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Ratings

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Commercial Bank Renaissance Credit LLC

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Commercial Bank Renaissance Credit LLC

SACP	b

Anchor	bb-	
Business Position	Moderate	-1
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

\+

Support	0

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
B/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• Strong profitability and stable asset quality. • Low dependence on wholesale funding and a sufficient liquidity cushion.	• Relatively high economic and operational risks in Russia. • Focus on Russia's high-risk and very competitive unsecured retail segment. • High recent and projected growth, which may lead to deterioration of the asset quality in the future.

Outlook: Stable

The stable outlook reflects our view that Renaissance Credit will preserve its stable asset quality in the next 12-18 months, with credit losses and a delinquency rate at least on par with other retail banks in Russia. The stable outlook also reflects our expectation that the bank's good earnings capacity, adequate capital and liquidity buffers, and stable funding profile will support its creditworthiness.

We could lower the ratings in the next 12-18 months if we saw that rapid lending growth or relaxation of the risk-management practices was leading to significant deterioration of the bank's key asset quality metrics with credit losses rising beyond our expectations and beyond those of peers. Deterioration of the bank's capital position with our risk-adjusted capital (RAC) ratio falling below 5.0%--for example due to high growth, increasing credit losses, and generous dividend payments--may prompt us to take a negative rating action.

A positive rating action is unlikely over the next 12-18 months, in our view. Nevertheless, we could consider an upgrade if Renaissance Credit significantly strengthens its capitalization, for example as a combination of lower-than-expected growth and no dividend payments over the forecast period, with our RAC ratio remaining sustainably above 10%. This is not our base-case scenario, however.

Rationale

The ratings on Renaissance Credit reflect our anchor of 'bb-' and bank-specific factors. We think that the bank's business focus on unsecured retail lending in Russia makes it vulnerable to the acute competition among other pure-play retail banks as well as large universal and state-owned banks. Nevertheless, the bank has a good geographical footprint across the country and good brand recognition. We take into account the bank's adequate capitalization and solid earnings capacity profitability. We incorporate in our ratings the bank's relatively good asset quality indicators and stable credit losses, but high recent and projected lending growth. We think that the bank adequately manages its liquidity position, while its key funding and liquidity metrics are close to peers.

Anchor: 'bb-' for a commercial bank operating mostly 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 '8'.

Economic risks are higher for Russian banks than for peers in large emerging markets such as China, Brazil, and India. Although we now expect economic growth to average 1.7% per year in 2018-2020, we consider 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 non-export sectors. We expect lending growth in 2018 to remain slow at about 5%-7% annually in nominal terms and credit costs to decrease to 2.0%-2.5%. Given still-weak new lending demand and significant accumulated problem and restructured loans, we foresee ongoing pressure on the profitability and capitalization of most Russian banks in 2018-2019. We believe that adjusting the banking model to the low-growth and high-risk environment will be among the major challenges for Russian banks in the next two years.

Industry risks are also high. Access to external funding remains limited due to the economic sanctions imposed on several large banks and corporates in 2014. Deposit growth has slowed significantly, albeit mitigated by rather weak new lending demand. Funding concentrations at small and midsize banks make them particularly vulnerable to deposit outflow risk. The dominance of state-related banks in the Russian banking sector has traditionally distorted competition and weighed on private sector banks' creditworthiness. We expect these banks to further strengthen their market positions in 2018-2019.

The banking sector received significant government support in the form of capital, funding, and liquidity in 2014-2015. We anticipate that, over the coming years, government support will likely be available predominantly for large state-related banks and systemically important private banks.

Table 1

Commercial Bank Renaissance Credit LLC Key Figures

(Mil. RUB)	YTD Jun-2018	Annual Dec-2017	Annual Dec-2016	Annual Dec-2015	Annual Dec-2014
Adjusted assets	139,875	128,613	96,146	112,417	126,590
Customer loans (gross)	124,920	111,387	83,243	73,278	82,517
Adjusted common equity	18,953	18,263	10,541	6,137	3,625
Operating revenues	12,558	22,061	16,859	14,478	17,767
Noninterest expenses	4,812	9,675	10,314	8,812	9,377
Core earnings	2,638	4,919	1,251	(6,685)	(16,068)

Business position: A mid-size Russian retail bank, with high sensitivity to the economic cycle

Renaissance Credit's moderate business position reflects its business focus on unsecured retail lending in Russia, which is a highly competitive segment, in our view, and the bank's relatively small market share. We note, however, the bank's significant turnaround over the past three years, reflected in its improved profitability and a more sustainable business model.

