



## Alfa-Bank First Half 2021 IFRS Results Conference Call

**August 17, 2021**

### **OPERATOR**

Good day, and welcome to the Alfa-Bank First Half 2021 IFRS Results Conference. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Alexei Tchoukhlov, Chief Financial Officer. Please go ahead, sir.

### **ALEXEI TCHOUKHOV**

Thank you very much. Ladies and gentlemen, thank you very much for joining our call for our first half of 2021 results. I'll do some introduction, main highlights, financial performance. And my colleague, Anna Kaminskaya, from our IR team will comment on more details in terms of balance sheet risks and funding capital. So I think first, a word of introduction is that this half of the year was remarkable in terms of recovery of Russian market without, of course, booming growth. Overall indicators were very good, whether we talk about the relative dynamic in transactional activity, or some improvements in terms of GDP growth, particularly strong in Q2. We clearly witness that in the activity of the bank, starting from the first month of the year, we were very much on track in terms of expectations in the client origination and in volume growth. And actually, by the end of June, this first half exceeded our most damning expectations. And today, we are very happy to present our record-high profits and very good results.

Let me just comment on these on page 6, where you see the dynamic of growth of our customer base. The key focus of our strategy is to increase the size of our market share, to attract more clients with quality service with our phygital hybrid - both digital and physical distribution model. And that worked very successfully for the first six months. You can see that the total client base grew substantially, 18% on annual terms. We have a growth of active base, even more than that, 21% to 7.5 million active customers with a very strict and a very stable definition of what active customer is. You can see the details of this page. And also, very strong growth in SME clients, where we mainly work as a provider of transactional services and deposit bank, with total base growing 24%, and active customer base 14% to reach almost 660,000 clients.

As I said, the key concept of our model and our strategy is being phygital, and we invest a lot in the quality of our digital channels. We show maybe one of the highest in the world ratio of monthly active users, it's 84% in our retail customer base. And just for information, weekly active users are 66%. So basically, the majority of our customers, if not all of them, are digitally involved with the Bank. And the Bank itself is the leader of the Russian market with the best mobile application award for 2020. We also use more and more digital channels as the main channel for sales. And you have on the same page details about the origination of credit cards through digital channels, which now accounts for the majority of the cards, 52% by end of June, and this number will further increase. Of course, a digital origination is not only cheaper, but it's also faster and largely based on some prescore models that actually lead to better service and a better risk profile.

We are also developing more and more partnerships. We will just focus on one, which is a leader in the Russian market in terms of digital payments of tips to restaurants and service personnel. It works very well; the company's name is Netmonet. So we acquired it, and we will develop it as a service that we provide to our SME customers in the sphere of restaurants, etc. But also, as a visible sign of our presence and digital leadership in the Russian market, you have some ideas about it here. The Company is growing and even if competition from large players is strong, we believe we will be able to find a



significant niche there and a significant channel for both our image and clear quality service that we offer both for retail customers and SME customers.

Now, there's more dry information on financial performance. As I said, we are proud to show a record-high profit that reaches USD 1.1+ billion in net income. The fee and commission grew very substantially, in RUB terms, almost by two thirds, 67%, and in USD terms, by 56%. As we show our total comprehensive income, the real increase of capital, the thing that we are really focused on as the main indicator of our business performance, almost reaching 1 billion for the first half of the year - USD 942 million with growth in RUB terms compared to the previous year of almost 300%.

Clearly, that is the sign of recovery, the risk part here, which comes of course from improvement of risk climates and risk profile, but also of growing volumes as relatively stable margins, as we will see.

That brings us to a very high return on equity figure of almost 20%, which historically, the Bank showed I think somewhere around eight years ago. This is really the sign of us making the best of the model and the strategy we've adopted. Our total assets reached USD 67 billion. Total gross loan portfolio - USD 47 billion and total equity reached USD 9.6 billion. We clearly will go beyond 10 billion, I think, by the end of this year.

On the page here, you have details of the movements of the capital. Most of it, of course, is explained by the profit of the year with minor corrections regarding mostly other comprehensive income with translation movement and some reclassification of perpetual loan interest.

