

RatingsDirect®

Credit Bank of Moscow

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Table Of Contents

Major Rating Factors

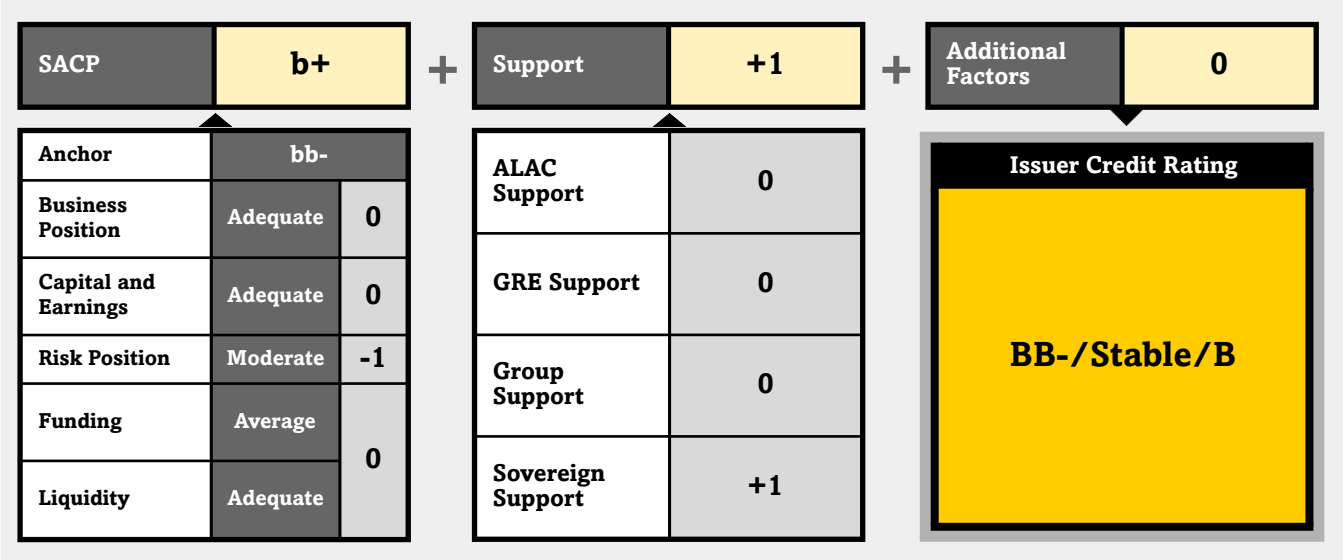
Outlook

Rationale

Related Criteria

Related Research

Credit Bank of Moscow



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> Established franchise in Moscow and Moscow region supports the bank's sound business position. Good earnings capacity. Moderate systemic importance for the Russian banking sector. 	<ul style="list-style-type: none"> Challenging operating environment in Russia. 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 (CBoM) reflects our view that, in the next 12-18 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 unlikely in the next 12 months, 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 LLC, CBoM's nonoperating holding company (NOHC), mirrors that on CBoM, and we don't currently factor any material potential changes in the group's structure and/or investments profile in our assessment (see 'Rossium's New Managing Partner May Lead To Merger Talks But No Expected Strategic Shifts For The Holdco Or CBoM For Now', published on Oct. 1, 2019, on RatingsDirect). The ratings on Rossium are three notches lower than that on CBoM. We expect the ratings will move in tandem with those on CBoM, assuming double leverage does not increase substantially above current levels and CBoM's dividend policy maintains adequate capitalization for the bank. All else being equal, we would likely 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.

Table 1

Credit Bank of Moscow--Key Figures					
(Mil. RUB)	2019*	2018	2017	2016	2015
Adjusted assets	2,117,605	2,145,510	1,887,707	1,567,655	1,207,846
Customer loans (gross)	705,182	740,131	818,816	666,738	629,939
Adjusted common equity	146,268	142,920	136,391	102,636	91,764
Operating revenues	16,960	66,491	62,644	59,657	39,934
Noninterest expenses	11,601	20,743	17,376	14,776	10,514

Table 1

Credit Bank of Moscow--Key Figures (cont.)					
(Mil. RUB)	2019*	2018	2017	2016	2015
Core earnings	2,161	26,738	19,842	10,874	1,509

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

Anchor:'bb-' for a 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'.

