FITCH AFFIRMS 3 LARGE RUSSIAN PRIVATELY-OWNED BANKS

Fitch Ratings-Moscow/London-27 June 2016: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDR) of Alfa-Bank (Alfa) at 'BB+', Credit Bank of Moscow (CBM) at 'BB', and Bank Saint Petersburg (BSPB) at 'BB-'. The Outlooks on Alfa's and CBM's ratings are Negative, while those on BSPB's are Stable.

KEY RATING DRIVERS - ALL BANKS' IDRs, VRs AND NATIONAL RATINGS
The three banks' IDRs and National Ratings are driven by their standalone financial strength, as reflected in their Viability Ratings (VR). The VRs acknowledge the banks' solid domestic franchises, significant resilience to potential asset quality deterioration due to reasonable capital levels and performance, and comfortable liquidity buffers.

Alfa remains the highest-rated Russian privately-owned bank due to its larger franchise with access to top tier borrowers/depositors, good management, robust pre-impairment profitability and good track record of managing through past Russian crises. CBM is rated one notch lower than Alfa due to its higher risk appetite, weaker capitalisation and more significant downside asset quality risks. BSPB is rated one notch lower than CBM due to its smaller franchise with somewhat lower profile/ weaker quality borrowers and lower profitability through the cycle.

The Negative Outlooks on Alfa's and CBM's ratings mainly reflect the weak Russian operating environment, which will continue to put pressure on the banks' asset quality. It also reflects Fitch's view that it is appropriate to maintain a one-notch (Alfa) and two-notch (CBM) differences between the ratings of the banks and the Russian sovereign (BBB-/Negative). The Stable Outlook on BSPB reflects Fitch's view that the bank's lower ratings have somewhat more tolerance to potential asset quality deterioration and are less closely linked to the Russian sovereign rating.

ALFA's IDRS, VR AND NATIONAL RATING
Alfa's asset quality deteriorated in 2015, with non-performing loans (NPLs; more than 90 days overdue) increasing to 6.9% from 2.7%, mainly in the corporate book, while restructured loans were negligible. At the same time, the NPL reserve coverage reduced to 0.9x from 2.1x, which is still solid, because larger partially reserved NPLs have good recoverability prospects due to strong collateral coverage or some form of state backing.

Performance of retail lending improved in 2H15 after a weak 1H15 due to recovering margins and easing credit losses. The retail NPL origination ratio (calculated as the increase in NPLs plus write-offs divided by average performing loans; a good proxy for credit losses) was 10% in 2015 (7% in 2014), while the breakeven level is estimated at about 13%.

Pre-impairment profit was equal to a sound 5.5% of average gross loans in 2015 (up from 3.6% in 2014), although the net interest margin narrowed to 4% from 5.4%. Net performance recovered moderately in 2015 (ROAE of 11%) thanks to lower impairment charges and decrease in operating expenses but also underpinned by FX gains, while comprehensive income was around breakeven due to FX revaluation losses, an improvement on a USD0.4bn loss in 2014. Fitch expects profitability to improve moderately in 2016 due to reducing funding costs and lower credit losses.

Capitalisation improved due to the depreciation-driven decrease in dollar terms (Alfa's IFRS reporting currency) of the rouble-denominated risk-weighted assets, while the dollar value of capital was preserved through open currency position management with derivatives. The Fitch

Core Capital (FCC) ratio was a solid 16.7% at end-2015, while the Basel Tier 1 and total capital ratios were also robust, at 16.8% and 21.7%, respectively.

Regulatory capitalisation is tighter. The Tier 1 ratio was 8.6% at end-4M16, providing only a moderate cushion over the required minimum of 6.775% (including applicable buffers, rising to 9.5% by 2019), while the total capital ratio was 14.3%, comfortably above the 8.775% minimum, supported by RUB63bn of Tier 2 capital received from the Deposit Insurance Agency (DIA) in 2015 as part of the sector support programme. Tier 1 capital may be supported by a planned perpetual debt issue, while loan growth is projected to be moderate in 2016.

Alfa has a sound cushion of liquid assets (cash and equivalents, net short-term interbank placements and securities eligible for repo funding with the Central Bank of Russia), which covered customer accounts by 62% at end-1Q16. Refinancing risks are limited, with only USD0.5bn of wholesale funding (about 2% of liabilities) due in April-December 2016.

ABHFL's IDRS AND NATIONAL RATINGS

The affirmation of ABHFL's ratings reflect Fitch's view that default risk at the bank and the holding company are likely to be highly correlated in view of the high degree of fungibility of capital and liquidity within the group, which is managed as a single entity. The currently limited volume of holding company debt to non-related parties also supports the close alignment of its ratings with Alfa.

