

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

Date of rating action: 22.12.2017

Date of publication: 22.12.2017

The issuer: PJSC «ALFA-BANK»

USREOU code of the issuer: 23494714

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



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

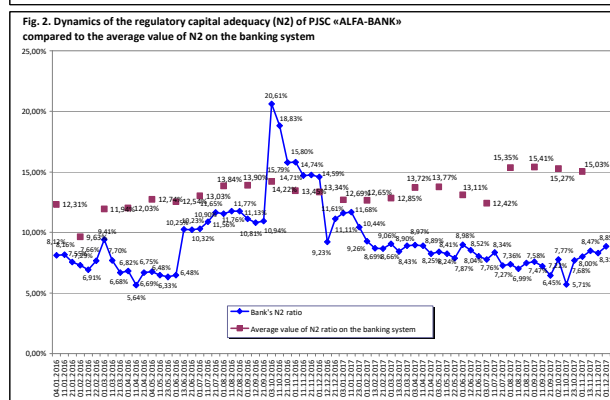
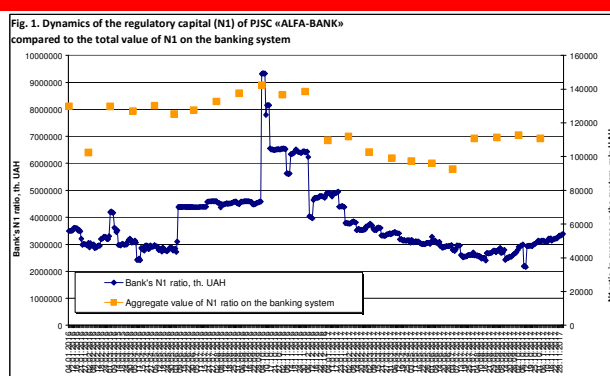
December 22, 2017 at the meeting of the Rating committee of RA «Expert-Rating» it was decided to affirm the long-term national Ukrainian scale rating of PJSC «ALFA-BANK» (23494714) (The Bank) at the level uaAAA. Bank or separate bond instrument with rating uaAAA is characterized by the highest solvency 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 Bank's bonds that are in circulation at the level uaAAA. Making decision about rating actions, the Agency was guided by the results of the Bank's activity for the year 2016, the 9 months of 2017, as well as by the conclusions drawn from the analysis of financial and statistical statements of the Bank for January-November of 2017.

Equity and capital adequacy

Throughout the 11 months of 2017, the Bank's regulatory capital ratio (N1) fluctuated in the range UAH 2.156-4.944 bn. Throughout the entire analysis period the Bank's N1 economic standard demonstrated multidirectional dynamics with brightly expressed upward trends in the first half of January of 2017, and also with clear downward trends in spring and summer of 2017, as well as with trends towards a gradual growth in October-November of 2017. The Bank's N1 indicator as of 01.12.2017 amounted to UAH 3.39 bn that significantly exceeded the limit value of N1 normative standard set by NBU at the level of UAH 200 mln.

From February to November of 2017 the normative ratio of the regulatory capital adequacy of PJSC «ALFA-BANK» was slightly 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 the normative ratio N2 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).

Since the beginning of 2017 the Bank's N2 ratio reached its minimal value of 5.71% on 11.10.2017, after which demonstrated a constant upward trend and already on 01.12.2017 amounted to 8.85%.

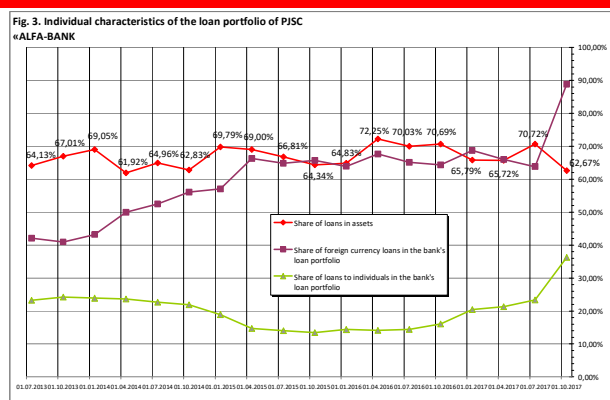


Asset structure and quality

For the last 18 quarters on the loan portfolio of the Bank there were a number of trends¹:

