

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

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The issuer: PJSC «ALFA-BANK»

USREOU code of the issuer: 23494714

Web-site of the issuer: www.alfabank.ua



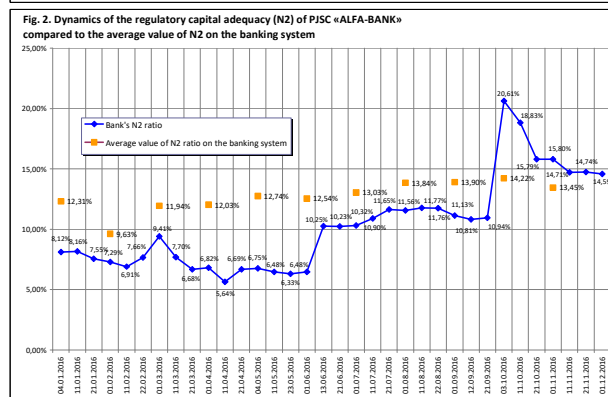
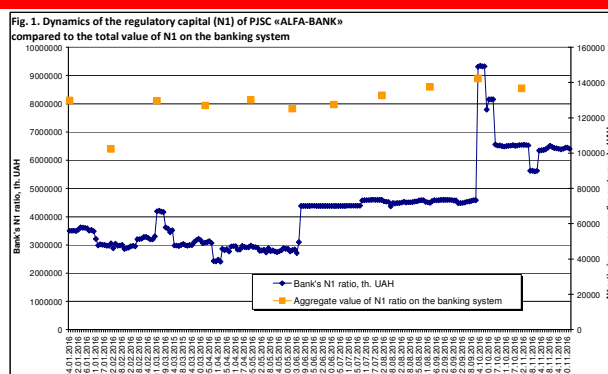
Long-term credit rating of PJSC «ALFA-BANK» is affirmed

December 21, 2016 at the meeting of the Rating committee of RA «Expert-Rating» it was decided to affirm the long-term national Ukrainian scale rating of PJSC «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 to the Series M bonds of PJSC «ALFA-BANK», which are in circulation, at the level **uaAAA**. Making decision to affirm the rating, the Agency was guided by the results of the Bank's activity for the 9 months of 2016, as well as by the conclusions drawn from the analysis of financial and statistical statements of the Bank for January-November of 2016.

Equity and capital adequacy

The Agency recall that in the first decade of June of 2016 there was a growth of the regulatory capital (N1) and the regulatory capital adequacy ratio (N2) of the Bank. For the period from 04.01.2016 to 14.06.2016 the Bank's regulatory capital (N1) grew by 25.4% from UAH 3.498 bn up to UAH 4.387 bn. Up to 01.09.2016 the Bank's regulatory capital showed insignificant fluctuations. From October 6 to November 7, 2016 the Bank's N1 ratio showed a decrease from UAH 9.324 bn down to UAH 5.623 bn, however, generally for the 11 months of 2016 the Bank's N1 ratio grew from UAH 3.498 bn up to UAH 6.401 bn, or by 83%.

From 04.01.2016 to 01.06.2016 the normative ratio of the regulatory capital adequacy of PJSC «ALFA-BANK» was lower than the limit value of N2 ratio, set by the NBU Resolution № 368 from 28.08.2001 (hereinafter – the Resolution №368; $N2 > 10\%$), at the same time it remained within the limit values, set by the NBU Resolution № 129 from 24.02.2015 “On some issues of the banks' activities” (hereinafter – the Resolution №129). The regulatory capital adequacy ratio of PJSC «ALFA-BANK» (N2) for the period from 04.01.2016 to 13.06.2016 grew by 2.13 p.p. from 8.12% up to 10.25%. Further, the Bank showed the growth of N2 ratio up to 11.77% (on 11.08.2016), then the Bank's N2 ratio slightly fell down to 11.13% (on 01.09.2016). However, from 21.09.2016 to 03.10.2016 the Bank's N2 ratio grew from 10.94% up to 20.61%, and until December 1 was kept above the average of N2 ratio on the banking system. As of 01.12.2016 the Bank's N2 ratio amounted to 14.59% that was by 4.59 p.p. higher than the limit value, set by NBU.

