

Research Update:

Russian RN Bank Affirmed At 'BB+/B' Despite The Downgrade Of One Of Its Shareholders, Nissan Motor Co.

July 14, 2020

Overview

- We lowered our long-term rating on one of RN Bank's shareholders, carmaker Nissan Motor Co., to 'BBB-' from 'BBB' on July 4, 2020.
- At the same time, we affirmed our rating on a second shareholder, RCI Banque (BBB/Negative/A-2), the financial arm of Renault S.A., on April 10, 2020.
- We continue to see RN Bank as a strategically important subsidiary of both RCI Banque S.A. and Nissan Motor Co. Ltd. in view of its important role in financing car sales in Russia and maintaining client loyalty. We believe that RCI Banque will be able to provide RN Bank sufficient support in case of stress, at a similar level as previously.
- We are therefore affirming our 'BB+/B' issuer credit ratings on RN Bank JSC.
- The stable outlook reflects our view that RN Bank will be able to maintain a robust financial profile in the next 12 months, while continuing to benefit from the support of its most creditworthy shareholder, RCI Banque.

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Rating Action

On July 14, 2020, S&P Global Ratings affirmed its 'BB+/B' long-term and short-term issuer credit ratings on RN Bank JSC. The outlook is stable.

Rationale

The ratings affirmation reflects our expectation that RN Bank will be able to maintain a sound financial profile in the next 12 months despite the current market turmoil. Although we see pressure on the creditworthiness of one of RN Bank's shareholders, Nissan Motor Co., we expect its other shareholder, RCI Banque, a financial arm of Renault S.A., will be able and willing to support RN Bank in case of need at a similar level as previously. While we do not expect RCI to be

immune to the impacts of COVID-19, we note that it is entering this uncertain environment on a strong footing. It has solid earning capacity, a low cost-to-income ratio at about 30%, and strong capitalization, with an expected S&P Global Ratings risk-adjusted capital (RAC) ratio of above 11% in the next two years.

We also consider that RN Bank will remain a strategically important subsidiary of both RCI Banque and Nissan Motor Co. as it performs important functions of financing car sales and maintaining client loyalty of both car producers in Russia. We expect that the strategy of Renault-Nissan-Mitsubishi Alliance in Russia won't change materially, despite global market pressures resulting from the COVID-19 pandemic. Renault and Nissan have invested significant resources in production plants in Russia and the Russian market is consistently among the top-5 markets by car sales for the Alliance. We do not expect support to come from the third shareholder, UniCredit, as we believe it considers its holding in RN Bank as a financial investment.

We expect RN Bank's loan portfolio will decrease by about 10% in 2020, less than the reduction in car sales in Russia, which we project at about 15%-20% this year. This is because we forecast that the bank will increase its penetration into the sales of auto manufacturer Avtovaz, both in the retail and wholesale segments. We also expect that the subsidies provided by the Russian government to Avtovaz's customers and lower-priced car models produced by Renault should support RN Bank's business volumes. RN Bank's market share in the overall Russian banking sector is still relatively small, with total assets of Russian ruble (RUB)106 billion, it ranked No. 58 among approximately 400 Russian banks on June 1, 2020. At the same time, we note that the bank's market share in the Russian auto loan segment was about 9% on the same date.

We expect RN Bank will keep to its strict and prudent procedures in terms of borrower selection, which have so far allowed it to maintain good loan portfolio quality. This should allow the bank to maintain problem loans, classified as Stage 3 under International Financial Reporting Standard (IFRS) 9, below 2.5% of total loans in the next two years (2.3% on July 1, 2020). This is significantly lower than our expectation for the Russian banking sector average that we expect to increase to about 15% at the end of 2020. We also see as a strength RN Bank's good operating efficiency compared with local peers' with cost-to-income ratio of 24% (the average for the top-10 Russian banks was 39% last year).

We expect that RN Bank will be able to maintain its strong capital and earnings in the next two years. We forecast the bank's RAC ratio will be 14.2%-14.4% during this period, assuming a loan portfolio drop by about 10% in 2020 and annual growth of 10%-15% in the next two years, credit costs of 1.3%-2.0% of total loans and no dividend payouts.

We believe that RN Bank's funding profile will continue benefitting from continuous support from shareholders. We also expect that the bank will keep its access to ample liquidity lines from the parents. The bank's liquid assets accounted for about 13% of total assets on July 1, 2020.

Outlook

The stable outlook reflects our view that RN Bank will maintain a robust financial profile in the next 12 months, despite the challenging operating environment caused by COVID-19 measures in Russia and the rest of the world. We believe the bank will continue benefitting from ongoing financial and management support from its shareholders, in particular, RCI Banque. We also expect capitalization will remain strong in the next two years, supported by sound earnings, a modest risk appetite, and good loan portfolio quality, with credit costs not exceeding 2% of total loans, which is lower than the expected average for the Russian banking sector.

Upside scenario

We consider a positive rating action as unlikely in the next 12 months, given the challenging operating environment for banks in Russia and our ratings and outlooks on shareholders RCI Banque (BBB/Negative/A-2) and Nissan Motor Co. (BBB-/Negative/A-2).

Downside scenario

We could take a negative rating action on RN Bank if we saw a weaker ability of RCI Banque to provide support. We could also take a negative rating action if the strategy of Renault or Nissan for the Russian market changed in such a way that we considered the importance of RN Bank for them had weakened and the prospects for its support had diminished. Among other scenarios this might be driven by further deterioration in Nissan's creditworthiness.

We would also consider lowering our ratings on RN Bank if its stand-alone credit profile deteriorated due to declining capital, with our RAC ratio falling below 10%, or if we observed material asset-quality deterioration related to weakening creditworthiness of auto dealers or retail borrowers. In addition, we could lower the ratings if we considered that, contrary to our current expectations, RN Bank's funding profile had deteriorated or its liquidity management had weakened substantially.

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	Average and
Liquidity	Adequate (0)
Support	(+3)
GRE Support	(0)
Group Support	(+3)
Sovereign Support	(0)
Additional Factors	(0)

GRE--Government-related entity.

Related Criteria

- 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

RN Bank JSC

Issuer Credit Rating BB+/Stable/B

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on 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.

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