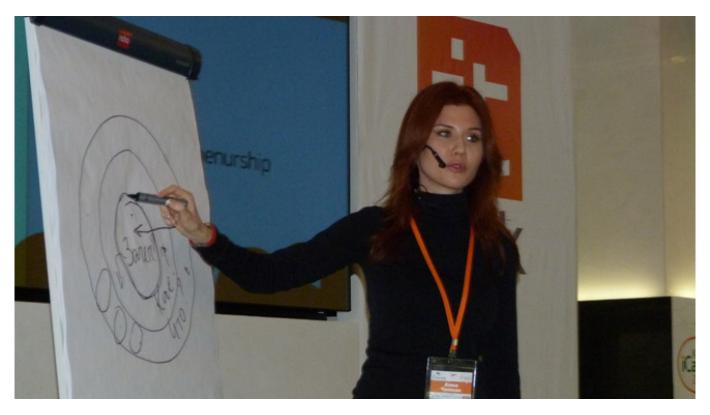


Spy-Linked Bank Put Into Administration as Russia's Banking Crisis Spreads

By Howard Amos

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Bankruptcies are likely to be concentrated among privately owned mid-sized lenders whose failure will not have too severe an impact on the economy.

Mid-sized Russian lender FundServisBank, which counts spy-turned-sex symbol Anna Chapman as one of its top executives, was put into administration Wednesday by the financial authorities as a crisis in Russia's banking sector grows amid a stagnating economy and high interest rates.

The Central Bank said in a statement that top-100 bank FundServisBank, founded in 1994, would now be run by the Deposit Insurance Agency in accordance with Russian bankruptcy law.

The lender's fall comes as the country's banking sector is squeezed by Western sanctions over Ukraine and a plunge in the ruble, with experts warning that 25 percent of the country's banks could require extra funding this year to stay afloat.

Bankruptcies are expected to rise as Russia's financial authorities look to reduce the number of banks operating in the country — currently more than 800 — amid fears that the government will not risk dwindling cash reserves on bailouts for mid-sized lenders.

FundServisBank Denials

FundServisBank claimed Wednesday that it had no financial problems.

"From a purely economic point of view the bank has no problems ... you start to wonder who is behind this," FundServisBank spokesman Grigory Belkin told The Moscow Times.

Novikombank, whose biggest shareholder is massive state-owned defense conglomerate Rostec,

will be involved in the running of FundServisBank while it remains under the Deposit Insurance Agency, according to the Central Bank statement.

Russian space agency Roscosmos, one of FundServisBank's major creditors, said in a statement that it had asked the Central Bank to intervene. "After consultations with the Central Bank, Roscosmos proposed Novikombank as a participant in the procedures of financial sanitation," Roscosmos said.

Rostec Rescue?

"Novikombank is taking the place of FundServisBank," Belkin said.

"It's like there is an experienced doctor who appears and says you are ill, fatally ill. You say 'I am alive,' but he says 'no, no, no!'"

Rostec, which controls about two-thirds of Russia's defense industry, is run by Sergei Chemezov, a longtime associate of President Vladimir Putin.

Last month, the Kremlin ordered the merger of Roscosmos with another major defense corporation under the leadership of Igor Komarov, a former executive at carmaker AvtoVaz. Komarov has close ties with Chemezov, having worked with him on the board of directors of Rostec.

Novikombank's president, Ilya Gubin, worked at AvtoVaz between 2005 and 2008 and the head of the bank's board of directors, Vladimir Artyakov, is one of Chemezov's deputies at Rostec.

A spokesperson for Novikombank, the country's 34th biggest bank by assets according to industry portal banki.ru, did not answer a telephone call for comment Wednesday.

A Bank For A Spy

While not a top-tier bank — Russia's 75th biggest by assets according to banki.ru — FundServisBank raised eyebrows when it gave a job to red-haired spy Anna Chapman after she was exposed as a sleeper agent in the United States and returned to Russia in a 2010 spy swap.

Chapman is currently on FundServisBank's board of directors, according to the lender's website.

Elena Tereshkova, the daughter of Valentina Tereshkova, the first woman to have flown in space, is also reported to be employed by FundServisBank.

FundServisBank — which has affiliates that service Russian cosmodromes Baikonur and Plesetsk — is reportedly owned by the bank's president, Alexander Volovnik.

The bank has just over 100 billion rubles (\$1.6 billion) in assets, according to banki.ru.

Russian police said in August 2013 that they had foiled a plot to abduct and murder Volovnik. In 2012, security services raided the bank in connection with a large money laundering scheme.

Crisis and Consolidation

FundServisBank's problems are only the latest in the series of bank failures in Russia as low oil prices, Western sanctions and an emerging economic recession build pressure on the banking sector.

In December, the Central Bank assigned 127 billion rubles (\$1.9 billion) to rescue Trust Bank, now Russia's 22nd largest bank by assets according to banki.ru. Earlier this month, mid-sized St. Petersburg lender Tavrichesky Bank was put into administration.

Head of state-owned Sberbank, German Gref, warned last month of a "massive" banking crisis.

About one quarter of Russia's banks could require extra funding this year amounting to over 1.3 trillion rubles (\$20.9 billion) rubles, according to Oleg Solntsev, a banking expert at the Center of Macroeconomic Analysis and Short-Term Forecasting in Moscow.

Other analysts have warned that as much as \$40 billion might be needed.

Bankruptcies are likely to be concentrated among privately owned mid-sized lenders whose failure will not have too severe an impact on the economy.

The government is less willing to save banks than during the 2009 financial crisis because of more limited resources, according to Ivan Tchakarov, chief economist at Citibank in Moscow.

"The government will be much more selective in its approach," he told reporters Wednesday.

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