

The rating report

(version for publication)



Credit rating of the Bank according to Ukrainian national scale:	uaAA+
Interpretation of rating according to the national scale:	A bank or a debt instrument with rating uaAA+ is characterized by a very high solvency as compared with other Ukrainian borrowers or debt instruments
Rating assignment date:	February 19, 2014
Rating review:	Quarterly

PUBLIC JOINT-STOCK COMPANY «ALFA-BANK» (full name of the bank)

PJSC «ALFA-BANK» (short name of the bank)

4/6, Desyatinnaya str., Kiev, 01001, Ukraine
(bank address)

Incorporation date	24.03.1993
USREOU code	23494714
Auditors	Auditing firm "RSM APIK", LLC
Chairman of Board	Viktoriya Mikhalyo
Contact person	Olga Kharina, Head of Financial Institutions
Phone /Fax	+38 (044) 499-10-41 / +38 (044) 499-10-35
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Alfa-Bank of Ukraine was registered by the National Bank of Ukraine on March 24, 1993 under the registered number 158 and its current banking license was reissued on October 5, 2011. The Bank has right to provide different types of banking services in terms of current legislation and on the basis of licenses issued by the National Bank of Ukraine.

The Bank also received licenses of the National Securities and Stock Market Commission to conduct professional activity on the stock market, including depository activity of the depository institution, fiduciary activities of collective investment institutions, activity on securities trading: brokerage, underwriting and dealer activity.

*The present report is the rating research expressing opinion of RA Expert-Rating analysts.
The report is a substantiation of the rating assigned, which is also an opinion of RA Expert-Rating analysts.
See the last page of the report for use limitations*

1. General trends in development

PUBLIC JOINT-STOCK COMPANY «ALFA-BANK» (hereinafter – «Alfa-Bank») was founded on November 18, 1992 as a limited liability company in accordance with the Ukrainian legislation. The Bank was registered by the National Bank of Ukraine on March 24, 1993 and started its activity under the name Vito Commercial Bank of Consumer Cooperation LLC with the headquarters in Kiev. In 1995, the Bank was reorganized into Kyivinvestbank Commercial Bank LLC, which, in its turn, in 1997 was reorganized into Kyiv Investment Bank Joint Stock Commercial Bank. After the change of shareholders in January 2001 the Bank changed its name to “Alfa-Bank” and has been operating under that name till this day.

Alfa-Bank successfully overcame the crises of 1998-1999 and 2008-2009, having formed the regional network, which fully covers the territory of Ukraine and continuing to actively develop the electronic banking. In 2012, Alfa-Bank was an active participant of the M&A market, having bought a number of other banks' loan portfolios, including: the part of the retail loan portfolio of Delta Bank (the right to claim for more than UAH 650 mln), the retail loan portfolio of Societe Generale Group represented in Ukraine by the financial company ProstoFinance and Profinbank (the right to claim for more than UAH 700 mln) and the part of the retail loan portfolio of Prominvestbank (the right to claim for about UAH 1.5 bn).

In the last few years, the Bank actively financed the corporate borrowers:

- In December 2012, Alfa-Bank (Russia) and Alfa-Bank provided a syndicated loan to the company “Kernel” – the largest diversified integrated holding in the agricultural sector of Ukraine. The credit line with limit of USD 170 mln, including USD 100 mln provided for five years, is aimed at financing the investment as well as the current activities of the holding company.
- In February 2013, Alfa-Bank concluded a contract on opening a revolving credit line of USD 100 mln with one of the largest producers of titanium dioxide in Eastern Europe – the enterprise “Crimean Titan”, which is part of DF Group. The loan facility matures in 3 years.
- In August 2013, Alfa-Bank set the credit limit for the company “Unison Group” in the amount of USD 30 mln for 5 years. Borrowed funds are aimed at the development of real estate projects in Donetsk: the reconstruction of the shopping mall “Donetsk TsUM” and the construction of the logistics center “AntAlex”.
- In September 2013, Alfa-Bank provided the loan of USD 15 mln to PJSC “Energomashspecstal”. The loan facility matures in 3 years. The plant uses borrowed funds to replenish working capital and refinance credit indebtedness in other banks.
- In October 2013, Alfa-Bank provided the loan of USD 50 mln to “UkrGasvydobuvannya” – the vertically integrated company with a full production cycle: from prospecting and exploration of oil and gas fields, their development and production to transportation, hydrocarbon processing and sale of petroleum products.
- In December 2013, Alfa-Bank signed loan agreements with Ukreximbank within the projects of the International Bank of Reconstruction and Development for a total amount of USD 40 mln. The agreement was signed in the framework of Additional Funding for the Second Export Development Project (AF EDP-2) and the Energy Efficiency Project (EEP) of IBRD. The amount of financing for the project AF EDP-2 is USD 25 mln, for the project EEP – USD 15 mln. Both loan agreements are concluded for a period of 5 years. Funds are target and utilized to finance development of the export activity and improvement of the energy efficiency of the Ukraine's private sector enterprises.

