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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:
• Adequate capitalization. • Low dependence on wholesale funding and a sufficient liquidity cushion.	• Challenging macroeconomic situation due to the coronavirus pandemic. • Focus on Russia's high-risk and very competitive unsecured retail segment. • Procyclical business model.

Outlook: Stable

The stable outlook on Commercial Bank Renaissance Credit LLC (Renaissance Credit) reflects S&P Global Ratings' view that the bank will manage to maintain its asset quality over the next 12-18 months, with credit losses and a delinquency rate at least on par with those of other retail banks in Russia. The stable outlook also reflects our expectation that Renaissance Credit's earnings capacity, adequate capital and liquidity buffers, and stable funding profile will support its creditworthiness, despite challenging macroeconomic conditions.-

Downside scenario

We could lower the ratings in the next 12-18 months if rapid lending growth or relaxation of risk-management practices leads to a significant deterioration of Renaissance Credit'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 the 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.

Upside scenario

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 with a combination of lower-than-expected growth and no dividend payments over the next 12-18 months, such that the RAC ratio remains sustainably above 10%. However, this is not our base-case scenario.

Rationale

Renaissance Credit is a mid-sized Russian bank focused on unsecured retail lending. This makes it vulnerable to acute competition from both retail and universal banks in the country, and sensitive to challenging macroeconomic conditions due to the coronavirus pandemic. Nevertheless, we consider that the bank will show a degree of resilience, because it has a good geographic footprint across the country and good brand recognition. Also, we consider that Renaissance Credit is adequately capitalized and prices its risks well, but is quite vulnerable to the turn of the cycle. We expect it will be breakeven or modestly loss-making in 2020, due to higher provisions and lower commissions that come from lower origination volumes. On the positive side, management tightened underwriting standards in mid-2019 when early signs of market overheating became visible. This, along with better-than-expected asset-quality indicators reported in June and July lead us believe that the losses will be manageable and--unlike in 2014-2015--would not necessitate capital injection from the shareholder.

Anchor: 'bb-' for banks 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 '7'.

We believe that economic conditions will remain challenging for Russian banks over the next two years. We expect the Russian economy will contract by 4.8%, reflecting a hit to external demand, compounded by the shock to domestic demand from COVID-19 containment measures. However, the Russian economy could absorb the current shocks, and will likely recover by about 4.5% in 2021, in line with recovering oil prices and the global economy. At the same time, the risks to our baseline forecast remain firmly on the downside. What the spread of COVID-19 means for economic outcomes remains unclear, and could be worse than we currently assume. The speed of recovery will also depend on policy measures to cushion the blow, limit economic dislocation, and support economy and households.

We believe Russian banks' loan books will likely demonstrate limited growth of about 5% in 2020 overall (net of foreign exchange revaluation) in line with the overall deceleration of business activity in Russia and globally. We also expect limited demand from corporate borrowers, and a more pronounced deceleration in the retail segment resulting from regulatory actions aimed at decreasing banks' appetites for unsecured consumer lending.

In our base-case scenario, we assume that tough economic conditions will erode the debt-servicing capacity of corporates, small and midsized enterprises, and individual borrowers. We assume that Russian banks' nonperforming loans (Stage III loans) may reach up to 15% in 2020, compared with about 8% reported Stage III loans by the largest banks in 2019. The impact on the banks' profitability from additional provisioning could be deferred over 2020-2021, which could lessen substantial reduction of capital buffers. For 2020, we expect that Russian banks' new lending will slow while credit costs will likely increase up to 2.5%-3.0% of their average loan books under International Financial Reporting Standards (IFRS), leaving some banks with only break-even financial results.

Some banks will be more affected than others, depending on their exposure to the most vulnerable segments and industries, and their capacity to handle the current shock. Multiple aspects could be affected including banks' business prospects, credit quality, profitability, and potentially liquidity. However, as they have in the past, we expect the authorities (both the government and the Central Bank of Russia [CBR]) to act in a timely manner and support the financial system. The size and channels of this support are evolving. Russian banks' accumulated capital and liquidity cushions, potential extraordinary government support, and regulatory relaxation should help them, particularly large and systemic banks, weather the stress for now, though the situation may change quickly.

