

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

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The issuer: JSC «ALFA-BANK»

USREOU code of the issuer: 23494714

Web-site of the issuer: www.alfabank.ua



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

February 23, 2021 at the meeting of the Rating committee of RA «Expert-Rating» it was decided to affirm the long-term national Ukrainian scale rating of JSC «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 of the Bank's bonds Series S in circulation at the level **uaAAA**. Making this decision, the Agency was guided by the results of the Bank's activity for 2020, as well as by the conclusions drawn from the analysis of financial and statistical statements of the Bank for 2020 and January of 2021.

Equity and capital adequacy

During 2020 and January of 2021, the regulatory capital of JSC «ALFA-BANK» (N1) fluctuated in the range UAH 7.333–9.138 bln and demonstrated a multidirectional dynamics with an upward trend. Since the beginning of 2020 the Bank's regulatory capital (N1) increased by 5.44% and as of 01.02.2021 amounted to UAH 8.796 bln that in 43.98 times exceeded the limit value of UAH 200 mln, set by NBU for this normative standard.

The regulatory capital adequacy of JSC «ALFA-BANK» (N2) in the period from 02.01.2020 to 01.02.2021 fluctuated in the ranges from 13.28% to 16.12%. During the given period, the Bank's N2 ratio on a constant basis with a noticeable reserve exceeded the limit value, set by NBU, but was lower than the Ukrainian banking system average for this normative standard. As of 01.02.2021 the Bank's N2 ratio amounted to 14.28% that by 4.28 p.p. exceeded the limit value, set by NBU, but was by 7.11 p.p. lower than the market average.

During 2020 and January of 2021, the Tier 1 capital adequacy of JSC «ALFA-BANK» (N3) fluctuated in the range from 10.48% to 13.24%. At the same time, the Bank's N3 ratio on a constant basis with a reserve exceeded the limit value, set by NBU, but was lower than the market average of this normative standard. As of 01.02.2021, the Bank's N3 ratio amounted to 11.96% that by 4.96 p.p. exceeded the limit value, set by NBU, but was by 3.21 p.p. lower than the Ukrainian banking system average for this normative standard.

Therefore, as at the beginning of February, 2021 JSC «ALFA-BANK» had a very high amount of the regulatory capital, while the Bank's regulatory capital adequacy and the Tier 1 capital adequacy (N2 and N3) with a noticeable reserve exceeded the limit values, set by NBU, albeit were lower than the market averages.

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

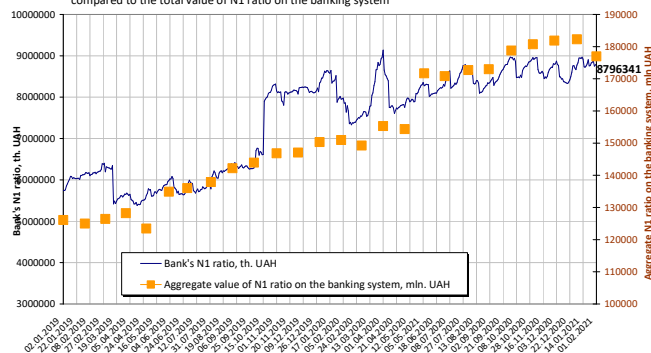


Fig. 2. Dynamics of the regulatory capital adequacy (N2) of JSC «ALFA-BANK» compared to the average value of N2 on the banking system