In 2013, Alfa-Bank conducted a number of transactions to raise financing at the Ukrainian and international markets. In September 2013, Alfa-Bank completed placement of UAH-denominated bonds of Series K. The issue volume amounts to UAH 300 mln (equivalent of USD 37.5 mln); the bonds mature in 5 years. The coupon rate for the first year is set at 18% per annum; the coupon is paid twice a year. The bonds are puttable in a year.

In October of 2013, Alfa-Bank raised a syndicated loan of USD 72.5 mln for a period of 1 year. Bookrunner of the transaction was OJSC “ALFA-BANK” (Russia), creditors – OJSC “ALFA-BANK” (Russia), HSBC Bank Plc, CJSC CB “NOVIKOMBANK”, Amsterdam Trade Bank N.V., East-West United Bank S.A., OJSC “SMP Bank”, OJSC “Promsvyazbank”, MDM Bank (OJSC), M2M Private Bank (OJSC). Amount of the transaction was oversubscribed more than twice. Funds are utilized for trade finance and general corporate purposes.

Therefore, Alfa-Bank is a universal commercial bank, which is part of the international consortium Alfa Group. The Bank holds the leading positions in key segments of the Ukraine's banking market. According to the ranking of the National Bank of Ukraine, Alfa-Bank is included in the group of the largest banks in terms of assets.

2. Market share and business activity

According to the NBU data, Alfa-Bank's total assets grew by 11.36% in the first 9 months of 2013. As at 01.10.2013, the Alfa-Bank's estimated share in terms of assets and liabilities accounted to about 2.31% of the Ukraine's banking system. During the NBU's ranking data analysis, presence of the banks with non-working assets and problem liabilities should be taken into account. Thus, in practice the Bank's market share in the banking system was higher and, according to the Agency's estimations, accounted to about 3% (table 1).

Table 1
Alfa-Bank's assets and liabilities vs. Ukraine's banking system indicators

(UAH mln, %)

Indicators	01.10.2013	01.01.2013	01.01.2012	01.01.2011	01.01.2010	Change	Growth rate, %
Bank's Assets	28496.249	25588.815	27964.574	26594.816	28693.564	-197.315	-0.69%
Assets of the banking system	1232004.212	1127179.379	1054272.287	942083.994	873449.574	358554.638	41.05%
Bank's share in assets of the system	2.31%	2.27%	2.65%	2.82%	3.29%	-0.97 p.p.	-
Bank's Liabilities	24312.740	21488.933	23889.504	23473.623	25815.571	-1502.831	-5.82%
Liabilities of the banking system	1053226.265	956983.118	898785.345	804358.877	753241.949	299984.316	39.83%
Bank's share in liabilities of the system	2.31%	2.25%	2.66%	2.92%	3.43%	-1.12 p.p.	-
Number in the NBU's ranking in terms of assets	12	13	10	9	10	-	-

Source: Data of the NBU, estimations of RA «Expert-Rating»

Note: analyzing data in table 1, it should be taken into account the changes in methodology of accounting and public statements, which were undertaken by the NBU in the period 2010-2013

During the last 5 years, dynamics of the estimated share of the Bank in assets and liabilities was of multidirectional, often downward nature. In the Agency's opinion, dynamics of the actual market share of the Bank is difficult to assess, since during the last 5 years in the banking system there were significant fluctuations of non-working assets, the accounting and reporting system was changed. There also were objective reasons, according to which the Bank could minimize its presence in certain market segments, avoiding unprofitable activity or unreasonable risks.

3. Capital adequacy and external support

In 2013, the shareholders' equity of the Bank grew by 2.41%: from UAH 4.100 bn. up to UAH 4.199 bn. During the year the authorized capital of the Bank was flat and amounted to UAH 4.639 bn. Due to the presence of the undistributed negative financial result of previous years on the balance sheet the shareholders' equity of the Bank was lower than the authorized capital. At the moment of the rating assignment, in the Agency's opinion, Alfa-Bank didn't need additional capitalization.

