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Russian OJSC Alfa-Bank Outlook Revised To Positive On Financial Profile Improvements; 'B+/B/ruA+' Ratings Affirmed

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• Current Ratings

- Russia-based Alfa-Bank's financial profile has improved, with stronger balance-sheet liquidity, stabilized asset quality and core revenues, and an adequate level of capitalization.
- We are revising our outlook on Alfa-Bank to positive from stable and affirming the 'B+' long-term, 'B' short-term, and 'ruA+' national scale ratings.
- The positive outlook reflects our view that Alfa-Bank's financial profile will continue to improve over the next 12 months, with asset quality and subsequent credit losses reducing to more manageable levels.

MOSCOW (Standard & Poor's) June 16, 2010--Standard & Poor's Ratings Services said today that it had affirmed its 'B+' long-term and 'B' short-term global scale counterparty credit ratings and its 'ruA+' Russia national scale rating on Russia-based OJSC Alfa-Bank. At the same time we revised the outlook to positive from stable.

"The outlook revision reflects Alfa-Bank's improving financial profile, namely its stronger balance sheet liquidity; the stabilization of asset quality and core revenues; and maintenance of capitalization at an adequate level," said Standard & Poor's credit analyst Elena Romanova.

Although the bank's financial profile has begun to recover somewhat ahead of those of domestic peers, the improvements largely depend on a sustained recovery in Russia's economy and markets. In addition, we have observed that the bank's management follows a conservative development strategy, which it has been implementing since 2009, which we believe should help it mitigate to some extent the continuing high risks that banks in Russia are exposed to.

The ratings reflect Alfa-Bank's stand-alone credit profile and do not include any uplift for potential extraordinary external support, either from owners or the government.

The bank's financial and business profiles have suffered as a result of the more challenging conditions in Russia and global markets. Alfa-Bank's loans overdue by more than 90 days stood at 13% of its loan portfolio at year-end 2009, but had fallen to 9% by March 31, 2010, as it has continued to restructure problem loans. Restructured loans amounted to 11.5% of total loans on Jan. 1, 2010.

Credit risks are exacerbated by high single-name and industry concentrations, especially in the high-risk construction sector, representing 14% of total loans on Jan. 1, 2010. Even though we anticipate a large share of restructured loans to turn performing, we still expect provisioning costs to remain high in 2010, and margins to come under pressure from tougher competition for deposits and good-quality borrowers. Consequently, profitability is likely to remain constrained, in our view.

The positive outlook reflects our view that Alfa-Bank's financial profile will continue to improve over the next 12 months, with asset quality and subsequent credit losses reducing to more manageable levels. Preprovision operating income is therefore likely to stabilize with a reduced cost of risk and enhance the bank's internal capital-generation capacity. We anticipate that the bank's current adequate capitalization will be sustained, given the bank's more conservative asset growth targets in 2010.

"We would consider an upgrade if we see continued improvement in asset quality closer to pre-2008 levels, particularly with respect to the overall portfolio (including restructured loans), which we believe will lead to more robust profitability and capitalization," said Ms. Romanova.

A reduction or loss of this positive momentum would result in a revision of the outlook back to stable.

We could lower the ratings if we see a weakening of Alfa-Bank's credit profile, with a negative spillover onto the bank's financial and credit standing and liquidity and capitalization, although this is not our base-case expectation.

RELATED CRITERIA AND RESEARCH

- Group Methodology, April 22, 2009
- FI Criteria: Bank Rating Analysis Methodology Profile, March 18, 2004
- Rating Sovereign-Guaranteed Debt, April 6, 2009
- Rating Finance Companies, March 18, 2004

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