

Russia
Credit Update

Promsvyazbank

Ratings

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

Outlooks

Foreign Long-Term IDR	Negative
Sovereign Foreign Long-Term IDR	Negative

Financial Data

Promsvyazbank	31 Dec 08	31 Dec 07
Total assets (USDm)	15,718	11,947
Total assets (RUBm)	461,801	293,245
Total equity (RUBm)	39,975	27,682
Operating profit (RUBm)	2,164	5,020
Published net income (RUBm)	1,562	3,705
Comprehensive income (RUBm)	2,330	5,232
Operating ROAA (%)	0.57	2.12
Operating ROAE (%)	6.40	21.80
Internal capital generation (%)	6.89	22.72
Eligible capital/weighted risks (%)	9.70	9.41
Tier 1 ratio (%)	9.70	9.41

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Related Research

- *State support mitigates significant near-term risks for Russian banks (October 2008)*
- *Russian Banking System and Prudential Regulations (July 2007)*

Rating Rationale

- The ratings of Promsvyazbank (PSB) are constrained by relatively thin capitalisation coupled with deteriorating asset quality. However, the ratings also take into account solid liquidity and moderate refinancing needs.
- The loan book is primarily corporate and concentrated by name. Asset quality is deteriorating rapidly, especially in the retail portfolio, and at end-2008 total impaired loans (impaired corporate and 90+ days overdue retail loans) stood at 9.2% (end-2007: 1.2%). Construction lending accounted for 15.7% of gross loans at end-2008. Additional concerns are the high proportion of foreign-currency denominated loans (50% at end-2008) and portfolio seasoning after previous rapid loan growth (CAGR in 2006-H108: 79%). Loan impairment reserves under IFRS amounted to 5.8% of gross loans at end-2008 and the bank intends to increase them to 11% by end-2009.
- Prime funding sources are customer accounts (54% of liabilities at end-2008), wholesale funding (largely debt issues and syndicated loans; 22%), and interbank borrowings (23%, about 40% of which is trade finance and about half is represented by CBR funding, which substantially reduced in Q109). Refinancing risk is moderate and wholesale obligations maturing in 2009 account for 9.6% of end-2008 assets. Liquidity is strong and highly liquid assets (cash and equivalents and unpledged government debt minus net short-term interbank position) amounted to 19% of liabilities (31% of customer balances) at end-February 2009. CBR unsecured funding is not used at present.
- Equity was supported by a RUB4bn injection in late-2008, about half of which came through reclassification of sub-debt. The regulatory capital ratio at end-March 2009 was 10.7%, just marginally above the 10% minimum. Fitch Ratings notes that the main shareholders' ability to contribute equity might be constrained in the current environment. By end-2009, the bank plans to raise at least RUB2bn of capital, most likely as sub-debt. According to long-dated eurobond covenants, the bank has to maintain a total Basel I CAR above 12% (end-2008: 13.1%).

Support

- The Support Rating and Support Rating Floor reflect the bank's relatively large franchise and national coverage, and indicate a limited probability of support being forthcoming from the Russian authorities, if needed. Support from the major shareholders cannot be relied upon at all times.

What Could Trigger a Downgrade?

- If PSB suffers significant loan losses, in particular if the bank is unable to receive adequate capital support, the ratings could be downgraded.

Profile

PSB was the second-largest Russian privately owned bank by assets (the 11th-largest overall) at end-2008 with 257 points-of-sale. It is majority owned by the Ananiev brothers. Germany's Commerzbank AG ('A+'/Outlook Stable) holds a 15% stake, and there are no plans to increase this. PSB recently acquired two small regional banks with liquidity and other support from the CBR and Russian Deposit Insurance Agency.