Table 2
Shareholders' equity of Alfa-Bank in 2013

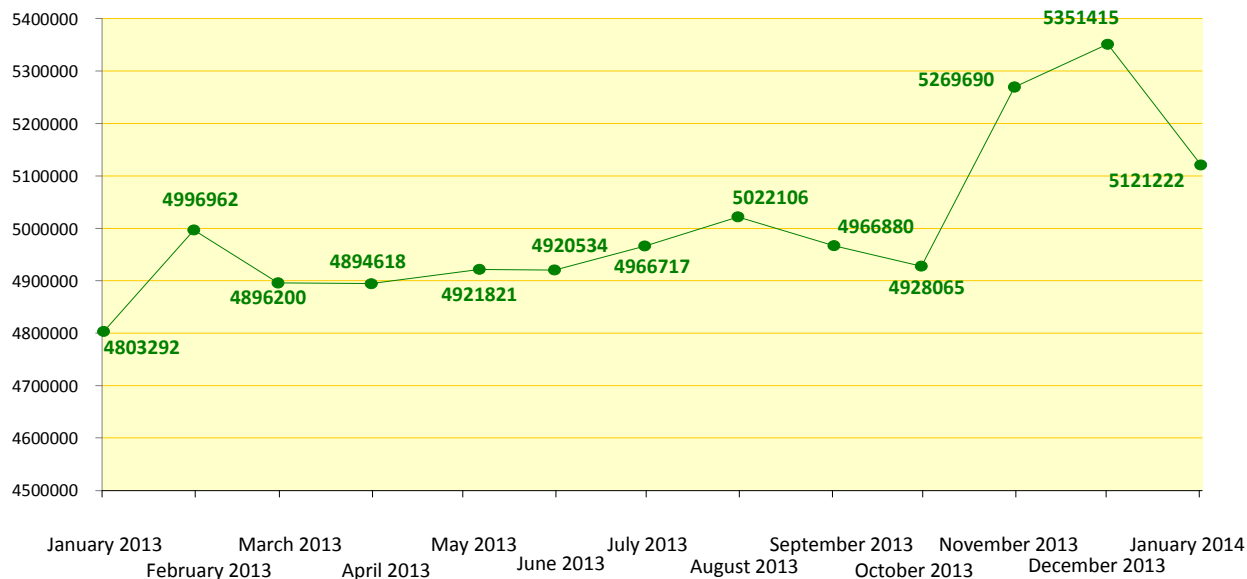
(UAH ths, %)

Indicators	01.01.2014	01.01.2013	Change	Growth rate, %
Authorized capital of the bank	4 639 121	4 639 121	-	-
Emission differences	6	6	-	-
Undistributed profit (uncovered loss)	(903 631)	(883 112)	20 519	2.32%
Reserve funds and other funds of the bank	280 934	247 335	33 599	13.58%
Revaluation reserves	182 326	96 532	85 794	88.88%
Total shareholders' equity	4 198 756	4 099 882	98 874	2.41%
Total liabilities	29 293 387	25 588 815	3 704 572	14.48%

Source: Data of Alfa-Bank, the NBU, estimations of RA «Expert-Rating»

Dynamics of the regulatory capital (N1) during the 2013 in monthly format is shown on fig.1. The regulatory capital of the Bank grew from UAH 4.803 bn up to UAH 5.121 bn, or by 6.62% over the 12 months of 2013. During 2013, the regulatory capital of the Bank reached its minimum in January – UAH 4.803 bn, and its maximum in December – UAH 5.351 bn (fig. 1).

Fig. 1. Dynamics of the regulatory capital (N1) of Alfa-Bank in 2013 as at the beginning of month, UAH ths



At the beginning of 2014, the regulatory capital of Alfa-Bank has exceeded the normative value, set by the NBU, by 42 times. The normative value for the regulatory capital adequacy (N2) and the normative value for the regulatory capital to total assets ratio (N3) exceeded not only the limits, set by NBU, but also the values of these normative indicators for the system.

Table 3

Dynamics of the capital normative indicators of Alfa-Bank in 2013

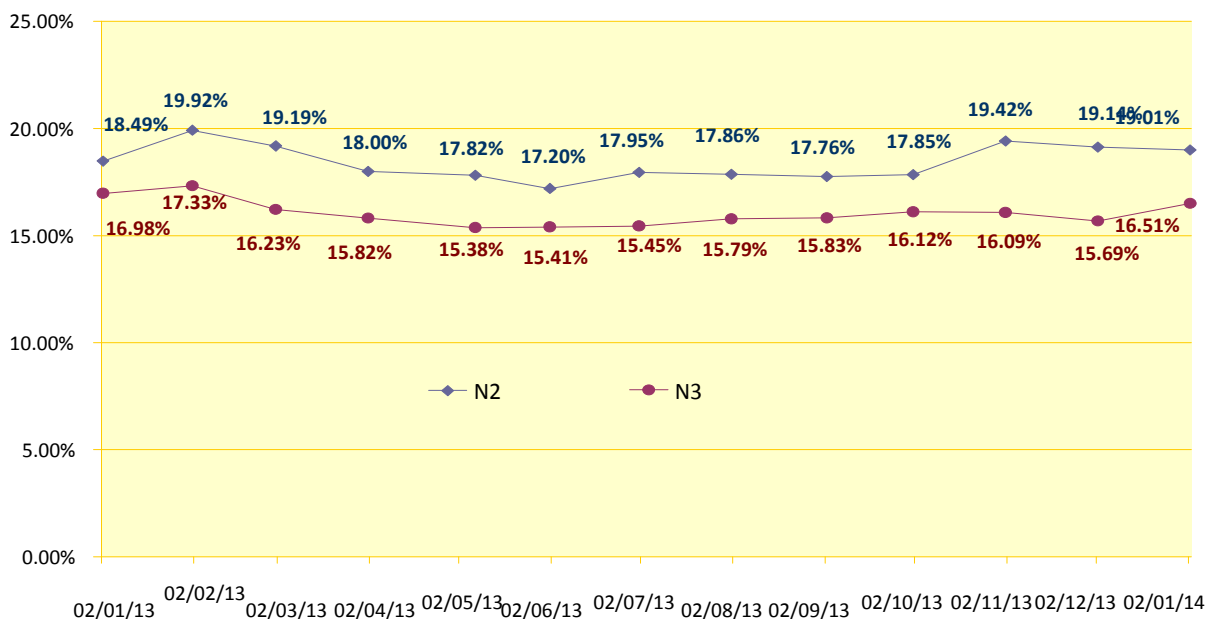
(UAH mln, %)

