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Key rating assessment factors

ACRA upgrades JSC “ALFA-BANK” to AA+(RU), outlook Stable, and upgrades credit ratings of bond issues

The credit rating of [JSC “ALFA-BANK”](#) (hereinafter, Alfa-Bank, or the Bank) has been upgraded to AA+(RU) based on its improved capital position, which has resulted in the upgrade of its standalone creditworthiness assessment (SCA) to "aa-." The credit rating of the Bank is also backed by its strong business profile, adequate liquidity and funding position, and satisfactory risk profile. The rating is further supported by the Bank's moderate systemic importance for the Russian financial market.

The credit ratings of the Bank's bonds (RU000A0ZYGB6, RU000A0JX5W4, RU000A0ZYU21, XS1567117566, RU000A0ZYWB3, RU000A0JXRV7, RU000A0ZZEW4, RU000A0ZYBM4, XS1648266788, RU000A0ZZRB0, RU000A0ZZZ66, XS1946883342, RU000A100998, RU000A100PQ8), which are senior unsecured debt instruments, have been upgraded to AA+(RU) due to the upgrade of the credit rating of the Bank.

The credit ratings of the Bank's bond XS2063279959, which is a Tier 2 capital instrument, has been upgraded to A+(RU) due to the upgrade of the credit rating of the Bank.

The credit ratings of the Bank's bonds (XS1513741311, XS1760786340, RU000A100GW5), which are Tier 1 capital instruments, have been upgraded to BBB(RU) due to the upgrade of the Bank's SCA.

Alfa-Bank is a universal nation-wide bank focusing on lending to large- and medium-sized businesses and individuals, and on transactional services to customers. As of October 1, 2019, the Bank ranked 4th in assets and 3rd in capital raised from individuals. Alfa-Bank is the largest privately owned bank in Russia in terms of assets, capital, customer accounts and loan portfolio. The Bank is a part of ABH Financial Limited (the Group).

Strong business profile assessment (a). The Bank is marked by its strong franchise in lending and transactional services provided to businesses and individuals, and moderate diversification of its operating income. High quality corporate governance and adequate development strategy are also positive for the rating assessment.

The capital adequacy assessment has been upgraded to strong because the N1.2 ratio has stabilized at the level that ensures the substantial absorption buffer for unforeseen losses and equal to 11.2% as of October 1, 2019 (the ratio's minimum value in the last 12 months was 10.7%). IFRS Tier 1 CAR was 17.34% as of December 31, 2018 and 17.26% as of June 30, 2019, according to the Bank, which confirms the Bank's high ability to withstand the cost of credit risk increase by about 500 bps (in ACRA's stress scenario). At the same time, Alfa-Bank has retained its strong capital generation capacity (ACGR = 100–150 bps for 2015–2018) and supported its regulatory capital adequacy ratios through issuance of various financial instruments.

Satisfactory risk profile assessment. ACRA notes that the Bank's loan portfolio quality has been generally stable regardless that the share of Stage 3 loans under IFRS 9 has grown to 5.1% (including 2.2% of NPL90+) as of June 30, 2019. In addition, according to the analysis of top 50 borrower groups, the share of other potentially problem loans (as defined in ACRA's methodology) comprises another 1.4% of the Bank's total loan portfolio. The concentration of the loan portfolio on top 10 groups of affiliated borrowers (19.6% as of June 30, 2019) has continued to decline. A negative impact on the Bank's risk profile assessment is exerted by the high share of non-collateralized loans, which, however, is counter-balanced by the dominating role the largest corporates with high credit quality play among other borrowers and the high growth rate of the loan portfolio pushed up by unsecured loans granted to individuals.

Adequate liquidity position. Under ACRA's base case scenario, the Bank can withstand, with a moderate margin, an outflow of customer funds, and in the stress scenario, the short-term liquidity shortage indicator (STLSI) is moderately negative (-4.4%). ACRA notes that the 12-month average liquidity coverage ratio (LCR) exceeds 100%. The long-term liquidity position is assessed as adequate, as the long-term liquidity shortage indicator (LTLSI) reached 71% by the end of H1 2019.

The funding structure is well-balanced due to an adequate diversification by funding source (the share of individuals' funds was 41.7% as of June 30, 2019) and lender (the share of the largest lender was 3.3%, and the share of top 10 lenders was 11.1% of liabilities).

Moderate systemic importance. In our opinion, in case the Bank defaults, this may lead to a systemic crisis in certain segments of the Russian banking market and, consequently, may have a significant negative impact on the Russian financial sector and entire economy. Alfa-Bank is on the Bank of Russia's list of systemically important credit institutions.

