

Crisis Turns Profit to Loss at Russia's No. 3 Bank Gazprombank

By [Peter Hobson](#)

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People walk past an office of Gazprombank in central Moscow.

Gazprombank, Russia's third-largest lender, on Tuesday reported a net loss of 13.7 billion rubles (\$260 million) in 2014 as the devaluation of the Russian currency and an economic slump forced the bank to put aside billions of rubles to cover losses from bad loans.

The loss reversed the bank's 33 billion ruble profit in 2013 — then worth about \$1 billion — and came as Russia slips into a recession that is hitting wages and corporate earnings and making it harder for borrowers to service debt.

Gazprombank, which is part-owned by the state, has been sanctioned by the West over Russia's actions in Ukraine, curbing the bank's access to international capital. The bank was also rocked by a 40 percent fall in the value of the ruble against the U.S. dollar in 2014 that played havoc with the value of assets and liabilities.

In a press release, the bank said the weakening of Russia's economy and currency had forced it to mark down its loan portfolio by 54.2 billion rubles (\$1 billion) — 4.4 times more than its 2013 write-down — and revalue fixed income securities, writing off a further 27.2 billion rubles (\$510 million).

The bank also suffered from sharp rises in ruble interest rates after the Central Bank hiked its key interest rate from 5.5 percent to 17 percent over 2014, the statement quoted deputy chairman of the management board Alexander Sobol as saying. The Central Bank has since cut rates to 14 percent.

Gazprombank said its loan portfolio increased last year by 30.5 percent to 3.18 trillion rubles (\$60 billion). Its Tier 1 capital ratio, a measure of banks' financial strength, fell to 7.7 percent from 9.9 percent in 2013.

Ratings agency Standard & Poor's said earlier this year that the quantity of bad loans in Russia's banking sector would likely rise to 17-23 percent of total loans this year and that banks would not weather the year without government aid. Russia's economy is expected to contract by up to 5 percent in 2015.

Gazprombank received almost 40 billion rubles (\$750 million) from the state in April.

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