

**Rating action:** Update of a long-term credit rating according to the national scale

Date of rating action: **18.12.2019**

Date of publication: **18.12.2019**

**The issuer:** JSC «ALFA-BANK»

USREOU code of the issuer: 23494714

Web-site of the issuer: [www.alfabank.ua](http://www.alfabank.ua)



[www.expert-rating.com](http://www.expert-rating.com)

## Long-term credit rating of JSC «ALFA-BANK» is affirmed

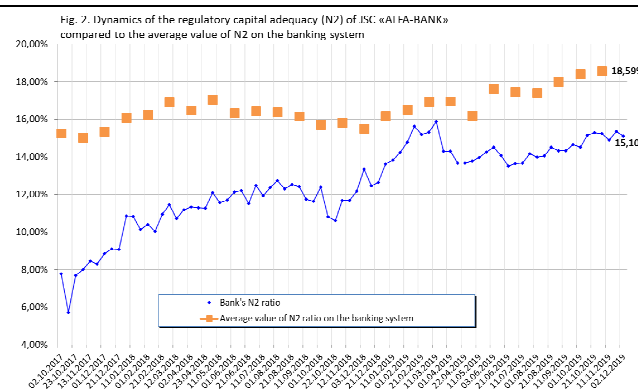
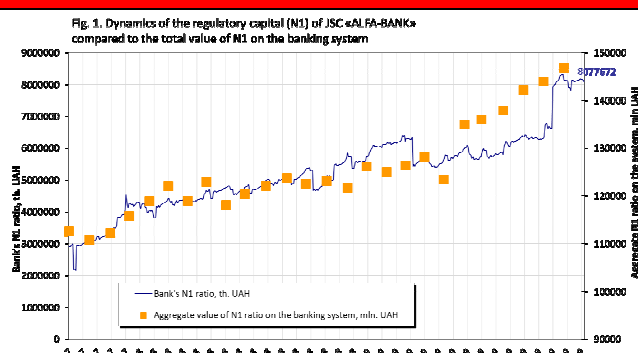
**December 18, 2019** at the meeting of the Rating committee of RA «Expert-Rating» it was decided to affirm the long-term national Ukrainian scale rating of JSC «ALFA-BANK» (23494714) (The Bank) at the level **uaAAA**. Bank or separate bond instrument with rating uaAAA is characterized by the highest solvency compared to other Ukrainian borrowers or bond instruments. At the same time, at the meeting of the Rating committee it was decided to affirm a long-term credit rating of the Bank's bonds in circulation at the level **uaAAA**. Making this decision, the Agency was guided by the results of the Bank's activity for the 9 months of 2019, as well as by the conclusions drawn from the analysis of financial and statistical statements of the Bank for January–November of 2019.

## Equity and capital adequacy

The regulatory capital of JSC «ALFA-BANK» (N1) in the period from 02.01.2018 to 02.12.2019 fluctuated in the range UAH 3.805–8.316 bln. Dynamics of the Bank's N1 economic standard was uneven during the given period, but demonstrated an upward trend. Since the beginning of 2019 the regulatory capital of JSC «ALFA-BANK» (N1) grew by UAH 2.334 bln or by 40.62% and as of 02.12.2019 amounted to UAH 8.078 bln. that in 40.4 times exceeded the limit value of UAH 200 mln, set by NBU.

The Bank's regulatory capital adequacy (N2) during the 2018 and January–November of 2019 fluctuated within 10.04%–15.88%. In the given period the Bank's N2 ratio with a reserve exceeded the limit value, set by NBU, but was lower than the averages of this normative on the Ukrainian banking system. As of 02.12.2019 the Bank's regulatory capital adequacy (N2) amounted to 15.10% that by 5.10 p.p. exceeded the minimal value, set by NBU.

Therefore, during the 2018 and January–November of 2019 JSC «ALFA-BANK» didn't allow the violations on the threshold values, set by NBU, for the N1 and N2 normative ratios. In October, 2019 the Bank showed a considerable increase of the regulatory capital (N1), and as at the beginning of December, 2019 the regulatory capital adequacy normative of JSC «ALFA-BANK» (N2) with a noticeable reserve exceeded the limit value, set by NBU.

