MOODY'S INVESTORS SERVICE

CREDIT OPINION
31 May 2021

Update

Rate this Research

RATINGS

Credit Bank of Moscow

Domicile	Moscow, Russia
Long Term CRR	Ba2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Ba3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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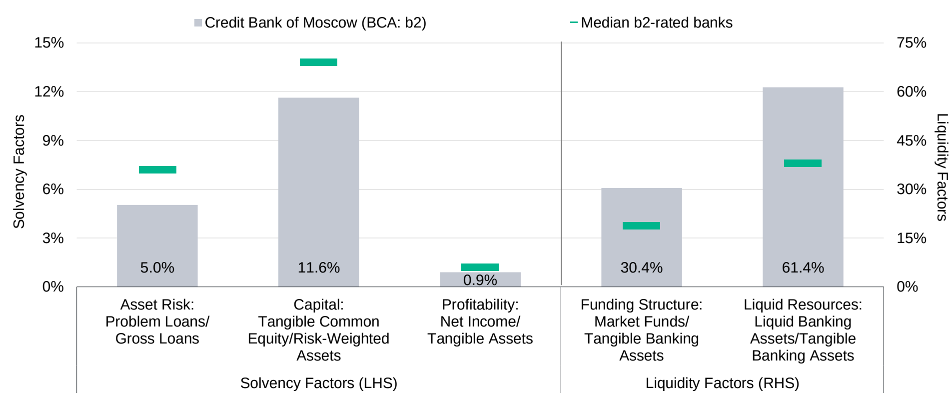
Credit Bank of Moscow

Update to credit analysis

Summary

The Ba3 deposit ratings of Credit Bank of Moscow (CBM) are based on the bank's Baseline Credit Assessment (BCA) of b2 and a high probability of support from the Government of Russia (Baa3 stable), which results in two notches of uplift. The bank's BCA of b2 reflects its elevated risk profile because of its high concentrations in the loan portfolio, reverse repos and customer deposits; these weaknesses are counterbalanced by a strong liquidity buffer and strengthened loss absorption including capital buffers and pre-provision income.

Exhibit 1
Rating Scorecard - Key financial ratios
As of 31 December 2021



Source: Moody's Financial Metrics

Credit strengths

» High likelihood of government support

» Robust liquidity buffer

» Access to capital markets supports capitalization and business growth

» Solid franchise in the Moscow area, one of the wealthiest regions in Russia

Credit challenges

- » Asset quality remains challenged by high concentrations in the loan book and reverse repos
- » Low net interest margin (NIM) constrains overall profitability
- » Risk governance weaknesses arise from its elevated risk appetite
- » Exposure to market risk

Outlook

The stable outlook is driven by our expectation that the bank's financial profile over the next 12-18 months will remain stable supported by the improving operating environment, bank's ample liquidity, profitable performance and robust loss absorption. Thus, the likelihood of any rating change for CBM is limited over outlook horizon.

Factors that could lead to an upgrade

CBM's BCA and ratings could be upgraded if:

- » There were a sustained improvement in the bank's solvency metrics, in particular, its profitability, capitalization and asset quality or
- » The bank reduced its concentrations in its loan portfolio, reverse repos and customer deposits, indicative of enhanced risk governance

Factors that could lead to a downgrade

- » CBM's BCA could be downgraded if there were a sharp deterioration in the operating environment in Russia that would lead to a substantial decline in the bank's liquidity or loss-absorption capacity.
- » The bank's supported ratings could be downgraded if the government's capacity or propensity to render support to systemically important banks were to diminish.

Key indicators

Exhibit 2

Credit Bank of Moscow (Consolidated Financials) [1]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (RUB Billion)	2,916.5	2,423.5	2,145.9	1,888.2	1,568.0	16.8[4]
Total Assets (USD Billion)	39.4	39.0	30.9	32.8	25.7	11.3[4]
Tangible Common Equity (RUB Billion)	191.3	170.2	145.4	135.8	101.9	17.0[4]
Tangible Common Equity (USD Billion)	2.6	2.7	2.1	2.4	1.7	11.6[4]
Problem Loans / Gross Loans (%)	5.0	5.2	4.3	11.6	6.8	6.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.6	11.4	10.5	11.6	9.4	10.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.3	18.6	16.4	51.0	32.0	27.6[5]
Net Interest Margin (%)	2.0	1.9	2.3	2.6	3.0	2.3[5]
PPI / Average RWA (%)	3.2	1.0	2.9	3.9	4.5	3.1[6]
Net Income / Tangible Assets (%)	0.9	0.3	1.1	1.0	0.7	0.8[5]
Cost / Income Ratio (%)	32.0	62.5	36.9	29.5	25.6	37.3[5]
Market Funds / Tangible Banking Assets (%)	30.4	34.0	30.3	38.9	46.3	36.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	61.4	64.3	64.1	56.0	58.1	60.8[5]
Gross Loans / Due to Customers (%)	57.5	57.9	56.5	93.5	99.3	72.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Credit Bank of Moscow (CBM), incorporated in 1992, is a universal commercial bank based in Russia. The bank provides a wide range of banking products and services to corporate and retail customers, and reported total assets of RUB2.9 trillion ($39.4 billion) as of 31 December 2020. As of the same date, CBM was the sixth-largest bank in Russia with a market share of around 3% in terms of standalone assets, and served more than 1.9 million retail and 20,000 corporate clients. The bank has a visible franchise in Moscow and the Moscow region, one of the wealthiest regions in Russia.

