

Rating action: Update of a long-term credit rating according to the national scale
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The issuer: PJSC «ALFA-BANK»
 USREOU code of the issuer: 23494714
 Web-site of the issuer: www.alfabank.ua



Long-term credit rating of PJSC «ALFA-BANK» is affirmed

July 4, 2018 at the meeting of the Rating committee of RA «Expert-Rating» it was decided to affirm the long-term national Ukrainian scale rating of PJSC «ALFA-BANK» (23494714) (The Bank) at the level uaAAA. Bank or separate bond instrument with rating uaAAA is characterized by the highest solvency compared to other Ukrainian borrowers or bond instruments. At the same time, at the meeting of the Rating committee it was decided to affirm a long-term credit rating to the bonds of the Bank that are in circulation at the level uaAAA. Making this decision, the Agency was guided by the results of the Bank's activity for the I quarter of 2018, as well as by the conclusions drawn from the analysis of financial and statistical statements of the Bank for January-May of 2018.

Equity and capital adequacy

Throughout the 12 months of 2017 and January-May of 2018, the Bank's regulatory capital ratio (N1) fluctuated in the range UAH 2.157-4.944 bn. The Bank's N1 economic standard demonstrated multidirectional dynamics with brightly expressed upward trends from 10.10.2017 to 01.06.2018.. The Bank's N1 indicator as of 01.06.2018 amounted to UAH 4.772 bn that significantly exceeded the limit value of N1 normative standard set by NBU at the level of UAH 200 mln.

In 2017 the normative ratio of the regulatory capital adequacy of PJSC «ALFA-BANK» was slightly lower than the limit value of N2 ratio, set by the NBU Resolution № 368 from 28.08.2001 (hereinafter – the Resolution №368; $N2 > 10\%$). At the same time, the normative ratio N2 remained within the limit values, set by the NBU Resolution № 129 from 24.02.2015 “On some issues of the banks’ activities” (hereinafter – the Resolution №129). Since the beginning of 2018 the normative ratio of the regulatory capital adequacy demonstrated upward trends and from 02.01.2018 exceeded the limit level of 10% on a regular basis. For the first 5 months of 2018, the Bank has increased the reserve of N2 ratio normative and on 01.06.2018 the Bank's N2 ratio amounted to 12,13%.

Therefore, in the Agency's opinion, at the beginning of June, 2018 the Bank was well provided with regulatory capital.

Fig. 1. Dynamics of the regulatory capital (N1) of PJSC «ALFA-BANK» compared to the total value of N1 on the banking system

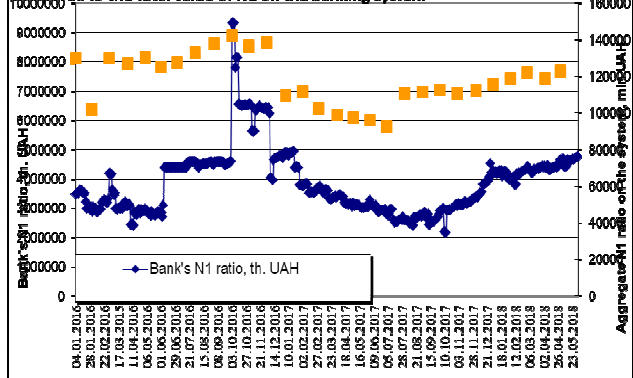
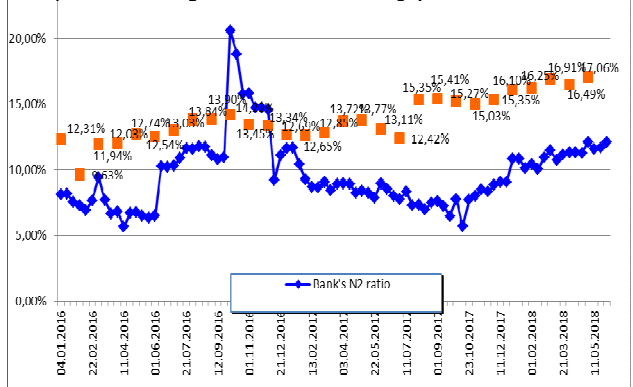


