S&P Global
Ratings

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Credit Bank Of Moscow

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Table Of Contents

Credit Bank Of Moscow

SACP	b+

Anchor	bb-	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

\+

Support	+1
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	+1

\+

Additional Factors	0

Issuer Credit Rating
BB-/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• Moderate systemic importance for the Russian banking sector. • Established franchise in Moscow and Moscow region supports the bank's sound business position. • Good earnings capacity.	• Challenging operating environment in Russia. • Elevated credit risks amid pandemic containment measures and economic contraction. • High single-name concentrations on both sides of the balance sheet.

Outlook: Stable

S&P Global Ratings' stable outlook on the Credit Bank Of Moscow (MKB) reflects our view that, in the next 12-18 months, the bank will be able to withstand the challenging operating environment in Russia, exacerbated by the economic contraction and negative impact from pandemic containment measures.

We could take a negative rating action if we saw increased volatility in customer deposits, posing a risk to MKB's funding profile. We could also consider revising the outlook to negative if we observed intensified pressure on asset quality or capital adequacy deriving from higher-than-expected loan book growth or substantially higher asset quality deterioration than we currently expect.

A positive rating action on MKB is unlikely in the next 12 months, in our view, due to the heightened risks stemming from the weakened economic environment. We could consider a positive action if we were to observe a negative spillover effect from the pandemic and the economic contraction substantially eased, while at the same time the still-high concentrations on the bank's balance sheet started to diminish.

The stable outlook on Rossium (B-/Stable/B), MKB's nonoperating holding company (NOHC), mirrors that on MKB. We don't currently factor in any material potential changes to the group's structure and/or investments profile. The ratings on Rossium are three notches lower than those on MKB. We expect that they will move in tandem with those on MKB, assuming double leverage does not increase substantially above current levels and the dividend policy helps the bank to maintain adequate capitalization. All else being equal, we would likely maintain the three-notch difference between our long-term rating on Rossium and that on MKB.

Rationale

The ratings on MKB reflect the 'bb-' anchor for a commercial bank operating in Russia, its 'b+' 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, resulting in a moderate likelihood of extraordinary support from the government in case of need. Our stand-alone assessment factors in the bank's especially strong brand recognition and established franchise in Moscow and the Moscow region. Our ratings also reflect the bank's ability to raise money via the capital markets and the ability of its major shareholder to provide support in case of need. Our assessment of the bank's risk position balances good asset quality with risks stemming from its single-name concentrated loan portfolio. We believe the bank has a solid corporate deposit franchise, but we see some potential volatility in the funding base due to high single-name concentrations.

We view MKB as a core entity of its NOHC Rossium. There is a two-notch difference between our long-term rating on Rossium and our 'b+' assessment of the consolidated group SACP, which is on par with MKB's SACP. This reflects our view of structural subordination for NOHCs, as well as no potential extraordinary government support. We don't expect Rossium to receive extraordinary government support. We do, however, incorporate such support into our ratings on MKB due to its systemic importance in the banking sector, which envisages higher capital buffer requirements, and tougher and more frequent controls from the Central Bank of Russia. We therefore incorporate one notch of uplift in the final rating on MKB, reflecting the moderate likelihood of extraordinary support from the government if the bank were to experience financial difficulties.

Anchor:'bb-' for an entity operating only in Russia.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in Russia is 'bb-', based on an economic risk score of '8' and an industry risk score of '7'.

We believe that the economic environment will remain challenging for Russian banks over the next two years. We expect the Russian economy to contract by 4.8%, reflecting challenges to external demand, compounded by the impact of containment measures on domestic demand. However, the Russian economy could absorb the current shocks and will likely recover by about 4.5% in 2021, in line with recovering oil prices and global economy. At the same time, the risks to our baseline forecast remain firmly on the downside. What the spread of coronavirus means for economic outcomes remains unclear and could be worse than we currently assume. The speed of the recovery will also depend on policy measures to cushion the blow, limit economic dislocation, and support the economy and households.

