

Research

Commercial Bank Renaissance Credit LLC

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Commercial Bank Renaissance Credit LLC

SACP	b-		+	Support	0	+	Additional Factors	0
Anchor	bb-			ALAC Support	0		Issuer Credit Rating B-/Stable/B	
Business Position	Moderate	-1		GRE Support	0			
Capital and Earnings	Moderate	0		Group Support	0			
Risk Position	Weak	-2		Sovereign Support	0			
Funding	Average	0						
Liquidity	Adequate							

Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Strong track record of capital support from the owner. • Low dependence on wholesale funding and a sufficient liquidity cushion. 	<ul style="list-style-type: none"> • Focus on Russia's high-risk and very competitive retail lending segment. • Greater credit losses over the economic cycle than those of peers.

Outlook: Stable

The stable outlook on Russia-based Commercial Bank Renaissance Credit LLC reflects S&P Global Ratings' expectations that the bank's credit profile will not change materially in the next 12-18 months, supported by stable asset quality and capitalization.

We could lower the ratings if the bank became more dependent on favorable business, economic, and financial conditions to meet its financial obligations. This may happen if, for example, Renaissance Credit's liquidity cushion or capitalization substantially deteriorates, while the probability of further support from its shareholder declines.

A positive rating action is remote over the rating horizon, in our view. Nevertheless, we could consider raising the ratings if the bank, on a sustainable basis, demonstrates that its asset quality and credit losses are similar to or better than those of peers, and its risk appetite does not become more aggressive. For us to upgrade Renaissance Credit, the bank would also need to show its ability to support business growth, by keep its capitalization at least at the current level through stable and sustainable earnings.

Rationale

Anchor: 'bb-' for a commercial bank operating only in Russia

Our bank criteria use our Banking Industry Country Risk Assessment's 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 2017-2020, 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 the non-export sectors. We expect lending growth in 2017 to remain slow at about 5%-7% annually in nominal terms and credit costs to decrease to 2.5%-3.0%. 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 2017-2018. We believe that adjusting the banking model to the low-growth and high-risk economic environment will be among the major challenges for Russian banks in the next two years.

Industry risks are also high. Although banking sector liquidity has recently stabilized and banks' funding profiles improved in 2016, access to external funding remains limited due to the economic sanctions imposed on several large banks and corporations in 2014. Deposit growth has slowed significantly, albeit mitigated by very weak new lending demand in 2016. We observed that the proportion of foreign-exchange-denominated deposits reduced in 2016. We do not expect significant further improvements in the next two years. Funding concentrations at small and midsize banks make them particularly vulnerable to deposit outflow risk.

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 be available predominantly for large state-related banks and possibly for some systemically important private banks. Government authorities are likely to have limited appetite to support private-sector banks.

Table 1

Commercial Bank Renaissance Credit LLC Key Figures					
--Year-ended Dec. 31--					
(Mil. RUB)	2017*	2016	2015	2014	2013
Adjusted assets	107,025.9	96,146.4	112,417.0	126,590.2	109,842.0
Customer loans (gross)	91,536.6	83,242.7	73,278.5	82,517.2	90,798.1
Adjusted common equity	14,338.7	10,540.5	6,136.9	3,625.2	12,823.9
Operating revenues	10,284.9	16,859.0	14,478.0	17,766.8	22,504.7
Noninterest expenses	4,867.9	10,313.7	8,811.9	9,377.0	9,098.3
Core earnings	1,947.3	1,250.6	(6,684.5)	(16,068.0)	(272.5)

*Data as of June 30. RUB--Russian ruble.

Business position: A Russian retail bank with a supportive owner

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, that the bank's ultimate owner Mikhail Prokhorov appears willing to support the bank, which, to a large extent, offsets the weaknesses of the bank's business model.

With total assets of Russian ruble (RUB) 108.4 billion (about \$1.83 billion) as of June 30, 2017, Renaissance Credit is among Russia's top 100 banks and among the top 10 specialized retail banks. Renaissance Credit is solely a retail bank, focusing on unsecured retail and cash lending, point-of-sale (POS) loans and credit cards. We note that the bank is operating in a highly competitive segment, competing with other purely retail banks such as Home Credit Bank, Bank Vostochniy Express, and OTP Bank, as well as with large universal banks such as VTB, Alfa-Bank, and Sovcombank. The bank has a modest share of unsecured lending ranging between 1.7% and 2.0%. 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 146 offices it covers 66 regions in Russia. Also, with a share of about 12.2% in POS lending, it ranks among the top three banks operating in this market niche.

We note that Renaissance Credit's operating revenues and earnings were severely hit during the recent contraction of the retail market. This reflects crystallization of market interest risk and a material deterioration of clients' creditworthiness, as well as the bank's opportunistic strategy and major business expansion during the previous retail market upswing.

