

Research Update:

# Credit Bank of Moscow Long-Term Rating Raised To 'BB' On Resilient Performance And Stable Asset Quality; Outlook Stable

July 21, 2021

## Overview

- The performance of Credit Bank of Moscow (CBOM) withstood the turbulence in 2020, seen in its operating efficiency, earnings capacity, and asset quality, and proving its balanced approach to risk taking.
- We have therefore raised our long-term rating on CBOM to 'BB', raised to 'B' the long-term rating on the bank's holding company Rossium, and affirmed the 'B' short-term ratings on both companies.
- The stable outlook on the CBOM) reflects our view that the bank will be able to withstand the challenging operating environment in Russia in the next 12-18 months, while maintaining adequate capitalization and asset quality metrics in line with the sector average.

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## Rating Action

On July 21, 2021, S&P Global Ratings raised its long-term issuer credit rating on Credit Bank of Moscow (CBOM) to 'BB' from 'BB-', as well as the long-term rating on its nonoperating holding company Concern Rossium LLC to 'B' from 'B-'. The outlook on both ratings is stable. At the same time, the 'B' short-term issuer credit ratings on both companies were affirmed.

## Rationale

In our view, CBOM has proven resilient to the turbulent market environment, as evidenced by its credit losses and asset quality metrics. The bank's problem loans, defined by International Financial Reporting Standard 9 as stage 3 loans and POCI loans (purchased or originated credit impairment), stabilized at about 5% of gross loans as of March 31, 2021. This proportion is among the lowest in the system and is stable compared with the March 2020 level of 5.1%. In 2020 the bank charged 1.8% credit costs, which mirrors the sector-average metric for Russia's largest banks. For the first quarter of 2021 CBOM charged just 40 basis points of new credit costs

(annualized). We believe credit costs for 2021 could comprise 1.0%-1.5% of the average loan book, because we expect economic rebound and asset quality recovery, although some tail risks from the 2020 recession could still influence the asset quality metrics. We anticipate that stage 3 and POCI loans will likely remain around 5% and we expect the bank will maintain its focus on high-quality borrowers over the next two years.

In the first quarter of 2021, the bank's net profit stood at Russian ruble (RUB) 8.3 billion compared with RUB5.1 billion for the same period of 2020. In 2020 the bank demonstrated good earnings capacity during the turbulent operating environment, posting net profit of RUB30 billion (versus RUB12 billion for 2019), with one of the best efficiency rates in the sector (cost-to-income ratio of 28% in 2020, and average annual return on equity of about 15% over 2017-2020).

In May 2021, the shareholders injected RUB23 billion of new tier 1 capital. In our base case, we do not include any additional capital injections over the next two years. At the same time, we don't envisage dividend payments for 2020-2021. That said, CBOM has sufficient capital buffers for organic business growth or absorption of moderate pressure on asset quality.

We expect concentration risk, including significant repurchase transactions, to remain sizable and above the market average for banks in Russia through the next 12-18 months. On March 31, 2021, reverse repurchase transactions accounted for about 45% of the bank's total assets. We consider the high concentration on the bank's balance (not specifically repurchase deals) makes the bank vulnerable to potential additional provisions if the largest borrowers' quality deteriorates, or in case of large withdrawals on the funding side. However, large deposits have been relatively stable with no unexpected withdrawals made, and we expect them to remain reasonably stable in our base case. The bank's accumulated liquidity buffers provide additional cushion.

Russian businessman Roman Avdeev holds a 56.1% stake in the bank via Rossium. We don't expect any significant potential changes to Rossium's structure or investments profile, nor any strategic shifts for the bank.

The rating on CBOM reflects our 'bb-' anchor for a commercial bank operating in Russia, CBOM's 'bb-' stand-alone credit profile (SACP), and one notch of additional support to reflect our view of the bank's moderate systemic importance in Russia. This is driven by its sizable market share in lending and deposits (especially in the Moscow Oblast), resulting in a moderate likelihood of extraordinary support from the government. Our SACP assessment factors in the bank's especially strong brand recognition and established franchise in Moscow and the Moscow Oblast. Our rating also reflects the bank's ability to raise money via the capital markets and the ability of its major shareholder to provide support if necessary.

The rating on Rossium is two notches lower than CBOM's SACP, because we don't incorporate any likelihood of extraordinary support from the government to the holdco.

## **Outlook**

The stable outlook on CBOM reflects our view that the bank will be able to withstand the challenging operating environment in Russia in the next 12-18 months, while maintaining adequate capitalization with asset quality metrics in line with the sector average.

We could take a negative rating action if we saw increased volatility in customer deposits, posing a risk to CBOM's funding profile. Pressure could also stem from negative trends in asset quality or capital adequacy deriving from higher-than-expected loan book growth.

A positive rating action on CBOM is unlikely in the next 12 months, in our view, due to the risks stemming from still-high concentration of loans on the bank's balance sheet and its concentrated

funding profile.

The stable outlook on Rossium mirrors that on CBOM, and we don't currently factor any material potential changes in the group's structure or investment profile in our assessment. We expect the rating will move in tandem with that on CBOM, assuming double leverage does not increase substantially above current levels and CBOM's dividend policy maintains adequate capitalization for the bank.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB/Stable/B	BB-/Stable/B
SACP	bb-	b+
Anchor	bb-	bb-
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Adequate (0)	Adequate (0)
Risk Position	Adequate (0)	Moderate (-1)
Funding	Average	Average
and Liquidity	Adequate (0)	Adequate (0)
Support	(+1)	(+1)
ALAC Support	(0)	(0)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Government Support	(+1)	(+1)
Additional Factors	(0)	(0)

SACP--Stand-alone credit profile.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Upgraded

	To	From
<b>CBOM Finance PLC</b>		
Senior Unsecured	BB	BB-

### Upgraded; Ratings Affirmed

	To	From
<b>CREDIT BANK OF MOSCOW</b>		
Issuer Credit Rating	BB/Stable/B	BB-/Stable/B

### Concern Rossium LLC

Issuer Credit Rating	B/Stable/B	B-/Stable/B
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