Balance Sheet Analysis

PROMSVYAZBANK

	31 Dec 2008				31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Year End USDm	Year End RUBm	As % of Assets	Average RUBm	Year End RUBm	As % of Assets	Year End RUBm	As % of Assets	Year End RUBm	As % of Assets
	Original	Original	Original	Original	Original	Original	Original	Original	Original	Original
A. LOANS										
1. Private	1,714.7	50,378.5	10.91	39,817.1	29,255.7	9.98	11,738.0	6.50	2,210.0	1.99
2. Corporate	9,160.0	269,125.1	58.28	226,716.2	184,307.2	62.85	106,628.0	59.06	62,192.2	56.06
3. Government	n.a.	n.a.	-	n.a.	n.a.	-	586.1	0.32	1,676.7	1.51
4. Other	n.a.	n.a.	-	n.a.	3,110.2	1.06	648.0	0.36	2,178.6	1.96
5. Loan Impairment	630.0	18,510.1	4.01	11,823.8	5,137.6	1.75	2,480.3	1.37	1,650.2	1.49
TOTAL A	10,244.7	300,993.5	65.18	256,264.5	211,535.5	72.14	117,119.8	64.87	66,605.3	60.04
B. OTHER EARNING ASSETS										
1. Loans and Advances to Banks	1,585.1	46,572.3	10.08	24,171.5	1,770.6	0.60	7,572.1	4.19	4,611.4	4.16
2. Government Securities	231.4	6,798.8	1.47	9,822.5	12,846.2	4.38	10,336.0	5.73	7,139.7	6.44
3. Trading Assets	428.7	12,594.3	2.73	12,508.3	12,422.2	4.24	14,912.8	8.26	11,183.0	10.08
4. Derivatives	11.7	343.5	0.07	326.4	309.3	0.11	34.0	0.02	121.6	0.11
5. Other Securities and Investments	120.9	3,552.5	0.77	1,869.8	187.1	0.06	0.0	0.00	0.0	0.00
6. Equity Investments	5.4	158.5	0.03	165.3	172.0	0.06	163.0	0.09	72.6	0.07
TOTAL B	2,383.2	70,019.9	15.16	48,863.6	27,707.4	9.45	33,017.9	18.29	23,128.3	20.85
C. TOTAL EARNING ASSETS (A+B)	12,627.9	371,013.4	80.34	305,128.2	239,242.9	81.58	150,137.7	83.16	89,733.6	80.89
D. TANGIBLE FIXED ASSETS	728.8	21,413.2	4.64	16,317.7	11,222.2	3.83	3,677.9	2.04	2,488.0	2.24
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	2,265.6	66,564.0	14.41	53,986.1	41,408.2	14.12	25,462.7	14.10	18,105.4	16.32
2. Other	95.7	2,810.4	0.61	2,091.3	1,372.1	0.47	1,258.6	0.70	611.0	0.55
F. TOTAL ASSETS	15,718.0	461,801.0	100.00	377,523.2	293,245.4	100.00	180,536.9	100.00	110,938.0	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Due to Customers - Current	2,310.1	67,871.0	14.70	64,624.8	61,378.6	20.93	42,746.3	23.68	29,616.1	26.70
2. Due to Customers - Term	5,505.0	161,740.0	35.02	121,365.0	80,989.9	27.62	42,603.6	23.60	28,456.5	25.65
3. Deposits with Banks	3,260.2	95,784.7	20.74	66,960.5	38,136.3	13.00	11,745.7	6.51	4,893.1	4.41
4. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	790.9	0.27	1,032.7	0.57	n.a.	-
TOTAL G	11,075.3	325,395.7	70.46	253,345.7	181,295.7	61.82	98,128.3	54.35	62,965.7	56.76
H. OTHER LIABILITIES										
1. Derivatives	20.9	614.9	0.13	385.5	156.1	0.05	70.9	0.04	18.3	0.02
TOTAL H	20.9	614.9	0.13	385.5	156.1	0.05	70.9	0.04	18.3	0.02
I. OTHER FUNDING										
1. Long-term Borrowing	3,018.3	88,679.1	19.20	84,144.7	79,610.3	27.15	54,863.0	30.39	31,494.0	28.39
2. Subordinated Debt	123.9	3,639.6	0.79	2,957.8	2,275.9	0.78	7,541.8	4.18	3,325.5	3.00
TOTAL I	3,142.2	92,318.7	19.99	87,102.5	81,886.2	27.92	62,404.8	34.57	34,819.5	31.39
J. NON-INTEREST BEARING	119.0	3,497.1	0.76	2,861.1	2,225.2	0.76	1,557.1	0.86	1,276.0	1.15
K. TOTAL LIABILITIES	14,357.4	421,826.4	91.34	343,694.8	265,563.2	90.56	162,161.1	89.82	99,079.5	89.31
L. EQUITY										
1. Common Equity	1,236.3	36,323.1	7.87	30,823.8	25,324.4	8.64	17,545.8	9.72	10,860.7	9.79
2. Minority Interest	17.9	525.7	0.11	n.a.	n.a.	-	n.a.	-	167.8	0.15
3. Revaluation Reserves	106.4	3,125.8	0.68	2,741.8	2,357.8	0.80	830.0	0.46	830.0	0.75
TOTAL L	1,360.6	39,974.6	8.66	33,828.4	27,682.2	9.44	18,375.8	10.18	11,858.5	10.69
MEMO: CORE CAPITAL	1,254.2	36,848.8	7.98	31,086.6	25,324.4	8.64	17,545.8	9.72	11,028.5	9.94
MEMO: ELIGIBLE CAPITAL	1,254.2	36,848.8	7.98	31,086.6	25,324.4	8.64	17,545.8	9.72	11,028.5	9.94
M. TOTAL LIABILITIES & EQUITY	15,718.0	461,801.0	100.00	377,523.2	293,245.4	100.00	180,536.9	100.00	110,938.0	100.00
Exchange Rate		USD1 = RUB 29.3804			USD1 = RUB 24.5462		USD1 = RUB 26.3311		USD1 = RUB 28.7825	