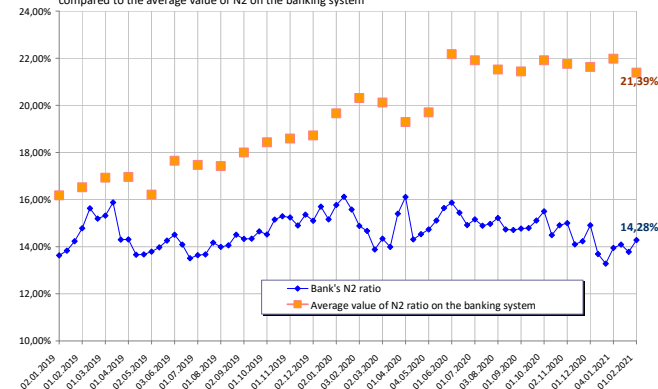
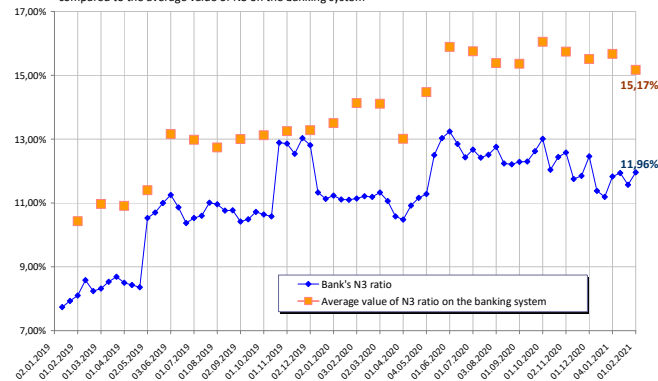


Fig. 3. Dynamics of the Tier 1 capital adequacy (N3) of JSC «ALFA-BANK» compared to the average value of N3 on the banking system



Asset structure and quality

In the period from 01.01.2020 to 01.01.2021, the assets of JSC «ALFA-BANK» grew by 35.57% up to UAH 97.491 bln, and the volume of net customer loans and advances increased by 22.03% and amounted to UAH 47.837 bln.

There were the following changes in the assets and the loan portfolio of JSC «ALFA-BANK» as of 01.01.2021 compared to 01.01.2020:

- The share of loans in the Bank's assets (in hryvnia equivalent) decreased by 5.69 p.p.: from 54.76% down to 49.07%;
- The share of foreign currency loans (in hryvnia equivalent) in the Bank's loan portfolio decreased by 4.40 p.p.: from 43,27% down to 38,87%.

For the period from 01.01.2020 to 01.01.2021 the share of non-performing loans (NPLs) (which calculated by the Agency as the sum of the fifth class for the loans to individuals and the tenth class for the loans to legal entities) in the loan portfolio of JSC «ALFA-BANK» decreased by 7.94 p.p.: from 37.50% down to 29.56% (data on the figure 5 is calculated including provisions). At the same time, as of 01.01.2020 the average NPLs share on the Ukrainian banking system was by 13.37 p.p. higher and amounted to 42.93%.

Fig. 4. Individual characteristics of the loan portfolio of JSC «ALFA-BANK»

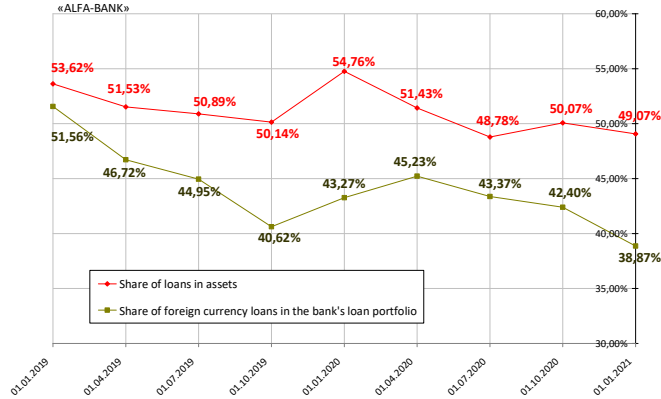
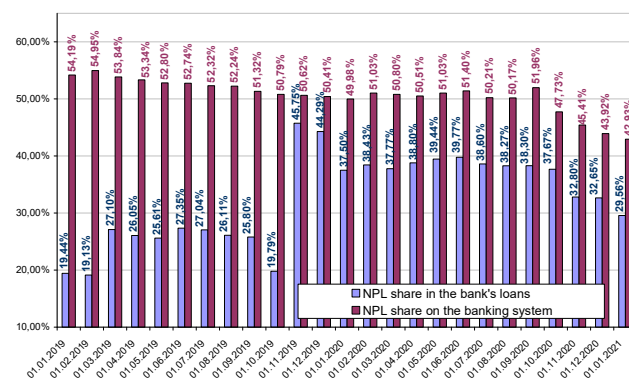


