

OPERATOR

Good day, ladies and gentlemen, and welcome to the Alfa-Bank Fiscal Year 2021 IFRS Results conference call. This conference is being recorded. At this time, I would like to turn the conference over to Alexei Tchoukhlov.

ALEXEI TCHOUKHLOV, CFO

Thank you for joining our 2021 Annual Results call. It's a difficult time. Of course, we try to be very focused and not to take too much of your time.

If we start the presentation on the first page, page 2, we have key metrics of Russian economy dynamics in 2021. This was a rather favorable year, despite some relative weakness of Ruble. We could see there was a quite strong GDP growth, above 4.7%, and a relatively flat dynamic during the year 2021 of inflation until the beginning of this year. Inflation was roughly at the level of CBR rate, CBR rate was roughly at the level of inflation. We are looking, of course, for an environment to be more difficult given the current geopolitical tensions and also the general environment of rising interest rate.

The favorable dynamic was also seen in Russia because Russia was coping maybe in a little bit easier way with the COVID pandemic compared to some other countries. Overall, the trade and production showed quite a positive dynamic. Even real disposable income remained quite stable — there is a slight increase between 2020 and 2021.

As for Alfa-Bank, we remained, by all key indicators, fourth largest bank in the country and a top privately-owned institution in the financial sector with a very good and positive dynamic in both financials, that we'll cover slightly later, and market share. I would just remind that while being a top secondary bank to Russian corporates, we are actually number two in privately-owned banks and corporates and number five as a total loan book for corporate clients. We are a leading privately-owned institution in retail segments, with third size as a whole for retail loans, leading in credit cards, and particularly a leading position in among privately-owned institutions in current accounts of all key segments, whether it's corporate or retail current accounts.

We were awarded last year by several important awards. I would say that what is important for us are awards that really focus on the technology breakthrough that we bring to the Russian market, particularly in mobile and web applications. We were defined the best Russian mobile app by Marksw Webb, the best Internet bank for SME by Marksw Webb as well, the most accessible app as well.

What else was important is that we started to focus more and more in terms of ESG agenda. We have a strong focus on that, being rewarded last year by quite high standards in terms of employment standards. We are top 5 employers of Russia, we are top 5 company in terms of woman career, and we grow in the segments of ESG focus — we'll cover that a little bit later.

Our client base improved significantly. We are proud to have now more than 22 million retail customers and almost 9 million active users, active customers, who use the bank on their own not less than at least once a month. We have more than 1 million SME customers, we grew very significantly during this year — this is 1.1 million SME clients. We have more than 7 hundred active customers using very actively our mobile channel particularly. This is seen in one of the best in the world Monthly Active Users Dynamic, at about 85% of most active users with 65% of our active users using our applications weekly.

We are proud to share USD 1.6 billion net profit for the total year 2021. We have actually a very good sustainable structure of revenues, cost to income at 40%, 100% OPEX coverage by commission income. That was, of course, was shown to us by investment grade ratings given by two leading agencies, S&P and Fitch, last year. I already mentioned the focus on ESG. That is now part of a specific report that was published this year for the first time.

On page 7, you can see actually the expansion of the size of the bank goes not only in retail, but also in SME and medium corps. Our key strategy focus is to grow. We believe in a long-term strategy on the Russian market. We believe in increasing the market chain, diversification of the sources of income, and we do it through technology and the quality of service — we'll cover later in different components of our results.

This leadership in digital, as I said, can be seen in very good figures of monthly and weekly active users — that's on page 8. Also on the growing volume of purely digital sales and origination in credit products, particularly in credit cards, you could see that we've reached by the end of 2021 more than half of all our credit cards sold fully digital, mostly through our mobile application directly.

On page 9, you have key financial highlights that basically show that in 2021 we grew strongly both in terms of volume and profitability. Our total comprehensive income increased to almost USD 1.6 billion, and total net profit was USD 1.6 billion with return on equity almost 17%. Of course, we were supported by the good dynamic of the market, particularly risk indicators: total cost of risk was divided by half from 1.6 to 0.8%. Operating profits grew strongly by over 60% in dollar terms, 80% in ruble terms, boosted both by interest income, which grew almost by 10%, and net fee & commission income that grew very strongly by 38% due to the quality of services that we offer through all client segments and product range.

