

ACRA AFFIRMS AA+(RU) TO JSC “ALFA-BANK”, CHANGES OUTLOOK TO POSITIVE, AND AFFIRMS CREDIT RATINGS TO BOND ISSUES

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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, RU000A0JXRV7, RU000A0ZYBM4, RU000A0ZZRB0, RU000A0ZZZ66, XS1946883342, RU000A100PQ8, RU000A102788, RU000A102A07, RU000A103RS4, XS2368111584, RU000A1037F1, RU000A1036E6, RU000A1030D1, RU000A102S80, RU000A102JZ8, XS2107554896), which are senior unsecured debt instruments, have been affirmed at AA+(RU).

The credit ratings of the Bank’s bonds (XS2063279959, XS2333280571), which is a Tier 2 capital instruments, have 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).

The credit rating outlook has been changed to Positive to reflect the Agency's opinion that the trend of improving quality of the loan book may result in an upgrade of the Bank's risk profile assessment in the next 12 months.

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, 2021, the Bank ranked fourth in assets and third in capital raised from individuals. The Bank is part of ABH Financial Limited.

KEY ASSESSMENT FACTORS

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 16.4% as of December 31, 2020 (according to IFRS reporting) and 17% as of June 30, 2021 (according to the Bank). Regulatory ratios are also adequate, with N1.2 at 11.95% as of September 1, 2021 and N20.2 at 11.75% as of July 1, 2021. In addition, Alfa-Bank retains its strong capital generation capacity (the average value of the average capital generation ratio (ACGR) exceeds 200 bps for 2016–2020). 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 quality of the Bank's portfolio has remained stable during the economic downturn. The total volume of Stage 3 loans declined by 7% between mid-2020 and the end of H1 2021. At the same time, the share of such loans in the total loan portfolio of the Bank decreased over the specified period from 4.3% to 3.3% (the total volume of non-performing and potentially non-performing loans declined from 5.6% to 4.4%). The Agency notes that the improvement in the portfolio's relative quality indicators has occurred on the backdrop of its rapid growth (over 20% in the specified period). The active growth of the loan portfolio (including unsecured lending) is a factor taken into account by ACRA in the Bank's risk profile assessment. The Agency notes that due to the continued downward trend in the volume and share of non-performing and potentially non-performing loans in the portfolio, the risk profile assessment may be increased in the future. Regardless the outpacing growth in the volume of loans granted to individuals, the level of concentration of the Bank's portfolio has remained almost unchanged. The share of loans issued to the ten largest groups of borrowers amounted to 18% of the portfolio.

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 margin, an outflow of customer funds. However, a number of short-term liquidity indicators (both regulatory and those calculated by ACRA) demonstrated increased volatility over the last 12 months. As of June 30, 2021, under the stress scenario, the STLSI was -8% (-13% excluding undrawn credit lines from the Bank of Russia). The value of the short-term liquidity indicator (STLI) has been steadily below 100% in the last 12 months, which may be partly due to the accelerated growth of the loan portfolio. On the long-term horizon, the liquidity position is assessed as adequate: the long-term liquidity shortage indicator (LTLSI) was about 60% at the end of H1 2021. In its assessment of the funding structure sustainability, ACRA takes into account the fact that the Bank's resource base is largely formed by stable current funds of individuals.

The funding structure is well-balanced due to adequate diversification by funding sources (the share of individuals' funds was 42.8% as of June 30, 2021) and lenders (the share of the largest lender was 3.7%, and the share of the top ten 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, may 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 the current positions in key business segments;
- Cost of credit risk within 2–3%;
- Net interest margin within 4–5%;
- Tier-1 capital adequacy ratio (N1.2, N20.2) above 9% within the 12 to 18-month horizon;
- Maintaining the current funding structure.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Positive outlook** assumes that the rating will most likely change within the 12 to 18-month horizon.

A positive rating action may be prompted by:

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- Settling down the loan portfolio's growth rates, without compromising its quality;
- Substantial growth in the share of collateralized lending.

A negative rating action may be prompted by:

- Significant decrease in the regulatory capital adequacy;
- Substantial decline in the profitability of the Bank;
- Continued high volatility of liquidity indicators;
- Deteriorating 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)**.

Bond issued by JSC "ALFA-BANK", BO-22 series (ISIN RU000A0ZYGB6), maturity date: December 4, 2032, issue volume: RUB 5 bln — **AA+(RU)**.

Bond issued by JSC "ALFA-BANK", BO-18 series (ISIN RU000A0JX5W4), maturity date: January 5, 2032, issue volume: RUB 5 bln — **AA+(RU)**.

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)**.

Bond issued by JSC "ALFA-BANK", BO-39 series (ISIN RU000A0ZYWB3), maturity date: March 17, 2033, issue volume: RUB 10 bln — **AA+(RU)**.

