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Key rating assessment factors

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

The credit rating of [JSC “ALFA-BANK”](#) (hereinafter, Alfa-Bank, or the Bank) is based on its strong business profile, strong capital adequacy, adequate liquidity and funding position, and satisfactory risk profile assessment. 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, RU000A0JXR7, RU000A0ZZEW4, RU000A0ZYBM4, XS1648266788, RU000A0ZZRBO, RU000A0ZZZ66, XS1946883342, RU000A100998, RU000A100PQ8, XS2107554896, RU000A101QP6, RU000A102788, RU000A102A07), which are senior unsecured debt instruments, have been affirmed at AA+(RU).

The credit rating of the Bank’s bond XS2063279959, which is a Tier 2 capital instrument, has been affirmed at A+(RU).

The credit ratings of the Bank’s bonds (XS1513741311, XS1760786340, RU000A100GW5), which are Tier 1 capital instruments, have been affirmed at BBB(RU).

Alfa-Bank is a universal nationwide bank focusing on lending to large- and medium-sized businesses and individuals, and providing transactional services to customers. As of September 1, 2020, the Bank ranked fourth in assets and third 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 part of ABH Financial Limited.

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

**The Bank’s strong capital adequacy assessment** reflects the presence of a significant loss absorption buffer. The Tier 1 capital adequacy ratio stood at 16.34% as of December 31, 2019 (according to IFRS reporting) and 17.56% as of June 30, 2020 (according to the Bank). Regulatory ratios are also high, with N1.2 at 13.14% as of September 1, 2020 and N20.2 at 11.54% as of July 1, 2020. In addition, Alfa-Bank retains its strong capital generation capacity (ACGR equaled 150–200 bps for 2015–2019). High capital adequacy ratios and the ability to stably generate capital confirm the Bank’s ability to withstand the cost of credit risk increasing substantially (by more than 500 bps in ACRA’s stress scenario).

**Satisfactory risk profile assessment.** ACRA notes that the Bank’s loan portfolio quality has been generally stable in H1 2020, which is primarily due to the large share of major companies with high credit quality among the Bank’s borrowers. Stage 3 loans under IFRS 9 stand at 4.3% (including 2% of NPL90+). In addition, the share of other potentially problem loans (as defined by ACRA’s methodology) comprises another 1.25% of the Bank’s total loan portfolio. In H1 2020, the Bank reclassified a considerable part of its portfolio as Stage 2, which resulted in its share growing from 5.2% to 12.8% of the portfolio. In particular, this reflected the impact of the worsening economic situation in the Russian Federation on the standing of certain industries. However, in ACRA’s opinion, the possibility of a further decline in the quality of the majority of these loans is low. The concentration of the loan portfolio on the 10 largest groups of affiliated borrowers fell to 17.5% as of June 30, 2020 from 19.6% a year earlier. Factors behind the fall in concentration included growth in consumer lending, which simultaneously leads to a larger share of unsecured loans. ACRA also notes slower growth of the loan portfolio, but expects the Bank to return to actively expanding the portfolio in the next 12 to 18 months.

**Adequate liquidity position.** Under ACRA's base case scenario for calculating the short-term liquidity shortage indicator (STLSI), the Bank retains its strong ability to withstand, with a moderate margin, an outflow of customer funds. However, a number of liquidity indicators (both regulatory and those calculated by ACRA) demonstrated increased volatility over the last 12 months. Under the stress scenario, the STLSI was -13.8% as of June 30, 2020. The N26 indicator stood at 85.77% as of July 1, 2020, which was not a violation of the requirements of the Bank of Russia that applied at the time. As of October 10, 2020, the short-term liquidity indicator had returned to around 100%.

The long-term liquidity position is assessed as adequate, as the long-term liquidity shortage indicator (LTLSI) was 77.8% as of the end of H1 2020.

**The funding structure is well-balanced** due to adequate diversification by funding sources (the share of individuals' funds was 38.3% as of June 30, 2020) and lenders (the share of the largest lender was 3.1%, and the share of the 10 largest lenders was 9.8% of liabilities).

**Moderate systemic importance.** In ACRA's opinion, the Bank's default may lead to a systemic crisis in certain segments of the Russian banking market and, consequently, have a significant negative impact on the Russian financial sector and the economy in general. 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:

- Share of problem loans in the loan portfolio declining below 5% amid moderate growth in new loan issuances;
- Substantial growth in the share of collateralized lending.

### A negative rating action may be prompted by:

- Significant decrease in the level of regulatory capital adequacy;
- Substantial decline in the profitability of the Bank;
- Continued high volatility of liquidity indicators;
- Deterioration in the funding structure.