On page 10, you have the focus on shareholders' equity movements — basically all the increase of our total accounts, from the increase in terms of profits. We reached total equity by year-end 2021 of more than USD 10 billion, which puts us among, let's say, one of the biggest or global biggest completely privately-owned banks with such a big balance sheet and such a significant capital. Assets grew significantly as well around 23% along with mainly gross loan portfolio growing by 22% to reach USD 52 billion. The total balance sheet is almost USD 76 billion — one of the strongest current growths that we had in past years in terms of percentage of growth and absolute figures, of course, as well.

On page 11, you have some details about our net interest margin. Its growth was boosted by the growth of assets, which is part of the strategy of the expansion of market share and growth of size that we will report to you for subsequent years. We also had to notice that in terms of dynamic of the rates of the market, we tried as much as possible to keep our net interest margin stable. But given the expansion of the retail mortgage portfolio, we have a slight decrease in net interest margin from 4.4% to 4.0% during the year 2021. You can see that we have very stable margins in corporate clients that didn't change during the year. Actually, given the developments, we believe it will remain stable, potentially with increase. And retail, this moderate decrease of interest rates is understandable given the growing share of mortgage portfolio.

At the same time, we were working hard on the cost of funds. External borrowing costs decreased significantly. But we were also very focused on diversifying the sources of our funding base, and particularly putting assets on attracting retail liabilities which are very stable and help us to keep

the loans to deposits and well-diversified structure of balance sheet and retail businesses in particular. We have to fight, I would say, for the market share in this highly competitive segment of retail liabilities and some increase in the cost of funds on retail liabilities and accounts.

On page 12, we are proud to show the very good dynamic of our net fee & commission income that increased very significantly, as I said, by more than 38%, more than 40% in ruble terms. The share of commission income in our total income increased as well, but it's more than 40%. We are clearly one of the leaders of the market both in terms of share commission income in total income. And also, by far, we are the only bank that covers its fixed cost base completely, and cost base as a total actually, by fees.

If we look most of the fee and commission income are risk-free and not related to credit origination, related to the quality of services. We really think that this is a key focus area where we always want to cover our cost base by risk-free income as much as we can to make sure that, whatever situation or the markets are, the bank continues to be stable and continues to grow and can survive from rather strong shocks that maybe we will discuss later.

The operating efficiency remained high. We consciously increased a little bit our cost to income ratio compared to the previous year. First of all, the previous year was a year of crisis where we shrank as much as we could our cost base given the Covid pandemic. This year was more a year of expansion and investment in technology where we progress, but also in marketing to acquire more customers as you saw in excellent figures of customer base growth. We think that going forward, cost to income ratio will remain more or less around the current level of 40%

On page 14, you see something we are very proud of. Of course, the balance sheet structure of the bank still reflects its corporate initiative, very corporate structure, and corporate banking, with corporate portfolio still being more than half of our total portfolio, we have a growing share of retail portfolio, but also strongly growing portfolios of SME and medium core banking. At the same time, the segment's profit structure is already very diversified with retail contribution almost equivalent to the contribution of corporate & investment banks and growing strongly contributions from small and medium corporates and very small corporates as well. Their lending activity is relatively limited, and most of the profits come from servicing, and their current accounts create very interesting, relatively cheap and sustainable funding base for the bank.

On page 15, you have some good, interesting information about the strategy and the focus of all the corporate-investment banking. I'll be very short. What we want is to be a top-notch service bank doing some original, some tailor-made solutions for key customers that we have in corporate-investment banking, using all the knowledge that we have in the Forex, in derivatives, and capital markets to the best of our clients. We progressed a lot in terms of ranking and positioning on investment banking services during last year 2021.

That is seen in excellent results of the corporate-investment banking on page 16. You can see that operating profit grew by almost 10%, net interest income grew by more than 12%, net fee & commission income grew by around 21%. Segment profits before tax are USD 733 million. Of course, in a favorable risk environment, our cost of risk decreased to negative cost of risk of -0.4% That definitely is a situation of quite exceptional conditions. Overall, the normalized cost of risk for corporates that we foresee unless some difficult and unexpected risk would be on the level similar to 2020 in a normal economic, geopolitical environment for years to come.

