

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



www.expert-rating.com

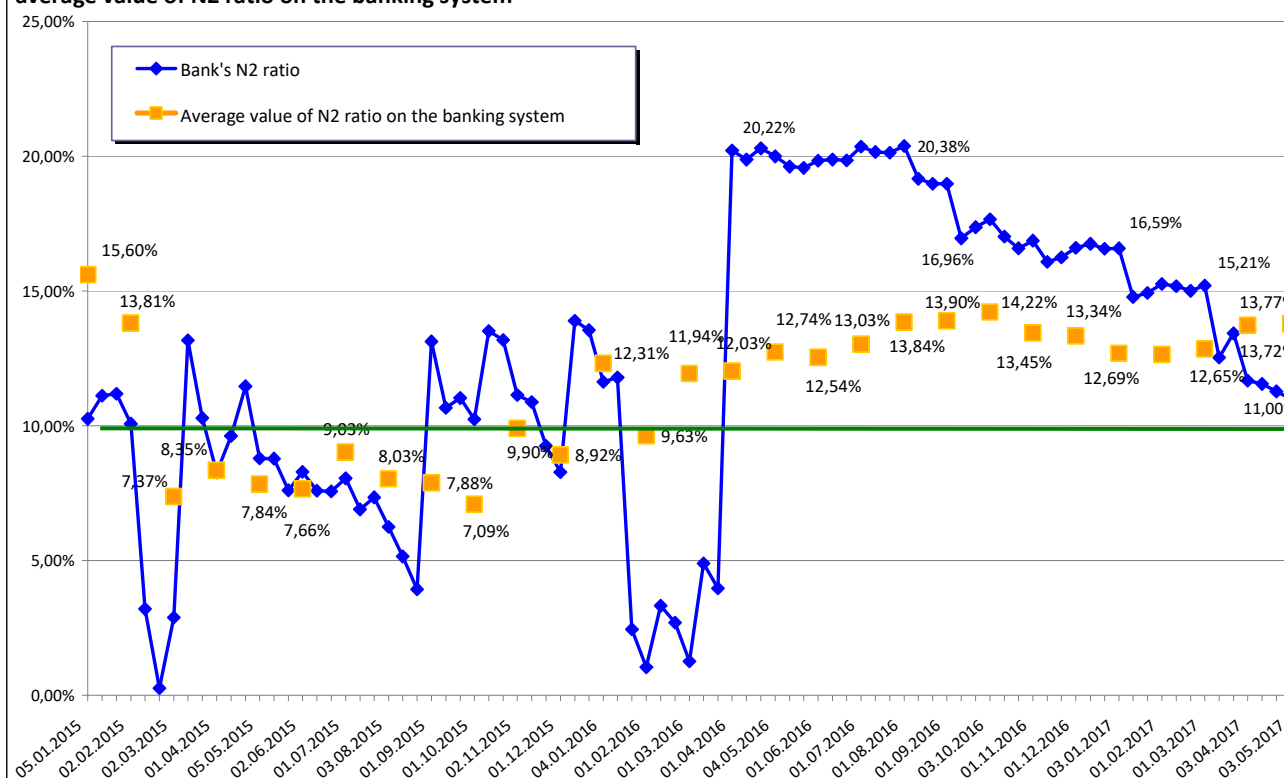
Rating of PJSC "VTB BANK" is updated

May 26, 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 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 first quarter of 2017, its statistical statements for January - April of 2017, as well as particular and regular information of the Bank as an issuer of securities.

Equity and capital adequacy

Throughout April, 2016 – May, 2017 PJSC "VTB BANK" has been very well provided with regulatory capital that is shown from the dynamics of the Bank's regulatory capital normative N1 and the regulatory capital adequacy normative N2. As of May 3, 2017 the regulatory capital of PJSC "VTB BANK" has amounted to UAH 1.911 bn, and the bank's N2 ratio has amounted to 11%. Since April, 2016 the bank's N2 ratio has had a gradual trend toward decrease, has shown a downward dynamics from 20.22% to 11%, but hasn't dropped below the normative value, set by NBU, in the amount 10% (fig. 1). For that crisis situation that is in the banking sector and on the loan market the Agency considers acceptable a downward dynamics of N2 ratio.

