



Alfa-Bank Year End 2020 IFRS Results Conference Call

February 18, 2021

OPERATOR

Good day, everyone, and welcome to the Alfa-Bank year-end 2020 IFRS results conference call. Today's conference is being recorded. At this time, I'd like to turn over to Mr. Alexey Tchoukhlov. Please go ahead, sir.

ALEXEY TCHOUKHLOV

Thank you very much. Thank you everybody for joining this call. We are glad to present you our annual 2020 results. And we are happy to be among the first, if not the first, on the market to do so. After a relatively mixed year, very good first quarter, very difficult second quarter, and significant improvement in the second half of the year, we are happy to show sustainable improvements in terms of profitability, overall, of the bank, and to show that the bank was successful in achieving its growth targets along with the expansion strategy, particularly in retail and SMEs.

As you can see, our total assets for the first time exceeded \$60 billion, reaching almost \$62 billion by the end of the year. Our gross loan book grew by 7% in dollar terms and 22% in ruble terms, to reach almost \$43 billion by the end of the year. Our equity grew from 8.1 to 8.7 by the end of the year.

If we look on the profitability, net interest income grew by almost a percent, about 12% in ruble terms. Net fee and commission — 19% growth in dollar terms and one third growth, 33% growth, in ruble terms, so excellent performance.

And this is just to anticipate a bit on the qualitative side of comments, it's really shows how valued our services are. Along with expansion of the client base, we were able to provide a lot of excellent services, particularly through our distant channels. In the midst of the crisis, we were able to maintain very high client activity, which you can see here in these high results of commission transactional income.

Our total comprehensive income slightly decreases from the year before to \$9.03 million. But, basically, a significant part, most of this, is due to the strong weakening of the ruble in the beginning of the year 2020. And



net profits of the contrary improved very significantly, from \$700 million in 2019 to \$13,500 million by the end of 2020, with return on equity reaching 16%.

If you look on the following page, you'll see the factors affecting the equity dynamics. As I said, there was a total comprehensive loss due to weakening of the ruble. There are some adjustments on perpetual loans, we paid to our shareholders \$260 million of dividends, and there are some small adjustments that cover the rest.

If we go to the following page, you can see that this year was a breakthrough year in terms of improvements of our profitability. If you analyze cost to income ratio, which is precisely 30.7 without adjustments and 36.7 with total comprehensive income, that is the level at which we mostly analyze it as the year before. You can see that this red line is, a straight line in decreasing, was due to very strict cost cutting policies during the COVID crisis. We cut some bonuses, we cut some expenses, it generally helped us to keep very lean profile during the year. An excellent business performance in the second year helped to actually boost this to incredibly low level of cost to income ratios. We would not expect it to stay the same, let's say, for the next year. But definitely we'll keep on the 40% level in the future.

Net interest income that we commented already was improving. Particularly what is to say that given the strong decrease in rates on the Russian market in ruble terms. We actually are proud to say that our net interest margin decreased only by 0.2 percent to 4.2 in a year, which is largely due to boosting our retail loan origination and very good management of client relationship, also on corporate side, to keep pretty consistent margins. Net fee and commission income is at record high level, with a share of 36% in total operating income, and we are almost at target to cover with commission risk free income our operating expenses. By the end of 2020, we were covering 97% of topics with our commissioning.

You can see that our cost of risk actually significantly improved in the second part of 2020, reaching 1.6% for the year, for the total portfolio. Actually, the improvement was to the levels of 2019 of 1.9% after a spike at 2.6% in the middle of the year 2020.

Now, if we go a little bit in details regarding the segment analysis, our corporate investment banking had a very successful year 2020, with the growth of operating profits, almost 12% in ruble terms, 1% in dollar terms, but given the crisis and given a difficult year, this is a very good, almost outstanding result. We can see that net interest income actually improved by 2% in dollar terms, and net fee and commission income decreased, but relatively modestly, particularly in ruble terms as shown in the presentation.



The segment results had much more moderate cost of risk in 2020, despite the crisis amounted to almost \$500 million, \$478 million, precisely, with the cost of risk reaching 0.5% of corporate loan book for the total year 2020. We can consider that there we are completely out of the crisis on a normal, stable basis as our strategy of working with best names and maintaining relatively high concentration paid us quite well.

