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ACRA affirms AAA(RU) to VEB.RF, outlook Stable, and AAA(RU) to bond issues

ACRA has affirmed AAA(RU), outlook Stable, to State Development Corporation "VEB.RF" (hereinafter, VEB.RF) and AAA(RU) to bonds (ISIN RU000A100GY1, RU000A100BM7, RU000A1004U0, RU000A1003W8, RU000A1001V4, RU000A0ZZZP3, RU000A1013P1, RU000A0JXU48, RU000A0JXU71, RU000A0ZYLH3, RU000A0ZYLJ9) issued by VEB.RF.

The credit rating of VEB.RF is at the level equivalent to the financial obligations of the Government of the Russian Federation based on the very high probability of extraordinary support from the Government due to its very high systemic importance for the Russian economy and the state's decisive influence on VEB.RF's creditworthiness. The standalone creditworthiness of VEB.RF is not a factor that affects its credit rating.

VEB.RF is not a commercial bank, and it is regulated by Federal Law No. 82-FZ dated May 17, 2007. Under the Memorandum on the Financial Policy of VEB.RF (hereinafter, the Memorandum), approved by Government Ordinance No. 1510-r dated July 23, 2018, VEB.RF participates in the implementation of national projects as well as investment, foreign trade, export support, advisory and financial projects set by the Memorandum, and also activities in the priority industries of the Russian economy.

ACRA expects that under a systemic economic stress scenario and/or in case of a material decline in VEB.RF's standalone creditworthiness, the Russian Government will provide VEB.RF with sufficient extraordinary support in the form of equity capital or liquidity in order to satisfy creditors' claims. The above is based on the following assumptions.

Key rating assessment factors

Very high systemic importance. VEB.RF is a development institution performing a unique function of financing strategically important investment projects according to its mandate as defined by the law, which commercial banks cannot perform due to higher risks and the regulatory factor. VEB.RF's scope of activities is substantial for the Russian economy: its assets amounted to approximately 18% of federal budget expenses in 2019. ACRA believes it is currently unlikely that VEB.RF's functions will be delegated to any other government institutions or private entities.

According to ACRA, a default scenario involving VEB.RF would be associated with very significant losses of budgetary funds for the state, both direct (RUB 771 bln placed in VEB.RF as of the end of 2019), and indirect (including via suspension of federal priority infrastructure projects). A VEB.RF default would also be associated with significant reputational losses for the Russian Government as a result of decreased investor and creditor confidence in various industries of the public sector economy.

Very strong state influence on creditworthiness. VEB.RF was established in 2007 based on and in accordance with Federal Law No. 82-FZ.

ACRA also notes the following factors which indicate the strong ties between VEB.RF and the state: legislative immunity from established bankruptcy proceedings and the readiness of the state to provide support through legally defined budgetary mechanisms (the amount of financial support provided by the state via contributions to equity capital and other subsidies amounted to RUB 1.07 tln from 2007 to 2019). In 2018, the Government of Russia decided to provide subsidies to VEB.RF worth up to RUB 600 bln through 2024 and developed an approach to increasing VEB.RF's capital by up to RUB 300 bln, using a new mechanism for Russian legislation, i.e. approved capital (the rules of its provision are stipulated by Russian Federation Government Ordinance No. 1611, dated December 21, 2018, "On VEB.RF's Authorized Capital"). In 2019, the term for placing funds from the federal budget in VEB.RF was increased from one year to five years in order to diversify the sources of long-term funding.

VEB.RF's standalone creditworthiness depends on government financing and efficient implementation of the development strategy. According to ACRA, the key objectives of VEB.RF's team in the near future and the medium term are as follows: 1) participation in the implementation of the Russian President's Executive Order dated May 7, 2018, No. 204 "On National Goals and Strategic Objectives of the Russian Federation through 2024", including by providing financial and non-financial support to the strategically important projects aimed at the development of Russia; 2) providing anti-crisis support to entrepreneurs (including through the issuance of guarantees to a number of Russian banks) during the unfavorable economic situation related to COVID-19; 3) restructuring the legacy portfolio of problem loans; 4) organizational optimization and increasing operating efficiency.

ACRA believes that, considering the complication and complexity of the legacy portfolio of problem loans as well as the current negative tendencies in the Russian economy, any notable pay-offs from restructuring the portfolio are more likely to materialize in the long-term. The efficiency of this work will primarily depend on the quality of the investment process under development and the efficacy of internal and external risk reduction mechanisms. The financial indicators of VEB.RF's activities in the period of strategy implementation will also depend on the amount of financing for national projects and on the extent to which the government will compensate for such projects.