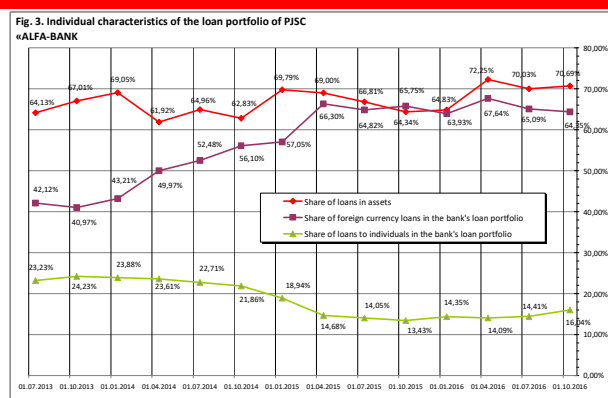


Asset structure and quality

For the last 12 quarters on the loan portfolio there were a number of trends¹, caused mostly by hryvnia devaluation:

- The share of loans in the Bank's assets grew from 64.13% up to 70.69% (excluding the hryvnia devaluation effect it remained stable at 65.39%);
- The share of currency loans in the Bank's loan portfolio grew from 42.12% up to 64.35% (excluding the hryvnia devaluation effect it decreased down to 35.76%), at the same time, the currency structure of the loan portfolio remained almost unchanged for the third quarter;
- The share of loans to individuals decreased from 23.23% down to 16.04% (excluding the hryvnia devaluation effect it grew up to 25.49%).

The revealed trends resulted in some worsening of the Bank's

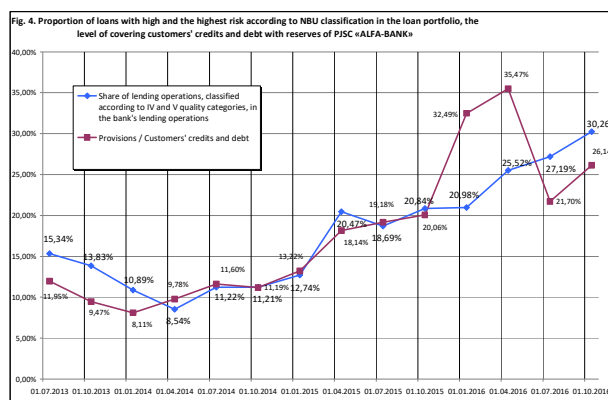


¹ Information in the charts is provided on the basis of statistical reporting data of the NBU website. When analyzing the data of the charts 3 and 4, it should be considered that at the beginning of the year and on 01.04.2016, 01.07.2016, and 01.10.2016 the Ukrainian banks already prepared their financial statements according to IFRS

loan portfolio quality, which at the same time corresponded to the general trend on the banking system. For the last 14 quarters, the following trends of changing the Bank's asset quality were revealed:

- The share of the Bank's lending operations classified according to the IV and V quality categories grew from 15.34% up to 30.26%. At the same time, this indicator for PJSC «ALFA-BANK» was lower than the average value for the sample of solvent banks.
- The level of coverage of loans and advances to customers with provisions grew from 11.95% up to 26.14%, but it was by 9.33 p.p. lower than on 01.04.2016.

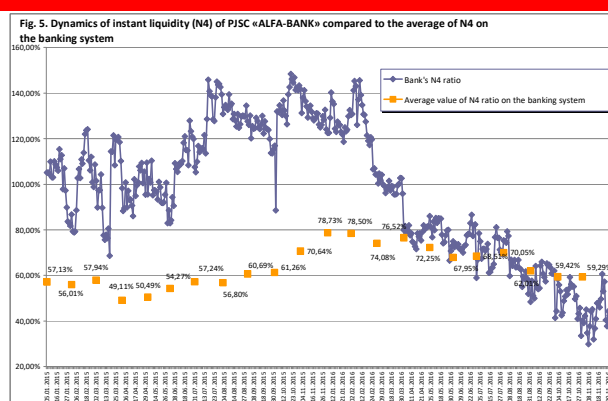
The third quarter of 2016 was characterized by a moderate decrease in asset quality for the Bank.