The financial performance of the Bank as I mentioned, was very satisfactory. Net interest income improved significantly in USD terms, and very significant in RUB terms, +12%. Net interest margin slightly decreased. But given the context of rising rates and relatively short-term maturity of the largest part of corporate portfolio, we believe these figures are very satisfactory. At the same time, the cost to income ratio stabilized and slightly decreased to 37%, with little difference, this time, between corrections, including other comprehensive income. Cost of risk decreased substantially to 0.2%. This relatively exceptionally low level is largely explained by the positive cost of risk in corporate segment this half of the year.

I think, on page 12, you'll have a little bit more details about net fee and commission income. We monitor very closely the share of it to our total operating income and it remained relatively stable around 38%. And we cover more than 100% by our risk fee and commission income, our OPEX base, which is the guarantee of stability of the Bank. No matter how much possible changes in the interest rate environments might be, we believe that our structure of revenues is robust as has a very large 10:07 towards risk-free income. Of course, this is also something that forces us to be driving the quality of our services to its best. We are actually the third-largest Russian bank by fee and commission income for the first half of the year from what we can see according to Russian accounting standards. And we are the first bank by far in terms of coverage of OPEX by commission income.

A few words about business segments. Overall, the performance was very good and satisfactory. As I said the recovery was strong in all the sectors and we can see clearly, first, in the corporate investment bank performance, there is a good increase in operating profits from the levels of the second part of 2020. We are above the first half of 2020 despite some pressure on net interest margin. So net interest income reached USD 287 million and net fee and commission income progressed to \$67 million. Contribution of the segment improved to \$465 million, and as I mentioned, this is due to positive cost of risk in corporate segment in the first half of the year. We were conservative as always last year, given the COVID crisis and the general slowdown of the Russian economy.



We clearly see no major warning signs so far. And overall, the calculation of provisions that we do strictly in accordance with banking compliance models give us a relatively low cost of risk for this first half of the year.

In small, medium and micro corporate business, performance was also very good. This business, as I mentioned already, is more a liability-business and service fee business. Our operating profit remains high with USD 566 million for the first half of the year. There is an effect of RUB devaluation slightly because the RUB terms actually progressed 26%. But that's a good result. And net interest income improved both in RUB terms and in USD terms with portfolio growing modestly, but significantly not to slow this performance. Net fee and commission income grew almost by third in RUB terms and made it at around USD 300 million. Segment contribution grew 33% RUB terms and remained at the level of USD 350 million. As you can see, cost of risk is more normalized with improvement, compared to the second half of 2020. And particularly, the first half of 2020 still remains at 40 basis points.

Retail Banking had an excellent performance as well. Operating profits grew in RUB terms by 47%, almost reaching USD 1 billion. Net interest income grew substantially to more than USD 500 million for the first half of the year, boosted by the growth of our credit portfolio - origination of our loans. And given both the increase of customer base and quality service that we provide, the total net fee and commission income progressed very substantially to more than USD 405 million. Segment profit remained more or less unchanged at USD 400 million and cost of risk here slightly increased compared to the second half of 2020, only because of one-off effect due to write-offs of 300 days plus retail loans, which we systematically do. Actually, there was a spike in terms of delinquencies in the first half of 2020 with the COVID crisis. So now, a year after, we have basically written off the spike, which gave an increase of about...

#### **ALEXEI TCHOUKHOV**

I will come back to the segment analysis then and will do it briefly again without repeating everything to save time. So, all of our segments performed very well. corporate segment was more or less stable in terms of operating profit. It shows very good performance in terms of segment contribution because of positive cost of risk with better-than-expected improvements in some cases and overall, a very low cost of risk dynamic on the market.

Medium, small and micro corporate business, the one that is more liability-based in our business model with little credit activity is growing but still very modestly. It shows a robust performance. This business is 100% in RUB terms. So, the weakening of RUB actually played its role and we show quite stable figures in USD terms, but nice growth and RUB terms, if we compare the figures. It grew more than quarter in operating profit, it grew 17–18% in net interest income and very substantially, by thirds, in net fee and commission income. So the segment contribution in USD terms remained more or less unchanged with USD 655 million and cost of risk shows quite a normal improvement by 40 basis points with a very modest size portfolio still compared to total size of our loan book.

