Joint Stock Company Alfa-Bank

Ratings

Alfa

Foreign-Currency Long-Term IDR	BB+
Local-Currency Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb+
Support Rating	4
Support Rating Floor	B
National Long-Term Rating	AA+(rus)

Sovereign Rating

Foreign-Currency Long-Term IDR	BBB-
Local-Currency Long-Term IDR	BBB-
Country Ceiling	BBB-

Outlook

Foreign-Currency Long-Term IDR	Negative
Local-Currency Long-Term IDR	Negative
Sovereign Foreign-Currency Long-Term IDR	Negative
Sovereign Local-Currency Long-Term IDR	Negative
National Long-Term Rating	Negative

ABH Financial Limited[a]

	31 Dec 14	31 Dec 13
Total assets (USDm)	43,566	48,647
Fitch core capital (USDm)	4,209	4,730
Reported equity (USDm)	4,296	4,818
Pre-impair. op. profit (USDm)	1,125	1,711
Net income (USDm)	33	900
Operating ROAA (%)	(0.2)	2.5
Operating ROAE (%)	(2.2)	25.5
Basel I tier 1 ratio (%)	12.8	11.7
Basel I total capital ratio (%)	17.7	16.7
Fitch core capital ratio (%)	12.7	11.8

[a] ABH Financial Limited, a Cyprus-registered company, is Alfa's parent entity. It is at the ABHFL level that Alfa's IFRS accounts are published

Key Rating Drivers

Strongest Russian Private Bank: Joint Stock Company Alfa-Bank's (Alfa) ratings reflect the bank's solid franchise, its good management and track record of navigating through past Russian crises and its strong balance sheet, based on the consolidated accounts of its holding company (holdco), ABH Financial Limited (ABHFL; BB/Negative).

Negative Outlook: The Negative Outlook on Alfa's Long-Term IDRs mirrors Russia's and reflects the potential for the bank's Viability Rating (VR), which indicates standalone strength, to be downgraded due to pressure on financial metrics from the now recessionary environment.

Pressure On Asset Quality: Non-performing loans (NPLs; more than 90 days overdue) were 2.7% of gross loans and a further 1.4% were restructured but performing at end-2014, according to management (1.2% and 1.5% at end-2013). Pressure on asset quality is likely to increase in 2015 due to economic recession, the fall in the rouble and higher interest rates. However, the overall impairment reserve level, equal to 5.8% of gross loans at end-2014 provides a significant buffer, comparable to cumulative loan write-offs for the last five years.

Reasonable Capitalisation; Support Options: The Fitch Core Capital (FCC) ratio stood at a reasonable 12.7% at end-2014, while the regulatory tier 1 ratio was moderate 8.4% at end-1Q15. If needed, Alfa may get new equity from owners and/or utilise state support, including potential conversion of RUB39.4bn of subordinated debt received in the last crisis from Vnesheconombank (VEB) into preferred shares or perpetual debt, or participation in the sector recap programmes of the National Wealth Fund (NWF) and Depositary Insurance Agency (DIA).

Dampened Profitability: Performance deteriorated in 2014, mainly due to the increase in loan impairment charges. Fitch expects profitability to deteriorate further in 2015 due to higher impairment charges and significantly increased funding costs following the sharp increase of the base rate by the Central Bank of Russia (CBR), although Alfa has some resilience due to its high share of interest free current accounts (22% of liabilities at end-2014).

Adequate Liquidity Management: End-1Q15 liquidity (cash, short-term interbank, unpledged liquid securities and other collateral eligible for CBR repo) was adequate, covering over 50% of customer accounts. After USD575m Eurobond was repaid in March the remaining wholesale repayments in 2015 are equal to only 1.5% of liabilities. Refinancing is challenging, but not being under sanctions the bank could access to the wholesale markets (as it successfully did in 2014). Given the low growth expectations this refinancing may not be needed.

Moderate Market Risk: Market risk stems from Alfa's open position in currency exposure and to a lesser extent good quality fixed income securities portfolio.

Support Possible, Contagion Limited: Although Fitch does not factor support from private shareholders into the ratings, Alfa's owners have supported the bank in the past, and, in Fitch's view, would have a strong propensity to do so again, if required. Their ability to provide support is likely to be strong, as they seem to have little debt and significant cash reserves. Given Alfa's size and franchise, there is also a moderate probability of support from the Russian authorities.

Rating Sensitivities

Operating Environment: A further marked deterioration in Russia's economic prospects, or a weakening of Alfa's asset quality and capitalisation, could result in a downgrade of the ratings. Stabilisation of the operating environment, and a revision of the Outlook on the sovereign ratings to Stable, could result in the Outlook on Alfa's ratings also being revised to Stable.

Related Research

Russian Banks Datawatch 1H15
ABHF Financial Limited Report (August 2015)

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Figure 1

Macro Statistics

Ratings		
Sovereign IDRs/Outlook	BBB-/Neg	
MPI[a]	1	
BSI[b]	bb	
	2014	**2013**
Macro performance		
GDP (RUBtrn)	71.4	66.7
Real GDP growth (%)	0.6	1.3
Budget balance (% of GDP)	-1.1	-1.3
Inflation (%)	7.8	6.8
RUB/USD change (%)	72.2	7.5
Stock index change (%)	-45.2	-5.5
Unemployment rate (%)	5.3	5.5
Balance of payments (USDbn)		
Current account	59.5	34.8
Capital account	-42.0	-0.4
FDI	-35.5	-17.6
Portfolio equity	-39.9	-11.0
Other flows	-49.6	-27.8
Change in reserves	-107.6	-22.0
Reserves and debt (USDbn)		
International reserves	388.5	509.6
Gross external debt	597.3	728.9
O/w government	*52.2*	*77.7*
O/w banks	*171.5*	*214.4*
O/w corporates	*373.6*	*436.8*
Banking sector (%)		
System assets (RUBtrn)	73.6	54.6
System assets/GDP	101.7	81.8
Number of banks	834	923
Share of 5 largest banks	56.5	55.4
Share of state-owned	58.5	54.2
Share of foreign-owned	7.6	9.4
Retail loans/total loans	25.2	28.2
FX loans/total loans	24.6	16.8
Retail loan growth[d]	13.8	28.7
Corporate loans growth[d]	32.6	15.2
Foreign funding	12.2	12.3
FX customer funding	34.0	21.8
NPL ratio[c]	6.8	6.0
Equity/assets	9.4	12.1

[a] The Macro Prudential Indicator
[b] The Banking System Indicator
[c] Category 4 (watch) and 5 (loss) loans according to CBR
[d] Nominal

Source: CBR, Fitch

Negative Russian Banking Sector Outlook

The Negative Outlook on Alfa, as well as on majority of Russian banks, reflects Fitch's expectation that the weak Russian economy (we expect GDP to shrink by 3% in 2015), closed capital markets, higher funding costs, rouble devaluation, rising inflation and a likely loan impairments increase will put significant pressure on banks' credit profiles in 2015.

Asset quality pressure is likely to build up across the board. Doubtful and loss loans (a reasonable proxy for non-performing loans) comprised about 8% of loans (90% covered by reserves) at end-1H15, but are likely to hit double digits over the next 12-18 months, as a weaker economy and higher debt service costs erode borrowers' credit profiles. Consequently annual credit impairment charges are likely to be elevated at over 3% of loans. Of most immediate risk is unsecured consumer lending, where very high credit losses of over 20% are rapidly eroding some banks' capital buffers.

The liquidity situation is relatively stable after some volatility in December last year, but inflow of deposits has since been low and banks remain dependent on sovereign funding, mainly CBR repos, which accounted for about 13% of sector liabilities at the end of the first half of this year. Of the CBR funding the FX part is over USD30bn and has been used by banks to refinance corporates' external debt and finance carry trades in Russian sovereign debt.

