

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

Date of rating action: 26.09.2016

Date of publication: 26.09.2016

The issuer: PJSC "VTB BANK"

USREOU code of the issuer: 14359319

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



Ratings of PJSC "VTB BANK" are confirmed

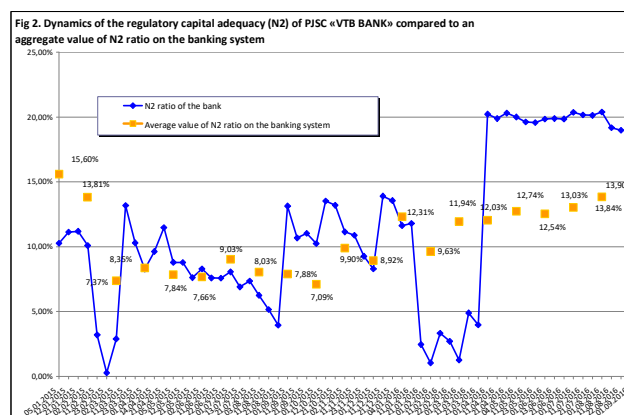
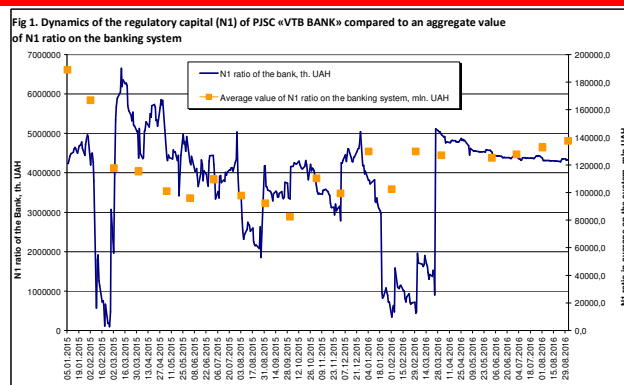
September 26, 2016 the rating committee of RA "Expert-Rating" has decided to confirm a long-term credit rating of PJSC "VTB BANK" (14359319) at the level **uaAA+** according to the national scale. The Agency also confirms the rating of the Bank's deposits at the level **ua1** according to the Agency's 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 first half of 2016, its financial, statistical statements for the first half of 2016 and July–August of 2016, as well as particular and regular information of the Bank as an issuer of securities.

Equity and capital adequacy

In 2015 and in the first half of 2016 the regulatory capital N1 of PJSC "VTB BANK" didn't drop below UAH 1 bn: in February of 2015 and in February-March of 2016. However, in the future, the Bank's N1 ratio significantly grew due to additional capitalization of the Bank by its key shareholder. Repeated additional capitalization of PJSC "VTB BANK" by its shareholder, during a short time period, confirms the availability of high support, which affects the credit rating. As of 01.09.2016 the Bank's N1 ratio has amounted to UAH 4.268 bn that is by 12.13% more than at the beginning of 2016.

Analysis of N2 ratio dynamics of PJSC "VTB BANK" shows a significant fall of N2 ratio in January of 2016 and a sharp growth of the Bank's N2 ratio up to 20.30% in March-April of 2016, which was changed by a sideways trend around the 19% mark. After additional capitalization in March of 2016 and until 01.09.2016 the Bank's N2 ratio didn't drop below 18.6% and significantly exceeded the average of N2 ratio on the banking system.

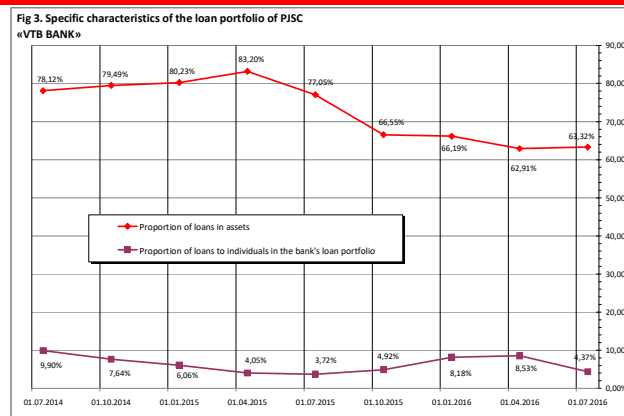
Therefore, PJSC "VTB BANK" at the beginning of September of 2016 maintained a great reserve on the regulatory capital adequacy normative N2. The revealed trends enable the Agency to conclude that the Bank was very well provided with regulatory capital.



