

# Navalny, VTB Exchange Attacks

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VTB has accused Alexei Navalny's Anti-Corruption Fund of presenting "deceitful" information about the state-controlled bank. **Maxim Stulov**

VTB slammed opposition leader Alexei Navalny and a London-based think tank Tuesday after they published a joint report portraying the state-owned giant as riddled with corruption and a danger to the health of European financial markets.

There were no new revelations about Russia's second-largest bank in the document produced by Navalny's Anti-Corruption Fund and the London-based Russia Studies Centre at the Henry Jackson Society, but VTB responded with vitriol as it sought to contain a growing threat to its reputation.

"The report in question is full of deceitful, biased and groundless accusations," VTB said in an e-mailed statement.

"It is obvious that the report has been made-to-order and that corruption should actually be looked for in the Anti-Corruption Fund and the Russia Studies Centre at The Henry Jackson

Society."

VTB's counter-allegations of corruption were laughed off by Michael Weiss, co-chair of the Russia Studies Centre. "How puerile and silly can you be?" he asked.

Shares in VTB did not appear to react Tuesday, but analysts said that the bad publicity and some of the details could prove negative for the stock in the medium and long term.

The report examines six cases linked to VTB, including the 2011 takeover of Bank of Moscow and a subsequent \$14 billion state bailout, the share buyback ordered by then-Prime Minister Vladimir Putin ahead of presidential elections earlier this year and a 2007 purchase of drilling rigs, which has been repeatedly highlighted by Navalny in his anti-corruption blog.

It was compiled by a freelance journalist who used interviews with VTB executives, court documents and media reports, said Vladimir Ashurkov, a former executive at Alfa Bank and now chief executive of the Anti-Corruption Fund.

"[It presents a] grim picture of how business is done at VTB," said Ashurkov. "And it is inevitable that these practices will be exported into the more regulated and transparent European markets."

The former foreign trade bank of the Soviet Union has grown dramatically over the last decade and, particularly through its investment banking arm VTB Capital, is now expanding in Asia, Europe and the United States.

"The spectacular growth of VTB now gives the Kremlin an additional lever to exert influence in global financial markets," the report reads. "While investors have good reasons to be wary of the bank, international financial regulators should be more concerned."

Navalny, who shot to fame last December as one of the leaders of the mass anti-Putin demonstrations in Moscow following State Duma elections that were marred by allegations of fraud, said on his blog Tuesday that the publication was mainly aimed at a Western audience.

U.K.-based Weiss described it as "a useful resource guide for regulators."

The report itself calls on the United Kingdom's Financial Services Authority, an independent regulatory body, to scrutinize VTB.

Analysts were quick to point out that there could also be implications for VTB's equity.

"This report is an issue for VTB because of its current reputational problems, and will prevent the stock from growing on the back of positive news," said Sergei Volkov, head of institutional credit ratings at the Expert RA rating agency.

Others, however, said that most of the information was already known. "The report will have only a moderate effect on VTB shares, as investors already had concerns about governance risks," said Jason Hurwitz, a financial analyst at Alfa Bank.

"VTB has provided detailed rebuttals of all of these allegations on numerous occasions, but

Mr. Navalny continues to prefer mudslinging to detailed investigation of the issues," VTB said in its e-mailed statement. "It would be wrong to speculate as to what motivates him, but it is not a search for the truth."

The Henry Jackson Society is an organization that promotes human rights and democracy and is named after former U.S. Senator Henry Jackson, who is also remembered for the 1974 Jackson-Vannick amendment, which limited U.S trade with the Soviet Union. The repeal of Jackson-Vannick still remains a sticking point between Moscow and Washington.

The group's Russian Studies Centre, which has been cooperating with Navalny since 2011, is set to release a series of reports on Russian corruption, Weiss said. The next one will focus on Deputy Prime Minister Igor Shuvalov.

Navalny, who owns shares in several state-owned companies including VTB, has singled out the lender headed by Andrei Kostin for some of his most ferocious attacks.

There are fewer displays of corruption at Russia's other banks, including the country's biggest lender, Sberbank, said Ashurkov. "The inefficiency of VTB is more brazen."

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