Fig. 2. Dynamics of the regulatory capital adequacy (N2) of PJSC «ALFA-BANK» compared to the average value of N2 on the banking system



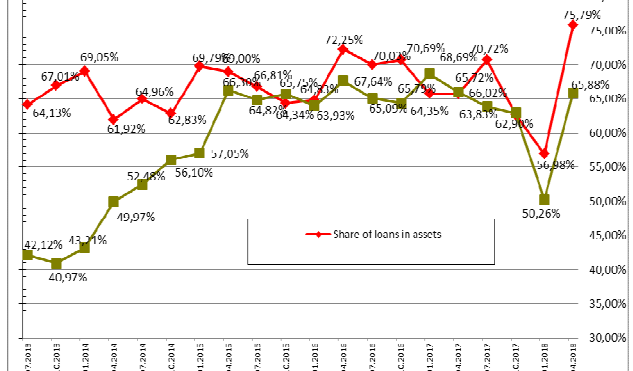
Asset structure and quality

For the last 20 quarters on the loan portfolio of the Bank there were the following characteristics:

- The share of loans in the Bank's assets (in hryvnia equivalent) fluctuated in the range 56.48-72.25%;
- The share of currency loans (in hryvnia equivalent) in the Bank's loan portfolio fluctuated in the range 40.97%-68.69%.

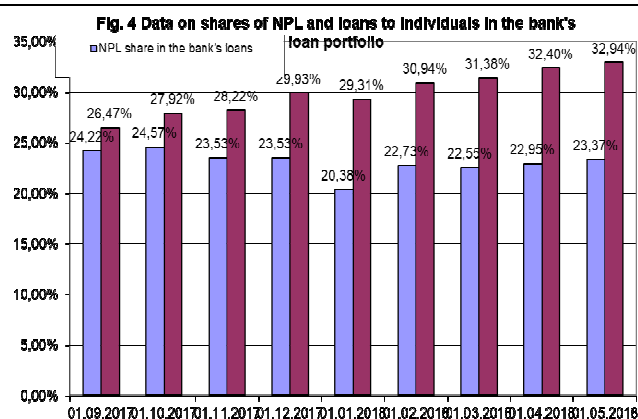
Besides, one should note that in the period from 01.09.2017 to 01.05.2018 the share of loans to individuals in the Bank's loans fluctuated in the range 26.47%-32.94%. At the same period the share of NPL, calculated by the Agency as the sum of the fifth class for loans to individuals and the tenth class for loans to legal

Fig. 3. Individual characteristics of the loan portfolio of PJSC «ALFA-BANK»



entities, fluctuated in the range 20.38%-24.57%. (Data on the graphic is calculated with reserves)

As of 01.05.2018 the share of NPL in the Bank's loans amounted to 23.37%. This indicator enables to make conclusion about a very good quality of the loan portfolio of PJSC «ALFA-BANK». The average value on the banking system the share of NPL on 01.05.2018 according to NBU data amounted to 56.18%. In the Agency's opinion, the share of the Bank's NPL in loans was considerably lower than the average level of the market.



Liquidity

Throughout the 2017 and the first 5 months of 2018 PJSC «ALFA-BANK» had a good liquidity cushion with a noticeable reserve to the ratios set by NBU, as determined by the analysis of the Bank's liquidity ratios.

