MOODY'S INVESTORS SERVICE

CREDIT OPINION
17 November 2020

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

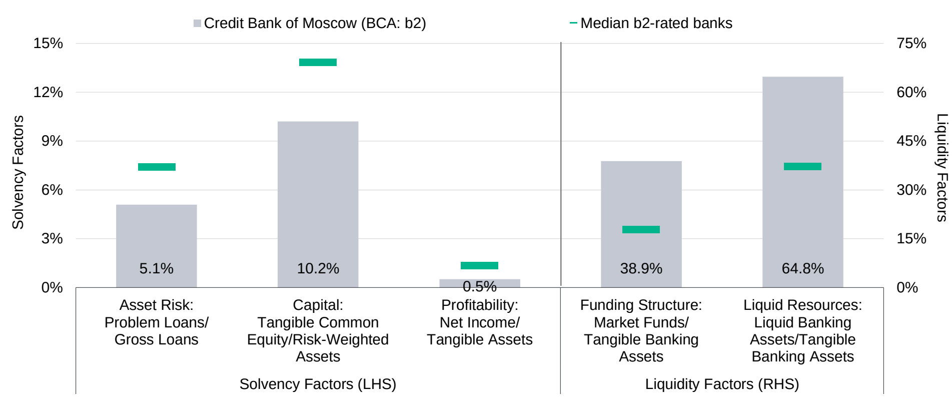
Update following rating action

Summary

On 10 November 2020, we affirmed the Ba3 long-term deposit ratings as well as senior unsecured foreign-currency debt ratings of Credit Bank of Moscow (CBM) with a stable outlook. Concurrently, we affirmed the bank's b2 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as its Ba2(cr) long-term Counterparty Risk Assessment (CR Assessment) and Ba2 Counterparty Risk Ratings (CRRs).

The Ba3 deposit ratings of CBM are based on the bank's 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 owing to its high concentrations in the loan portfolio, reverse repos and customer deposits; and modest recurring profitability, suppressed by significant low-yielding assets. These weaknesses are counterbalanced by strong liquidity buffer and good capital adequacy. The bank's strengths are also moderated by the economic slump in Russia this year, caused by low oil prices and the global spread of the coronavirus, which will exert pressure on its asset quality and profitability.

Exhibit 1
Rating Scorecard - Key financial ratios
As of 30 June 2020



Source: Moody's Financial Metrics

Credit strengths

» High likelihood of government support

» Robust liquidity buffer

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

Credit challenges

» Modest asset quality, which is further aggravated by high concentrations in the loan book

» Moderate bottom-line profitability, strained by a low net interest margin (NIM) and high credit costs

» Risk governance weaknesses stemming from its elevated risk appetite

Outlook

The stable outlook is driven by our expectation that the negative impact of the coronavirus pandemic and the deterioration of the operating environment on the bank's financial profile over the next 12-18 months will be limited and its solvency metrics will remain commensurate with the current ratings.

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 capitalisation, 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]

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (RUB Billion)	2,752.3	2,423.5	2,145.9	1,888.2	1,568.0	17.4[4]
Total Assets (USD Billion)	38.6	39.0	30.9	32.8	25.7	12.4[4]
Tangible Common Equity (RUB Billion)	174.2	170.2	145.4	135.8	101.9	16.5[4]
Tangible Common Equity (USD Billion)	2.4	2.7	2.1	2.4	1.7	11.5[4]
Problem Loans / Gross Loans (%)	5.1	5.2	4.3	11.6	6.8	6.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.2	11.4	10.5	11.6	9.4	10.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.3	18.6	16.4	51.0	32.0	27.4[5]
Net Interest Margin (%)	1.9	1.9	2.3	2.6	3.0	2.3[5]
PPI / Average RWA (%)	2.8	1.0	2.9	3.9	4.5	3.1[6]
Net Income / Tangible Assets (%)	0.5	0.3	1.1	1.0	0.7	0.7[5]
Cost / Income Ratio (%)	34.6	61.6	36.9	29.5	25.6	37.7[5]
Market Funds / Tangible Banking Assets (%)	38.9	34.0	30.3	38.9	46.3	37.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	64.8	64.3	64.1	56.0	58.1	61.5[5]
Gross Loans / Due to Customers (%)	62.5	57.9	56.5	93.5	99.3	73.9[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 RUB2.8 trillion ($39.3 billion) as of 30 June 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 30 June 2020. Among the minority shareholders are Russian institutional investors and international financial institutions such as European Bank for Reconstruction & Devlpmnt. (Aaa stable, 3.6%).