Fig. 5 Data on NPL shares in the loan portfolio of JSC «ALFA-BANK» and in the banking system



Liquidity

The short-term liquidity normative standard of JSC «ALFA-BANK» during 2020 and January of 2021 fluctuated in the range 76.05-83.74%. At the same time, the Bank's N6 ratio on a constant basis with a noticeable reserve exceeded the normative threshold value, set by NBU, but was below the Ukrainian banking system average. As of 01.02.2021, the Bank's N6 normative standard equaled to 78.07% that by 18.07 p.p. exceeded the normative threshold value, set by NBU, but was by 9.32 p.p. below the market average.

Liquidity Coverage Ratio on all currencies (LCRac) of JSC «ALFA-BANK» in the period from 01.01.2020 to 01.02.2021 fluctuated in the range from 244.62% to 468.25%. During the given period the Bank's LCRac on a constant basis in several times exceeded the limit values, set by NBU, for this normative standard. As of 01.02.2021, the Bank's LCRac equaled to 244.62% that was in 2.45 times higher than the normative value, set by NBU.

Liquidity Coverage Ratio in foreign currencies (LCRfc) of JSC «ALFA-BANK» during 2020 and January of 2021 fluctuated in the range 285.74-944.37%, and in several times exceeded the limit value, set by NBU. As of 01.02.2021, the Bank's LCRfc equaled to 443.95% that in 4.44 times exceeded the normative value, set by the regulator.

Therefore, in the Agency's opinion, as at the beginning of February, 2021 JSC «ALFA-BANK» was well provided with liquidity, as indicated by the Bank's corresponding ratios (N6, LCRac and LCRfc).

Fig. 6. Dynamics of short-term liquidity (N6) of JSC «ALFA-BANK» compared to the average of N6 ratio on the banking system

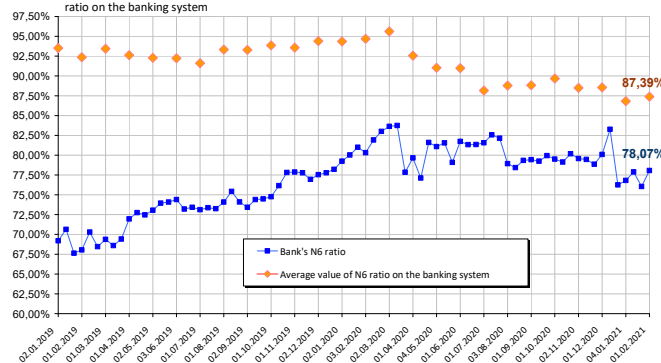
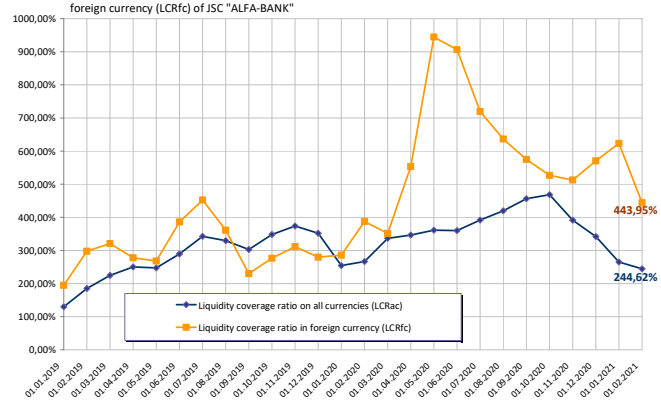


Fig. 7. Dynamics of Liquidity Coverage Ratio on all currencies (LCRac) and Liquidity Coverage Ratio in foreign currency (LCRfc) of JSC «ALFA-BANK»