- The share of loans in the Bank's assets (in hryvnia equivalent) remained relatively constant and fluctuated in the range 62.67-72.25%;
- The share of currency loans (in hryvnia equivalent) in the Bank's loan portfolio grew from 42.12% up to 62.90%;
- The share of loans to individuals (in hryvnia equivalent) grew from 23.23% up to 28.43%.

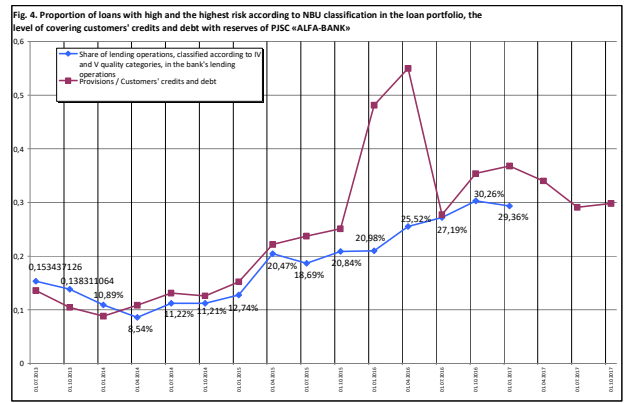
The Agency draws attention that starting from 01.04.2017 the retail loans share in the Bank's loan portfolio is constantly growing. The Agency considers this factor as positive, since lending to



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 01.01.2016, 01.04.2016, 01.07.2016, 01.10.2016, 01.01.2017, 01.04.2017, 01.07.2017 and 01.10.2017 the Ukrainian banks already prepared their financial statements according to IFRS.

individuals on the back of the business expansion, as a rule, has less risky nature and is able to generate higher income.

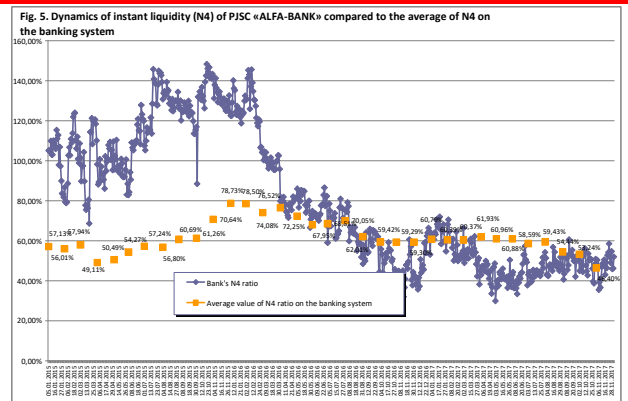
Data analysis on the share of provisions in the Bank's loan portfolio revealed a trend towards stabilizing dynamics. During the 9 months of 2017, this indicator fluctuated in the range 21.74-22.95%. According to NBU data, as of 01.11.2017 the Bank's non-performing loans share was only 23.53%, as compared to the average value in the banking system of 56.55%.



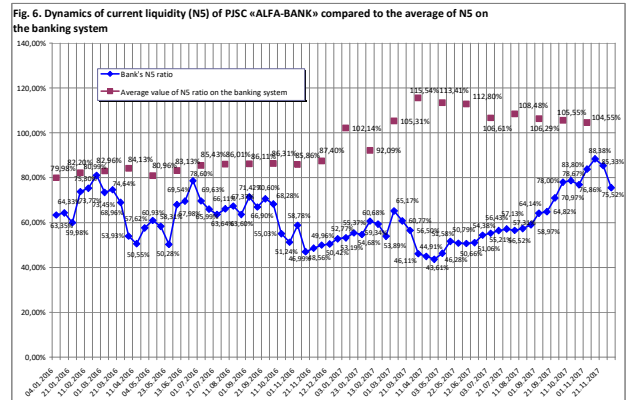
Liquidity

During the 11 months of 2017, 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.