Indicator	The norm	02.01.2014		02.01.2013	
		Bank value	System value	Bank value	System value
Regulatory capital (N1)	>UAH 120 mln	5 121.222	204 976	4 803.292	178 909
Regulatory capital adequacy normative value (N2)	>10%	19.01%	18.26%	18.49%	18.06%
Regulatory capital/total assets normative ratio (N3)	>9%	16.51%	13.98%	16.98%	14.89%

Source: Data of Alfa-Bank, the NBU, estimations of RA «Expert-Rating»

The Bank was well capitalized, had significant reserve of regulatory capital adequacy ratio and ratio of regulatory capital to total assets. The same conclusion can be made based on analysis of the monthly statistics for the normative indicators N2 and N3.

Fig. 2. Dynamics of capital normative indicators N2 and N3 of Alfa-Bank in 2013



Shareholders' support

As at the moment of the rating report publishing, Alfa-Bank had the following shareholder structure:

- ABH Ukraine Ltd, Cyprus – 80.1014%;
- OJSC "Alfa-Bank", Russia – 19.8986%.

Alfa-Bank is part of the international consortium Alfa Group with business interests in the following sectors: asset management, commercial and investment activity (Alfa Banking Group, A1), insurance (Alfa Strakhovanie), retail trade (X5 Retail Group N.V.), water utilities (Rosvodokanal), as well as special purpose investment projects. The Consortium typically focuses on value-oriented, longer-term investment opportunities, primarily in Russia and the CIS, but also invests in other markets which form part of the Group's strategic business objectives. The fact of belonging the Bank to the international diversified consortium deserves positive assessment. It's important that the Bank has access to financial support in terms of current accounts and deposits of the Group's companies and funds of the Group's shareholders, as well as corporate support of the Group via exchange of knowledge, experience, innovations, staff etc.

Consolidated financial indicators of Alfa Group Consortium, confirmed by the auditing company PricewaterhouseCoopers, indicate that the Group has a significant size and is able to provide the Bank with a high level shareholders' support. As at the beginning of 2013, assets of Alfa Group Consortium amounted to USD 82.6 bn, including cash and cash equivalents of USD 6.7 bn (table 4).

Table 4

Key indicators of Alfa Group Consortium, USD bn

Indicators	2012	2011	2010	2009	2008	Growth rate 2012/2008
Total Assets	82.598	64.753	59.900	48.372	51.877	59.22%
Cash and Cash Equivalents	6.715	5.578	4.207	2.808	4.465	50.39%
Shareholders' Equity	21.279	17.968	16.045	14.239	11.564	84.01%
Profit	2.722	3.466	2.034	2.341	1.852	46.98%

Source: <http://www.alfagroup.org>

4. Asset quality

Analysis of the Alfa-Bank's key asset items dynamics and structure in 2013 reveals the following trends:

- Bank's assets grew up to UAH 29.293 bn or by 14.48%;
- Loans and advances to customers grew by 17.53% up to UAH 20.228 bn;
- Loans and advances to customers accounted to 69.05% of the total assets and were the largest item of the earning assets of the Bank;
- As at 01.01.2014, corporate loans constituted 76% in the Bank's loan portfolio structure;
- Cash and cash equivalents grew by 3.31% during the year and as at 01.01.2014 reached UAH 5.658 bn, while its share in assets as at the same date accounted to 19.31%;
- During the year, the Bank considerably increased the asset entry "Funds in other banks" (by 546.32% up to UAH 110.812 mln), however this item didn't constitute significant share in the structure of earning assets (table 5).

