

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

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The issuer: PJSC "VTB BANK"

USREOU code of the issuer: 14359319

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



Rating of PJSC "VTB BANK" is updated

December 18, 2017 the rating committee of RA "Expert-Rating" has decided to update a long-term credit rating of PJSC "VTB BANK" (14359319) at the level uaAA- according to the national scale. The Bank with rating uaAA- is characterized by a very high solvency compared to other Ukrainian banks. Making decision to confirm the credit rating according to the national scale, the Agency was guided by the key results of the Bank's activity for the 2016 and the 9 months of 2017, its statistical statements for January-November of 2017, as well as particular and regular information of the Bank as an issuer of securities.

Equity and capital adequacy

Throughout January, 2016 – May, 2017 PJSC "VTB BANK" with reserve committed equity ratios as indicated by the dynamics of the Bank's regulatory capital ratio (N1) and the regulatory capital adequacy ratio (N2). From 11.05.2017 to 01.12.2017 the N2 ratio of PJSC "VTB BANK" has been below 10%, but has exceeded the minimum, set by NBU. At the same time, one should note a positive dynamics of the regulatory capital adequacy ratio (N2) in the second half of 2017. If on 01.06.2017 the N2 ratio has amounted to 7,74% then on 01.12.2017 this indicator has amounted to 9,11%, that is by 2,11 p.p. higher than current anti-crisis regulatory requirements, which come into force from 01.01.2018. At the same time, till the end of next year the Bank will have to increase the capital adequacy up to 10%.

On October 23, 2017 the Bank's shareholders at the shareholder meeting made decision about the earlier announced additional capitalization. The Agency expects that all licensing procedures related to the additional capitalization of the Bank will be completed in the first quarter of 2018.

The decision about additional capitalization indicates the readiness of the parent bank to support its subsidiary structure.

Fig. 1. Dynamics of the regulatory capital adequacy (N2) of PJSC "VTB BANK" compared to the average value of N2 ratio on the banking system



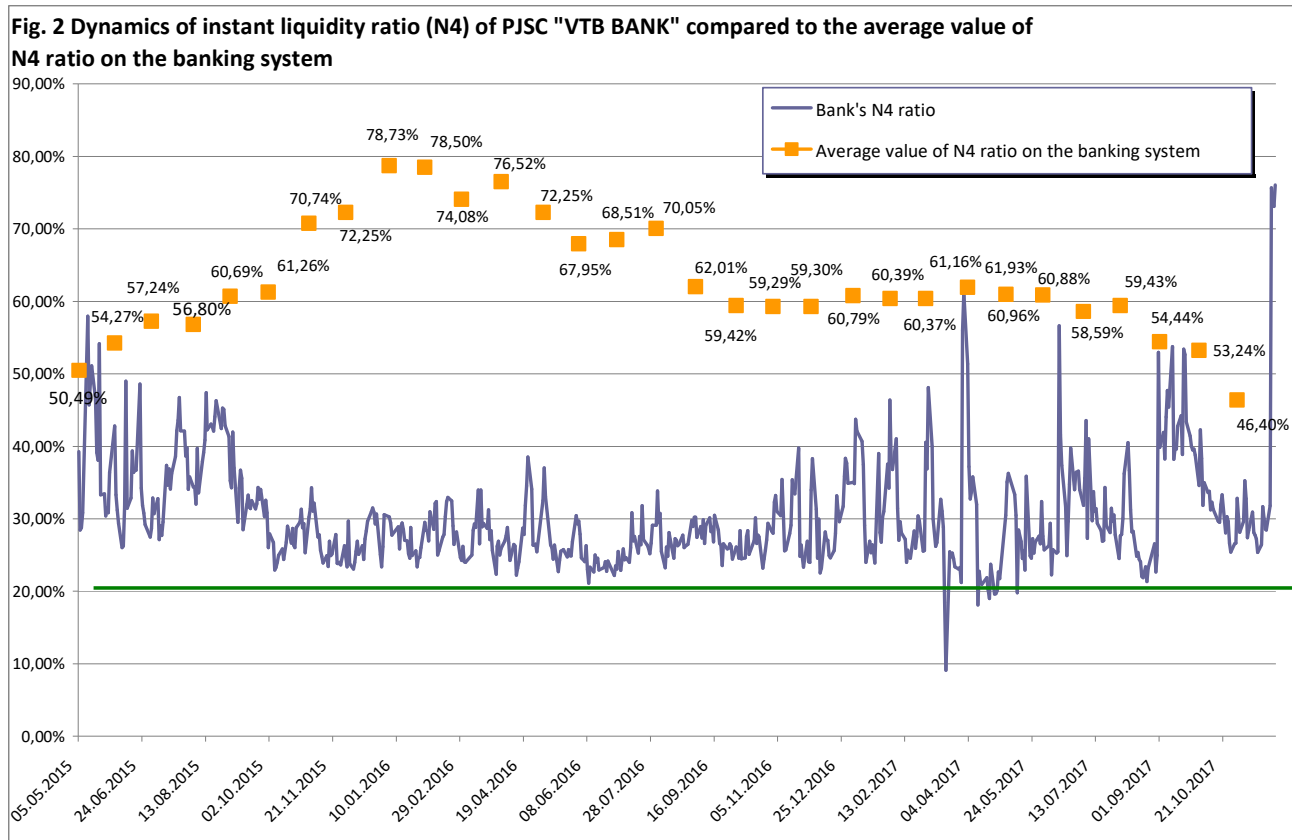
Significant funds of the parent structure already are at the balance of PJSC "VTB BANK", part of which will be directed to the increase in the Bank's authorized capital. Due to that the Agency considers a temporary non-compliance of the Bank's regulatory capital adequacy ratio N2 and a misbalance of current and short-term liquidity ratios as just a technical situation, which is related to the duration of the registration procedure of the shareholder's desire to increase the

authorized capital. In its opinion the Agency relies not only on the management statements or messages of information agencies, but also on the results of the meeting of the Bank's shareholders on 23.10.2017, where the decision about additional capitalization was made.