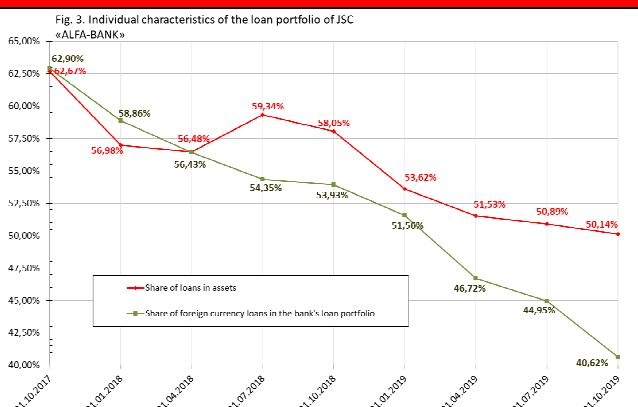


## Asset structure and quality

In the period from 01.01.2019 to 01.10.2019 assets of JSC «ALFA-BANK» grew by 8.35% and amounted to UAH 65.589 bn, and the volume of net customer loans and debt increased by 1.31% up to UAH 32.885 bn.

As of 01.10.2019 compared to 01.01.2019 in the loan portfolio of JSC «ALFA-BANK» there were the following changes:

- The share of loans in the Bank's assets (in hryvnia equivalent) decreased by 3.48 p.p.: from 53.62% down to 50.14%;
- The share of currency loans (in hryvnia equivalent) in the Bank's loan portfolio reduced by 10.94 p.p.: from 51.56% down to 40.62%;

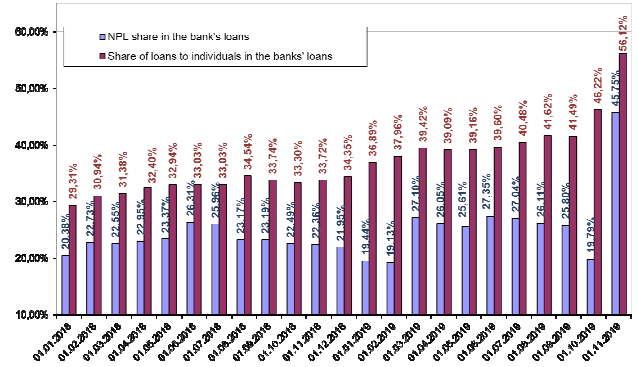


- The share of loans to individuals in the Bank's loans (without provisions) grew by 9.33 p.p.: from 36.89% up to 46.22%.

During the 2018 and the ten months of 2019 the share of non-performing loans (NPLs), (calculated by the Agency as the sum of the fifth class for the loans to individuals and the tenth class for the loans to legal entities), fluctuated in the range 19.13%–45.75% in the Bank's loan portfolio (data on the figure 4 is calculated before provision).

As of 01.11.2019 compared to 01.01.2019 the share of non-performing loans (NPLs) of JSC «ALFA-BANK» grew by 26.31 p.p. (from 19.44% up to 45.75%), while the average NPL indicator on the banking system of Ukraine amounted to 50.62%. In the Agency's opinion, a considerable increase on the NPL share in the Bank's loan portfolio is related to the reorganization process via merger with JSC «UKRSOTSBANK», as a result of which JSC «ALFA-BANK» became the full successor of all rights, obligations and property of JSC «UKRSOTSBANK».

Fig. 4 Data on NPL share and loans to individuals in the bank's loan portfolio



## Liquidity

The short-term liquidity normative standard (N6) of JSC «ALFA-BANK» during the 2018 and January–November of 2019 fluctuated in the range 67.25–77.87%. During the given period the Bank's N6 ratio with a noticeable reserve exceeded the normative threshold value, set by NBU, but was below the banking system average. As of 02.12.2019, the Bank's short-term liquidity normative standard (N6) amounted to 77.54% that was by 17.54 p.p. higher than the normative threshold value, set by NBU.

Liquidity Coverage Ratio on all currencies (LCRac) of JSC «ALFA-BANK» in the period from 01.01.2019 to 01.12.2019 fluctuated in the ranges from 130.05% to 373.76%. During the given period the Bank's LCRac advantageously on a constant basis in times exceeded the limit values, set by NBU, for this normative, which changed from 80% (starting from 31.12.2018) up to 100% (starting from 01.12.2019). As of 01.12.2019 the Bank's LCRac amounted to 351.91% that was in 3.5 times more than the normative value, set by NBU, at the level 100%.