Table 5

Assets of Alfa-Bank in 2013

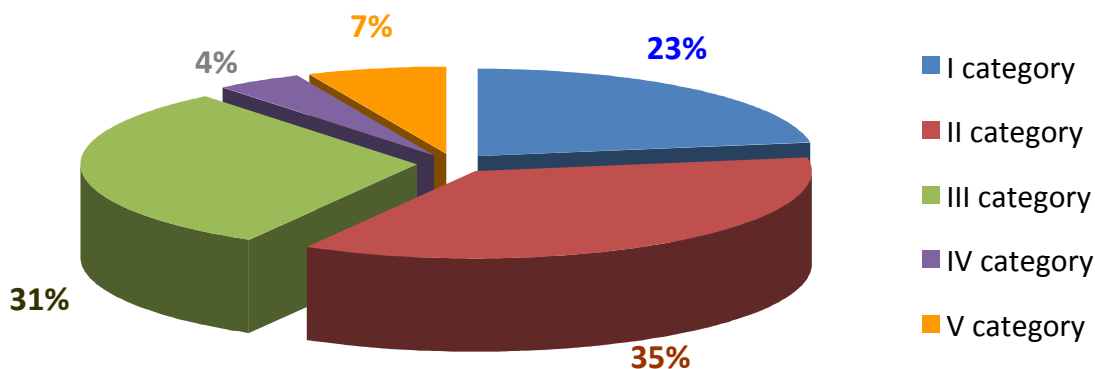
(th. UAH, %)

Indicator	01.01.2014	01.01.2013	Change	Growth rate, %
Cash and cash equivalents	5 657 615	5 476 573	181 042	3.31%
Funds of mandatory reserves of the bank in NBU	408 510	356 329	52 181	14.64%
Other financial assets taken into account at fair value through profit or loss	1 227 775	827 682	400 093	48.34%
Funds in other banks	110 812	17 145	93 667	546.32%
Customer credits and debt, including:	20 228 133	17 211 188	3 016 945	17.53%
- credits and debt of legal entities	15 396 959	12 689 443	2 707 516	21.34%
- credits and debt of individuals	4 831 174	4 521 746	309 428	6.84%
Loan loss and customers debt provision	1 784 135	2 712 247	-928 112	-34.22%
Securities in the bank's portfolio for sale	990 955	1 023 634	-32 679	-3.19%
Securities in the bank's portfolio for redemption	-	-	-	-
Investment real estate	119 397	113 176	6 221	5.50%
Receivables under current income tax	-	14	-14	-100.00%
Fixed capital and intangible assets	408 379	374 471	33 908	9.05%
Other financial assets	43 300	54 345	-11 045	-20.32%
Other assets	29 622	22 964	6 658	28.99%
Total assets:	29 293 387	25 588 815	3 704 572	14.48%

Source: Data of Alfa-Bank, the NBU, estimations of RA «Expert-Rating»

In the analysis of the Bank's assets the Agency came from the fact that the key item of the earning assets of Alfa-Bank was the balance sheet entry "Customer credits and debt". Analyzing the asset quality, the Agency took into consideration the structure of Alfa-Bank's lending operations in terms of risk categories (fig. 4).

Fig. 4. Structure of Alfa-Bank's lending operations in terms of risk categories as at 01.01.2014



As at 01.01.2014, 11% of the Bank's lending operations were attributed to the fourth and fifth categories of risk, which the Agency refers to the problem categories. Significant volume of operations of IV and V categories of risk in the Bank, in the Agency's opinion, was due to the fact that there were retail loans and in the past the Bank actively participated in the purchase of the problem loans portfolios, i.e. consciously undertook credit risks, preparing for that the asset and resource base structure.

5. Liquidity

The situation with Alfa-Bank's liquidity provision can be characterized as sustainable. As at 01.01.2014, the indicator of instant liquidity of the Bank (N4) exceeded the normative value by 157.92 p.p. N5 complied with a reserve to the normative value of 108.70 p.p., and N6 was higher by 19.89 p.p. than the normative value (table 6).

