

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

Date of rating action: 14.04.2017

Date of publication: 19.04.2017

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

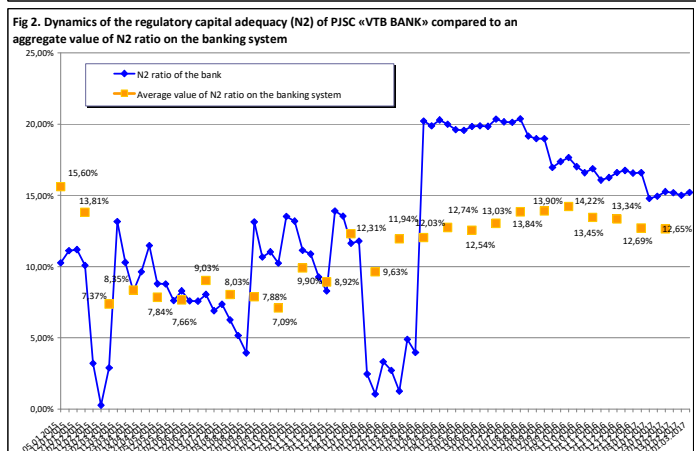
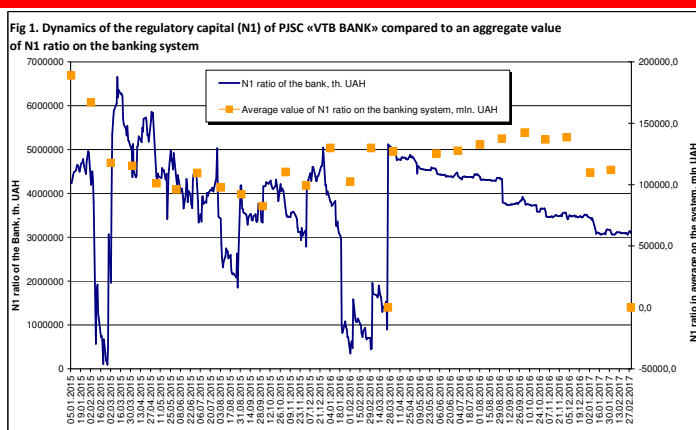
April 14, 2017 the rating committee of RA "Expert-Rating" has decided to confirm a long-term credit rating of PJSC "VTB BANK" (14359319) at the level **uaAA-** according to the national scale. The Agency also confirms the rating of the Bank's deposits at the level **ua1** according to the Agency's scale. 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 2016, its statistical statements for January and February of 2017, as well as particular and regular information of the Bank as an issuer of securities.

Equity and capital adequacy

Since March 25, 2016 the regulatory capital N1 of PJSC "VTB BANK" didn't drop below UAH 3.0 bn. From March 25, 2016 till March 1, 2017 the Bank's N1 ratio has decreased by 39.63%. The decrease has been of steady character, without sharp changes, which could be observed in 2015 and in the first quarter of 2016.

Analysis of N2 ratio dynamics of PJSC "VTB BANK" shows that the Bank's regulatory capital adequacy for the period from March 25 till March 1, 2017 has fluctuated in the range 14.78–20.22%, by steadily decreasing as the Bank's N1 ratio. It also should be taken into consideration that since March 25, 2016 the Bank's N2 ratio has been constantly higher than the limit value on the banking system and higher than the limit value of this normative, set by NBU, at the level not less 10%.

Dynamics of the Bank's N1 and N2 ratios for 2015 and the first quarter of 2016 shows that the Bank was dependent on the external support on the part of its shareholder, which provided such support and can continue providing. However, since the end of March of 2016 the situation has been significantly stabilized. The revealed trends enable the Agency to make conclusion that the Bank was very well provided with regulatory capital.