CBM's largest shareholder is Concern Rossium LLC, a holding company largely owned by Roman Avdeev, with 59.8% of its share capital as of 31 December 2020. Among the minority shareholders are Russian institutional investors and international financial institutions such as the European Bank for Reconstruction & Development (Aaa stable, 3.6%).

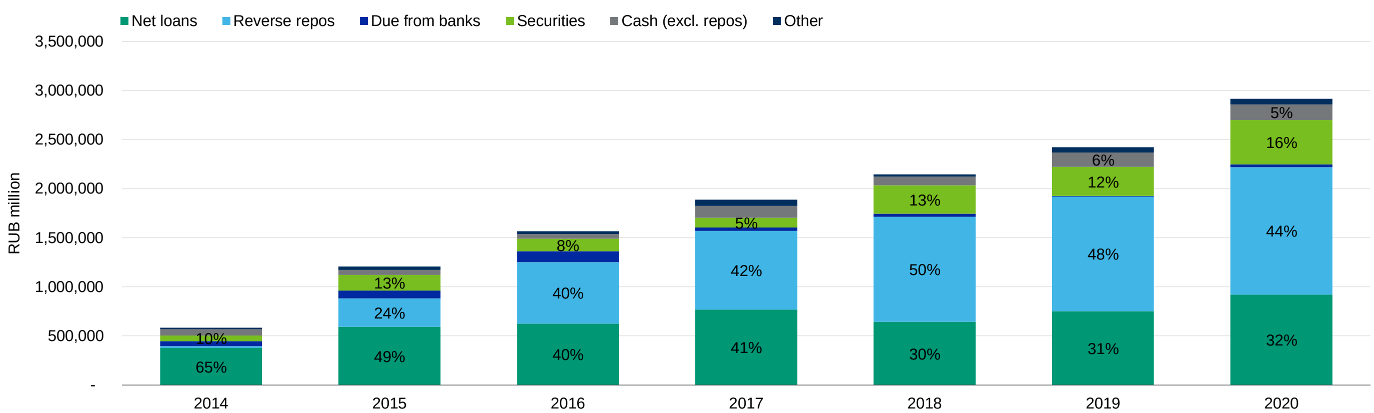
Detailed credit considerations

Balance sheet is dominated by liquid assets, largely in the form of reverse repos

Since 2015, the bank's asset structure has shifted towards a higher share of reverse repos and a lower share of net loans (see Exhibit 3). This shift was driven by the inflow of foreign-currency deposits from large companies, as well as interbank funding.

Exhibit 3

CBM's balance sheet is dominated by reverse repos



Sources: Moody's Investors Service and the bank's IFRS reports

As of 31 December 2020, CBM's reverse repos amounted to 44% of its total assets (48% in 2019 and 50% in 2018). These transactions are well structured and secured by high-quality collateral eligible for repo with the Central Bank of Russia (CBR) and, therefore, have zero impact on the bank's risk-weighted assets (RWA). At the same time, they abnormally expand CBM's balance sheet, eroding the bank's financial metrics and ratios. We understand that repo transactions are carried out with a small number of contractors, which implies high concentration.

