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Ratings

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CREDIT BANK OF MOSCOW

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CREDIT BANK OF MOSCOW

SACP	b+	+	Support	+1	+	Additional Factors	0

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

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

Issuer Credit Rating
BB-/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• Good earnings generation capacity. • Moderate systemic importance for the Russian banking sector.	• Still-challenging operating environment in Russia. • Potential further pressure on asset-quality indicators due to quite high loan book concentrations. • Possible volatility of the funding base due to concentrated deposit structure.

Outlook: Stable

S&P Global Ratings' stable outlook on the CREDIT BANK OF MOSCOW (CBoM) reflects our view that, in the next 12 months, the bank will be able to withstand the challenging operating environment in Russia while maintaining adequate capitalization with a risk-adjusted capital (RAC) ratio above 8%.

We could take a negative rating action if we saw increased volatility in customer deposits, posing a risk to CBoM'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 asset-quality deterioration substantially higher than we currently expect.

A positive rating action on CBoM is remote at this stage, 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 Concern Rossium, CBoM's nonoperating holding company (NOHC), mirrors that on CBoM. The ratings on Rossium are three notches lower than on CBoM. We expect that they will move in tandem with those on CBoM, assuming double leverage does not increase substantially above the current levels and the dividend policy maintains adequate capitalization for the bank. All else being equal, we would maintain the three-notch difference between our long-term rating on Rossium and that on CBoM.

Rationale

The ratings on CBoM 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 reflects 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 CBoM as a core entity of its nonoperating holding company Rossium. There is a two-notch difference between our long-term rating on Rossium and our 'b+' assessment of the consolidated group credit profile, which is on par with CBoM'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 in our ratings on CBoM 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 CBoM reflecting the moderate likelihood of extraordinary support from the government if the bank were to experience financial difficulties.

Anchor:'bb-' for a commercial bank operating only in Russia

Our bank criteria use our Banking Industry Country Risk Assessment's 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 '8'.

Economic risks, although decelerating, are still higher for Russian banks than for peers in large emerging markets such as China, Brazil, and India. We expect that the Russian economy will continue expanding on average by around 1.8% in 2018-2021 on the back of improved oil prices and gradually increasing consumption. At the same time, the economy is likely to remain constrained by ongoing structural impediments such as negative demographic trends and low productivity, a weak business environment, geopolitical tensions, and sanctions. We expect new lending growth to improve to 12%-15% in 2018, thus supporting the improvement in the banking sector's profitability. However, in our opinion, the increased credit demand is to a large extent due to significant delayed lending demand from corporate and retail clients; thus new lending growth will likely moderate toward the end of 2018 and in 2019. We expect credit costs will remain relatively high at 2.0%-2.3% over the next two years.

Industry risks are also high but diminishing to some extent, due to improving profitability and funding profiles. In our opinion, access to external capital markets will remain restricted by economic sanctions and deteriorated investor confidence. This, however, is to some extent mitigated by a solid corporate and retail deposit funding base that provides more than 70% of the sector's total funding. Therefore, in our view, limited access to external capital markets will make deposit stability crucial for the stability of the funding base of the sector. The dominance of state-related banks in the Russian banking sector has traditionally distorted competition and weighed on private sector banks' creditworthiness. We anticipate that these banks will retain their dominant position in the near term, giving them the benefit of direct and indirect government support.

The banking sector has received significant government support in the form of capital, funding, and liquidity during stress periods. We anticipate that, over the coming years, government support will likely be available predominantly for large state-related banks and systemically important private banks.

Table 1

CREDIT BANK OF MOSCOW -- Key Figures					
	--Year ended Dec. 31--				
(Mil. RUB)	**2018***	**2017**	**2016**	**2015**	**2014**
Adjusted assets	1,948,419	1,887,707	1,567,655	1,207,846	584,396
Customer loans (gross)	703,538	818,816	666,738	629,939	394,191
Adjusted common equity	139,807	136,391	102,636	91,764	60,822
Operating revenues	47,510	62,644	59,657	39,934	28,858
Noninterest expenses	14,191	17,376	14,776	10,514	9,578
Core earnings	17,845	19,842	10,874	1,509	5,569

*Year to date Sept. 30. RUB--Russian rubles.

Business position: The bank has an established market share and sustainable earnings generation

Our assessment of CBoM'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.