Key assumptions

- Maintaining strong competitive positions in key business segments;
- Cost of credit risk within 2–3%;
- Net interest margin within 4.0-5.0%;
- Tier-1 capital adequacy ratio (N1.2) above 9% within the 12 to 18-month horizon;
- Maintaining the current funding structure.

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:

- A decline of the share of problem loans in the loan portfolio below 5% amid moderate growth in new loan issuances;
- A substantial growth of the share of collateralized lending.

A negative rating action may be prompted by:

- A significant decrease in the level of regulatory capital adequacy as a result of increase in the cost of risk or aggressive dividend policy;
- Substantial decline in the profitability of the Bank;
- Deterioration of the liquidity and/or funding position.

Rating components

SCA: aa-

Adjustments: none.

Support: systemic importance, 2 notches up.

Issue ratings

Credit rating rationale. The issues listed below represent senior unsecured debt of JSC "ALFA-BANK". Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as equal to other existing and future unsecured and unsubordinated debt obligations of the Bank's in terms of priority. According to the ACRA methodology, the credit rating of the issues is equivalent to that of [Alfa-Bank, i.e. AA+\(RU\)](#).

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", BO-22 series \(RU000A0ZYGB6\)](#), maturity date: December 4, 2032, issue volume: RUB 5 bln, – **AA+(RU)**.

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", BO-18 series \(RU000A0JX5W4\)](#), maturity date: January 5, 2032, issue volume: RUB 5 bln, – **AA+(RU)**.

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", BO-40 series \(RU000A0ZYU21\)](#), maturity date: March 4, 2033, issue volume: RUB 10 bln, – **AA+(RU)**.

[JSC "ALFA-BANK" Eurobond \(LPN\) \(XS1567117566\)](#), actual issuer: Alfa Bond Issuance Plc, maturity date: February 16, 2022, issue volume: RUB 10 bln, – **AA+(RU)**.

[Exchange-traded interest-bearing certified unregistered bond issued by JSC "ALFA-BANK", BO-39 series \(RU000A0ZYWB3\)](#), maturity date: March 17, 2033, issue volume: RUB 10 bln, – **AA+(RU)**.

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", BO-20 series \(RU000A0JXR7\)](#), maturity date: May 11, 2032, issue volume: RUB 5 bln, – **AA+(RU)**.

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", 002P-01 series \(RU000A0ZZEW4\)](#), maturity date: August 2, 2021, issue volume: RUB 10 bln, – **AA+(RU)**.

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", BO-21 series \(RU000A0ZYBM4\)](#), maturity date: October 13, 2032, issue volume: RUB 5 bln, – **AA+(RU)**.

[JSC "ALFA-BANK" Eurobond \(LPN\) \(XS1648266788\)](#), actual issuer: Alfa Bond Issuance Plc, maturity date: July 20, 2021, issue volume: RUB 10 bln, – **AA+(RU)**.

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", 002P-02 series \(RU000A0ZZRB0\)](#), maturity date: November 1, 2021, issue volume: RUB 10 bln, – **AA+(RU)**.

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", 002P-03 series \(RU000A0ZZZ66\)](#), maturity date: June 24, 2022, issue volume: RUB 5 bln, – **AA+(RU)**.

[JSC "ALFA-BANK" Eurobond \(LPN\) \(XS1946883342\)](#), actual issuer: Alfa Bond Issuance Plc, maturity date: August 6, 2022, issue volume: RUB 10 bln, — **AA+(RU)**.

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", 002P-04 series \(RU000A100998\)](#), maturity date: April 13, 2021, issue volume: RUB 10 bln, — **AA+(RU)**.

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", 002P-05 series \(RU000A100PQ8\)](#), maturity date: August 11, 2022, issue volume: RUB 8 bln, — **AA+(RU)**.

Credit rating rationale. The issue below is a subordinated debt of the Bank with respect to senior unsecured creditors and a Tier 2 capital instrument. According to ACRA's methodology, the credit rating of this issue is three notches below the credit rating of [Alfa-Bank](#).

[Subordinated Eurobond \(LPN\) issued by JSC "ALFA-BANK" \(XS2063279959\)](#), actual issuer: Alfa Bond Issuance Plc, maturity date: April 15, 2030, issue volume: USD 400 mln, — **A+(RU)**.

Credit rating rationale. The issues listed below envisage a significant level of subordination relative to senior unsecured creditors, and they are Tier 1 capital instruments. According to ACRA's methodology, the final credit rating of this type of issues has to be five notches below the SCA of the Bank (aa-).

