

Research Update:

# Alfa-Bank Outlook On 'BB+/B' Ratings Revised To Positive On Resilient Earnings

April 15, 2021

## Overview

- Alfa-Bank's operating performance was resilient through 2020, with a return on assets (ROA) of about 2.2% and a cost-to-income ratio of 38%.
- We believe the bank will follow a balanced approach to risk taking, and its asset quality metrics are likely to remain better than the system average.
- We therefore revised our outlook on Alfa-Bank and its holding company ABH Financial Ltd. (ABHF) to positive from stable, and affirmed our 'BB+/B' long- and short-term issuer credit ratings on the bank.
- The positive outlook on both Alfa-Bank and ABHF reflects our expectation that Alfa-Bank will remain an outperformer in its peer group in terms of earnings generation capacity and capital build-up over the next 12-18 months, successfully navigating challenges related to COVID-19 pandemic.

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## Rating Action

On April 15, 2021, S&P Global Ratings revised its outlook on Russia-based Alfa-Bank to positive from stable. At the same time, we affirmed our 'BB+/B' long- and short-term issuer credit ratings on the bank.

We have also revised the outlook on the bank's parent company, ABHF, to positive from stable, and affirmed our 'BB-/B' ratings on the holding company.

## Rationale

**Alfa-Bank continues to show high profitability and adequate capitalization.** In 2020, the bank's ROA reached 2.2%, with cost-to-income ratio of 38%, which compares favorably with those of the bank's Russian and international peers. Due to its well-established market positions and advanced digitalization, the bank also increased its number of corporate and retail clients, and raised its fee and commission income by 19% in 2020 (in U.S. dollar terms). The bank's net fees

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and commissions now almost fully cover operating expenses. The bank also maintained adequate capitalization, with our risk-adjusted capital (RAC) ratio at 8.24%. We expect that the bank will moderately expand its business in 2021-2022, while broadly maintaining its RAC ratio.

### **We expect that the bank's asset quality metrics will remain better than the system average.**

The bank's nonperforming loans (stage 3 and purchased or originated credit-impaired loans) stood at 4% as of year-end 2020, compared with our system-wide estimate of 8% at the same date. Alfa-Bank's cost of risk is below the system average, despite COVID-19 pressures and recent fast growth in the risky retail segment. We note the Alfa banking group's efficient risk-management framework and absence of directed lending, as well as its very swift and proactive reaction to collateral foreclosure, support asset-quality metrics, even in currently challenging operating conditions.

**We consider that Alfa-Bank's earnings buffer is stronger than that of its peers.** The earnings buffer indicates that Alfa-Bank has greater capacity to cover normalized losses than peers, and this continues to support its capital base. We project the bank's 2021 earnings buffer at about 122 basis points (on a three-year-average basis) compared with the 68-basis-point average for large Russian banks.

**S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects.** Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: [www.spglobal.com/ratings](http://www.spglobal.com/ratings)). As the situation evolves, we will update our assumptions and estimates accordingly.

## Outlook

The positive outlooks on both ABHF and Alfa-Bank reflect our expectation that Alfa-Bank will continue outperforming its peer group in terms of earnings generation and capital build-up over the next 12-18 months, successfully navigating through the pandemic.

### Upside scenario

We may raise the ratings on Alfa-Bank if we see that the bank is able to maintain a double-digit return on equity, with asset quality metrics remaining broadly stable, and a RAC ratio sustainably exceeding 7%. Additionally, an upgrade of ABHF would depend on our view that there are no material regulatory or tax restrictions that would disrupt potential cash flows from the operating entity.

### Downside scenario

We may revise the outlook to stable if, contrary to our expectations, the bank's asset quality indicators deteriorate to below system-average levels, or its capitalization falls sharply due to unexpected provisioning needs.

## Ratings Score Snapshot

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

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Russian Banks Face A Tougher Path To Profit, Jan. 27, 2021
- Russia 'BBB-/A-3' Foreign Currency And 'BBB/A-2' Local Currency Ratings Affirmed; Outlook Stable, Jan. 15, 2021

- Banking Industry Country Risk Assessment: Russia, Nov. 16, 2020

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
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#### Alfa-Bank JSC

Issuer Credit Rating	BB+/Positive/B	BB+/Stable/B
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#### ABH Financial Ltd.

Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B
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### Ratings Affirmed

#### Alfa-Bank JSC

Senior Unsecured*	BB+
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Commercial Paper	B
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#### ABH Financial Ltd.

Senior Unsecured§	BB-
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#### Alfa Bond Issuance PLC

Senior Unsecured	BB+
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#### Alfa Debt Market Ltd.

Commercial Paper†	B
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#### Alfa Holding Issuance PLC

Senior Unsecured	BB-
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\*Guaranteed by ABH Financial Ltd. and Alfa-Bank JSC.

§Guaranteed by ABH Financial Ltd.

†Guaranteed by ABH Financial Ltd. and Alfa-Bank JSC.

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. 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/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) 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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