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

The credit rating of JSC «RN Bank» (the Bank) has been upgraded on higher capital adequacy assessment, 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 also, which reflects the upgrade of the Bank's rating.

The Bank is a medium-sized credit institution fully owned by foreign shareholders, including AO UniCredit Bank (ACRA rating: AAA(RU), outlook: Stable), a subsidiary of UniCredit S.p.A., with a 40% share, the French automobile manufacturer Renault S.A. (30% via its subsidiary RCI Banque S.A.), and the Japanese company Nissan Motor Co., Ltd. (30%). The Bank is a captive finance company of Renault-Nissan-Mitsubishi Alliance, therefore its business profile is focused on car loans and factoring receivables for car dealerships. The Bank has no own branch network, but it issues secured loans through car showrooms (spread out nationwide, but concentrated mostly in the Central Federal District of Russia). In contrast, factoring deals are made in the Bank's headquarters only.

Key rating assessment factors

High likelihood of extraordinary support from the supporting institutions. ACRA believes that, in case of need, RCI Banque S.A., Nissan Motor Co., Ltd., and Unicredit S.p.A. considered by ACRA as the supporting institutions (because AO UniCredit Bank, in particular, coordinates all strategic decisions concerning the Bank with Unicredit S.p.A.) will provide the Bank with long-term and short-term financing, and replenish its capital, in view of the following:

- Strategic importance of the Russian market for Renault-Nissan-Mitsubishi Alliance;
- Potentially high reputational risks that may arise out of the Bank's bankruptcy.

ACRA assesses the final country risk of foreign supporting institutions' jurisdictions of presence (compared to the Russian country risk) and the Bank's relationships with its shareholders as generally strong, and 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. Although low diversified due to the narrow business niche of the Bank, the operating income before provisions has been climbing steadily over the past five years, fueled by a rapid development of both the Bank's core business and ancillary services (financial services supplementing retail lending performed by the Bank). Since the actual launch of operations in August 2013, after getting control of Bank Sibir and rebranding it, the Bank has been rapidly building up its operating efficiency, which is now assessed as high (as of December 31, 2018, the cost to income ratio, CTI, stood at around 28%). In 2019, the Bank will pursue a strategy aimed at maintaining an acceptable growth rate of its lending business and the net interest margin at 7%, which is generally in line with the current macroeconomic trends and is viewed by ACRA as a realistic approach. The Bank's ownership structure is transparent.

The capital adequacy assessment has been upgraded to 'strong,' because the capital positions of the Bank improved after additional shares for RUB 3 bln were placed privately in June 2018. As of February 01, 2019, the N1.2 and N1.0 ratios equaled to 15.1% and 16.3%, respectively. According to stress tests carried out by ACRA, the Bank may withstand a credit risk increase far exceeding 500 bps, without a breach of capital adequacy ratios or the need to attract any financial assistance from shareholders. The current averaged capital generation ratio is low (90 bps over the past five years), which is caused by the short existence period of the Bank, but the ratio has been tending to grow fast.

Adequate risk profile assessment stems from the sound quality of the Bank's risk management function, which is based on the principle of independence within the internal decision-making processes and strictly supervised by the Bank's shareholders, and supported by the high underwriting standards, transparent and streamlined risk management procedures, and regularly updated risk management solutions, which is confirmed by, among other things, the high quality of the loan portfolio. In ACRA's opinion, the share of problem and potentially problem loans in the portfolio is not high (5.9%, including 0.8% of NPL90+, as of December 31, 2018). The Bank's receivables include car loans (61% of the portfolio) and factored receivables (39%). In view of the above, the portfolio shows no concentration on high-risk industries or related parties, and the concentration on the largest borrowers has remained low (16% of the portfolio).

Adequate liquidity and funding assessment. The Bank's capability to fulfill its obligations on the 90-day horizon is high, given the substantial short-term liquidity surplus demonstrated in both the base case scenario (about RUB 15 bln) and the stress scenario (8.7% of liabilities), as well as the option for instantly raising significant amounts of short-term ruble liquidity from shareholders. The average short-time liquidity indicator amounted to 230% in 2018. ACRA notes no imbalances within longer periods, with the long-term liquidity shortage indicator being high enough. No large-scale redemptions/ fund outflows are expected to occur in the next 12 months.

At the same time, the Bank's concentration on top lenders has remained high (81% of funding base account for top 10 lenders, including 29% for the largest lender). The Bank has raised no funds 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%;
- Capital adequacy ratio (N1.2) above 11% within the 12 to 18-month horizon;
- UniCredit S.p.A. will retain its shareholding, strategic and operating control over AO UniCredit Bank as a shareholder of the Bank.

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 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 — AAA(RU);

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

Bond issued by JSC «RN Bank», series BO-001R-03 (RU000A0ZZUK5), maturity date: November 22, 2021, issue volume: RUB 5 bln — AAA(RU);

Bond issued by JSC «RN Bank», series BO-001R-04 (RU000A1003Q0), maturity date: February 16, 2022, issue volume: RUB 5 bln — AAA(RU).

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

Regulatory disclosure

The credit ratings were assigned to JSC «RN Bank» and the bonds (ISIN RU000A0JXNV6, RU000A0ZYCQ3, RU000A0ZZUK5, RU000A1003Q0) 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 (ISIN RU000A0JXNV6, RU000A0ZYCQ3, RU000A0ZZUK5, RU000A1003Q0) issued by JSC «RN Bank» were first published by ACRA on March 02, 2017, April 17, 2017, October 12, 2017, November 19, 2018, and February 13, 2019, respectively. The credit rating of JSC «RN Bank» and its outlook, as well as the credit ratings of the bonds (ISIN RU000A0JXNV6, RU000A0ZYCQ3, RU000A0ZZUK5, RU000A1003Q0) issued by JSC «RN Bank» are expected to be revised within one year following the publication date of this press release.

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 the IFRS financial statements of JSC «RN Bank» and the financial statements of JSC «RN Bank» composed in compliance with the Bank of Russia Ordinance No. 4927-U dated October 08, 2018. 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.

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