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Key rating assessment
factors

Key assumptions

ACRA assigns AA(RU) to JSC “ALFA-BANK”, outlook Stable

The credit rating of [JSC “ALFA-BANK”](#) (hereinafter – Alfa-Bank) is based on its strong and stable business profile, adequate capital and liquidity position, as well as satisfactory risk profile assessment. The rating is additionally supported by Alfa-Bank’s moderate systemic importance for the Russian financial market.

Alfa-Bank is a universal financial institution of the national scale specializing in lending to large- and medium-sized businesses, as well as on providing transactional services to businesses and individuals. The Bank is part of ABH Financial Limited group (ABHF, the Group).

Strong business profile of Alfa-Bank is characterized by its sustainable franchise, primarily in lending and transactional services provided to businesses and individuals. The business profile assessment is also supported by moderate diversification of operating income, high quality corporate governance, and adequate development strategy.

Adequate capital adequacy assessment. The regulatory capital adequacy loss absorption buffer (including the USD 400 mln of perpetual Eurobonds placed) is accompanied by strong capacity to generate new capital (100–150 bps) by both the Bank and the Group as a whole.

Satisfactory risk profile position. The current level of problem loans, which is made up by NPL90+ (6.3% as of end June 2016) and a number of loans that ACRA believes to be problem loans (around 6%, most of them are highly collateralized), is partly balanced by adequate loan portfolio diversification (the concentration level for ten largest borrower groups equals 31.5%). We note an acceptable level of asset concentration (not exceeding the amount of core capital) on lending to high-risk industries and affiliated companies.

Adequate liquidity management policy. Under the ACRA base case scenario, the Bank can withstand an outflow of customer funds with a significant margin. Under the stress scenario, liquidity deficit is at the average market level. The current funding profile is assessed as balanced relative to the structure of assets (the long-term liquidity shortage indicator – LTLSI – stood at 73% in mid-2016). A high share of current accounts in the structure of liabilities (51.5% of client funds) contributes to a lower cost of funding relative to peer banks.

Moderate systemic importance of Alfa-Bank for the Russian financial market. In our opinion, if Alfa-Bank defaults, this may lead to a systemic crisis in certain segments of the Russian banking market and, consequently, may have a significant negative impact on financial stability and Russia’s economic condition as a whole. Alfa-Bank features on the list of systemically important credit institutions, according to Bank of Russia’s criteria.

- Maintaining strong competitive positions in key business segments;
- Cost of credit risk is within 1–1.5%;
- Net interest margin is in the range of 4.3–4.5%;
- Tier-1 capital adequacy (N1.2) is above 8% within the 12 to 18-month horizon;
- Maintaining the current funding structure.

Potential outlook or rating change factors

The Stable outlook assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- A material decline of the share of problem loans in the loan portfolio.

A negative rating action may be prompted by:

- A significant deterioration of the Alfa-Bank's regulatory capital adequacy as a result of risk cost increase or aggressive dividend policy;
- Deterioration of the liquidity position related to a thinning highly liquid asset cushion on the Alfa-Bank's balance;
- Deterioration of competitive positions in key business segments as a result of further consolidation of the banking sector.

Rating components

Standalone creditworthiness assessment (SCA): a+.

Adjustment: systemic importance, 2 notches up.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation and is based on the [Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating has been assigned to JSC "ALFA-BANK" for the first time. The credit rating and its outlook are expected to be revised within 12 months following the rating action (November 11, 2016).

The assigned credit rating is based on the data provided by JSC "ALFA-BANK", information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of ABH Financial Limited group, IFRS consolidated statements of JSC "ALFA-BANK" and statements of JSC "ALFA-BANK" composed in compliance with the Bank of Russia Ordinance No. 2332-U. The credit rating is solicited and JSC "ALFA-BANK" participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by JSC "ALFA-BANK" in its financial statements have been discovered.

ACRA provided no additional services to JSC "ALFA-BANK". No conflicts of interest were discovered in the course of credit rating assignment.

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