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ACRA upgrades **RN Bank's** rating to **AA+(RU), outlook Stable,** and RN Bank bonds' rating to **AA+(RU)**

The credit rating of JSC «RN Bank» (hereinafter – RN Bank, or the Bank) has been upgraded following ACRA increased assessment of the funding and liquidity factor, which has led to an upgrade in the Bank's SCA to 'a-'. The credit rating of the bonds issued by the Bank has been upgraded following the upgrade of the Bank's rating.

RN Bank is a growing medium-sized credit institution fully owned by foreign shareholders, whose list includes the Italian bank UniCredit S.p.A. (40%), the French automobile manufacturer Renault S.A. (30% via its subsidiary RCI Banque S.A.), and the Japanese company Nissan Motor Co., Ltd (30%). As a captive finance company of Renault-Nissan-Mitsubishi Alliance, the Bank has focused its business profile on providing car loans and factoring financing of automotive dealers, with funds sourced mainly from its shareholders. RN Bank has no branch network and provides loans to individuals at car sales points (spread out nationwide, but concentrated mostly in the Central Federal District of Russia), while making factoring deals at its headquarters.

Key rating assessment factors

High likelihood of extraordinary shareholder support. ACRA believes that, when necessary, the shareholders (RCI Banque S.A., Nissan Motor Co., Ltd and Unicredit S.p.A., hereinafter – the supporting institutions) will provide the Bank with long-term and short-term financing, and replenish its capital, in view of the following:

- The strategic importance of the Russian market for Renault-Nissan-Mitsubishi Alliance;
- Potentially high reputational risks arising in case of RN Bank’s bankruptcy.

The final country risk of foreign supporting institutions’ presence jurisdictions compared to the Russian country risk, as well the Bank’s relationships with its shareholders are assessed by ACRA as generally strong, while supporting institutions’ creditworthiness is viewed by the Agency as moderately strong. In this regard, the Bank’s standalone creditworthiness assessment (SCA) is upgraded by 5 notches.

Adequate business profile. Operating income before provisions, although low diversified due to the narrow niche the Bank plays in (around 90% of its assets are formed by car loans and auto dealer financing), has been steadily climbing over the past four years fueled by a rapid development of both its core business and sideline activities (including insurance product sales to customers). Since the actual launch of operations in August 2013, after acquiring the license of bank Sibir followed by rebranding, RN Bank has been rapidly building up its operating efficiency, which is now assessed as high (as of December 31, 2017, its cost to income ratio, CTI, stood at around 31%). In 2018, the Bank pursues a strategy aimed at securing a moderate lending growth per year while maintaining net interest margin at 7–8%, which is generally in line with the current macroeconomic trends and is viewed by ACRA as a realistic approach in view of the humble market position the Bank has boasted so far. Its ownership structure is fully transparent, with no shareholder conflicts revealed up to date.

A material loss absorption cushion rests on the Bank’s own capital standing high enough by the regulatory norms (N1.2 and N1.0 equaled 10.7% and 12.6%), which allows RN Bank to sustain a more than 500 bps increase in credit risk, while the relatively low averaged capital generation ratio (ACGR) of 41 bps shown over the past four years is typical for most "young" banks or banks implementing a new strategy.

Adequate risk profile assessment is based on the RN Bank's risk management system quality, manifested through its independence in internal decision making and shareholder control over risk functions at the Bank, being further supported by high underwriting standards, transparent and streamlined risk management, and regularly updated risk management solutions. Among other things, all these factors in ensemble provide for a high quality credit portfolio (87% of assets), with the share of potentially problem loans being low by all measurements, including peer group analysis. According to ACRA, this share equaled 2.2% as of December 31, 2017, while NPL90+ and restructured loans stood at 1%. The dominant part of outstanding receivables is made up by car loans (69% of the portfolio), and the other 31% is filled up with factoring financing of automobile dealers. In short, the portfolio shows no concentration on high-risk industries and related parties, and a relatively low one of 15.6% on the largest borrowers.