We note that the bank's management has largely rebuilt the underwriting and collection processes, which has helped stabilize the bank's results. Strategically, cost optimization and development of fee-generating business are two major priorities for management at the moment. Management also plans to increase the share of POS loans, since this product demonstrates a better balance of risk and return than credit cards and cash loans.

Renaissance Credit is ultimately controlled by Mr. Prokhorov, whom 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 view.

Table 2

Commercial Bank Renaissance Credit LLC Business Position					
	--Year-ended Dec. 31--				
(%)	2017*	2016	2015	2014	2013
Total revenues from business line (mil. RUB)	10,284.9	17,173.9	16,016.1	18,202.6	25,149.3
Retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on equity	21.1	9.8	(43.6)	(124.1)	0.8

*Data as of June 30. RUB--Russian ruble.

Capital and earnings: A stable capital position and improving earnings capacity

We assess Renaissance Credit's capital and earnings as moderate, which mainly reflects our expectation that the bank's risk-adjusted capital (RAC) ratio will likely remain above 6.0% in the next 12-18 months. At year-end 2016, the bank's RAC ratio was 5.9% versus 3.1% a year earlier. In our view, the bank's capitalization has somewhat improved

on the back of RUB1.88 billion of capital support from its owner and net income of RUB1.48 billion generated in 2016.

We expect that the bank's capitalization will be supported by a relatively solid net interest margin and stable credit losses. Specifically, we incorporate in our RAC ratio forecast the following assumptions:

- The bank's loan portfolio will increase by 15%-20% in 2017-2018 on the back of increasing consumer demand and expanding collaboration with trade partners and stores (new POS loans are expected to be the main driver of portfolio growth).
- The bank's asset quality will remain stable, with the cost-of-risk ratio at 6.0%-6.1% in the next 12-18 months versus 6.3% in 2016.
- Net fees will increase by 15%, since the bank plans to intensify cross-selling, initially through new insurance products.
- The bank's net interest margin will likely increase to 14%-15% in 2017 and gradually shrink to 12.5%-13.0% in 2018-2019, mainly due to competitive pressure and the broad trend of declining interest rates in the economy.
- Profitability will improve gradually in 2018, after management implements its cost-optimization strategy.
- ONEXIM Group does not plan new capital injections. According to the strategic plan, the bank will distribute 50% of its net income in 2018-2019.
- The bank will gradually utilize its high tax losses received during 2014-2015.

Table 3

Commercial Bank Renaissance Credit LLC Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2017*	2016	2015	2014	2013
Tier 1 capital ratio	N/A	N/A	15.5	11.3	14.7
S&P RAC ratio before diversification	N/A	5.9	3.1	1.9	6.1
S&P RAC ratio after diversification	N/A	4.6	2.7	1.7	5.3
Net interest income/operating revenues	70.7	69.8	47.7	82.5	60.0
Fee income/operating revenues	30.0	30.1	36.3	30.6	42.7
Market-sensitive income/operating revenues	(1.3)	(0.6)	15.1	(13.7)	(2.8)
Noninterest expenses/operating revenues	47.3	61.2	60.9	52.8	40.4
Provision operating income/average assets	10.5	6.1	4.6	7.0	13.3
Core earnings/average managed assets	3.8	1.2	(5.5)	(13.3)	(0.3)

*Data as of June 30. N/A--Not applicable.

Table 4

Commercial Bank Renaissance Credit LLC RACF [Risk-Adjusted Capital Framework] Data			
(RUB 000s)	Exposure*	S&P Global RWA	Average S&P Global RW (%)
Credit risk			
Government and central banks	4,866,842	164,453	3
Institutions and CCPs	4,794,829	6,453,156	135
Corporate	2,544,682	3,635,502	143
Retail	77,355,735	131,401,584	170
Of which mortgage	43,897	40,600	92
Securitization§	0	0	0

Table 4

Commercial Bank Renaissance Credit LLC RACF [Risk-Adjusted Capital Framework] Data (cont.)			
Other assets†	2,092,508	4,566,827	218
Total credit risk	91,654,596	146,221,522	160
Credit valuation adjustment			
Total credit valuation adjustment	--	0	--
Market risk			
Equity in the banking book	0	0	0
Trading book market risk	--	0	--
Total market risk	--	0	--
Operational risk			
Total operational risk	--	33,312,686	--
(RUB 000s)		S&P Global RWA	% of S&P Global RWA
Diversification adjustments			
RWA before diversification		179,534,208	100
Total Diversification/Concentration Adjustments		71,514,746	40
RWA after diversification		251,048,955	140
(RUB 000s)		Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio			
Capital ratio before adjustments		10,540,516	5.9
Capital ratio after adjustments‡		10,540,516	4.2

*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 Dec. 31, 2016, S&P Global Ratings.

