

## ACRA UPGRADES CREDIT BANK OF MOSCOW TO A+(RU), OUTLOOK STABLE, UPGRADES BOND ISSUES (RU000A100WC4, RU000A1014H6, RU000A103FP5, RU000A103GW9) TO A+(RU) AND BOND ISSUE (RU000A0ZZE87) TO BB(RU)

**SUREN ASATUROV**

Associate Director, Financial Institutions Ratings Group

+7 (495) 139 04 80, ext. 130  
suren.asaturov@acra-ratings.ru

**MIKHAIL POLUKHIN**

Director, Financial Institutions Ratings Group

+7 (495) 139 03 47  
mikhail.polukhin@acra-ratings.ru

The upgrade of the credit rating of **CREDIT BANK OF MOSCOW** (hereinafter, CBM or the Bank) by one notch to A+(RU) reflects the Bank's improved risk profile on the back of the changed market risk assessment. Moreover, in ACRA's opinion, the continuing growth of the Bank's capitalization also strengthens its sustainability to potential losses stemming from market and credit risks. ACRA has also maintained adequate assessment of the business profile, strong capital adequacy assessment, and adequate funding and liquidity assessment, taking into account the absence of significant negative dynamics in the financial condition of the Bank over the last 18 months, a period of heightened operational environment risks.

ACRA has also upgraded the bonds (RU000A100WC4, RU000A1014H6, RU000A103FP5, RU000A103GW9), which are senior unsecured debt instruments issued by the Bank, to A+(RU) and the bond (RU000A0ZZE87), which is a Tier-1 capital instrument, to BB(RU).

CBM is a large financial institution ranking seventh in terms of assets and capital in Russia. The Bank is controlled by OOO "Concern "ROSSIUM" (55%), the sole owner of which is Roman Avdeev. Approximately 21% of the Bank's stocks are in free float, and due to this CBM is classed as a public entity. The remaining shares are distributed between the European Bank for Reconstruction and Development (approximately 3%) and Russian institutional investors, including the companies of Region Group.

### 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. In ACRA's opinion, the Bank's development 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. The Bank's investment prospects will also be backed by its status as an ESG-responsible market participant, which recently became one of the Bank's strategic priorities.

At the same time, the CBM business profile leads to a high concentration of its operations. In particular, along with low single-name diversification among certain borrowers, the loan book is also materially focused on the oil and gas sector (direct and indirect exposures were around 35–45% of the total lending as of mid-2021). In addition, 40–45% of CBM's balance sheet is

usually reverse repo transactions, and ACRA expects this ratio to be retained over the next 12 months.

**The strong capitalization and profitability assessment** is based on the Bank's relatively comfortable and growing Tier 1 capital adequacy ratio as per Basel standards (14.8% as of mid-2021 against 12.6% as of end-September 2020) and as per domestic regulation (N1.2 was 12% as of mid-2021 against 11.3% as of end-September 2020). These improvements reflect external capital injections of RUB 23 bln and USD 350 mln made by the Bank's shareholders in May and October 2021, respectively. Moreover, stable profitability demonstrated by the Bank even under the pressure of a hard operational environment is a notable rating strength and determines its averaged capital generation ratio (ACGR) for the last five full years at 135 bps (adjusted for the one-off gains). Under base case scenario, ACRA does not expect a radical change in the capitalization and abovementioned metrics over the next 12–18 months.

**The factor that lead to the upgraded by one notch risk profile** is the changed market risk estimation reflected in the Bank's IFRS financial statements, and a concurrent increase in capitalization, which also contributes to a decrease in the CBM sensitivity to market volatility. In particular, the Bank has changed its market risk evaluation methodology, taking into account approaches introduced by Basel III and the regulations of the Bank of Russia. As a result, the market risk exposure as per the Basel capital adequacy ratios amounted to 54% of Tier 1 capital as of mid-2021. The Bank's stable financial performance also demonstrates its ability to absorb losses associated with market risk.