We believe that Russian banks' loan books will likely demonstrate anaemic growth of about 5% in 2020 overall (net of foreign exchange revaluation) in line with the overall deceleration of business activity in Russia and globally. We also expect limited demand from corporate borrowers and a more pronounced deceleration in the retail segment resulting from regulatory actions that aim to decrease banks' appetites for unsecured consumer lending.

Our base-case scenario assumes that tough economic conditions will erode the debt-servicing capacity of corporate, SME, and individual borrowers. We assume that nonperforming loans (Stage III loans) may reach up to 15% in 2020, compared with about 8% reported Stage III loans by the largest banks in 2019. The impact on the banks' profitability from additional provisioning could be deferred over 2020-2021, which could lessen the impact of a substantial reduction of capital buffers. For 2020, we expect that Russian banks' new lending will slow while credit costs will likely increase up to 2.5%-3.0% of their average loan books under IFRS, leaving some banks with only breakeven financial results.

Some banks will be more affected than others, depending on their exposures to the most vulnerable segments and industries, and their capacity to handle the current shock. Multiple aspects could be affected, including banks' business prospects, credit quality, profitability, and potentially liquidity. However, as in the past, we expect the authorities (both the government and the Central Bank of Russia) to act in a timely manner and support the financial system. The size and channels of this support are evolving. Accumulated capital and liquidity cushions, potential extraordinary government support, and regulatory relaxation should help Russian banks--particularly large and systemic ones--weather the stress for now, though the situation may change quickly.

Although access to external funding remains limited because of the economic sanctions imposed on several large banks and corporates, we believe that the stability of Russian banking sector funding has recently improved, supported by stable and growing domestic deposits over the past three years. The sector's external funding needs are small (around 5% of total liabilities compared with 15% in 2014). The deposit base has been stable at large banks. We expect that in the event of increased volatility, larger banks will benefit from flight to quality, due to brand recognition and the perception that government support would be available. However, the situation is more nuanced at small banks, most of which have a confidence-sensitive funding profile. Recent volatility on the foreign exchange market and a worsening of the coronavirus pandemic-related effects could potentially lead to a higher risk of temporary panic-driven outflow of deposits. However, we believe the resulting liquidity squeeze would likely be manageable and, where needed, supported by the CBR's liquidity tools, which have been tested successfully over the past 10 years. The dominance of state banks in the Russian banking sector continues to distort competition and weigh on private-sector banks' creditworthiness, especially the small ones. In our view, banking regulation and supervision remain reactive rather than proactive. However, the Central Bank's efforts to clean up the banking sector have been positive for its stability.

Table 1

Credit Bank Of Moscow--Key Figures

	--Year ended Dec. 31--				
(Mil. RUB)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	2,751,237	2,422,747	2,145,510	1,887,707	1,567,655
Customer loans (gross)	929,047	829,195	740,131	818,816	666,738
Adjusted common equity	174,905	170,665	142,920	136,391	102,636
Operating revenues	36,045	44,122	66,491	62,644	59,657
Noninterest expenses	12,027	23,052	20,743	17,376	14,776
Core earnings	9,124	11,957	26,738	19,842	10,874

*Data as of June 30. RUB--Russian ruble.

Business position: One of the largest market players in Russia.

Our assessment of MKB's business position reflects the bank's sustainable market share among the top-10 banks in Russia and stable earnings generation. We think that these characteristics, together with sound corporate governance, and a supportive beneficiary owner, underpin the bank's business position in the market, especially in Moscow and the Moscow region, the most developed and wealthy region.

With total assets of Russian ruble (RUB) 2.7 trillion (around $38 billion) at June 30, 2020, MKB is the sixth-largest bank and second-largest private bank in Russia by assets with about 3% market share. MKB provides services to both retail and corporate clients, with corporate lending accounting for about 88% of total lending as of June 30, 2020.

In May 2020, MKB purchased two small banks from Region Group--Rusnarbank and Vest--with assets totaling RUB11 billion and RUB6 billion, respectively (less than 1% of the bank's assets at the time of acquisition). Currently, the bank's majority owner, Russian businessman Roman Avdeev, holds a 59.64% stake in MKB via the holding company Rossium. In our base-case scenario, we expect Rossium's structure, investment profile, and strategy for the bank to remain quite stable over the next 12-18 months.