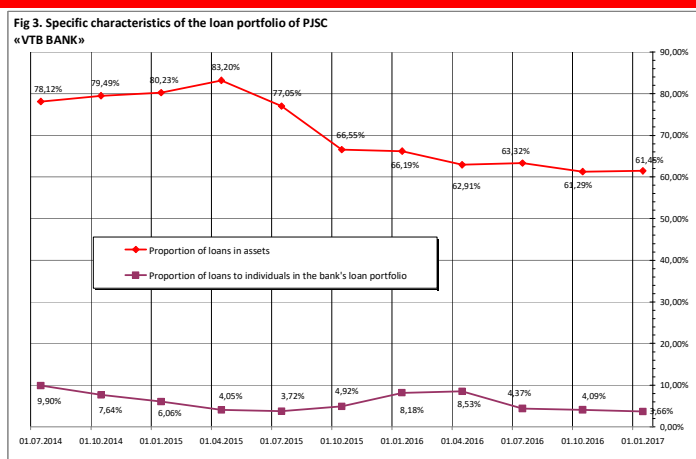


Asset structure

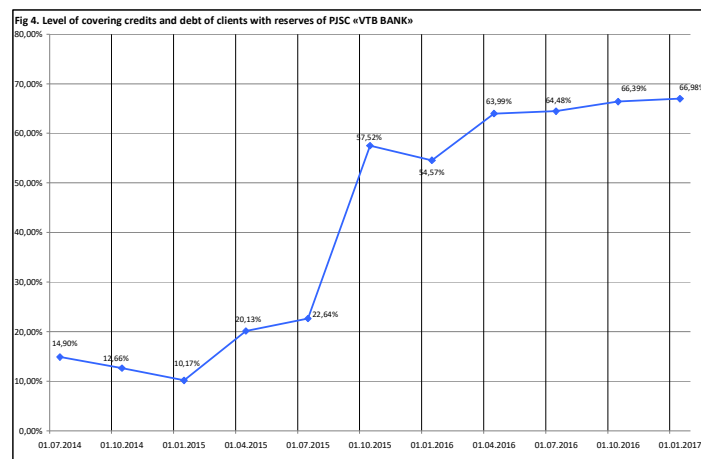
For the last 11 quarters the proportion of loans in the Bank's assets decreased from 78.12% down to 61.45%. For the 2016 the proportion of loans in assets decreased from 66.19% down to 61.45%. In 2016 the decrease in this normative slowed down and had a steady character.

The Bank's loan portfolio was still aimed at business segment. As of 01.01.2017 3.66% of the Bank's loan portfolio was represented by loans to individuals, and for the last 4 quarters this ratio had tendency towards the decrease.

For the last 11 quarters the ratio between reserves and the volume of loan portfolio grew from 14.9% up



to 66.98%. 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. Also, during the 9 months of 2016 the ratio between reserves and loans significantly slowed down its growth.



Liquidity

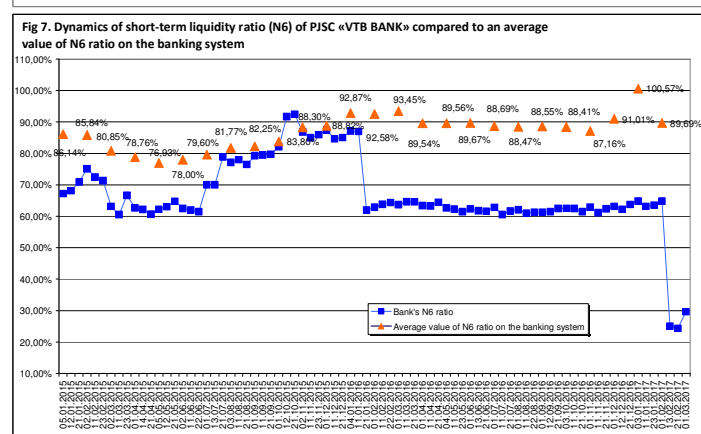
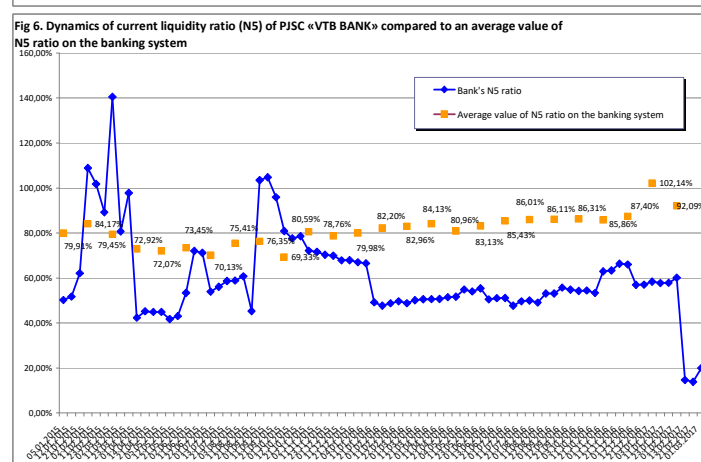
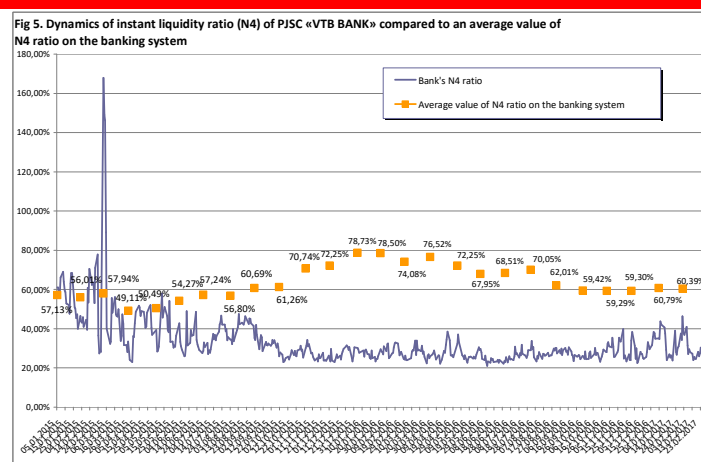
During the 12 months of 2016 and January of 2017 PJSC “VTB BANK” was well provided with liquidity. The Bank formed the reserve of instant, current and short-term liquidity ratios (N4, N5 and N6) with respect to the limit value, set by NBU. Such conclusion can be made after a comparative analysis of the dynamics of the Bank’s N4, N5 and N6 ratios. However, in the mid of February, 2017 current and short-term liquidity ratios dropped below the limit values, set by NBU.