Profitability has weakened markedly with the sector posting a moderate loss (adjusted for one-offs) in the first half of 2015, as the net interest margin contracted to around 3% from 4-5% due to the CBR's base rate increase at the end of last year and the subsequent repricing of deposits. The CBR has made several moderate rate cuts recently, which should reduce the pressure somewhat, but given weaker asset quality expectations the sector may still not show a profit this year.

Capitalisation is moderate, less than it was before the previous crisis, offering limited protection against potential loan impairment. Positively, the authorities devised a set of recap measures totalling over RUB2trn, which, we believe, could allow the banks to survive 2-3 years of moderate stress before more capital support would be needed. However, the support is skewed mainly towards bigger banks, so some consolidation is likely to occur.

Related Criteria

Global Bank Rating Criteria

Figure 2

Performance Relative to Peers

(%)	Alfa BB+/Neg/bb+ 2014	2013	Sberbank BBB-/Neg/bbb- 2014	2013	AO Unicredit BBB-/Neg/bbb- 2014	2013	ZAO Raiffeisen BBB-/Neg/bbb- 2014	2013
Franchise								
Total assets (USDbn)	43.6	48.6	448.1	557.6	24.2	27.2	15.9	21.8
Total equity (USDbn)	4.3	4.8	35.9	57.5	2.5	4.0	1.8	3.5
Profitability								
Interest Income/avg. earning assets	10.2	10.3	10.5	10.7	10.0	7.3	13.7	9.7
Interest Expense/avg. interest-bearing liabilities	4.7	4.5	4.5	4.3	6.8	3.8	6.0	3.7
Net interest margin	5.4	5.6	5.8	6.2	3.8	3.8	7.3	5.7
Pre-impairment profit/average performing loans	5.0	5.7	4.7	5.0	4.1	6.4	6.0	6.9
Loan impairment charge/pre-imp. op. profit	109.2	33.0	49.1	23.0	15.7	10.3	23.4	7.0
ROAA	0.1	1.9	1.4	2.2	1.8	2.9	1.0	3.0
ROAE	0.7	20.0	14.8	20.8	13.6	19.9	6.9	18.4
Loan book and quality								
Loan growth	-17.2	6.7	37.5	22.4	56.3	7.4	33.3	15.5
Retail loans/total loans	16.2	18.2	26.0	27.7	19.5	26.6	35.1	40.4
Generated NPLs/avg. performing loans	2.5	1.3	2.8	2.2	0.6	0.5	2.8	0.5
Loan impairment charge/avg. loans	4.0	1.8	2.3	1.1	0.7	0.7	1.5	0.5
NPLs/gross loans	2.7	1.2	3.2	2.9	2.4	3.1	4.8	3.5
LIR/gross loans	5.8	4.3	4.7	4.5	2.5	3.1	4.2	3.9
Liquidity and funding								
Liquid assets[a]/customer funding	70.1	60.5	23.3	20.4	50.4	51.4	43.1	44.4
Loans/customer deposits	134.6	120.0	119.9	112.4	104.3	106.8	112.7	99.3
Wholesale & bank funding/ liabilities	34.9	32.2	23.8	21.3	21.2	25.3	19.5	19.4
Capitalisation								
Equity/assets	9.9	9.9	8.0	10.3	10.4	14.9	11.3	16.3
Fitch core capital/risk-weighted risks	12.7	11.8	8.2	10.6	10.9	16.8	15.1	18.6
Basel I total CAR	12.8	11.7	8.6	10.6	9.3	15.0	15.6	19.2

[a] Cash, due from banks and unpledged liquid securities (for Alfa somewhat overstated, as it includes ATB's bank placements, which are not accessible; see Annex 3 below for a more precise and up to date liquidity estimate)
Source: IFRS financial statements of banks adapted by Fitch

Alfa Is Well Positioned Among Peers

Alfa is the largest universal, privately owned bank in Russia by assets, although its market share is modest (about 3% at end-2014), reflecting the high banking sector fragmentation below the three main state-related banks, which together control over 50% of the system. Despite the state dominance, Alfa is holding up well against peers due to its relatively low funding costs and good service. At the core of Alfa's franchise is a well-managed corporate business, which is supplemented by growing retail business, which, however, has become weaker performing, and smaller-scale investment banking (IB).

Bail Out Of Baltiysky Bank Positive, But Some Tail Risk

In 3Q14, Alfa won the DIA tender to bail out a failed (because of solvency issues) Baltiysky Bank (not rated by Fitch) in St. Petersburg. The acquisition of 89% of Baltiysky had a neutral impact on Alfa's regulatory caital given that the amount of investment was negligible. The acquisition allows Allfa to expand its branch network and gain 2.6 million retail customers in the North-West region.

Alfa estimates Baltiysky's recapitalisation need to be around RUB33bn (around USD600m at the current exchange rate), probably related to corporate loans and receivables, which seem most risky. To compensate for this Baltiysky has received a loan of RUB57.4bn (USD1.1bn) from DIA for 10 years at an interest rate of 0.51%, which resulted in a fair value gain sufficient to cover the capital shortfall and even generate a net gain of USD106m in Alfa's consolidated IFRS accounts for 2014. This may be viewed as a buffer in case of some tail risk that Baltiysky's asset quality ends up being worse than expected.

Figure 3

Baltiysky Key Numbers[a]

	Amount (USDm)	Risk
Cash & securities	188	Low
Due from banks	913	Low
Corporate loans	313	High
Public sector loans	56	Low
Retail loans	170	Moderate
Loan impairment reserve	-119	
Fixed assets & intangibles	104	Low
Receivables & other assets	407	High
Total assets	**2,032**	
Equity	**25**	

[a] At end-1Q15
Source: CBR, Fitch estimates

Part of Larger Group

Alfa is the main part of shareholders' banking business, which also includes smaller banks in Ukraine, Kazakhstan and Belarus. Ultimately, all of the banking business is consolidated under

ABH Holdings S.A. (ABHH), although each country's operations are structured through a separate sub-holding, making them sister banks.

Alfa's IFRS accounts are made at the level of ABHFL, a subsidiary of ABHH. ABHFL is a Cyprus-registered company, which, in addition to Alfa, consolidates broker/trader Alfa Capital Holdings (Cyprus) Limited (ACHCL; assets of USD2.4bn, equity of USD566m at end-2014) and Dutch-based Amsterdam Trade Bank (ATB; assets of EUR4.0bn, equity of EUR264m at end-2014), for which Alfa is the immediate parent. Before July 2012, ACHCL was also majority owned by Alfa, but then the latter reduced its stake to 19.9%, having sold 49.8% to ABHFL in order to reduce pressure on regulatory capitalisation. The analysis of Alfa below is based primarily on the consolidated accounts of ABHFL and management disclosures.

Reputable And Wealthy Shareholders

The main beneficiaries of ABHH are Mikhail Fridman (36.47%), German Khan (23.27%) and Alexei Kuzmichev. Apart from Alfa they hold stakes in a few other large assets (including telecom, oil & gas, retail, private equity), which are reasonably cash-generative and moderately leveraged.

Reasonable Relations With Authorities

Similarly to other conglomerates with significant assets in Russia, Alfa-Bank's shareholders may be exposed to some political risk. So far, they seem to have managed to maintain reasonable relations with the authorities, reflected, for example, in the significant amount of government funding and subordinated loans from VEB received by Alfa during the 2008 crisis, as well as in Alfa's participation in state-organised bailed out of failed bank Severnaya Kazna back in 2008 and of Baltiysky bank recently.

In addition, shareholders' sales of assets to government and near-government businesses (eg, the Kovytka gas field to OAO Gazprom (BBB-/Negative), shares in STS-Media to National Media Group, and a stake in TNK-BP to Rosneft) were not made at punitive prices. The latter also should have relieved any potential tension with Rosneft as a result of them blocking of the state company's previous attempt to form an alliance with BP.