With total assets of Russian ruble (RUB) 141 billion (about $2.25 billion) as of June 30, 2018, Renaissance Credit is among Russia's top 100 banks and among the top-five specialized retail banks. Renaissance Credit focuses on unsecured cash loans, point-of-sale (POS) loans, and credit cards. We note that the bank is operating in a highly competitive market segment, competing with other purely retail banks such as Home Credit Bank, Russian Standard Bank, and OTP Bank, as well as with large universal banks such as VTB, Alfa-Bank, and Sovcombank. The bank has a modest share in the system-wide unsecured lending of 1.8%-2.1%. However, it has been operating in the market for more than 10 years and has a quite recognizable brand and developed franchise. The bank has a wide branch network, and with 144 offices it covers 62 regions in Russia and has a client base of around 12 million people. The bank also remains in the top-three Russian banks in POS lending.

We note that over the past two years Renaissance Credit has demonstrated an impressive turnaround in improving its operating performance and profitability after a significant slump during the contraction on the Russian retail market in 2013-2015. We think that the bank's business model has become more sustainable and resilient to potential economic shocks, thanks to strengthened risk management practices and more sophisticated client targeting. Nevertheless, we think that as a bank operating in unsecured retail lending, Renaissance Credit's financial performance remains sensitive to swings in the economic cycle.

Despite significant growth over the past two years, the bank remains focused on risk-adjusted return on invested capital. Strategically, control of operational and credit costs remains one of the key priorities for the bank's management with a cost-to-income target below 40% and targeted ROAE of above 20%. The bank is also planning to remain one of the key players in POS lending in Russia to further expand its cash loans portfolio and fee-generating business.

Renaissance Credit is ultimately controlled by Mr. Prokhorov, who we view as highly supportive to the bank. This is one of the key factors supporting the bank's creditworthiness through the cycle, in our opinion.

Table 2

Commercial Bank Renaissance Credit LLC Business Position					
(%)	**YTD Jun-2018**	**Annual Dec-2017**	**Annual Dec-2016**	**Annual Dec-2015**	**Annual Dec-2014**
Total revenues from business line (currency in millions)	12,599	22,216	17,174	16,016	18,203
Retail banking/total revenues from business line	100	100	100	100	100
Commercial & retail banking/total revenues from business line	100	100	100	100	100
Return on average common equity	23	25	10	(43.6)	(124.1)

Capital and earnings: Adequate capitalization supported by good earnings capacity

We assess Renaissance Credit's capital and earnings as adequate, which reflects our forecast of the bank's RAC, which will likely be in 8.0%-8.4% in the next 12-18 months.

As of June 30, 2018, the bank's RAC was 7.1% versus 7.6% at year-end 2017. The decline was mostly due to the one-off initial implementation effect of IFRS 9, which amounted to RUB2 billion. We expect that the RAC will strengthen over the next one-to-two years due to solid internal capital generation.

Specifically, we incorporate in our RAC forecast the following assumptions:

- The bank's loan portfolio will increase in 2018-2020 by about 15%-20%, which will be close to the average for midsize retail monoliners in Russia.
- The bank's NIM is to gradually decline to 13%-14% over the next two years to reflect competitive pressure for good borrowers.
- We forecast that cost-of-risk (COR) will remain around 6.0%, a decline from 6.9% in 2018 driven by already high provisioning coverage ratio and fairly stable asset quality.
- We expect that fee income will continue growing together with the business, but the growth will likely decelerate this year to 10% as competition intensifies.
- Operating expenditures will increase by 3.0%-5.0% annually, which is in line with salary growth in 2017. Nevertheless, the growth in expenditures will likely lag than of revenues thanks to strict cost controls prioritized by management.
- The bank will distribute dividends starting from the next year, with a dividend-payout ratio of close to 50%.

We note that, even despite relatively high growth, the bank's capital retention will likely be supported by strong profitability with ROE sustainably higher than 20% over the next three years. The expected increase in RAC is reflected in our capital sustainability ratio, which will likely be positive in 2019-2020 despite expected dividends payments.

We think that the predominance of stable revenue sources and material improvement in operating efficiency over the past two years support the bank's high earnings quality. For example, the bank's cost-to-income ratio improved to 38% at mid-year 2018 versus 61% at year-end 2016, while market-sensitive and volatile revenues remain insignificant compared with net interest income and commissions.

