

ACRA AFFIRMS AA(RU) TO JSC “AUTO FINANCE BANK”, OUTLOOK STABLE, AND AA(RU) TO ITS BOND ISSUES

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On September 4, 2023, the Single State Register of Legal Entities was amended to change the name of JSC “RN Bank” to JSC “Auto Finance Bank” (hereinafter, Auto Finance Bank, or the Bank).

The Bank’s credit rating is determined by its stable business profile, strong assessments of capital adequacy and the risk profile, and an adequate funding and liquidity position. The moderate influence of potential external support on the Bank’s rating is reflected by, on the one hand, the creditworthiness of the entity that may act as the source of this support, and on the other hand, by the degree of integration between Auto Finance Bank and this entity and the Bank’s role in implementing its strategy.

Auto Finance Bank is a medium-sized credit institution in terms of assets and equity. The Bank’s business is focused on retail car loans and financing car makers and dealers of a number of car brands.

KEY ASSESSMENT FACTORS

The business profile is assessed as stable. The Bank’s updated strategy involves active work with Russian carmakers. Operating income continues to be assessed as fairly stable, although there is heightened concentration on individual sources of this income. According to the Agency’s assessments, Auto Finance Bank’s organizational structure and the experience of its management team ensure efficient operation of the Bank and match the risks it takes.

The strong capital adequacy assessment is based on the fact that adequacy ratios are maintained at much higher than the regulatory minimums (the N1.2 capital adequacy ratio was 45.2% as of September 1, 2023). This allows the Bank to withstand, under ACRA’s stress test, a significant credit risk increase without breaching capital adequacy ratios. The Bank consistently maintains its high ability to generate capital, however, in H1 2023 there was a slight downward trend against the backdrop of a decline in lending activity.

The risk profile is assessed as strong. Auto Finance Bank’s high-quality risk management system is based on independent internal decision-making processes and supervised by the Bank’s shareholder. The system is also characterized by high underwriting standards, transparent and streamlined risk management procedures, and regularly updated risk management solutions. ACRA notes moderate growth in loans regarded as non-performing and potential non-performing (as per the Agency’s methodology) in H1 2023, which on the back of a decline in the Bank’s loan portfolio leads to an increase in their share. However, this indicator does not exceed the threshold values set by the methodology. At the same time, the Agency believes that this metric will begin to decline as lending growth resumes. The bulk of loans issued by the Bank are car loans to individuals, the rest is loans to finance car dealers. The Bank’s strategy involves

growing the retail lending portfolio. Concentration on the ten largest borrowers is assessed as low.

Adequate funding and liquidity position. Auto Finance Bank has a strong capability to fulfil its obligations within the 90-day horizon, given its substantial short-term liquidity surplus demonstrated in both ACRA's base case and the stress scenarios. ACRA notes no imbalances within longer periods, as the long-term liquidity shortage indicator is assessed as strong. All the Bank's liquidity-related ratios exceed regulatory minimums: as of September 1, 2023, the instant liquidity ratio (N2) and current liquidity ratio (N3) amounted to 133.9% and 422.7%, respectively.

ACRA notes that due to the falling volume of interbank loans received by the Bank, concentration by funding sources is rising, although this is offset by a decline in the share of liabilities from the largest creditors and depositors. As a result, the Bank's funding source diversification continues to be assessed as satisfactory.

The moderate impact of potential support on the Bank's credit rating is due, on the one hand, to the creditworthiness of the entity that can act as a source of such support, and, on the other, to the degree of integration between Auto Finance Bank and this entity, as well as the Bank's role in the implementation of its strategy.

KEY ASSUMPTIONS

- Maintaining the shareholder structure and corporate governance system;
- Further adapting the Bank's business model to the changing operating environment, as well as approval of the new strategy;
- Strong capital adequacy over the next 12 to 18 months.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

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

A positive rating action may be prompted by:

- Significant strengthening of the Bank's market position as a result of a sustainable increase in the scale of activities with adequate and successful implementation of the strategic plans, while maintaining the current risk profile;
- Considerable strengthening of the Bank's role in terms of developing the company that is the potential source of extraordinary support.

A negative rating action may be prompted by:

- Increased volume and/or share of non-performing loans in the Bank's loan portfolio;
- Significant growth in concentration on creditors and/or sources of funding;
- Considerable deterioration of capital adequacy indicators (N1.2 ratio falling below 12%);
- Lower ability to provide extraordinary support to the Bank by the company that is the potential source of this support.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **a+**.

Adjustments: none.

Support: SCA plus two notches.

ISSUE RATINGS

Exchange-traded interest-bearing non-convertible certificated bonds of JSC “Auto Finance Bank” subject to centralized title registration, series BO-001P-07 (RU000A102960), maturity date: October 24, 2023, issue volume: RUB 8 bln — **AA(RU)**.

Exchange-traded interest-bearing non-convertible certificated bonds of JSC “Auto Finance Bank” subject to centralized title registration, series BO-001P-08 (RU000A1030Y7), maturity date: April 23, 2024, issue volume: RUB 8 bln — **AA(RU)**.

Exchange-traded interest-bearing non-convertible uncertificated bonds of JSC “Auto Finance Bank” subject to centralized title registration, series BO-001P-09 (RU000A103NY1), maturity date: September 12, 2024, issue volume: RUB 8 bln — **AA(RU)**.

Exchange-traded interest-bearing non-convertible uncertificated bonds of JSC “Auto Finance Bank” subject to centralized title registration, series BO-001P-10 (RU000A105HN1), maturity date: December 1, 2025, issue volume: RUB 7 bln — **AA(RU)**.

Rationale. In the Agency’s opinion, the Bank’s bond issues are senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of JSC “Auto Finance Bank” — **AA(RU)**.

REGULATORY DISCLOSURE

The credit ratings have been assigned to JSC “Auto Finance Bank” and the bond issues (ISIN RU000A102960, RU000A1030Y7, RU000A103NY1, RU000A105HN1) of JSC “Auto Finance Bank” under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Banks and Bank Groups Under 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 Financial Instruments under the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit rating of JSC “Auto Finance Bank” and the credit ratings of the bond issues (ISIN RU000A102960, RU000A1030Y7, RU000A103NY1, RU000A105HN1) of JSC “Auto Finance Bank” were published by ACRA for the first time on March 2, 2017, October 21, 2020, April 20, 2021, September 9, 2021, and November 28, 2022, respectively. The credit rating of JSC “Auto Finance Bank” and its outlook, as well as the credit ratings of the bond issues (ISIN RU000A102960, RU000A1030Y7, RU000A103NY1, RU000A105HN1) of JSC “Auto Finance Bank” 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 JSC “Auto Finance Bank”, information from publicly available sources, and ACRA’s own databases. The rating analysis was performed using the IFRS financial statements of JSC “Auto Finance Bank” and the financial statements of JSC “Auto Finance Bank” drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit ratings are solicited and JSC “Auto Finance Bank” participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which were, in ACRA’s opinion, appropriate and sufficient to apply the methodologies.

ACRA provided additional services to JSC “Auto Finance Bank”. No conflicts of interest were discovered in the course of credit rating assignment.

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