Decent Quality Related-Party Exposures; Decrease Technical

Alfa's related-party exposure fluctuates and may be significant at times, although the shareholders have historically typically been net creditors to Alfa on a consolidated basis (although this may not be the case on a standalone basis). In 2014, the ownership structure of shareholders' assets (including telecom, retail, etc.) was changed through an asset split, which led to non of the shareholders individually exercising control over them. As a result some of these entities ceased to be considered related parties for reporting purposes. This explains a sharp decrease of Alfa's related party exposure in 2H14 (see Figure 4), while in reality exposure to respective companies has not decreased substantially.

Figure 4

Related Party Assets and Liabilities

	At end-2014				At end-1H14			
(USDm) Exposure	**Gross amount**	**LIR**	**Net amount**	**(% of equity)**	**Gross amount**	**LIR**	**Net amount**	**(% of equity)**
General lending	5		5	0	1,170	-30	1,140	23
Credit exposure to ADA					365	-58	307	6
Other on-BS exposure	270		270	6	532		532	11
Off-BS exposure					395		395	8
Total exposure	**275**		**275**	**6**	**2,462**	**-88**	**2,347**	**47**
Liability			**(% of liabilities)**				**(% of liabilities)**	
Alfa group and shareholders			1,746	4			3,068	7
ADA and associates							5	0
Total liability			**1,746**	**4**			**3,073**	**7**
Net exposure (liability)			**-1,471**				**-726**	

Source: Alfa

These formally related party exposures are generally of good quality, reducing potential concerns (eg. general lending typically represented loans to such entities as mobile operator Vimpelcom and food retailer X5). The rest is a mixture of bonds and shares of same decent quality companies, bank placements of ATB in Alfa Bank.

Strong Management; Reasonable Corporate Governance

Fitch considers Alfa's management to be strong, and in general views positively the close shareholder oversight of management, which helps to keep the latter focused and reduces the risk of unexpected losses. The risk of Alfa becoming highly exposed to shareholders' non-banking assets is moderate due to the policy of managing these companies independently and their generally quite strong credit profiles and cash generation. Related-party lending has been at a reasonable level and usually of solid quality. However, the way Alfa's banking group is structured allows capital and liquidity to be moved around quite easily.

Figure 5

Corporate Governance Assessment

	Neutral rating impact	May constrain ratings	Negative for ratings
Systemic characteristics	Accounting standards are set by, in, or in line with an independent standard setter (eg, US GAAP, IFRS)	*Local GAAP differs significantly from international GAAP, but still considered informative*	Local GAAP differs significantly from international GAAP and is considered misleading/not informative
	Audit regulation is transparent and robust	*Auditor regulation exists, but some implementation concerns*	There is no requirement for auditor independence
	Securities regulation is investor/creditor focused (eg. SEC)	*Securities regulator is underdeveloped and/or ineffective*	Little to no securities regulation exists
Board effectiveness	*Strong board with dedicated and professional members*	Board members lack professional depth and/or stretched and unable to attend to oversight risk	No independent board members, or they are considered formally independent and/or ineffective
	Board has a well-thought-out succession plan and a deep bench of talent	*Some risk to the succession plan/or planning is not transparent*	No succession plan
	Board is perceived to be setting a proper strategic direction	Board targets short-term goals, but lacks long-term focus	Board has not created a strategic plan
Management effectiveness	*Management is implementing well the strategy set by the board*	Management has overridden board directives or risk targets	Management poorly manages risk, ineffective and/or in fighting
	No violation by senior management of legislation	Single instance of violation of anti-bribery and/or corruption statutes or subject to criminal or civil proceedings	Several cases of violation of anti-bribery and/or corruption statutes or subject to criminal or civil proceedings
	No key man risk	*Some reliance on one/few Individuals for the success of the company*	Significant reliance on key individuals
Transparency	*Audit is done by a big 4 international auditing firm*	Less known international auditing firm or decent local company	"No-name" auditor
	Stable auditor or consistent rotation policy in place	Multiple changes of auditor over a short period of time	Change of auditor due to a disagreement in accounting treatment
	Audited annual accounts and interim results are available	Audited annual accounts, but no interim results are available	Accounts are consistently late
	Unqualified auditor opinion, disclosures are robust	Some lack of disclosure and/or aggressive accounting positions exist	Qualified accounts and/or auditors are unable to express opinion
	Management information is consistent with accounts and third-party sources	Some deficiency of management information	Lack of management information and/or incorrect/misleading information provided
Related-party transactions	Limited related-party transactions	*Moderate level of related party transactions*	Related-party transactions are considered excessive and or risky
	Related-party transactions are transparent	Lack of transparency on related-party transactions	The extent of related-party transactions cannot be determined
	Proper oversight by the board for related-party transactions	Ineffective board oversight for related-party transactions	There is no oversight by the board for related-party transactions

Source: Fitch

Mature Underwriting; Quality Prone to Operating Environment

Alfa's credit underwriting is sufficiently mature, although the loan book is fairly concentrated and asset quality may be cyclical like the Russian economy. In corporate lending, Alfa mainly relies on expected cash flows rather than collateral, with the latter being viewed as an additional safety measure – Alfa is known for its unmatched track record of asset recoveries.

Also, after the 2008 crisis, Alfa started to increasingly lend to companies with some form of state backing and/or working under government contracts. However, after the recent failure of two big infrastructure developers due to overspending and authorities' refusal to reimburse extra costs, Alfa tightened its policy. Given the challenging environment Alfa will focus on companies with export revenues, those involved in import substitution, as well as core necessity industries, such as food and pharmaceuticals. Construction lending is mainly done against collateral of completed properties generating sufficient cash flows to service interest, although bullet repayments are allowed subject to significant discount of collateral price relative to the market. In retail lending the underwriting is scoring-based with the focus on achieving the appropriate level of risk/return.

Reasonable Growth Appetite

In 2014, Alfa's lending decreased in USD terms due to sharp rouble devaluation, while in roubles (adjusted for FX movements) it grew moderately by about 9% (sector growth was 14%). However, for 2015 Alfa takes an even more protective stance, forecasting a slight decrease in corporate and retail loans due to a weaker economy and a focus on asset quality.

Some Market Risk, Good-quality Securities Book

Market risk stems from capital hedging (ABHFL has a consolidated long dollar position of around USD4bn, while the bank as a regulated entity has smaller open position), occasional proprietary risk-taking and, to a lower extent, from the securities book. The latter is weighted toward government bonds and debt securities of better quality corporates and banks. The equities book is very small (below 1% of end-2014 equity). About half of the securities book is hedged with forward sell contracts with large international banks further reducing the risk.

Bank Placements Decent; Few Concerns

Most bank exposures are to highly rated foreign banks and top Russian banks. At end-2014, there was significant concentration due to ATB's placements in few large highly rated foreign banks. As Alfa has limited access to liquidity held by ATB, Fitch excludes the respective amounts from the bank's liquidity position (see *Annex 3*). Of some risk is exposure to a sister Alfa–Bank Ukraine (USD99m at end-2014, of which USD92m is booked in ATB) due to the stressed operating environment. This exposure has decreased twofold from end-2013.

Reverse Repos Adequately Collateralised

The reverse repo business (USD1.2bn at end-2014) is concentrated, with the top 10 exposures accounting for about 91% of the total amount. Most counterparties have low ratings/are unrated, so the focus is on collateral, which is a mixture of shares and bonds, mostly of Russian blue chips. For most deals, the tenor is rather short-term (about two weeks), although some deals are for up to one year. The risk is adequately captured by haircuts (the collateral value exceeded USD1.9bn at end-2014) and margin calls exist.

Generally Low-Risk Guarantees, But Few Defaults

Guarantees represent a relatively big business for Alfa (USD2.1bn at end-2014). Although very concentrated it is generally low risk due to the state nature of many counterparties and/or some working under government contracts. However, in 2014 there appeared a few problematic guarantee exposures for over USD129m due to a failure of an infrastructure construction company.