We grew very significantly our customer base in small and medium corporates. We increased our client base by almost 100,000 clients during the year. And you can see that operating profits of the segment increased significantly to more than a billion dollars, with a growth of 16% in dollar terms, almost 30% in ruble terms. Net interest income remained high. Although the segment is mainly a liability originating segment. Net interest income was \$493 million, increasing by 17% to the previous year. The fee and commission income of the segment also grew very strongly, by 15%, along with the customer base. The segment actually contributed to the profits more than corporate investment banking with a contribution of \$262 million for the total year, very modest in absolute figures cost of risk and in relative terms of just 1.1%. We can consider that the stable cost of risk despite a significant growth of customer base, and also a relatively significant growth of the loan portfolio as well.

Regarding retail, we pursue our expansion strategy as I said in the beginning. By the end of January, we are almost at 7,300,000 active customers, customers doing at least one active operation almost a month, or if not more often, with 85% of them using at least once a month our distant channels. As you can see, the operating profit of retail increased also very significantly, plus 17%. Interest income grew by 14%, net fee and commission income grew by 25%. Excellent result. We were able to actually improve relationship with our customers with a much more precise pricing initiatives that helped to boost the commission income on one side, but also increase customer satisfaction on the side. There are lots of initiatives with a tailor-made pricing that we do now based on advanced analytics and different data science approaches.

The total contribution of retail to the net profit is at around \$477 million, more or less stable compared to the previous year, with cost of risk that did increase significantly compared to 2019, but in the second half of the year decreased from 6.9% on July 1 to 4.6% in the annual terms by the end of the year.

I will pass the word now to Anna Kaminskaya, head of our IR, to commence more in details on the balance sheet dynamics and other issues, and then will be back for the questions. Thank you.

ANNA KAMINSKAYA



Good afternoon, everybody. I suggest to go to slide 12 to get some information on balance sheet evolution. During the year, total assets increased by 4% in dollar terms, these pretty marginal growth was driven by ruble weakening during the period by 11%, or more than 7 rubles per dollar. Excluding FX effect, growth was pretty sizable, almost by 17%.

I would like to comment on our business activity in this year. The first quarter was very successful. On the second quarter, with this pandemic, there were pretty negative effect on the business activity. But then, with the improvement in the macro situation in Russia, the second half of the year was very active, especially last quarter of the year. We boosted our sales in retail, they were back to the budgeted level, and we increased significantly origination of new loans. As Alexei already mentioned, our client base has grown substantially. Retail client base increased by 1 million active customers. And now, we serve more than more than 7.3 million active clients. During the lockdown measures, we worked with this client digitally. Now approximately 40% of our sales are performed through digital channels. This is really important for us as digital origination is more efficient, it's cheaper, than physical channels. It's also important to say that 45% of our clients regularly use our mobile application. We have monthly-active-users of 85%. This number is disclosed on later slides of our presentations. We believe this is one of the highest ratio in Russia and in the world as well.

Effective digital channels are our top priority. And today our clients can perform all sorts of routine operation in Alfa-Mobile and Alfa-Click, such as opening an account, opening deposits, issuing a loan, issuing a card. In respect of SME clients, the client base also has grown substantially. We serve more than 600,000 clients. But we work on them mainly on liability side, and substantial growth of the client base was a key driver of our customer account growth by noticeable 30% excluding FX effect.

In respect of balance sheet structure, it remains pretty unchanged. On the asset side, we have 67%, roughly two thirds of our assets, are represented by loans and advances to customers, and we also have more than 25% of liquid assets. We believe this is important to have liquidity cushion, especially at the times of uncertainty in the market.

In respect to funding side, the funding structure, we have 40% of funding represented by retail accounts, 40% of the fundings represented by corporate accounts, and we also have minor portion of interbank liabilities and capital markets. The structure remains unchanged.



I would like to comment also on share of foreign currency assets. It slightly increased due to depreciation of ruble denominated part of portfolio. But still, this share correlates with the share of exporters in our loan portfolio, roughly 35–37% of our loans were issued to export industries.