With total assets of Russian rubles (RUB) 1.9 trillion (around $30 billion) CBoM is the seventh-largest bank and second-largest private bank in Russia by assets. CBoM provides services to both retail and corporate clients, with corporate lending accounting for about 86% of total lending as of Sept. 30, 2018. The bank focuses its operations on Moscow and the Moscow region, which are relatively developed and wealthy regions, together constituting about 25% of Russian GDP.

Over the past five years, CBoM demonstrated a resilient business model, with operating revenues consistently growing. This is due, among other things, to a strategic focus on the Moscow region, a relatively high share of commission income in the revenue mix, and leading positions in the region in terms of cash collection. We expect that in 2019-2020 CBoM will continue to demonstrate resilient operating revenues compared with peers.

Currently, the bank's majority owner, Russian businessman Roman Avdeev, holds a 55.7% stake in the bank via the holding company Rossium. Apart from Mr. Avdeev, institutional investors own 21.3%, the European Bank for Reconstruction and Development has 4.0%, while other investors hold 19.0%.

Table 2

CREDIT BANK OF MOSCOW -- Business Position

	--Year ended Dec. 31--				
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (mil. RUB)	44,923	63,720	59,657	39,934	28,858
Commercial banking/total revenues from business line	47.7	62.4	60.9	73.6	37.8
Retail banking/total revenues from business line	18.2	17.9	25.0	11.8	48.6
Commercial & retail banking/total revenues from business line	67.0	80.2	85.9	85.5	86.5
Trading and sales income/total revenues from business line	27.6	12.1	6.6	10.0	7.6
Other revenues/total revenues from business line	6.9	7.7	7.5	4.5	6.0
Investment banking/total revenues from business line	27.6	12.1	6.6	10.0	7.6
Return on average common equity	17.8	17.2	11.1	2.0	10.1

*Year to date Sept. 30. RUB--Russian ruble.

Capital and earnings: Improved capitalization and good earnings generation capacity

CBoM displayed good earnings generation capacity through the cycle and had a zero dividend policy in 2016-2017. Its capital position strengthened following the issuance of $700 million of perpetual subordinated debt in the form of loan participation notes (LPN) issued via its financing vehicle, CBoM Finance PLC. We consider that these perpetual subordinated notes have intermediate equity content, and fully include them in our calculation of our total adjusted capital for the purpose of our risk-adjusted capital (RAC) ratio calculation. We forecast the RAC ratio, according to our definition, to be within 8.7%-8.9% over the next 12-18 months. In our base case, we do not include any additional capital injections over the next two years. This is because CBoM has sufficient capital buffers. At the same time, we understand that the shareholders are ready and capable to provide Tier 1 capital for the bank, if needed.

CBoM's net interest margin (NIM) decreased to about 2.7% in the first nine months of 2018, from a five-year average of above 3.5%, due to higher liquid assets on the bank's balance sheet. We believe the bank will continue demonstrating resilient profits in 2019-2020 as the situation in the banking sector somewhat stabilizes. Still, the bank will maintain its NIM at about 2.9%-3.0% in 2019-2020, pressured by overall lower market rates and a high share of low-income cash equivalents and interbank placements in its earning assets.

Table 3

CREDIT BANK OF MOSCOW -- Capital And Earnings					
	--Year ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	15.1	15.0	9.4	9.2	10.5
S&P Global Ratings' RAC ratio before diversification	N/A	9.4	5.4	N/A	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	8.6	4.9	N/A	N/A
Adjusted common equity/total adjusted capital	75.5	77.2	100.0	100.0	100.0
Net interest income/operating revenues	82.6	72.3	67.6	73.3	89.7
Fee income/operating revenues	20.1	20.0	18.7	19.2	25.3
Noninterest expenses/operating revenues	32.0	27.7	24.8	26.3	33.2
Preprovision operating income/average assets	2.1	2.6	3.2	3.3	3.7
Core earnings/average managed assets	1.2	1.1	0.8	0.2	1.1

*Year to date Sept. 30. RAC--Risk-adjusted capital. N/A--Not applicable. RUB--Russian rubles.

