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Russia's VTB sees no risks in construction lending

By Gleb Bryanski

MOSCOW, July 23 (Reuters) - VTB <VTBR.MM>, Russia's second largest bank, said on Wednesday it sees no risks in the construction sector, seen by many as overheated, and plans to increase its loans to the industry by 46 percent in 2008.

The head of the state-controlled bank's corporate lending department, which handles clients in the oil and gas, metals, construction and retail sectors, said VTB would also help large construction firms acquire their smaller distressed rivals.

"We do not see any dangers in growing our loan portfolio to construction firms to 200 billion roubles (\$8.6 billion)," Olga Dergunova, former head of Microsoft Russia who joined VTB last year as part of a management reshuffle, told reporters.

Russia's construction industry has enjoyed an unprecedented boom in recent years, growing at a rate of over 16 percent in 2007. The sector accounts for over 5 percent of Russia's gross domestic product (GDP).

However, the most recent data showed a 5.2 percent year-on-year fall in total square metres of new housing built in June and a 13.5 percent fall in cement production as interest rates on loans for real estate developers grew to 15-18 percent. Rising funding costs could make many small players easy prey for larger firms such Mirax Group, Donstroi and PIK Group <PKGPq.L>, all VTB clients, and VTB said the number of distressed developers across Russia could already be counted in their hundreds.

Dergunova said VTB could mitigate construction sector risks through thorough risk management, higher interest rates and regional diversification as the bank expands its client base beyond Moscow and St.Petersburg.

GROWTH AREAS

The onset last year of the global liquidity squeeze hit banks in neighbouring Kazakhstan and crippled the construction sector that had depended on bank loans. Analysts have said Russia was in a better position than its neighbour.

VTB was able to raise about \$1.4 billion in Eurobonds and syndicated loans in the second quarter while it still has excess capital from going public last year.

Dergunova said her department, which oversees about 40 percent of VTB's total corporate loans portfolio, plans to boost its share of the portfolio by 13.6 percent to \$17.5 billion before the end of the year.

Corporate lending growth boosted VTB's first-quarter results this year and reinforced a view that the bank can continue to



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exploit its strong position in Russia's state-dominated corporate world.

Dergunova said the credit squeeze in the first quarter, which hit many smaller banks, allowed VTB to increase its market share as clients fled to the state-owned bank, perceived as less vulnerable to market woes.

Dergunova said the number of corporate clients grew by 37 percent in the second quarter while the bank also won \$8.6 billion in deposits from state corporations which received massive budget injections last year.

Dergunova also said she wanted to increase the number of corporate clients from 1,600 to 3,000 in the next few years and said she saw retail, wood processing, agriculture and technology as potential "growth areas."

(With additional reporting by Maria Plis)

(Editing by Greg Mahlich)

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