Dynamics of the liquidity normative indicators of Alfa-Bank in 2013

Table 6

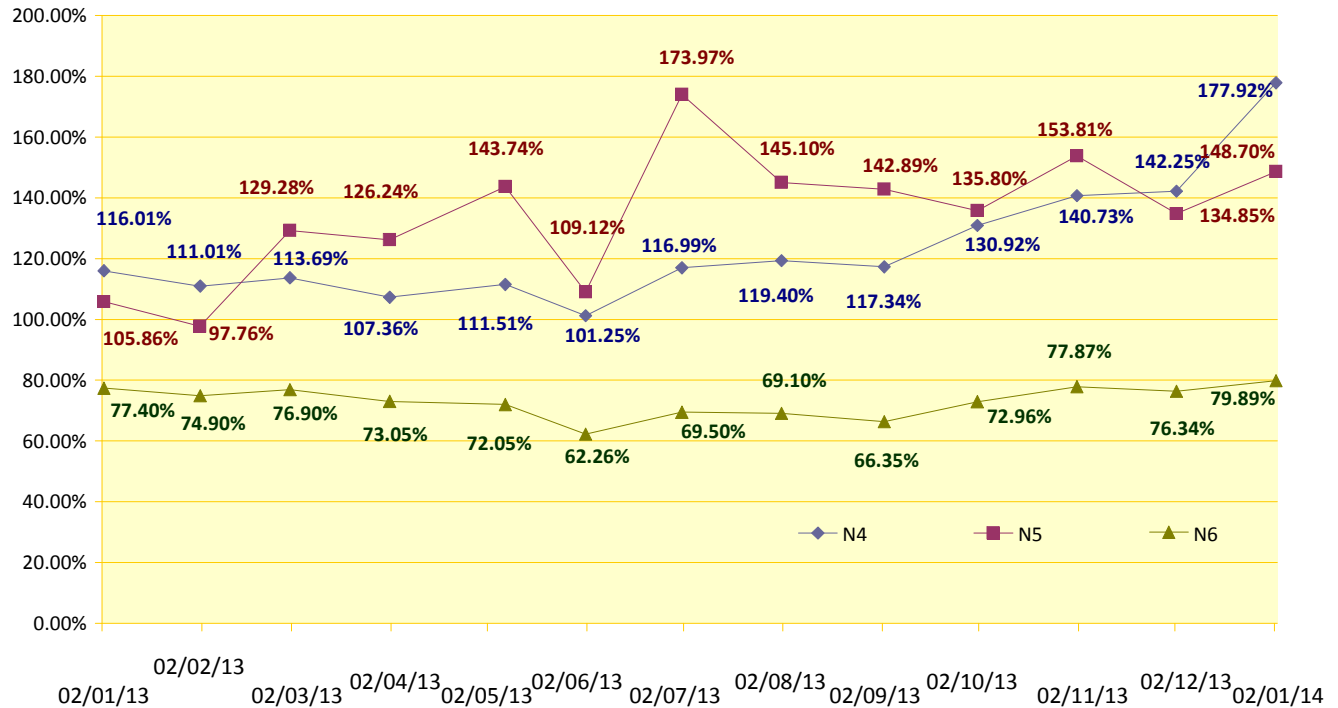
Indicator	The norm	01.01.2014		01.01.2013	
		Bank value	System value	Bank value	System value
Instant liquidity normative indicator (N4)	>20%	177.92%	56.99%	116.01%	69.26%
Current liquidity normative indicator (N5)	>40%	148.70%	80.86%	105.86%	79.09%
Short-term liquidity normative indicator (N6)	>60%	79.89%	89.11%	77.40%	90.28%

Source: Data of Alfa-Bank, the NBU, estimations of RA «Expert-Rating»

Analysis of the liquidity normative indicators' monthly dynamics shows that during the last 12 months Alfa-Bank complied with the normative limits N4, N5 and N6, set by NBU, with a substantial reserve. Dynamics of N4 and N5 had a pronounced upward trend (fig. 5).

The formed reserve of instant and current liquidity of Alfa-Bank can be characterized as very significant and to some extent excessive. In the Agency's opinion, with the decrease in N4 and N5, Alfa-Bank can considerably increase the proportion of the earning assets, which don't belong to the category of the highly liquid, that will positively affect the key components of the Bank's income.

Fig. 5. Dynamics of the liquidity normative indicators N4, N5 and N6 of Alfa-Bank in 2013



6. Income, expenses and profit of the Bank

Analysis of dynamics of some items of Alfa-Bank's income and expenses revealed a number of trends characterizing the situation, which occurred in the Bank according to the results of 2013. Thus, in 2013 net interest income of Alfa-Bank decreased by 12.86% compared to 2012, and net commission income of the Bank grew by UAH 153.222 mln or by 43.14%. The increase in the net commission income partially covered the decrease of the net interest income. The decrease in administrative and other expenses by 17.16% also should be referred to the positive trend. (table 7).

Table 7

Dynamics of certain income, expenses and net profit items of Alfa-Bank in 2013

Indicator	2013	2012	Change	Growth rate, %
Net interest income (NII)	1 604 432	1 841 304	-236 872	-12.86%
Net commission income	508 415	355 193	153 222	43.14%
Result from operations with foreign currency	74 274	92 081	-17 807	-19.34%
Other operating income	258 670	13 097	245 573	1 875.03%
Contributions to loan provisions, funds in other banks provisions, receivables provisions and other financial assets provisions, provisions for impairment of securities in the portfolio for sale and contributions to provisions for liabilities	-989 337	-533 930	-455 407	85.29%
Administrative and other operating expenses	-1 410 327	-1 702 559	292 232	-17.16%
Profit before taxation	46 127	65 186	-19 059	-29.24%
Expenses for income tax	-33 047	-28 935	-4 112	14.21%
Net profit	13 080	36 251	-23 171	-63.92%

Source: Data of Alfa-Bank, the NBU, estimations of RA «Expert-Rating»

The Alfa-Bank's activity was profitable according to the results of 2013. The Bank's net profit amounted to UAH 13.08 mln in 2013 and was by 63.92% lower than in 2012. The decrease in the Bank's net profit corresponds to the general trend of the Ukraine's banking system. In the Agency's opinion, one of the factors of the Bank's net profit decrease was a considerable Bank's NII decrease in 2013. In this situation, the Agency considers a significant Bank's liquidity cushion as a reserve for an increase of the profitability due to placing these resources at the lending market.