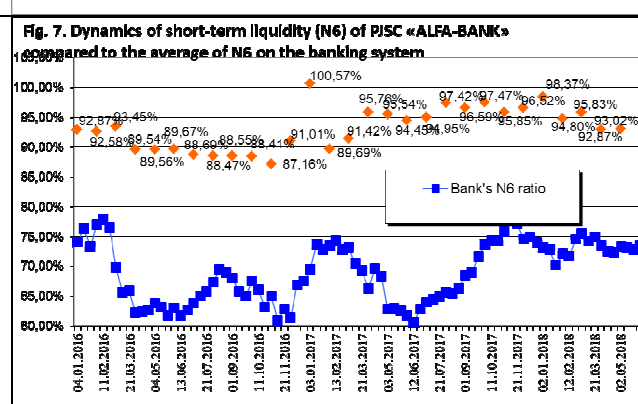
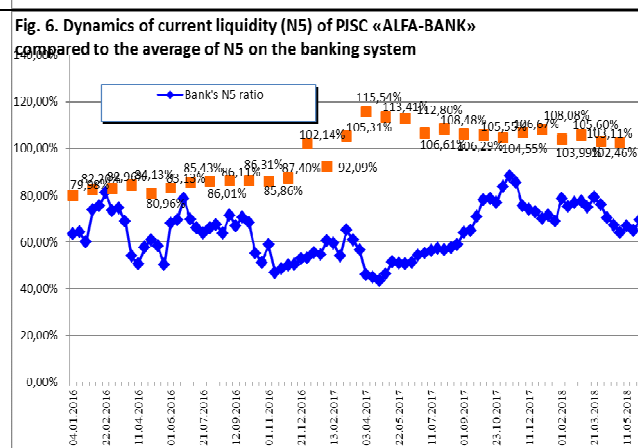
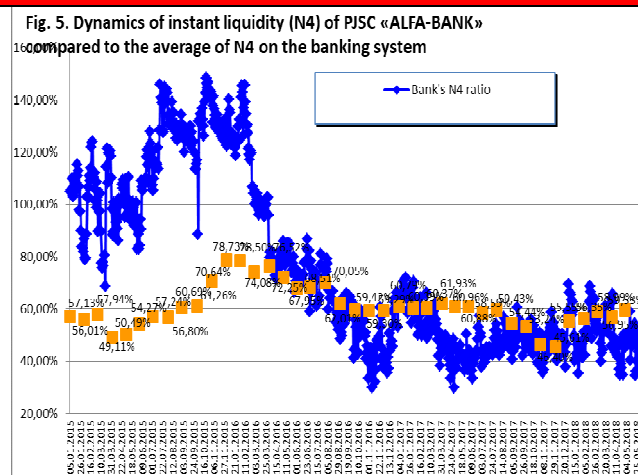
Thus, the Bank's instant liquidity normative standard since the beginning of 2017 and up to May of 2018 was periodically exceeding the average value of the Bank's N4 ratio on the banking system. Throughout the entire analysis period the Bank's N4 ratio was significantly higher than the minimal accepted value, set by NBU (20%). As of 01.06.2018 the Bank's N4 ratio amounted to 49.78% that was by 19.78 p.p. higher than the limit value of N4 ratio, set by NBU.

Throughout the 12 months of 2017, as well as January-May of 2018 the current liquidity normative standard (N5) of PJSC «ALFA-BANK» all the time was higher than the limit value, set by NBU, but lower than the average on the banking system. Since May, 2017 the Bank created a significant reserve of N5 ratio with respect to the limit value, set by NBU. On 01.06.2018 the Bank's N5 ratio amounted to 69.30% that by 29.3 p.p. exceeded the limit value, set by NBU.

Throughout the 12 months of 2017, as well as January-May of 2018 the short-term liquidity normative standard (N6) of PJSC «ALFA-BANK» all the time was higher than the limit value, set by NBU, but lower than the average on the banking system. As of 01.06.2018, the Bank's N6 ratio amounted to 73.42% that was by 13.42 p.p. higher than the limit value of NBU set for this normative standard.

Assessing the dynamics of the Bank's liquidity ratios, it should be mandatory taken into consideration that in 2017 and throughout the first 5 months of 2018, the Bank maintained a noticeable reserve on N4, N5 and N6 ratios with respect to the limit values, set by NBU, and this reserve on 01.06.2018 was not lower than at the beginning of year.

Due to significant liquidity, generated by state banks, the averages of liquidity ratios on the banking system stopped to be indicative and to indicate the relative degree of banks' provision with liquidity. On the contrary, with favorable macroeconomic conditions the Agency gives a positive assessment to the processes of liquidity reserve optimization and increase in the Bank's loan activity that will positively affect its interest income in the future.