On page 17, you have a few ideas about successful developments actually during last year, but also during last three years of our core business. It's something that franchises actually created almost from scratch in the last 3–4 years. It's growing fast, it has quite a good risk profile. We use both a very digital approach in terms of servicing these customers, but also very modernized risk approach in terms of lending in order to keep the cost of risk low and growth of our clients. There is a particular focus on quality of service that generates high commissioning income.

The results are on page 18, where you see double-digit growth of operating profit is at more than 22%. We have a very strong increase in net fee & commission income — almost 27% growth in ruble terms, 24% growth in dollar terms. And also important growth of net interest income of 14% in dollar terms and 16–17% in ruble terms, with the cost of risk also decreasing and remaining at about 0.20% for the year 2021. Of course, we can forecast that we largely depend on the situation. Again, we believe there will be some normalization, some slow, small increase unless the situation deteriorates.

Our very successful small & medium banking stocks continue to grow, as I said. It's a search of cheap sustainable liabilities, but it's also an approach relatively similar to retail. We want to be a financial super service offering to our customers one shop window for different financial solutions using a lot of digital channels, being a leader in terms of process and product quality, but also having always very tailor-made, personalized, human approach to manage these customers with excellent staff and salesforce.

On page 20, you see that the segment also contributed a lot to the profits, almost reaching USD 500 million of net profit with USD 476 million of net profit contribution, with strong growth in operating income, interest income that is now a more and more significant part of this operating income, and net fee & commission income, of course, growing very strongly — 22% in dollar terms, 25% in ruble terms, almost reaching also USD 500 million by the end of 2021. The cost of risk improved a lot. Once again there is diversification of base with growth of some relatively low-risk leasing products in the segments in particular.

The performance of retail was very strong. We increased, as I said, the number of customers. We continued a very ambitious transformation of our branch network. It's a new generation of digital offices with a particular focus on service, quality relationships, I'd say, emotional attractiveness of our offices and offer. We expanded our presence in many new cities last year, and that could be seen in the figures on page 22.

The operating profit of retail is going high and reaching USD 2 billion. Net interest income has grown by 11% in dollar terms, 14% in ruble terms giving more than USD 1 billion results. Strong growth — more than 50% in dollar terms of net fee and commission income, that reached USD 882 million. Thus, the contribution of retail increased very significantly, more than 40% a year-to-year with USD 674 million of net profits. Decreasing cost of risk is both the result of good economic environment and increasing share of mortgages in our portfolio. You can see that in the second half of the year, the cost of risk was more or less stable for all the segments of our product line.

I will just briefly mention a strong focus that we have on expansion our brokerage business. Even in the context of current volatility, this business remains very profitable and very attractive. Even if rates on deposits are likely to increase, the more and more customers prefer to diversify their investments in bonds, equities and other products of major savings so to say. We try to service them with the best

digital app on the market, particularly focus on expanding our customer base and the quality of services that we provide. I will pass the words to Anna Kaminskaya who will guide you through the key figures of our balance sheet structure, funding structure and capital.

ANNA KAMINSKAYA, HEAD OF IR

Good afternoon, ladies and gentlemen. Let's look on the slide 24 with some information on balance sheet evolution. During the period total assets increased by 23% in dollar terms. Excluding FX effect, the growth rate was relatively the same. If we compare opening and closing ruble rate, it was relatively stable. In respect of our assets structure, it remains unchanged. We are big universal bank with loans and advances to customer making 67% of our assets. We also have different liquid assets in different forms to provide us with substantial liquidity in case of need.

During the period, share of foreign currency assets slightly decreased in line with the share of foreign currency loans decreased due to the fact that new loans which were originated were mainly in rubles. The loans in dollars were only to companies which are exporters and their cash flow were naturally hedged against ruble depreciation, and the retail portfolio is 100% retail.

Total liabilities increased by 22% in line with increase of our assets. And our equity now exceeded USD 10 billion. Liability's structure remains unchanged. We still have 80% of our liabilities represented by customer accounts. It's our strategy to fund our business assets by business liabilities, by customer accounts. But, of course, we also use capital instruments for funding but mainly due to capital reasons and when we are looking for tenor longer than available in the local market.