Table 2

Credit Bank Of Moscow--Business Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	36,045	44,122	67,128	63,720	59,657
Commercial banking/total revenues from business line	30.7	39.3	42.5	62.4	60.9
Retail banking/total revenues from business line	25.4	(22.5)	18.5	17.9	25.0
Commercial & retail banking/total revenues from business line	56.1	16.8	61.0	80.2	85.9

Table 2

Credit Bank Of Moscow--Business Position (cont.)

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Trading and sales income/total revenues from business line	39.4	75.2	30.8	12.1	6.6
Other revenues/total revenues from business line	4.5	8.0	8.2	7.7	7.5
Investment banking/total revenues from business line	39.4	75.2	30.8	12.1	6.6
Return on average common equity	10.5	7.5	19.3	17.2	11.1

*Data as of June 30.

Capital and earnings: Steady capital strengthening despite margin pressure.

Over the past five years, MKB has demonstrated a resilient business model. Among other things, this is due to a strategic focus on the Moscow region, long-standing relations with some large Russian corporates, a relatively good share of commission income in the revenue mix, and leading positions in the region in terms of cash collection.

In 2020, we expect that MKB could demonstrate moderate operating results owing to potential elevated credit costs and economic contraction. At the same time, in first half of 2020 the bank's net profit stood at RUB9.1 billion compared with RUB2.2 billion for the same period of 2019, largely supported by foreign-exchange results and securities portfolio revaluation.

We forecast the RAC ratio, according to our definition, to be within 7.7%-8.2% over the next 12-18 months, compared to 8.7% at the end of 2019. 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 over 2020-2021. That said, MKB has sufficient capital buffers, with a regulatory capital adequacy ratio (N1.0) of 18% by Aug. 1, 2020 compared with the minimum requirement of 11.5%. At the same time, we understand that shareholders are ready and able to provide Tier 1 capital for the bank, if needed, based on its positive track record. The most recent capital increase was made in late 2019 under SPO (secondary public offer), totaling RUB14.7 billion.

MKB's net interest margin (NIM) decreased to about 2% in 2019 from 2.5%-3.0% in the past three years, due to the still-high share of liquid assets on the bank's balance sheet alongside slower credit activity. That said, we expect the bank might be able to stabilize its NIM at about 2% over the next 18 months, as its loans reprice in parallel with decreasing funding costs. The projected NIM is pressured by overall lower market rates, stiff competition, and a high share of low-income cash equivalents and interbank placements in its earning assets, which we expect will persist.

Table 3

Credit Bank Of Moscow--Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	13.7	14.5	14.1	15.0	9.4
S&P Global Ratings’ RAC ratio before diversification	N/A	8.7	8.3	9.4	5.4
S&P Global Ratings’ RAC ratio after diversification	N/A	7.0	6.6	8.6	4.9
Adjusted common equity/total adjusted capital	81.1	81.8	75.4	77.2	100.0
Net interest income/operating revenues	76.3	102.6	72.8	72.3	67.6
Fee income/operating revenues	13.1	26.1	18.6	20.0	18.7

Table 3

Credit Bank Of Moscow--Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Market-sensitive income/operating revenues	14.6	(28.0)	3.4	6.1	12.6
Cost to income ratio	33.4	52.2	31.2	27.7	24.8
Preprovision operating income/average assets	1.9	0.9	2.3	2.6	3.2
Core earnings/average managed assets	0.7	0.5	1.3	1.1	0.8

*Data as of June 30. RAC--Risk adjusted capital. N/A--Not applicable.

