pacific Economic Cooperation summit, Kostin said the further offering would not be larger in size than the original deal launched in July that helped bolster VTB's capital adequacy.

"We did not take a final decision yet. I think the decision will be taken this September," Kostin added. Demand for the initial bond reached $1.65 billion, with the yield set at 9.5 percent.

Lenders worldwide are struggling to bolster their capital, essential to absorb possible shocks and continue operations. With equity markets still too weak for major capital raising, lenders instead are resorting to issuing subordinated debt.

VTB expected its Tier 1 capital adequacy ratio — a measure of a lender's ability to absorb shocks — to improve by up to 1 percentage point following the issue, from 9.6 percent at the end of March.

On Thursday, Kostin said Russian lenders will face growing pressure on their capital due to fast lending growth, which reached 29 percent since the start of the year, higher than the Central Bank's total forecast of 20-25 percent for this year.

Rapid loan growth in Russia this year could herald a spike in bad loans and capital shortages in the financial sector, especially if the euro crisis escalates, ratings agency Standard & Poor's warned in June.

Kostin said that an alternative to the perpetual bond issue would be an additional share offering, which also helps to boost capital, but he did not elaborate. The Russian government owns a 75.5 percent stake in VTB.

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