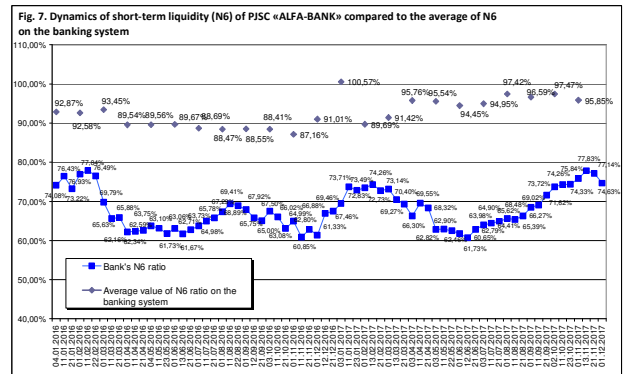
Thus, the Bank's instant liquidity normative standard since the beginning of 2017 and up to April of 2017 was periodically exceeding the average value of the Bank's N4 ratio on the banking system. In April-August of 2017, the Bank's N4 ratio fell below the average value of the N4 ratio on the banking system, at the same time the Bank's N4 ratio was significantly higher than the minimal accepted value, set by NBU (20%). In September-November of 2017 the Bank's N4 ratio periodically exceeded the average value on the system. As of 01.12.2017 the Bank's N4 ratio amounted to 51.95% that was by 31.95 p.p. higher than the limit value of N4 ratio, set by NBU.



During the 11 months of 2017, the current liquidity normative standard (N5) 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. Starting from 01.11.2016, the average value of the N5 ratio on the banking system gradually grew. On 01.12.2017, the Bank's N5 ratio amounted to 75.52%, which by 35.52 p.p. exceeded the limit value, set by NBU.



During the 11 months of 2017, 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 01.12.2017, the Bank's N6 ratio equaled 74.68%, which was by 14.68 p.p. higher than the limit value of NBU set for this normative standard.



Assessing the dynamics of the Bank's liquidity ratios, it should be mandatory taken into consideration that in 2016 and during the 11 months of 2017, the Bank maintained a noticeable reserve on N4, N5 and N6 ratios with respect to the limit values, set by NBU, and this reserve was increased in October-November, 2017.

Due to significant liquidity, generated by state banks, the averages of liquidity ratios on the banking system do not indicate the level of banks' liquidity cushion any longer. On the contrary, with favorable macroeconomic conditions the Agency gives a positive assessment to the processes of liquidity reserve optimization and increase in the Bank's lending activity that will positively affect its interest income.

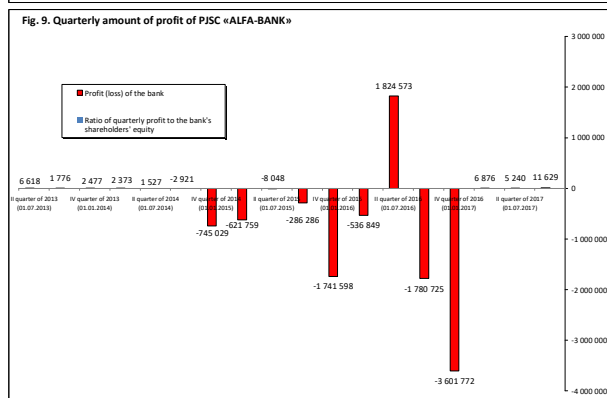
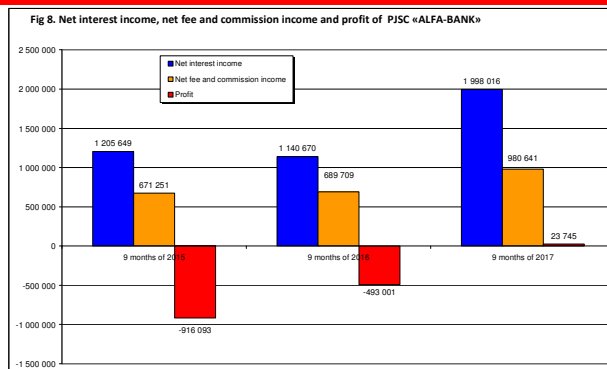
Profitability of operations

