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PRESS RELEASE

Credit rating of VAB Bank is confirmed

On November, 30th, 2012, RA Expert Rating took the decision on confirmation of VAB Bank (USREOU code 19017842) credit rating according to the national scale at the level **uaAA**. The borrower with the rating **uaAA** is characterized by very high credit status in comparison with other Ukrainian borrowers. When making the decision on confirmation of the credit rating according to the national scale, the Agency was guided by key results of Bank work for 9m 2012.

Table 1

Key balance sheet indicators of VAB Bank for 9 m 2012, UAH th., %, p.p.

Indicators	01.10.2012	01.01.2012	Change	Growth rate, %
Shareholders' equity	**1 053 558**	**932 415**	**121 143**	**12,99%**
Authorized capital	1 848 619	1 248 619	600 000	48,05%
Shareholders equity/assets, %	8,26%	10,21%	-1,95 p.p.	-
Total liabilities	**11 707 277**	**8 195 909**	**3 511 368**	**42,84%**
Incl. liabilities in foreign currency	6 208 531	4 509 543	1 698 988	37,68%
Funds of banks	396 245	1 584 957	-1 188 712	-75,00%
Funds of individuals	6 152 363	4 348 734	1 803 629	41,47%
Funds of legal persons	1 630 998	1 087 414	543 584	49,99%
Total assets	**12 760 835**	**9 128 324**	**3 632 511**	**39,79%**
Liquid assets (Cash and cash equivalent + trade securities + Funds in other banks)	1 879 169	2 996 131	-1 116 962	-37,28%
Loans and debts of the clients (with account Reserves under loans impairment)	**9 259 780**	**6 433 498**	**2 826 282**	**43,93%**
Incl. loans and debts of the clients in foreign currency	2 938 775	1 566 152	1 372 623	87,64%
Reserves under loans impairment	(2 061 953)	(1 493 714)	568 239	38,04%
Reserves under loans impairment/loans and debts of clients, %	22,27%	23,22%	-0,95 p.p.	-
Securities (to sale + to redeem)	2 363	2 362	1	0,04%
Reserves under impairment of securities (to sales + to redeem)	(5)	(5)	0	0,00%
Liquid assets/liabilities, %	**16,05%**	**36,56%**	**-20,51 p.p.**	**-**

Source: data by VAB Bank, calculations by RA Expert Rating

1. VAB bank continued to show high rates of business activity escalation. During the period from 01.01.2012 to 01.10.2012 Bank assets increased by 39,79 % or by UAH 3,633 billion to UAH 12,761 billion, at that the average rate of the growth of bank system of Ukraine for the same period has constituted 6 %. High rates of assets escalation allowed VAB to Bank to rise 6 steps up in NBU ranking on assets: from the 24th as of 01.01.2012 to 18th as of 01.10.2012 in result of which VAB Bank occupied 1 place in II banking group on the volume of assets. Bank credit portfolio (with account for loan impairment provisions) as of 01.10.2012 has constituted 9,260 billion, that is on 43,93 % more than as of 01.01.2012. Thus the corporate sector was a priority direction of crediting for VAB Bank: the portfolio of credits of legal entities (including provisions) from the beginning of current year has increased by 68,31 % and as of 01.10.2012 has constituted UAH 7,638 billion, whereas the volume of credits and indebtedness of physical persons (including provisions) reduced by 14,42 % - to UAH 1,622 billion. It should be noted that VAB Bank intends to occupy lead positions on agrarian and industrial complex loans market in medium-term prospective. According to the top management of the Bank, the share of agrarian and industrial complex crediting in Bank credit portfolio by the end of 2012 will constitute about 30 %, and following the results of 2013 will double - to 60 %.

2. During the period from 01.01.2012 to 01.10.2012 the resource base of VAB Bank has considerably increased: the liabilities have grown by 42,84 % or on UAH 3,511 billion - to UAH 11,707 billion. The bank successfully attracted funds of physical and legal persons. The highest growth indicator was shown by the funds of legal entities which portfolio from the beginning of 2012 increased by 49,99 % or by UAH 543,6 million, and as of 01.10.2012 has constituted UAH 1,631 billion. The portfolio of the funds of natural persons for the same period has grown on 41,47 % or by UAH 1,804 billion, having reached UAH 6,152 billion. Thus the total volume of the funds involved by the banks of Ukraine from economic entities for the specified period reduced to 2,73 %, and the funds of natural persons increased by 14,02 %. At the same time, the funds attracted by VAB Bank on the interbank market reduced by 75% or by UAH 1,189 billion - to UAH 396,2 million. As a result, as of 01.10.2012 the funds of individuals still made up major share of the liabilities of VAB Bank - 52,55 % (as of 01.01.2012 - 53,06 %), the share of the funds of legal entities constituted 13,93 % (as of 01.01.2012 - 13,27 %), and the share of funds of other banks reduced by 15,96 p.p.: from 19,34 % as of 01.01.2012 to 3,38 % as of 01.10.2012.

3. As of 01.10.2012 VAB Bank strictly adhered to the requirements of the regulator to values of normative capital (H1, H2 and H3). Bank's authorized capital (H1) as of 01.10.2012 has constituted UAH 1,219 billion (threshold indicator of not less than UAH 120 million). Increase of capital utilization efficiency by the Bank has led to some decrease in H2 and H3 norms. So, for the last 12 months (during the period from 03.10.2011 to 01.10.2012) the norm of adequacy of the regulatory capital (H2) decreased by 5,21 p.p.- to 10,81 % (at required value of not less than 10 %), and the norm of regulatory capital/total assets ratio (H3) as of 01.10.2012 has constituted 9,77 % (at the standard indicator of not less than 9 %) that is by 3,68 p.p. less, than as of 03.10.2011. Thus by the end of the current year the Agency expects increase of the norms of capital, which should happen after completion of registration of authorized capital increase of the Bank. Let us remind that in June, 2012, the general meeting of VAB Bank Shareholders has confirmed the results of the next issue of stocks for the amount of UAH 500 million that will result in increase of authorized capital of the Bank from UAH 1,849 billion to UAH 2,349 billion.

