

Bank of Russia Performs Special Audit of VTB's Handling of Problem Debts  
07.27.2011 [Byline: Anton Verzhbitsky](#)  
RBC Daily

Original article is available here:

<http://www.rbcdaily.ru/2011/07/27/finance/562949980829003>

*PBK daily* has come into possession of [internal] correspondence among Bank of Russia employees in late 2010-early 2011. In it, the Central Bank employees shared concerns over the fact that VTB was funding the company VTB Debt Center via yet another company within the Group - Russian Commercial Bank (RCB) - without previously setting aside a relevant reserve.

The Bank of Russia internal communications estimated the amount of offers presented by VTB in favor of RCB. The conclusions were based on the records of sessions of the bank's Credit Committee and Management Board as of December 8, 2010 (see Table on page 7). According to the data, the total amount of offers made in favor of RCB stood at USD 5.166 billion. Out of that amount, the largest single offer was for the purchase of a promissory note issued by VTB Debt Center (VTB DC) for USD 1.1988.

According to data available to the CB, even back in 2009, the bank's Credit Committee decided that VTB would turn over to the Debt Center the rights and claims under problem loan agreements made by the bank with Oil Production Technology and Investments (Tekhneftinvest), Kondaneft, and Yangpur (subsequently collectively referred to as TNI) for a total of USD 1.07899 billion. The transaction was funded through the purchase, by RCB, of the VTB DC promissory note at the rate of 9.36% (subsequently, the rate was reduced to 6% p.a.) for an amount that was equivalent to the debt and with repayment on 12.01.2010 (subsequently extended until 12.09.2011). In its turn, VTB made RCB an offer to buy out the promissory note.

As of December 1 last year, the entire TNI debt amounted to RUR 35.825 billion. And, according to the Bank of Russia internal communications, no RAS loss reserve had been made for the borrower. The only thing that was in place was an IFRS reserve for RUR 27.307 billion, or 76% of the total debt.

Bank of Russia employees sent an information request to VTB regarding the format of the offer. In the opinion of the CB Department for Financial Risks Methodology, the bank is required to create reserves for such transactions. VTB's response boiled down to the fact that, until the offer had been accepted, the bank had not incurred any obligations. The Bank of Russia Legal Department does not dispute that, since *"in forming a reserve it is necessary to be guided by the principles that the economic substance of transactions take priority over their legal form"*.

Alexei Terekhov, Director of the Bank Audit Department at FBK, has said that, as far as evaluating other risks, the CB indeed can be justified in demanding that reserves are

formed as provided for by guidelines set forth in Rule No. 283. The Bank of Russia even performed a calculation: as of October 1, 2010, VTB had placed RUR 159.6 billion with RCB, whereas it had only brought in RUR 2.4 billion, with the net credit position standing at RUR 157.2 billion, which is comparable to the amount of offers made by the bank.

According to Fitch Ratings Senior Director Alexander Danilov, transferring problem loans to a debt center is an established practice used to facilitate efforts to recover collateral and subsequently sell assets used to secure loans. It can be also used to achieve technical compliance with the regulator's ratios. Historically, VTB has used RCB primarily to extend loans to major industrial holding companies or to finance M&A transactions that, as is public knowledge, frequently occur in offshore jurisdictions. VTB provided financing and guaranteed such transactions for RCB.

VTB's Press-Service has stated that they have no comments regarding information about offers made by the bank citing confidentiality of such information.

**LOANS UNDER WHICH VTB MADE OFFERS TO RUSSIA COMMERCIAL BANK AND ENTERED INTO CLAIM ASSIGNMENT AGREEMENTS AS OF 12.08.2010**