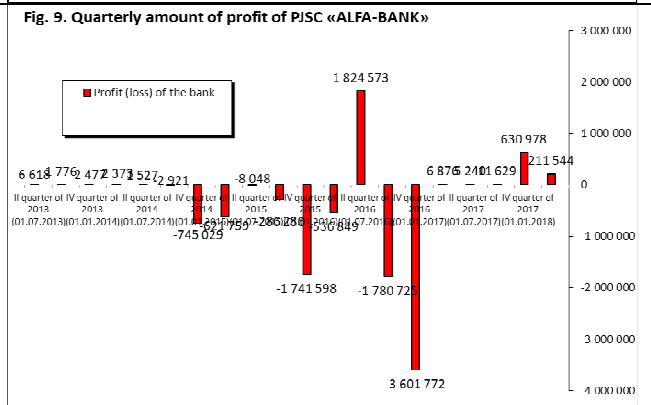
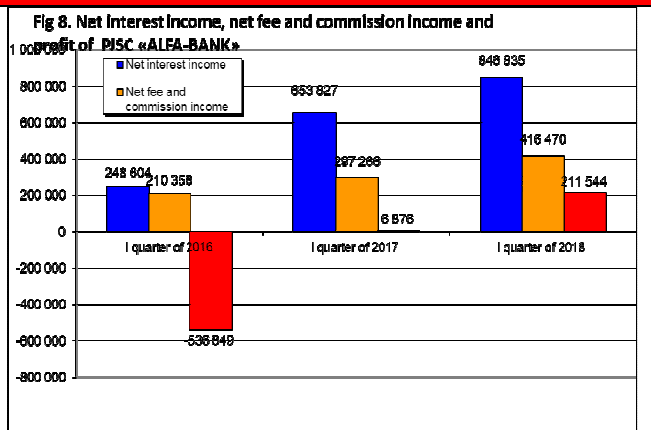
Profitability of operations

The Agency reminds that according to the results of 2017 the Bank's net profit amounted to UAH 654.723 mln. PJSC «ALFA-BANK» finished the first quarter of 2017 with net profit of UAH 6.876 mln, and the first quarter of 2018 with profit of UAH 211.544 mln.

A significant increase in the Bank's profitability was accompanied by an increase in net interest and net fee and commission income. The five consecutive quarters remain profitable for PJSC «ALFA-BANK». PJSC «ALFA-BANK» confidently demonstrates the ability to increase key items of income.

The Agency still appreciates the Bank's return to the practice of profitable activity, already on a systematic basis.

The Agency expects that in future the Bank's activity will remain profitable. It is contributed by although weak, but economic growth, as well as by the market oriented business model of the Bank, which judging by the good quality of its loan portfolio, showed itself well in the Ukrainian crisis conditions.



Other factors

Verification on public databases of the State Fiscal Service revealed that PJSC «ALFA-BANK» was registered in the authorities of the SFS. At the moment of rating update, the Bank as a taxpayer didn't have a tax debt.

In May, 2018 PJSC «ALFA-BANK» was included into the 34 banks, authorized by the Ministry of Finance of Ukraine to pay pensions, cash help and salary to the employees of budget organizations.

Summary

At the moment of rating update PJSC «ALFA-BANK» fulfilled its commitments to customers and creditors according to current legislation and wasn't referred by NBU to the category of problem banks.

PJSC «ALFA-BANK» finished the first quarter of 2018 with net profit of UAH 211.544 mln, throughout the five consecutive quarters the Bank's activity remained profitable. As well, in the first quarter of 2018 the Bank showed a noticeable increase in net interest and net and fee commission income.

In the Agency's opinion, PJSC «ALFA-BANK» had a good liquidity cushion, at the same time the level of the Bank's provision with liquidity was increased in January-May of 2018. The Bank on a constant basis a noticeable reserve of all the liquidity ratios with respect to the limit value, set by NBU. As well, since the beginning of 2018 PJSC «ALFA-BANK» demonstrated progress in creating the cushion of regulatory capital adequacy. As of 01.06.2018 the Bank's N2 ratio amounted to 12,13%.

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