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# ACRA upgrades the credit rating of CREDIT BANK OF MOSCOW to A(RU), changes outlook to Stable

Upgrade of the credit rating of CREDIT BANK OF MOSCOW (CBM or the Bank) reflects increased systemic importance of the Bank. The Agency retains standalone creditworthiness assessment of CBM in the 'bbb' category, which corresponds to the profile of risks assumed by the Bank. The change of the outlook is driven by the Agency's opinion regarding the effects the recapitalization procedures have on the standalone creditworthiness assessment of CBM.

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's controlling shareholder is OOO "Concern "ROSSIUM" (55.73%), the majority beneficiary of which is Roman Avdeev.

## Key rating assessment factors

**'Moderately strong' business profile** is based on sustainable competitive positions of the Bank in its key business areas (especially in its home region), and by adequate management quality. The operating income of the Bank is moderately diversified (at the same time, a significant portion of income comes from corporate loans) and depends on transactions with a limited circle of counterparties. ACRA assesses the quality of the Bank's strategy as average. Concentration on the Moscow region allows the Bank to maintain a sound operating profitability and gives it access to relatively high-solvent customers. ACRA limits the assessment of the strategy quality due to high dependence of Bank's commission business on repo transactions that involve a limited number of counterparties—such business cannot be considered as stable and sustainable in the long term.

**Loss absorption cushion** is supported by a substantial amount of common capital under Basel and regulatory standards. As of January 01, 2018, after additional ordinary shares were issued and a subordinated loan was obtained, the N1.2 ratio was 11.58%, while Tier-1 ratio was 14.2% as of September 30, 2017. The Bank has remained profitable in 2017: its performance for 9M2017 amounted to RUB 16 billion (pre-tax profit before reserves = RUB 31.2 billion). Sustainable operating profitability allows the Bank to maintain the averaged capital generation ratio at a comfortable level of 118 bps.

In the face of tightening supervisory practices, ACRA applied conservative assumptions in respect of potential impairment of problem assets in a stress scenario, the results of which translate into limited capital adequacy assessment of the Bank.

**ACRA notes the substantial volume of loans used to refinance transactions involving increased risks**. As at September 30, 2017, the amount of loans issued to borrowers operating in high-risk industries (construction (including industrial and infrastructure) as well as real estate transactions) was almost equal to the Bank's common capital. The share of problem and potentially problem loans, according to the ACRA methodology, is high: around 16% as at September 30, 2017, including NPL90+ at 1.7%. These loans have a 23.7% loan loss provision coverage, which is significantly lower than the market average.

At the same time, the volume of loans granted to related parties (RUB 22.1 bln), borrowers under material influence of CBM (RUB 30.3 bln)or controlled by the Bank's minority shareholders (RUB 49.6 bln) has significantly increased in 2017. ACRA notes that the above mentioned loans also include potentially problem loans. The risk profile assessment is also limited by the rapid growth of the Bank's loan portfolio, which significantly exceeds the rates demonstrated by both the majority of peers and the banking system as a whole.

**'Satisfactory' assessment of liquidity and funding**. As of September 30, 2017, according to ACRA estimates and taking into account adjustments for the expected outflow of corporate funds, the Bank had RUB 189.3 billion of excess short-term liquidity in the base case scenario, while the stress scenario showed the short-term liquidity shortage of about -2%. ACRA notes no imbalances over longer terms (long-term liquidity shortage indicator exceeds 85%). In view of active use of short-term repo transactions, the Bank has to make regular large payments. An additional source of liquidity for the Bank may be its securities portfolio which exceeds RUB 80 billion.

The resource base of the Bank includes mainly funds from corporates. Since the Bank's liabilities depend heavily on a single group of counterparties, the assessment of the funding profile has been decreased. In addition, ACRA notes a significant increase in the concentration of CBM's liabilities to banks and financial institutions.

**An increase in the assessment of systemic importance** is caused by the inclusion of the Bank into the CBR's list of systemically important credit institutions. In ACRA's opinion, the Bank is of a moderate systemic importance, taking into account its assets and the overall scale of its business, the Bank is of a moderate systemic importance. As a result, ACRA added two notches up to the Bank's SCA.

## Key assumptions

- Adhering to the current business model within the 12 to 18-month horizon;
- Loan portfolio expanding by at least 10% in 2018;
- Cost of credit risk within 3-4%;
- Net interest margin within 3–3.5%;
- 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 funding base concentration;
- Shrinking share of NPLs in the loan portfolio.

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

- Increased lending to high-risk industries;
- A substantial decline of capital adequacy ratios resulting from aggressive portfolio growth;
- Dropping margins caused by a substantial growth in the cost of risk;
- Sharp deterioration of the liquidity position.

## Rating components

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

**Adjustments:** systemic importance, 2 notches 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 Analytical Credit Rating Agency within the Scope of Its Rating Activities.

The credit rating assigned to CREDIT BANK OF MOSCOW was first published on June 15, 2017. The credit rating and its outlook are expected to be revised within 12 months following the rating action date (February 15, 2018).

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