ABH Financial Limited

Update

Ratings

Foreign Currency

Long-Term IDR	BB
Short-Term IDR	B

Outlook

Long-Term Foreign-Currency IDR	Negative

Financial Data

ABH Financial Limited[a]

	31 Dec 14	31 Dec 13
Total assets (USDm)	3,066	2,961
Total equity (USDm)	1,766	1,728
Operating profit (USDm)	130	359
Net income (USDm)	158	338
Double leverage (%)	165.3	168.9
Liabilities/equity (x)	0.4	0.4
External liabilities/ equity (x)	0.4	0.4

[a] Unconsolidated data. For consolidated figures, please see *OJSC Alfa-Bank* report

Related Research

JSC Alfa-Bank (August 2015)
Russian Banks Datawatch (1H15)

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Key Rating Drivers

Subsidiary-Correlated Default Risk: ABH Financial Limited's (ABHFL) ratings reflect Fitch Ratings' view that its default risk is highly correlated with that of its main operating subsidiary, Russia's JSC Alfa-Bank (Alfa, BB+/Negative), due to the high fungibility of capital and liquidity within the group, which is managed as a single entity. ABHFL's moderate debt to non-related parties supports the close alignment of its ratings with those of the bank. Fitch assesses Alfa's financial position mainly on the basis of consolidated accounts made at the ABHFL level.

One-Notch Difference: The one-notch difference between the ratings of the bank and the holdco reflects the absence of any regulation of the consolidated group, the fact that the holdco is incorporated in a different jurisdiction, and the high level of double leverage at the holdco.

Shielded From Country Risk: ABHFL is rated above the Cypriot Country Ceiling of 'BB−', as it is shielded from transfer risk by substantial foreign assets and earnings and limited domestic liabilities. Fitch understands that ABHFL's ability to repay/pay interest on external liabilities is not dependent on the local financial system, because this will be done by ABHFL transferring funds from accounts with Alfa directly to the paying agents/creditors**.**

Non-Operating Company: ABHFL is a holdco with stakes in financial subsidiaries, mainly Alfa (99.9% stake) and its sister broker/trader Alfa Capital Holdings (Cyprus) Limited (80.1%), and some intragroup receivables. ABHFL's dividend proceeds and other revenues (in effect, management fees, Fitch believes) are sufficient to cover its costs.

Part of Broader Group: ABHFL is owned by ABH Holdings S.A., which also owns banks in Ukraine, Kazakhstan and Belarus. The group is ultimately owned by six shareholders, including Mikhail Fridman (36.47%), German Khan (23.27%) and Alexei Kuzmichev (18.12%). Fitch considers them to have a high propensity and ability to support their key investments, should this be needed.

No Consolidated Regulation: AHBFL was initially domiciled in the British Virgin Islands, but was re-registered in Cyprus in July 2011 due to the non-taxation of dividends there. There is no regulatory oversight of the consolidated group in either Cyprus or Russia.

High Double Leverage: Double leverage, defined by Fitch as equity investments in subsidiaries divided by holdco equity, was a reported 150% at end-11M14. However, it would have been lower if some equity investments had been restated at fair value.

Some Refinancing Risk: Excluding USD565m of related-party liabilities, which are unlikely to be withdrawn, ABHFL has USD726m of external debt. Annual repayments in 2015 total USD126m. Fitch would expect this debt to be replaced with shareholders' funds should capital markets be closed.

Rating Sensitivities

Change in Alfa's Ratings: An upgrade or downgrade of Alfa would be likely to result in a similar rating action on ABHFL.

Material Increase in Leverage: ABHFL could be downgraded if there were significantly increased double leverage, giving rise to liquidity risks at the holdco level.

