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Research Update:

Russia-Based Commercial Bank Renaissance Credit Outlook Revised To Stable From Negative; 'B-/B' Ratings Affirmed

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Overview

- In our view, over the last year Commercial Bank Renaissance Credit's asset quality and credit losses stabilized, while its capitalization has strengthened on the back of capital injections from its shareholder and a return to positive profit generation.
- We now expect that Renaissance Credit will generate sufficient profitability in the next one to two years to support its higher levels of growth without additional capital injections.
- We are, therefore, revising our outlook on the bank to stable from negative and affirming our 'B-/B' ratings.
- The stable outlook reflects our view that the bank's credit profile will remain broadly stable, supported by improved asset quality, earnings capacity, and capitalization.

Rating Action

On July 13, 2017, S&P Global Ratings revised its outlook on Russia-based Commercial Bank Renaissance Credit LLC to stable from negative and affirmed its 'B-/B' long- and short-term counterparty credit ratings on the bank.

Rationale

The outlook revision reflects our view that over the last year Renaissance Credit has demonstrated substantial progress in stabilizing its asset quality and credit losses. At year-end 2016, the share of nonperforming assets in the bank's loan portfolio declined to 5.9% from 12.2% at end-2015, while its cost of risk improved to 6.3% of loans after three consecutive years of severe losses averaging 17%. We note that performance of new vintages for all of the bank's products is continuing to improve, demonstrating a declining rate of default. We believe that the improvements reflect the broad stabilization of the Russian economy, including the retail segment in Russia, after overheating and subsequent contraction, exacerbated by the economic slump. We also acknowledge progress achieved by management in strengthening its origination and collection practices. However, the bank's risk appetite remains high, reflecting its business model and focus on unsecured consumer finance.

In 2016, Renaissance Credit's capitalization also improved on the back of recovering earnings and capital support of about Russian ruble (RUB) 1.88

billion (about $30.7 million) received from its shareholder Onexim Group. The bank's risk-adjusted capital (RAC) ratio increased to 5.8% as of end-2016 from 3.1% a year earlier. We forecast that the bank's RAC will remain in the range of 5.9%-6.2% in the next 12-18 months and be supported by relatively stable profitability and utilization of material tax losses. We have, therefore, revised our assessment of the bank's capital and earnings to moderate from weak. We expect that the bank's improved level of credit losses, high margins, and rising fees will contribute positively to its profitability. We consequently believe that the bank's business model has become more sustainable and that it is able to better operate without continual capital support from Onexim Group. We have therefore revised our assessment of the bank's stand-alone credit profile (SACP) to 'b-' from 'ccc+'.

We still assess the bank's risk position as weak, which reflects its focus on the highly risky segment of unsecured retail lending and the historical credit losses, which were materially higher than those of its close peers over the last five years. We think that although the management 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 keeps a relatively high risk appetite to growth, as it sees an opportunity in the current economic recovery to regain market share. We do not exclude that the bank's anticipated strong expansion may lead to high losses in the future.

We assess Renaissance Credit's funding as average, which reflects the predominance of granular retail deposits in the bank's funding mix and its low dependence on wholesale funding. We note that in 2016 the bank's liquidity cushion declined to 9.5% of total assets from 31.8%. Nevertheless, we still view the bank's liquidity as adequate, taking into account the lack of large wholesale funding redemptions and the short-term maturity of its lending book. Given the high expansion rate of anticipated loan growth over the coming years, we do expect the bank may return to the wholesale funding markets to supplement its retail deposit funding base. We think that the bank's business position remains moderate, considering its small market share and its exclusive focus on unsecured retail lending, which we view as a highly competitive segment in the Russian market.

Outlook

The stable outlook on Renaissance Credit reflects our expectations that the bank's credit profile will not materially change 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 that 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 growth and keep its capitalization at least at the current level, through stable and sustainable earnings.

Ratings Score Snapshot

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

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

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Commercial Bank Renaissance Credit LLC		
Counterparty Credit Rating	B-/Stable/B	B-/Negative/B

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.