# ACRA affirms A(RU) to CREDIT BANK OF MOSCOW, outlook Stable, and BB-(RU) to bond issue

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Affirmation of the credit rating of CREDIT BANK OF MOSCOW (hereinafter, CBM or the Bank) reflects the Bank's better positions in capital and maintenance of high concentration of its lending business on certain borrowers. ACRA has also affirmed BB-(RU) to the bond (ISIN RU000A0ZZE87) issued by the Bank.

CBM is a large bank ranking seventh in terms of assets and sixth in terms of capital in Russia. The Bank's business is focused on the Moscow region. CBM is controlled by OOO "Concern "ROSSIUM" (56.07%) beneficially owned by Roman Avdeev.

## Key rating assessment factors

**The business profile assessment has been downgraded to 'adequate'** due to the growth in CBM's reverse repurchase transactions from 39% of the balance currency as of September 30, 2017, to 49% as of September 30, 2018, the financial result from which makes up a substantial part of profit before tax (around 20%, according to ACRA estimates). The character and importance of such transactions negatively affects the Agency's assessment of the Bank's strategy balance and stability, as well as its business diversification. On the other hand, the Bank retains strong competitive advantages in the Russian financial services market, and its shareholding profile is transparent.

**The capital adequacy assessment has been upgraded to 'strong.'** The loss absorption buffer of the Bank is significant, which is supported primarily by a substantial amount of common capital under the Basel and regulatory standards: Tier-1 ratio was 15.1% as of September 30, 2018, and N1.2 ratio was 11.62% as of January 1, 2019. The sustainable operating profitability has allowed the Bank to maintain the averaged capital generation ratio at a comfortable level of 117 bps. The operating profitability is based on the high interest margin (average NIM exceeded 4% in the last three years) and the operating efficiency (CTI amounted to 28.3% in the last three years). The Bank has managed to decrease the volume of problem loans, which pushed down the risks of impairment of such problem loans on the capital adequacy ratios: according to stress tests carried out by ACRA, the Bank is able to withstand the credit risk increase of 300–500 bps without a breach of N1.2 ratio.

**High concentration of the Bank's lending business mitigates positive effect from higher quality of loan portfolio.** ACRA points to the growth in a share of loans due from the top 10 groups of borrowers throughout 2018. At the same time, the share of problem loans in the loan portfolio declined from 16.4% as of September 30, 2017 to 11.2% as of September 30, 2018 (NPL90+ at 1.5%). In 2018, the Bank also cut down the volume of loans granted to companies operating in high-risk industries and parties, which ACRA regards as related ones. On the other hand, ACRA notes that the volume of reverse repurchase transactions has grown up to 49% of the balance sheet.

**The liquidity and funding assessment remains 'satisfactory.'** As of September 30, 2018, according to ACRA estimates and taking into account adjustments for the expected outflow of corporate funds, the Bank had RUB 420 billion of excess short-term liquidity in the base case scenario, while the stress scenario showed the short-term liquidity shortage of about 0.4% of the resource base. ACRA notes that for longer periods, assets and liabilities are balanced: the long-term liquidity shortage indicator is about 85%, which is an adequate level).

The resource base of the Bank includes mainly funds from corporates. Since the Bank's liabilities depend heavily on a single group of counterparties, which caps the funding profile assessment. ACRA notes the stability of the volume of balances in the accounts held by this group.

**Systemic importance.** In ACRA's opinion, the Bank is of a moderate systemic importance, taking into account its assets and the overall scale of its business. As a result, ACRA added two notches up to the Bank's standalone creditworthiness assessment (SCA).

## Key assumptions

- Adhering to the current business model within the 12 to 18-month horizon;
- Loan portfolio expanding by 10–15% in 2019;
- Cost of credit risk within 3-4%;
- Net interest margin within 4–5%;
- N1.2 ratio not lower than 9% in the next 12–18 months.

## Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

**A positive rating action may be prompted by:**

- Substantially lower concentration on the largest counterparties;
- Lower share of NPLs in the loan portfolio;
- Substantially higher diversification of funding sources.

**A negative rating action may be prompted by:**

- Fast growing loan portfolio amid lower quality of loan assets;
- Dropping margins caused by a substantial growth in the cost of risk;
- Deteriorating liquidity position.

## Rating components

**Standalone creditworthiness assessment (SCA):** bbb+.

**Adjustments:** systemic importance, 2 notches up.

## Issue ratings

CREDIT BANK OF MOSCOW (ISIN RU000A0ZZE87), maturity: perpetual, issue volume: RUB 5 bln – **BB-(RU)**.

**Rationale**. The issue envisages a significant level of subordination with respect to senior unsecured creditors as well as possible termination of the Bank's obligations to pay the interest. According to the ACRA methodology, the resulting credit rating of this issue type is five notches below the Bank's SCA (bbb+).

## Regulatory disclosure

The credit ratings were assigned to CREDIT BANK OF MOSCOW and the bond (ISIN RU000A0ZZE87) issued by CREDIT BANK OF MOSCOW under the national scale for the Russian Federation based on the Methodology for Credit Ratings Assignment to Banks and Bank Groups under the National Scale for the Russian Federation, and the Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities. The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied to assign the rating to the above bond issue.

The credit ratings assigned to CREDIT BANK OF MOSCOW and the bond (ISIN RU000A0ZZE87) issued by CREDIT BANK OF MOSCOW were first published on June 15, 2017 and July 24, 2018, respectively. The credit rating and credit rating outlook for CREDIT BANK OF MOSCOW and the credit rating of the bond (ISIN RU000A0ZZE87) issued by CREDIT BANK OF MOSCOW are expected to be revised within one year following the publication date of this press release.

The credit rating is based on data provided by CREDIT BANK OF MOSCOW, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of CREDIT BANK OF MOSCOW and statements of CREDIT BANK OF MOSCOW composed in compliance with the Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and CREDIT BANK OF MOSCOW participated in its assignment.

No material discrepancies between the provided data and data officially disclosed by CREDIT BANK OF MOSCOW in its financial statements have been discovered.

ACRA provided additional services to CREDIT BANK OF MOSCOW. No conflicts of interest were discovered in the course of credit rating process.

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