## Rating components

**SCA:** aa-.

**Adjustments:** none.

**Support:** systemic importance, +2 notches.

## Issue ratings

**Credit rating rationale.** The issues listed below represent senior unsecured debt of 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 in terms of priority. According to ACRA's 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 \(ISIN RU000A0ZYGB6\)](#), 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 \(ISIN RU000A0JX5W4\)](#), 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 \(ISIN RU000A0ZYU21\)](#), maturity date: March 4, 2033, issue volume: RUB 10 bln — **AA+(RU)**.

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

[Certified exchange-traded interest-bearing unregistered bond issued by JSC "ALFA-BANK", BO-39 series \(ISIN RU000A0ZYWB3\)](#), 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 \(ISIN RU000A0JXRV7\)](#), 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 \(ISIN RU000A0ZZEW4\)](#), 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 \(ISIN RU000A0ZYBM4\)](#), maturity date: October 13, 2032, issue volume: RUB 5 bln — **AA+(RU)**.

[JSC "ALFA-BANK" Eurobond \(LPN\) \(ISIN XS1648266788\)](#), 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 \(ISIN RU000A0ZZRB0\)](#), 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 \(ISIN RU000A0ZZZ66\)](#), maturity date: June 24, 2022, issue volume: RUB 5 bln — **AA+(RU)**.

[JSC "ALFA-BANK" Eurobond \(LPN\) \(ISIN XS1946883342\)](#), 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 \(ISIN RU000A100998\)](#), 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 \(ISIN RU000A100PQ8\)](#), maturity date: August 11, 2022, issue volume: RUB 8 bln — **AA+(RU)**.

[JSC "ALFA-BANK" Eurobond \(LPN\) \(ISIN XS2107554896\)](#), actual issuer: Alfa Bond Issuance Plc, maturity date: January 1, 2025, issue volume: RUB 15 bln — **AA+(RU)**.

[Uncertified non-convertible exchange-traded interest-bearing bond subject to centralized title registration issued by JSC "ALFA-BANK", 002P-06 series \(ISIN RU000A101QP6\)](#), maturity date: June 4, 2021, issue volume: RUB 10 bln — **AA+(RU)**.

[Exchange-traded interest-bearing bond issued by JSC "ALFA-BANK", 002P-07 series \(ISIN RU000A102788\)](#), maturity date: December 29, 2021, issue volume: RUB 6 bln — **AA+(RU)**.

[Exchange-traded interest-bearing bond issued by JSC "ALFA-BANK", 002P-08 series \(ISIN RU000A102A07\)](#), maturity date: October 30, 2023, issue volume: RUB 8 bln — **AA+(RU)**.

**Credit rating rationale.** The issue below is 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 — AA+\(RU\)](#).

[Subordinated Eurobond \(LPN\) issued by JSC "ALFA-BANK" \(ISIN XS2063279959\)](#), 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 issue has to be five notches below the SCA of the Alfa-Bank (aa-).

[Subordinated perpetual Eurobond issued by JSC "ALFA-BANK" \(ISIN XS1513741311\)](#), 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" \(ISIN XS1760786340\)](#), 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" \(ISIN RU000A100GW5\)](#), 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 RU000A0JXR7, ISIN RU000A0ZZEW4, ISIN RU000A0ZYBM4, ISIN XS1648266788, ISIN RU000A0ZZRB0, ISIN XS1513741311, ISIN XS1760786340, ISIN RU000A0ZZZ66, ISIN XS1946883342, ISIN RU000A100998, ISIN RU000A100PQ8, ISIN XS2063279959, ISIN RU000A100GW5, ISIN XS2107554896, ISIN RU000A101QP6, ISIN RU000A102788, ISIN RU000A102A07) have been 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 the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). The [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments on the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit rating assigned to JSC "ALFA-BANK" was published by ACRA for the first time 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 RU000A0JXR7) — 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 assigned to the bond issue (ISIN XS2107554896) — February 5, 2020; the credit rating assigned to the bond issue (ISIN RU000A101QP6) — June 2, 2020; the credit rating assigned to the bond issue (ISIN RU000A102788) — October 7, 2020; and the credit rating assigned to the bond issue (ISIN RU000A102A07) — October 26, 2020. 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 RU000A0JXR7, ISIN RU000A0ZZEW4, ISIN RU000A0ZYBM4, ISIN XS1648266788, ISIN RU000A0ZZRB0, ISIN XS1513741311, ISIN XS1760786340, ISIN RU000A0ZZZ66, ISIN XS1946883342, ISIN RU000A100998, ISIN RU000A100PQ8, ISIN XS2063279959, ISIN RU000A100GW5, ISIN XS2107554896, ISIN RU000A101QP6, ISIN RU000A102788, ISIN RU000A102A07) are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned 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 the IFRS consolidated statements of ABH Financial Limited, the IFRS consolidated statements of JSC "ALFA-BANK" and statements of JSC "ALFA-BANK" drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated 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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