

Research Update:

# ABH Financial Ltd. Upgraded To 'BB-/B' On Resilient Risk Profile; Alfa-Bank Affirmed At 'BB+/B'; Outlook Stable

April 24, 2019

## Overview

- Russia-based Alfa-Bank, ABH Financial Holdings Group's main operating entity, continues to show resilience to challenging operating conditions, with consistently good revenue generation and lower-than-average credit costs over recent years.
- We have therefore improved our assessment of Alfa Bank's stand-alone credit profile (SACP) to 'bb+' from 'bb', which has driven an upgrade of the bank's non-operating holding company ABH Financial Ltd (ABH) to 'BB-' from 'B+'.
- We are also affirming our 'BB+/B' ratings on Alfa Bank.
- The outlook on both Alfa Bank and its parent holding ABH is now stable.

## Rating Action

On April 24, 2019, S&P Global Ratings raised its long-term issuer credit rating on ABH Financial Ltd. (ABH) to 'BB-'. At the same time, we affirmed the 'B' short-term issuer credit rating on ABH and the 'BB+/B' long- and short-term issuer credit ratings on Alfa-Bank JSC, the ABH group's main operating entity. The outlook on both entities is stable. We raised our rating on Alfa-Bank's subordinated debt to 'B+' from 'B'.

## Rationale

The upgrade of ABH, the non-operating holding company of Alfa-Bank JSC, reflects our view that consolidated group's risk profile has proven resilient to the challenging operating conditions in Russia, as seen in consistently good revenue generation and lower-than-average credit costs over the recent years. The group's consolidated return on equity (ROE) stood at 22.4% for 2018 (15% for 2017), while new loan-loss provisions remained at a low 0.92% in 2018 compared with the market average of 2.2%-2.5%.

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We note the group's significant progress in reducing credit risk concentrations. The 10 largest credit risk concentrations had reduced to 21.7% of the total loan book as of year-end 2018, against 27.4% a year earlier. We also expect that the ABH group will successfully manage the risks associated with its relatively aggressive retail lending expansion, thanks to management's good market knowledge and the bank's significant earnings buffer, which should protect the bank from elevated retail credit costs in the future. We have therefore revised up our assessment of the ABH group's credit profile to 'bb+' from 'bb'.

At the same time, we continue to notch down the ratings on non-operating holding company ABH, as we believe that its debt payment capacity remains reliant on dividends from the main operating subsidiaries, which are prudentially regulated and may therefore be the subject to potential restrictions. We also expect that leverage at the level of the holding company will reduce in the next 12-18 months from about 111% at the end of 2018, as ABH is planning to gradually reduce the amount of outstanding debt.

We still consider Alfa-Bank to have high systemic importance in Russia and believe there is a moderately high likelihood that the Russian government would provide extraordinary support to Alfa-Bank if needed. But we no longer incorporate an additional notch of support from the Russian government into our rating on Alfa-Bank, given our belief that the bank's SACP has strengthened to 'bb+'. The gap between the bank's and sovereign's creditworthiness is now too narrow to provide for substantial extraordinary support that would translate into additional notches into the rating.

The ratings on Alfa-Bank continue to reflect our 'bb-' anchor for banks operating predominantly in Russia, as well as our view of Alfa-Bank's leading competitive position among private-sector banks in Russia in terms of assets, product lines, and efficiency. The bank continues to maintain adequate capitalization, with our risk-adjusted capital (RAC) ratio at around 8.5%. We expect the bank to maintain ROE at 15%-18% in the next 12-18 months. We view positively the bank's efficient risk management framework and absence of direct lending, as well as its very swift reaction to collateral foreclosure, which supports asset quality management, even in downturns. We assess the bank's funding as average and liquidity as adequate. We consider the bank has better access to capital markets than local peers.

## **Outlook**

The stable outlooks on both ABH and Alfa-Bank reflect our view that Alfa-Bank will remain a core operating entity of the ABH group, maintaining sound operating performance and high risk-management standards over the next 12-18 months.

## **Downside scenario**

The possibility of a negative rating action on Alfa-Bank is currently remote, because it would require significant deterioration in its creditworthiness, with our assessment of the bank's SACP deteriorating by two notches or more.

If Alfa-Bank's SACP were to deteriorate by one notch, we would expect to include one notch of support for systemic importance. We could take a negative rating action on ABH if, contrary to our base-case scenario, we did not think the group would successfully manage the risks associated with its expansion in the retail segment, with new loan loss provisions significantly exceeding market average metrics.

## Upside scenario

A positive rating action on either entity is also remote at this stage, as it would require either significant improvement in the group's capitalization levels (with the RAC ratio at sustainably above 10%) or, generally, a more supportive operating environment for banking business in Russia.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB+/Stable/B	BB+/Stable/B
Bank Holding Company Rating	BB-/Stable/B	B+/Positive/B
SACP	bb+	bb
Anchor	bb-	bb-
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Adequate (0)	Adequate (0)
Risk Position	Strong (+1)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Strong (0)
Support	0	+1
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	+1
Additional Factors	0	0

## Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Ratings List

### Upgraded; Ratings Affirmed

	To	From
<b>ABH Financial Ltd.</b>		
Issuer Credit Rating	BB-/Stable/B	B+/Positive/B

### Ratings Affirmed

#### Alfa-Bank JSC

Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+
Commercial Paper	B

#### Alfa Bond Issuance PLC

Senior Unsecured	BB+
Subordinated	B+

#### Alfa Debt Market Ltd.

Commercial Paper	B
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### Upgraded

	To	From
<b>Alfa-Bank JSC</b>		
Subordinated(1)	B+	B

#### ABH Financial Ltd.

Senior Unsecured(2)	BB-	B+
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(1) Co-issued with Alfa Bond Issuance PLC.

(2) Co-issued with Alfa Holding Issuance PLC.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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