Table 4

CREDIT BANK OF MOSCOW RACF [Risk-Adjusted Capital Framework] Data					
(Mil. RUB)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government and central banks	166,045	0	0	30,537	18
Of which regional governments and local authorities	1,876	0	0	1,720	92
Institutions and CCPs	846,401	0	0	154,552	18
Corporate	832,910	0	0	1,372,215	165
Retail	82,123	0	0	123,724	151
Of which mortgage	19,046	0	0	17,616	92
Securitization§	0	0	0	0	0
Other assets†	40,161	0	0	79,775	199
Total credit risk	1,967,641	0	0	1,760,803	89
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	120	0	0	1,350	1,125
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	1,350	--
Operational risk					
Total operational risk	--	0	--	117,458	--

Table 4

CREDIT BANK OF MOSCOW RACF [Risk-Adjusted Capital Framework] Data (cont.)

(Mil. RUB)	Basel III RWA		S&P Global RWA	% of S&P Global RWA
Diversification adjustments				
RWA before diversification	0		1,879,610	100
Total Diversification/Concentration Adjustments	--		182,659	10
RWA after diversification	0		2,062,269	110
(Mil. RUB)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	176,129	0.0	176,711	9.4
Capital ratio after adjustments‡	176,129	0.0	176,711	8.6

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.RUB--Russian Ruble. Sources: Company data as of Dec. 31, 2017, S&P Global.

Risk position: Moderate risk due to rapid growth in previous years and single-name loan concentrations

CBoM's risk position reflects its susceptibility to credit risks emerging from single-name concentrations in its loan book. We expect concentration risk to remain high and above the market average for banks in Russia, due to only modest loan portfolio growth expected over the next two years.

In our view, the bank has proved to be rather resilient to the turbulent market environment. As a result of the adoption of IFRS 9, additional provisions had around a RUB8 billion negative impact on CBoM's capital, which we incorporate in our analysis. We note the bank has a high amount of Stage 3 loans (about 8% of loan book as of Sept. 30, 2018) under IFRS 9. We believe that CBoM's corporate borrowers on average have riskier financial profiles than borrowers at larger banks. Still, we anticipate that Stage 3 loans are likely to remain at this level following the restructuring in 2015-2017, and we expect the bank to maintain the quality of its loan book at current levels over the next two years.

We view CBoM as exposed to foreign currency risk, since about 37% of its loan portfolio was denominated in U.S. dollars and other foreign currencies as of Dec. 31, 2017. At the same time, FX loans are granted to companies, generating foreign currency revenues. As of end-2017, the open foreign currency position was high at 32% of total equity, compared to 2.6% in 2016, but this sizable open position is because perpetual debt issued in dollars in May 2017 is reflected in equity.

Table 5

CREDIT BANK OF MOSCOW -- Risk Position

	--Year ended Dec. 31--				
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	(18.8)	22.8	5.8	59.8	24.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	9.7	8.9	N/A	N/A
Total managed assets/adjusted common equity (x)	13.9	13.8	15.3	13.2	9.6

Table 5

CREDIT BANK OF MOSCOW -- Risk Position (cont.)

	--Year ended Dec. 31--				
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
New loan loss provisions/average customer loans	1.7	2.5	4.7	5.3	3.3
Net charge-offs/average customer loans	1.1	1.2	4.1	1.0	1.2
Gross nonperforming assets/customer loans + other real estate owned§	6.8	2.4	2.3	5.1	4.3
Loan loss reserves/gross nonperforming assets	88.8	52.9	68.3	84.1	96.3

*Year to date Sept. 30. RWA--Risk-weighted assets. §Gross nonperforming assets include Stage 3 loans in calculation as of Sept. 30, 2018. N/A--Not applicable.

Funding and liquidity: Deposit concentration is one of the key concerns

We assess CBoM's funding as average and its liquidity as adequate. We believe that the bank has a solid corporate deposit franchise. However, we see a potential risk of volatility in the funding base, especially due to persistent single-name concentrations over the past two years.

We consider this concentration makes the bank vulnerable to potential large withdrawals. However, these large deposits have been relatively stable with no unexpected withdrawals made, and we expect them to remain reasonably stable. Adding to funding stability were two long-term corporate deposits amounting to RUB22 billion placed in the bank in October 2017, which the Central Bank of Russia accepted as subordinated instruments. We also consider CBoM's recent $700 million perpetual bonds issue to be positive for the stability of the bank's funding base.

Due to the mostly short-term nature of CBoM's loan book, the bank displays positive liquidity gaps within a one-year period. The funding maturity structure is quite balanced, in our view, with short-term wholesale funding almost 1.5x covered by broad liquid assets as of mid-2018.

