



**Председателю Правления
АО "Казакстанская фондовая биржа"
г-же Алдамберген А. Ө.**

Уважаемая Алина Өтемісқызы!

Настоящим АО ДБ «Альфа-Банк» сообщает о повышении Рейтинговым агентством Fitch Ratings долгосрочного рейтинга дефолта эмитента (РДЭ) в иностранной валюте до уровня «ВВ-» с прогнозом «Стабильный».

С уважением,

Председатель Правления



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FITCH UPGRADES ALFA BANK KAZAKHSTAN TO 'BB-'; OUTLOOK STABLE

Fitch Ratings-Moscow/London-03 April 2017: Fitch Ratings has upgraded Alfa Bank Kazakhstan's (ABK) Long-Term Issuer Default Ratings (IDRs) to 'BB-' from 'B+'. The Outlook is Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS - IDRS, VRS, NATIONAL RATINGS

The upgrade of ABK's IDRs reflects the extended record of good financial performance supported by relatively low funding costs and reasonable asset quality, considerable capital buffer and ample liquidity. At the same time, ABK's ratings factor in its currently small franchise.

ABK's loan book is relatively small (35% of total assets at end-2016), reflecting deleveraging (by 25% in 2016) in favour of investments into National Bank of the Republic of Kazakhstan low risk notes (36% of total assets). Loan quality is adequate, with non-performing loans (NPLs, 90 days overdue) comprising a moderate 7% of the end-2016 book. NPLs were comfortably (94%) covered by reserves. About 13% of loans were restructured but reportedly performing. Based on a review of the largest restructured loans, Fitch believes that these exposures are well covered by hard collateral, posing only moderate credit risk. As a further indication of adequate asset quality, the share of accrued but not received interest income was less than 2% in 2016.

Loan concentrations are high, with the 25 largest exposures making 69% of corporate loans at end-2016. However, more than half of these are composed of low to moderate risk working-capital loans to cash-generative clients. Also positively, ABK's foreign currency lending was moderate, at 18% of gross loans at end-2016, which limits asset-quality risks.

Capitalisation is strong, reflected by a high Fitch Core Capital (FCC) ratio of 18% at end-2016, up from 14% at end-2015. The increase was due to deleveraging and reasonable internal capital generation (ROAE of 12% in 2016). Fitch estimates that the end-2016 capital cushion would be sufficient to increase loan impairment reserves up to 36% from the current 7% of the loan book without breaching minimum capital requirements. Beyond that, considerable additional loss absorption capacity is available from the bank's pre-impairment operating profit (equal to 10% of average loans in 2016).

The FCC ratio could potentially reduce to a still reasonable 13%-15% over the next three years as ABK plans to rebuild its loan book subject to it being able to attract good quality borrowers.

Liquidity is ample, with liquid assets, including cash, short-term bank placements and liquid securities covering a high 66% of customer deposits at end-2M17. However, the depositor concentration level is high (the top 20 made up 32% of customer funding at end-2016), making the bank somewhat vulnerable to sudden outflows of the largest accounts.

SUPPORT RATING

The Support Rating of '4' reflects Fitch's view of the limited probability of support that might be forthcoming from Alfa Bank Russia (ABR, BB+/Stable) or other group entities, if needed. In Fitch's view, support may be forthcoming in light of the common branding, potential reputational risk of any default at ABK and the small cost of any support that may be required.

At the same time, Fitch views ABR's propensity to provide support as limited because (i) it holds shares in ABK on behalf of ABH Holdings S.A. (ABHH), to which it has ceded control and voting

rights through a call option, under which ABHH may acquire 100% of ABK from ABH Financial Limited (the entity controlling 100% of ABR) until end-December 2019; and (ii) there is limited operational integration between ABK and ABR.

Support from other Alfa Group entities, in Fitch's view, also cannot be relied on in all circumstances, especially in a systemic financial crisis in Kazakhstan. Fitch notes ABHH's failure to provide full support to its Ukraine-based subsidiary PJSC Alfa-Bank (ABU; B-/Stable) in 2008.

SENIOR UNSECURED DEBT RATING

ABK's senior unsecured local debt ratings are aligned with the Long-Term Local-Currency IDR and National Long-Term rating, and reflect Fitch's assessment that recoveries are likely to be average in the event of any default.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR DEBT

Further upside potential for ABK is limited given the difficult operating environment and the bank's narrow franchise. A downgrade could result from a substantial deterioration of asset quality or capitalisation if this was not offset by sufficient and timely equity support from the bank's shareholders.

The debt ratings would likely change in line with the bank's IDRs.

The rating actions are as follows:

Long-Term Foreign-Currency IDR upgraded to 'BB-' from 'B+'; Outlook Stable

Short-Term Foreign-Currency IDR affirmed at 'B'

Long-Term Local-Currency IDR upgraded to 'BB-' from 'B+'; Outlook Stable

National Long-Term Rating upgraded to 'BBB+(kaz)' from 'BBB(kaz)'; Outlook Stable

Viability Rating upgraded to 'bb-' from 'b+

Support Rating affirmed at '4'

Senior unsecured debt: upgraded to 'BB-' from 'B+'

National senior unsecured debt rating: upgraded to 'BBB+(kaz)' from 'BBB(kaz)'

Summary of Financial Statement Adjustments - ABK's core Tier 1 and Tier 1 regulatory capital ratios were both adjusted upward by 2.6% and total regulatory capital ratio was adjusted upward by 3.0%, since these ratios were incorrectly stated in the IFRS accounts.

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)

<https://www.fitchratings.com/site/re/891051>

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