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ACRA AFFIRMS A+(RU) TO CREDIT BANK OF MOSCOW, OUTLOOK STABLE, A+(RU) TO BOND ISSUES (RU000A103FP5, RU000A103GW9), AND BB(RU) TO BOND ISSUE (RU000A0ZZE87)

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The credit rating of CREDIT BANK OF MOSCOW (hereinafter, CBM, or the Bank) has been affirmed to reflect, on the one hand, downgrade of the capital adequacy assessment to adequate following the development of the downward trend in Tier 1 ratio over the past 12 months, which is partly associated with a substantial growth of corporate loans on the back of regulatory easing, and, on the other hand, upgrade of the risk profile assessment to satisfactory due to a shrink in the share of non-performing loans. Other factors of the Bank's standalone creditworthiness assessment (SCA) have remained unchanged: business profile, and funding and liquidity are both still assessed as adequate. The credit rating also includes two upward notches to the SCA for the potential external support from the government given the systemic importance of CBM.

The Stable outlook reflects ACRA's baseline expectations for a slowdown and stabilization of the growth rate of CBM's loan book in the next 12 months, which, along with the expected financial result from certain one-time transactions in 2024, will reduce pressure on its financial profile and make credit risk management easier while maintaining the share of non-performing assets no higher than current relatively comfortable levels.

ACRA has also affirmed the credit ratings of the bonds (RU000A103FP5, RU000A103GW9), which are senior unsecured debt instruments issued by the Bank, at A+(RU), and the bond (RU000A0ZZE87), which is a Tier 1 capital instrument, at BB(RU).

KEY ASSESSMENT FACTORS

Adequate business profile assessment. CBM holds sustainably high market positions among the largest banks in the country and is well represented in Moscow's financial services market. The Bank's business model assumes close partnerships with major Russian companies, which largely helps CBM to attract and retain customers, and also contributes to participation in promising and significant projects. At the same time, CBM's business profile continues to result in a high concentration of its operations. In particular, along with low diversification on certain borrowers, the loan book has a pronounced focus on certain industries. In addition, a considerable part of CBM's balance sheet is reverse repo transactions, and ACRA expects it to remain unchanged in 2023–2024.

At the same time, the Bank is finalizing its new strategy, which is likely to target a gradual decrease in operating activity concentrations by the end of 2029. According to ACRA's expectations, the priority in servicing large businesses will remain (while CBM aims to continue expanding its medium business line), and the Bank will strive to increase the number of core customers significantly. Other segments, including small and medium-sized businesses and retail customers, will develop on, among other things, strong ties with large anchor customers, while using their extensive network of counterparties, contractors and partners, as well as servicing their employees.

The capitalization and profitability assessment has been downgraded to adequate following the development, over the past 12 months, of a downward trend in the IFRS Tier-1 capital ratio against the background of a rapid growth of the loan portfolio and more relaxed regulatory requirements, as well as a decrease in the likelihood of a sustained recovery of the ratio to strong values. ACRA notes that last year the decline in the Tier 1 ratio occurred against the background of pressure on profitability, which was exerted by the operating environment shocks.

In 2023, the Bank demonstrates the recovery of its ability to generate capital. This factor, as well as the expected by Agency financial result from certain one-time transactions in 2024 in the absence of dividend payments until the end of the next year, in ACRA's opinion, protect the Bank to some extent from the risks of further decline of capital adequacy metrics. The planned slowdown in the growth of the loan portfolio is also taken into account by the Agency, although, if the growth rates remain comparable to H1 2023, CBM's capitalization sensitivity to changes in the cost of credit risk will increase.

ACRA also notes that the inclusion of 2023 net profits in the sources of common capital had a positive impact on the N1.2 ratio, which amounted to 9.7% as of October 1, 2023 (8.9% as of January 1, 2023).

ACRA has upgraded its assessment of the risk profile to satisfactory. According to ACRA's estimates, the volume of potentially non-performing loans in the portfolio is demonstrating positive dynamics compared to last year. Improvement of the risk profile assessment is supported by the Agency's expectations of lending growth rates stabilizing to more moderate values in the next 12 months, which will be facilitated by the restraining nature of the monetary policy of the Bank of Russia.

The growth of CBM's loan portfolio over the past 12 months has been active, but ACRA notes that this was largely due to significant large tickets transactions with major clients. On the one hand, this reduces the likelihood of asset quality deterioration following aggressive growth, and, on the other hand, it negatively affects business diversification, so that the high concentration of assets on certain counterparties and sectors of the economy continues to constrain the risk profile assessment.

Currency revaluation has also impacted the loan portfolio growth but, at the same time, CBM has significantly reduced its vulnerability to currency risk this year.