Let us go to the next slide with loan portfolio evolution, slide 13. Loans to corporate clients increased by 17%, excluding FX effect. As we said, we were very cautious in terms of lending for the second part of the year, but then, with the improvement in the macro situation, we saw that business activity improved, financial metrics and cash flows improved. And we were pretty comfortable with the quality of the portfolio we had. We tend to work with the biggest, with the most reliable names, which were resilient to the crisis and their financial positions are pretty stable. We were able to grow our exposure on good names during the period. In respect of retail lending, the growth was pretty noticeable. We grew by 34% excluding FX effect. You see from the structure of our portfolio that the biggest growth is related to mortgages portfolio. Now, the share of mortgage portfolio is one quarter, it's 26% of our portfolio. We are number seven bank in terms of mortgaging businesses. The banks which are ahead of us are state owned banks. I would like to add that the process of obtaining loans is now fully online. The clients applies for mortgage online, and our clients should go to the branches only to sign the documents at the date of transaction. It also supported the sales that we had during the period

As for the retail portfolio overall, we keep our third position in the market, with the market share of more than 4%. It grew substantially as a result of our efficient work during the period using digital channels as we said. For the mortgage business, I would like to say that we launched this business almost from zero four years ago, and the results we have now are very successful. On the market of credit cards, we kept our third position, with the market share exceeding 11%. During the pandemic, we expanded delivery of the credit cards up to 900 cities in Russia, which was very convenient to our clients.

On the next slide, we see information about our supporting programs for retail and corporate clients. Here we disclose amounts which were issued during the year and the balance outstanding at the year end. And you see that substantial portion of our supporting programs were back to the schedule. For individuals you see that 80% of the credit holidays were back to schedule and are served without delays for small and medium business. For medium business the share is even higher.

Let us go to slide 15 with the loan portfolio quality under IFRS 9. I will start with the retail. You may see that the share of stage 3 loans slightly increased from 4% to 5% during the year. But you will see later on delinquency slides, that quality has substantially improved after June. In respect of corporate loans, the share of stage 3 baskets



remained unchanged, slightly decreased from 4% to 3.7%. And there was a noticeable transfer of loans from stage 1 to stage 2 basket due to some increase in credit risks associated with the COVID crisis. Let us go to the next slide, where there is some information of the industry breakdown.

So, you see that stage three basket mainly consist of real estate and construction industry. There is one big name that alone became problematic several years ago. It had been already on stage three basket. So it means that during the year we didn't have any new problem names. And on stage two basket you see that the share of digital basket is 14%. There are some pretty good names in food industry, aviation, transport, transportation, food retail, non-food retail. We put them on conservative basis on stage two. And you may see that 100% of these loans are not overdue. I even believe that we are over conservative here, but still, they are on stage 2 basket of conservative basis. And corporate restructured loans are USD 1.6 billion the year-round. It makes 5% of corporate loan portfolio. The number is pretty low.

Let's move on to the NPLs dynamics here. We see some growth in nonperforming loans numbers. Corporate NPLs increased from 1% to 2.6%. This was driven by one case, which I already commented, and I can comment it all the time during the call. There's one big loan in commercial real estate segment. The loan is fully collateralized by real estate objects. And in the beginning of the year, we increased the provisioning under this loan. It was connected with the devaluation of the ruble. And now the uncollateralized part of the loan is fully covered by provisions. And also, in respect of retail NPLs, there was a slight increase in the level of nonperforming loans, but as I said our provisioning remains conservative with the coverage of 90+ exceeding 100%.

Let's go to the next slide with the delinquencies. You see that during the year the first chart relates corporate business. You see pretty stable dynamic in corporate side, no increase in nonperforming loans during the year. And we are very comfortable with the quality of portfolio we had on corporate side. On the side retail business, you see pretty stable improvement of the quality and after the peak of 1+ days in April, there is a strong decline in respect of NPL 90+ starting from peak in August. The value of nonperforming loans is decreasing and now it makes less than 2% of portfolio.

Let's move on to the slide 19. The concentration levels remain unchanged. The portfolio is well diversified by industries, we work with leading borrowers, top names, and it helps us to keep a high quality of the portfolio. Related party exposure is zero, and the concentration remains unchanged with our share of top 10 loans making 18% as it was at the beginning of the year. It is our conscious choice, and we believe that a relatively high concentration helps us to keep the quality of the portfolio. This is why we didn't have to create additional



provisions during the year. There were some relief at the second half of the year. And you see that cost of risk for the whole year is even lower than we had before, in the last year.

Let's go to slide 20 on customer accounts information. Our total customer accounts grew by 20% excluding FX effect. The growth was noticeable, driven by our client base. And you see that now we have the current accounts exceeding 65%. This is record number for us. Partially it was driven by the influence of brokerage and management services in Russia and our investment brokerage platform Alfa Direct showed pretty sizable increase in number of clients and revenue as well for this year.

