

Research Update:

# Ukraine-Based Bank Alliance 'B-/B' Ratings Affirmed Under Revised Criteria; Outlook Stable

February 1, 2022

## Overview

- We reviewed our ratings on Bank Alliance under our revised "Financial Institutions Rating Methodology".
- Consequently, we affirmed our 'B-/B' long- and short-term issuer credit ratings on the bank.
- The stable outlook reflects our expectation that planned capital injection will support the bank's new business growth and profitability and strengthen its franchise over the next 12 months.

## Rating Action

On Feb. 1, 2022, S&P Global Ratings affirmed its 'B-/B' long- and short-term issuer credit ratings on Bank Alliance following a revision to its criteria for rating banks and nonbank financial institutions and determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Rating Methodology," and "Banking Industry Country Risk Assessment Methodology And Assumptions," both published Dec. 9, 2021).

Our assessments of economic risk and industry risk in Ukraine remain unchanged at '10' and '9', respectively. These scores determine the BICRA and the 'b' anchor, or starting point, for our ratings on financial institutions operating predominantly in Ukraine. We see the trend for the economic as stable and for the industry in Ukraine as positive.

## Rationale

**We expect Bank Alliance to remain a small player focusing on small-to-midsize enterprises (SMEs) despite planned rapid growth.** The bank had a 0.6% market share by net assets and about 1% by corporate loans and corporate deposits as of Sept. 30, 2021, in a system where the top four state banks dominate and account for about half the system's net assets. The bank's franchise depends on the reputation of its majority shareholder, Alexander Sosis, and his willingness and ability to support the bank with capital and liquidity injections in case of

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unfavorable developments.

**We expect that Bank Alliance's capitalization, as measured by our RAC ratio, will increase to a still low 3% in 2022-2023.** Low capitalization will remain a rating constraint. We believe that Bank Alliance's ability to manage rapid growth in its loans and off-balance-sheet credit exposures and to create an adequate risk management framework will largely determine its asset quality. Stage 3 loans were under 2% of total loans as of Sept. 30, 2021, because of the bank's limited operations before 2018 and fast growth over the past three years. This is well below 35% average ratio of nonperforming loans (NPLs) in the Ukrainian banking system. However, Bank Alliance's asset quality could worsen rapidly if some of its large loans become NPLs. We view the bank's funding profile as in line with that of other small private Ukrainian banks and international peers.

**We believe that Bank Alliance does not meet our definition for a 'CCC+' rating under our criteria.**

Therefore we rate the bank 'B-/B'. (For more information, see "General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published Oct. 1, 2012.)

## **Outlook**

The stable outlook reflects our expectation that planned capital injection will support Bank Alliance's new business growth and profitability and strengthen its franchise over the next 12 months.

## **Upside scenario**

A positive rating action in the coming 12 months is unlikely because we do not envision material improvements to the bank's business position and capitalization during this period.

## **Downside scenario**

We could lower the rating if Bank Alliance's liquidity or asset quality weakened significantly below our base-case assumptions over the next 12 months such that the bank was more vulnerable to adverse market conditions. This could occur because profit generation or capital injections lag balance-sheet expansion, or if the asset quality of the largest loans deteriorates rapidly. We could also lower the ratings if we were to observe increasing risks of breaching regulatory capital adequacy ratios.

## **ESG credit indicators: E-2, S-2, G-4**

## **Related Criteria**

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

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- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed

#### JSC Bank Alliance

Issuer Credit Rating	B-/Stable/B
Ukraine National Scale	uaBBB-/--/--

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on 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.

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