Retail banking, which is more interesting, showed a very active growth of customer base, as I mentioned, very good performance in terms of operating profit driven both by transactional services and interest margins. So they reached almost USD 1 billion for the first half of the year 2021. Net interest income progressed in RUB terms by almost 20%. Contribution remained unchanged with cost of risk slightly increasing. But we must remember that, in the first half of 2020, there was a spike in terms of delinquency in retail loan book. And we have a policy that writes off all retail loans, problematic loans, up to 360 days. So in the first half of 2021, we have written off the spike of delinquencies of 2020, which explains 50bps of our cost of risk. So in terms of regular business without this spike, cost of risk would be completely stable between the second half of 2020 and the first half of 2020.



Hopefully, the connection still works finely. I pass the floor to Anna, who will comment balance sheet, funding and capital.

## **ANNA KAMINSKAYA**

Thank you very much, Alexei. I think I should speed up in order to be on time. So I will start with the total assets and balance sheet dynamics. Our total assets increased by 7.9% in USD terms or by 6.6% excluding the FX effect. Our assets structure and liabilities structure remained stable and unchanged. We are a universal bank, but at the same time, we have several different segments. On the asset side, we have 70% of our loans and advances to customers. And we have also liquid assets in different forms, which makes another 25%. In respect of funding structure, it remains very stable and unchanged. Customer accounts are the key source of funding for us making a totally of 83% of corporate customers and retail customers. And we have a minor portion coming from interbank and capital markets in order to hedge interest rate risk and diversify the sources of funding. Our liabilities increased by 7.6% in USD terms, and what is more important is that our equity has grown by 10% in USD terms, or by more than USD 900 million. Excellent results for the first half of the year.

Let's go to the next slide, loans and advances to customers' evolution. Our corporate lending increased by 4% in dollar terms, or by 2.8% excluding the FX effect. It's important to say that a substantial part of the growth came not from the corporate but from mid corps and SME business, including our leasing business through our subsidiary Alfa-Leasing. Actually, these business lines are growing, and they bring pretty good returns. But still, they're minor in respect of total corporate loan structure. More than 80%, 83% to be precise comes from the big corporate, Top tier 1 Russian corporates, the biggest and the most reliable companies in Russia, which allows us to sustain a very high quality of our portfolio.

The share of retail loans has grown to more than 31%. Retail portfolio in ruble terms increased by one quarter, by almost 24%. We kept our position as bank No. 3 in terms of retail lending. Our market share has expanded from 4.3% to 4.7%. I think it's pretty noticeable growth for just 6M period. We have been growing in all our segments, including traditional segments like cash loans and credit cards, and relatively new mortgage segments, as well. In respect of credit cards, we are the No. 3 bank in the market with a market share of almost 12%. The key product here is our credit card "100 days without interest", which has an honest 100 days' grace period, and it allows withdrawing cash without any commissions. The card can be issued instantly in our mobile application. As Alexei said we developed our digital channels in order to gain new customers. In respect of mortgages, the mortgage portfolio has grown by almost 40% in ruble terms. Now we are the No. 3 bank by loan originations as of July 1, and we also the bank No. 5 by the size of portfolio. I think these achievements are very impressive, given the fact that the business has been launched just several years ago. We have started with zero portfolio and now we are on the list of top five banks by the size of the portfolio. Last year, we have launched digital mortgage. The whole process is digital, which means that our clients not only submit an application online, but they are also able to sign a lending agreement from home.

Let's go to the next slide about our supporting programs for our customers. We have started to disclose this information a year ago in response to the crisis. We thought it would be interesting for you to see an update of our portfolio development. You see that we have participated in different programs, programs run by the state, and our own supporting programs. You see that issuance under our own supporting programs significantly exceeded issuance under state programs. In respect of loans to retail customers, you see that during the period we issued more than RUB 63 billion and as of today, we have only RUB 10 billion outstanding. So it means that 85% of the loans were back to schedule and served timely. In respect of the medium business, the composition is the same. Issuance to small and micro businesses was fully repaid. Now we have a balance close to zero. In respect of large corporates, the situation a little bit different since you know the restructuring was for a longer term than several months. The loans are still outstanding, but they're served timely without any delays.



We put this restructuring on Stage 2 basket for conservative reasons, although we don't see any delays in payments as I said.

