



## Research Update Template

### RatingsDirect Headline:

Russia's B.I.N. Bank Rated 'CCC+/C'; Outlook Stable; ruBB National Scale Rating Also Assigned

### CreditWire Vendor Headline:

S&P Asgns Russia BIN Bank 'CCC+/C' Rtg; Otlk Stbl

### Rationale

On Oct. 29, 2004, Standard & Poor's Ratings Services assigned its 'CCC+' long-term and 'C' short-term counterparty credit ratings to Russia-based B.I.N. Bank. The outlook is stable. At the same time, Standard & Poor's assigned its 'ruBB' national scale rating to the bank.

The ratings reflect B.I.N. Bank's high lending concentrations with single customers, including related parties, and the bank's rather weak operating efficiency. These negative factors are partially mitigated by the bank's adequate capital position, supportive shareholders, and relatively long track record in the Russian banking market.

With assets of Russian ruble (RUR) 19.9 billion (\$690 million) at June 30, 2004, B.I.N. Bank is a midsize institution ranked among the top 30 Russian banks. It is part of a larger financial/industrial group comprising several companies in the oil sector and in commercial real-estate development, including the recently created oil company Russneft (not rated), which is headed by Mr. Mikhail Gutseriev.

In May-July 2004, the Russian banking sector experienced financial turmoil characterized by illiquid wholesale markets, runs on customer deposits, and declining securities markets. During this period B.I.N. Bank reported certain declines in retail deposits, as did many other Russian banks. Although the bank has been able to weather these recent liquidity pressures, fourth-quarter 2004 and first-half 2005 are still likely to bring market uncertainty and more cautious management, given regulatory changes and expected announcements from the Central Bank of Russia (CBR) regarding banks' membership in the deposit insurance system.

Significant exposures to single borrowers, including related parties, leave B.I.N. Bank vulnerable to concentration risk. At June 30, 2004, the 11 largest borrowers accounted for 64% of the bank's total loans, or more than 300% of its equity. The oil sector (mainly oil trading) represented almost 45% of the bank's loan portfolio at June 30, 2004. Lending to this sector is short term and relatively low risk, but the spreads are also low. B.I.N. Bank, like the Russian economy, is highly vulnerable to oil price fluctuations.

B.I.N. Bank's profitability is limited by its high operating expenses. Despite adequate capitalization ratios, as reflected by a ratio of adjusted common equity to assets of 16.3% at June 30, 2004, the absolute limited amount leaves the bank exposed to any shocks. More positively, during the 1999-2001 period, the owners invested about \$100 million into the B.I.N. Bank's equity. This capital increase--large by Russian standards--demonstrates the owners' commitment to the bank.

## **Outlook**

Standard & Poor's expects the bank to continue to grow in the medium term, and to benefit from the expected growth in the Russian banking market. If Russia's economic growth reverses, however, B.I.N. Bank's high operational leverage and customer concentrations would leave it highly vulnerable to potential asset and funding risks. No significant decrease in single-party concentrations is expected, however, due to the bank's focus on large and midsize corporates.

The instability in the Russian banking market in the summer of 2004 highlights the CBR's difficult task of cleaning up the country's financial sector while maintaining depositor confidence in the banks. Until the sector's flaws are addressed, it will remain prone to turbulence. Should market turbulence damage the financial or business position of the bank to a significant extent, the ratings could come under pressure. Income growth will remain a key challenge for B.I.N. Bank, given shrinking margins and a high cost base. Future rating developments will depend on the bank's ability to sustain current adequate capitalization, improve profitability, and achieve better diversification.

## **Ratings List**

Counterparty credit ratings	CCC+/Stable/C
Russian national scale rating	ruBB

## **Group E-Mail Address**

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