Although access to external funding remains limited because of the economic sanctions imposed on several large banks and corporates, we believe that banking sector funding stability in Russia has recently improved, supported by stable and growing domestic deposits over the past three years. The sector's external funding needs are small (about 5% of total liabilities compared with 15% in 2014). The deposit base has been stable at large banks. We expect that in case of increased volatility, larger banks will benefit from flight to quality, due to brand recognition and the perception that government support would be available. However, the situation is more nuanced at small banks, most of which have a confidence-sensitive funding profile. Recent volatility on the foreign exchange market and a worsening of the pandemic-related effects could potentially lead to a higher risk of temporary panic-fueled outflow of deposits. However, we believe the resulting liquidity squeeze would likely be manageable and supported by the CBR's liquidity tools where needed. The central bank's liquidity support is available for banks in case of need, and the efficiency of the liquidity support tools and mechanisms has been successfully tested over the past 10 years. The dominance of state banks in the Russian banking sector continues to distort competition and weigh on private-sector banks' creditworthiness, especially the small ones. In our view, banking regulation and supervision remain reactive rather than proactive. However, the central bank's efforts to clean up the banking sector have been positive for its stability.

Table 1

Commercial Bank Renaissance Credit LLC--Key Figures

	--Fiscal year ended Dec. 31--				
(Mil. RUB)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	163,934.8	158,092.2	128,612.6	96,146.4	112,417.0
Customer loans (gross)	149,650.4	137,918.4	111,386.7	83,242.7	73,278.5
Adjusted common equity	26,684.0	22,468.2	17,880.9	10,540.5	10,812.9
Operating revenues	27,060.6	27,079.6	22,060.6	16,859.0	14,478.0
Noninterest expenses	9,864.7	9,663.6	9,674.7	10,313.7	8,811.9
Core earnings	3,013.2	5,746.5	4,919.4	1,250.6	(6,684.5)

RUB--Russian ruble.

Business position: A midsize 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 and highly cyclical 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, reflecting a change toward a more sustainable business model and improved profitability.

With total assets of Russian ruble (RUB) 143 billion (about $2.4 billion) as of June 1, 2020, Renaissance Credit is among Russia's top-50 banks. Renaissance Credit focuses on unsecured cash loans, point-of-sale (POS) loans, and credit cards. We note that this market segment in Russia is highly competitive. The bank has a modest share in the system-wide unsecured lending of about 2%. However, it has been operating in the market for more than 10 years, and has a recognizable brand and developed franchise.

Digital shift and product innovation--such as spread of instalment cards in the Russian market-–create long-term challenges for Renaissance Credit's management. While the recent COVID-19-related restrictions prompted the bank to accelerate its shift toward digital sales channels, we think that the market leaders currently provide a more advanced offering for retail clients than Renaissance Credit, and the bank is somewhat lagging. As a result, the bank has access to less transactional data than some peers, and has to rely more on the data from other sources to enrich its scoring systems. That said, management has been implementing a more conservative strategy than many retail peers, curbing lending growth in mid-2019 when early signs of market overheating (mostly deterioration of collections) started to appear in Russia. We expect this will serve the bank well in 2020 as a COVID-19-related recession hits asset quality of the Russian banking sector.

Renaissance Credit is ultimately controlled by Mr. Prokhorov, who we view as highly supportive to the bank based on his track record of capital injections. 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

	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (mil. RUB)	27,776.6	27,186.3	22,216.3	17,173.9	16,016.1

Table 2

Commercial Bank Renaissance Credit LLC--Business Position (cont.)					
	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Return on average common equity	12.1	23.2	25.1	9.8	(43.6)

RUB--Russian ruble.

Capital and earnings: Adequate capitalization has been supported by good earnings capacity to date

We assess Renaissance Credit's capital and earnings as adequate, which reflects our expectation that the bank's RAC ratio will be in the 8.5%-9.8% range in the next 12-18 months.

Our forecast assumes that Renaissance Credit's portfolio will decline by about 10% in 2020 on the back of tighter underwriting standards and restrictions for particular groups of clients implemented by the bank. While the bank looks to revisit its growth plans in the second half of the year, we do not expect growth to recover significantly before mid-2021. We believe that the bank's operating revenues will decline by about 10% in 2020-2021 on the back of a smaller loan book and weaker commission income, which mostly comes from the sale of insurance or financial protection products, and is linked to origination volumes.