Income Statement Analysis

PROMSVYAZBANK

	31 Dec 2008		31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Income Expenses RUBm Original	As % of Total AV Earning Assts Original	Income Expenses RUBm Original	As % of Total AV Earning Assts Original	Income Expenses RUBm Original	As % of Total AV Earning Assts Original	Income Expenses RUBm Original	As % of Total AV Earning Assts Original
1. Interest Income	42,782.0	14.02	23,691.8	12.17	13,554.5	11.30	7,115.9	10.45
2. Interest Expense	20,812.2	6.82	11,528.7	5.92	6,633.7	5.53	3,487.3	5.12
3. NET INTEREST REVENUE	21,969.8	7.20	12,163.1	6.25	6,920.8	5.77	3,628.6	5.33
4. Net Fees & Commissions	4,724.3	1.55	2,373.1	1.22	1,496.2	1.25	700.4	1.03
5. Other Operating Income	1,120.7	0.37	1,080.7	0.56	1,329.4	1.11	1,479.8	2.17
6. Personnel Expenses	6,512.9	2.13	4,367.7	2.24	2,848.9	2.38	1,534.4	2.25
7. Other Operating Expenses	5,872.0	1.92	3,642.4	1.87	2,548.1	2.12	1,540.2	2.26
8. PRE-IMPAIRMENT OPERATING PROFIT	15,429.9	5.06	7,606.8	3.91	4,349.4	3.63	2,734.2	4.02
9. Loan Impairment Charge	13,245.4	4.34	2,699.9	1.39	830.2	0.69	450.8	0.66
10. Other Credit Impairment and Provisions	20.8	0.01	-113.0	-0.06	61.6	0.05	21.2	0.03
11. OPERATING PROFIT	2,163.7	0.71	5,019.9	2.58	3,457.6	2.88	2,262.2	3.32
12. Other Income and Expenses	-21.4	-0.01	n.a.	-	n.a.	-	n.a.	-
13. PUBLISHED PRE-TAX PROFIT	2,142.3	0.70	5,019.9	2.58	3,457.6	2.88	2,262.2	3.32
14. Taxes	580.6	0.19	1,315.4	0.68	862.1	0.72	552.3	0.81
15. Change in Value of AFS investments	-66.6	-0.02	n.a.	-	n.a.	-	n.a.	-
16. Other Gains/(Losses) not in Published Net Income	834.6	0.27	1,527.8	0.78	0.0	0.00	830.0	1.22
17. FITCH COMPREHENSIVE INCOME	2,329.7	0.76	5,232.3	2.69	2,595.5	2.16	2,539.9	3.73
18. Total Gains/(Losses) not in Published Net Income	768.0	0.25	1,527.8	0.78	0.0	0.00	830.0	1.22
19. PUBLISHED NET INCOME	1,561.7	0.51	3,704.5	1.90	2,595.5	2.16	1,709.9	2.51

Ratio Analysis

PROMSVYAZBANK

		31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005
		Year End	Year End	Year End	Year End
		RUBm	RUBm	RUBm	RUBm
		Original	Original	Original	Original
I. PERFORMANCE					
1. Net Interest Margin	%	7.20	6.25	5.77	5.33
2. Loan Yield	%	10.61	11.24	12.02	10.79
3. Cost of Funds	%	6.11	5.44	5.14	4.73
4. Costs/Average Assets	%	3.28	3.38	3.70	3.64
5. Costs/Income	%	44.53	51.29	55.37	52.93
6. Pre-Impairment Operating ROAA	%	4.09	3.21	2.98	3.23
7. Operating ROAA	%	0.57	2.12	2.37	2.68
8. Pre-impairment Operating ROAE	%	45.61	33.03	28.77	28.01
9. Operating ROAE	%	6.40	21.80	22.87	23.17
II. CAPITAL ADEQUACY					
1. Internal Capital Generation	%	6.89	22.72	17.17	26.02
2. Core Capital/Total Assets	%	7.98	8.64	9.72	9.94
3. Eligible Capital/Regulatory Weighted Risks	%	9.70	9.41	11.10	12.02
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	9.68	9.41	11.10	12.02
5. Tier 1 Regulatory Capital Ratio	%	9.70	9.41	11.10	12.00
6. Total Regulatory Capital Ratio	%	13.14	13.51	16.38	16.55
7. Free Capital/Equity	%	19.04	59.46	79.97	78.49
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	32.97	33.61	44.67	57.06
2. Loans/Deposits	%	131.09	148.58	137.22	114.69
IV. ASSET QUALITY					
1. Loan Impairment Charge/Gross Loans (av.)	%	4.94	1.61	0.89	0.88
2. Total Credit Impairment/Pre-impairment Operating Profit	%	85.98	34.01	20.50	17.26
3. Loan Impairment/Gross Impaired Loans	%	62.83	191.92	257.21	351.93
4. Impaired Loans Gross / Loans Gross	%	9.22	1.24	0.81	0.70
5. Impaired Loans Net/Eligible Capital	%	29.72	-9.72	-8.64	-10.71
6. Net Charge-offs/Gross Loans (av.)	%	0.01	0.03	0.00	1.18