Let's go to the next slide - gross loan portfolio evolution. Total gross loans increased by 22%. It's important that our corporate loans increased by 12%. But the main growth comes from mid corps and small and micro entities. Big corporations still make substantial part of our lending portfolio - USD 28 billion related to the corporate. But the growth was relatively modest in these segments, 5% or USD 1.5 billion. Medium business loan portfolio has grown from USD 3.3 billion to USD 4.5 billion. The borrowers here are big regional companies quite resilient. The cost of funding of this segment is pretty low, 0.2%. But the margin is pretty high. The return from the business is pretty strong. As we see from the slide, the contribution for each segment to other PL. Small and micro-lending portfolios are growing but it is still USD 2.1 billion. This is minor in our lending structure.

And we see that retail portfolio increased by 48%, almost 50% in ruble terms, and our product mix is changing. The share of mortgages increased from 27% to 33%. Now, the mortgage is one of our more successful businesses. When we're doing mortgages, it allows us to establish long-term relationships with our clients and cross-sell effectively. Also, it makes positive contribution to the overall quality of our portfolio. We are very successful in our historical businesses, credit cards and cash loans. In respect of credit cards, our market share is almost 12%. We are third banks in the market. Overall, our market share in retail lending increased from 4.3% to 5.1% by the year-end. In respect of mortgages, we are also proud to say that we are Bank No. 7 by the portfolio side at the beginning of the year. We jumped to the third commission. We are No. 3 Bank not only by loan origination but also by the size of portfolio after 2 state-owned banks. We launched the fully digital mortgage last year. Our customers can get a mortgage without visiting a branch, without signing documents and doing the paper. Everything can be done digitally and remotely. Now approximately 20% of the mortgage loans are fully digital. And, of course, we could win this competition with state

owned banks by using the most advanced technologies, the most efficient core processes inside the bank.

Overall, digital channels are very important to us. As Alexey mentioned, more than half of our critical sales are made through digital channels completely without human interaction.

As you may see on the lower left corner of the slide how the group loan structure looks like. It's evolving and it's become more and more diversified with each of the business making significant contribution.

Let's go to the next slide about the loan portfolio quality. You may see a strong improvement in the corporate segment. The share of Stage 3 loans declined from 3.7% to 1.6% mainly due to write-off big corporate loans which were not recoverable against provisions previously created with no effect on profit and loss, and also there was repayment of big loan in the first half of the year. It resulted in the improvement of the quality of the portfolio. Stage 2 loans declined as well due to successful repayment. You'll see that 100% of Stage 2 loans are not overdue and served timely. And currently improving on Stage 2 and Stage 3 baskets resulted into the growth of fully-performing loans on Stage 1. The share of 90% of overdue loans declined as well from 2.6% to 1.2% with an expected decline in the provisioning rate.

Let's go to the next slide about corporate loan portfolio breakdown by risks. I may say that the structure remained unchanged. We still keep companies like aviation companies, airlines carriers and airports are in stage 2 to basket, although, being served in time. And we have no concern about their ability to serve the obligation. But still due to conservative reasons, and since their cash flow has not yet recovered. We did it in stage two. But we have no expectations, no anticipations that there's someone from stage 2 or the stage 3. And the list of the stage three remains the same. We think, the biggest NPL is from construction industry partially covered by provisions – the balance not covered by collateral is provided.

The share of restructured loans declined as well. We have now only USD 500 million of Stage 2 restructured loans, which we restructured during the period. These loans might be considered of higher risk, but the amount decreased.

Let's look and go to the next slide about retail loan portfolio evolution. We see here that the share of Stage 3 basket declined as well. It was driven by the write-off of non-performing loans overdue 365+ days. In 2020, we had a spike of NPL due to the COVID crisis and after a year we wrote them off. At the same time, you may notice that the share of Stage 2 basket increased and due to the fact that this year we started to take into account information from credit history bureau. We previously accounted the loan as overdue only if it was overdue in Alfa-Bank but now we also consider information about obligations of obligations of borrowers in other banks and in case this loan is overdue we also consider this loan as overdue. There was a transfer of loan from Stage 1 to Stage 2. We believe that this approach is more conservative with respect to increasing provisioning in respect of these loans.

On the next slide, you may see some information about the breakdown by product. We see that the mortgage loans are less risky and we have the lowest share of non-performing loans. We believe that this makes a positive contribution to the overall quality of the portfolio. Now mortgage make 33% of total loans. It allowed us to sustain a relatively modest number of NPLs and cost of risk.

The delinquency chart on slide 30 is pretty stable, nothing to comment specifically there. As I said we do not have any warning indicators both in corporate and retail. Collection metrics are also quite strong. The entry rates to default that are lower than the budgeted and lower than we had last year so everything is pretty stable.