The one-notch difference between the bank and holding company ratings reflects the absence of any regulation of the consolidated group, the fact that the holding company is incorporated in a different jurisdiction and the high level of double leverage at the holding company. The latter, defined by Fitch as equity investments in subsidiaries divided by holdco equity, was 145% at end-5M16, down from 165% at end-2014, due to the effective conversion of some related party liabilities into equity. If all the remaining related party funding was converted, the double leverage ratio would have fallen to around 125%, or even lower if some equity investments had been restated at fair value.

ABHFL is shielded from any potential Cyprus transfer risks by having 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.

CBM's IDRS, VR AND NATIONAL RATING

CBM's NPLs increased moderately to 5.4% of gross loans at end-1Q16 from 5.1% at end-2015 and 2.3% at end-2014. Restructured loans were a further 2%. At end-1Q16, NPLs were 1.2x covered by reserves.

The quality of CBM's largest exposures is generally reasonable, in Fitch's view, due to either only moderate deterioration of the borrowers' financial performance to date or collateral coverage. However, among the 25 largest loans, Fitch identified RUB54bn (57% of end-1Q16 FCC) of higher-risk exposures to financially weak and/or insufficiently collateralised borrowers. Additionally, there are about RUB20bn (21% of FCC) of high risk exposures among CBM's interbank loans (some could be fiduciary), bonds and reverse repos (due to fairly low discounts on generally low-liquid collateral and high counterparty risks). Fitch believes that CBM will have to absorb additional credit losses related to at least some of these exposures.

CBM's loss absorption capacity is significant, in our view. Fitch-forecasted pre-impairment profit of around 40bn for 2016 should be sufficient to create provisions equal to about 6% of average gross loans or 54% of the above-mentioned high risk exposures and still remain breakeven. Fitch expects loan impairment charges to slightly reduce compared to 2015 but to remain elevated for 2016-2017 at around 4%-5% of average gross loans (2015: 5.4%). This would allow CBM to book only moderate bottom line gains (annualised ROE for 1Q16 equalled 7%) in 2016.

The bank's capitalisation is moderate, as expressed by a 9.4% FCC ratio at end-1Q16. Capitalisation was supported in 2H15 as CBM raised RUB30bn of equity from several new institutional investors through two public offerings. CBM has credit exposure to its new institutional shareholders through the loan book, reverse repos, bonds and interbank placements equal to RUB47bn (51% of FCC) at end-1Q16. Although the credit quality of these exposures is largely reasonable in most cases, there are some risks over the quality of the new capital.

CBM's funding is extremely concentrated, as at end-1Q16 around RUB460bn of term deposits (36% of total liabilities) were from a group of companies related to a large Russian corporate. These deposits mostly mature in 2H16-1Q17. Fitch believes the liquidity risk associated with these placements is manageable, as CBM has invested the money in assets, which are likely to be repaid prior to maturity of these deposits. Wholesale funding refinancing needs (excluding repo transactions) for the rest of 2016 are limited to RUB90bn (7% of liabilities). At end-1Q16 CBM's liquidity buffer equalled a significant RUB430bn or 34% of liabilities.

BSPB's IDRS, VR AND NATIONAL RATING
BSPB's NPLs accounted for 5.6% of total gross loans at end-1Q16, up from 3.2% at end-1H15. Restructured exposures made up a further 7% of gross loans, resulting in total problem loans of around 13%. NPLs were fully covered by reserves, while coverage of total problem loans was 80%, which is adequate as most restructured exposures are performing and secured by operating real estate with reasonable LTVs.

The FCC ratio remained at 10.9% during 2015 as 8% annual lending growth was compensated by similar internal capital generation. The regulatory Tier 1 ratio was a lower 8.9% at end-4M16 (preserving a moderate cushion over the required minimum of 6.625% including capital conservation buffer) mainly due to capital hyperinflation adjustment in IFRS and lower retained earnings in local GAAP, and the total regulatory ratio was a solid 14.5% (significantly above the 8.625% minimum) supported by RUB14.6bn of subordinated loans from the DIA.

The net interest margin recovered slightly to 4% in 1Q16 after falling to 3.8% in 2015 from 4.9% in 2014. Pre-impairment profitability was a solid 3.3% of average assets in 1Q16 (3.2% in 2015) underpinned by trading gains. Impairment charges remained high, at 68% of pre-impairment profit in 1Q16 (72% in 2015) compared with 57% in 2014, and consequently bottom line ROAE was a moderate 8.2% (6.7% in 2015), compared with 9.6% in 2014.

The bank is funded mainly by customer accounts, which made up 80% of funding net of direct repos. BSPB has an adequate cushion of liquid assets which net of market funding maturing within one year covered customer accounts by a significant 25% at end-4M16.

