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Russia's VTB Wants $5.4 Billion in State Aid to Offset Sanctions Losses

By The Moscow Times

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VTB's third-quarter net profit was 0.4 billion rubles ($8.58 million), compared with 18.4 billion rubles a year earlier, short of analysts' expectations of 3 billion rubles.

Russia's second-largest bank VTB expects a tough end to the year after posting a 98 percent slide in third-quarter profit because of higher provisions for bad loans, an economic slowdown and losses over Ukraine.

The state-controlled bank, which was sanctioned by the United States and European Union over Moscow's role in the Ukraine conflict, is a key lender to Russia's economy, which has slowed sharply this year and is on the verge of recession.

"We don't expect a significant profit [for the full year]," Herbert Moos, VTB's chief financial officer, told journalists. "All that profit will go on forming additional provisions."

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billion rubles a year earlier, short of analysts' expectations of 3 billion rubles.

The bank said loan-loss provisions in the third quarter rose to 65 billion rubles from 22 billion a year earlier, while its cost of risk rose to 2.9 percent in the first nine months from 1.7 percent a year earlier.

"We see a continuing deterioration of the situation in Ukraine, we see additional provisions for our retail portfolio, and we see provisions linked with construction firms," Moos said.

VTB lost 14.4 billion rubles due to Ukraine in the third quarter, he added.

Analysts said VTB's performance would continue to suffer from higher provisions but welcomed an improvement in other operating metrics.

"There is clear progress linked to the bank's operating results — the rise in its main earnings outweighs the rise in its costs," said Mikhail Shlemov, an analyst at UBS in Moscow. "But I think a significant portion of provisions will be created next year as well."

VTB said its third-quarter results would have been worse without strong demand for credit from large borrowers, as international debt capital markets remained largely closed for Russian borrowers due to sanctions.

VTB's Tier 1 capital ratio — a measure of its ability to absorb losses — rose to 11 percent after the Finance Ministry bought 214 billion rubles of its preferred shares in September.

Russia's finance minister said VTB had asked for a further 250 billion rubles in state aid, but Moos declined to comment.

The bank's shares were little changed, underperforming the broader MICEX index slightly to trade around 0.1 percent higher by mid-afternoon.

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