March 4, 2021

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ACRA affirms A(RU) to CREDIT BANK OF MOSCOW, outlook Stable, A(RU) to bond issues (RU000A100WC4, RU000A1014H6), and BB-(RU) to bond issue (RU000A0ZZE87)

The affirmation of the credit rating and outlook of CREDIT BANK OF MOSCOW (hereinafter, CBM or the Bank) reflects, on the one hand, the Agency's opinion on the improvement of the funding and liquidity assessment to adequate due to the confirmed stability of the Bank's funding base, and on the other hand, the deterioration of the risk profile assessment in light of CBM's increased sensitivity to market risk amid a continued uncertain operating environment. ACRA also maintains its adequate assessment of the business profile in the expectation that the Bank will retain its solid competitive positions in the sector, and the strong assessment of capitalization and profitability, as we do not foresee any major changes to capital adequacy over the next 12 months.

ACRA has also affirmed A(RU) to senior unsecured debt issued by the Bank — bonds RU000A100WC4 and RU000A1014H6 — and BB-(RU) to its fixed capital instrument — bond RU000A0ZZE87.

CBM is a large financial institution ranking seventh in terms of assets and capital in Russia. The Bank is controlled by OOO "Concern "ROSSIUM" (56%), which is beneficially owned by Roman Avdeev. Approximately 20% of the Bank's stocks are in free float, and due to this CBM is classed as a public organization. The remaining shares are mainly distributed between the European Bank for Reconstruction and Development (approximately 4%) and Russian institutional investors, including the companies of Region Group.

Key rating 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.

At the same time, the business profile leads to a high concentration of operating activities. In particular, besides low single-name diversification among individual borrowers, the loan portfolio is also characterized by a pronounced focus on the oil and gas sector (around half of the total lending volume). In addition, 40–50% of CBM's balance sheet is usually made up of reverse repo operations, 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 Tier 1 capital adequacy ratio as per Basel standards (12.6% as of the end of September 2020) and domestic regulation (N1.2 was 11.5% as of the start of 2021). Stable recurring profitability allows the Bank to maintain an averaged capital generation ratio (ACGR) of more than 110 bps. Under its base case forecast, ACRA does not expect a radical change in capitalization and the abovementioned metrics over the 12-month horizon.

The decreased risk profile assessment reflects ACRA's view that CBM is more exposed to market risks due to a higher volume of trading securities on the balance sheet in 2020. As a result, the corresponding volume of market risk in the calculation of Basel capital adequacy ratios almost approached 200% of Tier 1 capital as of the end of September 2020. Besides growth of the portfolio volume, its maturity has also increased noticeably (according to ACRA's assessment, the weighted average duration of debt securities currently stands at approximately eight years), which reinforces the Agency's opinion regarding CBM's high sensitivity to market risk in the event of sharp growth in rates in the economy amid its expected recovery and possible proinflationary trends this year.

The volume of potential problem loans (around 8% of the gross loan book, according to ACRA's calculations) puts additional pressure on the Bank's capital. In addition, the high concentration of assets on individual counterparties and sectors of the economy and the still unfavorable operating environment continue to constrain the risk profile assessment.

The funding and liquidity position assessment has been improved from satisfactory to adequate. ACRA notes that CBM enjoys a long track record of stable relationships with its largest creditors and depositors. Long track record of established partnerships give the Agency less reasons to doubt the stability of the Bank's resource base. The structure of liabilities is primarily made up of funds from corporations and individuals (usually around 35–40% and 20–25%, respectively), as well as repo operations (usually around 25–30%). The Agency expects this structure of liabilities to remain unchanged over the 12-month horizon.

ACRA's base case scenario for the next 12 months assumes that CBM will retain its comfortable liquidity cushion. As of the end of 2020, liquid assets accounted for around 64% of the Bank's balance sheet; excluding short-term interbank and debt financing, liquid assets cover approximately 64% of client funds and 95% of account balances with maturities of up to a year.

Besides this, ACRA assumes that in the event of liquidity pressures, the Bank can rely on priority support from the state as, according to the Agency, it has the characteristics of a financial institution that is systemically important for the Russian economy.

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 state support of capital or liquidity in the event of stress. The Bank's final rating takes into account two notches of support added to the level of its standalone creditworthiness assessment (SCA).

ACRA believes that interruptions in CBM's operations may cause problems in the financial sector and complicate the socio-economic situation in Moscow and Russia. As of the start of February 2021, the volume of the population's funds held by the Bank accounted for around 1.5% of all client funds of individuals held in the country's banks, which is a significant share. 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 regarding the strategic importance of CBM.

Key assumptions

- Maintaining the current business model, market positions, and systemic importance over the next 12 to 18 months;
- Maintaining Tier 1 capital adequacy as per Basel standards above 12%;
- Maintaining five-year ACGR at higher than 100 bps.

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;
- Significant improvement of the quality of the loan portfolio coupled with reduced exposure to market risks and a more predictable operating environment.

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;
- Actual or expected five-year ACGR falling below 100 bps;
- Weaker partnerships with key clients;
- Signs of weaker market positions and/or reduced strategic importance for the financial sector.

Rating components

SCA: bbb+.

Adjustments: systemic importance, +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 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 certified bearer bonds, 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 bonds, 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 fixed 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 (bbb+).

CREDIT BANK OF MOSCOW, subordinated bonds (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 (ISIN RU000A0ZZE87, RU000A100WC4, RU000A1014H) issued by CREDIT BANK OF MOSCOW 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 Under 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, and to ISIN RU000A100WC4 — on December 2, 2019. 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) 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.

No material discrepancies between the provided data and the data officially disclosed by CREDIT BANK OF MOSCOW in its financial statements have been discovered.

ACRA provided additional services to CREDIT BANK OF MOSCOW. No conflicts of interest were discovered in the course of credit rating assignment.

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