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## ACRA affirms A(RU) to Alfa-Leasing Ltd., outlook Stable

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### Key rating assessment factors

The credit rating of [Alfa-Leasing Ltd.](#) (hereinafter, Alfa-Leasing, or the Company) is based on its moderate standalone creditworthiness assessment (SCA) and high likelihood of extraordinary support from JSC "ALFA-BANK" ([ACRA rating: AA+\(RU\)](#), [outlook Stable](#); hereinafter, the Supporting Organization, or the SO). The Supporting Organization is the holding entity of Alfa Bank Group (hereinafter, the Group).

Alfa-Leasing is a universal leasing company focused on financial lease services for both large corporate customers and SMEs. The Company leases railcars, motor vehicles, and special engineering equipment. Alfa-Leasing operates in seven federal districts of Russia, predominantly, in Moscow, Siberian Federal District and North-Western Federal District. JSC "ALFA-BANK" is the sole shareholder of the Company.

**Adequate business profile assessment** of Alfa-Leasing is driven by the Company's well-recognized brand and market positions. Alfa-Leasing is among top five players in the railcar and motor truck lease market. The lease portfolio concentration on the largest clients (top ten groups of leaseholders occupy 48% of the portfolio) and leased items (the share of railcars is 52% of the portfolio) has declined compared to the previous year. However, the Agency notes that it is still moderately high. Corporate governance quality and risk management quality are assessed as adequate.

**Capital adequacy is assessed as adequate.** The capital adequacy ratio (CAR) for 2019 is 12%. Over the last five years, the averaged capital generation ratio (ACGR) amounted to 267 bps. In accordance with the criteria applied by ACRA, the combination of such indicators allows for assessing the Company's capital adequacy as adequate.

**Moderately high risk profile assessment** hinges primarily on the low level of potentially problem loans in the lease portfolio, according to the ACRA methodology (it totaled less than 5% of the portfolio as at December 31, 2019, based on the analysis of the 30 largest groups of leaseholders). At the same time, ACRA points to the high share of transportation vehicles in the leasing portfolio of the Company (52% for railcars, 24% for motor trucks, and 13% for cars), which entails additional risks in case of a deterioration in the financial standing of transportation companies in the current economic environment. Alfa-Leasing has no investments into securities and non-core assets in its balance sheet.

**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 needs in emergency liquidity as demonstrated in ACRA stress scenarios for the next 24 months. The source of emergency liquidity provided by the parent bank covers all of the Company's urgent needs for liquidity.

**Significant concentration of the resource base** (65% of liabilities) on the Supporting Organization is typical of most subsidiaries of the parent entity. At the same time, ACRA notes that the concentration declined in the last year. Loans borrowed from banks outside the Group amount for about 18% of the total borrowings.

**High likelihood of extraordinary support from the parent entity.** In ACRA's opinion, the SO is interested in developing the Company's business and is willing to provide it with sufficient long-term and short-term financing, if needed, taking into account the following:

- Legal affiliation (a 100% stake held by the SO in Alfa-Leasing);
- The Group doing its leasing business through the Company;
- Substantial operational integration between the Company and the SO, including at corporate governance and risk management levels;
- Substantial financing provided by the SO;

- Potentially high reputation risks for the Group in case of the Company's bankruptcy.

In view of the strong assessment of the Supporting Organization's category and the degree of affiliation with the SO, ACRA adds four notches up to the Company's SCA.

## Key assumptions

- Maintaining the Company's business model within the 12 to 18-month horizon;
- CAR of at least 11% within the 12 to 18-month horizon;
- Share of overdue leasing contracts of no more than 10%.

## Potential outlook or rating change factors

**The Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

### A positive rating action may be prompted by:

- Significant growth of capital adequacy through both capital generation by the Company and capital injections by the SO;
- Higher industry diversification of the lease portfolio and its lower concentration on the largest groups of leaseholders;
- Substantial decline in the share of the largest lender in the resource base.

### A negative rating action may be prompted by:

- Lower capital adequacy or/and ACGR;
- Substantial deterioration in the Company's liquidity position;
- Deterioration of the lease portfolio quality;
- Substantial deterioration in financial standing of the SO, or the Company's affiliates.

## Rating components

**SCA:** bbb-.

**Adjustments:** none.

**Support:** group support, SCA plus four notches.

## Issue ratings

No outstanding issues have been rated.

## Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation based on the Methodology for Credit Ratings Assignment to Leasing Companies Under the National Scale for the Russian Federation, the [Methodology for Analyzing Member Company Relationships Within Corporate Groups](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

For the first time, the credit rating of Alfa-Leasing Ltd. was published by ACRA on April 18, 2018. The credit rating of Alfa-Leasing Ltd. and its outlook are expected to be revised within one year following the publication date of this press release.

The assigned credit rating is based on data provided by Alfa-Leasing Ltd., information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of Alfa-Leasing Ltd. and statements of Alfa-Leasing Ltd. composed in compliance with RAS. The credit rating is solicited, and Alfa-Leasing Ltd. participated in its assignment.

No material discrepancies between the provided data and data officially disclosed by Alfa-Leasing Ltd. in its financial statements have been discovered.

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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