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Research Update:

Russia-Based Bank Renaissance Credit Outlook Revised To Positive On Improving Asset Quality; 'B-/B' Ratings Affirmed

Primary Credit Analyst:
Dmitry Nazarov, CFA, Moscow (7) 495-783-41-60; dmitry.nazarov@spglobal.com

Secondary Contact:
Sergey Voronenko, Moscow (7) 495-783-40-03; sergey.voronenko@spglobal.com

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Research Update:

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Overview

- In 2017, Commercial Bank Renaissance Credit continued to demonstrate improving asset quality and declining credit losses, which are now lower than for other retail banks in Russia.
- In our view, the bank's capital position has improved and we forecast that our risk-adjusted capital ratio will remain higher than 7.0% over the next two years.
- We are therefore revising our outlook on Renaissance Credit to positive from stable and affirming our 'B-/B' ratings.
- The positive outlook indicates that we could raise the ratings in the next 12 months if the bank's credit profile improves further, with stable asset quality, profitability, and business volumes, alongside credit losses no higher than those of regional peers with a similar business model.

Rating Action

On March 7, 2018, S&P Global Ratings revised its outlook on Russia-based Commercial Bank Renaissance Credit LLC to positive from stable and affirmed its 'B-/B' long- and short-term issuer credit ratings.

Rationale

The outlook revision reflects our view that Renaissance Credit's creditworthiness may improve in the next 12-18 months if it continues to demonstrate stable asset quality and lower cost of risk than most other retail banks in Russia and the Commonwealth of Independent States.

Last year, Renaissance Credit's asset quality continued to improve after major stabilization in 2016, following deterioration in 2013-2015. As of Dec. 31, 2017, the bank's nonperforming loans (NPLs) declined to about 3.5% of total loans versus 5.2% in 2016, while the bank's credit losses reduced to about 5.6% of total loans versus 6.2%. In our view, the bank's asset quality and performance of its retail portfolio are now better than those of most other Russian banks specialized in unsecured retail lending. This is in striking contrast to its results in 2013-2015, when the bank incurred huge credit losses during the market turbulence. We believe that the bank's recent performance displays the strengthening of its risk management and general stabilization of economic conditions in Russia over the past two years.

The bank's retail loan portfolio expanded by about 34% in 2017, a growth rate materially exceeding the system average. We recognize that the growth was not accompanied by relaxation of underwriting standards and, so far, has not led to higher default rates among the more recent loans. Although management plans to moderate growth over the next two years, we consider that recent or future lending growth may potentially lead to deterioration of asset quality or higher credit losses. In addition, it could eventually compromise the bank's underwriting standards, thereby distorting key asset quality indicators or financial performance in the future. As a result, we are maintaining our view of the bank's risk position as weak. Besides the potential issues stemming from more rapid growth than the system average, we note the bank's relatively short track record of containing credit losses throughout the economic cycle, including during an expansionary phase.

We now regard Renaissance Credit's capital and earnings as adequate rather than moderate, owing to the expected strengthening of capitalization over the next two years. This change is neutral to our ratings on the bank, however. We forecast that the bank's risk-adjusted capital ratio will increase to 8.7%-9.2% in the next 12-18 months from 7.6% at the end of 2017, thanks to strong profitability and internal capital generation. We note that, in 2017, Renaissance Credit demonstrated solid financial results on the back of declining credit losses, increasing net interest margin and fee income, and high business growth. Last year, the bank's return on equity (ROE) reached a record high of 26.5% compared with 9.8% in 2016. In our base-case scenario, we expect that over the next two years the bank's ROE will remain sustainably above 20%, despite additional provisions of Russian ruble (RUB) 2.4 billion-RUB2.5 billion (about $44 million) this year following the introduction of International Financial Reporting Standard No. 9. We don't anticipate any dividend payments this year, but we understand that the bank may likely start distributions next year, with a dividend payout ratio close to 50%.

We maintain our view on the bank's funding as average, mainly due to the predominance of granular retail deposits in its funding base and funding metrics that are generally comparable with those of peers. We continue to assess the bank's liquidity as adequate because of its sufficient liquidity buffer and prudent liquidity management over the past five years.

In our view, Renaissance Credit's business position remains moderate, reflecting its exclusive focus on the highly competitive unsecured retail lending market in Russia, and relatively small market share.

Outlook

The positive outlook indicates that we could raise the ratings if, over the next 12-18 months, Renaissance Bank's creditworthiness strengthens, supported by solid and sustainable financial performance and stable asset quality.

We could upgrade the bank if we see continuously stable credit losses and asset-quality metrics, such as default rates on recent loan vintages and the first-payment default ratio. However, an upgrade is contingent on Renaissance Credit maintaining better metrics than those of regional peers with a similar business model and risk position. In addition, we would need to observe that business growth has not led to a buildup of poor-quality assets or a relaxation of the bank's underwriting and collection practices.

We could revise the outlook to stable if we see that management is favoring growth over quality, leading to credit losses rising beyond our expectations and exceeding those of peers. Deterioration of the bank's capital position, for example, due to high growth, increasing credit losses, and generous dividend payments, may also prompt us to take a negative rating action.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	B-/Positive/B	B-/Stable/B
SACP	b-	b-
Anchor	bb-	bb-
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Adequate (0)	Moderate (0)
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)	(0)

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

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Commercial Bank Renaissance Credit LLC		
Issuer Credit Rating	B-/Positive/B	B-/Stable/B

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com