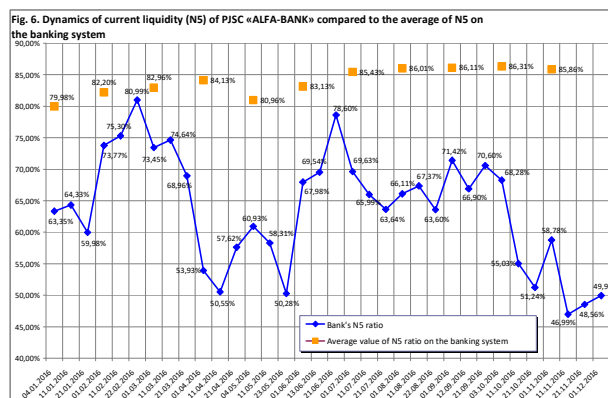
Liquidity

Throughout the first 11 months of 2016 PJSC «ALFA-BANK» had a good liquidity cushion with a noticeable reserve to the ratios set by NBU as determined by the analysis of the Bank's liquidity ratios.

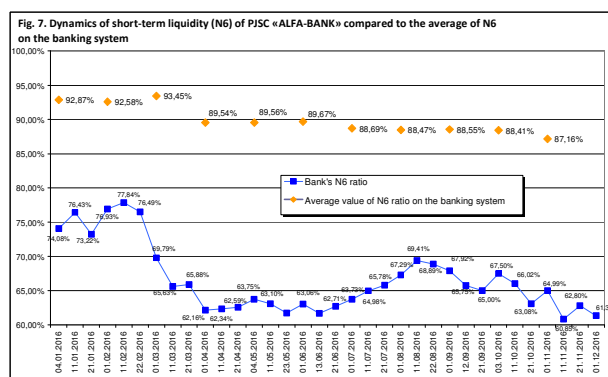
Thus, the Bank's instant liquidity normative standard throughout the entire analysis period was higher than the average values of the Bank's ratios on the banking system. As of 14.06.2016 the Bank's N4 ratio equaled 72.84% that was by 52.84 p.p. more than the limit value of this normative, set by NBU, and by 4.89 p.p. more than the average of N4 ratio on the banking system on 01.06.2016. Thus, the Bank's instant liquidity normative standard throughout the entire 2015 and the first 7 months of 2016 was higher than the average ratio for the banking system. However, in August the Bank's N4 ratio slightly decreased along with the average value of N4 ratio on the banking system. As of 01.12.2016, the Bank's N4 ratio equaled 42.30% with the normative value not less 20% and the average value on the banking system around 60%.



During the analyzed period, the current liquidity normative standard (N5) of PJSC «ALFA-BANK» all the time was significantly higher than the limit value, set by NBU, but lower than the average on the banking system. As of 01.12.2016, the Bank's N5 ratio equaled 49.96% that was by 9.96 p.p. higher than the limit value of NBU set for this normative standard.



For the first 11 months of 2016, the short-term liquidity normative standard (N6) of PJSC «ALFA-BANK» all the time was higher than the limit value, set by NBU, but lower than the average on the banking system. As of 01.12.2016, the Bank's N6 ratio equaled 61.33% that was by 1.33 p.p. higher than the limit value of NBU set for this normative standard.



Assessing the dynamics of current and short-term liquidity ratios of PJSC «ALFA-BANK», it should be taken into consideration that during the first 11 months of 2016 the banking system was still in the state of excessive liquidity. However, in August-October, 2016 the banking system averages of N4 and N6 ratios declined for three consecutive months, the average value of N5 ratio decreased by 1.25 p.p. for October. Therefore, the gradual decline in N4, N5 and N6 ratios of the Bank repeated the revealed trend of the banking system.