Liquidity Coverage Ratio in foreign currency (LCRfc) of the Bank during the period from 01.01.2019 to 01.12.2019 fluctuated in the range 194.80–452.24%, and on a constant basis in times exceeded the limit values, set by NBU for this ratio, which during the given period fluctuated from 50% (starting from 31.12.2018) up to 100% (starting from 01.12.2019). As of 01.12.2019 the Bank's LCRfc amounted to 279.69% that in 2.8 times exceeded the normative value, set by NBU, at the level 100%.

Therefore, in the Agency's opinion, as at the beginning of December, 2019 JSC «ALFA-BANK» was well provided with liquidity, as indicated by the values of these norms. The Bank's N6 ratio with a significant reserve exceeded the limit value, set by NBU. High values of LCRac and LCRfc indicate a great liquidity reserve, formed by the Bank for covering net expected outflow of cash during 30 days, taking into consideration stress-scenario.

Fig. 5. Dynamics of short-term liquidity (N6) of JSC «ALFA-BANK» compared to the average of N6 on the banking system

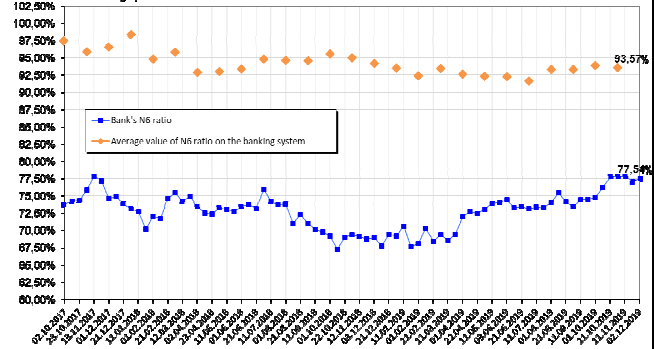
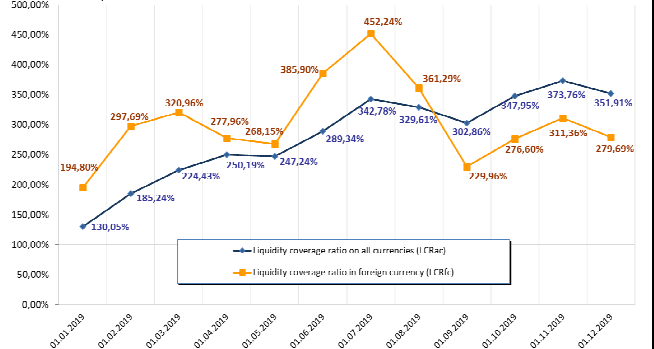


Fig. 6. Dynamics of Liquidity Coverage Ratio on all currencies and Liquidity Coverage Ratio in foreign currency of JSC «ALFA-BANK»

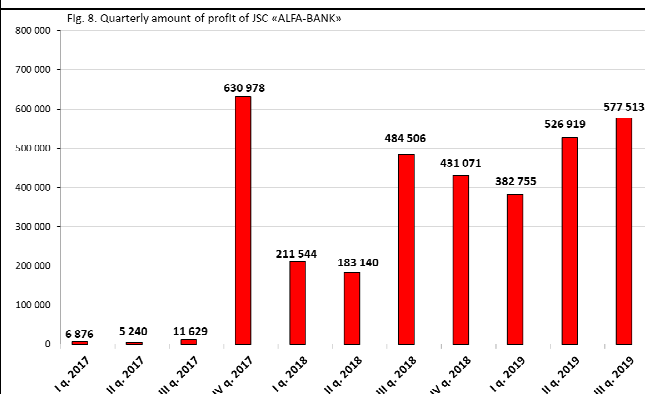
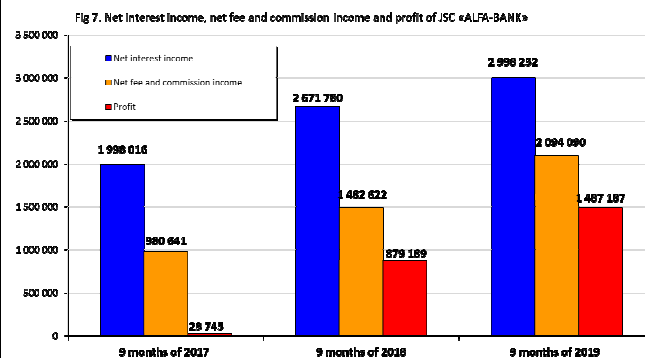