Table 3

Commercial Bank Renaissance Credit LLC Capital And Earnings

(%)	YTD Jun-2018	Annual Dec-2017	Annual Dec-2016	Annual Dec-2015	Annual Dec-2014
Tier 1 capital ratio	N/A	N/A	N/A	15.5	11.3
S&P RAC ratio before diversification	7.1	7.6	5.9	3.1	1.9
S&P RAC ratio after diversification	5.2	5.7	4.6	2.7	1.7
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	72.2	70.3	69.8	47.7	82.5
Fee income/operating revenues	27.9	30.1	30.1	36.3	30.6
Market-sensitive income/operating revenues	(0.4)	(0.8)	(0.6)	15.1	(13.7)
Noninterest expenses/operating revenues	38.3	43.9	61.2	60.9	52.8
Preprovision operating income/average assets	11.4	10.9	6.1	4.6	7.0
Core earnings/average managed assets	3.9	4.3	1.2	(5.5)	(13.3)

Table 4

Commercial Bank Renaissance Credit LLC RACF [Risk-Adjusted Capital Framework] Data

(Mil. RUB)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government and central banks	6,806	0	0	358	5
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	8,740	0	0	11,853	136
Corporate	32	0	0	59	183
Retail	117,262	0	0	199,338	170
Of which mortgage	28	0	0	26	92
Securitization§	0	0	0	0	0
Other assets†	2,567	0	0	5,667	221
Total credit risk	135,407	0	0	217,275	160
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--

Table 4

Commercial Bank Renaissance Credit LLC RACF [Risk-Adjusted Capital Framework] Data (cont.)

Market risk					
Equity in the banking book	0	0	0	0	0
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	0	--
Operational risk					
Total operational risk	--	0	--	47,093	--
(Mil. RUB)		**Basel III RWA**		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		0		264,368	100
Total Diversification/Concentration Adjustments		--		81,189	31
RWA after diversification		0		345,556	131
(Mil. RUB)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		0	0.0	18,735	7.1
Capital ratio after adjustments‡		0	0.0	18,735	5.4

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡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 June. 30, 2018, S&P Global.

Risk position: High recent and projected growth weighs on the assessment despite stable asset quality

Our assessment of the Renaissance Credit's risk position remains a negative rating factor. This reflects the bank's exclusive focus on unsecured retail lending, which remains a risky segment in our view, and relatively high recent and projected growth, which may lead to an accumulation of problem assets over time.

For 2017, the bank's loan portfolio increased by 34% and for the first nine months of 2018 the bank further expanded its loan book by about 22%. Positively, high portfolio growth did not lead to the deterioration of asset quality because the bank's underwriting remained strict over this period. Although we expect growth to likely moderate in 2019-2020, we think that it will remain above the sector average. We therefore cannot exclude the risk that this rapid growth may eventually compromise the bank's underwriting standards, thereby distorting key asset quality indicators or financial performance in the future.

Nevertheless, relatively strict risk management practices and stable asset quality over the past three years somewhat counterbalance these negative factors. Over the past four years, Renaissance Credit has significantly improved its asset quality, which has remained broadly stable since mid-year 2016. For example, loans past due more than 90 days at the 12-month horizon remains close to 2.8%-3.0% of the loan portfolio in 2018, compared with 7.5% at the beginning of 2015. Likewise, the bank's COR has stayed about 6.0%-7.0% since 2016 versus 15.3% in 2015--comparable with those of other Russian banks operating in unsecured retail lending. Meanwhile, net charge-offs bottomed-out at 4.9% of total loans at mid-year 2018 versus 27.8% at year-end 2015.

We note that the bank's asset quality and performance of its retail portfolio are generally in line with those of most other Russian banks specialized in unsecured retail lending. We believe that part of this improvement tracks the overall performance of the Russian economy. However, we also note significant strengthening of its underwriting and collection practices, which the bank's management has largely rebuilt after the bank incurred huge losses in 2013-2015.