Table 4

Credit Bank Of Moscow--Risk-Adjusted Capital Framework Data

(Mil. RUB)	**Exposure***	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk			
Government & central banks	120,933.0	0.0	0.0
Of which regional governments and local authorities	0.0	0.0	0.0
Institutions and CCPs	1,198,450.0	228,363.4	19.1
Corporate	935,188.0	1,708,979.5	182.7
Retail	102,603.0	154,942.1	151.0
Of which mortgage	23,259.0	21,512.2	92.5
Securitization§	0.0	0.0	0.0
Other assets†	30,434.0	76,226.3	250.5
Total credit risk	2,387,608.0	2,168,511.2	90.8
Credit valuation adjustment			
Total credit valuation adjustment	--	0.0	--
Market Risk			
Equity in the banking book	2,350.0	26,437.5	1,125.0
Trading book market risk	--	83,283.9	--
Total market risk	--	109,721.4	--
Operational risk			
Total operational risk	--	124,670.6	--
	Exposure	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments			
RWA before diversification	--	2,402,903.2	100.0
Total Diversification/ Concentration Adjustments	--	564,833.4	23.5
RWA after diversification	--	2,967,736.6	123.5
		Total adjusted capital	**S&P Global Ratings RAC ratio (%)**
Capital ratio			
Capital ratio before adjustments		208,536.0	8.7

Table 4

Credit Bank Of Moscow--Risk-Adjusted Capital Framework Data (cont.)		
Capital ratio after adjustments‡	208,536.0	7.0

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). CCP--Calling party pays. RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. RUB--Russian ruble. Sources: Company data as of Dec. 31 2019, S&P Global Ratings.

Risk position: Controlled credit costs and asset quality.

MKB's risk position reflects its susceptibility to credit risks emerging from single-name concentrations in its loan book. That said, we note the high quality of bank's large corporate exposures, stemming from careful borrower selection. We think such concentrations will remain over our forecast horizon, as the bank will maintain its focus on working with its largest clients and sustain modest loan portfolio growth over the next two years.

In our view, the bank has proved to be resilient to the turbulent market environment in terms of credit losses and asset quality. Following resolution of some large restructured assets, the bank's problem loans (Stage 3 and POCI loans under IFRS 9) stabilized at 5.1% of gross loans at end-June 2020, among the lowest levels in the system, versus 11.6% at end-2017. The NPL ratio (loans overdue by more than 90 days) stood at 2.9% of the bank's corporate loans and 6.4% of retail as of end-June 2020. By August 2020, the bank had restructured about 6.7% of its total corporate and 14.5% of retail loan books, as a result of COVID-19.

On the back of the economic contraction and pandemic containment measures, credit costs rose in the first half of 2020 to 2.8% annualized. We believe that cumulative credit costs for 2020-2021 could reach 5%, as we expect economic rebound and asset quality recovery from 2021. We anticipate that the bank will maintain its focus on high quality borrowers over the next two years. We believe that the bank's accumulation of sufficient capital and liquidity buffers over 2018-2019 would help absorb moderate asset quality deterioration.

We expect concentration risk, including significant repo (repurchase agreement) transactions, to remain high and above the market average for banks in Russia. This is because only modest loan portfolio growth is expected over our outlook horizon. At June 30, 2020, reverse repo transactions accounted for about 43.5% of the bank's total assets. We consider high concentrations on the bank's balance sheet (though not specifically linked to the repo deal) make the bank vulnerable to potential additional provisions in case of a deterioration of the largest borrowers, or large withdrawals on the funding side. However, large deposits have been relatively stable, with no unexpected withdrawals, and we expect them to remain reasonably stable in our base-line expectations.

Table 5

Credit Bank Of Moscow--Risk Position					
	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	24.1	12.0	(9.6)	22.8	5.8
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	23.5	26.0	9.7	8.9
Total managed assets/adjusted common equity (x)	15.7	14.2	15.0	13.8	15.3
New loan loss provisions/average customer loans	2.8	0.6	1.4	2.5	4.7
Net charge-offs/average customer loans	0.8	0.6	2.0	1.2	4.1

Table 5

Credit Bank Of Moscow--Risk Position (cont.)					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Gross nonperforming assets/customer loans + other real estate owned	4.7	4.7	3.9	11.6	8.8
Loan loss reserves/gross nonperforming assets	118.6	103.5	107.6	52.9	68.3

*Data as of June 30. N/A--Not applicable. RWA--Risk weighted asset.

Funding and liquidity: Concentrated but stable funding base.

We assess MKB's funding as average and its liquidity as adequate. We believe that the bank has a solid corporate deposit franchise. The bank's stable funding ratio has been over 110% in the last five years. However, we see a potential risk of volatility in the funding base, especially due to persistent single-name concentrations over the past three years.