Economic risks are higher for Russian banks than for peers in large emerging markets such as China, Brazil, and India. We expect economic growth of 1.3% in 2019, before rebounding to average 1.8% in 2020-2022 thanks to higher public investments and expected monetary easing. However, Russia's growth prospects remain weaker than rated sovereigns with similar income levels. We believe that the economic environment will remain challenging for Russian banks over the next two years. The economy still relies heavily on commodities and lacks the structural reforms that would improve the efficiency of its nonexport sectors. It is also vulnerable to potential external shocks that might affect growth.

We expect lending growth of 10%-12% in 2019, on the back of strong growth in retail lending of about 20% in 2019. The dynamic increase in retail loans is something we monitor carefully given the generally modest repayment capacities of many Russian households. In our view, new lending growth will likely moderate in 2020. A pick-up in new lending will continue strengthening the banking sector's profitability, to some extent compensating for the burden of significant accumulated problem and restructured loans that continues to pressure the profitability and capitalization of many Russian banks.

Industry risks are improving, especially for leading banks, but remain rather high in a global context. Although access to external funding remains limited because of the economic sanctions imposed on several large banks and corporates, we believe that banking sector funding stability in Russia has recently improved, supported by stable and growing domestic deposits over the past three years. Positively the sector's external funding needs are small and diminishing. Deposit base has been stable at large banks. However, the situation is more nuanced at small banks, which still largely display a confidence-sensitive funding profile. The central bank's liquidity support is available for banks in case of need, and the efficiency of the liquidity support tools and mechanisms has been successfully tested 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.

Business position: One of the largest market players in Russia

Our assessment of CBoM's business position reflects the bank's sustainable market share among the top-10 banks in Russia, and its 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) 2.1 trillion (about \$30 billion) at June 30, 2019, under International Financial Reporting Standards (IFRS), CBoM is the second-largest private bank in Russia by asset. CBoM provides services to both retail and corporate clients, with corporate lending accounting for about 76% of total lending as of June 30, 2019. 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.

Currently, the bank's majority owner, Russian businessman Roman Avdeev, holds a 56.1% stake in the bank via the holding company Concern Rossium LLC (B-/Stable/B). In addition to Mr. Avdeev, institutional investors own 22.3%, the European Bank for Reconstruction and Development owns 4.0%, while other investors hold 17.6%. In our base-case scenario, we don't factor any material potential changes in the Rossium's structure and/or investments profile, or any strategic shifts for the bank.

Table 2

Credit Bank of Moscow--Business Position					
(Mil. RUB)	2019*	2018	2017	2016	2015
Retail banking/total revenues from business line	47.39	18.47	17.86	24.99	11.84
Other revenues/total revenues from business line	15.97	8.23	7.72	7.53	4.53
Return on average common equity	2.96	19.32	17.20	11.11	1.98

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

Capital and earnings: Steady capital strengthening despite margin pressure

Over the past five years, CBoM has demonstrated a resilient business model. This is due to, among other things, 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. We expect that, in 2019-2021, CBoM will continue to demonstrate resilient operating results. At the same time, in first-half 2019 the bank's net profit fell to Russian ruble (RUB) 2.1 billion compared with RUB11 billion for the same period of 2018, due to a significant one-off additional provision on one large corporate borrower in oil and refinery sector (total created provision on this borrower now exceeds 80% of outstanding amount), stemming largely from high-concentration risk. Additionally, financial performance in the first-half of 2019 was materially impacted by RUB7.8 billion of net foreign-exchange losses, dominated by revaluation of U.S. dollar-denominated perpetual debt, which is treated as part of the bank's equity.

CBoM's net interest margin (NIM) decreased to about 1.9% in the first-half 2019 from 2.5%-3.0% in the last three years, due to increased funding costs and a still-high share of liquid assets on the bank's balance sheet. That said, we expect the bank will somewhat recover its NIM as its loans reprice, but it will remain low at about 2.2%-2.4% over the next 18 months. 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					
(Mil. RUB)	2019*	2018	2017	2016	2015
Tier 1 capital ratio	13.6	14.1	15.0	9.4	9.2
S&P Global Ratings' RAC ratio before diversification	N/A	8.3	9.4	5.4	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	6.6	8.6	4.9	N/A
Adjusted common equity/total adjusted capital	77.5	75.4	77.2	100.0	100.0
Net interest income/operating revenues	112.2	72.8	72.3	67.6	73.3
Fee income/operating revenues	33.0	18.6	20.0	18.7	19.2
Noninterest expenses/operating revenues	68.4	31.2	27.7	24.8	26.3

* Year-to-date June 30- RUB--Russian ruble. N/A--Not available.

