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Sanctions Push Russia's VTB Capital 'Towards Asia'

By The Moscow Times

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VTB Bank, Russia's second-largest bank by assets, was sanctioned by the United States and European Union in the summer over Moscow's role in the Ukraine crisis, limiting its access to international capital along with other Russian state banks.

Yuri Soloviev, who is also chairman of VTB Bank's management board, said VTB Capital was looking at reducing its investment-banking presence in the United States due to lower demand for its services and was refocusing its team in the United Kingdom, without giving details.

"The West is pushing us towards Asia," Soloviev said in an interview on the sidelines of VTB Capital's annual investment forum earlier this week.

"Of course, the general market environment in Russia is negative. Volumes in equity and debt capital markets (DCM) are around 60 percent lower this year, which means lower commissions. The markets are essentially frozen."

Soloviev said VTB Capital was planning to move staff around and restructure its teams to place less emphasis on Western markets. He did not clarify how many people the bank could move or whether the bank was planning any major staff cuts.

He said he saw scope for a reduction in personnel at VTB Group, which employs over 100,000 people, as a whole. In the United States, for instance, Soloviev said the bank was looking at shrinking its investment-banking operations to leave just a "boutique" unit there.

"Obviously with the turnover in that particular area [the United States] falling tremendously, our ability to originate is less because the demand is not there. Some foreign equity investors feel prohibited and some of them are afraid," he said.

VTB Capital currently employs less than 20 people in the United States, Soloviev said. Financial sources say VTB Capital has already cut and relocated some staff in London and New York this year.

Russia has bought around $5 billion worth of VTB Bank's preferential shares in a bid to shore up its Tier 1 capital ratio, which in the first half dropped below the 10 percent level required by the central bank.

Soloviev said VTB Capital had weathered the effects of sanctions on its parent bank well, despite lower volumes across its key markets, including mergers and acquisitions. "The deals and volumes are almost there, we hope to restore our overall No. 1 position by the end of the year," he said.

VTB Capital has slipped to third in a ranking of investment banks in Russia by fees earned so far this year, according to data compiled by Thomson Reuters and Freeman Consulting Group.

Eastern Shift

Soloviev said VTB Capital saw room for expansion in Asia, the Middle East and Africa.

"We are moving from a traditional Russia to West distribution platform to one where we originate risk in some places to distribute in others," he said, adding that 40 percent of VTB Capital's profits came from its international business.

"A new angle which is going to become very popular is the issuance of Russian companies in Asian countries. We are the only DCM franchise in Russia which has organized Hong Kong dollar, local renminbi, Singapore dollar and Aussie issues."

By looking East, VTB is following in the footsteps of other Russian state companies including gas giant Gazprom, which in May signed a $400 billion gas supply deal with China.

Asian investors, however, are concerned about the impact of sanctions, even if they are not directly prohibited from dealing with sanctioned entities, and there has been little appetite in Asia for equity and debt issues by Russian firms this year.

Gazprom completed a stock listing in Singapore in June but did not raise any new funds.

Top lender Sberbank, meanwhile, conducted non-deal roadshows in April via sole lead OCBC Bank, although no details of a potential deal have emerged since. No Russian companies have issued debt on Asian markets since January, a spokeswoman for VTB Capital clarified.

"We will discover it as we go, but we hope there is serious appetite [for Russian firms' debt in Asia]," Soloviev said.

"I was surprised to see the liquidity in some Asian markets is smaller than in Russia. ... But with bilateral trade growing, there is hope."

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