Let's go to the next slide about loan portfolio quality. You see a pretty stable picture, both in the corporate and retail segments. The share of Stage 3 loans in the corporate segment declined from 3.7% to 3.1%. But the key composition remained unchanged. We have one big exposure to commercial real estate which became problematic several years ago. It was already on Stage 3 for several years. In respect of the Stage 2 basket, you see that the total value of Stage 2 declined by about USD 1 billion due to a successful repayment of some loans. As a result, the share of Stage 2 declined from almost 15% to

10.5%. In respect of retail loans, the situation is similar. We see the declining share of Stage 3 and Stage 2, and we see an increasing share of fully performing loans in Stage 1. Also, it's important to say that we see very positive collection metrics by our collection department. We see that the number of overdue loans collected exceeded our pre crisis level of February 2020 and exceeded our budget level for this year. The next slide gives some updates on the corporate loan portfolio by risk and by stages. The situation is pretty stable. As I said, on Stage 3 basket, you see the biggest exposure related to the commercial real estate sector. Stage 2 composition remained unchanged, comparing with the beginning of the year. Also, we decided to disclose here the information about Stage 2 restructuring. You see that restructured loans declined in absolute numbers, and the share of restructured loans in Stage 2 is now less than 2% of total corporate loans. I suggest going to the next slide about NPLs dynamics. You see here improvements in the level of 90+ days overdue loans from 2.7% to 2.4%, mainly due to a strong improvement in the retail sector. The provisioning rates declined from 3.4% to 2.8%.

Let's go to the next slide with the delinquency trends. Actually, nothing to comment on here physically. The situation is very stable both in the corporate segment and retail segment as well. To sum up, we didn't see any pressure on risk this year. The situation is pretty stable, and our biggest customers are still pretty well, they recovered from the crisis. Therefore, we are able to keep a high quality of our portfolio without the growth of the cost of risk.

Let's go to the next slide 23 about concentration levels. Our lending portfolio remained well-diversified by industry. The biggest part of the loans portfolio is retail lending with the share of retail lending exceeding 31% and our corporate portfolio remains well-diversified between industries, different sectors of the Russian economy in order to keep a high quality of the portfolio. In respect of concentration of top 10 borrowers and top 10 depositors, the share of the top 10 borrowers has been gradually declined during several years. Now, it makes 18%. We believe that this number will unlikely decline further as the Russian economy is concentrated itself and in order to keep a high quality of the portfolio, we have to keep some concentration.

Let's go to the next slide about funding and liquidity, slide 24. Actually, our customer accounts have grown by 8.2% in dollar terms or by 6.7% in ruble terms. The share of current accounts reached a record level of 70%. This makes our funding cheap and stable. We see a noticeable trend of growing customer accounts, this was a general trend in the market and we saw a growing interest of our clients to investment and wealth management products, our brokerage platform Alfa-Investment and the products offered by our sister company Alfa-Capital. You see also here our liquidity services. The bank is very liquid as usual and the total liquidity sources available to us significantly exceeded our repayments needs. You see they're pretty modest in respect of this year and a couple of next years.

I suggest going to slide 25 with the capital adequacy details. Our capital adequacy improved with a total capital ratio, making 18.7% due to the strong profitability of the bank, and the total comprehensive income of USD 942 million. We also successfully issued Tier 2 transaction this year, USD 350 million, which supported our Tier 2 capital. As a result, our capitalization improved despite the growth of assets. The next slide gives you some information about our statutory capital ratio.



We are very comfortable with the ratios we have today. We introduced internal risk-based approach since August 1. You will see it in the ratios on August 1 that our N1.0 ratio increased by 1% due to a decrease in RWA. Now we have very comfortable buffers to the minimum level sufficient for further growth of our assets. Thank you very much. I think this is all from my side. I will pass the word to Alexei for the information on our strategy development.

## **ALEXEI TCHOUKHLOV**

Thank you very much. I'm sorry, I think we are running a little bit late for this call. I'll be much focused. We had three pillars of our strategy for 2019 - 2021. That was to become and remain and we are certain to the best mobile banking application in Russia. We reached that distinguished by several expert agencies such as Marksw Webb R&R, etc. Both in retail and SMEs, we are in top two leaders. We had a very large cost optimization and sort of sustainability pillar, which was becoming a paperless universal bank, the first paperless universal bank of Russia. Actually, we managed to put into digital production 70% of the documents that we traditionally signed by clients. We launched transformation, the real and breakthrough transformation of our network with already 50 offices being incomparably more than compared to other competitors in Russia with a plan to do 400 within the next two years. Just a few words on that. I think we've spoken about the mobile app, so we'll focus mainly on this paperless bank pillar. It goes just beyond signing contracts digitally. This paperless story is about giving service of recognition facility to the customers. You can go to this new branch forward without your ID; you're recognized by your biometrics. You have a possibility to do transactions directly with systems on your mobile application, no matter how complex this transaction is to save thus 71 tons of papers. You can see that in terms of an old product line, old process lines, more than 50% of operations are completely digital. In some cases, we are reaching almost 100%.