Corporate NPLs Up, But Still Moderate

Corporate NPLs moderately increased to 2.7% at end-2014 from 1.1% at end-2013. Alfa's corporate loans are of decent quality with the 25 largest borrowers being well recognised big Russian companies, of which six were state-related at end-2014. None of the top 25 exposures were NPLs at end-2014, but there was one (for about 1% of gross loans or 5% of Fitch Core Capital (FCC)), which is potentially risky/problematic and weakly reserved, although currently performing. A few others are leveraged and/or have weak financials, so there is still a risk of some of them defaulting, as reflected by failure of a Sotchi Olympics constructor Mostovik. A previously top 25 exposure, this became over 90% reserved and partially written-off in 2H14.

Top 10 overdue exposures amounted to USD533m (13% of FCC) at end-2014. Some are reasonably secured (eg. Utair) and/or borrowers have financially strong shareholders behind them, which mitigate the risk to an extent. As an extra mitigating factor, Alfa's annual corporate pre-impairment profit amounting to about USD0.8bn is sufficient to reserve 3% of net loans.

Ukrainian Risks Reduced, But Remain; Shareholders May Help

Alfa's combined exposure to several Ukrainian borrowers (none of them are in top 25) was USD299m or 7% of FCC at 2014 (USD544m or 11% at end-2014). Of this only USD81m is booked in Alfa Bank Russia, while the rest resides in ATB. These exposures are to big local companies, but we consider them as high risk because of economic stress in Ukraine, which is also evidenced by their multiple restructurings. Current reserves are minimal, suggesting further significant charges may be required. The capacity of ATB to make those is limited (as reflected by its total equity of EUR265m at end-2014), so in the worst case, according to management, the shareholders will provide new equity to ATB. The shareholders are in discussions with the Dutch regulator with respect to potential change of ownership of ATB from that of the bank towards them, which could streamline support to ATB and also result in EUR230m capital relief for Alfa.

Uplift in Retail Credit Losses, Reasonable Headroom

Figure 6
Loan Quality

	2014			2013		
	Corporate	Retail	Total	Corporate	Retail	Total
Gross loans (USDm)	23,532	4,573	28,105	27,789	6,169	33,958
NPLs (USDm)	653	113	766	299	115	414
Restructured (USDm)	382	-	382	504	-	504
NPLs (%)	**2.8**	**2.5**	**2.7**	**1.1**	**1.9**	**1.2**
Restructured (%)	1.6	-	1.4	1.8	-	1.5
NPLs + restructured (%)	**4.4**	**2.5**	**4.1**	**2.9**	**1.9**	**2.7**
LIR (%)	5.8	6.1	5.8	4.2	4.5	4.3
LIR/(NPL + restructured) (%)	131.5	246.9	142.9	145.9	243.5	158.1
Generated NPLs (USDm)	392	382	775	66	341	407
LIC (USDm)	612	658	1,270	147	442	589
NPL generation (%)[a]	1.6	7.3	2.5	0.2	6.4	1.3
LIC (%)[b]	2.5	12.9	4.3	0.6	8.5	1.9

[a] Generated NPLs = net increase in NPLs + write offs (annualized)
[b] NPL generation = generated NPLs/average performing loans
[c] Loan impairment charge/avg. net loans (annualized)
Source: IFRS financial statements, Alfa

Alfa's retail lending (16% of the total loans) is mostly high margin unsecured, including cash loans, credit cards and consumer finance. NPL origination (good proxy for credit losses) in this business increased to about 7.3% in 2014 from 6.4% in 2013, which is still much better than for most Fitch-rated retail banks. We estimate, there is reasonable headroom (about 5-6%) for potential extra losses before Alfa's retail business becomes break-even.

Net Profitability Weakened, Bleak 2015 Outlook

Performance deteriorated in 2014 due to a significant increase in impairment charges associated with few big corporate defaults and general deterioration in retail lending, as well as a negative revaluation of securities (this loss is unlikely to become realised). Fitch considers its reserving policy conservative, as loan impairment charge of USD1.2bn significantly exceed USD774m newly generated NPLs in 2014 (see Figure 6), while overall reserve coverage was a solid 2.2x at end-2014. The core pre-impairment profitability remained robust, with the cost/income ratio below 50% (see Figure 7).

We believe net profitability will deteriorate further in 2015 due to potentially higher impairment charges and significantly increased funding costs following the increase of the base rate by the CBR, although Alfa has some resilience due to its high share of interest free current accounts.

Figure 7
Segment Results

	2014				2013			
(USDm)	Corporate and IB	Retail	Other	Total	Corporate and IB	Retail	Other	Total
Net revenue	1,135	1,577	-451	2,261	1,358	1,436	29	2,850
Opex	-366	-668	-20	-1,054	-470	-750	-22	-1,242
Pre-impairment profit	769	909	-471	1,207	888	713	7	1,608
Impairment	-667	-620	-3	-1,290	-85	-425		-510
Profit before tax (PBT)	**102**	**289**	**-474**	**-83**	**803**	**288**	**7**	**1,098**
Net income				**33**				**900**
Segment average assets	25,976	5,062	5,730	36,768	28,652	5,164	5,756	39,572
Cost/income (%)	32.2	42.4	-4.4	46.6	34.6	51.3	75.9	43.6
PBT/seg. avg. assets (%)	0.4	5.7	-8.3	-0.2	2.8	5.6	0.1	2.8
ROAE (%)				0.7				20.0

Source: IFRS statements, Fitch estimates

Figure 8
Rate Dynamics

	2014				2013			
(%)	Corporate	Retail	Other	Total	Corporate	Retail	Other	Total
Average lending/coupon rate	9.4	26.5	4.5	10.7	9.4	23.0	3.5	9.9
Average funding cost	5.5	2.5	5.8	4.7	4.4	3.0	5.2	4.3

Source: IFRS statements, Fitch estimates

Reasonable Basel Capitalisation; Regulatory Tighter

Basel capitalisation is reasonable for Alfa's risk profile, while regulatory capital is tighter due to higher loan impairment reserves and some of the earnings being attributable to other entities, which are consolidated in ABHFL. The bank's total regulatory ratio has the lowest headroom (see Figure 9). The core Tier 1 ratio could also become pressured due to the planned introduction of a capital conservation buffer and a 1% buffer on top of this for systemic banks requiring Alfa to have a 6.625% Tier 1 ratio from 2016, rising to 8.5% in 2019. However, the implementation may be postponed as a part of the recently allowed forbearance. Importantly, Alfa's regulatory ratios do not benefit from forbearance, as the bank has chosen not to use it.

Capital Support Options Exist

Alfa can improve its Tier 1 capital by a significant 340bp by converting its RUB39.4bn sub-debt from VEB (regulatory amortisation begins in 2Q15) into preferred shares, although it has so far rejected this, trying to negotiate conversion into a perpetual instead. Given its size, Alfa also qualifies for government capital support out of both RUB250bn from the NWF and RUB0.9trn via DIA (most likely will be Tier 2 capital), although management believes the latter is a more realistic option.

Figure 9
Capital Ratios

	Actual	Min
Regulatory (end-1Q15)		
Core tier 1	8.4	5.0
Tier 1	8.4	6.0
Total	12.2	10.0
IFRS (end-2014)		
Tier 1	12.8	4.0
Total	17.7	8.0

Source: CBR, Fitch estimates

Although ABHFL declared dividends (upstreamed from Alfa) of USD120m in 4Q14, of which USD21m was netted against ABHH's liabilities, the shareholders may provide capital back to Alfa, if needed, Fitch believes.

Considerable Loss Absorption Capacity

At end-2014, Alfa could have withstood about 15% of credit losses before its IFRS total capital adequacy ratio decreased to an internally set minimum of 11%. Regulatory loss absorption capacity was slightly lower at end-2014, but improved to 17% in 1Q15 due to decrease of RWAs, as the rouble exchange rate rebounded (around 40% of Alfa Bank's loans are in FX). The capitalisation should also be viewed in the context of Alfa's decent asset quality and strong recovery track record, robust pre-impairment profitability and its owners' apparent ability to provide capital if needed.