7. Other factors, taken into consideration during the rating assessment

Relations with government authorities

Analysis of the Bank's reports to the NSMSC and the register of court decisions didn't reveal any significant risks related to the Bank's participation in court processes with authorities in Ukraine.

Management

The Bank is managed by qualified specialists, which have vast work experience in the banking business:

Mr. Rushan Khvesyuk

Chief Executive Officer, Member of the Supervisory Board of Alfa-Bank.

Until 2013, Mr. Khvesyuk served as Chief Executive Officer of Alfa-Banking Group, a Member of the Board of Directors of Alfa-Bank Russia. He joined Alfa-Bank in 1994, and from 1995 to 2002 he was Head of the Legal Department. From 2002 to 31 August 2011 Mr. Khvesyuk served as Chairman of the Executive Board of Alfa Bank Russia. Previously, he worked at the legal firm Legist from 1991-1994, at the USSR Ministry of Justice in 1991, at the Department of Justice of the Moscow Regional Council from 1989-1991, and in the Military Court from 1986-1987. Mr. Khvesyuk graduated from the Moscow State Academy of Law in 1994. Since 2004, he has been a member of the Board of the Russian Banks Association, a member of the Advisory Board of the Association of Regional Banks of Russia (Russia Association), and since 2002, he has been a member of Coordination Council of the Russian Lawyers' Association.

Mr. Alexander Lukanov

President, Member of the Supervisory Board of Alfa-Bank.

Mr. Lukanov joined Alfa-Bank Ukraine in February 2006. Until 2013, he was holding positions of President and Chief Executive Officer of Alfa-Bank Ukraine. Mr. Lukanov has over 17 years of banking experience. Currently, he is also a member of the Board of Directors of Alfa-Banking Group. Until 2005, he served as Head of Corporate Banking and Deputy Chairman of the Board of Directors of Alfa-Bank Russia. He was Chairman of the Board of Alfa-Bank subsidiaries in Belarus and Kazakhstan, a member of the Board of Trade House Perekryostok (X5 Retail Group), and a member of the Board of Directors of Alfa Strakhovanie. Prior to joining Alfa-Bank Russia, he served as Chairman of the Executive Board of one of the first venture capital funds in Russia, SPF Kontakt XXI.

Ms. Viktoria Mikhalyo

Ms. Viktoria Mikhalyo is the Chairman of the Management Board of the bank since September 2009. Ms. Mikhalyo has 16 years of professional experience in the financial sector in Ukraine, during which she has held executive positions in companies within the Alfa Group financial and industrial consortium. From 2006 until 2009, Ms. Mikhalyo was General Director of Alfa Capital (Ukraine), an investment company. From 2000 until 2006, she was Deputy Chairman of the Management board of Alfa Bank (Ukraine). In 1994, Ms. Mikhalyo graduated as an economist from Taras Shevchenko National University of Kyiv (KNU), with specializations in economics, research and project management. In 1997, Ms. Mikhalyo completed postgraduate studies at KNU in accounting and auditing.

A number of authoritative experts in the field of banking risk management and operating and financial activities management are involved in the management of Alfa-Bank.

8. Summary of rating results

At the meeting of the Rating committee it was decided to assign the credit rating at the level uaAA+ according to the national scale to PJSC «ALFA-BANK» (23494714) (Alfa-Bank). The Bank or separate bond instrument with rating uaAA+ is characterized by a very high solvency compared to other Ukrainian borrowers or bonds.

Summarizing the results of the rating and assigning such a high level of long-term credit rating, the Agency was guided by the following key conclusions:

1. Alfa-Bank is a universal commercial bank, which is a part of the international Alfa Group Consortium. The Bank holds leading positions in key segments of the banking market of Ukraine. According to the ranking of NBU by asset volume, Alfa-Bank enters the group of the largest banks of the country in terms of assets.

2. The calculated share of Alfa-Bank in assets and liabilities as at 01.10.2013 has amounted to approximately 2.31% of the banking system of Ukraine. The Agency estimates the market share of the Bank in the banking system as above the calculated one. According to the Agency, the market share of the Bank in assets of the banking system amounts to approximately 3%. The Agency also draws attention that during 5 years there were the objective reasons according to which the Bank could minimize its exposure to certain segments of the market, avoiding unprofitable activities or unreasonable risks.

3. At the beginning of 2014, the regulatory capital of Alfa-Bank has repeatedly exceeded the norm, set by NBU. The norm of the regulatory capital adequacy (N2) and the norm of the ratio of the regulatory capital to total assets (N3) have exceeded not only the limits, set by NBU, but also the values of these norms attributed to the system.