Recent credit developments

Since March 2020, the Russian economy has been facing difficulties because of a sharp decline in oil prices and the pandemic. We forecast the country's GDP to contract by 5.5% in 2020 and return to a slow 2.2% growth in 2021.

The difficult operating environment has resulted in financial hardship for a wide range of banks' borrowers. In particular, small and medium-sized enterprises in the segments of passenger transport, tourism, nonfood retail, cafes, restaurants, hotels and others were affected. Concurrently, individuals employed in the aforementioned sectors also faced financial difficulties. Larger corporates, in general, remain more resilient to the current economic slump; however, they also face a decline in revenue because of weakened domestic and global demand. These factors have led to a deterioration in banks' solvency metrics, in particular, asset quality and profitability, which prompted us to change Russia's banking system outlook to negative from stable.

In response to these pressures, the Russian President, the Government of Russia and the Central Bank of Russia (CBR) introduced a large set of measures to counter the economic effects of the pandemic on the domestic economy and the banking system. The package, inter alia, includes an array of regulatory forbearance measures for banks, which will remain in effect until 30 June 2021.

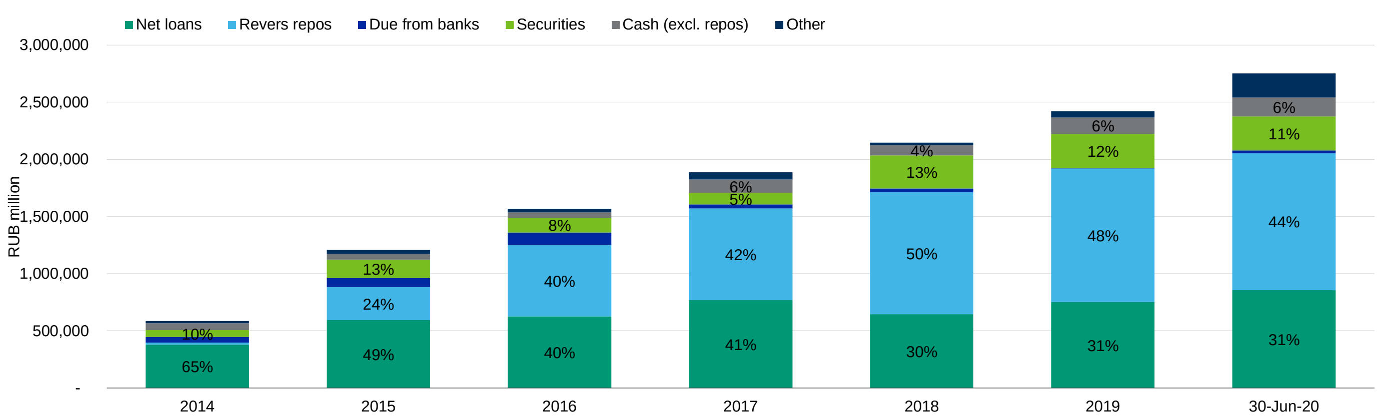
Detailed credit considerations

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 30 June 2020, CBM's reverse repos amounted to 44% of its total assets. These transactions are well structured and secured by high-quality collateral eligible for repo with the 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 a high concentration.