Our projections incorporate our expectations of a sharp increase in cost of risk to about 13%-14% of average gross loans in 2020—-a level commensurate with that of other consumer monoliners-followed by a normalization toward 6%-8% in 2021-2022, taking into account early performance indicators of the bank's loan book as of mid-2020. We expect the bank will be loss-making in 2020, and do not expect it will distribute dividends in 2020 or 2021. Our forecasts are subject to potential revision should our macroeconomic views change significantly.

Table 3

Commercial Bank Renaissance Credit LLC--Capital And Earnings					
	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
S&P Global Ratings' RAC ratio before diversification	8.8	7.8	7.5	5.9	3.1
S&P Global Ratings' RAC ratio after diversification	6.6	5.8	5.6	4.6	2.7
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	77.0	72.3	70.3	69.8	47.7
Fee income/operating revenues	21.1	27.3	30.1	30.1	36.3
Market-sensitive income/operating revenues	(1.2)	(0.1)	(0.8)	(0.6)	15.1
Noninterest expenses/operating revenues	36.5	35.7	43.9	61.2	60.9
Preprovision operating income/average assets	10.6	12.1	10.9	6.1	4.6
Core earnings/average managed assets	1.9	4.0	4.3	1.2	(5.5)

RAC--Risk adjusted capital.

Table 4

Commercial Bank Renaissance Credit LLC--Risk-Adjusted Capital Framework Data

(Mil. RUB)	Exposure*	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government & central banks	7,429.9	517.6	7.0
Of which regional governments and local authorities	0.0	0.0	0.0
Institutions and CCPs	14,926.0	7,517.0	50.4
Corporate	34.6	57.6	166.7
Retail	133,576.2	227,119.3	170.0
Of which mortgage	20.4	18.9	92.5
Securitization§	0.0	0.0	0.0
Other assets	6,602.3	18,345.3	277.9
Total credit risk	162,568.9	253,556.8	156.0
Credit valuation adjustment			
Total credit valuation adjustment	--	0.0	--
Market Risk			
Equity in the banking book	0.0	0.0	0.0
Trading book market risk	--	0.0	--
Total market risk	--	0.0	--
Operational risk			
Total operational risk	--	50,774.3	--
	Exposure	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments			
RWA before diversification	--	304,331.2	100.0
Total Diversification/ Concentration Adjustments	--	97,451.6	32.0
RWA after diversification	--	401,782.7	132.0
		Total adjusted capital	**S&P Global Ratings RAC ratio (%)**
Capital ratio			
Capital ratio before adjustments		26,684.0	8.8
Capital ratio after adjustments		26,684.0	6.6

*Exposure at default. Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. 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 2019', S&P Global Ratings.

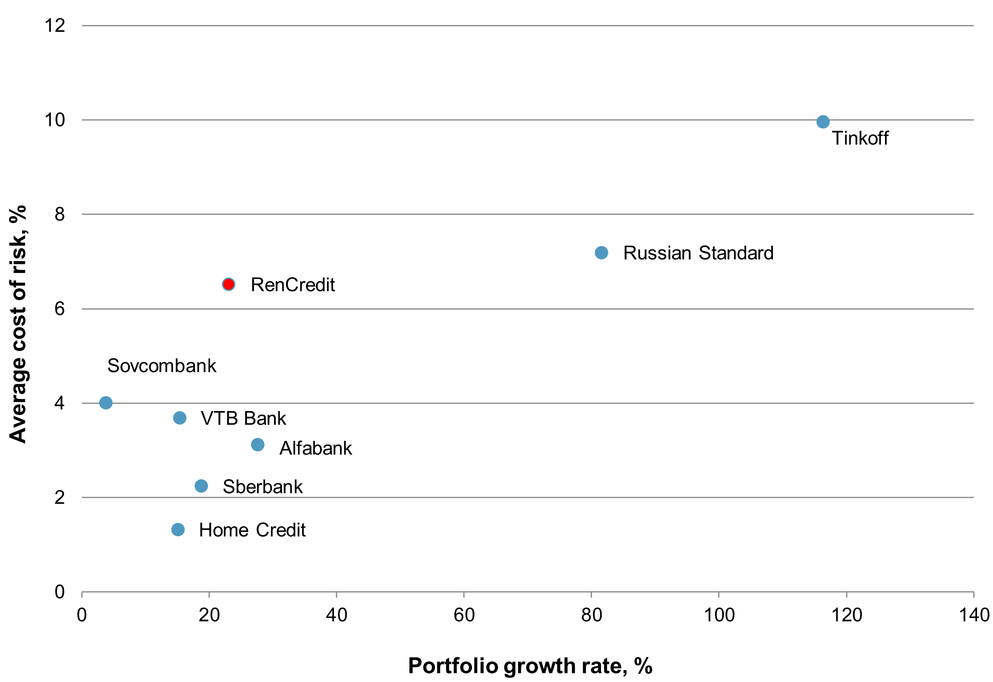
Risk position: Portfolio quality normalizes faster than initially expected

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 and procyclical segment, in our view.