An upgrade of the liquidity assessment from satisfactory to adequate rests on the Bank's transition to longer term funding (including three year bond issues, 23% of liabilities) and a frequent extension of interbank loans and shareholder deposits (55% of liabilities) amid the increasing share of the 35-40 days factoring financing of car dealers in the loan portfolio. ACRA notes no imbalances within longer periods, with the short-term liquidity shortage indicator (STLSI) showing a comfortable 90%. The RN Bank's capability to fulfill its obligations on the 90-day horizon is high, given its substantial short-term liquidity surplus featuring in both the base case and stress scenarios, as well as the option for instantly raising significant amounts of short-term ruble liquidity from shareholders. No large-scale redemptions/outflows are expected in the next 12 months. At the same time, the Bank's concentration on top creditors is still high (63% of funding base account for the top 10 creditors, including 20.3% for the largest creditor). No funds are raised from the regulator.

Key assumptions

- Adhering to the current business model within the 12 to 18-month horizon;
- No dramatic shareholder structure changes within the 12 to 18-month horizon;
- Net interest margin within 7–8%;
- Capital adequacy ratio (N1.2) above 10.5% within the 12 to 18-month horizon.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- An increase in capital adequacy;
- A decline in concentration on the largest creditor/creditors.

A negative rating action may be prompted by:

- A decline in shareholders' willingness to support the Bank;
- A dramatic shift in the business development strategy;
- A substantial growth of the share of problem loans in the loan portfolio of the Bank.

Rating components

Standalone creditworthiness assessment (SCA): a-.

Adjustments: none.

Support: 5 notches up to the SCA.

Issue ratings

Bond issued by JSC «RN Bank», series BO-001R-01 (RU000A0JXNV6), maturity date: April 16, 2020, issue volume: RUB 5 bln – AA+(RU);

Bond issued by JSC «RN Bank», series BO-001R-02 (RU000A0ZYCQ3), maturity date: October 14, 2020, issue volume: RUB 5 bln – AA+(RU).

Rationale. The credit ratings of the bonds issued by the Bank has been upgraded from AA(RU) to AA+(RU) following the upgrade of the issuer rating. The issues represent senior unsecured debt whose ratings are equivalent to that of JSC «RN Bank», i.e. AA+(RU).

Regulatory disclosure

The credit ratings were assigned to JSC «RN Bank» and the bonds (RU000A0JXNV6, RU000A0ZYCQ3) issued by JSC «RN Bank» 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 Relationships Between Rated Entities and Supporting Organizations Registered Outside the Russian Federation, and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities. To assign credit ratings to the bond issues above, ACRA also used the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation.

The credit rating assigned to JSC «RN Bank» and the credit ratings assigned to the bonds (RU000A0JXNV6, RU000A0ZYCQ3) issued by JSC «RN Bank» were first published by ACRA on March 02, 2017, April 17, 2017, and October 12, 2017, respectively. The credit rating of JSC «RN Bank» and its outlook, as well as the credit ratings of the bonds (RU000A0JXNV6, RU000A0ZYCQ3) issued by JSC «RN Bank» are expected to be revised within one year following the rating action date (February 27, 2018).

The credit ratings were assigned and upgraded based on the data provided by JSC «RN Bank», information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of JSC «RN Bank» and statements of JSC «RN Bank» composed in compliance with the Bank of Russia Ordinance No. 4212-U dated November 24, 2016. The credit ratings are solicited, and JSC «RN Bank» participated in the rating process.

No material discrepancies between the provided data and the data officially disclosed by JSC «RN Bank» in its financial statements have been discovered.

ACRA provided no additional services to JSC «RN Bank». No conflicts of interest were discovered in the course of credit rating process.

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with the Russian legislation and with regard to global rating industry best practices.

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