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VTB Considers Merging VTB24, Bank of Moscow as Banking Growth Stalls

By Peter Hobson

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D. Abramov / Vedomosti

VTB, the country's second-largest banking group, is considering merging two of its major banks, VTB24 and Bank of Moscow, to cut costs as the economy stalls and growth in the banking sector slows, Kommersant reported Friday, citing sources in the banking industry.

The state-owned banking group, struggling to boost profitability as opportunities for easy expansion dry up, is putting together a strategy document looking forward to 2017, which should be ready in April.

VTB owns four banks — VTB, the more high street-oriented VTB24, Bank of Moscow, which it absorbed in 2011, and Leto Bank, which focuses on retail loans to low earners.

The union of VTB24 and Bank of Moscow, which have large overlaps and the services they provide, may be the first step in a larger consolidation — longer term, all four banks may be

merged, the sources said.

VTB and Bank of Moscow declined to comment.

Having numerous discrete banking operations is profitable only when business is booming, analysts said. When the market is growing at a rate of 25 percent or more per year, the model is viable. But according to the Central Bank, retail lending will fall below that rate in 2014, while corporate lending will grow by 10 percent.

Economic growth dropped sharply in 2013 to 1.3 percent, from 3.4 percent in 2012, and the country's Economic Development Ministry has issued grim projections of two decades of 2-3 percent growth ahead.

Readjusting to the new reality, banks have become far less willing to lend. Banks are checking the credit histories of potential borrowers twice as often as they were a year ago, and upon receiving the information they are granting loans half as often, Oleg Lagutkin, head of consumer credit reporting agency Equifax in Russia told Vedomosti Thursday.

Speaking at the Davos Economic Forum last month, VTB chief Andrei Kostin said times were hard. "We do not expect any increase in profits this year. Our chief reserve is more effectiveness and cost reductions," he said.

VTB earned net profit of 46 billion rubles in the first nine months of 2013, down 23.5 percent from the same period the year before, according to the group's financial statements. The bank has forecast profit of 100 billion rubles for the full year, but has not yet released its full-year results.

VTB has scope to improve efficiency. From the beginning of this year, the group's cost to income ratio grew from 50 percent to 53 percent, according to the nine month financial statements.

By comparison, Sberbank, the country's biggest lender, has a ratio of 44.8 percent, said Gazprombank analyst Andrei Klapko.

"The high ratio is putting pressure on VTB's profitability, which the bank's guidance states should be above 15 percent. According to the nine month statements, VTB actually achieved only half that — 7.4 percent," he said

The merger is not the only cost-saving strategy under discussion at the bank. Management has discussed spinning off Bank of Moscow's corporate clients into VTB and its retail lending into VTB24, one source said. Bank of Moscow would be transformed into a specialized operation working with small and medium business and municipalities.

A final decision on any merger would have to be cleared with the Central Bank, which has a particular interest in Bank of Moscow. Only three years ago, in 2011, the Central Bank paid out 295 billion rubles to VTB as part of the larger bank's takeover and refinancing of Bank of Moscow. Soon after buying the bank, which had long been associated with former Moscow Mayor Yuri Luzhkov, VTB unearthed a hole in the bank's balance sheet that required a rescue package totaling $14 billion.

Of the 295 billion rubles contributed by the Central Bank, just over 20 billion rubles was still outstanding on Feb, 12.

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