[Subordinated perpetual Eurobond issued by JSC "ALFA-BANK" \(XS1513741311\)](#), actual issuer: Alfa Bond Issuance Plc, maturity date: not set, issue volume: USD 700 mln, – **BBB(RU)**.

[Subordinated perpetual Eurobond issued by JSC "ALFA-BANK" \(XS1760786340\)](#), actual issuer: Alfa Bond Issuance Plc, maturity date: not set, issue volume: USD 500 mln, – **BBB(RU)**.

[Subordinated perpetual bond issued by JSC "ALFA-BANK" \(RU000A100GW5\)](#), maturity date: not set, issue volume: RUB 5 bln, – **BBB(RU)**.

Regulatory disclosure

The credit ratings of JSC "ALFA-BANK" and bond issues of JSC "ALFA-BANK" (ISIN RU000A0ZYGB6, ISIN RU000A0JX5W4, ISIN RU000A0ZYU21, ISIN XS1567117566, ISIN RU000A0ZYWB3, ISIN RU000A0JXRV7, ISIN RU000A0ZZEW4, ISIN RU000A0ZYBM4, ISIN XS1648266788, ISIN RU000A0ZZRB0, ISIN XS1513741311, ISIN XS1760786340, ISIN RU000A0ZZZ66, ISIN XS1946883342, ISIN RU000A100998, ISIN RU000A100PQ8, ISIN XS2063279959, ISIN RU000A100GW5) were assigned 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](#) and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied to assign credit ratings to the above issues.

The credit rating assigned to JSC "ALFA-BANK" was first published by ACRA on November 15, 2016; the credit rating assigned to the bond issue (ISIN RU000A0ZYGB6) – November 24, 2017; the credit rating assigned to the bond issue (ISIN RU000A0JX5W4) – January 24, 2017; the credit rating assigned to the bond issue (ISIN RU000A0ZYU21) – February 21, 2018; the credit rating assigned to the bond issue (ISIN XS1567117566) – February 17, 2017; the credit rating assigned to the bond issue (ISIN RU000A0ZYWB3) – March 6, 2018; the credit rating assigned to the bond issue (ISIN RU000A0JXRV7) – May 31, 2017; the credit rating assigned to the bond issue (ISIN RU000A0ZZEW4) – July 31, 2018; the credit rating assigned to the bond issue (ISIN RU000A0ZYBM4) – October 2, 2017; the credit rating assigned to the bond issue (ISIN XS1648266788) – July 24, 2017; the credit rating assigned to the bond issue (ISIN RU000A0ZZRB0) – October 30, 2018; the credit rating assigned to the bond issue (ISIN XS1513741311) – December 9, 2016; the credit rating assigned to the bond issue (ISIN XS1760786340) – January 31, 2018, the credit rating assigned to the bond issue (ISIN RU000A0ZZZ66) – December 21, 2018, the credit rating assigned to the bond issue (ISIN XS1946883342) – February 7, 2019, the credit rating assigned to the bond issue (ISIN RU000A100998) – April 11, 2019, the credit rating assigned to the bond issue (ISIN RU000A100GW5) – June 27, 2019, the credit rating assigned to the bond issue (ISIN RU000A100PQ8) – August 8, 2019, the credit rating assigned to the bond issue (ISIN XS2063279959) – October 23, 2019. The credit rating and credit rating outlook of JSC "ALFA-BANK" and the credit ratings of bond issues of JSC "ALFA-BANK" (ISIN RU000A0ZYGB6, ISIN RU000A0JX5W4, ISIN RU000A0ZYU21, ISIN XS1567117566, ISIN RU000A0ZYWB3, ISIN RU000A0JXRV7, ISIN RU000A0ZZEW4, ISIN RU000A0ZYBM4, ISIN XS1648266788, ISIN RU000A0ZZRB0, ISIN XS1513741311, ISIN XS1760786340, ISIN RU000A0ZZZ66, ISIN XS1946883342, ISIN RU000A100998, ISIN RU000A100PQ8, ISIN XS2063279959, ISIN RU000A100GW5) are expected to be revised within one year following the publication date of this press release.

The assigned credit ratings are based on the data provided by JSC "ALFA-BANK", information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of ABH Financial Limited, IFRS consolidated statements of JSC "ALFA-BANK" and statements of JSC "ALFA-BANK" composed in compliance with the Bank of Russia Ordinance No. 4927-U as of October 8, 2018. The credit ratings are solicited and JSC "ALFA-BANK" participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by JSC "ALFA-BANK" in its financial statements have been discovered.

ACRA provided additional services to JSC "ALFA-BANK". No conflicts of interest were discovered in the course of credit ratings assignment.

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