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31.08.2012

PRESS RELEASE

Credit rating of VAB Bank is confirmed at the level uaAA

On August, 31st, 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 characterised 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 in H1 2012.

Table 1

Key balance sheet indicators of VAB Bank for H1 2012, UAH th., %, p.p.

Indicators	01.07.2012	01.01.2012	Change	Growth rate, %
Shareholders' capital	**1 048 425**	**932 415**	**116 010**	**12,44%**
Authorized capital	1 848 619	1 248 619	600 000	48,05%
Shareholders capital/assets, %	7,92%	10,21%	-2,30 p.p.	-
Total liabilities	**12 195 848**	**8 195 909**	**3 999 939**	**48,80%**
Incl. liabilities in foreign currency	6 462 985	4 509 543	1 953 442	43,32%
Funds of banks	634 131	1 584 957	-950 826	-59,99%
Funds of individuals	5 831 290	4 348 734	1 482 556	34,09%
Funds of legal persons	2 569 728	1 087 414	1 482 314	136,32%
Total assets	**13 244 273**	**9 128 324**	**4 115 949**	**45,09%**
Liquid assets (Cash and cash equivalent + trade securities + Funds in other banks)	3 103 025	2 996 131	106 894	3,57%
Loans and debts of the clients	**6 743 941**	**4 939 784**	**1 804 157**	**36,52%**
Incl. loans and debts of the clients in foreign currency	3 098 035	1 566 152	1 531 883	97,81%
Reserves under loans impairment	(1 963 665)	(1 493 714)	469 951	31,46%
Reserves under loans impairment/loans and debts of clients, %	29,12%	30,24%	-1,12 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, %	**25,44%**	**36,56%**	**-11,11 p.p.**	**-**

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

1. In H1 2012 VAB Bank has continued to increase intensively volumes of active and passive operations. For 6 months of the current year Bank assets increased in 1,5 times (by 45,09 % or on UAH 4,116 billion) and as of 01.07.2012 have reached the amount of UAH 13,2 billion, whereas average rate of bank assets growth in the system of Ukraine for the same period has constituted 4,75 %. The indicator of credit portfolio growth proves to the activity of Bank in the credit market: during the period from 01.01.2012 to 01.07.2012 the volume of VAB Bank clients credits and debts grew on 36,52 % or by UAH 1,8 billion to UAH 6,744 billion, while the cumulative credit portfolio of the Ukrainian banks showed the tendency to decrease of 'live' credits. The high rates of assets escalation shown by the Bank became a result of powerful replenishment of its resource base both at the expense of internal sources, by additional injections of funds into capital, and by means of attraction of resources from external sources. So, during the period from 01.01.2012 to 01.07.2012 Bank authorized capital stock increased by UAH 600 million, or on 48,05 % to UAH 1,849 billion, and Bank liabilities grew on UAH 3,999 billion or on 48,80 % to 12,196 billion.

2. In H1 2012 the activity of the Bank in the market of retail deposits has successfully expanded to corporate sector. So, during the period from 01.01.2012 to 01.07.2012 the volume of the funds attracted by the Bank from individuals, grew on UAH 1,483 billion or on 34,09 % - to UAH 5,831 billion, and funds of legal persons increased in 2,36 times (by 136,32 % or on UAH 1,482 billion) and made up UAH 2,570 billion. Thus the volume of funds attracted in other banks decreased

on 59,99 % or on UAH 950,8 million. Thus, as of 01.07.2012 the basic components of Bank liabilities were distributed in the following way: funds of individuals - 47,81 %, funds of legal entities - 21,07 %, funds of banks - 5,2 %. As a whole the Agency positively estimates the developed level of Bank resource base diversification, also because of decreased dependence on the interbank market.

3. As of 01.07.2012 VAB Bank strictly follows the requirements established by NBU as regards capital normative values (H1, H2 and H3). Essential replenishment of authorized capital stock (by UAH 600 million) in H1 2012 has led to growth of shareholders' and regulatory capitals (on 12,44 % and 37,72 % accordingly) that has allowed the Bank to adhere to normative values at due level. Thus, as of 01.07.2012 the regulatory capital of VAB Bank (H1) made up UAH 1,198 billion, the regulatory capital adequacy norm (H2) was 11,36 % (at required value - not less than 10 %), the ratio regulatory capital/ cumulative assets (H3) was at the level of 9,08 % (at standard norm - not less than 9 %). Thus in the near future the Agency expects increase of Bank capital adequacy norms in connection with next increase of VAB Bank authorized capital. Let us remind that general meeting of Bank shareholders which took place on June, 13th, 2012, has confirmed the results of the next issue of shares for the amount of UAH 500 million, that will lead to increase of authorized capital stock of the Bank to UAH 2,349 billion. Besides, the Bank does not exclude the possibility of placing one more additional issue of shares for the amount of UAH 500-600 million before the end of 2012. Thus, the shareholders of the Bank have once again shown the readiness to provide financial support to the organization, and also their interest in the dynamical development of the Bank.