## Profitability of operations

According to the results of the 9 months of 2019 JSC «ALFA-BANK» received profit of UAH 1.487 bln that by 69.15% the Bank's profit for 9 months 2018. The Agency reminds that for the 2018 year the Bank's profit amounted to UAH 1.310 bln.

A considerable increase of the Bank's profit resulted from the increase of key items of its revenues. Thus, according to the results of the 9 months of 2019 compared to the same period of 2018 the Bank's net interest income grew by 12.22% and amounted to UAH 2.998 bln, and net commission income increased by 41.24% up to UAH 2.094 bln.

According to the Agency's observations, JSC «ALFA-BANK» demonstrated the ability not only to generate profit on a constant basis, but also to increase its volumes that confirms the efficiency of the Bank's applicable management business strategy.



## Other factors

Verification on public databases of the State Fiscal Service revealed that JSC «ALFA-BANK» was registered in the files of the SFS. At the moment of rating update, the Bank as a taxpayer didn't have a tax debt.

The Agency notes that JSC «ALFA-BANK» and JSC «UKRSOTSBANK» completed the consolidation of balances and technical works related to the merger of JSC «UKRSOTSBANK» to JSC «ALFA-BANK». JSC ALFA-BANK became the full successor of all rights and obligations of JSC «UKRSOTSBANK» in relation to its clients, partners and counterparties. The transfer act was approved on October 15, 2019 by the decision of the general meeting of shareholders of JSC «ALFA-BANK» and the decision of the sole shareholder of JSC «UKRSOTSBANK». All legal procedures related to the merger and termination of activities of JSC «UKRSOTSBANK» will be completed by the end of this year. As well, the decision of the General Meeting of Shareholders of JSC «ALFA-BANK» approved the increase of the authorized capital of the Bank and the issue of the Bank's shares for the purpose of conversion of the shares of JSC «UKRSOTSBANK».

## Summary

At the moment of rating update, JSC «ALFA-BANK» fulfilled its commitments to customers and creditors according to current legislation and wasn't referred by NBU to the category of problem banks.

As at the beginning of December, 2019 JSC «ALFA-BANK» considerably increased the volume of the regulatory capital (N1), and the Bank's regulatory capital adequacy normative (N2) with a noticeable reserve exceeded the limit value, set by NBU. JSC «ALFA-BANK» was well provided with liquidity as indicated by the values of respective norms: the N6 ratio with a noticeable reserve exceeded the limit value, set by NBU, and LCRac and LCRfc were in several times higher than the normative level, set by NBU. According to the results of the 9 months of 2019 the profit of JSC «ALFA-BANK» amounted to UAH 1.487 bln that by 69.15% exceeded the Bank's profit for the same period of 2018. The share of non-performing loans (NPL) in the Bank's loan portfolio as of 01.11.2019 amounted to 45.75% and was below the average-market indicator, which amounted to 50.62%. At the same time, in the Agency's opinion, a considerable increase of the NPL share in the Bank's loan portfolio is related to the reorganization process via merger with JSC «UKRSOTSBANK», as a result of which JSC «ALFA-BANK» became the full successor of all rights, obligations and property of JSC «UKRSOTSBANK».

**Disclaimer:** Credit ratings of RA «Expert-Rating» is an opinion that reflects the ability of an issuer (an issuer of securities) to comply with financial commitments. Credit ratings are of probabilistic nature, therefore, cannot be a recommendation to buy or sell securities or to use the services of the issuer. When assigning and maintaining the ratings and outlooks on ratings, RA «Expert-rating» relies on factual information which the Agency receives from issuers and underwriters and from other sources that the Agency considers reliable. The issuer, its auditor and underwriter, as well as other consultants are responsible for the accuracy of the information they provide to RA «Expert-Rating» or publish according to current normative requirements.