Some information here on liquidity sources. The bank is fully liquid, we have cash and cash equivalents balance of USD 6 billion. We have additional liquidity sources, which makes us having the total liquidity sources of USD 18 billion. These numbers are fully sufficient for our repayment needs. For this year, we plan to repay our EUR 1 million bond in April without refinancing. And in December last year, we repaid our last outstanding subordinated debt from Vnesheconombank (VEB) of the amount of RUB 29 billion. So at this moment, we do not have any VEB loans anymore.

Let's move on to the slide 21 with capital adequacy ratio. We continue maintaining high adequacy under IFRS and under local accounting standards as well you see that the capital increases on the Basel III. It was supported by the total comprehensive income and some other movements. Despite that there was some decrease in tier 2 capital driven by repayment and amortization of sub debts, strong profitability of the bank helped us to keep high capital adequacy ratio.

On the next slide number 22, you can see the information about capital adequacy under Russian accounting standards. Here in the presentation, you see a ratio of sub debt in the 1st of January, but now I may disclose the numbers on the 1st of February. So, we have pretty good buffers exceeding more than 2% to the minimum ratio set by the Central Bank. We have N1.0 ratio of 13.75%, N1.1 ratio of 10.06% and N1.2 ratio of 11.64%. You see that during the year ratios improved, they were supported by the strong statutory profit made by the bank and also with some Basel 3.5 and some CBR easing measures, which allowed us to show some capital relief this year.

Also, I would like to add that we plan to use internal advanced risk-based approach for statutory reasons. We are at the final stage of negotiations with the Central Bank, and we hope that we will be able to show additional capital relief this year, which will support our business and asset growth. So, I think this is all from my side. I pass the floor to Alexey.

ALEXEY TCHOUKHLOV



Thank you very much Anya. My final remarks are more about the perspective of the year 2021.

We see it in very optimistic terms. We understand that the COVID crisis is not completely over. But we see that the trends of the end of last year go into this new year 2021. We believe and we see that customer activity is high. The origination retail loans dynamic is very good. On corporate side, portfolio remains so far stable, but we do foresee some growth during the year, for sure. Even if we clearly believe that the expansion and retail will continue, we will grow more in retail assets than in large corporate client loans. Of course, we will try to be both very innovative, leading in ranked tables of digital leaders in Russia, as well as keeping, of course, a high profitability, low cost to income ratio and high return on equity. We might not necessarily repeat the same success of very unusual year 2020 but our expectation is to keep cost to income below 40% and return equity at around 14%+ for the year 2021 along with moderate decrease of net interest. And that seems relatively inevitable given at best stable trend on Russian market so far.

And anticipating some of your questions, even if we don't need any borrowed capital instruments, we don't need certainly dollar funding, we will be looking attentively on every opportunity on euro bond market. We plan to come back to euro bond market with ruble denominated transactions during the year, and also possibly with dollar dominated transactions if the market conditions are good. And we will decide, given circumstances, whether we go for regular sub debt or tier one depending mostly on the pricing opportunities. In our internal needs, even if, as was already explained by Anna, so far, we clearly don't need anything on the capital side. Thank you very much for listening up till now and we will be glad to answer your questions.

OPERATOR

Thank you. If you do have a question, please signal by pressing star one. Again, that will be star one for questions. We'll pause for just a moment. Here is the first one today from Andrey Klapko, Gazprom Bank.

ANDREY KLAPKO

Hi, Alexey and Anna. Thanks for the presentation. And thanks for your view on this year. And if possible, could you please give some more elaboration on what particular sectors could be under more risk? And what if, for example, the inflation will be higher than you expect? And the CBR rate policy hawkish? What development do you expect to see for your business? Thank you.