Table 2

Key normative values of VAB Bank in H1 2012

Normative value	NBU established normative value	01.07.2012		01.07.2011		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.**	1 197 742	-	869 703	-	328 039
Capital adequacy ratio **(H2)**, %	**Not less 10%**	11,36%	17,98%	11,52%	19,20%	-0,16 p.p.
Regulatory capital/total assets **(H3)**, %	**Not less 9%**	9,08%	14,58%	9,65%	14,65%	-0,57 p.p.
Instant liquidity **(H4)**, %	**Not less 20%**	32,51%	52,75%	39,95%	54,30%	-7,44 p.p.
Current liquidity **(H5)**, %	**Not less 40%**	58,10%	70,75%	51,20%	73,02%	6,90 p.p.
Short term liquidity **(H6)**, %	**Not less 60%**	86,49%	94,46%	65,64%	89,34%	20,85 p.p.
Large credit risks norm **(H8)**, %	**Not more than 800%**	356,87%	178,68%	296,12%	148,37%	60,75 p.p.
Norm of maximal amount of loans, warranties and sureties issued to insiders **(H10)**, %	**Not more than 30%**	2,10%	2,99%	3,37%	2,36%	-1,27 p.p.

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

4. As of 01.07.2012 the Bank redundantly adhered to the requirements established by the regulator for liquidity norms. The norm of instant liquidity (H4) was at the level of 32,51 % (at limit value - not less than 20 %). As of 01.07.2012 in comparison with 01.01.2012 the values of current and short-term bank liquidity have grown. So, the current liquidity norm (H5) was 58,10 % (at required value - not less than 40 %) that is by 6,90 p.p. more than as of 01.01.2012. And the norm of short-term liquidity (H6) increased by 20,85 p.p.: from 65,64 % as of 01.01.2012 to 86,49 % as of 01.07.2012 (at standard value - not less than 60 %).

5. In H1 2012 VAB Bank continued to actively generate reserves under possible losses on credit operations. During the period from 01.01.2012 to 01.07.2012 the volume of reserves under loans impairment increased by 31,46 % or by UAH 470 million, having constituted UAH 1,964 billion. As of 01.07.2012 the reserves generated by the Bank covered 29,12 % of its credit portfolio. Thus, according to Bank Q2 2012 financial accounts, UAH 1,194 billion of client debts have been classified as 'doubtful' and 'hopeless' credit operations, which amount is redundantly covered by Bank reserves. At the same time the share of credits and debts of clients in Bank assets as of 01.07.2012 constituted 50,92 %, liquid assets made up 23,43 % of the total amount of assets. Thus, the developed structure of assets as a whole reduces pressures of credit portfolio risks on the credit risk of the Bank and the quality of its assets. Also the Bank performs a purposeful work on

improvement of the quality of assets, both by realization of measures aimed to return of problem indebtedness, and by diversification of investment areas, one of which is investment of means in reliable tools, in particular, in the state securities. So, from the beginning of the year the Bank invested USD 150 mln. in the bonds of domestic state loan (BDSL) of the Ministry of Finance of Ukraine, nominated in foreign exchange. Besides that, the Bank stated an intention to lower relative weight of negatively classified credits from 14 % to 10 %.

Table 3

Separate indicators of incomes and expenses of VAB Bank in H1 2011-2012, UAH th., %, p.p.

Indicators	H1 2012	H1 2011	Change	Growth rate , %
Net interest income	45 411	70 207	-24 796	-35,32%
Net commission income	129 925	71 636	58 289	81,37%
Net commission income / Net interest income	286,11%	102,04%	184,07 p.p.	-
Results from securities trading in Bank trade portfolio	22 147	4 902	17 245	351,80%
Results from foreign exchange operations	(39 566)	6 086	-	-
Provisioning under loan and funds in other banks impairment	(470 854)	(124 246)	346 608	278,97%
Administrative and other operative costs	(198 621)	(257 113)	-58 492	-22,75%
Net profit (loss)	**(383 990)**	**(158 278)**	**-**	**-**
ROE, %	(36,63%)	(16,98%)	-	-

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

6. Following the results of H1 2012 the Bank has shown losses at the amount of UAH 383,9 million, that is on 142,6 % more than following the results of the similar period of 2011. Bank losses resulted from large deductions for loan impairment provisions. At the same time there are all preconditions for the Bank to return to profitable activity already in the near future. In particular, the Bank has shown good growth of one of the basic income items - the net commission income which volume following the results of H1 2012 has reached UAH 129,9 million, that is on 81,37 % or on UAH 58,3 million more than following the results of H1 2011. Also the income from operations with securities in the trading portfolio of Bank has increased in 4,5 times. Besides, the Bank works on reducing of administrative and other operational costs which volume following the results of H1 2012 in comparison with the same period of 2011 decreased by 22,75 % or on UAH 58,5 million. Considerable reduction of operational costs became result of realization by the Bank of regional network optimization program.

Thus, in H1 2012 VAB Bank continued to increase intensively both assets and liabilities which growth rates have essentially exceeded the average market indicators. Also the shareholders of the Bank have provided to increase of its authorized capital stock that has allowed the Bank to replenish considerably solvency limit and to continue working on improvement of assets quality. Such strategy of development will positively influence profitableness of Bank operations in the future. High credit rating of VAB Bank is also conditioned by high level of external support which the shareholders do regularly and demonstrably render to the Bank.

Analytical service of RA Expert Rating