

ACRA UPGRADES ALFA-LEASING LTD. TO AA-(RU), CHANGES OUTLOOK TO POSITIVE, AND UPGRADES BOND ISSUE TO AA-(RU)

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The credit rating of [Alfa-Leasing Ltd.](#) (hereinafter, Alfa-Leasing, or the Company) has been upgraded based on the change to the assessment of the impact of extraordinary support from [JSC "ALFA-BANK"](#) (ACRA rating AA+(RU), outlook Positive; hereinafter, the Supporting Entity, the SE, or the Bank) on the Company's creditworthiness. This change is related to the coming into force of the [Methodology for Analyzing Rated Entities Associated with a State or a Group](#) in 2021. The Supporting Entity is the holding entity of Alfa Bank Group (hereinafter, the Group).

The outlook has been changed to Positive because the same outlook was assigned to the SE, and also due to the fact that in accordance with the applied approach, a change in the Bank's credit rating results in a change in the Company's credit rating.

The Company's standalone creditworthiness assessment (SCA) has been improved due to the improved business profile assessment as portfolio concentration has declined.

Alfa-Leasing is a universal leasing company focused on financial lease services for both large corporate customers and SMEs. The Company leases motor vehicles, railcars, and special engineering equipment. Alfa-Leasing operates in seven federal districts of Russia (53% of its business is carried out in Central Federal District, and the Siberian, Volga, and North Western Federal Districts each account for around 10–12%). The Supporting Entity of the Company is its sole shareholder.

KEY ASSESSMENT FACTORS

High likelihood of extraordinary support from the parent company. In ACRA's opinion, the Supporting Entity is interested in developing Alfa-Leasing's business, and if necessary is ready to provide the Company with sufficient long-term and short-term financing, taking into account the following factors:

- The SE's creditworthiness is considerably higher than the Company's standalone creditworthiness. The scope of the Company's business is not a factor that could limit the effectiveness of potential support;
- The Company operates the Group's leasing business, which is part of the Group's strategy;
- The Company is wholly owned by the Supporting Entity, which exercises full strategic and operational control over it, including through determining corporate governance and risk management procedures and standards;
- The SE provides a significant volume of financing to the Company;

- The Company and the Group operate under a single brand, and therefore a possible default of the Company may lead to reputational risks for the Group.

In assessing support, ACRA also takes into account the high level of dependence of Alfa-Leasing and the Supporting Entity on homogenous risk factors.

In accordance with the [Methodology for Analyzing Rated Entities Associated with a State or a Group](#), ACRA sets the Company credit rating two notches lower than the Bank's credit rating.

The adequate business profile assessment is based on the Company's well-recognized brand and market positions. Alfa-Leasing is among the leading players in the railcar, passenger vehicle and motor truck lease market. ACRA notes that the concentration on railroad equipment continues to decline in favor of the more liquid motor truck, passenger vehicle and special equipment segments (as of June 30, 2021, railroad equipment accounted for 32% of the portfolio, while passenger vehicles and special equipment accounted for 52% and 12%, respectively). The diversification of the lease portfolio in terms of clients also continues to improve (the share of the ten largest clients was 32% as of June 30, 2021, compared to 48% at the start of 2020).

Moderately high capital adequacy assessment. The capital adequacy ratio (CAR) was 14.9% as of June 30, 2021. Over the last five years, the averaged capital generation ratio (ACGR) amounted to 304 bps. In 2020, the ACGR grew by 37 bps compared to the year before. In accordance with the criteria applied by ACRA, the combination of these indicators allow Alfa-Leasing's capital adequacy to be assessed as moderately high.

Strong risk profile assessment. As of June 30, 2021, the level of potentially problem loans in the lease portfolio, according to ACRA's methodology, remained low (it totaled less than 5% of the portfolio based on an analysis of the 60 largest leaseholders). ACRA notes that the high quality of the lease portfolio and the low level of overdue debt 90+ have been maintained in the context of the crisis in the economy over the past two years. Alfa-Leasing has no investments in securities or non-core assets on its balance sheet.

The comfortable liquidity position stems from the acceptable projected current liquidity ratio on the 12-month horizon of around 1.08 in ACRA's base case scenario (in view of the Company's plans to develop leasing business), as well as from the Company's low need for emergency liquidity over the next 24 months as demonstrated by ACRA's stress scenarios. The source of emergency liquidity provided by the parent bank covers all of the Company's urgent needs for liquidity.

The significant concentration of the resource base (75% of liabilities) on the SE is typical of most subsidiaries of the parent entity.

KEY ASSUMPTIONS

- Maintaining the Company's business model within the 12 to 18-month horizon;
- CAR above 11% within the 12 to 18-month horizon;
- Share of problem and potentially problem debt in the lease portfolio at lower than 5%.

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:

- Upgrade of the SE's creditworthiness;

- Considerable growth of the Company's SCA;
- Significant increase of the Company's importance in terms of carrying out the SE's strategy.

A negative rating action may be prompted by:

- Lower creditworthiness of the SE
- Reduced assessment of the likelihood of the SE supporting the Company.

RATING COMPONENTS

SCA: **bbb+**.

Adjustments: none.

Support: assessment of the creditworthiness of the Supporting Entity minus two notches.

ISSUE RATINGS

[Alfa-Leasing Ltd., series BO-01 \(RU000A103FT7\)](#), maturity date: July 28, 2022, issue volume: RUB 1 bln — AA-(RU).

Rationale. The issue represents senior unsecured debt of Alfa-Leasing. Due to the absence of either structural or contractual subordination of the issue, ACRA regards it as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of the Company. According to ACRA's methodology, the recovery rate under unsecured debt belongs to Category II, therefore, the credit rating of the issue is equivalent to that of Alfa-Leasing, i.e. AA-(RU).

REGULATORY DISCLOSURE

The credit ratings of Alfa-Leasing Ltd. and the bond issue of Alfa-Leasing Ltd. (ISIN RU000A103FT7) have been assigned under the national scale for the Russian Federation based on the [Methodology for Assigning Credit Ratings to Leasing Companies on the National Scale for the Russian Federation](#), [Methodology for Analyzing Rated Entities Associated with a State or a Group](#), 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 the credit rating to the above issue.

The credit ratings of Alfa-Leasing Ltd. and the bond issue of Alfa-Leasing Ltd. (ISIN RU000A103FT7) were published by ACRA for the first time on April 18, 2018 and July 27, 2021, respectively. The credit rating of Alfa-Leasing Ltd. and its outlook and the credit rating of the bond issue of Alfa-Leasing Ltd. (ISIN RU000A103FT7) are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on data provided by Alfa-Leasing Ltd., information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS consolidated statements of Alfa-Leasing Ltd. and the statements of Alfa-Leasing Ltd. drawn up in compliance with RAS. The credit ratings are solicited, and Alfa-Leasing Ltd. 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 no additional services to Alfa-Leasing Ltd. No conflicts of interest were discovered in the course of credit rating assignment.

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