ALEXEY TCHOUKHLOV



Thank you very much. Let's start with the inflation rates. I think there was definitive change in the rhetoric of Central Bank. Recently, for the first time, we heard very clearly that they believe that the cycle of decreasing of rates is over. And that there might be some possibility of rate increase. We do see this for the first time and this is in our slides in the beginning, the slides on macroeconomics I was not commenting. So we see that actually inflation is above the real rate. So there might be some worries about rate increase, although I am thinking of the page three and the slide in upper corner. But actually, we do believe that given the fact that, generally speaking, this year 2021 will be the year of coming back to normality. So to say in the world, we don't expect Central Bank and generally Russian authorities to play the opposite game from the rest of the world. We don't expect the rates to increase very steep and very quickly. And I think the fighting inflation will be still for quite some time the secondary to boosting the growth. After a year of steep decrease in GDP, there is clearly a need for a year of zero plus sustainable growth or visible growth of GDP. So that's not the moment to put on brakes so quickly and so hard. So we really believe that at best, there will be 0.25 increase in key policy in the next six months. And we don't expect the cycle of increasing rates to go very fast. So we do not see that much stressing factors around retail lending so far. And I think the market does need to come back to normal condition of employment and functioning, to analyze again the risks of the portfolio that went through the crisis. We clearly see that significant part of our load came from completely normal management since the events of 2020 and I would be relatively optimistic and more than prudent regarding the retail part. And the corporate sector, it's hard to say that this sector is more risky than the other one. I think we all understand that the sector is very concentrated in Russia, and portfolio is the same. Generally speaking, we see that commodity prices are relatively nicely high, and this will drive most of the sectors in Russian economy. So if this trend goes further for six months, nine months or twelve months, I don't think there is anything specifically on the pressure given circumstances. I think whether we take trade or agriculture, or even transportation, the sectors will continue their recovery. I think it's a wider trend, the global trend than anything specific. We won't expect it to go for several years for sure, but I think this year 2021, at least for the first half or for the first nine months, it will be under a sign of steady recovery. Maybe not too fast, but we don't expect something big and negative in any sectors.

ANDREY KLAPKO

Thanks a lot. Very helpful.

OPERATOR



And once again, for questions that is “*1” at this time. We hear next from Solena Gnoaguren with Insight Investment.

SOLENA GNOAGUREN

Good afternoon. Thank you so much for the presentation. Just in terms of your loan growth for some 21 and your guidance: would it be possible to get to more color on the split between retail and corporates and, going forward, in means of asset quality and the cost of risk. I mean, which level do you actually see for the normalized cost of risk? And would this be the case for 2021?

ALEXEY TCHOUKHLOV

Okay, thank you very much for your question. What is very hard to foresee is the dynamic of ruble. So far, we are more leaning towards a strengthening of ruble. But you see, the ruble has been very volatile in last six months. When we think about the forecast for the growth in dollar terms of our portfolios, there is a ruble question there. For corporates, it's easier because this at least one third in dollars. And we would say that 5 to 10%, depending on how quickly recovery goes, is our target for the year. As for the retail, I think it's 20+%. It could be more if ruble strengthened, but clearly we would like to grow twice quicker or three times quicker in retail than in corporate and to increase the share of retail loans and assets in our total loan book. This is linked also to the main idea that we want just to work with best corporate clients. We do not want to grow excessively fast our risky portfolio in corporate, which is SMEs or mid corps. We are already working with all top names. So it's just a slow increase of limits, and possibly few additions to the portfolio that we have, maybe some international names and things like this. As for the cost of risk, we believe that for the corporate part it is pretty much normalized on annual terms. We don't expect it to be much higher than 0.5 to 1% for the year 2021. And for retail, I think we will see some decrease in 2021; a little bit mathematically, possibly to reach 3–3.5% for the year 21, if things go as smooth as we plan on them.

SOLENA GNOAGUREN

Thank you very much. Just one last question on my side. So in terms of funding, don't actually intend to refinance...

ALEXEY TCHOUKHLOV

The idea is, it was the last senior unsecured that we had so we plan to completely repay. And we will not issue, most probably for quite some time, any senior security in dollars. But we will look carefully at market opportunities



and might come back with a sub or tier 1, depending on pricing appetites that we have and investors share or not share with us.

SOLENA GNOAGUREN

Okay, thank you.

OPERATOR

Once again for any other questions that is “*1” at this time.

ALEXEY TCHOUKHLOV

Just to add, that for us issuing in dollars is actually not so much linked to capital needs, that it's more an instrument of interest rate, risk hedging. Now that we believe might be more or less at the bottom of cycle will be good to have some long instruments with the fixed rate.

OPERATOR

We don't have any other questions at this time.

ALEXEY TCHOUKHLOV

Thank you very much everybody for joining this call. Thank you very much for the questions. Of course, we always repeat, don't hesitate to ask us directly. You have all the contact details on our site. We will be glad to answer you or have a call to chat about our performance whether it's about 2020 results or any other questions that you might have. Thank you again for your interest and your trust. All the best.

OPERATOR

Thank you and I conclude today's conference. Again, thank you all for joining us.