Adequate funding and liquidity position. The Bank's resource base has not undergone drastic changes over the past 12 months — funds of legal entities have the largest share in the funding structure and funds of individuals and direct repo operations continue to make up a significant part. ACRA notes that most of the largest depositors are regular customers of the Bank.

ACRA's base case scenario for the next 12–18 months assumes that CBM will retain its comfortable liquidity cushion which did not shrink much following a relatively fast growth over the past 12 months.

Importance to the financial system. In ACRA's opinion, CBM has moderate systemic importance, given the size of its assets and scale of business. Therefore, it can rely on the state to support capital or liquidity in the event of stress. As a result, the Bank's final rating takes into account two notches of support added to its standalone creditworthiness assessment (SCA).

ACRA believes that disruptions to the stability of CBM's operations may cause problems in the financial sector. Besides holding a considerable volume of the populations' funds, the Bank is actively engaged in servicing strategically important companies, which backs up the Agency's opinion on the strategic importance of CBM.

KEY ASSUMPTIONS

- Maintaining the current market positions and systemic importance over the next 12 to 18 months, while implementing the new strategy.
- Expected slow-down in assets growth with no negative dynamics in the share of non-performing loans over the next 12 months.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Substantially lower concentration on the largest counterparties;
- Recovery of capital metrics to strong values as lending growth declines and the plans to reflect one-time incomes implement.

A negative rating action may be prompted by:

- Further significant deterioration of capital adequacy indicators due to faster growth of lending than assumed by the base case scenario or due to more significant credit losses;
- Significant deterioration of asset quality;
- Fast growth of the loan book contrary to the current expectations of ACRA, which may impede, in ARA’s opinion, the credit risk management process and increase the likelihood of unforeseen credit losses as portfolio seasons;
- Signs of weaker market positions and/or reduced strategic importance to the financial sector;
- Introduction of new regulatory approaches that limit the balance sheet concentrations or are capable of negatively influencing capital adequacy ratios.

RATING COMPONENTS

SCA: **a-**.

Adjustments: systemic importance, **SCA + 2 notches**.

ISSUE RATINGS

Rationale. The issues listed below are senior unsecured debt of CREDIT BANK OF MOSCOW. According to ACRA’s methodology, the final credit ratings of the issues are equivalent to the credit rating of CREDIT BANK OF MOSCOW — A+(RU).

CREDIT BANK OF MOSCOW, exchange-traded interest-bearing uncertificated bond subject to centralized title registration, series 001P-04 (RU000A103GW9), maturity date: July 31, 2025, issue volume: RUB 20 bln — **A+(RU)**;

CREDIT BANK OF MOSCOW, exchange-traded interest-bearing uncertificated bond subject to centralized title registration, series 001P-03 (RU000A103FP5), maturity date: July 23, 2024, issue volume: RUB 10 bln — **A+(RU)**.

Rationale. The issue listed below envisages a significant level of subordination with respect to senior unsecured creditors and is a common capital instrument. According to ACRA’s methodology, the final credit rating of this issue type is five notches below the SCA of CREDIT BANK OF MOSCOW (a-).

CREDIT BANK OF MOSCOW, subordinated bond (RU000A0ZZE87), maturity date: perpetual, issue volume: RUB 5 bln — **BB(RU)**.

REGULATORY DISCLOSURE

The credit ratings have been assigned to CREDIT BANK OF MOSCOW and the bonds issued by CREDIT BANK OF MOSCOW (ISIN RU000A0ZZE87, RU000A103FP5, RU000A103GW9) under the national scale for the Russian Federation 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. The Methodology for Assigning Credit Ratings to Financial Instruments under the National Scale for the Russian Federation was also applied to assign credit ratings to the above issues.

The credit rating of CREDIT BANK OF MOSCOW was published by ACRA for the first time on June 15, 2017. The credit ratings of the bonds issued by CREDIT BANK OF MOSCOW (ISIN RU000A0ZZE87, RU000A103FP5, RU000A103GW9) were published by ACRA for the first time on July 24, 2018, July 26, 2021, and August 17, 2021, respectively.

The credit rating of CREDIT BANK OF MOSCOW and its outlook and the credit ratings of the bonds issued by CREDIT BANK OF MOSCOW (ISIN RU000A0ZZE87, RU000A103FP5, RU000A103GW9) are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on data provided by CREDIT BANK OF MOSCOW, information from publicly available sources, and ACRA’s own databases. The rating analysis was performed using the consolidated IFRS financial statements of CREDIT BANK OF MOSCOW and the financial statements of CREDIT BANK OF MOSCOW drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit ratings are solicited and CREDIT BANK OF MOSCOW participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which were, in ACRA’s opinion, appropriate and sufficient to apply the methodologies.

ACRA provided 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 bln. 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 Russian legislation and with regard to global rating industry best practices.

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