

Bank of Moscow Faces Luzhkov Risk

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Bank of Moscow gets along so well with the city government that the approaching shakeup at the Mayor's Office may have an effect on its business.

Mayor Yury Luzhkov's term will expire in summer 2011, and he cannot count on being granted an additional term, as President Dmitry Medvedev has embarked on a project of rejuvenating regional authorities.

The replacement of the mayor is one of the main risks for the credit ratings of Bank of Moscow, said Yekaterina Sidorova, an analyst at Troika Dialog. Once Luzhkov leaves, the bank may lose its quasi-sovereign status and the privilege of servicing the city budget. The city money represents a third of the bank's funds from clients, including state enterprises, although Sidorova said she thought that Bank of Moscow would be able to replace it by borrowing on the market.

She said she did not know yet whether the bank's management would be able to increase its income from its current client base, widen its operations outside of Moscow and increase its

margins.

At the end of 2009, the bank's profit margin stood at 4.7 percent, according to calculations by VTB Capital. The bank has no more current figures.

Sidorova predicted that the city would lower its stake in the lender. "It will happen regardless of how much the slate of city officials changes. The city can hardly satisfy the bank's growing capital requirements."

Moscow recapitalized the bank during the crisis, spending a total of 28 billion rubles (\$910 million) on its additional share issues in 2008–09. Sidorova was also worried about the bank's low level of reserves to cover losses on loans — especially in the construction sector, which is primarily comprised of city infrastructure projects. They make up 13.9 percent of its corporate portfolio, which reached 460 billion rubles in 2009.

The bank has integrated itself into the city's infrastructure work, and a new mayor is unlikely to strongly affect its business, a Bank of Moscow executive said.

Depending on who replaces Luzhkov and how this changes the bank's dealings with the city, Fitch Ratings could take negative actions on the bank's credit rating, said Alexander Danilov, an analyst at the ratings agency. But he said the bank could also build relations with the new authorities.

Sergei Tsoi, a spokesman for the Mayor's Office, could not be reached, and Bank of Moscow did not respond to a request for comment.

Bank of Moscow is 46.48 percent controlled by the city government, while another 17.11 percent belongs to company Stolichnaya Strakhovaya Gruppya. Bank of Moscow president Andrei Borodin and deputy board chairman Lev Alaluyev control a combined 20.32 percent, GSM Russia Opportunities Fund has 6.41 percent, Goldman Sachs International controls 3.88 percent, and Credit Suisse International owns 2.77 percent.

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