You have some photos of our new offices. Beyond the design, it's really about a very personalized approach and approach of facility with no more cashier desk, with no more stable computers, only iPads, tabs, special service area, and the possibility to offer both advisory and discrete formats in these branches and have a nicer friendly relationship with customers. Again, all that with completely no wires, strictly speaking. Everything is Wi-Fi. Even the printers are connected only to Wi-Fi and you actually don't see many printers because of this paperless concept. The strategic objectives for the next few years continue what we have already achieved and develop it. So we want to continue this phygital strategy and invest in mobile digital channels, quality network, along with the development of partnership and technological leadership with different companies, both smaller than the one that we mentioned, Netmonet for the payments of tips, but also with big providers of services from Alfa Group (X5, Veon, Alfa Insurance). We are open and we're discussing with other platforms and other potential partners. We don't want to pretend we are building an alternative ecosystem, because we are too small and too smart to have this ambition. But we want to have a financial super service that we believe that we have the ability to offer the best service in class, both for SMEs and retail customers, but also for our traditional core customers. The largest corporates in Russia will be investing significantly in the quality of services for corporate customers in the next 2-3 years. Of course, that all is based on the only competitive advantage that we really have: the quality of our team, the motivation, the attentive attitude towards customers, their creativity, and ambition. We will invest in it, we will continue being one of the most popular employee brands in Russia,

We ambition a very strong growth, you have figures on page 35. We almost doubled the number of active customers you can see reaching 13 million as a target by 2024. We will be above 1 million active corporate customers by 2024. Of course, the growth of market share is all there with ambition for growth of retail loans and corporate loans, customer accounts to keep our sustainable, stable, efficient, financial, and business goals. We will keep returning income around 13%, which will allow this growth of assets. We will try to keep the coverage of our fee and commission income by 100% staying a leader of transactional services and putting again a lot of effort on quality.



We'll try to keep our cost to income ratio below 40%, maybe slightly more than what we have today, in order to sustain investments that we need to achieve this growth. So our forecast is to reach sustainable levels of annual profits of 1.4–1.5 billion, no matter what happens on the market. We also have a strong emphasis on ESG, the global trends. Of course, we are already doing a lot of things around investing in our staff and having good quality governance. Generally, we will put more effort into the environmental part with the new initiatives, and both involving around corporate part, internal costs and internal processes like offices. This thing I think you can see more in detail will be covered by our sustainability board that we will target to produce for the next year. As a project, it's already on. There are lots of things that we already do, we will structure it better and it will make us a motivation vehicle also for our teams to have as a development strategy part of what we want to achieve in the next few years. I think that is more or less everything I wanted to share with you in this presentation. Sorry, it was quite long this time. I'm very happy to hear your questions if you have them.

**OPERATOR**

Ladies and gentlemen, if you wish to ask a question please signal by pressing \*1 on your telephone keypad. Please ensure that the mute function of your telephone is switched off to allow your signal to reach our equipment. Again, please press \*1 to ask a question. There are no questions at this time.

**ALEXEI TCHOUKHLOV**

Okay, let's wait for questions, just waiting for questions, if they have come I repeat as always, that if you have questions regarding any figures, or any trends and issues, you can contact, of course, directly our IR team through the mail that is at the end of the presentation, that you have. We will be very glad to give you information or schedule a one-on-one to comment a bit more on our results if necessary.

**OPERATOR**

There are no questions at this time.

**ALEXEI TCHOUKHLOV**

Alright. If it's that, then thank you very much for listening and sorry again for the technical trouble that we had, and you're much welcome to address your questions directly to our team. We'll be glad to help you with any information that interests you. Thank you very much.

**ANNA KAMINSKAYA**

Thank you very much.