The volume of potentially problem loans, according to ACRA's calculations, is around 7% of the gross loan book, and it has been showing a positive trend over the past 24 months. The focus on large business helped the Bank to overcome the crisis of 2020 with relatively manageable credit losses, which amounted to around 2% of the average portfolio for the year. In H1 2021, there were no significant credit expenditures.

Nonetheless, the high concentration of assets on certain counterparties and sectors of the economy continues to constrain the risk profile assessment. Moreover, relatively high appetites of the Bank to loan book expansion might push credit risks up in the next 12–18 months and cause a negative rating action.

**The adequate funding and liquidity position.** The Bank's funding structure is primarily made up of funds from corporations and individuals (around 40% and 20%, respectively, as of mid-2021), as well as repo operations (around 30% as of the same date). According to the Agency's forecast, this structure of liabilities will not change significantly in the 12–18-month horizon.

ACRA's base case scenario for the next 12–18 months assumes that CBM will retain its comfortable liquidity cushion regardless the increasing volume of loans. As of mid-2021, liquid assets accounted for around 62% of the Bank's balance sheet; net of short-term interbank and wholesale funding, liquid assets cover approximately 61% of client funds and 85% of account balances with maturities of up to a year.

**Significance for 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 capital or liquidity state support in the event of urgent need. 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 in CBM's operations may cause problems in the financial sector. As of the start of September 2021, the volume of the population's funds held by the Bank accounted for around 1.4% of all funds of individuals in the system. In addition, the Bank is actively engaged in servicing strategically important companies, mainly from the oil and gas industry, which backs up the Agency's opinion on the strategic importance of CBM.

## KEY ASSUMPTIONS

- Maintaining the current business model, market positions, and systemic importance over the next 12 to 18 months.

## POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will most 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;
- Further improvement of asset quality.

### A negative rating action may be prompted by:

- Significant deterioration of capital adequacy indicators due to faster growth in lending than assumed by the base case scenario or due to more significant credit losses;
- Signs of growing Bank's exposure to market risks;
- The volume of loans granted to construction and real estate companies exceeding Tier 1 capital;
- Weaker partnerships with core clients;
- Signs of weaker market positions and/or reduced strategic importance for the financial sector;
- Introduction of new regulatory ratios limiting the balance sheet concentration.

## RATING COMPONENTS

SCA: a-.

Adjustments: **SCA + 2**.

## ISSUE RATINGS

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

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

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

CREDIT BANK OF MOSCOW, exchange-traded interest-bearing certified bearer bond, series 001R-01 (RU000A100WC4), maturity date: September 30, 2022, issue volume: RUB 5 bln — **A+(RU)**;

CREDIT BANK OF MOSCOW, exchange-traded interest-bearing certified bearer bond, series 001R-02 (RU000A1014H6), maturity date: November 30, 2021, issue volume: RUB 7 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 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 Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit rating assigned to CREDIT BANK OF MOSCOW was published by ACRA for the first time on June 15, 2017. The credit rating assigned to the bond issue ISIN RU000A0ZZE87 was published by ACRA for the first time on July 24, 2018; to ISIN RU000A100WC4 — on October 3, 2019, to ISIN RU000A100WC4 — on December 2, 2019, ISIN RU000A103FP5 — July 26, 2021, and to ISIN RU000A103GW9 — August 17, 2021. 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, RU000A100WC4, RU000A1014H6, 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 the data provided by CREDIT BANK OF MOSCOW, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS 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 was, 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 identified in the course of credit rating assignment.

(C) 2021

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)  
75, Sadovnicheskaya embankment, Moscow, Russia  
[www.acra-ratings.ru](http://www.acra-ratings.ru)

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.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – [www.acra-ratings.com/criteria](http://www.acra-ratings.com/criteria).

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – [www.acra-ratings.ru](http://www.acra-ratings.ru). Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.