Table 5

Commercial Bank Renaissance Credit LLC Risk Position

(%)	YTD Jun-2018	Annual Dec-2017	Annual Dec-2016	Annual Dec-2015	Annual Dec-2014
Growth in customer loans	24.3	33.8	13.6	(11.2)	(9.1)
Total diversification adjustment / S&P RWA before diversification	N/A	33.0	27.4	16.8	12.8
Total managed assets/adjusted common equity (x)	7.4	7.1	9.3	18.8	35.6
New loan loss provisions/average customer loans	6.9	5.9	6.3	16.3	32.3
Net charge-offs/average customer loans	4.9	6.1	13.1	27.8	22.9
Gross nonperforming assets/customer loans + other real estate owned	3.6	3.5	5.9	12.2	21.6
Loan loss reserves/gross nonperforming assets	159.1	99.3	85.6	106.6	103.7

Funding and liquidity: Adequate liquidity management and a diverse funding base

In our view, Renaissance Credit's funding is average, mainly reflecting the predominance of small-size retail deposits in its funding base, and funding metrics that are generally comparable with those of peers. We note that the bank's dependence on wholesale funding is low at the moment, and customer deposits represent about 96% of the bank's funding. Currently, Renaissance Credit has about RUB5.07 billion of non-deferrable subordinated debt issue due in 2019, and we do not think it represents any risk to the bank's liquidity. We note that, due to the retail nature of the bank's business, its depositor base is highly granular, with the 20 largest depositors representing less than 1.0% of total customer deposits. The granularity of the bank's depositor base is much better than the system average. Over the past three years, the bank has not faced material unexpected deposit outflows. The bank's funding metrics are broadly comparable with those of peers, for example for the last five years its stable funding ratio was consistently above 100%.

We view the bank's liquidity as adequate, supported by its sufficient liquidity cushion and good liquidity metrics. Although the bank's cash reserves declined markedly to 10.0% of total funding at mid-year 2018 from 19.4% at year-end 2015, we view this decline as "back to normal" and we see liquidity as sufficient considering the lack of large redemptions over the next two years and historically low volatility of customer deposits. In addition, the ONEXIM Group may provide liquidity support to the bank in case of need.

Table 6

Commercial Bank Renaissance Credit LLC Funding And Liquidity

(%)	YTD Jun-2018	Annual Dec-2017	Annual Dec-2016	Annual Dec-2015	Annual Dec-2014
Core deposits/funding base	96	93	90	80	65
Customer loans (net)/customer deposits	108	111	111	81	84

Table 6

Commercial Bank Renaissance Credit LLC Funding And Liquidity (cont.)

(%)	YTD Jun-2018	Annual Dec-2017	Annual Dec-2016	Annual Dec-2015	Annual Dec-2014
Long-term funding ratio	100	100	100	92	91
Stable funding ratio	110	110	109	144	145
Short-term wholesale funding/funding base	0	0	0	9	10
Broad liquid assets/short-term wholesale funding (x)	918	1,067	31	4	4
Net broad liquid assets/short-term customer deposits	14	15	13	36	46
Short-term wholesale funding/total wholesale funding	0	0	4	42	29
Narrow liquid assets/3-month wholesale funding (x)	13,339	15,496	31	48	7

External support: No uplift to the SACP

We think that Renaissance Credit has low systemic importance and we do not incorporate any notches of uplift.

Additional rating factors: None

No other factors affect the ratings.

Related Criteria

- 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
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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

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 November 27, 2018)

Commercial Bank Renaissance Credit LLC		
Issuer Credit Rating		B/Stable/B
Russia National Scale		NR/--/--
Senior Unsecured		B
Short-Term Debt		B
Issuer Credit Ratings History		
02-Nov-2018		B/Stable/B
07-Mar-2018		B-/Positive/B
13-Jul-2017		B-/Stable/B
28-Apr-2017		B-/Negative/B
08-Jul-2015		B-/Negative/C
01-Jun-2015		B/Watch Neg/C
24-Feb-2015		B/Negative/C
27-Jun-2014		B/Stable/B
12-Dec-2013		B+/Negative/B
02-Jun-2017	*Russia National Scale*	NR/--/--
08-Jul-2015		ruBBB-/--/--
01-Jun-2015		ruBBB+/Watch Neg/--
24-Feb-2015		ruBBB+/--/--
27-Jun-2014		ruA-/--/--
Sovereign Rating		
Russia		
Foreign Currency		BBB-/Stable/A-3
Local Currency		BBB/Stable/A-2
Related Entities		
Renaissance Consumer Funding Ltd.		
Senior Unsecured		B

Ratings Detail (As Of November 27, 2018) (cont.)	
Short-Term Debt	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.