ACRA notes that VEB.RF's financial profile continues to be weak. Due to the reduction of the loan portfolio (prior to provisions) in 2019, the level of problem loans (stage 3) increased from 29% to 38% of the total loan portfolio and net leasing investments prior to provisions. The reserve coverage of these debts stands at 68%. In 2019, the capital adequacy ratio of VEB.RF increased from 11.8% to 13.6%, mainly due to changes in IFRS accounting and the transfer of Sviaz-Bank to state ownership. However, it may decline amid an unfavorable economic climate. Furthermore, should VEB.RF's capital adequacy ratio fall to 11% or less, the state, represented by the Ministry of Finance, will provide support through contributions to VEB.RF's capital.

ACRA also notes a gradual improvement in VEB.RF's debt portfolio with a steady decline in currency denominated debt. In addition, in the event of forex market instability and/or significant external shocks, VEB.RF may require additional financial support from the government to perform these obligations (repayment of Eurobonds worth USD 1.6 bln is scheduled for 2020).

Key assumptions

- Sufficient amount of government support to pay creditors in the coming years;
- Development in line with the 2024 strategy approved in late 2018.

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 negative rating action may be prompted by:

- Significant decline in VEB.RF's systemic importance for the Russian economy.

Rating components

Standalone creditworthiness assessment (SCA): none.

Adjustments: none.

Support: on par with the Russian Federation.

Issue ratings

VEB.RF (ISIN RU000A1013P1); maturity date: November 17, 2026, issue volume: USD 10 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A100GY1); maturity date: June 22, 2023, issue volume: RUB 20 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A100BM7); maturity date: April 26, 2022, issue volume: RUB 20 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A1004U0); maturity date: February 25, 2021, issue volume: RUB 5 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A1003W8); maturity date: February 9, 2024, issue volume: RUB 5 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A1001V4); maturity date: January 19, 2024, issue volume: RUB 10 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0ZZZP3); maturity date: December 21, 2021, issue volume: RUB 10 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0ZYLJ9); maturity date: December 15, 2022, issue volume: RUB 30 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0ZYLH3); maturity date: June 18, 2020, issue volume: RUB 15 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0JXU71); maturity date: June 18, 2021, issue volume: RUB 30 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0JXU48); maturity date: December 15, 2022, issue volume: USD 550 mln — **AAA(RU)**.

Credit rating rationale. The above issues represent senior unsecured debt of VEB.RF. Due to the absence of either structural or contractual subordination of the issues, ACRA regards as them as *pari passu* with other existing and future unsecured and unsubordinated debt obligations of VEB.RF. According to ACRA's methodology, the credit rating of the issues is equivalent to that of VEB.RF — AAA (RU).

Regulatory disclosure

The credit ratings have been assigned to VEB.RF and bonds (ISIN RU000A100GY1, RU000A100BM7, RU000A1004U0, RU000A1003W8, RU000A1001V4, RU000A0ZZZP3, RU000A1013P1, RU000A0JXU48, RU000A0JXU71, RU000A0ZYLH3, RU000A0ZYLJ9) issued by VEB.RF under the national scale for the Russian Federation based on the Methodology for Analyzing Relationships Between Rated Entities and the State and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities. In order to determine specific factors of standalone creditworthiness, certain elements of the Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation were applied. To assign credit ratings to the above bond issues the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied.

The credit rating of VEB.RF was published by ACRA for the first time on July 12, 2017. The credit ratings of the bonds issued by VEB.RF were published by ACRA for the first time on June 28, 2019 (RU000A100GY1), April 29, 2019 (RU000A100BM7), February 27, 2019 (RU000A1004U0), February 14, 2019 (RU000A1003W8), January 25, 2019 (RU000A1001V4), December 24, 2018 (RU000A0ZZZP3), November 26, 2019 (RU000A1013P1), July 25, 2017 (RU000A0JXU48), July 25, 2017 (RU000A0JXU71), January 11, 2018 (RU000A0ZYLH3), and January 11, 2018 (RU000A0ZYLJ9), respectively. The credit rating and its outlook, as well as the credit ratings of the 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 VEB.RF, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the IFRS consolidated statements and management reporting of VEB.RF. The credit ratings are solicited, and VEB.RF participated in their assignment

No material discrepancies between the provided data and the data officially disclosed by VEB.RF in its financial statements have been discovered.

ACRA provided additional services to VEB.RF. No conflicts of interest were discovered in the course of credit rating assignment.

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