Figure 10

Loss Absorption Capacity

	End-1Q15	End-2014		End-2013	
(USDm)	**Regulatory**	**IFRS**	**Regulatory**	**IFRS**	**Regulatory**
Tier 1 capital	2,950	4,243	3,029	4,716	3,693
Tier 2 capital	1,349	1,655	1,437	2,009	2,430
Total capital	4,298	5,899	4,466	6,725	6,123
Tier 1 ratio (%)	8.4	12.8	7.5	11.7	7.6
Total capital adequacy ratio (%)	12.2	17.7	11.0	16.7	12.7
Risk-weighted assets	**35,320**	**33,231**	**40,562**	**40,259**	**48,403**
Gross loans	24,719	28,105	26,804	33,958	34,228
Current LIR	3,254	1,640	3,133	1,451	2,853
Additional LIR capacity[a]	**852**	**2,521**	**455**	**2,580**	**1,339**
Maximum LIR capacity[a]	4,106	4,160	3,588	4,031	4,193
Current LIR/gross loans (%)	13.2	5.8	11.7	4.3	8.3
Additional LIR cap/gross loans (%)[a]	3.4	9.0	1.7	7.6	3.9
Maximum LIR/gross loans (%)[a]	**16.6**	**14.8**	**13.4**	**11.9**	**12.2**
Targeted total capital adequacy (%)	10	11	10	11	10

Note: In analysing capital, Fitch's primary focus is on loss-absorbing capital, as expressed by Fitch core capital However, the Basel total capital ratio is used here in order to provide comparison with regulatory capital
[a] LIR which the bank could create without total capital ratio falling below targeted/covenanted total capital adequacy ratio
Source: IFRS accounts, Fitch estimates

Adequate Liquidity Reserves

Alfa, among many other banks, had a moderate around 5% outflow of customer funding in December 2014. These were mainly covered by CBR/government funding (15% of end-2014 liabilities) and sale of securities. Alfa's liquidity reserves were sufficient to repay over 50% of customer accounts at end-1Q15 (see Annex 3).

High Share of Current Accounts an Advantage

Some 50% of funding is customer accounts, of which about 40% are interest-free current accounts contributing to a relatively low funding cost in line with state banks, which in an increasingly competitive environment gives Alfa a significant advantage.

Moderate Refinancing Risk

Bank funding made up about USD8bn or 20% of liabilities at end-2014. Of this about USD6bn was from the CBR, of which USD3.6bn was repo/collateralised lending and USD2.4bn is a term deposit maturing in 4Q15. The latter has mostly been prepaid already. Short-term interbank funding made USD2bn. Although typically this is stable and rolling over, it could be less reliable in times of stress, but Alfa's significant liquidity buffer mitigates the risk.

Of the USD6.5bn wholesale debt at end-2014, only USD0.6bn was due in 2015 (about 1.5% of liabilities). Of this, the largest item – a USD575m Eurobond - was redeemed in March, so the remaining repayments are negligible. Importantly, as Alfa is not under sanctions, it retains market access having made several deals in 2014, including a EUR350m senior Eurobond in June, USD250m subordinated bond in November and several issues of rouble bonds.

Figure 11

Wholesale Debt Maturity

(USDm)		Syndicated loans	Eurobonds	ECP	Market subdebt	VEB subdebt	Ruble bonds	Total	(% of liabilities)
2015	Jan	-	-	-	-	-	-	-	-
	Feb	-	-	-	-	-	-	-	-
	Mar	-	575[a]	-	-	-	-	575[a]	1.5
	Apr	-	-	-	-	-	-		-
	May	-	-	-	-	-	-	-	-
	Jun	-	-	-	-	-	-	-	-
	Jul	-	-	40	-	-	-	40	0.1
	Aug	-	-	-	-	-	91	91	0.2
	Sep	-	-	31	-	-	137	168	0.4
	Oct	-	-	-	-	-	-	-	-
	Nov	-	-	-	-	-	-	-	-
	Dec	-	-	-	-	-	-	-	-
Total 2015		**-**	**575**	**71**	**-**	**-**	**228**	**874**	**2.2**
Total 2016		**-**	**180**	**-**	**-**	**-**	**404**	**584**	**1.5**
Beyond 2016		**276**	**2 483**	**-**	**1 167**	**646**	**451**	**5 023**	**12.8**

[a] Repaid
Source: Alfa

Support Possible, But Not Explicitly Factored into Ratings

Fitch usually does not factor in ratings support from private individuals, as it is difficult to assess their financial position and propensity to provide support at all times. However, Alfa's shareholders have a track record of supporting the bank, including USD800m of emergency liquidity provided in 2004, which leads Fitch to believe that they would have strong propensity to provide support in the future. As regards the ability they do not seem to have much debt and, as a result of sales of some of their assets in 2010-2013, including the sale of shares in TNK-BP, from which alone they received USD14bn, should be very cash-rich. Given Alfa's size and franchise, there is also a moderate probability of support from the Russian authorities.

Figure 12

Shareholders Major Acquisitions/Sales of Assets

Company	Industry	Date of transaction	Stake sold/ acquired (%)	Sale proceeds (expenditure)
Pamplona funds[a]	Diversified investments	2010	n.a.	-1,500
STS Media	TV channel	2Q11	26.0	1,070
MegaFon	Mobile telecommunications	1Q12	25.0	3,800
VimpelCom	Mobile telecommunications	9M12	23.0	-4,134
TNK-BP	Oil & gas	1Q13	25.0	14,000
Coinmach Service Corp. & AIR-serv[b]	Laundry, car pay air service	2Q13	100.0	-1,400
Turkcell	Telecom	2Q14	13.7	1,600
RWE Dea AG[c]	Oil & gas	1Q15	100.0	-5,500
Net position				**7,936**

In 1Q14 Pamplona sold reduced its stake in UniCredit to 2% from 5% with about EUR0.5bn profit on the transaction; in 2Q14 Pamplona acquired UK leasing company Beacon Rail for USD450m and a majority stake in pharmaceutical company Alvogen for an undisclosed amount
[b] Assets were acquired by Pamplona Capital Management
[c] Acquired by LetterOne, an investment vehicle founded by shareholders in 2013. The initial assets contributed into LetterOne comprise the proceeds from the sale of TNK-BP, a 100% stake in Altimo (owner of a 47.85% effective voting interest in VimpelCom, an international telecoms operator) and investments in ATTL (ultimate owner of a 13.22% effective interest in Turkcell, a Turkish telecoms operator) as well as certain private equity and hedge funds
Source: Companies' press-releases; companies' accounts

Annex 1: Loan Quality

Figure 13

End-2014

	Gross loans (USDm)	Growth of gross loans, y-o-y (%)	Performing loans (USDm)	Loan impairment provision (USDm)	Net loans (USDm)	Year-end NPLs (USDm)	NPLs originated (recovered) in 2014 (USDm)	Written-off loans (USDm)	Re-negotiated loans (USDm)[a]	NPLs 90+ (%)	Re-negotiated loans (%)	Loan impairment provision (%)	NPLs originated (recovered) in 2014/avg. performing loans (%)
Credit cards and PILs	3,489	(18.2)	3,405	214	3,275	84	287	277		2.4	-	6.1	7.6
Consumer loans	875	(45.1)	850	61	814	25	88	100		2.9	-	7.0	7.3
Mortgage loans	190	(32.1)	186	4	186	4	3	3		2.1	-	2.1	1.3
Car loans	19	(32.1)	19	-	19	-	4	4		-	-	-	17.0
Total retail loans	**4,573**	**(25.9)**	**4,460**	**279**	**4,294**	**113**	**382**	**384**	**-**	**2.5**	**-**	**6.1**	**7.3**
General corporate loans	22,322	(14.2)	21,722	1,284	21,038	600	341	30		2.7	n.a.	5.8	1.4
SME loans	374	(33.7)	323	37	337	51	50	9		13.6	n.a.	9.9	11.4
Lease financing	836	(31.1)	834	40	796	2	2	-		0.2	n.a.	4.8	0.2
Total corporate loans	**23,532**	**(15.3)**	**22,879**	**1,361**	**22,171**	**653**	**392**	**39**	**382**	**2.8**	**1.6**	**5.8**	**1.6**
Total loan book	**28,105**	**(17.2)**	**27,339**	**1,640**	**26,465**	**766**	**775**	**423**	**382**	**2.7**	**1.4**	**5.8**	**2.5**