Company	Amount	Additional information	Who it belongs to and what is known
VTB Debt Center	USD 1,199.8 billion	12.01.2009, VTB DC sold one RCB promissory note at face value of USD 1,095.1 billion with maturity set at 12.01.2010 at 9.36%. On the same day, VTB made an offer to buy that very promissory note from RCB. 12.08.2010, due to extension of the promissory note transaction until 12.09.2010, a relevant extension was approved and the bank's offer increased to USD 1,199.8 billion due to inclusion in it of the amount of accrued - but not paid - interest (USD 104.7 million). As the note was extended, its rate was reduced to 6% p.a.	VTB
Donaink Limited, Cyprus	USD 1 billion	04.17.2009 Loan Agreement due on 07.29.2013. Quality category - 1(0%) - during transfer of loan.	SUEK core shareholder
Grenumo Limited, Cyprus	USD 925 million	Loan provided by [not clear from Russian if it's 'by' or 'to' - applies to everything below - transl.] RCB in mid-2009 due in 3 years	Company petitioned Federal Anti-Monopoly Service for permission to buy ALROSa subsidiary Geotransgaz

Bellgate Constructions Limited, Cyprus	RUR 8.5 billion (c. USD 283 million)	Credit provided by RCB in mid-2009 due in 5 years. Quality category - 1(0%) - during transfer of loan.	AFI development
VTB-Leasing	RUR 2.9 billion (c. USD 97 million)	Credit provided by RCB in mid-2009 due in 5 years. Quality category - 1(0%) set for loans in the bank	VTB
Meglio Ltd., Cyprus	USD 1,135 million	Credit provided by RCB in Nov 2007, originally for 2 years. In Oct 2009, extended by 3 years (until 11.05.2012). The bank's offer terms were amended accordingly	The Company had previously owned a stake in VTB North-West
Renova Holdigns Ltd. (The Bahamas)	USD 200 million	Credit provided by RCB in Nov 2009 due on 12.31.2010. In late December 2010, credit was extended to 03.31.2014. The bank's offer terms were amended accordingly	Head Company of Renova Group. The Company informed that the loan was repaid in December 2010
Balser Trading Limited, Cyprus	USD 18.6 million	Credit provided by RCB in late March 2010 for 5 years	
Coriolanus Limited, Ireland	USD 200 million	04.30.2009, the bank made offers to RCB effective until 05.01.2010 to buy from it credit notes for the specified amount, issued by Coriolanus Limited (bookrunner for Deutsche Bank notes issue; the note risk tied to Gazprom credit risk). The credit committee of the bank approved, on 08.11.2010, extension of the bank's offer until 05.01.2011 (as requested by RCB).	Coriolanus Limited is a SPV. The tool itself constitutes a CDO for a portfolio comprising banks and companies in the RF, Kazakhstan, and Ukraine and has been dubbed Sputnik 1. The CDO comprised 43 CDS (credit default swaps) for debt liabilities of first-tier Russian, Kazakh, and Ukrainian issuers.
I.T.C. Consultants Ltd., Cyprus	USD 77 million	Credit provided by RCB in Dec 2006 for 3 years (until 12.22.2009). In September 2009, the loan agreement and offer were extended by one year, until 12.22.2010. In October 2010, the offer's term was extended until 12.22.2012. Background: the borrower owns 19.9% of Evrofinance Mosnarbank. The loan is expected to be repaid by selling the said stake. VTB is a likely buyer, in the context of setting up a Russian-Venezuelan bank	VTB
Asansor Limited,	USD 30.1 million	Credit issued on 05.28.2008	

Cyprus		against an offer by a bank owned by another Cyprus company, Parentelato Limited, due on 01.15.2009. At borrower's request, the credit was renewed twice, interest was not paid. 11.24.2010, the bank's credit committee decided to authorize RCB, against the bank's offer, for a new period of time (up until one year) to extend a USD 30.1 million loan to a new borrower, Asansor Limited, for the latter to acquire stock in Georgia's Energy Invest. Parentelato Limited intends to use the proceeds to repay debt to RCB	
Opamnia Consulting Limited, Cyprus*	USD 150 million	Due in 10 years	
Don-Stroi Invest*	RUR 15 billion (c. USD 0.5 billion)	Due by the end of 2017	VTB
VTB Bank* (Armenia)	USD 14 million	Duration 2-4 years under Armavia airline loans	

\* expected offers

Source: Bank of Russia