Asset risk is mitigated by CBM's high exposure to low credit risk assets

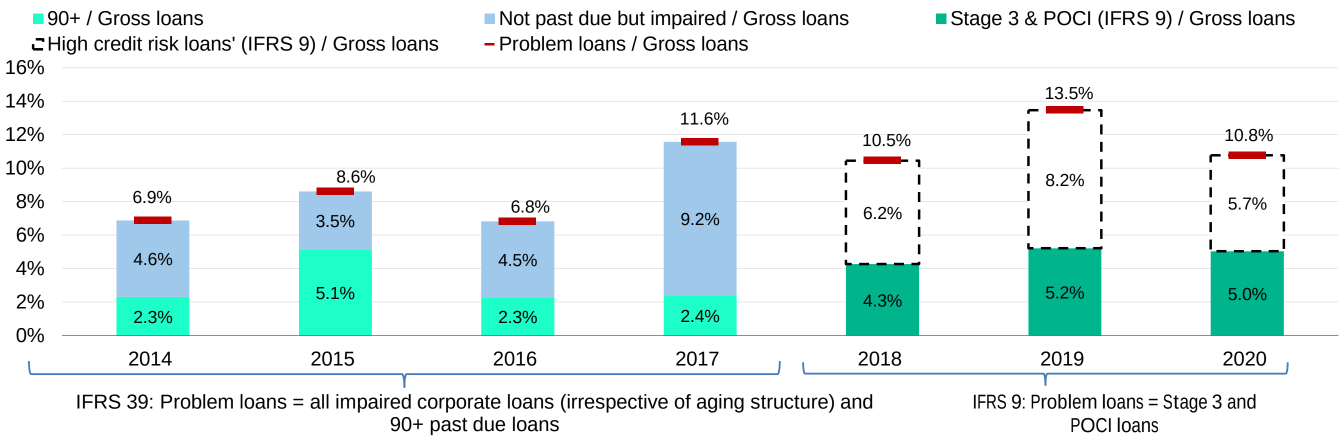
We assigned an Asset Risk score of b1, which reflects a combination of CBM's loan book quality and the material share of low credit risk reverse repos portfolio (44% of total assets in 2020).

We expect CBM's loan book quality to stabilise in 2021 and the problem loan ratio will remain at around 5% by the end of 2021, helped by improving operating conditions for banks' borrowers. The bank's net loan book accounted for a modest 35% of total assets as of December 2020. As of the same date, problem loans (defined as stage 3 and purchased and originated credit impaired loans) amounted to 5.0% of gross loans and were 102% covered by loan-loss reserves.

Compared with year-end 2019, problem loans increased by 25% in absolute terms, but growth of gross loans was even higher at 30%.

Furthermore, on top of problem loans, the bank reported 5.7% of high-credit-risk loans, which are defined as assets with higher probability of default that require specific attention. During 2020, the absolute amount of high-credit-risk loans (included in stage 1 and stage 2) decreased by 10% from 2019. Nonperforming loans (NPLs, loans with payments that are overdue over 90 days) accounted for 3.1% of the gross loan portfolio as of year-end 2020 (3.6% in 2019).

Exhibit 4
Credit risk in the loan portfolio has been high since year-end 2017



Sources: Moody's Investors Service and the bank's IFRS reports

CBM's strong bias towards the corporate segment gives rise to concentration risks. As of December 2020, the 10 largest borrowers accounted for 43% of gross loans and 240% of tangible common equity (TCE), notably higher than the Russian sector average. Furthermore, in recent years, the bank's business was skewed towards financing crude oil production, refining and trading, which resulted in a significant industry concentration (47% of gross loans). Concentration risk is mitigated by CBM's focus on high-quality borrowers (all top 10 borrowers are classified as stage 1 under IFRS 9).

Overall CBM's asset risk is mitigated by its high exposure to low credit risk reverse repos portfolio secured by high-quality collateral eligible for repo with the CBR. At the same time, the bank'ssizeable investments in fixed income securities render its profitability and capital vulnerable to market risk.

Capitalization will be supported by profitable activity and new capital increase

As of 31 December 2020, CBM reported Moody's-adjusted TCE/RWA of 11.6%, up slightly from 11.4% as of year-end 2019, and we expect the ratio to remain at around 12% over the next 12-18 months.

In May 2021, the bank raised additional capital of around RUB 23 billion via a secondary public offering (SPO) which would increase its tangible common equity (TCE) by around 12%. We, however, expect that new capital increase along with CBM's strengthened internal capital generation will be partly offset by lending growth in 2021-2022.

Our assessment of CBM's capital position takes into consideration its shareholders' commitment to support the bank's capital needs. In 2019 and 2017, CBM received RUB14.7 billion and RUB14.4 billion of equity respectively via SPOs, which strengthened the bank's balance sheet and bolstered up its business growth.

In terms of regulatory requirements, CBM continued to report capital adequacy ratios well above the minimum thresholds, with a 9.0% core Tier 1 ratio, an 11.4% Tier 1 capital ratio and a 17.1% total capital adequacy ratio (CAR) as of 1 April 2021.