Nevertheless, it should be taken into consideration that situation when the Bank's liquidity normative standards are slightly lower than the banking system averages and higher than the limit values of normative standards set by NBU may imply "liquidity cushion of a sufficient level". According to the Agency's observations, the maintenance of a quite high reserve on liquidity ratios can result in a decrease in the bank's interest income and adversely affect its profit.

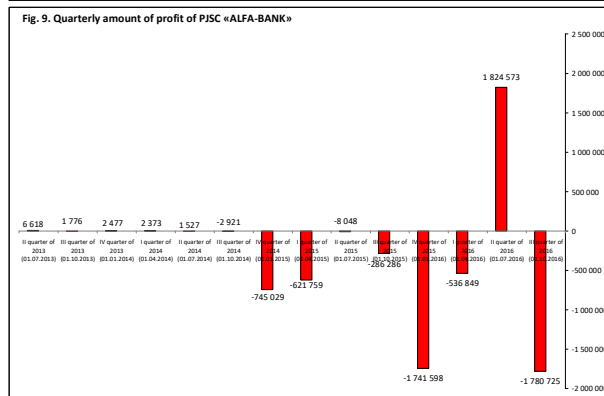
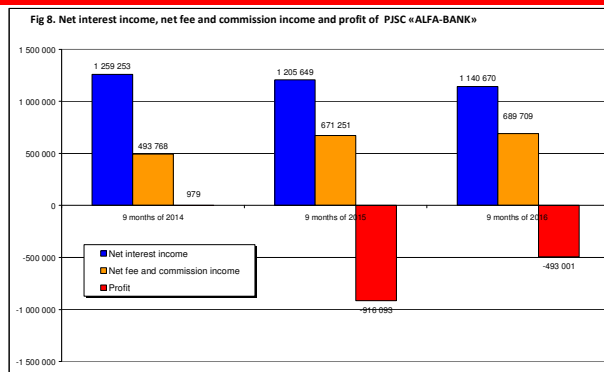
Profitability of operations

PJSC «ALFA-BANK» finished the 9 months of 2016 with loss of UAH 493 mln as compared to profit of UAH 1.288 bn in the first half of 2016. The Bank's unprofitable activity in the third quarter was mostly related to the need of additional provisioning of the Bank's loan portfolio.

In the Agency's opinion, the volume of the Bank's loss for the 9 months of 2016 is insignificant and can't significantly affect its stability and the level of credit risk.

Additionally, it should be mentioned that PJSC «ALFA-BANK» for the 9 months of 2016 compared to the same period of 2015 succeeded to maintain almost unchanged amount of net interest income and to increase net fee and commission income. In the difficult economic conditions, it still indicates the market potential of the Bank's activities and the high level of its competitiveness.

The Agency draws attention that during 8 quarters out of the last 14 quarters PJSC «ALFA-BANK» showed unprofitable activity that actually was related to the realization of unfavorable scenario in Ukrainian economy, which negatively affected the quality of the bank's loan portfolios and triggered additional provisioning.



Other factors

Verification on public databases of the State Fiscal Service showed that PJSC «ALFA-BANK» was registered in the authorities of the SFS. As of 18.12.2016, the Bank as a taxpayer didn't have a tax debt.

Summary

As of 21.12.2016, PJSC «ALFA-BANK» fulfilled its commitments to clients and creditors according to current legislation and wasn't referred by NBU to the category of problem banks.

At the same time, PJSC «ALFA-BANK» in June, and then in October of 2016 significantly improved the regulatory capital and the regulatory capital adequacy due to additional capital injection, and also ensured the growth of the Bank's N2 ratio and its reserve with respect to the limit value set by NBU. According to the Agency, the Bank had a good regulatory capital cushion and a very high level of external support from its shareholder.

During the first 11 months of 2016, the Bank had a good liquidity cushion. All the three liquidity ratios were significantly higher than the limit values set by NBU during the entire analyzed period, and the Bank maintained a reserve to liquidity ratios on a regular basis.

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