Table 6

CREDIT BANK OF MOSCOW -- Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	62.1	51.6	46.1	79.1	64.5
Customer loans (net)/customer deposits	60.9	87.8	93.3	67.6	112.9
Long-term funding ratio	70.4	62.7	60.0	93.1	87.0
Stable funding ratio	149.8	123.5	113.9	132.8	117.0
Short-term wholesale funding/funding base	32.8	41.2	42.8	7.5	14.5
Broad liquid assets/short-term wholesale funding (x)	1.8	1.3	1.2	4.4	2.1
Net broad liquid assets/short-term customer deposits	50.3	26.1	19.9	34.5	29.5
Short-term wholesale funding/total wholesale funding	80.9	81.1	79.5	35.8	40.7
Narrow liquid assets/3-month wholesale funding (x)	1.7	1.3	1.0	8.6	3.1

*Year to date Sept. 30. RUB--Russian rubles.

External Support: Moderate systemic importance offers one notch of support to the rating

CBoM's market shares in total loans and retail deposits have consistently been about 2% that is somewhat significant 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. In September 2017, the Central Bank included CBoM on its list of systemically important banks. We therefore incorporate one notch of uplift in the final rating on CBoM.

Additional rating factors: Rossium, the NOHC

We classify Rossium as a NOHC because it does not perform any operating activity and serves solely as a holding company. We think this will continue to be the case. Therefore, we rate it two notches below the unsupported group credit profile and three notches below the long-term rating on CBoM. This is because we believe it unlikely that Rossium would receive any extraordinary government support in case of need. We view CBoM as a core entity of Rossium because it is the main entity of the group in terms of asset size and profitability.

Over 2015-2017, Rossium substantially expanded its investments in other financial institutions and real estate development projects (about RUB64 billion in total invested assets) financed through RUB30 billion of debt and additional capital injection of RUB26.3 billion in September 2017. This allowed Rossium to have a diversified portfolio of liquid assets. We note that the double leverage ratio was at 151% end-2017, a decline from above 160% at end-2016.

Apart from CBoM, Rossium's investments include:

- SOVA Capital Ltd. (former Otkritie Capital International Ltd.), acquired in December 2017, a U.K.-based international broker. At the time of the acquisition, Rossium's investment amounted to RUB18.9 billion. Rossium sees SOVA's business as complementary to CBoM's banking business and seeks opportunities to gain synergies from this acquisition by providing access for its local large corporate customers to international markets through the broker licensed in the U.K. Taking into account SOVA's historically good profitability, Rossium is also seeking to upstream relatively high dividends. However, given that the company was acquired only recently, integration within the group is yet to be seen.
- Pension business, represented by the following pension funds with total pension savings of RUB180 billion. As of Sept. 30, 2018, unified non-state pension fund AO NPF Neftegarant (57% owned by Rossium) ranked among the top 10 in Russia by pension savings and reserves as well as client numbers. Rossium also owns 100% non-state pension fund Soglasie. The total amount of investments in the pension business comprised RUB9.5 billion as of year-end 2017.
- INGRAD, a large Russian development group specialized in residential real estate in Moscow and the Moscow region with total assets of RUB84 billion at the end of 2017 and a total development area of 2.8 million square meters. Currently, the group is developing 15 projects, mainly comprised of large-scale residential blocks. With a total invested amount of RUB34 billion and end-2017, Rossium has a controlling stake in the group.
- DIREKT NEFT, an oil and gas sector company that carries out hydrocarbon prospecting and exploration at the Domanik oil field in the Orenburg region of the Russian Federation, with confirmed original oil in place of about 200 million tons. Rossium holds a 72.5% stake in this project, with total invested assets of RUB11.9 billion at end-2017, while the minority shareholder executes its operational management.

Following the recent SOVA acquisition, CBoM's place in Rossium's investment portfolio has continued to dilute. It now accounts for about 47% of Rossium's capital investments. However, we do not expect it will fall further over the next 12 months absent further acquisitions. At the same time, on a consolidated basis, CBoM is the key part of the holding, comprising 88% of its assets at end-2017, and is the main contributor in terms of earnings. In our base case, we do not expect that CBoM will finance Rossium's new projects, and thus we have not negatively reassessed the group's financial profile. We expect that funding for these projects will be provided via Rossium's retained earnings, new debt issues, or in case of need by the final beneficiary, Mr. Avdeev.

Related Criteria

- 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: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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 December 19, 2018)

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

Ratings Detail (As Of December 19, 2018) (cont.)		
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.

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