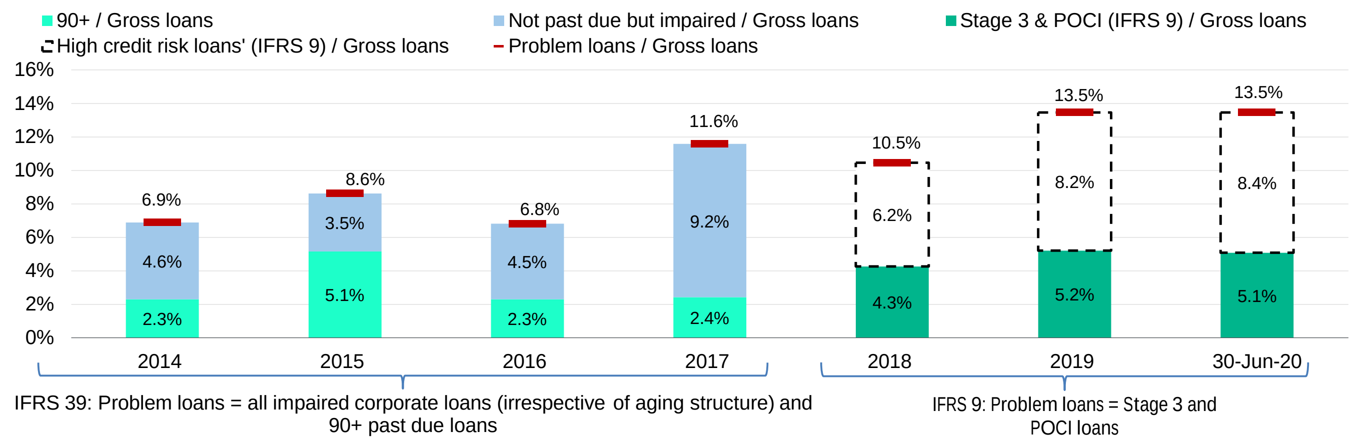
Modest asset quality, further aggravated by high concentrations in the loan book

We assigned an Asset Risk score of b2, which on the one hand reflects the bank's vulnerable loan book quality and downside risks from the economic recession in Russia, and on the other hand material share of low credit risk reverse repos portfolio (44% of total assets at mid-2020).

The bank's net loan book accounted for a modest 31% of total assets as of mid-2020 with problem lending (defined as stage 3 and purchased and originated credit impaired loans) amounting to 5.1% of gross loans and 119% covered by loan-loss reserves (year-end 2019: 5.2% and 103%, respectively). Beyond these problem loans, CBM had exposures to a highly leveraged car dealer, a hotel business, and equity investments in a loss-making pharmacy chain which together amounted to RUB52 billion or 30% of the bank's tangible common equity (TCE) as of mid-2020. Nevertheless we consider these riskier exposures to be moderate and materially reduced relative to their level three years earlier, when we estimated the bank had high-risk assets not treated as overdue or impaired equivalent to 73% of TCE.

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 year-end 2019 (the latest available data), the 10 largest borrowers accounted for 44% of gross loans and 215% of tangible common equity, notably higher than the Russian sector average. Furthermore, in recent years, the bank's business was skewed towards financing oil refining, production and trading, which resulted in a significant industry concentration. In the first six months of 2020, amid the steep drop and high uncertainty in oil prices, exposure to these sectors increased by 20% and their share in gross loans approached 50%. Although the bank focuses on high-quality borrowers, the single-name and industry concentrations in the loan book imply high susceptibility to event risk in case of a large borrower default or a sector-specific adversity.

Good capitalization amid profitable activity and modest business growth

As of 30 June 2020, CBM reported Moody's-adjusted TCE/RWA ratio of 10.2%. A decline from 11.4% as of year-end 2019 was mainly attributable to the inflation of RWA as a result of rouble depreciation. At its current levels, the bank's capital is below that of its similarly rated global peers, and there is the risk of its capital decreasing further because of the recent weakening of the local currency and the bank's suppressed internal capital generation capacity. Moreover CBM's large reverse repo transactions result in relatively high nominal leverage, with a TCE/Total Assets ratio of 6.3% as of mid-2020.

The weakness in CBM's capital position is partially mitigated by the shareholders' commitment to support the bank's capital needs. In Q4 2019, CBM received RUB14.7 billion of equity via secondary public offering (SPO), which strengthened the bank's balance sheet and bolstered up its business growth. Another RUB14.4 billion was contributed to the bank's capital in 2017 via SPO.

In terms of regulatory requirements, CBM continued to report capital adequacy ratios well above the minimum thresholds, with a 9.4% core Tier 1 ratio, a 12.0% Tier 1 capital ratio and a 19.0% total capital adequacy ratio (CAR) as of 1 July 2020. CBM's capital adequacy metrics should be considered in the context of its relatively high distressed and high-credit-risk lending; high nominal leverage, given the material share of the reverse repo transactions; and double leverage at its parent holding company, Concern Rossium, which we estimate at 1.5x as of year-end 2019.