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

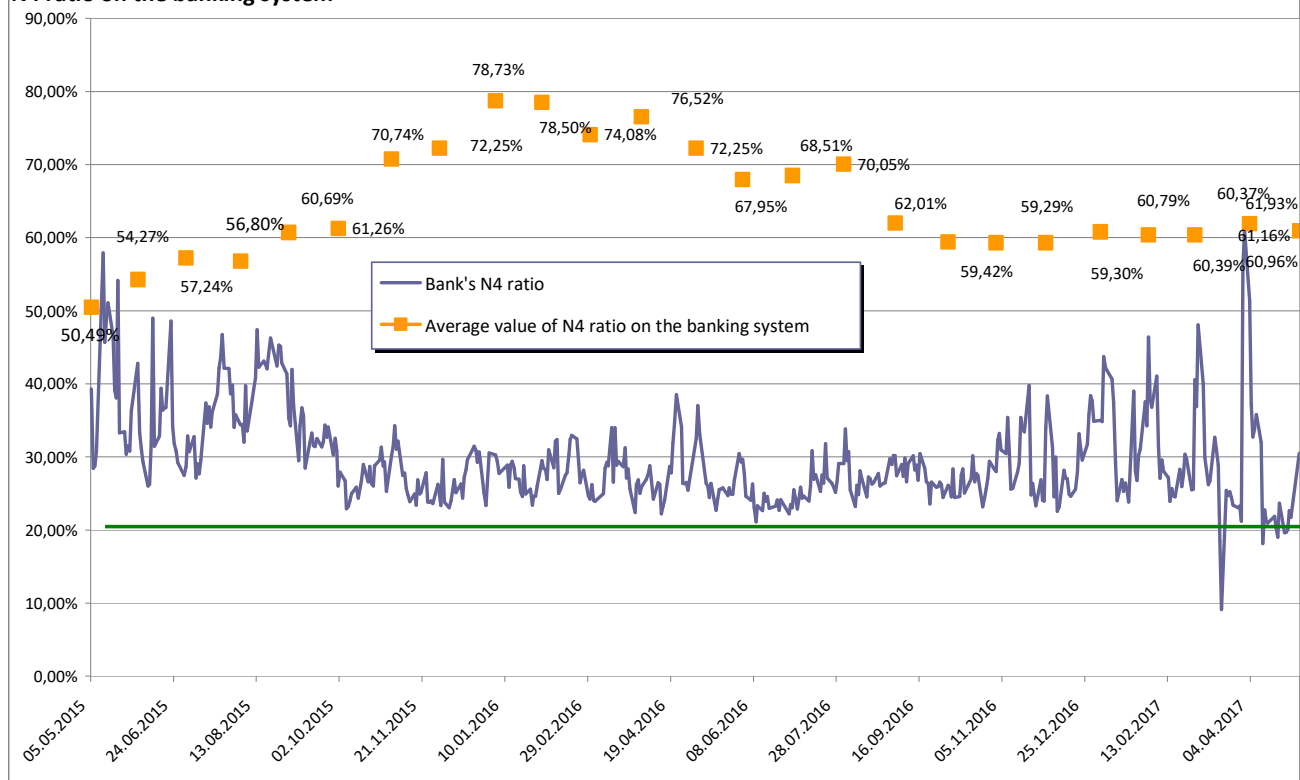


As well, the Agency reminds that the key shareholder of PJSC "VTB BANK" is Bank VTB (PJSC) (Russian Federation), on the basis of which the international banking group VTB was created. At the moment of updating the rating Bank VTB (PJSC) had a long-term credit rating at the level ruAA+ according to the Russian national scale from the international rating agency S&P Global Ratings. This credit rating indicates the ability of Bank VTB (PJSC) to provide its business in Ukraine with the financial support if necessary. At the same time, the Agency emphasizes the fact that for the period from April, 2016 to May, 2017 there was no need in the financial support from the shareholder in the form of contributions to the equity of PJSC "VTB BANK".

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 (fig. 2).

Fig. 2 Dynamics of instant liquidity ratio (N4) of PJSC "VTB BANK" compared to the average value of N4 ratio on the banking system



Asset structure and quality

In the first quarter of 2017 the Bank’s assets have fallen by 14.82%, customer loans without reserves have decreased almost in proportion to assets. At the same time, loan provisions have decreased by 9.71%, and the level of the ratio between provisions and the total loan portfolio has grown by 1.09 p.p. The quality of the bank’s loan portfolio for the quarter has slightly decreased, the Bank has still formed loan provisions in full. The Bank has conducted an active claim activity in Ukrainian courts, strengthening the effect from the work with the problem loans portfolio. At the same time, the Bank has reduced its presence in the Ukrainian loan market.

Table 1

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

Indicators	31.03.2017	31.12.2016	Change	Growth rate, %
Assets	17.094	20.068	-2.974	-14.82%
Loans to customers without provisions	10.901	12.684	-1.783	-14.06%
Ratio of loans to assets	63.77%	63.21%	0.57 p.p.	-
Loan provisions	22.998	25.472	-2.474	-9.71%
Ratio of provisions to the total volume of loans	67.84%	66.76%	1.09 p.p.	-

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

Profitability of operations

PJSC “VTB BANK” has finished the first quarter of 2017 with a loss of UAH 351.733 mln. If we compare with the first quarter of 2016, the Bank has managed to reduce a loss by 92.34% or more than in 13 times. Such a significant reduction of loss can be considered as positive trend for the bank.

One should pay attention to the decrease in net interest loss by 75.92% down to UAH 6.802 mln. In the first quarter of 2017 the Bank has managed to increase net commission income by 11.25% and to increase a trading result up to UAH 323.388 mln.

Table 2

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

Indicator	QI of 2017	QI of 2016	Change	Growth rate, %
Interest income	247.169	464.586	-217.417	-46.80%
Net interest income (loss)	-6.802	-28.247	21.445	75.92%
Net commission income	50.693	45.567	5.126	11.25%
Trading result	323.388	-180.99	504.378	278.68%
Profit after taxation	-351.733	-4593.524	4241.791	92.34%

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 also assumes an indirect negative impact of sanctions of the Ukrainian government on business of PJSC “VTB BANK”, however 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”. The shareholder of PJSC “VTB BANK” actively searches for the buyer for its business in Ukraine, the Bank’s rating can be revised after the approval of a probable deal from the NBU, if such a deal takes place.

Generalization

Throughout the last 12 months PJSC “VTB BANK” has been well provided with equity and liquidity. Slight fluctuations of the Bank’s instant liquidity in March and April, 2017 by the beginning of May were smoothened by the formation of reserve on instant liquidity normative (N4), also based on the data of equity ratios at the beginning of May the additional capitalization of PJSC “VTB BANK” wasn’t required.

At the moment of rating update PJSC “VTB BANK” informed the agency 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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