The next slide is about concentration. The share of individuals has grown to 33% and other than that, all the corporate portfolio is well-diversified between the industries, between different sectors of the economy, mainly represented by top Tier 1 Russian corporates which we know pretty well, which are strong and resilient. The share of Top-10 borrowers declined from 18% to 16% due to the growth of retail business. Related party exposure is immaterial as usual.

On the next slide, you may see some information about our funding and liquidity. The bank is fully liquid; we have somewhere about USD 18 billion of liquidity sources that can be used to repay our obligations which are pretty modest for the next year.

In respect of our funding, we have our customer accounts grown by 1/3, 30% in dollar terms. We see that the share of current accounts is now reaching 63% which makes our funding cheap and stable. Current accounts increased by 26%. Term deposits increased by 38% due to a growing interest rate. In the market, we see a growing interest to deposits. Overall, our cost of funding during the period was 3%. It's one of the lowest in the market compared to other competitors.

The next slide is about capital adequacy. It remains high. Under IFRS, the total capital ratio is 17.5%, slightly deteriorating from the beginning of the year. But capital was supported by the strong profitability of the bank. We earned 1.6 billion of total comprehensive income. We made a successful capital market transaction, we issued 350 Tier 2 subordinated bond in April 2021. We also issued USD 400 million perpetual Eurobond transaction in November. This issuance supported our capital, despite quite substantial growth of our assets.

On the next slide, you may see the information about the statutory ratios which are also pretty strong. N1.0 ratio is 14.4% with a minimum ratio of 11.5%. We have quite strong buffers of 2.9% to the minimum ratios set by the Central Bank. We see the development of N1.0 from the beginning of the year. The ratio was supported by the strong statutory profit, sub. debt issuance. Also, we applied the IRB approach, an internal risk-based approach for corporate lending in August which resulted into the capital ratios boosted by 1%. It's important to say that IRB for corporate lending was not our only project. The next step is the implementation of an internal risk-based approach for uncollateralized retail lending. The models have already being validated by the Central Bank, we are waiting for the final approval, and we plan to implement this IRB for uncollateralized retail lending in March. The next step is mortgages but it's too early to assess potential impact on capital yet.

The next slide, maybe the last slide that I'd like to comment on is about trading. We are proud to say that we have two investment-grade ratings now from Fitch and S&P. Last year, we didn't have any, now we have two investment grade ratings. What is more impressive is that the rating from S&P is equal to the sovereign rating of the Russian Federation. This is another confirmation that the bank runs in the right way and our business model is sustainable and profitable. As the bank remains the largest, more stable and the most efficient privately-owned bank in Russia, it continues to grow

dynamically and will position itself to cope with any potential uncertainties in the market. This is all from my side. Thank you and I pass a word to Alexei.

ALEXEI TCHOUKHLOV, CFO

Thank you very much, Anna. It's a very uneasy time to give any specific forecast for the year. We can only repeat the general orientation of our strategy. In 2022, we will continue to grow our customer base, we want to pursue the same strategy of expansion into retail, SME and micro business with the diversification of source of income, with the diversification of source of funding, keeping funding costs under control in a relatively difficult environment of the growing interest rates both in Russia and elsewhere.

We will be working on managing the cost of risk and further implementing an internal risk-based approach that will give us some capital alleviation that Anna was already talking about. We think that cost to income ratio will remain about 40%. We don't want to decrease it strongly. We don't want to make it go further or we want to do all that investments to remain a technological leader, to remain an attractive partner in terms of quality of services and long-term quality of services to all our customer segments. We want to remain the benchmark in terms of quality of employing for the staff. As I mentioned that ESG focus will be an important part of our agenda for this year. We have a few slides that are already focused on important initiatives that we realized, the paperless bank and other things.

Return on equity will be more or less at the same level, we hope, around 12–15% depending on ruble volatility and other opportunities of the market. So far, we are hopeful that the situation in terms of geopolitics will not jeopardize the perspective of Russian economy for 2022, which was despite some signs of slowing down in terms of growth was still quite positive until recent developments.

I think that's all in a nutshell. We'll be very glad to answer your questions.

OPERATOR

We take our first question from Nick Ivanov.

