Moody's Investors Service

Global Credit Research
Credit Opinion
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Credit Opinion: Credit Bank of Moscow

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Moscow, Russia

Ratings

Category	**Moody's Rating**
Outlook	Stable
Bank Deposits	B1/NP
Bank Financial Strength	E+

Contacts

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Key Indicators

Credit Bank of Moscow

	[1]**2003**	**2002**	**2001**	**2000**	**1999**	[2]**Avg/CAGR**
Total Assets (US$ million)	**380.1**	**214.7**	**134.6**	**73.3**	**57.7**	**60.2**
Total Capital Funds (US$ million)	**84.5**	**64.2**	**44.4**	**29.7**	**20.7**	**42.2**
Recurring Earning Power % [3]	**4.87**	**7.43**	**5.28**	**4.20**	**--**	**5.45**
Return on Average Assets %	**1.53**	**5.05**	**1.19**	**0.96**	**--**	**2.18**
Net Interest Margin %	**8.64**	**14.10**	**12.77**	**7.67**	**--**	**10.79**
Cost / Income Ratio % [4]	**55.23**	**47.52**	**63.73**	**72.82**	**--**	**59.83**
Problem Loans % Gross Loans	**--**	**--**	**--**	**--**	**--**	**--**
Equity % Assets	**28.00**	**33.00**	**32.96**	**40.48**	**35.82**	**34.05**

[1] Results for the 12 months ended December 31. [2] Compound Annual Growth Rate [3] Preprovision Income % Average Assets. [4] Non Interest Expense % Operating Income

Opinion

Credit Strengths

Credit strengths for Credit Bank of Moscow include:

- Strong expertise in auto loans and SME lending strengthens the bank's franchise

- Strong capitalisation and sound reported asset quality

- Flexible liquidity management and ability to quickly and efficiently liquidify auto loans demonstrated during the summer 2004 banking sector turmoil

Credit Challenges

Credit challenges for the bank include:

- Operating in the difficult and potentially volatile environment of Russia

- Currently the bank's reach is limited to Moscow only; however, this region is the most viable given the bank's business focus

- Growing competition in the bank's main business lines, such as SME lending and auto loans

- Tightening liquidity position

Rating Rationale

Credit Bank of Moscow (CBM) is part of the Rossium Concern - an association of groups and companies involved in agriculture, the food industry (mainly sugar refineries), food retailing, construction and production of construction materials. The bank has been focussing on work with small and medium-sized enterprises (SMEs).

Moody's welcomes CBM's clear strategy and believes that it makes sense given the bank's limited size and reach, although risks stemming from doing business with this market segment may be also higher. On the other hand, this is very often rewarded by substantially higher and more stable interest margins, and leads to a better diversified portfolio. CBM has already created a foothold in the booming auto loans market. Attractive risk-return features and standardisation of auto loans helped the bank to survive the summer 2004 turbulence in the Russian banking system when it lost a substantial part of its retail balances within a few weeks. The prompt sale of part of the auto loan portfolio along with shrewd liquidity management helped CBM to solve its liquidity problems. Both the risks of liquidity crises and the bank's ability to manage its liquidity under stress scenarios are incorporated in CBM's E+ financial strength rating (FSR) and B1/NP foreign currency deposit ratings.

The E+ FSR also reflects CBM's (i) strong capitalisation, (ii) adequate loan provisioning coverage (iii) relatively low customer concentrations on both sides of the balance sheet, and (iv) proficient management. At the same time, the FSR reflects the bank's (i) limited reach, (ii) growing competition in CBM's main business lines, and (iii) challenges for risk management stemming from the dynamic growth in lending over the past few years.

The B1/NP foreign currency deposit ratings do not incorporate any support from the government authorities in case of distress. Possible support from the owners, if needed, cannot be completely ruled out, although the extent of such support may be only limited, and its timeliness rather uncertain.

Rating Outlook

All ratings assigned to CBM carry stable outlooks.

What Could Change the Rating - UP

CBM's ratings, like those of other Russian banks, are sensitive to swings in the still very volatile operating environment.

The bank's ratings do not have much upside potential over the short- to medium term. However, its franchise and financial condition could be strengthened by the success of the bank's expansion strategy in the long run, preservation of good asset quality, high capitalisation, restoration of the retail deposit base and adequate liquidity.

What Could Change the Rating - DOWN

Apart from the uneasy operating environment, the E+ FSR is constrained by the bank's current rapid development. Any potential mismanagement of this process - including any material deterioration in the asset quality, liquidity or capitalisation - could compromise the FSR. In addition, any material increase in related-party lending could also weigh on the FSR.

Recent Results

CBM's numbers as of 1H 2004 trended downwards, mostly as a result of a retail deposits outflow which began in June 2004 and the consecutive disposal of part of the bank's loan portfolio. CBM reported net income of USD3.8 million for 1H 2004, which slightly exceeds the net result for the same period in 2003 (US$3.6 million). This translates into an annualised RoAA of 2.08%, up from 1.53% for 2003 yet a significant erosion against 5.05% for 2002.

CBM's total assets declined by 7.63% year-to-date in 1H 2004, to US$351.1 million. However the net loans showed a slight 6.35% growth within 1H 2004 and accounted for a rather high 78.0% of total assets, up from 67.7% as at year-end 2003. The ratio of net loans to customer deposits grew to 142.2% as of June 2004, up from 113.6% in 2003. The bank's Tier 1 ratio increased to 30.0% as of end-June 2004, from 28.0% six months before.