[a] Risk-management data
Source: IFRS statements, Alfa

Figure 14

End-2013

	Gross loans (USDm)	Growth of gross loans, y-o-y (%)	Performing loans (USDm)	Loan impairment provision (USDm)	Net loans (USDm)	Year-end NPLs (USDm)	NPLs originated (recovered) in 2013 (USDm)	Written-off loans (USDm)	Re-negotiated loans (USDm)[a]	NPLs 90+ (%)	Re-negotiated loans (%)	Loan impairment provision (%)	NPLs originated (recovered) in 2013/avg. performing loans (%)
Credit cards and PILs	4,266	46.9	4,192	189	4,077	74	170	122		1.7	-	4.4	4.8
Consumer loans	1,595	13.3	1,558	87	1,508	37	164	150		2.3	-	5.5	11.1
Mortgage loans	280	-5.1	276	4	276	4	4	3		1.4	-	1.4	1.4
Car loans	28	-30.0	28	-	28	-	3	3		-	-	-	8.8
Total retail loans	**6,169**	**32.7**	**6,054**	**280**	**5,889**	**115**	**341**	**278**	**-**	**1.9**	**-**	**4.5**	**6.4**
General corporate loans	26,011	1.6	25,722	1,103	24,908	289	49	41	n.a.	1.1	n.a.	4.2	0.2
SME loans	564	19.0	554	40	524	10	3	5	n.a.	1.8	n.a.	7.1	0.6
Lease financing	1,214	9.9	1,214	28	1,186	-	14	14	n.a.	-	n.a.	2.3	1.2
Total corporate loans	**27,789**	**2.3**	**27,490**	**1,171**	**26,618**	**299**	**66**	**60**	**504**	**1.1**	**1.8**	**4.2**	**0.2**
Total loan book	**33,958**	**6.7**	**33,544**	**1,451**	**32,507**	**414**	**407**	**338**	**504**	**1.2**	**1.5**	**4.3**	**1.3**

[a] Risk-management data
Source: IFRS statements, Alfa

Annex 2

Figure 15

Top 25 Groups of Borrowers at End-2014

	Description		Gross exposure		Terms			Quality & reserves			Net exposure	
No.	Borrower industry	State-owned (yes/no)	Amount (USDm)	Of gross loans (%)	Main currency	Tenor (years)	NPL (yes/no)	Provision, IFRS (USD)	Provision, IFRS (%)	Amount (USD)	Of Fitch core capital (%)	Fitch risk assessment
1	Diamond extraction	yes	1,071	3.8	USD	2.7	no	21	2.0	1,049	24.9	Low risk
2	Media & telecom	no	1,000	3.6	USD	3.0	no	27	2.7	973	23.1	Low risk
3	Real estate	no	773	2.8	USD	7.9	no	21	2.7	752	17.9	Moderate risk
4	Defence	yes	621	2.2	USD, RUR	2.9	no	20	3.2	601	14.3	Low risk
5	Non-ferrous metallurgy	no	577	2.1	USD, RUR	1.8	no	16	2.7	561	13.3	Moderate risk
6	Nuclear	yes	444	1.6	RUR	2.4	no	5	1.1	439	10.4	Low risk
7	Oil	yes	400	1.4	USD	2.0	no	18	4.5	382	9.1	Low risk
8	Coal, power generation	no	362	1.3	USD, RUR, EUR	7.5	no	10	2.7	353	8.4	Low risk
9	Power generation	no	349	1.2	RUR	1.2	no	20	5.6	330	7.8	Moderate risk
10	Precious metals	no	319	1.1	USD	1.0	no	6	2.0	313	7.4	Low risk
11	Coal	no	309	1.1	USD, RUR	3.6	no	19	6.1	290	6.9	Moderate risk
12	Coal	no	297	1.1	USD, RUR	2.0	no	13	4.5	284	6.7	Moderate risk
13	Real estate	no	294	1.0	USD	7.5	no	4	1.4	289	6.9	Low risk
14	Railway transport	no	263	0.9	USD, RUR	6.8	no	7	2.8	256	6.1	Moderate risk
15	Petrochemistry	no	260	0.9	USD	0.6	no	7	2.7	253	6.0	Moderate risk
16	Defence	yes	259	0.9	USD, RUR	2.6	no	14	5.5	244	5.8	Low risk
17	Oil	no	250	0.9	RUR	3.0	no	5	2.0	245	5.8	Moderate risk
18	Defence	yes	249	0.9	RUR, EUR	2.4	no	6	2.3	242	5.8	Low risk
19	Railway transport	no	241	0.9	USD, RUR	5.2	no	4	1.8	237	5.6	Moderate risk
20	Construction & real estate	no	237	0.8	USD, EUR	7.6	no	9	3.7	228	5.4	Moderate risk
21	**Ferrous metallurgy**	**no**	**224**	**0.8**	**USD**	**4.5**	**no**	**19**	**8.6**	**204**	**4.9**	**High risk**
22	Petrochemistry	no	214	0.8	RUR	3.7	no	4	2.0	209	5.0	Low risk
23	Ferrous metallurgy	no	191	0.7	RUR	6.2	no	2	1.2	189	4.5	Moderate risk
24	Non-ferrous metallurgy	no	190	0.7	USD, RUR, EUR	2.6	no	5	2.7	185	4.4	Moderate risk
25	Petrochemistry	no	181	0.6	RUR	5.2	no	4	2.0	178	4.2	Moderate risk
	Total		**9,576**	**34.1**		**3.7**		**312**	**3.3**	**9,288**	**220.1**	

Source: IFRS statements, Alfa Bank, Fitch's assessment

Annex 3

Figure 16

Liquidity (Excluding ATB)

(USDm)	1Q15
Cash sources[a]	
Cash on hand	1,091
Correspondent accounts with central banks	370
Correspondent accounts with other banks	1,319
Overnight placements with other banks	353
Due from other banks (short-term)	583
Cash and equivalents	**3,716**
Additional liquidity sources, incl	
HFS portfolio	1,550
Repoable fixed income portfolio	407
Loan portfolio eligible for CBR repo	3,799
Total additional liquidity sources	**5,756**
Total available liquidity	**9,472**
Average monthly proceeds from loan repayments[b]	540
Cash uses[a]	
Loans from banks	3,961
Eurobonds (MTN, LPN)	-
ECP	72
Loan from SDIA	-
Syndicated loan	-
VEB subordinated debt	-
Russian bonds	347
Subordinated debt	-
Wholesale/money markets debt repayments in next 12m	**4,380**
Potential repayments to government related entities, incl	
Due to CBR (non-repo)	1,743
Deposits of Ministry of Finance, state and regional budgets	130
Non-core deposits from large state entities	298
Total potential repayments to government related entities	**2,171**
Total repayments & other potential cash uses	**6,551**
Total available liquidity net of wholesale/money markets debt repayments in next 12m	**5,092**
Total available liquidity net of total potential cash uses	**2,921**
Total available liquidity/customer accounts (%)	55.4
Total available liquidity net of total potential cash uses/customer accounts[c] (%)	17.5
Monthly proceeds from loan repayments/customer accounts (%)	3.2

[a] Excluding loan issuance/repayments and other items
[b] Bank estimate; Fitch conservatively excludes loan proceeds from calculation of liquid assets
[c] Customer accounts are net of Ministry of Finance/regional budgets/other non-core government deposits
Source: Bank, Fitch estimates