As well, the Agency reminds that the key shareholder of PJSC "VTB BANK" is the Bank VTB (PJSC) (Russian Federation), on the basis of which was created the international banking group VTB. At the moment of rating update the Bank VTB (PJSC) had a long-term credit rating according to the national russian scale from the international rating agency S&P Global Ratings at the level ruAA+. This credit rating indicates the possibility of the Bank VTB (PJSC) to provide its business in Ukraine with the financial support, if necessary. In the past the group VTB repeatedly provided external support to its business in Ukraine.

Liquidity

Throughout April, 2016 – May, 2017 PJSC "VTB BANK" has been in general well provided with liquidity. For the analysis of the Bank's liquidity provision for the last two months the Agency used instant liquidity, the normative of which is calculated by the Bank every day. During the entire analysis period the Bank has maintained a great reserve of N4 ratio to the normative, set by NBU, but the volatility of normative was significant that is typical to the normative values, which are daily calculated. In March and April, 2017 the volatility of N4 ratio has grown. Thus, in the mid-March PJSC "VTB BANK" one time allowed the deviation from the limit value, but at the end of March, 2017 the Bank's N4 ratio has reached 61,16% that in three times has exceeded the NBU normative value and has almost corresponded to the average of N4 ratio on the banking system. In April the Bank has managed to stabilize the N4 ratio, which during the month several times has slightly deviated from 20%, however has grown up to 30,49% by the beginning of May. Starting from the second half of May, 2017 PJSC "VTB BANK" didn't allow the decrease in N4 ratio below the limit value, set by NBU. As of 01.12.2017 the Bank's N4 ratio has amounted to 76,08% that is by 56,08 p.p. more than the limit value, set by NBU (fig. 2).



The Agency acknowledges that in November, 2017 the Bank has already formed more than a sufficient reserve of the N4 liquidity ratio.

Asset structure and quality

For the 9 months of 2017 the Bank's assets have reduced by 32,33% (in the first half by 30,14%), customer loans without reserves, as in the first half, have decreased almost in proportion to assets. At the same time, loan provisions have decreased by 27,66%, and the level of the ratio between provisions and the total loan portfolio has grown by 1,5 p.p. The quality of the Bank's loan portfolio could be assessed as not high, but the Bank has formed loan provisions in full. Its policy of reservation can be assessed as conservative. The Bank has also conducted a very active claim work in the Ukrainian courts, strengthening the effect from work with the portfolio of problem loans. The Bank has reduced its presence in the Ukrainian loan market, i.e. has kept an earlier announced strategy.

Table 1

Data on assets, loans and provision volumes of PJSC “VTB BANK” for the 9 months of 2017, mln UAH, %

Indicators	01.10.2017	01.01.2017	Change	Growth rate
Assets	13,58	20,068	-6,488	-32,33%
Loans to customers without provisions	8,57	12,684	-4,114	-32,43%
Ratio of loans to assets	63,11%	63,21%	-0,10%	-
Loan provisions	18,427	25,472	-7,045	-27,66%
Ratio of provisions to the total volume of loans	68,26%	66,76%	1,50 p.p.	-

Source: Data of interim quarterly statements of PJSC “VTB BANK”

Profitability of operations

The Agency reminds that PJSC “VTB BANK” has finished the first quarter of 2017 with a loss of UAH 351,733 mln. The Bank has finished the first half of 2017 with a loss of UAH 1,160 bn that is in 4,3 times less than a loss for the same period of 2016. The Bank has finished the 9 months of 2017 with a loss of UAH 1,449 bn that is in 3,87 times less than a loss for the same period of 2016. Such a significant reduction of loss can be still considered as a positive trend for the Bank.

Table 2

Data on key items of income and profit of PJSC “VTB BANK”, mln UAH, %

Indicator	9 months of 2017	9 months of 2016	Change	Growth rate
Interest income	546,33	1209,803	-663,473	-54,84%
Net interest income (loss)	-1,536	112,263	-113,799	-
Net commission income	107,379	158,516	-51,137	-32,26%
Profit after taxation	-1449,46	-5612,046	4162,586	-

Source: Data of NBU and interim quarterly statements of PJSC “VTB BANK”

Other factors

Verification on the Unified State Register of court decisions showed that with respect to the Bank there are no court decisions which had a significant impact on its stability or the results of its work. It is also established that at the moment of rating update PJSC “VTB BANK” according to SFS data didn’t have any tax debt.

The Agency assumes an indirect negative impact of sanctions of the Ukrainian government on business of PJSC “VTB BANK”. However, the Agency emphasizes that sanctions just limit the mutual settlements of the Bank in Ukraine with the parent bank and don’t limit other operations performed by PJSC “VTB BANK”.

Generalization

At the beginning of December, 2017 PJSC “VTB BANK” was in the process of additional capitalization. For November the Bank has increased the values of N2 and N4 ratios, and the Bank’s shareholders by the decision of the Bank’s shareholders meeting have officially confirmed the intension about additional capitalization. Based on the official announcement of an increase in the authorized capital, the nominal values of N2, N5 and N6 ratios of the Bank will be complied with a significant reserve with respect to the limit values, set by NBU.

At the moment of rating update PJSC “VTB BANK” confirmed that the Bank performed its commitments to clients and lenders according to the current legislation. The Bank did not impose any additional restrictions on deposit and settlement operations of customers, except for those that were established by the NBU and were mandatory for compliance by all banks of Ukraine.

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