NICK IVANOV, PGIM

Hi! Thank you very much for the detailed presentation and the detailed disclosure. My question is about geopolitical risk.

Number one, how do you think your balance sheet will react if we see a significant weakening of the ruble this year as a result of geopolitics.

And secondly, in terms of sanctions. If there is a nuclear option, for example if you cannot use anymore SWIFT for settlements, how have you prepared for that? Thank you very much.

ALEXEI TCHOUKHLOV, CFO

Thank you very much for the question. Again, on the first part of the question regarding weakening of the ruble, we're talking about potentials. We're not talking about forecast. I don't know what exactly the forecast is given the fact that ruble now is the most volatile currency in the past few days, few weeks, and even few months. So I think our approach is the same: we are perfectly balanced in terms of open currency position, we don't have it, our currency liabilities are equal to our currency assets, our ruble liabilities are equal to our ruble assets. In this situation, basically, if ruble exchange rate changes dramatically, the dollar value on our total balance sheets will decrease. But that is actually the only real change that will affect us. Of course, that will affect us, of course, as a consequence, it

will affect the dollar value of our operating income and the dollar value of our net income. So return on equity will decrease. We've seen that in the crisis of 2015. This is just for the financial part of it. Of course, strong deterioration of ruble value will have impact in terms of cost of risk as well, which is difficult to calculate at this stage. Because again, there is a need for investigation of the exact nature of this depreciation. That also can be very different depending on what type of other sanctions are imposed and not imposed.

I would say, our attitude towards weakening ruble is always the same. We prefer to be perfectly balanced in terms of open currency position. As I already mentioned several times, our equity is hedged in dollars. So we don't really foresee major troubles in terms of capital adequacy ratio in the case of ruble depreciation.

As for the nuclear options, and specifically SWIFT, I think that just turning off SWIFT is not really that nuclear to say. It's a definitely very unpleasant thing, because it will make operational efficiency hard, it's a difficult change. But after all, SWIFT is just a confirmation system. It's not the only possible confirmation system for the transactions, and I think as to other banks we have changed, we prepared to use other means of communication with our Western partners.

What could be very problematic is something different: the difficulty of using dollars as such, but I don't think we are seeing that really discussed in the immediate future. But if it were the case, I think that would definitely change the laws for Russian market. We will cope with it as we cope with everything else, alongside of other colleagues and competitors. We will try as usual to be a long-term focused, to keep to high quality of services and within what will be possible do our best.

I think that sort of being prepared for nuclear option is a difficult task and I think it's less technical, it is more strategic. We are long-term focused, we are balanced in terms of revenue structure, we are balanced and perfectly hedged in terms of currency structure of balance sheet, and we definitely we have a lot of freedoms to voice out about why we are not really doing anything that could be subject to Western sanctions while respecting perfectly Russian legislation, as many of our competitors do as well.

NICK IVANOV, PGIM

Thank you very much.

Just a clarification: Have you done calculations? How much will your capital ratio change if the ruble weakens by 5, 10, 15% and something like that? Have you done any calculations like that?

ALEXEI TCHOUKHLOV, CFO

Of course. We monitor, let's say, the forecast of our profits depending on the ruble rates. We believe that certainly that would decrease return on equity, but that would not decrease at all our capital adequacy ratio.

NICK IVANOV, PGIM

Thanks.

And access to dollars... given you don't have that many matures, you already have dollars on your balance sheet. If there is a nuclear option SWIFT, are going to be able to have access to dollars at all.

ALEXEI TCHOUKHLOV, CFO

There are different options possible, again. I think that the difficulty, generally speaking, in terms of discussion of sanctions is that there are qualifications, a nuclear, huge, definite, complete that go before exact detail. If we are forbidden to go to capital markets, if others are sanctioned like us and Russian banks, clearly, we won't be able to go to capital markets. There's no other way to say. If there are difficulties in clearing dollars on international markets, we will be looking for alternative solutions to repay our investors in full. Our general idea, of course, is not to use the sanctions in sort of selfish advantage, but to continue being a long-term player. We will try as much as hard as possible to respect all our commitments. And we hope that no matter how tough are the sanctions, they will allow us to do so.