PJSC «ALFA-BANK» finished first quarter of 2017 with net profit of UAH 6.876 mln. The Bank earned UAH 12.116 mln for the first half of 2017. For the 9 months of 2017 the Bank's profit amounted to 23,745 mln. The third consecutive quarter remains profitable for PJSC «ALFA-BANK».

The Agency still appreciates the Bank's return to profitability on a regular basis so far and additionally draws attention to a noticeable increase in net interest and net fee and commission income of the Bank.

Thus, for the 9 months of 2017, net interest income of the Bank grew up to UAH 1.998 bn, which was in 1.75 times higher than at the same quarter of 2016. Net fee and commission income also demonstrated a noticeable trend toward growth: for the same period NFCI grew in 1.42 times up to UAH 980.641 mln.

Additionally, one should draw attention to the fact that during the last 18 quarters PJSC «ALFA-BANK» showed losses only in 8 quarters. The main reason for the Bank's unprofitable activity in 2016 is the need to charge provisions on loan operations, that is why, with the improvement of situation in the loan market, the Bank, like for the first 3 quarters of 2017, will continue to generate profit.



Other factors

Verification on public databases of the State Fiscal Service revealed that PJSC «ALFA-BANK» was registered in the authorities of the SFS. At the moment of rating update, the Bank as a taxpayer didn't have a tax debt. PJSC «ALFA-BANK» announced that the international investment fund MSP Stiftung (Liechtenstein) entered the shareholders' structure of PJSC "ALFA-BANK" with a share of 9.9%. Based on the results of the transaction, after approval of the Ukrainian regulatory bodies, Austrian banker Martin Schwedler will be appointed as the head of the supervisory board of PJSC "ALFA-BANK".

The MSP Stiftung investment fund was created by Martin Schlaff - one of the largest Austrian businessmen with interests in the financial sector and industrial production. MSP Stiftung is a co-owner of Sigma Kreditbank AG (Liechtenstein), which specializes in retail lending. The fund also owns almost 25% of the shares of RHI Magnesita NV, a global manufacturer of high-quality refractory products used in high-temperature industrial processes.

According to the Agency, the access to the Ukrainian market of the MSP Stiftung investment fund opens a new stage in the development of the banking business in Ukraine. The arrival of the investment fund and the appointment of a professional banker with experience in the EU as head of the supervisory board of PJSC «ALFA-BANK» is the first precedent since the end of the banking crisis of 2014-2016 in Ukraine. This event indicates that the Ukrainian banking sector again becomes interesting for investment funds with international name, good reputation and work experience in the financial sector of the EU.

The agency does not expect any significant changes in the credit ratings of PJSC «ALFA-BANK» in the near future, but draws attention to the fact that after the deal finalization, the role of European shareholders in the management of PJSC «ALFA-BANK» will rise. By enhancing of the European vector in the management of PJSC "ALFA-BANK", the shareholders of the Bank significantly strengthen its business model and ability to withstand crisis phenomena.

Summary

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

PJSC «ALFA-BANK» for the 9 months of 2017 demonstrated a noticeable increase in net interest and net fee and commission income compared to the results of the first half of 2016. In the first quarter of 2017 PJSC «ALFA-BANK» returned to profitability, in the second and third quarters of 2017 the Bank continued to generate profit. During the 9 months of 2017, the Bank received profit of UAH 23.745 mln.

In the Agency's opinion, PJSC «ALFA-BANK» had a good liquidity cushion, at the same time the level of the Bank's liquidity reserve was increased in October-November. The Bank had on a constant basis a noticeable reserve of all the liquidity ratios with respect to the limit values, set by NBU.

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