We expect the bank's TCE/RWA ratio will remain broadly flat over the next 12-18 months and assign a Capital score of b3, which is two notches below the historical score and reflects negative adjustment owing to high nominal leverage.

Margin pressure weighs on bottom-line profitability

Over the next 12-18 months, we expect the bank's profitability to face pressure from the difficult operating environment in Russia. The economic recession and reduced business activity will hurt both corporate and retail borrowers' debt service capacity, while repayment reliefs offered to affected customers and lower interest rates will weigh on NIM. In addition, loan-loss provisioning charges, which jumped in H1 2020, will remain high as the economic disruption takes a toll on the bank's asset quality. The assigned Profitability score of b3 reflects the above-mentioned considerations.

CBM reported a net income of RU9.1 billion in H1 2020, more than threefold as much as in the same period a year earlier. 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 RUB7.2 billion, which translates into a return on average assets of 0.5% (full-year 2019: RUB8.1 billion and 0.4%, respectively). All figures and ratios cited below are calculated on the basis of the adjusted data.

The bank's NIM[1] narrowed to 1.9% in 2019 and remained flat in H1 2020. For comparison, it was 2.3% in 2018 and 2.6% in 2017. At these levels, 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 RUB1.2 trillion in H1 2020).

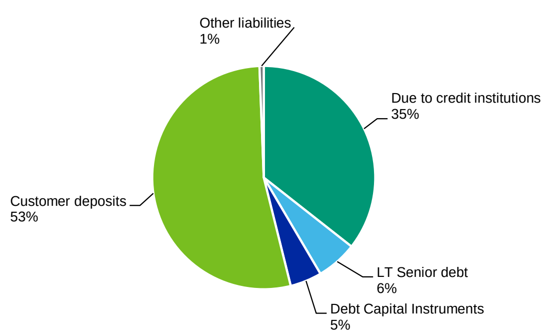
After a temporary increase in 2019, CBM's cost-to-income ratio normalised at 35%. However, the bank's bottom-line profitability was adversely affected by a sharp increase in provisioning charges as indicated by a loan-loss provisions-to-average gross loan ratio of 3.4% in H1 2020 (annualised) versus 1.0% in 2019 and 0.3% in 2018. We expect credit costs to stay high in the next 12-18 months.

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

CBM is largely funded by local deposits; however, their share decreased to 53% of the bank's total liabilities as of 30 June 2020 from 58% as of year-end 2019 and 60% as of year-end 2018. Customer deposits are dominated by corporate deposits (63% of the total amount), which results in a high single-name concentration. As of December 2019 (the latest available data), the 10 largest depositors accounted for 51% of the total customer deposits (2018: 64%). As of the same date, about 45% 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 30 June 2020



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

Concentrated foreign-currency-denominated corporate deposits, as well as interbank deposits (36% of total liabilities as of 30 June 2020, up from 29% as of year-end 2019), are the sources of funding for reverse repo transactions on the asset side. This implies that 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 (65% of assets as of 30 June 2020) for the amount of reverse repos, we estimate the adjusted liquidity ratio to be 37% of the bank's adjusted total assets (year-end 2019: 31%). We expect the bank to maintain sound liquidity and hold ample liquid assets in the next 12-18 months and assign a Liquidity score of ba1.

Environmental, social and governance (ESG) considerations

In line with our general view on the banking sector, CBM has a low exposure to environmental risks and a 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 the elevated risk appetite, in particular high concentrations in the loan book, customer deposits and reverse repos portfolio, the latter of which exceeded 44% of the bank's total assets as of 30 June 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	6.5%	b2	↓↓	b2	Expected trend	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	10.2%	b1	↔	b3	Expected trend	Nominal leverage
Profitability						
Net Income / Tangible Assets	0.5%	b1	↔	b1	Expected trend	
Combined Solvency Score		b1		b2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	34.0%	b2	↑↑	ba2	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	64.3%	baa2	↓↓	ba1	Asset encumbrance	
Combined Liquidity Score		ba2		ba2		
Financial Profile				b1		
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				b1 - b3		
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 As per Moody's Banking Account & Ratio Definitions.

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