Starting from 21.10.2015 the normative of the Bank’s instant liquidity didn’t exceed the average value of N4 ratio on the banking system of Ukraine. From 03.09.2016 till 01.03.2017 the Bank’s N4 ratio fluctuated in the range 21–46.37%. During the entire analysis period the Bank’s N4 ratio didn’t drop below 21.13% with the normative not less 20%. Providing the assessment of dynamics of this Bank’s normative, one should focus attention on the fact that the average of N4 ratio on the banking system is falling already several months.

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. However, on 13.02.2017 the Bank’s N5 ratio decreased to 13.87% that is by 26.13 p.p. lower 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. However, on 13.02.2017 the Bank’s N5 ratio decreased to 25.04% that is by 34.96 p.p. lower than the limit value, set by NBU.

As a result, the Bank’s N5 and N6 ratios insignificantly grew, but didn’t reach the limit value. The decrease in the Bank’s N5 and N6 ratios had insignificant impact on its credit rating. This impact was limited, since the Bank could (if required) use an external support on the part of VTB group.



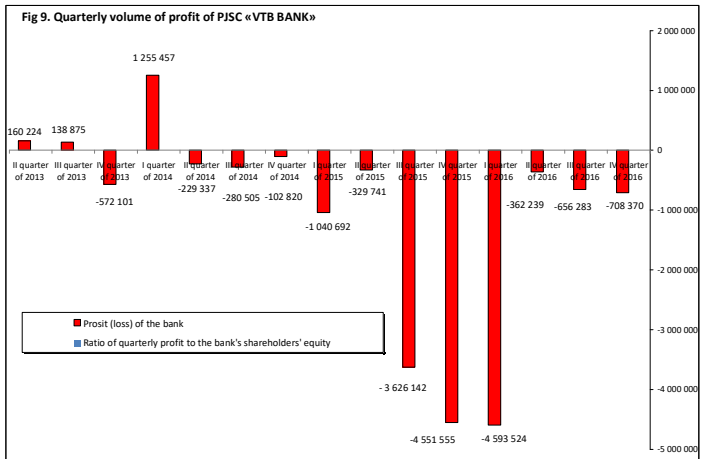
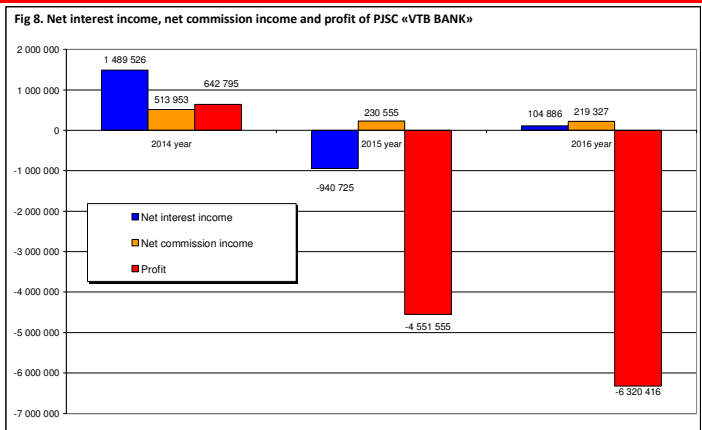
Profitability of operations

According to NBU data, PJSC “VTB BANK” finished the 2016 year with a loss of UAH 6.32 bn. The Agency reminds that the first quarter of 2016 PJSC “VTB BANK” finished with a loss of UAH 4.594 bn, and the first half – with a loss of UAH 4.956 bn. Therefore, about 80% of a loss for 2016 was formed by the Bank in the first quarter. In the further three quarters the amount of loss was stabilized.

Quarterly data of the Bank’s losses shows that after the first quarter of 2016 the volume of loss significantly reduced and in a current period doesn’t bear any threat for the Bank’s financial state.

It also should pay attention that for the 2016 the Bank’s net interest income amounted to UAH 104.886 mln against net interest income of UAH 940.725 mln for the 2015.

In the Agency’s opinion, a reduction of the Bank’s loss and a support by its shareholder significantly decrease the effect of impact of the Bank’s unprofitable activity on its financial stability and the ability to perform commitments to its clients on time.



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 on 14.04.2017 PJSC “VTB BANK” according to SFS data didn’t have any tax debt.

Generalization

As of 14.04.2017 PJSC “VTB BANK” performed its commitments to clients and lenders according to the current legislation.

In view of the performed Bank’s additional capitalization by the shareholder, PJSC “VTB BANK” was well provided with regulatory capital. In the second and third quarter of 2016 PJSC “VTB BANK” managed to stabilize negative processes, having slowed down the decrease in equity ratios and having significantly reduced the volume of quarterly loss. Current and short-term liquidity ratios of PJSC “VTB BANK” since the mid of February of 2017 were below the limit values, set by NBU; that had a restricted impact on the Bank’s rating with taking into account a probable high level of external support on the part of the parent bank. The Agency expects the recovery of the Bank’s N5 and N6 ratios in the second-third quarter of 2017.

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.