As for the access to capital markets, this is something that we use, as I've mentioned many times during the roadshows and calls, international capital markets more as interest rate risk hedging instrument, rather than a funding base. Because as a matter of fact we could find and we can find still as much dollars in Russian market as we wish, simply the maturities of Russian market are short-term. And to get instruments that go beyond three or five years, we need to go to international capital markets. Certainly, losing access to capital markets will deteriorate our capacity to diversify the sources of funding and deteriorate our capacity of interest rate hedging, but itself it's not something crucial for our balance sheet. As you see, most of our funding structure comes from current accounts and term deposits of our customer base. And the focus to develop this customer base is the best strategy to counter, sort of risk for not being able to access international capital markets. Although again, I use this opportunity to repeat that we always try completely as much as we can to meet all our commitments.

OPERATOR

We take our next question from Katia Sidorova, SberBank.

KATIA SIDOROVA, SBER BANK

Hi. Thank you very much for the detailed presentation. I have a follow-up question on interest rate risk.

Could you please remind us what is your best-case scenario for key rate dynamics this year? And which lines of the business are more sensitive, or are more negatively exposed to higher base rate? You touched upon mortgages, for example, and you already have quite a large share of your portfolio mortgages.

Also, how geopolitical developments seen so far will affect your key rate scenarios. Thank you very much.

ALEXEI TCHOUKHLOV, CFO

Thank you very much for the question. Again, I would say without the geopolitical risk consideration, we were thinking that the key rate could grow by 1.5% for the year, maybe more depending on the inflation statistics. That's a normalized scenario. Depending on the ruble volatility and other factors, I think we all agree it could be more. It's too early to say to which extent we are in a scenario today, whether it is similar to the situation in 2014 and how that can develop. It's a really difficult task to foresee things like this.

What we do clearly that we anticipate the increase of rates by both being a little bit more active in collecting liability in the past few weeks, past months anticipating rate growth. Also, of course, on

asset side. While we certainly understand that mortgage is a sensitive product for interest rate risk, we really look at it as a more sort of anchoring product for the total customer relationship, and calculated total LTV of a customer every time we grant a mortgage. In this way, basically, we assure at least sufficient return on income, on mortgages, because the mortgages consume potentially very, very few capital and we will be in internal risk-based approach to mortgages in the first half of this year which will help us to boost profitability.

In terms of capital allocation on mortgages, we are balanced. We monitor very closely the rates, we're always more expensive than the major competitor on this market, in line with, let's say, some other players. And again, the share of mortgages does grow, but does not grow too much to put under extreme pressure our risk rate, risk structure.

So I think generally, we, as I mentioned already in my comment, foresee a situation where in the first half of the year our net interest income will be under strong pressure and will decrease slightly because of our necessity to attract more expensive liabilities, while not consume yet completely this cost of all segments of assets, asset origination. But by the end of the year, we believe that the situation, because our portfolio is relatively short-term, will improve and we will end up normally the year with similar net interest margin as of today, as well as around 4%.

Once again, that's all subject to normal economic environment and normal rate dynamics. If situation becomes more difficult, I think clearly we will try to act in crisis environment with ultimate prudence, with moderate or high increasing rates of liabilities, and selected approach on assets where clearly we would choose total return, including the risk forecast, on the low-risk or adequate-risk asset product.

OPERATOR

We have a follow-up question from Nick Ivanov with PGIM.

NICK IVANOV, PGIM

Thank you. Just a follow-up.

Is Alfa Bank engaged in cryptocurrencies? I think this a little bit futuristic question. But if there a way to settle through cryptocurrencies instead of the dollar and SWIFT?

ALEXEI TCHOUKHLOV, CFO

Well, that's a good question. But we are not really that engaged yet. There is still no clear legislation on cryptocurrency in Russia. As you know, there is an ongoing debate between the Central Bank and the Ministry of Finance about exact type of regulation that could be there. I think once this debate is settled one way or the other, we will study the opportunity of using cryptocurrency. So far, we are having no position to allow usage of that. For our balance sheet, we don't open accounts for our customers either in this type of in product.

OPERATOR

It appears there are no further questions at this time. I would like to turn the call over to Mr. Tchoukhlov for any additional closing remarks.

ALEXEI TCHOUKHLOV, CFO

Thank you very much, everybody, for attending this call. Thank you everybody for asking the questions. As always, I repeat, that we are open for any further inquiries and questions by mail

address directly to our IR team. We'll be glad to take on-on-on meetings regarding financial or other questions of interest to you. Thank you very much for your time and attention.