

October 2, 2018

ACRA affirms BBB-(RU) to CB “Renaissance Credit” (LLC), outlook Stable

Lead analysts:

Alexey Bredikhin, Director
+7 (495) 139-0483
alexey.bredikhin@acra-ratings.ru

Irina Nosova, Associate Director
+7 (495) 139-0481
irina.nosova@acra-ratings.ru

Key rating assessment factors

The credit rating assigned to [CB “Renaissance Credit” \(LLC\)](#) (hereinafter, Renaissance Credit, or the Bank) is based on its moderate business profile, adequate capital adequacy, weak risk profile, and adequate funding and liquidity position. Volatile asset quality and profitability stemming from the Bank’s business model, high growth rates demonstrated in the high-risk lending segments and very high concentration on funds from individuals restrain its standalone creditworthiness assessment. Highly probable support from the shareholder has a positive effect on the rating level.

The Bank’s ownership structure is transparent. The largest ultimate beneficiary of the Bank is Mikhail Prokhorov. The shareholding control over the Bank is exercised through the ONEXIM Group, whose representatives take active part in developing the Bank’s strategy and reviewing the operating performance of the Bank.

The Bank’s business profile reflects its medium position in the Russian banking sector: in 1H2018, Renaissance Credit ranked 55th in terms of capital and 51th in terms of assets. The Bank’s business is focused on unsecured general-purpose consumer lending, purpose loans to purchase goods and services, and credit cards: 67.2%, 22.4%, and 9.3% of the total portfolio respectively (as at July 1, 2018).

At the same time, the business profile is limited by the mono-line business model applied by the Bank: in 2017, the Herfindahl–Hirschman Index used by ACRA to assess the diversification of operating income was at 0.48. ACRA also takes into account the risks related to the Bank’s strategy and arising out of the high sensitivity of the unsecured consumer lending business to economic cycles.

ACRA assesses the Bank’s capital adequacy as adequate. As at July 1, 2018, the core capital (Tier-1) adequacy ratio calculated under the Basel standards was 13.5%, while core capital adequacy ratio under RAS (N1.2) equaled 8.1% as at September 1, 2018. According to ACRA’s stress test results, the Bank’s capital currently demonstrates relatively high capacity to absorb credit risks on the 12-months horizon subject to a 15% increase of the loan portfolio.

The Agency has decreased the risk profile assessment on the fast-growing portfolio in the high-risk unsecured lending segment: according to the IFRS financial statements of the Bank as of June 30, 2018, the portfolio has grown by 95.7% in the last 24 months, which is negative for the risk profile assessment. On the other hand, ACRA notes a comparably low level of NPL90+, which was equal to 3.5% of the total loan portfolio as of July 01, 2018.

Nevertheless, ACRA believes that the current level of non-performing loans (NPL90+) is reflective of the situation typically occurring during the period of unsecured consumer lending market growth, and as soon as the current credit cycle is over, the increase in the amount and share of problem loans in the Bank’s balance sheet is considered by ACRA as likely.

Liquidity and funding factor is assessed as adequate. This assessment is based on the Bank’s surplus short-term liquidity position in a base case scenario, and a slight deficit in a stress scenario. In addition, ACRA takes into account the Bank’s business model specifics that is based on short-term funding using deposits of individuals and assumes potentially high risks of substantial outflow of funds. This factor is limited by the very high funding concentration on funds of individuals (92.9% as at July 1, 2018).

ACRA also makes an upward adjustment of the SCA considering the likelihood of support from the shareholder. The adjustment takes into account the historic record of the Bank's support by its key beneficiary and/or its companies. In compliance with the [Methodology for Analyzing Member Company Relationships Within Corporate Groups](#), ACRA adjusts the SCA by one notch up.

Key assumptions

- Cost of credit risk equals 6–8% on the 12 to 18-months horizon;
- Capital generation ratio is at 300-400 bps on the 18 to 24-months horizon.

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:

- Maintaining the current quality of the loan portfolio and the current level of financial performance in the next 12–18 months;
- Higher diversification of funding sources.

A negative rating action may be prompted by:

- A substantial growth in the share of problem loans in the loan portfolio;
- Significant decrease in profitability and capital adequacy under IFRS;
- Lower probability of support from the Bank's controlling shareholder.

Rating components

Standalone creditworthiness assessment (SCA): bb+.

Adjustments: support from shareholders: +1 notch.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is based on the Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation, the [Methodology for Analyzing Member Company Relationships Within Corporate Groups](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating assigned to CB "Renaissance Credit" (LLC) was first published by ACRA on October 2, 2017. The credit rating and its outlook are expected to be revised within one year following the rating action date (September 28, 2018).

The credit rating was assigned based on the data provided by CB "Renaissance Credit" (LLC), information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the IFRS statements of CB "Renaissance Credit" (LLC) and the financial statements of CB "Renaissance Credit" (LLC) drawn up in compliance with Bank of Russia Ordinance No. 4212-U of November 24, 2016. The credit rating is solicited, and CB "Renaissance Credit" (LLC) participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by CB "Renaissance Credit" (LLC) in its financial statements have been discovered.

ACRA provided no additional services to CB "Renaissance Credit" (LLC). No conflicts of interest were discovered in the course of credit rating assignment.

(C) 2018

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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 bn. 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.

No credit rating and/or credit rating outlook is regulated by the Central Bank of the Russian Federation, unless distributed so that such credit rating and/or credit rating outlook is in the public domain.

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.com. 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.