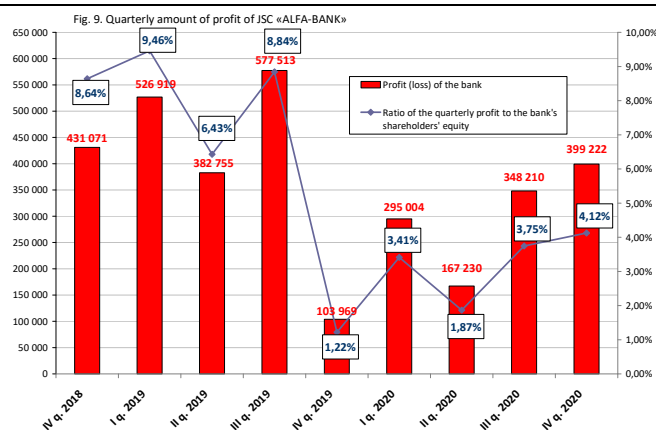
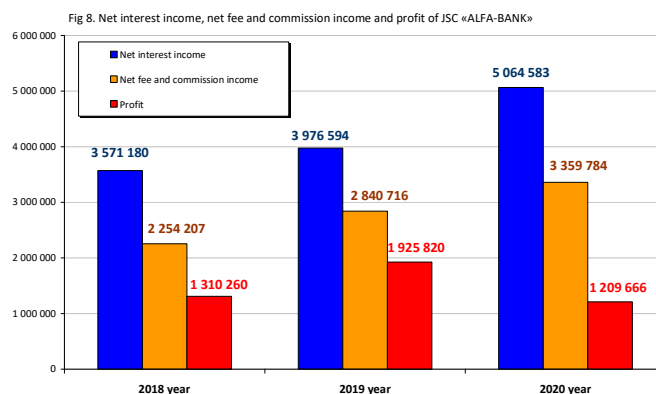


Profitability of operations

According to the performance results in 2020 JSC «ALFA-BANK» received profit of UAH 1.210 bln that was by 37.19% lower, than the Bank's profit for 2019.

At the same time, the key items of the Bank's revenues demonstrated a positive dynamics. Thus, according to the results for 2020 as compared to 2019 net interest income of JSC «ALFA-BANK» grew by 27.36% (up to UAH 5.065 bln), and net fee and commission income of the Bank increased by 18.27% (up to UAH 3.360 bln).

Therefore, on the back of the ongoing quarantine restrictions and the business activity slowdown in the country, JSC «ALFA-BANK» demonstrated good growth rates of net interest and net fee and commission income that enabled to generate a significant volume of profit. At the same time, a downward dynamics of the Bank's profit was caused by the increase of provision charges, in line with the general trends in the Ukrainian banking system. In addition, the Agency draws attention that during the last 9 quarters JSC «ALFA-BANK» generated profit on a constant basis.



Other factors

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

The Agency reminds that JSC «ALFA-BANK» became the full successor of all rights and obligations of JSC «UKRSOTSBANK» in relation to its clients, partners and counterparties. The transfer act was approved on October 15, 2019 by the decision of the general meeting of shareholders of JSC «ALFA-BANK» and the decision of the sole shareholder of JSC «UKRSOTSBANK».

Summary

At the moment of rating affirmation, JSC «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.

As at the beginning of February, 2021 JSC «ALFA-BANK» was well provided with equity and liquidity. Beside this, the regulatory capital of JSC «ALFA-BANK» almost in 44 times exceeded the normative value, the Bank's regulatory capital adequacy and the Tier 1 capital adequacy (N2 and N3) with a reserve exceeded the limit values, set by NBU, and the Bank's LCRac and LCRfc were in several times higher than the minimal level, set by the regulator. As of 01.01.2021 the share of non-performing loans (NPL) in the loan portfolio of JSC «ALFA-BANK» amounted to 29.56% that was by 13.37 p.p. lower than the average NPL indicator on the Ukrainian banking system. According to the results of 2020, JSC «ALFA-BANK» received profit of UAH 1.210 bln that was by 37.19% lower than the Bank's profit for 2019. A downward dynamics of the Bank's financial result was caused by the increase of provision charges, in line with the general trends in the Ukrainian banking system. At the same time, for the given analysis period JSC «ALFA-BANK» demonstrated good growth rates of net interest income (+27,36%) and net fee and commission income (+18,27%), which is positively assessed by the Agency.

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