Table 2

Key normative values of VAB Bank following the results of 9 months 2012

th. UAH, %, p.p.

Normative value	NBU established normative value	01.10.2012		03.10.2011		Change UAH th., p.p.
		Bank value	Average in the system	Bank value	Average in the system	
Regulatory capital **(H1)**, UAH th.	**Not less than UAH 120 000 th.**	1 219 248	-	1 353 616	-	-134 368
Capital adequacy ratio **(H2)**, %	**Not less 10%**	10,81%	18,24%	16,02%	18,87%	-5,21 p.p.
Regulatory capital/total assets **(H3)**, %	**Not less 9%**	9,77%	14,86%	13,45%	14,96%	-3,68 p.p.
Instant liquidity **(H4)**, %	**Not less 20%**	66,31%	57,88%	59,19%	52,68%	7,12 p.p.
Current liquidity **(H5)**, %	**Not less 40%**	40,71%	78,39%	64,65%	67,46%	-23,94 p.p.
Short term liquidity **(H6)**, %	**Not less 60%**	88,29%	90,41%	72,68%	91,71%	15,61 p.p.
Large credit risks norm **(H8)**, %	**Not more than 800%**	306,81%	169,95%	133,86%	160,31%	172,95 p.p.
Norm of maximal amount of loans, warranties and sureties issued to insiders **(H10)**, %	**Not more than 30%**	1,65%	2,54%	3,60%	2,34%	-1,95 p.p.

Source: data by VAB Bank, NBU, calculations by RA Expert Rating

4. As of 01.10.2012 VAB the Bank strictly observed NBU requirements to the values of liquidity norms (H4, H5 and H6), thus H4 and H6 redundantly exceeded the minimum thresholds established by the regulator. So, the norm of instant bank liquidity (H4), at the required value of 'not less than 20 %', as of 01.10.2012 was at the level of 66,31 % that by 8,43 p.p. exceeded the average indicator of the given norm in the bank system of Ukraine. For the last 12 months the value of short-term bank liquidity norm (H6) increased by 15,61 p.p.: from 72,68 % as of 03.10.2011 to 88,29 % as of 01.10.2012 (at normative value of not less than 60 %). The current liquidity norm (H5) as of 01.10.2012 constituted 40,71 % (at required value of not less than 40 %).

5. As of 01.10.2012 the indicator of provisions under loan impairment/loans and debts of clients ratio has constituted 22,27 %. According to the financial statement of VAB Bank for Q3 2012, 64,68 % of credit operations of the Bank have been classified as 'standard' (UAH 3,500 billion) and 'controllable' (UAH 2,508 billion) that proves to that an acceptable share of credit operations of the Bank had rather high quality.

Table 3

Separate indicators of incomes and expenses of VAB Bank in 9 m 2011-2012, UAH th., %, p.p.

Indicators	9m 2012	9m 2011	Change	Growth rate , %
Net interest income	102 503	94 698	7 805	8,24%
Net commission income	191 211	129 407	61 804	47,76%
Net commission income / Net interest income	186,54%	136,65%	49,89 p.p.	-
Results from securities trading in Bank trade portfolio	1 343	1 432	-89	-6,22%
Results from foreign exchange operations	(61 376)	12 410	-	-
Provisioning under loan and funds in other banks impairment	(563 557)	(223 090)	340 467	152,61%
Administrative and other operative costs	(303 746)	(410 847)	-107 101	-26,07%
Net profit (loss)	**(378 857)**	**(301 872)**	**76 985**	**25,50%**
ROE, %	(35,96%)	(32,38%)	3,58 p.p.	-

Source: data by VAB Bank, calculations by RA Expert Rating

6. Following the results of 9 months 2012 the expenses of VAB exceeded the incomes by UAH 378,9 million, that is on 25,5% higher than following the results of the same period of 2011. The financial result of the Bank still was influenced by significant deductions of the Bank for provisions under credits and funds in other banks impairment which volume for the last 12 months increased by 152,61 % or by UAH 340,5 million - to UAH 563,6 million. Thus VAB Bank shows high indicators of main items of income. So, following the results of first three quarters of the current year Bank net interest income constituted UAH 102,5 million, that is on 8,24 % more than for the same period of last year. Net commission income for the last 12 months has increased by 47,76 % or by UAH 61,8 million., having reached UAH 191,2 million. Net commission income/net interest income ratio has grown on 49,89 p.p. and following the results of 9 months 2012 has reached 186,54 % that was positively influencing the level of diversification of key sources of income of VAB Bank. Also the Bank continued to cut down the expenses, that is particularly evidenced by essential reduction of the volume of administrative and other operational costs of the Bank (by 26,07 % or 107,1 UAH million), observed following the results of 9 months 2012 in comparison with the same period of 2011. As a result, following Q3 2012 the Bank has shown profit in the amount of UAH 5,133 million.

Thus, the basic indicators of VAB Bank activity following the results of 9 months 2012 continued to show high rates of banking entity business activity escalation. Dynamics of growth and assets, including credit portfolio, and liabilities, of VAB Bank, did considerably exceed average market trend. Thus the Bank supports the norms of capital and liquidity at acceptable level. High growth rates of key components of Bank revenue base deserve a positive estimation that against continuing reduction of administrative and other operational expenses already positively influenced Q3 results.

Analytical service of RA Expert Rating