CBM's large reverse repo transactions result in relatively high nominal leverage, with TCE/total assets of 6.6% as of year-end 2020. We assign a Capital score of b2, which is two notches below the historical score and reflects high nominal leverage.

Profitability will remain broadly stable following improvement in 2020

We expect the bank's profitability to remain broadly stable in the next 12-18 months following its material improvement in 2020, with return on average assets at around 1%. A gradual lifting of restrictions related to the coronavirus pandemic and improvements in operating conditions will support CBM's profitability in 2021.

We expect provisioning charges to decline gradually while recovering business activity, lending growth in 2020-21 and increasing transaction volumes will drive up income from interest and fees and commissions. The assigned Profitability score of ba3 reflects the above-mentioned considerations.

CBM reported a net income of RUB30 billion in 2020, up almost threefold from the previous year. In accordance with our standard approach, we adjusted this figure downward by including the coupon on perpetual bonds in interest expenses. As a result, adjusted net income was RUB26 billion, which translates into a return on average assets of 0.8% (full-year 2019: RUB8.1 billion and 0.4%, respectively). All figures and ratios cited below are calculated on the basis of adjusted data.

Financial results in 2020 were supported by a 30% rise in net interest income driven by a 30% increase in the bank's corporate loan portfolio, and a 33% increase in fees and commission income driven by a large one-off financial services fee and brokerage commission of RUB 5 billion (26% of total fee and commission income earned in 2020).

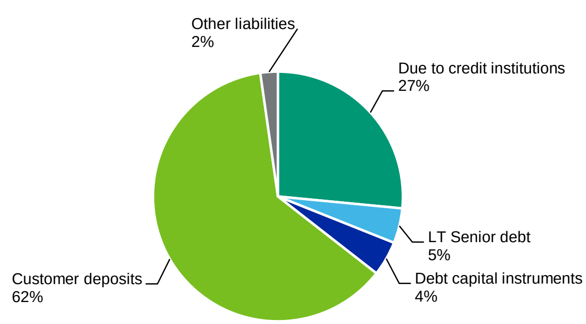
The bank's NIM[1] improved marginally but remained narrow at 2.0% in 2020. At this level, CBM's NIM is half that reported by the other banks that we rate, which is mainly a result of a large share of low-margin reverse repo transactions on the bank's balance sheet (44% of assets). Nevertheless, these transactions make a considerable contribution to the net financial result, given the lack of associated provisioning charges and the material size of the portfolio (about RUB1.3 trillion as of year-end 2020).

After a temporary increase in 2019, CBM's cost-to-income ratio normalised at 32% in 2020. On the other hand, the bank's bottom-line profitability was adversely affected by a sharp increase in provisioning charges as indicated by a loan-loss provisions-to-average gross loan ratio of 2.1% in 2020 versus 1.0% in 2019 and 0.3% in 2018. We expect credit costs to decrease gradually but remain elevated in the next 12-18 months.

A sizeable liquidity buffer offsets the risk of unexpected, highly concentrated deposit withdrawals

We expect CBM's liquidity and funding profile to remain stable in the next 12-18 months. CBM is largely funded by local deposits; as of December 2020, their share increased to 62% of the bank's total liabilities as of December 2020 from 58% as of year-end 2019. Customer deposits are dominated by corporate deposits (70% of the total amount), which results in a high single-name concentration. As of December 2020, the 10 largest depositors accounted for 56% of total customer deposits (2019: 51%). As of the same date, about 50% of all customer accounts (predominantly corporate) were denominated in foreign currency.

Exhibit 5
The share of market funding is elevated largely because of reverse repos on the asset side
As of 31 December 2020



Sources: Moody's Investors Service and the bank's IFRS reports

Concentrated foreign-currency-denominated corporate deposits, as well as interbank deposits (27% of total liabilities as of December 2020), are the sources of funding for reverse repo transactions on the asset side. This implies that the impact of any outflow of large corporate deposits is offset either by a reduction in reverse repos or by additional interbank borrowings, given the high credit quality of the securities received as collateral under reverse repos.

As repo deals materially distort the balance sheet, we adjust market funding by the amount of interbank borrowings that financed the reverse repo transactions, and assign a Funding Structure score of ba2.

After adjusting the liquidity buffer (61% of total assets as of 31 December 2020) for the amount of reverse repos, we estimate the adjusted liquidity ratio to be 30%. We expect the bank to maintain ample liquidity in the next 12-18 months and assign a Liquidity score of ba2.

