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Key rating assessment
factors

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

The credit rating assigned to [CB “Renaissance Credit” \(LLC\)](#) (hereinafter, Renaissance Credit, or the Bank) is based on its moderate business profile, satisfactory capital adequacy, satisfactory risk profile, and adequate funding and liquidity position. Highly volatile asset quality and profitability stemming from the Bank’s business model as well as significant funding 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 Bank’s business profile reflects its medium position in the Russian banking sector: based on H1 2017 results, Renaissance Credit ranked 57th in terms of capital and 56th in terms of assets among Russian banks. The Bank’s business is focused on unsecured general-purpose consumer lending, purpose loans to purchase goods and services, and credit cards: 64.5%, 27.2%, and 8.3% of the total portfolio respectively (as at July 1, 2017).

At the same time, business profile is limited by the monoline business model of Renaissance Credit: in 2016, the Herfindahl–Hirschman Index used by ACRA to assess diversification of operating income was at 0.47. ACRA also takes into account the Bank’s strategy risks related to strong exposure of unsecured consumer lending to economic cycles.

ACRA assesses the Bank’s capital adequacy as satisfactory. As at July 1, 2017, the core capital (Tier-1) adequacy ratio calculated under the Basel standards was 19.7%, while core capital adequacy ratio under RAS (N1.2) equaled 7.8% as at September 1, 2017. According to ACRA’s stress test results, the Bank’s capital currently demonstrates relatively high capacity to absorb credit risks on the 12-month horizon subject to a 15% increase of the loan portfolio.

At the same time, the current level of capital adequacy stems from substantial capital injections by the Bank’s shareholder in 2014-2016 primarily aimed at covering losses from additional loan loss provisioning. Renaissance Credit returned to profitability in H2 2016 on the back of consumer lending market stabilization and tightened risk management of the Bank combined with write-offs and sale of accumulated toxic loans.

Satisfactory risk profile assessment reflects substantial reduction of problem loans of Renaissance Credit as compared to historically high levels as well as the Bank’s business model specifics focused on high-risk unsecured lending.

According to the Bank’s IFRS reporting for the first six months of 2017, loans overdue for more than 90 days accounted for 4.1% in the total loan portfolio and to 4.2% in the retail loan portfolio. A significant decline in non-performing loans as compared to 12.5% as at January 1, 2016 results from quality improvement of new loans owing to risk management tightening and write-off of previously accumulated problem loans. Nevertheless, ACRA believes that the current level of non-performing loans is reflective of the situation typically occurring during the period of unsecured consumer lending market recovery, 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 assessed 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 very high concentration of funding on funds of individuals (88.4% as at July 1, 2017).

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

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

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:

- Implementation of a medium-term business strategy, in particular, loan portfolio quality is stable, and net income remains at current levels in the next 18-24 months;
- Diversification of funding sources.

A negative rating action may be prompted by:

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

Standalone creditworthiness assessment (SCA): bb+.

Adjustments:

- support from shareholders: +1 notch.

No outstanding issues have been rated.

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 has been assigned to CB "Renaissance Credit" (LLC) for the first time. The credit rating and credit rating outlook are expected to be revised within one year following the rating action date (September 28, 2017).

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.

Key assumptions

Potential outlook or rating change factors

Rating components

Issue ratings

Regulatory disclosure

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