Asset structure

For the last 8 quarters the proportion of loans in the Bank's assets decreased from 78.12% down to 63.32%. For the first half of 2016 the proportion of loans in assets decreased from 66.19% down to 63.32%. The revealed trend corresponded to the general trend on a sample of solvent banks.

The Bank's loan portfolio was still aimed at business segment. As of 01.07.2016 4.37% of the Bank's loan portfolio was represented by loans to individuals. Under conditions of the decline of business activity, the fall of employment and revenues of population such trend deserves a positive assessment.



For the last 8 quarters the ratio between reserves and the

volume of loan portfolio grew from 14.9% up to 64.5%. Such dynamics also corresponded to the general trend on the banking system and was caused by the changes in approaches to forming reserves, as well as by the deterioration of the banking asset quality due to unfavorable processes in Ukrainian economics. The availability of a significant volume of PJSC “VTB BANK” reserves for covering loan risks, although provided a negative pressure on the financial result of the Bank at their formation, indirectly indicates an adequate policy of the Bank on forming reserves.

Liquidity

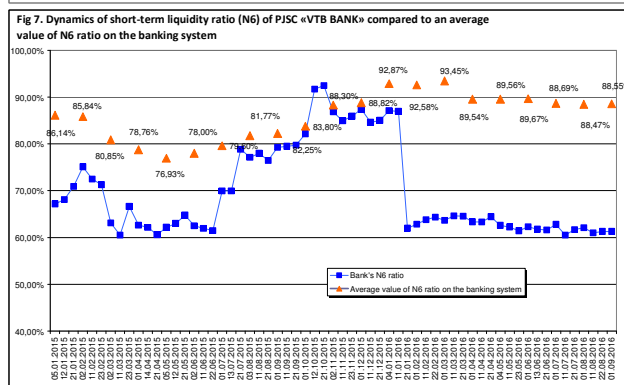
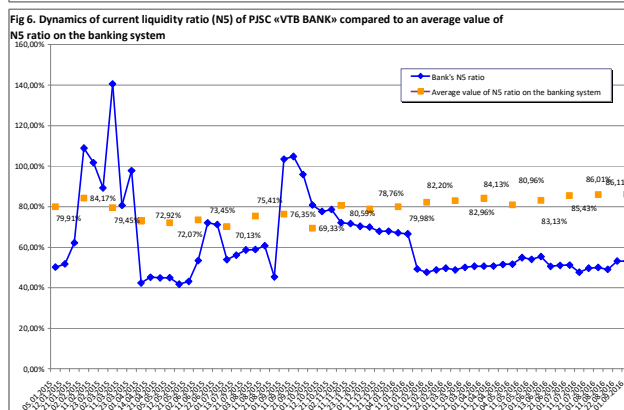
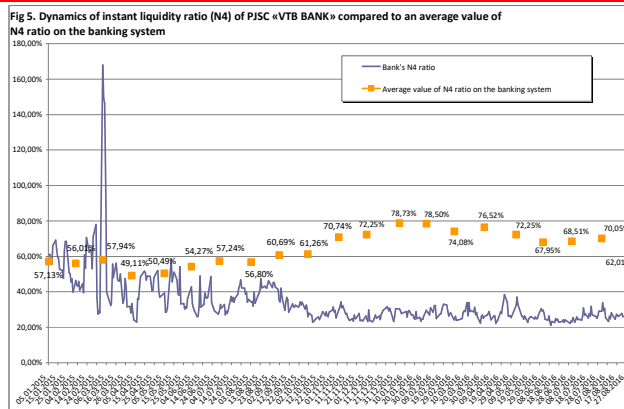
During the first eight months of 2016 PJSC “VTB BANK” was well provided with liquidity. The Bank formed the reserve of instant, current and short-term liquidity ratios (N4, N5 and N6) with respect to the limit value, set by NBU. Such conclusion can be made after a comparative analysis of the dynamics of the Bank’s N4, N5 and N6 ratios.