In 2019-2020, the bank issued $1.1 billion, €0.5 billion, and RUB17 billion of bonds, while total debt securities in issue (including subordinated bonds) still represent a relatively moderate 8% of MKB's total liabilities as of end-June 2020. At the same date, cash on hand and placements with the Central Bank of Russia represented about 5% of total assets, providing a good, but not excessive, liquidity cushion reflecting relatively conservative liquidity management.

Table 6

Credit Bank Of Moscow--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Core deposits/funding base	54.2	59.0	62.1	51.6	46.1
Customer loans (net)/customer deposits	64.4	60.7	59.2	87.8	93.3
Long-term funding ratio	65.7	71.3	72.3	62.7	60.0
Stable funding ratio	149.5	157.6	157.6	123.5	113.9
Short-term wholesale funding/funding base	36.9	31.4	30.4	41.2	42.8
Broad liquid assets/short-term wholesale funding (x)	1.7	1.9	2.0	1.3	1.2
Net broad liquid assets/short-term customer deposits	68.1	74.2	56.9	26.1	19.9
Short-term wholesale funding/total wholesale funding	77.8	73.6	75.4	81.1	79.5
Narrow liquid assets/3-month wholesale funding (x)	1.7	1.9	1.9	1.3	1.0

*Data as of June 30.

Support: One notch of support for systemic importance.

MKB's market share retail deposits have consistently been above 1%, which is comparable to the largest private banks in the context of a highly concentrated banking system in Russia. This supports our assessment of the bank's systemically important status and corresponding moderate likelihood of extraordinary support from the government if the bank were to experience financial difficulties. We therefore incorporate one notch of uplift in the final rating on MKB.

Environmental, Social, and Governance

We believe that ESG factors are neutral for MKB's credit quality at this time. In 2020, the bank designed its ESG strategy. We assess governance and transparency in the Russian banking sector as relatively weak by global standards.

However, having the EBRD among its shareholders resulted in the implementation of corporate governance standards that favorably differentiate MKB among its regional peers. MKB is privately owned, which insulates it from direct state interference. We also note that its business growth strategy, led by an experienced management team, is market-driven and supported by a sound risk management system. We believe the bank's balanced approach to risk taking has led it to navigate several crises in Russia more successfully than some of its peers. Bank regulation in Russia focuses less on consumer protection than in Western Europe. Therefore, MKB appears to be less exposed to retail misselling or conduct risks compared with its EMEA counterparts. As with any large bank in Russia, MKB has exposure to the oil and gas and metals and mining sectors. This mirrors the structure of the Russian economy and the sectors where the largest and most creditworthy borrowers operate. We believe that MKB will likely not escape global trends in terms of energy transition and that it will likely have to gradually reduce concentrations in the most carbon-intensive industries, although not necessarily in the near-to-medium term.

Additional rating factors: None.

No additional factors affect the ratings.

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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Banks Seldom Rated Above The Sovereigns, July 9, 2001

Related Research

- Credit Bank of Moscow 'BB-/B' Ratings Affirmed; Outlook Stable, July 23, 2020
- Russian Banks: Asset Quality's Worst Is Yet To Come, Sept. 7, 2020

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	**8**	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	**bb-**	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 30, 2020)*

CREDIT BANK OF MOSCOW		
Issuer Credit Rating		BB-/Stable/B
Russia National Scale		NR/--/--
Issuer Credit Ratings History		
21-Jul-2017	*Foreign Currency*	BB-/Stable/B
04-Feb-2015		BB-/Negative/B
08-Oct-2013		BB-/Stable/B
21-Jul-2017	*Local Currency*	BB-/Stable/B
04-Feb-2015		BB-/Negative/B
08-Oct-2013		BB-/Stable/B
02-Jun-2017	*Russia National Scale*	NR/--/--
08-Oct-2013		ruAA-/--/--
27-Jan-2012		ruA+/--/--
Sovereign Rating		
Russia		
Foreign Currency		BBB-/Stable/A-3
Local Currency		BBB/Stable/A-2
Related Entities		
CBOM Finance PLC		
Senior Unsecured		BB-
Concern Rossium LLC		
Issuer Credit Rating		B-/Stable/B

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.