June 15, 2017

ACRA assigns A-(RU) to CREDIT BANK OF MOSCOW, outlook Positive

Lead analysts:

Valeriy Piven, Associate Director
+7 (495) 139-0493
valeriy.piven@acra-ratings.ru

Irina Nosova, Associate Director
+7 (495) 139-0481
irina.nosova@acra-ratings.ru

The credit rating of CREDIT BANK OF MOSCOW (hereinafter – CBM, or the Bank) is based on its moderately strong business profile assessment, adequate capital adequacy position, weak risk profile and satisfactory liquidity and funding positions. The Bank has a moderately high creditworthiness level as compared to other Russian credit institutions; however, banks with that rating level have a certain degree of sensitivity to adverse changes in business, financial and economic environment in the country.

CBM is a large bank ranking ninth in terms of assets (eighth among banking groups) and eighth with regard to credit portfolio among Russian credit institutions. The Bank's business is focused on the Moscow region. CBM is controlled by OOO "Concern "ROSSIUM" (56.8%) whose sole beneficiary is Roman Avdeev who de facto determines the Bank's development strategy.

Key rating assessment factors

Moderately strong business profile assessment is based on Bank's significant competitive position in key activities (in particular, in the domestic region), and is further supported by ACRA's assessment of the Bank's management quality and development strategy. CBM has moderately diversified operating income, with a substantial share of it generated by corporate loans.

The Bank has built a high-quality management system, while its corporate structure is largely in line with complexity of its business, and its executive management possesses necessary professional expertise. Four of ten supervisory board members of the Bank are independent directors, with another two representing minority shareholders.

ACRA assesses quality of CBM's strategy as average. Focusing on the Moscow region allows for maintaining operational profitability and gives access to customers with relatively high solvency level. The Bank has a strong and recognizable brand allowing it to sustain a stable customer base.

At the same time, ACRA limits its assessment level with respect to strategy quality due to high exposure of the Bank's balance sheet to repo transactions: such activity cannot be considered stable and sustainable in the long-term.

Bank's ownership structure is transparent. Bank's shares are in public float, which imposes additional disclosure and corporate governance obligations.

Loss absorption cushion is supported by an adequate level of core capital under Basel standards and statutory regulations. The capital increase by virtue of subordinated Eurobonds (RUB 33.9 bln) and subordinated perpetual Eurobonds (RUB 40 bln) will strengthen the regulatory loss absorption cushion, provided that active operations will grow moderately within the next 12-18 months.

The Bank has remained profitable in recent years with net income running into RUB 8.1 bln in 2016. Healthy financials support the averaged capital generation ratio (ACGR) at a comfortable level of 120 bps. In order to increase capitalization of the Bank, the controlling shareholder and the management are prepared to take additional steps including use of open market instruments.

Weak risk profile assessment is primarily due to relatively low quality of the loan portfolio suffering from a high share of potentially problem loans, which, according to ACRA methodology, was approximately 15.0% as of March 31, 2017, including a 1.9% share of NPL90+. ACRA notes that bad debt also includes specific loans to related parties. Further growth in the amount of these loans may increase cost of risk and exert further pressure on capitalization.

The risk profile assessment of the Bank is further impaired by high market risk level (117.3% of Tier-1 as of March 31, 2017).

ACRA notes that the increase in the Bank's core capital in 2Q2017 has a positive effect on a range of risk metrics but does not affect the final credit rating.

CBM's risk management is quite independent and sufficiently competent, which allows it to play a significant role in strategy implementation. The Agency assesses risk management quality at the Bank as adequate.

Satisfactory liquidity and funding position. ACRA notes that the Bank's liquidity position is predominantly determined by willingness of the largest creditors group to extend the deposit term. ACRA estimates that as at March 31, 2017 the Bank had short-term liquidity surplus under both, base case scenario (RUB 147.4 bln) and stress scenario (0.7%). ACRA notes no imbalances within longer periods with the long-term liquidity shortage indicator (LTLSI) showing a comfortable 80%. That said, due to the active use of short-term REPO transactions the Bank is obliged to make regular large-scale payments.

CBM's liabilities mainly include funds raised from legal entities. As Bank's liabilities have a pronounced dependence on one group of counterparties, this provides grounds for a decrease in the Bank's funding profile assessment.

Local systemic importance. In ACRA's opinion, CBM as one of key players on the Moscow Region's banking market is systemically important. The Bank's bankruptcy may cause certain problems on the Region's financial sector. That said, the Bank's standalone creditworthiness assessment (SCA) gets one additional notch.

Key assumptions

- Adhering to the current business model within the 12 to 18-month horizon;
- Loan portfolio expanding by 10–15% in 2017;
- Cost of credit risk within 4–5%;
- Net interest margin within 3–3.5%;
- Tier-1 capital adequacy (N1.2) not lower than 7.5% within the 12 to 18-month horizon.

Potential outlook or rating change factors

The **Positive outlook** assumes that the rating will most likely increase within the 12 to 18-month horizon, which can be driven by a consistent increase in the Bank's capital adequacy.

A positive rating action may be prompted by:

- Tier 1 capital adequacy level stabilization above 12% while loan portfolio quality stays unchanged;
- Declining funding base concentration.

A negative rating action may be prompted by:

- Aggressive assets growth is resumed with concurrently declining indicators of own capital adequacy;
- Credit quality deterioration of the loan portfolio;
- Substantial increase in the amount of claims to construction and real estate companies;
- Sharp deterioration of liquidity position.

Rating components

Standalone creditworthiness assessment (SCA): bbb+.

Adjustments: systemic importance, 1 notch up.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is 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 the Analytical Credit Rating Agency Within the Scope of Its Rating Activities.

A credit rating has been assigned to CREDIT BANK OF MOSCOW for the first time. The credit rating and its outlook are expected to be revised within one year following the rating action (June 13, 2017).

The assigned credit rating is based on the 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. 4212-U dated November 24, 2016. The credit rating is solicited, and CREDIT BANK OF MOSCOW participated in its assignment.

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

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

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with the Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without a prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by the legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by the legislation of the Russian Federation.