Starting from 21.05.2015 the normative of the Bank’s instant liquidity ratio didn’t exceed the average of N4 ratio on the banking system of Ukraine. From 03.09.2015 to 01.09.2016 the Bank’s N4 ratio fluctuated in the range 21–40%. Throughout the entire period of analysis the Bank’s N4 ratio didn’t drop below 21.13%, with the normative not less 20%.

Starting from 21.10.2015 the normative of the Bank’s current liquidity N5 ratio was also less than the average value on the banking system, but more than the limit value, set by NBU. As of 01.09.2016 the Bank’s N5 ratio amounted to 53.81% that is by 13.81 p.p. higher than the limit value, set by NBU.

Starting from 01.12.2015 the normative of the Bank’s short-term liquidity N6 ratio was lower than the average value on the banking system, but higher than the limit value, set by NBU. As of 01.09.2016 the Bank’s N6 ratio amounted to 62.27% that by 2.27 p.p. exceeds the limit value, set by NBU.

Interpreting the data analysis results, it should be still taken into consideration that starting from Autumn of 2015 the banking system of Ukraine entered the period of excessive liquidity. The maintenance of a great liquidity excess at the large banks with a high level of external support from shareholders can negatively affect the interest revenues of the further periods. Therefore, the Agency considers the policy of liquidity management optimal, and the Bank within the limits of the established ratios is well provided with liquidity.

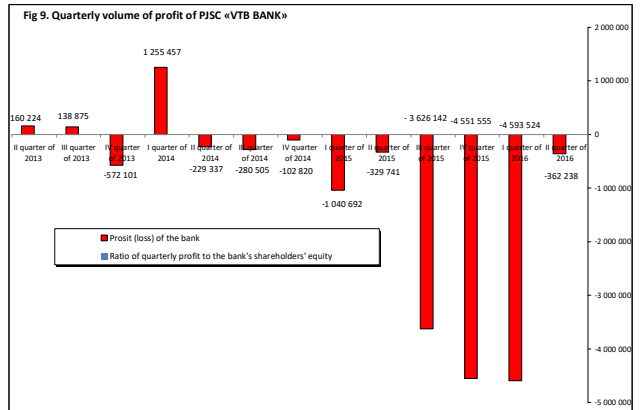
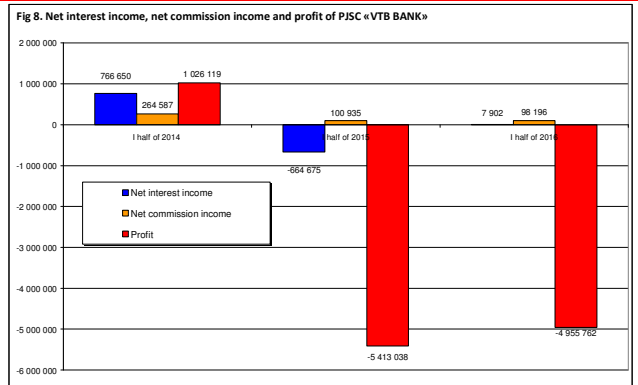


Profitability of operations

PJSC “VTB BANK” finished the first half of 2016 with a loss of UAH 4.956 bn. The Agency reminds that the first quarter of 2016 PJSC “VTB BANK” finished with a loss of UAH 4.954 bn. In comparison with a loss of the first half of 2015 the amount of loss decreased by 8.48%.

Additionally, the Agency draws attention that for PJSC “VTB BANK” the first half throughout the second year provides losses. However, one should pay attention to the fact that in the first half of 2016 net interest income of the Bank amounted to UAH 7.902 mln against net interest loss in the first half of 2015 in the amount of UAH 664.675 mln.

In the Agency’s opinion, a reduction of the Bank’s loss and a support by its shareholder through the increase in the authorized capital will positively affect its financial state.



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.

Generalization

As of 26.09.2016 PJSC “VTB BANK” performed its commitments to clients and lenders according to the current legislation.

In view of the performed Bank’s additional capitalization from the shareholder, PJSC “VTB BANK” was well provided with regulatory capital.

The Bank was well provided with liquidity and maintained a reserve to the limit values on all the three liquidity ratios, set by NBU.

Disclaimer: Credit ratings of RA “Expert-Rating” is an opinion that reflects the ability of an issuer (an issue 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” and publish according to current normative requirements. Perceiving this information, it should be understood that the risks of any issuer are affected by the influence of force majeure circumstances, political, military and natural risks that cannot be numerically described.