ABH Financial Limited
Income Statement

	31 Dec 2014 Year End USDm Unqualified	31 Dec 2013 Year End USDm Unqualified	31 Dec 2012 Year End USDm Unqualified	31 Dec 2011 Year End USDm Unqualified
1. Interest Income on Loans	3,773.0	3,786.0	2,818.0	2,264.0
2. Other Interest Income	369.0	304.0	292.0	361.0
3. Dividend Income	n.a.	n.a.	0.0	1.0
4. Gross Interest and Dividend Income	**4,142.0**	**4,090.0**	**3,110.0**	**2,626.0**
5. Interest Expense on Customer Deposits	766.0	848.0	630.0	545.0
6. Other Interest Expense	1,198.0	996.0	802.0	666.0
7. Total Interest Expense	**1,964.0**	**1,844.0**	**1,432.0**	**1,211.0**
8. Net Interest Income	**2,178.0**	**2,246.0**	**1,678.0**	**1,415.0**
9. Net Gains (Losses) on Trading and Derivatives	(262.0)	(16.0)	(36.0)	(54.0)
10. Net Gains (Losses) on Other Securities	(27.0)	62.0	(5.0)	0.0
11. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	4.0	(3.0)	49.0
12. Net Insurance Income	n.a.	n.a.	n.a.	n.a.
13. Net Fees and Commissions	825.0	780.0	580.0	455.0
14. Other Operating Income	(238.0)	23.0	32.0	28.0
15. Total Non-Interest Operating Income	**298.0**	**853.0**	**568.0**	**478.0**
16. Personnel Expenses	679.0	811.0	630.0	556.0
17. Other Operating Expenses	672.0	577.0	408.0	421.0
18. Total Non-Interest Expenses	**1,351.0**	**1,388.0**	**1,038.0**	**977.0**
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	n.a.	n.a.
20. Pre-Impairment Operating Profit	**1,125.0**	**1,711.0**	**1,208.0**	**916.0**
21. Loan Impairment Charge	1,228.0	565.0	95.0	148.0
22. Securities and Other Credit Impairment Charges	n.a.	0.0	43.0	6.0
23. Operating Profit	**(103.0)**	**1,146.0**	**1,070.0**	**762.0**
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.
25. Non-recurring Income	109.0	5.0	4.0	n.a.
26. Non-recurring Expense	n.a.	n.a.	n.a.	n.a.
27. Change in Fair Value of Own Debt	6.0	(4.0)	(5.0)	n.a.
28. Other Non-operating Income and Expenses	n.a.	n.a.	n.a.	n.a.
29. Pre-tax Profit	**12.0**	**1,147.0**	**1,069.0**	**762.0**
30. Tax expense	(21.0)	247.0	240.0	121.0
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.
32. Net Income	**33.0**	**900.0**	**829.0**	**641.0**
33. Change in Value of AFS Investments	(70.0)	(72.0)	88.0	(73.0)
34. Revaluation of Fixed Assets	41.0	30.0	0.0	(2.0)
35. Currency Translation Differences	(2,073.0)	(234.0)	154.0	(85.0)
36. Remaining OCI Gains/(losses)	1,654.0	193.0	(146.0)	3.0
37. Fitch Comprehensive Income	**(415.0)**	**817.0**	**925.0**	**484.0**
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	0.0	0.0	0.0
39. Memo: Net Income after Allocation to Non-controlling Interests	33.0	900.0	829.0	641.0
40. Memo: Common Dividends Relating to the Period	120.0	150.0	182.0	131.0
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	n.a.	n.a.

ABH Financial Limited
Balance Sheet

	31 Dec 2014		31 Dec 2013		31 Dec 2012		31 Dec 2011	
	Year End USDm	As % of Assets	Year End USDm	As % of Assets	Year End USDm	As % of Assets	Year End USDm	As % of Assets
Assets								
A. Loans								
1. Residential Mortgage Loans	n.a.	-	n.a.	-	n.a.	-	321.0	1.02
2. Other Mortgage Loans	190.0	0.44	280.0	0.58	295.0	0.64	n.a.	-
3. Other Consumer/ Retail Loans	4,367.0	10.02	5,856.0	12.04	4,316.0	9.40	2,434.0	7.76
4. Corporate & Commercial Loans	22,440.0	51.51	25,924.0	53.29	25,907.0	56.40	20,417.0	65.09
5. Other Loans	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Less: Reserves for Impaired Loans	1,640.0	3.76	1,451.0	2.98	1,261.0	2.75	1,368.0	4.36
7. Net Loans	**25,357.0**	**58.20**	**30,609.0**	**62.92**	**29,257.0**	**63.70**	**21,804.0**	**69.52**
8. Gross Loans	**26,997.0**	**61.97**	**32,060.0**	**65.90**	**30,518.0**	**66.44**	**23,172.0**	**73.88**
9. Memo: Impaired Loans included above	766.0	1.76	414.0	0.85	345.0	0.75	333.0	1.06
10. Memo: Loans at Fair Value included above	n.a.	-	n.a.	-	n.a.	-	n.a.	-
B. Other Earning Assets								
1. Loans and Advances to Banks	3,678.0	8.44	3,362.0	6.91	3,083.0	6.71	1,578.0	5.03
2. Reverse Repos and Cash Collateral	2,279.0	5.23	2,193.0	4.51	1,543.0	3.36	664.0	2.12
3. Trading Securities and at FV through Income	1,296.0	2.97	3,545.0	7.29	3,087.0	6.72	1,774.0	5.66
4. Derivatives	2,780.0	6.38	331.0	0.68	427.0	0.93	226.0	0.72
5. Available for Sale Securities	1,361.0	3.12	1,051.0	2.16	1,782.0	3.88	1,166.0	3.72
6. Held to Maturity Securities	456.0	1.05	87.0	0.18	77.0	0.17	117.0	0.37
7. Equity Investments in Associates	n.a.	-	n.a.	-	n.a.	-	98.0	0.31
8. Other Securities	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Total Securities	**8,172.0**	**18.76**	**7,207.0**	**14.81**	**6,916.0**	**15.06**	**4,045.0**	**12.90**
10. Memo: Government Securities included Above	1,311.0	3.01	1,334.0	2.74	1,476.0	3.21	1,063.0	3.39
11. Memo: Total Securities Pledged	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Investments in Property	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. Insurance Assets	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Other Earning Assets	n.a.	-	n.a.	-	n.a.	-	n.a.	-
15. Total Earning Assets	**37,207.0**	**85.40**	**41,178.0**	**84.65**	**39,256.0**	**85.47**	**27,427.0**	**87.44**
C. Non-Earning Assets								
1. Cash and Due From Banks	5,286.0	12.13	6,280.0	12.91	5,662.0	12.33	3,023.0	9.64
2. Memo: Mandatory Reserves included above	287.0	0.66	355.0	0.73	444.0	0.97	316.0	1.01
3. Foreclosed Real Estate	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Fixed Assets	537.0	1.23	668.0	1.37	559.0	1.22	340.0	1.08
5. Goodwill	34.0	0.08	59.0	0.12	64.0	0.14	60.0	0.19
6. Other Intangibles	53.0	0.12	67.0	0.14	43.0	0.09	34.0	0.11
7. Current Tax Assets	111.0	0.25	15.0	0.03	29.0	0.06	29.0	0.09
8. Deferred Tax Assets	n.a.	-	0.0	0.00	0.0	0.00	4.0	0.01
9. Discontinued Operations	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Other Assets	338.0	0.78	380.0	0.78	319.0	0.69	448.0	1.43
11. Total Assets	**43,566.0**	**100.00**	**48,647.0**	**100.00**	**45,932.0**	**100.00**	**31,365.0**	**100.00**
Liabilities and Equity								
D. Interest-Bearing Liabilities								
1. Customer Deposits - Current	8,245.0	18.93	11,774.0	24.20	10,500.0	22.86	8,079.0	25.76
2. Customer Deposits - Savings	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Customer Deposits - Term	11,814.0	27.12	14,951.0	30.73	16,342.0	35.58	10,175.0	32.44
4. Total Customer Deposits	**20,059.0**	**46.04**	**26,725.0**	**54.94**	**26,842.0**	**58.44**	**18,254.0**	**58.20**
5. Deposits from Banks	8,167.0	18.75	4,569.0	9.39	3,630.0	7.90	1,595.0	5.09
6. Repos and Cash Collateral	20.0	0.05	2,670.0	5.49	1,872.0	4.08	789.0	2.52
7. Other Deposits and Short-term Borrowings	1,933.0	4.44	2,824.0	5.81	2,694.0	5.87	n.a.	-
8. Total Deposits, Money Market and Short-term Funding	**30,179.0**	**69.27**	**36,788.0**	**75.62**	**35,038.0**	**76.28**	**20,638.0**	**65.80**
9. Senior Debt Maturing after 1 Year	3,600.0	8.26	4,030.0	8.28	3,380.0	7.36	5,015.0	15.99
10. Subordinated Borrowing	1,813.0	4.16	2,057.0	4.23	2,170.0	4.72	1,335.0	4.26
11. Other Funding	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Total Long Term Funding	**5,413.0**	**12.42**	**6,087.0**	**12.51**	**5,550.0**	**12.08**	**6,350.0**	**20.25**
13. Derivatives	2,709.0	6.22	200.0	0.41	450.0	0.98	344.0	1.10
14. Trading Liabilities	n.a.	-	n.a.	-	n.a.	-	n.a.	-
15. Total Funding	**38,301.0**	**87.91**	**43,075.0**	**88.55**	**41,038.0**	**89.35**	**27,332.0**	**87.14**
E. Non-Interest Bearing Liabilities								
1. Fair Value Portion of Debt	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	181.0	0.42	47.0	0.10	37.0	0.08	150.0	0.48
4. Current Tax Liabilities	50.0	0.11	13.0	0.03	15.0	0.03	64.0	0.20
5. Deferred Tax Liabilities	208.0	0.48	83.0	0.17	90.0	0.20	56.0	0.18
6. Other Deferred Liabilities	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Discontinued Operations	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Insurance Liabilities	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Other Liabilities	530.0	1.22	611.0	1.26	600.0	1.31	328.0	1.05
10. Total Liabilities	**39,270.0**	**90.14**	**43,829.0**	**90.10**	**41,780.0**	**90.96**	**27,930.0**	**89.05**
F. Hybrid Capital								
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	-	0.0	0.00	0.0	0.00	0.0	0.00
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	-	0.0	0.00	0.0	0.00	0.0	0.00
G. Equity								
1. Common Equity	5,133.0	11.78	5,217.0	10.72	4,461.0	9.71	3,837.0	12.23
2. Non-controlling Interest	13.0	0.03	n.a.	-	1.0	0.00	1.0	0.00
3. Securities Revaluation Reserves	(55.0)	(0.13)	n.a.	-	68.0	0.15	(15.0)	(0.05)
4. Foreign Exchange Revaluation Reserves	(868.0)	(1.99)	(442.0)	(0.91)	(403.0)	(0.88)	(416.0)	(1.33)
5. Fixed Asset Revaluations and Other Accumulated OCI	73.0	0.17	43.0	0.09	25.0	0.05	28.0	0.09
6. Total Equity	**4,296.0**	**9.86**	**4,818.0**	**9.90**	**4,152.0**	**9.04**	**3,435.0**	**10.95**
7. Total Liabilities and Equity	**43,566.0**	**100.00**	**48,647.0**	**100.00**	**45,932.0**	**100.00**	**31,365.0**	**100.00**
8. Memo: Fitch Core Capital	4,209.0	9.66	4,730.0	9.72	3,913.0	8.52	2,814.0	8.97
9. Memo: Fitch Eligible Capital	n.a.	-	n.a.	-	n.a.	-	n.a.	-