Table 4

Credit Bank of Moscow RACF [Risk-Adjusted Capital Framework] Data			
(Mil. RUB)	Exposure*	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk			
Government & central banks	186,410	50,276	27
Of which regional governments and local authorities	1,432	971	68
Institutions and CCPs	1,107,753	250,932	23
Corporate	895,050	1,617,858	181
Retail	90,143	136,589	152
Of which mortgage	19,899	18,405	92
Securitization§	--	--	--
Other assets†	33,637	81,818	243
Total credit risk	2,312,992	2,137,473	92
Credit valuation adjustment			
Total credit valuation adjustment	--	--	--
Market Risk			
Equity in the banking book	2,395	26,944	1,125
Trading book market risk	--	--	--
Total market risk	--	26,944	--
Operational risk			
Total operational risk	--	117,458	--
	Exposure	S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
Diversification adjustments			
RWA before diversification	--	2,281,874	100
Total Diversification/ Concentration Adjustments	--	603,020	26
RWA after diversification	--	2,884,895	126

Table 4

Credit Bank of Moscow RACF [Risk-Adjusted Capital Framework] Data (cont.)		
	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
Capital ratio		
Capital ratio before adjustments	189,611	8.3
Capital ratio after adjustments‡	189,611	6.6

*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). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. RUB -- Russian Ruble. Sources: Company data as of 'Dec. 31 2018', S&P Global Ratings.

Risk position: Controlled credit costs and asset quality

CBoM's risk position reflects its susceptibility to credit risks emerging from single-name concentrations in its loan book. The 10-largest borrowers accounted for about 45% of gross loans at end-2018, which is materially higher than the sector-average. We note that some the bank's large borrowers have riskier financial profiles than we observe in larger banks. We expect concentration risk, including significant repurchasing transactions will 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 in terms of credit losses and asset quality. Following resolution of some large restructured assets, the bank's loans overdue more than 90 days stood at about 3.9% of gross loans at June 30, 2019, versus 1.6% at end-2018. Credit costs remained low at 0.7% in 2018 and 0.7% (annualized) in first-half 2019. We anticipate that problem loans will likely remain at the current level, while credit losses will be at about 1.3% of gross loans, because we expect the bank will maintain its focus on high quality borrowers over the next two years.

Table 5

Credit Bank of Moscow--Risk Position					
(Mil. RUB)	2019*	2018	2017	2016	2015
Growth in customer loans	(9.4)	(9.6)	22.8	5.8	59.8
New loan loss provisions/average customer loans	0.7	1.4	2.5	4.7	5.3
Net charge-offs/average customer loans	0.6	2.0	1.2	4.1	1.0
Gross nonperforming assets/customer loans + other real estate owned	5.3	3.9	11.6	8.8	7.0
Loan loss reserves/gross nonperforming assets	102.6	107.6	52.9	68.3	84.1

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

Funding and liquidity: Concentrated but remains stable

We believe high concentration on the bank's balance makes the bank vulnerable to large withdrawals on the funding side. However, large deposits have been relatively stable, with no unexpected withdrawals made, and we expect they will remain reasonably stable in our base-case expectations.

In first-half 2019 the bank issued \$0.5 billion and €0.5 billion of bonds, while total debt securities in issue (including subordinated bonds) still represent relatively moderate 8% of CBoM's total liabilities as of June 30, 2019. 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.

Table 6

Credit Bank of Moscow--Funding And Liquidity					
(Mil. RUB)	2019*	2018	2017	2016	2015
Core deposits/funding base	60.70	62.09	51.58	46.12	79.09
Customer loans (net)/customer deposits	57.39	59.16	87.77	93.34	67.64
Long-term funding ratio	73.33	72.33	62.69	60.01	93.10
Stable funding ratio	165.23	157.61	123.53	113.86	132.77
Short-term wholesale funding/funding base	29.31	30.41	41.20	42.82	7.48
Broad liquid assets/short-term wholesale funding (x)	2.12	2.01	1.28	1.20	4.45
Net broad liquid assets/short-term customer deposits	62.40	56.93	26.08	19.89	34.47
Short-term wholesale funding/total wholesale funding	70.60	75.39	81.12	79.47	35.77

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

Support: One notch of support for systemic importance

CBoM's market shares retail deposits have consistently been about 1.5%, which 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. We therefore incorporate one notch of uplift in the final rating on CBoM.

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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Rossium's New Managing Partner May Lead To Merger Talks But No Expected Strategic Shifts For The Holdco Or CBoM For Now, Oct. 1, 2019
- Russia's Banking Industry Country Risk: More Stable Funding Profile Favors Larger Banks, Oct. 1, 2019

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 October 14, 2019)*

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.

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