Russia
Update

Promsvyazbank

Ratings

Foreign-Currency	
Long-Term IDR	B+
Short-Term IDR	B
Individual Rating	D
Support Rating	4
Support Rating Floor	B
Senior Unsecured	B+/RR4
Subordinated	B-/RR6
Sovereign Risk	
Foreign-Currency Long-Term IDR	BBB
Foreign-Currency Short-Term IDR	F3
Country Ceiling	BBB+

Outlooks

Foreign-Currency Long-Term IDR	Positive
Sovereign Foreign-Currency Long-Term IDR	Stable

Financial Data

Promsvyazbank

	31 Dec 09	31 Dec 08
Total assets (USDm)	15,580	15,718
Total assets (RUBm)	471,211	461,801
Total equity (RUBm)	38,205	39,975
Operating profit (RUBm)	-1,072	1,708
Published net income (RUBm)	-626	1,562
Comprehensive income (RUBm)	-1,379	2,330
Operating ROAA (%)	-0.24	0.44
Operating ROAE (%)	-2.73	4.89
Eligible capital/weighted risks (%)	10.55	10.53
Tier 1 ratio (%)	9.91	9.70
Total CAR (%)	14.32	13.14

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Related Research

Applicable Criteria

- *Global Financial Institutions Rating Criteria (December 2009)*

Other Research

- *Russian Banks: Downside Risk Reduced (December 2009)*

Rating Rationale

- The ratings of Promsvyazbank (PSB) take into account its large national franchise for a privately owned bank and solid liquidity. However, they are constrained by its thin capital cushion coupled with weakened asset quality.
- PSB's 2009 net loss was primarily driven by impairment charges; pre-impairment profit actually rose to RUB19.9bn from RUB15.0bn in 2008. While charges may stabilise in 2010, the net interest margin (NIM) has come under pressure. In M410 the bank reported losses under local standards, mainly driven by a decrease in the net interest margin and additional provisions.
- Prior to the crisis, PSB's loan book grew extremely rapidly and the share of foreign-currency lending is above the sector average. The loan book is also concentrated, reflecting the bank's corporate nature and low equity base. At end-2009, loans more than 90 days overdue stood at 13.1% (corporate and SMEs: 9.9%; retail: 33.8%), while rolled-over loans were sizable. Loan impairment reserves had increased to 12.7% of gross loans at the same date, and are projected to peak at 15%; coverage of impaired loans was 97% at end-2009.
- Refinancing risk is low and wholesale obligations are diversified by maturity and source. Liquidity is strong, and liquid assets (cash and equivalents, unpledged securities and net short-term interbank positions) amounted to 20% of liabilities or 30% of customer balances at end-Q110. Central Bank of Russia (CBR) unsecured funding is not used, and other CBR financing sources are negligible.
- PSB's regulatory capitalisation has always been tight: its capital ratio at end-April 2010 was 10.2%, just above the 10% CBR minimum. In part, this was a result of losses in M410, which were roughly equal in size to the RUB5.4bn equity injection received in February. Consolidated Basel I capital ratios were about 3ppts higher than the unconsolidated regulatory ratios at end-2009, and stood at 9.9% (tier 1) and 14.3% (total). The merger of two subsidiary banks into PSB in May should help to support regulatory capitalisation.

Support

- PSB has enjoyed access to government liquidity facilities during the crisis. In light of its broad national coverage, the bank may also be able to benefit from capital support from the Russian authorities, if needed, although whether this would be timely and sufficient in all circumstances is questionable.

What Could Trigger an Upgrade?

- The Positive Outlook reflects Fitch's base case expectation that during the next 12 months the bank's asset quality will stabilise and capitalisation will strengthen, which could result in an upgrade of the bank's IDR to 'BB-'.

Profile

PSB was Russia's second-largest privately owned bank by assets (the 10th-largest overall) at end-2009, with 234 points-of-sale across Russian regions and 5 located overseas. It is majority-owned by its founders, Russian businessmen Alexey and Dmitry Ananiev. Commerzbank AG holds a 15.32% stake, and in February this year the EBRD acquired a 11.75% stake by subscribing to a new share issue.