Environmental, social and governance (ESG) considerations

In line with our general view on the banking sector, CBM has low exposure to environmental risks and moderate exposure to social risks (see our Environmental risks heat map and Social risks heat map for further information).

The most relevant social risks for banks in Russia arise from the country's adverse demographics, which affect the banks' customer bases and weigh on the growth prospects of both the banking system and the broader economy (for more details, see Commonwealth of Independent States: Divergence in working-age population trends will shape credit profiles, 9 July 2018). We also regard the pandemic as a social risk under our environmental, social and governance (ESG) framework because of the substantial implications for public health and safety.

Governance is highly relevant for CBM, as it is to all entities in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. For Russian banks, we have identified key-person and related-party risks as the key governance risks. These risks are manifested in, but are not limited to, heavy related-party loan concentrations and banks' high dependence on single individuals for business, which often give rise to weak corporate governance and lax underwriting standards. Fraud and weak risk management have recently caused multiple bank closures and restructurings in Russia.

Governance risks are largely internal rather than externally driven for CBM. The one-notch downward adjustment for corporate behaviour reflects our view that the bank's creditworthiness is increasingly affected by its elevated risk appetite, in particular high concentrations in the loan book, customer deposits and reverse repos portfolio, the latter of which accounted for 44% of the bank's total assets as of 31 December 2020.

Support and structural considerations

Government support

In 2017, the CBR designated CBM as a systemically important bank. This status gives the bank the right to apply for a committed credit line facility from the CBR, which can be used both to meet its liquidity coverage ratio requirement (even if the line is not used) and for liquidity support, in case of need. In particular, the CBR now has the capacity to promptly provide liquidity in the form of an extraordinary liquidity facility to large banks, should it be required.

We assign global local-currency deposit ratings of Ba3/Not Prime to CBM after incorporating the high probability of government support into the bank's ratings. This results in two notches of uplift to the bank's senior unsecured debt and deposit ratings from its BCA of b2.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

CBM's CR Assessment is positioned at Ba2(cr)/Not Prime(cr)

The CR Assessment is one notch above CBM's senior unsecured and deposit ratings, reflecting our view that the probability of the bank's default on its counterparty obligations is lower than that of senior unsecured debt and deposits. We believe senior obligations represented by the CR Assessment will more likely be preserved to limit contagion, minimise losses and avoid disruption to critical functions.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

CBM's CRRs are positioned at Ba2/Not Prime

CBM's global CRRs are Ba2/Not Prime, one notch above the bank's deposit ratings, reflecting our view that the CRR liabilities are not likely to default at the same time as when the bank fails and will more likely be preserved to minimise banking system contagion, minimise losses and avoid the disruption of critical functions.

Subordinated debt ratings

The Caa2(hyb) rating assigned to CBM's notes is based on its standalone creditworthiness and is positioned three notches below the bank's b2 Adjusted BCA (one notch below to reflect the high loss severity and a further two notches below to reflect the higher payment risk associated with the non-cumulative coupon skip mechanism, as well as the probability of bankwide failure). The analysis also takes into consideration the full or partial write-down feature, in combination with the Tier 1 notes' subordinated claim in liquidation.

Note on data

Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and are adjusted for analytical purposes. Please refer to the document titled Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 6

Credit Bank of Moscow

Macro Factors							
Weighted Macro Profile	**Weak +**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.0%	b1	↔	b1	Expected trend	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	11.6%	ba3	↑	b2	Expected trend	Nominal leverage
Profitability						
Net Income / Tangible Assets	0.8%	ba3	↔	ba3	Expected trend	
Combined Solvency Score		ba3		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	30.4%	b2	↔	ba2	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	61.4%	baa2	↓↓	ba2	Asset encumbrance	
Combined Liquidity Score		ba2		ba2		
Financial Profile				ba3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				-1		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Baa3		
BCA Scorecard-indicated Outcome - Range				ba3 - b2		
Assigned BCA				b2		
Affiliate Support notching				0		
Adjusted BCA				b2		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	b1	2	Ba2	Ba2
Counterparty Risk Assessment	1	0	b1 (cr)	2	Ba2(cr)	
Deposits	0	0	b2	2	Ba3	Ba3
Senior unsecured bank debt	0	0	b2	2		Ba3
Dated subordinated bank debt	-1	-2	caa2	0		Caa2 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
CREDIT BANK OF MOSCOW	
Outlook	Stable
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	Ba2(cr)/NP(cr)
Senior Unsecured	Ba3
Subordinate	Caa2 (hyb)

Source: Moody's Investors Service

Endnotes

1 Per Moody's Banking Account & Ratio Definitions.

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