4. The consolidated financial indicators of Alfa Group Consortium, confirmed by the auditing company PricewaterhouseCoopers, characterize significant size of the Group and the ability to support the Bank by the shareholders at a high level. At the beginning of 2013, assets of Alfa Group Consortium have amounted to USD 82.6 bn, and cash and its equivalents — USD 6.7 bn. The scale of the consortium shows that the key shareholder of Alfa-Bank is able to provide the Bank with an unprecedented high level of external financial and corporative support.

5. In its analysis of the Bank's assets the Agency has proceeded from the fact that the main component of profitable assets of Alfa-Bank has been the balance sheet entry "customer credits and debt", which has accounted for 69.05% of the total amount of assets. As of 01.01.2014, 11% of the volume of the loan operations of the Bank belongs to the fourth and fifth categories of risk, which are attributed by the Agency to the problem categories. Such proportion is insignificant in the Agency's opinion.

6. The situation with the liquidity's provision of Alfa-Bank can be characterized as sustainable. As of 01.10.2014, instant liquidity of the Bank (N4) has exceeded the norm by 157.92 p.p., N5 has been complied with reserve of 108.70 p.p. to the norm, and N6 has been by 19.89 p.p. higher than the norm.

7. The activity of Alfa-Bank according to the results of 2013 has been profitable. Net profit of the Bank has amounted to UAH 13.08 mln in 2013 that is by 63.92% less than in 2012. The decrease in net profit of the Bank matches the general trend on the banking system of Ukraine. The Agency considers a significant liquidity cushion of the Bank as reserve for increasing profitability when placing these resources in the loan market.

Full justification of the rating assessment of RA «Expert-Rating» is contained in the rating report.

Appendix A

Use limitations of the rating report

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Depositors, insurers, investors, when using the given rating report, do automatically agree that the contents of the given rating report are the opinion of analysts of Rating Agency Expert Rating on the credit capacity of the financial entity. Perceiving results of estimation of the level of credit rating of bank, it should be understood that:

1. At rating some factors are taken into attention which can positively or negatively affect the stability of the bank. Therefore, RA Expert-Rating Ltd estimates the level of bank resistance to adverse factors of influence. The estimation is made for banks according to the international scale of RA Expert-Rating Ltd (table A) and the national scale of Agency which is defined according to the scale approved by the Resolution of the Cabinet of Ukraine of April 26, 2007 no. 665. The parity between the international scale and the national scale is determined by the Agency independently.

2. The information provided in the rating report which source are the rated Bank and the National Bank of Ukraine, can slightly differ because of distinctions in system of account or methodology of calculation of indicators.

3. The information provided in the given report on foreign shareholders of financial entity is given in that currency in which the official annual report of the company-shareholder is made. Comparing such financial information with the data of Bank or of the similar foreign companies the difference in the systems of account and accounting policy should be considered.

Table A

National rating scale

Rating	Credit status level	Interpretation of stability level
uaAAA	Highest	The borrower or a debt instrument with uaAAA rating is characterized by very high credit status compared to other Ukrainian borrowers or debt instruments
uaAA	Very high	The borrower or a debt instrument with uaAA rating is characterized by very high credit status compared to other Ukrainian borrowers or debt instruments
uaA	High	The borrower or a debt instrument with uaA rating is characterized by high credit status compared to other Ukrainian borrowers or debt instruments Credit status level is sensitive to influence of adverse commercial, financial and economic factors
uaBBB	Sufficient	The borrower or a debt instrument with uaBBB rating is characterized by sufficient credit status compared to other Ukrainian borrowers or debt instruments. Credit status level depends upon influence of adverse commercial, financial and economic factors
uaBB	Below sufficient	The borrower or a debt instrument with uaBB rating is characterized by credit status lower than sufficient one compared to other Ukrainian borrowers or debt instruments. There is high dependence of status level upon influence of adverse commercial, financial and economic factors.
uaB	Low	The borrower or a debt instrument with uaB rating is characterized by low credit status compared to other Ukrainian borrowers or debt instruments. There is very high dependence of credit status level upon influence of adverse commercial, financial and economic factors.
uaCCC	Very low	The borrower or a debt instrument with uaCCC rating is characterized by very low credit status compared to other Ukrainian borrowers or debt instruments. Potential default is probable.
uaCC	High probability of default	The borrower or a debt instrument with uaCC rating is characterized by high default probability
uaC	Expected default	The borrower is approaching default
uaD	Default	Default status. Payment of interest and of principal amount under borrower's liabilities has been suspended without reaching agreement with creditors concerning debt re-structuring before maturity date.

* - rating scale was approved by the Resolution of the Cabinet of Ukraine no 665 of April 26, 2007

"-" or "+" are intermediate categories of rating related to main categories

Every type of letter corresponds to three kinds of outlook:

- Positive (+);
- Neutral ();
- Negative (-).

When the Agency doesn't provide rating outlook in the materials, is is by default deemed stable.

This appendix makes integral part of any rating report.