

# RatingsDirect®

---

**Research Update:**

## **Russian JSC Alfa-Bank Outlook Revised To Positive On Resilient Risk Profile And Capital Buffers; Ratings Affirmed**

**Primary Credit Analyst:**

Anastasia Turdyeva, Moscow (7) 495-783-40-91; anastasia.turdyeva@spglobal.com

**Secondary Contact:**

Natalia Yalovskaya, London (44) 20-7176-3407; natalia.yalovskaya@spglobal.com

### **Table Of Contents**

---

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

## Research Update:

# Russian JSC Alfa-Bank Outlook Revised To Positive On Resilient Risk Profile And Capital Buffers; Ratings Affirmed

## Overview

- We note that JSC Alfa-Bank has maintained a higher quality risk profile in recent years that has proved to be more resilient than peers', despite the ongoing economic problems in Russia.
- In November and December 2016, the bank also strengthened its capital buffers through the issuance of perpetual subordinated debt totalling \$700 million.
- We are therefore revising the outlook on Alfa-Bank to positive from stable and affirming our 'BB/B' global scale and 'ruAA' national scale ratings.
- The positive outlook reflects that we could raise our long-term rating on the bank in the next 12-24 months if it continues to improve its risk profile, despite challenging economic conditions.

## Rating Action

On Feb. 20, 2017, S&P Global Ratings revised its outlook on Russia-based JSC Alfa-Bank to positive from stable. We affirmed our 'BB/B' long- and short-term counterparty credit ratings on the bank.

We also affirmed our 'ruAA' Russia national scale rating on the bank.

At the same time, we revised the outlook on ABH Financial Ltd. (ABHLF), Alfa-Bank's Cyprus-based owner, to positive. We also affirmed our 'B+/B' long- and short-term counterparty credit ratings on ABHLF.

## Rationale

The outlook revision reflects our opinion that Alfa-Bank has maintained a higher quality risk profile in recent years that has proved to be more resilient than peers', despite the ongoing economic problems besetting the Russian economy. We believe that the bank's credit costs will be about 1.7% in 2017-2018 and will likely stay below the system average of 3.5%-4.5%, given its well-ingrained risk-management procedures and controls, its proactive reaction in terms of collateral foreclosure, our expectation that no material problem loans will arise, and our view the majority of problem loans are well provisioned. Nonperforming loans (NPLs; overdue more than 90 days) at the group level were at 6.5% at end-June 2016, down from 7.1% at year-end 2015,

mostly due to write-offs. On a stand-alone basis, Alfa-Bank's share of NPLs was 4.5% at end-June 2016, compared with a system average of 10%.

The bank does, however, maintain a significant single-party concentration in loans, in our view, with top-20 loans to the total loan portfolio hovering at around 42%-44% over the last several years, which somewhat reflects its large corporate financing focus. At the same time, we understand that when the economy decelerates, Alfa-Bank's loan portfolio shrinks and the bank tends to rely more on large borrowers with higher-than-average credit quality.

We also observe that the group's exposure to Ukraine reduced significantly over last several years due to significant provisions for loan impairment, as well as debt repayments.

At the end of 2016, Alfa-Bank issued \$700 million perpetual subordinated loans, which strengthened the bank's capitalization and improved its capital buffers.

The subordinated loans contain the following provisions: (i) a noncumulative interest-cancellation that can be executed at the bank management's discretion, and (ii) a mandatory noncumulative interest and principal write-down, in accordance with the requirements of Russian Central Bank Regulation No. 395-P.

We think that the optional interest cancellation feature provides the bank with loss-absorption capacity as long as the bank is a going concern, which is consistent with our assignment of intermediate equity content to this instrument. We understand that Alfa-Bank has full flexibility to cancel interest payment at its discretion. We understand that the central bank allows Alfa-Bank to include the respective subordinated loan amount in the calculation of its regulatory capital, qualifying as outstanding additional Tier 1 capital (specifically, additional capital of the bank's core capital).

There are no step-up clauses and the instrument is perpetual. Any repayment of the loan is not allowed in the first five years and will require prior consent of the central bank. The interest rate is set at 8%.

Therefore, we regard such perpetual subordinated loans as having intermediate equity content and include it into calculation of our total adjusted capital. We believe that, despite still-difficult operating environment in Russia, Alfa-Bank will be profitable over the next two years and continue to show internal capital generation capacity that is better than domestic peers'. We also expect Alfa-Bank's asset quality will remain better than the system average and envisage credit costs of about 1.7% (which is below the system average of 3.5%-4.5%). As a result, we expect its risk-adjusted capital (RAC) ratio will strengthen in the next two years to 9.0% from 7.2% as of end-2015, but remaining adequate and a neutral factor to our ratings on Alfa-Bank.

## Outlook

The positive outlook on Alfa-Bank and its holding company ABHFL reflects the possibility that we could raise our long-term rating on the bank in the next 12-24 months if we observed the group, despite the still difficult operating environment in Russia, managing to continue to improve its risk metrics and preserve its risk profile strengths compared to peers.

A positive rating action would require that Alfa-Bank continues to benefit from sound capitalization (with its RAC ratio standing sustainably above 7% over 2017-2018), maintains prudent risk management with better asset quality than the industry average, and does not allow concentrations higher than current levels or engage in aggressive acquisitions.

We could revise the outlook to stable if we observed significant changes in the group's risk appetite that could result in asset quality deterioration to system-average levels, higher than currently envisaged credit costs, or if we were to believe that the group's capital is no longer sufficient to cover the risks it bears.

## Ratings Score Snapshot

JSC Alfa-Bank

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

## Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 01, 2016
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- 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: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

## Ratings List

Outlook Action; Ratings Affirmed

	To	From
JSC Alfa-Bank Counterparty Credit Rating	BB/Positive/B	BB/Stable/B
ABH Financial Ltd. Counterparty Credit Rating	B+/Positive/B	B+/Stable/B

Ratings Affirmed

JSC Alfa-Bank Russia National Scale Senior Unsecured[1][2] Subordinated[2] Commercial Paper[1][3]	ruAA/--/-- BB B B
---	----------------------------

Alfa Holding Issuance PLC  
ABH Financial Ltd.  
Senior Unsecured[4]

B+

[1]Guaranteed by ABH Financial Ltd.

[2]Co-issued by Alfa Bond Issuance PLC.

[3]Co-issued by Alfa Debt Market Ltd.

[4]Issued by Alfa Holding Issuance PLC and ABH Financial Ltd.

**Additional Contact:**

Financial Institutions Ratings Europe; FIG\_Europe@spglobal.com

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.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on the 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.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.