ABH Financial Limited
Summary Analytics

	31 Dec 2014 Year End	31 Dec 2013 Year End	31 Dec 2012 Year End	31 Dec 2011 Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	12.16	11.89	11.40	11.19
2. Interest Expense on Customer Deposits/ Average Customer Deposits	3.06	3.19	2.94	3.04
3. Interest Income/ Average Earning Assets	10.21	10.27	9.72	9.98
4. Interest Expense/ Average Interest-bearing Liabilities	4.71	4.45	4.41	4.57
5. Net Interest Income/ Average Earning Assets	5.37	5.64	5.24	5.38
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	2.34	4.22	4.95	4.81
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Asset	5.37	5.64	5.24	5.38
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	12.04	27.53	25.29	25.25
2. Non-Interest Expense/ Gross Revenues	54.56	44.79	46.22	51.61
3. Non-Interest Expense/ Average Assets	2.85	2.97	2.80	3.21
4. Pre-impairment Op. Profit/ Average Equity	23.87	38.09	31.55	27.49
5. Pre-impairment Op. Profit/ Average Total Assets	2.38	3.67	3.26	3.01
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	109.16	33.02	11.42	16.81
7. Operating Profit/ Average Equity	(2.19)	25.51	27.95	22.87
8. Operating Profit/ Average Total Assets	(0.22)	2.46	2.89	2.50
9. Taxes/ Pre-tax Profit	(175.00)	21.53	22.45	15.88
10. Pre-Impairment Operating Profit / Risk Weighted Assets	3.39	4.25	3.10	3.25
11. Operating Profit / Risk Weighted Assets	(0.31)	2.85	2.74	2.70
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	0.70	20.03	21.65	19.24
2. Net Income/ Average Total Assets	0.07	1.93	2.24	2.11
3. Fitch Comprehensive Income/ Average Total Equity	(8.80)	18.19	24.16	14.53
4. Fitch Comprehensive Income/ Average Total Assets	(0.88)	1.75	2.50	1.59
5. Net Income/ Av. Total Assets plus Av. Managed Securitized Assets	n.a.	n.a.	n.a.	n.a.
6. Net Income/ Risk Weighted Assets	0.10	2.24	2.13	2.27
7. Fitch Comprehensive Income/ Risk Weighted Assets	(1.25)	2.03	2.37	1.72
D. Capitalization				
1. Fitch Core Capital/ Risk Weighted Assets	12.67	11.75	10.03	9.97
2. Fitch Eligible Capital/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
3. Tangible Common Equity/ Tangible Assets	9.68	9.67	8.83	10.67
4. Tier 1 Regulatory Capital Ratio	12.80	11.70	10.20	11.90
5. Total Regulatory Capital Ratio	17.70	16.70	15.60	16.70
6. Core Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
7. Equity/ Total Assets	9.86	9.90	9.04	10.95
8. Cash Dividends Paid & Declared/ Net Income	363.64	16.67	21.95	20.44
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	(28.92)	18.36	19.68	27.07
10. Cash Dividends & Share Repurchase/Net Income	n.a.	n.a.	n.a.	n.a.
11. Internal Capital Generation	(2.03)	15.57	15.58	14.85
E. Loan Quality				
1. Growth of Total Assets	(10.44)	5.91	46.44	10.14
2. Growth of Gross Loans	(15.79)	9.75	32.49	23.18
3. Impaired Loans/ Gross Loans	2.84	1.29	1.18	1.51
4. Reserves for Impaired Loans/ Gross Loans	6.07	4.53	4.32	6.20
5. Reserves for Impaired Loans/ Impaired Loans	214.10	350.48	365.51	410.81
6. Impaired loans less Reserves for Impaired Loans/ Fitch Core Capital	(20.77)	(21.92)	(23.41)	(36.78)
7. Impaired Loans less Reserves for Impaired Loans/ Equity	(20.34)	(21.52)	(22.06)	(30.13)
8. Loan Impairment Charges/ Average Gross Loans	3.96	1.77	0.38	0.73
9. Net Charge-offs/ Average Gross Loans	1.36	1.06	1.18	0.78
10. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Ass	2.84	1.29	1.18	1.51
F. Funding and Liquidity				
1. Loans/ Customer Deposits	134.59	119.96	108.83	120.78
2. Interbank Assets/ Interbank Liabilities	45.03	73.58	84.93	98.93
3. Customer Deposits/ Total Funding (excluding derivatives)	56.36	62.33	66.13	67.64
4. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.
5. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.