Bond issued by JSC "ALFA-BANK", BO-20 series (ISIN RU000A0JXR7), maturity date: May 11, 2032, issue volume: RUB 5 bln — **AA+(RU)**.

Bond issued by JSC "ALFA-BANK", BO-21 series (ISIN RU000A0ZYBM4), maturity date: October 13, 2032, issue volume: RUB 5 bln — **AA+(RU)**.

Bond issued by JSC "ALFA-BANK", 002P-02 series (ISIN RU000A0ZZRB0), maturity date: November 1, 2021, issue volume: RUB 10 bln — **AA+(RU)**.

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)**.

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).

Bond issued by JSC "ALFA-BANK", 002P-07 series (ISIN RU000A102788), maturity date: December 29, 2021, issue volume: RUB 6 bln — AA+(RU).

Bond issued by JSC "ALFA-BANK", 002P-08 series (ISIN RU000A102A07), maturity date: October 30, 2023, issue volume: RUB 8 bln — AA+(RU).

Bond issued by JSC "ALFA-BANK", 002P-14 series (ISIN RU000A103RS4), maturity date: September 30, 2023, issue volume: RUB 6 bln — AA+(RU).

JSC "ALFA-BANK" Eurobond (LPN) (ISIN XS2368111584), actual issuer: Alfa Bond Issuance Plc, maturity date: August 4, 2025, issue volume: RUB 10 bln — AA+(RU).

Bond issued by JSC "ALFA-BANK", 002P-13 series (ISIN RU000A1037F1), maturity date: December 10, 2024, issue volume: RUB 20 bln — AA+(RU).

Bond issued by JSC "ALFA-BANK", 002P-12 series (ISIN RU000A1036E6), maturity date: June 4, 2024, issue volume: RUB 15 bln — AA+(RU).

Bond issued by JSC "ALFA-BANK", 002P-11 series (ISIN RU000A1030D1), maturity date: April 18, 2024, issue volume: RUB 1.9 bln — AA+(RU).

Bond issued by JSC "ALFA-BANK", 002P-10 series (ISIN RU000A102S80), maturity date: February 22, 2024, issue volume: RUB 12 bln — AA+(RU).

Bond issued by JSC "ALFA-BANK", 002P-09 series (ISIN RU000A102JZ8), maturity date: December 24, 2023, issue volume: RUB 8 bln — AA+(RU).

Credit rating rationale. The issues below are subordinated debt of the Bank with respect to senior unsecured creditors, and they are Tier 2 capital instruments. 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" (ISIN XS2063279959), actual issuer: Alfa Bond Issuance Plc, maturity date: April 15, 2030, issue volume: USD 850 mln — A+(RU).

Subordinated Eurobond (LPN) issued by JSC "ALFA-BANK" (ISIN XS2333280571), actual issuer: Alfa Bond Issuance Plc, maturity date: October 26, 2031, issue volume: USD 350 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 Alfa-Bank (aa-).

Subordinated perpetual Eurobond issued by JSC "ALFA-BANK" (ISIN XS1513741311), actual issuer: Alfa Bond Issuance Plc, maturity date: perpetual, 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: perpetual, issue volume: USD 500 mln — BBB(RU).

Subordinated perpetual bond issued by JSC "ALFA-BANK" (ISIN RU000A100GW5), maturity date: perpetual, issue volume: RUB 5 bln — BBB(RU).

REGULATORY DISCLOSURE

The credit ratings of JSC "ALFA-BANK" and its bond issues 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 bond issues of JSC "Alfa-Bank".

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 RU000A0ZYBM4) — October 2, 2017; the credit rating assigned to the bond issue (ISIN RU000A0ZZRBO) — 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 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 RU000A102788) — October 7, 2020; the credit rating assigned to the bond issue (ISIN RU000A102A07) — October 26, 2020; the credit rating assigned to the bond issue (ISIN RU000A103RS4) — September 28, 2021; the credit rating assigned to the bond issue (ISIN XS2368111584) — August 6, 2021; the credit rating assigned to the bond issue (ISIN XS2333280571) — July 6, 2021; the credit rating assigned to the bond issue (ISIN RU000A1037F1) — June 8, 2021; the credit rating assigned to the bond issue (ISIN RU000A1036E6) — June 2, 2021; the credit rating assigned to the bond issue (ISIN RU000A1030D1) — April 15, 2021; the credit rating assigned to the bond issue (ISIN RU000A102S80) — February 19, 2021; the credit rating assigned to the bond issue (ISIN RU000A102JZ8) — December 21, 2020.

The credit rating and credit rating outlook of JSC "ALFA-BANK" and the credit ratings of the above bonds 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.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

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

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