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Research Update:

Russia-Based RN Bank JSC Ratings Affirmed At 'BB+/B'; Outlook Stable

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Overview

- RN Bank has demonstrated sound operating performance over the past year supported by good underwriting procedures and ongoing financial and managerial support from shareholders, which is in line with our previous expectations.
- We continue to see RN Bank as a strategically important subsidiary of both RCI Banque S.A. (financial arm of Renault S.A.) and Nissan Motor Co. This is due to its role as a captive bank that provides financing to end-consumers and dealers of cars produced by Renault-Nissan-Mitsubishi Alliance in Russia. We expect shareholders to stay committed to support RN Bank's development.
- We are therefore affirming our 'BB+/B' ratings on RN Bank JSC.
- The stable outlook reflects our view that RN Bank's creditworthiness will likely remain stable over the next 12-18 months, with expected business growth supported by a planned capital injection from shareholders.

Rating Action

On May 8, 2018, S&P Global Ratings affirmed its 'BB+/B' long-term and short-term issuer credit ratings on Russia-based RN Bank JSC. The outlook is stable.

Rationale

The affirmation reflects our opinion that RN Bank continues to demonstrate sound operating performance and remains a strategically important subsidiary of both RCI Banque (BBB/Stable/A-2) and Nissan Motor Co. (A/Stable/A-1).

RN Bank's stand-alone credit profile (SACP) is 'b+'. This assessment balances the risks related to the bank's business concentration in the niche car financing segment in Russia with solid underwriting procedures that have so far allowed it to maintain good loan portfolio quality and ongoing financial and managerial support from shareholders.

We assess RN Bank's business position as weak, reflecting its highly concentrated business focus on car financing linked with two producers, Renault and Nissan. This makes it dependent on the parent businesses' growth dynamics in Russia and their ongoing support. We also note that RN Bank is

smaller than global peers. With total assets of Russian ruble (RUB) 81 billion (about US\$1.4 billion) as of April 1, 2018, under Russian accounting standards RN Bank ranked No. 72 among Russian banks. At the same time, the recent acquisition of Avtovaz by Renault could support the bank's business future growth as Lada cars produced by Avtovaz are currently among the best selling vehicles in Russia.

We think that RN Bank's capital and earnings are strong, supported by the solid earnings generation capacity and announced capital increase of RUB3 billion planned in the third quarter of 2018. We understand that shareholders will participate in capital increase pro rata with their current stakes in RN Bank--RCI Banque (30%), Nissan Motor Co. (30%), and UniCredit AO (40%). We anticipate the bank's risk-adjusted capital ratio will be close to 13% in the next 12-18 months, assuming annual loan portfolio growth of 12%, credit costs around 1.2%-1.4% of total loans, absence of dividends in 2018, and a dividend payout close to one-third of the annual profit in 2019, under our estimate.

Our assessment of RN Bank's risk position as adequate takes into account the high sector concentration in the loan portfolio. This is mitigated by the better-than-sector-average quality of its assets and prudent risk management compared with other consumer finance banks in Russia. We expect the level of RN Bank's nonperforming loans (NPLs, more than 90 days overdue) will remain in the range of 1.0%-1.3% of total loans in the next 12-18 months.

We assess RN Bank's funding as average, supported by continued funding support from shareholders. Although the bank's stable funding ratio (SFR) at around 63% at the end of 2017 is below average for Russian banks (above 100% on the same date), this is mitigated by two factors: (i) low SFR is a result of a significant amount of funding support--accounting for more than half of total funding as of end-2017--provided from shareholders, RCI Banque, UniCredit Bank AO, and Nissan Motor Co., which is reported as short-term funding while in fact we expect this funding from committed shareholders to be rolled-over regularly and to remain a stable funding source for RN Bank over the next few years; and (ii) we expect the overall funding base of RN Bank to be very stable, as demonstrated by the track record over the past years.

We consider RN Bank's liquidity to be adequate, given the bank's access to ample liquidity lines from the parents. The bank's liquid assets accounted for 8.3% of total assets on April 1, 2018.

We see RN Bank's group status toward RCI Banque and Nissan Motor Co. as strategically important because RN Bank functions as a financing vehicle supporting the sales of Renault-Nissan-Mitsubishi Alliance production in Russia and thus underpinning customer loyalty to these brands. Russia is one of the largest markets for Renault-Nissan-Mitsubishi Alliance globally and both shareholders have invested material resources to develop production facilities in Russia in recent years. For this reason, we consider that RCI Banque and Nissan Motor Co. would have strong incentives to continue supporting RN Bank in its normal operations and provide extraordinary support in the case of stress.

Although the share of funding from the parent companies decreased to 52% of total funding as of end-2017 from 83% a year ago, we believe that this was driven by purely commercial reasons and we consider shareholders to remain committed to provide financial support to the bank. In addition, RN Bank successfully placed two bond issues in 2017 in the total amount of RUB10 billion, which reduced its total cost of funds.

Outlook

The stable outlook reflects our view that RN Bank's creditworthiness will likely remain at the current level over the next 12-18 months. We believe that the bank will continue benefiting from the ongoing support of shareholders that provide it with financial resources and managerial expertise. We expect the bank's capitalization to remain strong, supported by the sound earnings generating capacity and good quality of its loan portfolio with credit costs staying at about 1.2%-1.4% of total loans, which is below average for the Russian banking sector.

We could downgrade RN Bank if we saw a diminished commitment from RCI Banque or Nissan Motor Co. to provide support in terms of capital or funding. We could also take this action if the bank's strategy for the Russian market changed in such a way that we considered that the bank's group status toward one or both shareholders had weakened and our expectations for shareholder support diminished.

We would also consider lowering our ratings on RN Bank if its SACP deteriorated due to weakening capital levels, with our risk-adjusted capital ratio falling below 10%, or if we observed the bank's increasing risk appetite, leading to material asset quality deterioration. In addition, we could lower the ratings if we considered, contrary to our current expectations, that its funding profile had deteriorated or its liquidity management had substantially weakened.

We could upgrade RN Bank if we considered that its market standing and business position had improved, demonstrated by a strong track record of sustainable good operating results through the macroeconomic cycle. We consider such an improvement unlikely within the forecast horizon, but possible in the longer term.

Ratings Score Snapshot

Issuer Credit Rating	BB+/Stable/B
SACP	b+
Anchor	bb-
Business Position	Weak (-2)

Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	(+3)
GRE Support	(0)
Group Support	(+3)
Sovereign Support	(0)
Additional Factors	(0)

GRE--Government-related entity.

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

RN Bank JSC

Counterparty Credit Rating

BB+/Stable/B

Additional Contact:

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Certain terms used in this report, particularly certain adjectives used to

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