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Key rating assessment factors

ACRA upgrades Alfa-Leasing Ltd. to A+(RU), outlook Stable

The credit rating of [Alfa-Leasing Ltd.](#) (hereinafter, Alfa-Leasing, or the Company) is based on its adequate standalone creditworthiness assessment (SCA) and the 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). The Company's SCA has been improved due to its improved capital adequacy.

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, the Siberian Federal District, and the Volga Federal District. JSC "ALFA-BANK" is the sole shareholder of the Company.

The adequate business profile assessment of Alfa-Leasing is based on the Company's well-recognized brand and market positions. Alfa-Leasing is among the five leading players in the railcar and motor truck lease market. ACRA notes that the Company's lease portfolio continues to be heavily concentrated on railcars and the largest leaseholders. However, Alfa-Leasing continues to improve its diversification both in terms of clients (the ten largest groups of leaseholders occupied 37% of the portfolio in 2020 compared to 48% in 2019) and leased items (in 2020 the share of railcars declined to 37% of the portfolio from 52% the year before, while the shares of passenger vehicles and trucks increased). Corporate governance quality and risk management quality are assessed as adequate.

The Company's capital adequacy assessment has been upgraded to moderately high. The capital adequacy ratio (CAR) for 2020 increased from 12% to 14.7% due to capitalization of net profit, which grew by 56% in the aforementioned period. 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.

The Company's moderately high risk profile assessment hinges primarily on the low level of potentially problem loans in the lease portfolio, according to ACRA's methodology (it totaled less than 5% of the portfolio as of December 31, 2020, based on the analysis of the 30 largest groups of leaseholders). 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 1.05 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 (72% of liabilities) on the SO is typical of most subsidiaries of the parent entity.

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 necessary, taking into account the following:

- Legal affiliation (the SO holds a 100% stake in Alfa-Leasing);
- The Group doing its leasing business via 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 reputational 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 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 7.5%.

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:

- 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 lease portfolio quality;
- Substantial deterioration in the 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 Assigning Credit Ratings to Leasing Companies on 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](#).

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

The credit rating was assigned based on the data provided by Alfa-Leasing Ltd., information from publicly available sources, as well as 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 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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