Figure 1

ABH Financial Limited Standalone Accounts – Balance Sheet

(USDm)	End-2014	End-2013
Assets		
Cash and cash equivalents	15.0	32.6
Loans and advances to customers	72.6	0.3
Investments in subsidiaries	2,919.6	2,918.3
Other assets	59.4	10.9
Total assets	3,066.6	2,962.1
Liabilities		
Market borrowings	725.6	648.1
Related-party liabilities	564.5	578.5
Other liabilities	10.1	7.5
Total liabilities	1,300.2	1,234.1
Shareholders' equity		
Share capital	1,264.8	1,264.8
Retained earnings and other reserves	501.5	463.3
Total shareholders' equity	1,766.3	1,728.1
Total liabilities and shareholders' equity	3,066.6	2,962.1

Source: Alfa

Figure 2

ABH Financial Limited Standalone Accounts – Income Statement

(USDm)	End-2014	End-2013
Commission income on guarantees issued	41.6	42.5
Cost of credit default swaps	-30.5	-34.1
Net margin	11.1	8.3
Dividend income	24.0	374.2
Administrative expenses	-1.6	-1.5
Expenses under call option agreement	-	-2.5
Liabilities waived	86.0	0.1
Other gains (losses)	10.6	-1.6
Operating profit	**130.1**	**377.1**
Interest expense	-32.4	-20.1
Interest income	2.1	0.0
FX gain (loss)	58.5	-0.5
Profit before tax	158.3	356.5
Income tax	-	-
Net income	**158.3**	**356.5**
Dividends for the year	120.0	149.7

Source: Alfa

Figure 3

ABH Financial Limited Standalone Accounts – Ratios Summary

	End-2014	End-2013
Average assets (USDm)	3,014.3	3,024.8
Average equity (USDm)	1,747.2	1,760.8
Net external debt	710.6	615.5
Profitability (%)		
Return on average assets (ROAA)	7.0	15.7
Return on average equity (ROAE)	12.1	27.0
Financial condition		
Double leverage (%)	165.3	168.9
External liabilities/equity (x)	0.4	0.4
Liabilities/equity (x)	0.4	0.4

Source: Alfa, Fitch calculations

Related Criteria

Global Bank Rating Criteria (March 2015)

Annex 1

Figure 4

Rationale for Notching of ABHFL From Alfa

	Fitch criteria for equalising/notching of bank holding companies (BHC)		
	Attributes that support equalising BHC ratings with those of main bank subsidiary	**Attributes that support rating BHC lower than main bank subsidiary**	**Mapping of ABHFL against the criteria**
Regulatory focus	Group as consolidated entity	Protection of bank creditors	Focus on standalone entity
Capital and liquidity fungibility	Light or no regulatory restrictions on subsidiary paying dividends or upstreaming liquidity to BHC	More onerous regulatory restrictions on dividends and liquidity transfers	Light restrictions. The group has significant flexibility in making capital and liquidity transfers
Jurisdiction	BHC and main bank subsidiary incorporated in same jurisdiction	BHC and main bank subsidiary incorporated in different jurisdictions	Different countries. The Cyprus jurisdiction for the holdco was chosen because of non-taxation of dividend payments
Double leverage	Low or moderate; ie, common equity double leverage (defined as equity investments in subsidiaries plus BHC intangibles, divided by BHC common equity) of below 120%	Significant; ie common equity double leverage of above 120%, indicating potentially burdensome BHC debt-service costs	165%, but significant part of liabilities are from subsidiaries and sister companies, and so do not represent a high risk from a liquidity perspective
BHC liquidity management	Prudent, with contingency plans in place	Imprudent, with no contingency plans in place	The group is very actively/prudently managed
Subsidiary ownership	Full, or large majority, ownership of main bank subsidiary by BHC	Significant minority ownership of main bank subsidiary	Virtually full ownership of key operating subsidiary
Complexity of group structure	Relatively simple group structure	Overly complex group structure with unclear rationale for existence of certain entities	Relatively complex group structure, although the rationale for existence of most entities is clear
Branding	Common branding of BHC and main bank subsidiary	Distinct branding of BHC and main operating subsidiary	The holding shares Alfa's name
Credit enhancement	Guarantee of BHC debt by main operating subsidiary, or cross-default clauses, referencing BHC debt, in subsidiary funding agreements	No guarantees or cross-default clauses	ABHFL guarantees most of Alfa's public debt, but its own liabilities are not guaranteed by Alfa

Source: Fitch

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.