Risk position: Large historical losses and untested risk-management improvements

Our assessment of Renaissance Credit's risk position as weak reflects its exclusive focus on unsecured retail lending, which remains a risky segment in Russia, in our view, and large historical losses, which materially exceed those of peers and our RAC assumptions over the cycle.

We note that, over the past five years, the bank's average annual credit losses were close to 17.6%, versus 14.4% for pure Russian retail banks and 10% for the retail sector overall. The bank's cost of risk peaked at almost 33% in 2014, while net losses for the past five years totalled close to RUB16.0 billion. In our view, a high risk appetite, the riskiness of retail banking, and relaxed origination standards were the main factors contributing to the losses. We think the capital support provided by ONEXIM Group was a crucial factor that enabled the bank to remain a going concern.

At the same time, we see material improvements in the bank's asset quality and loss experience over the past year. Nonperforming loans (NPLs) declined to 4.4% of the loan book as of midyear 2017 from 12.6% as of Dec. 31, 2016, while more recent loans are demonstrating progressively lower default rates. We think that although the bank has improved its risk-management and underwriting practices, the new procedures remain largely untested over the cycle, especially during the next expansionary stage. Moreover, in our view, management still has a relatively high risk

appetite regarding growth, owing to the opportunity to regain market share amid an economic recovery. We cannot exclude that the bank's anticipated strong expansion may lead to high losses in the future.

Table 5

Commercial Bank Renaissance Credit LLC Risk Position					
	--Year-ended Dec. 31--				
(%)	2017*	2016	2015	2014	2013
Growth in customer loans	19.9	13.6	(11.2)	(9.1)	34.8
Total diversification adjustment / S&P RWA before diversification	N/A	27.4	16.8	12.8	14.1
Total managed assets/adjusted common equity (x)	7.6	9.3	18.8	35.6	8.7
New loan loss provisions/average customer loans	6.3	6.3	16.3	32.3	19.2
Net charge-offs/average customer loans	7.4	13.1	27.8	22.9	10.4
Gross nonperforming assets/customer loans + other real estate owned	N/A	5.9	12.2	21.6	12.3
Loan loss reserves/gross nonperforming assets	N/A	85.6	106.6	103.7	94.2

*Data as of June 30. N/A--Not applicable.

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 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 89% of the bank's funding. As of year-end 2016, Renaissance Credit had about RUB7.58 billion of nondeferrable subordinated debt, represented by two issues due in 2018 and 2019, and we think that this does not represent 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. 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 10.1% of total funding at midyear 2017 from 35% at year-end 2015, we think that its liquidity is 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					
	--Year-ended Dec. 31--				
(%)	2017*	2016	2015	2014	2013
Core deposits/funding base	91.0	90.0	79.5	65.5	66.9
Customer loans (net)/customer deposits	112.4	111.4	80.6	83.5	126.7
Long term funding ratio	99.7	99.7	92.3	90.7	91.2
Stable funding ratio	108.9	108.9	143.5	145.3	111.6
Short-term wholesale funding/funding base	0.4	0.4	8.5	9.9	9.9
Broad liquid assets/short-term wholesale funding (x)	37.3	31.4	4.2	3.9	2.4

Table 6

Commercial Bank Renaissance Credit LLC Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2017*	2016	2015	2014	2013
Net broad liquid assets/short-term customer deposits	15.2	13.0	35.6	46.2	25.1
Short-term wholesale funding/total wholesale funding	4.0	3.7	41.6	28.7	30.0
Narrow liquid assets/3-month wholesale funding (x)	37.3	31.4	48.3	6.9	14.5

*Data as of June 30.

External support: No uplift to the stand-alone credit profile

We think that Renaissance Credit has low systemic importance and we do not incorporate any notches of uplift in our long-term rating on the bank.

Additional rating factors: None

No additional factors affect the rating.

Related Criteria

- 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
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- 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
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- 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 14, 2017)

Commercial Bank Renaissance Credit LLC

Counterparty Credit Rating

B-/Stable/B

Russia National Scale

NR/--/--

Senior Unsecured

B-

Short-Term Debt

B

Counterparty Credit Ratings History

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

11-Jun-2013

B+/Stable/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/--/--

11-Jun-2013

ruA/--/--

Sovereign Rating

Russian Federation

Foreign Currency

BB+/Positive/B

Local Currency

BBB-/Positive/A-3

Related Entities

Renaissance Consumer Funding Ltd.

Senior Unsecured

B-

Ratings Detail (As Of November 14, 2017) (cont.)

Short-Term Debt	B
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*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.

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