KEY RATING DRIVERS -SUPPORT RATINGS AND SUPPORT RATING FLOORS
Given Alfa's broad franchise, there is a moderate probability of support from the Russian authorities, as reflected in the '4' Support Rating and 'B' Support Rating Floor. Also Alfa's owners have supported the bank in the past, and, in Fitch's view, would have a strong propensity to do so again, if required. Their ability to provide support is also likely to be significant, as they seem to have little debt and significant cash reserves following recent asset sales. However, Fitch does not formally factor shareholder support into the ratings given limited visibility of the shareholders' current position and Alfa's significant size.

The '5' Support Ratings of CBM and BSPB reflect Fitch's view that support from the banks' private shareholders cannot be relied upon. The Support Ratings and Support Rating Floors of 'No Floor' also reflect that support from the Russian authorities, although possible given the banks' significant deposit franchises, cannot be relied upon due to their still small size and lack of overall systemic importance.

KEY RATING DRIVERS - DEBT RATINGS
The banks' senior unsecured debt is rated in line with their Long-Term IDRs and National Ratings (for domestic debt issues). The subordinated debt ratings are notched down once from the VRs, which incorporates zero notches for incremental non-performance risk and a notch for higher loss severity.

RATING SENSITIVITIES
A revision of the Outlook on Alfa's and CBM's ratings to Stable would probably require an improvement in the operating environment and the revision of the Outlook on the Sovereign rating to Stable.

Alfa and CBM could be downgraded in case of a sovereign downgrade, or if there is a significant asset quality and performance deterioration (these risks are somewhat more pronounced for CBM), if it leads to material capital erosion and is not promptly cured by shareholders.

ABHFL's ratings are likely to move in tandem with Alfa's. In addition, ABHFL could be downgraded if its planned future debt issuance results in a marked increase in double leverage or gives rise to significantly increased liquidity risks at the holdco level, something which is not currently anticipated by Fitch.

Alfa's Support Rating will likely be downgraded to '5', and its Support Rating Floor revised downward to 'No Floor', once Russia implements legislation providing for bail-in of senior liabilities of failed banks. Russian officials have stated that this legislation is likely to be implemented by end-2017.

Upside potential for BSPB's rating is currently limited given the weak economic outlook. As with Alfa and CBM, ratings could be downgraded in case of a marked deterioration in asset quality and capitalisation.

The rating actions are as follows:

Alfa-Bank
Long-Term Foreign Currency IDR: affirmed at 'BB+'; Outlook Negative
Long-Term Local Currency IDR: affirmed at 'BB+'; Outlook Negative
Short-Term Foreign Currency IDR: affirmed at 'B'
National Long-Term rating: affirmed at 'AA+(rus)'; Outlook Stable
Viability Rating: affirmed at 'bb+'
Support Rating: affirmed at '4'
Support Rating Floor: affirmed at 'B
Senior unsecured debt: affirmed at 'BB+'/ 'AA+(rus)'
Subordinated debt: affirmed at 'BB'
Senior unsecured debt of Alfa Bond Issuance Public Limited Company: affirmed at 'BB+'
Subordinated debt of Alfa Bond Issuance Public Limited Company: affirmed at 'BB'

ABH Financial Limited
Long-Term Foreign currency IDR: affirmed at 'BB'; Outlook Negative
Short-Term Foreign currency IDR: affirmed at 'B'
Senior unsecured debt of Alfa Holding Issuance plc: affirmed at 'BB'/'BB (emr)'

Credit Bank of Moscow

Long-Term Foreign and Local currency IDRs: affirmed at 'BB', Outlooks Negative
Short-Term Foreign Currency IDR: affirmed at 'B'
Viability Rating: affirmed at 'bb'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
National Long-Term Rating: affirmed at 'AA-(rus)'; Outlook Negative
Senior unsecured debt: affirmed at 'BB' and 'BB(EXP)'
Senior unsecured debt National Rating: affirmed at 'AA-(rus)' and 'AA-(rus)(EXP)'

CBOM Finance PLC (Ireland)
Senior unsecured debt: affirmed at 'BB'
Subordinated debt: affirmed at 'BB-'

Bank Saint Petersburg OJSC
Long-Term Foreign and Local Currency IDRs: affirmed at 'BB-', Outlooks Stable
Short-Term Foreign Currency IDR: affirmed at 'B'
Viability Rating: affirmed at 'bb-'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
National Long-Term Rating: affirmed at 'A+(rus)', Outlook Stable
Senior unsecured debt: affirmed at 'BB-'
Senior unsecured debt National Rating: affirmed at 'A+(rus)'
Subordinated debt (issued by BSPB Finance plc): affirmed at 'B+'

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Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501