Renaissance Credit is mostly a lending rather than day-to-day banking institution, and therefore we believe it operates in a more inherently risky market segment. This is supported by three-year-average cost of risk for POS and instalment loans of 6.5% for 2017-2019 compared with about 3% on average for the market (see chart 1). In the absence of transactional data present at larger banks with higher shares of customers' day-to-day transactions, Renaissance Credit has to rely on third party data providers--both traditional like credit bureaus and alternative such as telecom companies--which in our view may be a disadvantage in the long run in terms of the availability and quality of data used for credit analysis and pricing.

Chart 1

Renaissance Credit Operates In A Riskier Segment Than Large Peers
Cost of risk for POS and installment loans and portfolio growth rate in 2017-2019



POS--Point-of-sale. Source: S&P Global Ratings.

Over 2017-2019 Renaissance Credit's compound average growth rate in POS and instalment loans--although strong at about 23%--was largely comparable with the average for the banking sector, and to some extent reflected previous years of almost no growth. We view positively that the bank tightened its scoring thresholds, focusing on stronger clients in mid-2019 and curbing growth earlier than some of its peers. We believe that it would serve it well in 2020, as suggested already by some early data on new problem loans from June and July 2020, which indicates that portfolio quality almost stabilized at levels observed pre-COVID-19.

Table 5

Commercial Bank Renaissance Credit LLC--Risk Position					
	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	8.5	23.8	33.8	13.6	(11.2)
Total managed assets/adjusted common equity (x)	6.2	7.1	7.3	9.3	10.6
New loan loss provisions/average customer loans	8.6	7.8	5.9	6.3	16.3
Net charge-offs/average customer loans	5.2	5.0	6.1	13.1	27.8
Gross nonperforming assets/customer loans + other real estate owned	6.7	4.3	3.5	5.9	12.2
Loan loss reserves/gross nonperforming assets	140.9	158.6	99.3	85.6	106.6

Funding and liquidity: Retail deposits are adequately covered by liquidity buffers

In our view, Renaissance Credit's funding is average and comparable to peers', mainly reflecting the predominance of small-size retail deposits in its funding base. 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. 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 with broad liquid assets representing 12% of total assets, and net broad liquid assets covering 17.5% of short-term customer deposits as of Dec. 31, 2019. 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					
	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	96.2	95.6	93.0	90.0	79.5
Customer loans (net)/customer deposits	109.1	104.5	111.3	111.4	80.6
Long-term funding ratio	99.8	96.4	97.5	98.7	92.3
Stable funding ratio	109.6	109.9	107.3	107.8	143.5
Short-term wholesale funding/funding base	0.2	4.4	3.1	1.6	8.5
Broad liquid assets/short-term wholesale funding (x)	77.3	3.9	4.3	7.4	4.2
Net broad liquid assets/short-term customer deposits	17.5	15.0	11.6	11.6	35.6
Short-term wholesale funding/total wholesale funding	5.3	100.0	44.0	15.5	41.6
Narrow liquid assets/3-month wholesale funding (x)	N.M.	N.M.	15,501.6	31.4	48.3

N.M.--Not meaningful.

Support: No uplift to the SACP

We believe Renaissance Credit has low systemic importance in Russia. We therefore do not incorporate any notches of uplift in our ratings on the bank.

Additional rating factors: None

No additional factors affect the ratings.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- 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

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 August 21, 2020)*

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

Ratings Detail (As Of August 21, 2020)*(cont.)		
13-Jul-2017		B-/Stable/B
28-Apr-2017		B-/Negative/B
02-Jun-2017	*Russia National Scale*	NR/--/--
08-Jul-2015		ruBBB-/--/--
01-Jun-2015		ruBBB+/Watch Neg/--
Sovereign Rating		
Russia		
Foreign Currency		BBB-/Stable/A-3
Local Currency		BBB/Stable/A-2
Related Entities		
Renaissance Consumer Funding Ltd.		
Senior Unsecured		B
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.