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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

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

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. The change of the credit rating outlook is driven by the expected improvement in capital adequacy assessment. 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 H1 2019, Renaissance Credit ranked 44th in terms of capital and assets. The Bank’s business is focused on unsecured general-purpose consumer lending, purpose loans to purchase goods and services, and credit cards: 71.7%, 18.7%, and 9.5% of the total portfolio respectively (as of July 1, 2019).

At the same time, the business profile is limited by the mono-line business model of the Bank: in 2018, the Herfindahl–Hirschman Index used by ACRA to assess the diversification of operating income was at 0.47. 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 of July 1, 2019, the Tier-1 capital adequacy ratio calculated according to Basel standards was 18.8%. At the same time, the core capital adequacy ratio under RAS (N1.2) equaled 9.2. 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 averaged capital generation ratio (ACGR) remains negative but is expected to turn positive in 2019, which would have a positive effect on the Bank’s capital adequacy assessment according to the ACRA methodology.

The risk profile assessment is restrained by non-performing loans dynamics as well as by sustained fast growth of the high-risk unsecured lending. According to the IFRS financial statements of the Bank as of June 30, 2019, the portfolio has grown by 53% in the last 24 months, which is negative for the risk profile assessment. At the same time, ACRA notes an increase in NPL90+ (loans delinquent for more than 90 days) to 4.9% of the total loan portfolio as of July 1, 2019 (vs 3.5% last year). According to ACRA’s base case scenario, NPL90+ would exceed 5% of the Bank’s loan portfolio in the short term.

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 (93.0% as of July 1, 2019).

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

- Moderate growth of non-performing loans;
- Tier-1 capital adequacy ratio (N1.2) remains above 8.5%.

Potential outlook or rating change factors

The Positive outlook assumes that the rating will most likely be upgraded within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- profitability remaining at the current level;
- NPL90+ remaining below 5% amid slower growth of the loan portfolio;

A negative rating action may be prompted by:

- a substantial growth in the share of problem loans in the loan portfolio;
- a significant decrease in profitability or capital adequacy;
- lower probability of support from the Bank's controlling shareholder.

Rating components

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 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 publication date of this press release.

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. 4927-U of October 8, 2018. 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.

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

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