

Research Update:

Russia-Based Alfa-Bank 'BB+/B' Ratings Affirmed; Outlook Stable

April 28, 2020

Overview

- We expect that Alfa-Bank's 2020 provisioning needs will increase to 2.5%-3.0% of average gross loans because of economic recession in Russia exacerbated by the COVID-19 pandemic and lower oil prices.
- Nevertheless, believe that Alfa-Bank will preserve its capitalization and remain profitable.
- Therefore, we are affirming our 'BB+/B' ratings on Alfa-Bank JSC, and our 'BB-/B' ratings on its nonoperating holding company, ABH Financial Holdings Ltd.
- The outlook on both Alfa-Bank and ABH Financial is stable, because we believe that the bank will be able to withstand the negative operating environment and sustain its current risk profile.

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Rating Action

On April 28, 2020, S&P Global Ratings affirmed its 'BB+/B' issuer credit ratings on Alfa-Bank JSC. At the same time, we affirmed the 'BB-/B' ratings on its holding company ABH Financial Holdings Ltd. The outlook on both entities is stable.

Rationale

We affirmed the ratings because we see the consolidated group's risk profile remaining resilient to the adverse operating conditions in Russia, provoked by economic downturn, the COVID-19 pandemic, and lower oil prices. We think that the bank has a long, proven track record of navigating financial crises, and that it will likely therefore remain profitable even in the current difficult conditions.

At the same time, we believe that the bank's profitability will be under pressure this year, predominantly from elevated credit costs, which we expect to increase to 2.5%-3.0% this year. We expect that the main provisioning needs will arise from the oil and gas sector, as well as from the bank's retail loan book, which rapidly grew in 2018-2019. We also expect that the ratio of nonperforming loans in the total loan book will rise to 5%-6% in 2020 from 4.24% as of year-end

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2019. However, we believe that the bank's sustainable earnings generation capacity, as well as its proactive approach in dealing with problem exposures, will secure its profitability and financial standing over the next 12-18 months.

We continue to deduct two notches in our ratings on ABH Financial, given that its debt payment capacity remains reliant on dividends from the main operating subsidiaries, which are prudentially regulated and may therefore be subject to potential restrictions. We also expect leverage at the holding company level will remain stable in the next 12-18 months.

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 expected risk-adjusted capital (RAC) ratio remaining above 8%. We expect the bank to remain profitable 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, and we note that it enjoys better access to capital markets than local peers. We 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.

We have assigned intermediate equity content to the Russian ruble 5 billion perpetual subordinated bonds Alfa Bank issued last year, because we believe it contains features that allow it to absorb potential unexpected losses (i.e., via coupon nonpayment).

Outlook

The outlook on both Alfa-Bank and ABH Financial is stable, because we believe that, over the next 12-18 months, the bank will be able to withstand the negative operating environment, and sustain its current risk profile.

Downside scenario

The possibility of a negative rating action on Alfa-Bank is currently remote, because it would require simultaneously a deterioration in the issuer's credit standing and a downgrade of Russia. We could take a negative rating action on ABH Financial if, contrary to our base-case scenario, the group did not successfully manage risks associated with the current adverse operating conditions, 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, because such an action would require either significant improvement in the group's capitalization levels, with the RAC ratio at sustainably above 10%, or, a generally more supportive operating environment for banking in Russia.

Ratings Score Snapshot

Alfa-Bank JSC

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

GRE--Government-related entity.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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: 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

Ratings List

Ratings Affirmed

Alfa-Bank JSC

Issuer Credit Rating	BB+/Stable/B
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Ratings Affirmed

ABH Financial Ltd.

Issuer Credit Rating BB-/Stable/B

Alfa-Bank JSC

Senior Unsecured BB+

ABH Financial Ltd.

Senior Unsecured BB-

Alfa Bond Issuance PLC

Senior Unsecured BB+

Alfa Holding Issuance PLC

Senior Unsecured BB-

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 for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at 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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