

Bank of Moscow to Raise \$3.4Bln

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Bank of Moscow plans to issue 100 billion rubles (\$3.44 billion) in new shares to its majority shareholder VTB by the end of this year as part of measures to cover a hole in its balance sheet resulting from mismanagement by the lender's former president, the bank said Tuesday.

"We plan to issue new shares by the end of the year, unless there are any changes," said Alexander Yastrib, deputy chairman of Bank of Moscow.

Issuing additional shares, which was initially planned for late 2012, is part of the lender's "ambitious development plans," which involve increasing its credit portfolio, he told journalists at the bank's office.

State-controlled VTB, which acquired 46.48 percent of the lender from City Hall earlier this year, is considering different options "to improve the bank's ability to provide loans," Yastrib said.

According to Yastrib, Bank of Moscow hopes to increase the size of its credit portfolio with

small and mid-sized businesses to 200 billion rubles in the next two years, compared with the current volume of 30 billion rubles.

In order to do so, the lender has started to provide loans of up to 5 million rubles to small and mid-sized firms participating in tenders organized by Unified Electronic Trading System, an e-commerce operator controlled by the city government.

Bank of Moscow, which holds a 16 percent stake in the operator, is providing unsecured loans to clients who can use the funds as guarantees when participating in tenders announced by the federal and municipal authorities.

The loans will allow companies to participate in tenders for supply contracts of up to 100 million rubles, Yastrib said, adding that the interest rate stands at 6.5 percent to 7 percent a year.

The tender participants have to provide a deposit, whose size ranges from 0.5 percent to 5 percent of the contract's size, according to information on the web site of the e-commerce operator. Smaller businesses trying to participate have to deposit 2 percent of the value of the deal.

The bank will also provide loans of up to 80 million rubles on favorable terms to companies competing for bigger state orders, Yastrib said.

Anton Yemelyanov, chief executive of Unified Electronic Trading System, said he hoped to double the number of tender participants from the current four to six firms per tender, which will ensure "the maximum transparency and efficiency of the tenders."

The bank provided 400 million rubles in such loans during the first week that the program was in place, which was a trial period. Yastrib said the bank plans to propose that other units of VTB group — including VTB Capital, Bank VTB and TransCreditBank — create similar programs.

Meanwhile some of the potential borrowers said they are unlikely to take advantage of Bank of Moscow's proposal.

"We find [other] opportunities to pay the tender security," said Yevgeny Tikhomirov, chief executive of AKTI-Master, a Moscow-based small business focusing on equipment maintenance.

According to the company's web site, its clients include the Interior Ministry, the Federation Council and the traffic police.

The firm participates in tenders on average once a year. In order to pay the tender security, it uses its own capital, as well as other banks' guarantees, Tikhomirov said.

The other reason why AKTI-Master is unlikely to take a loan from Bank of Moscow is that the lender's reputation has been undermined, he said by telephone.

Bank of Moscow will receive up to \$14 billion rubles in state-backed loans — the largest bailout in modern Russian history — after an investigation by the Central Bank revealed that

almost a third of the lender's assets are "problematic."

The bank's previous president, Andrei Borodin — who was ousted during a hostile takeover by VTB — fled to London in the face of a possible jail term in connection with a \$415 million loan made by Bank of Moscow to a real estate project linked to Yelena Baturina, billionaire wife of former Mayor Yury Luzhkov, who played a key role in the bank's success.

As part of the bailout, Bank of Moscow will receive a 10-year loan of 295 billion rubles from the Deposit Insurance Agency at a rate of 0.51 percent.

The funds will be provided after VTB completes consolidation of the Moscow lender's assets, increasing its stake to 75 percent.

In addition, Bank of Moscow will get a 100 billion ruble cash injection from VTB after issuing new shares.

Natascha Kearsley contributed to this report.

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