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PRESS RELEASE

Confirmation of the Credit Rating of JSC “UkrSibbank”

On July 31, 2014, the Rating Committee of Rating Agency “Expert-Rating” decided to affirm the credit rating of JSC “UkrSibbank” (EDRPOU code 09807750) at the level of **uaAAA** (the Ukrainian rating scale). A borrower or a separate bond instrument with **uaAAA** rating has the highest solvency as compared to other Ukrainian borrowers or bond instruments. Agency’s decision to affirm such a high credit rating was based on the analysis of the Bank’s performance in the first half of 2014.

1. Balance sheet of the Bank showed multidirectional tendencies during the first six months of 2014:

- Own equity decreased by 16.35%, while liabilities increased by 1.6%;
- Since the beginning of the year, the Bank has increased loan provisions by UAH 696.78 million (81.16% increase), while outstanding loans and debt of the clients with account for provisions have increased by 2.41% and amounted to UAH 15.83 billion;
- Legal entities’ funds decreased by 1%, individuals’ funds decreased by 1.94%.

Decrease in the Bank’s own equity in the first half-year may be explained by losses resulting from the increase in provisions. At the same time, the Bank managed to efficiently resist a general tendency of the banking system which saw an outflow of funds of legal entities and individuals.

Table 1

Balance sheet dynamics of JSC “UkrSibbank”, in kUAH, p.p., %

Indicators	01.07.2014	01.01.2014	Change	Growth rate, %
Own equity	2,217,011	2,650,275	-433,264	-16.35%
Authorized capital	1,774,333	1,774,333	0	0.00%
Equity to assets ratio, %	9.23%	10.99%	-1.76 p.p.	-
Commitments, total	21,803,996	21,461,467	342,529	1.60%
<i>Including commitments in foreign currencies</i>	11,456,703	10,706,632	750,071	7.01%
Banks’ funds	72,078	199,318	-127,240	-63.84%
Individuals’ funds	8,985,015	9,162,533	-177,518	-1.94%
Legal entities’ funds	7,394,962	7,469,697	-74,735	-1.00%
Assets, total	24,021,007	24,111,742	-90,735	-0.38%
Liquid assets (Cash and cash equivalents + Funds of mandatory provisions of the bank in the NBU + Trade securities + Funds in other banks)	4,852,597	4,534,215	318,382	7.02%
Customer loans and debt without account for provisions	15,833,453	15,460,290	373,163	2.41%
<i>Loan provisions</i>	1,555,352	858,572	696,780	81.16%
<i>Loan provisions to customer loans and debt ratio, %</i>	9.82%	5.55%	4.27 p.p.	-
Securities for sale	1,929,409	911,123	1,018,286	111.76%
Provisions for securities for sale	33,053	5,328	27,725	520.36%
Liquid assets to commitments ratio, %	22.26%	21.13%	1.13 p.p.	-

2. Despite a decrease in the regulatory capital (N1) in the first half of 2014 by 9.64%, JSC “UkrSibbank” not only managed to maintain the regulatory capital adequacy ratio (N2) and the regulatory capital to total assets ratio (N3) above mandatory requirements set forth by the NBU, but also exceeded by far the average N2 and N3 ratios of the banking system.

Excellent level of the Bank’s capitalization is backed by good liquidity. As of 01.07.2014, the Bank had significant levels of instant, current and short-term liquidity as compared to mandatory requirements of the NBU.

Equity (N1, N2, N3) and liquidity ratios (N4, N5, N6) were decreasing during the first six months of 2014, which is consistent with a general tendency of the banking system. However, as of 01.07.2014, JSC “UkrSibbank” by far exceeded all the required key ratios followed by the Agency.

Table 2

Dynamics of key ratios at JSC “UkrSibbank”, in kUAH, p.p., %

Indicator	NBU requirement	01.07.2014		01.01.2014		Change, kUAH, p.p.
		Bank value	Average system value	Bank value	Average system value	
Regulatory capital (N1), kUAH	not less than kUAH 120,000	4,226,996	-	4,678,442	-	-451,446
Regulatory capital adequacy normative (N2), %	not less than 10%	20.94%	15.87%	23.01%	18.26%	-2.07 p.p.
Regulatory capital/total assets normative ratio (N3), %	not less than 9%	16.49%	12.56%	18.70%	13.98%	-2.21 p.p.
Instant liquidity ratio (N4), %	not less than 20%	45.48%	48.50%	38.79%	56.99%	6.69 p.p.
Current liquidity ratio (N5), %	not less than 40%	81.36%	78.71%	70.71%	80.86%	10.65 p.p.
Short-term liquidity ratio (N6), %	not less than 60%	83.80%	85.16%	76.10%	89.11%	7.70 p.p.
Significant credit risk indicator (N8), %	not more than 800%	9.62%	243.58%	8.37%	172.05%	1.25 p.p.
Maximum aggregate loans, guarantees and warranties issued to insiders indicator (N10), %	not more than 30%	7.85%	1.54%	5.58%	1.63%	2.27 p.p.

3. JSC “UkrSibbank” posted UAH 437.59 million in losses in the first half of 2014. These losses impacted the dynamics of the Bank’s equity. However, the Agency supposes that losses were mainly caused by a need to create additional provisions for the loan impairment. Key income related items of the Bank saw growth in the first half of the year. Thus, in the first half of 2014, net interest income increased by 5.48% and net commission income grew by 5.49% comparing with the same period in 2013. In the first half of 2014, the Bank increased substantially income from FX operations and decreased administrative and other operating expenses by 2.64%.

Table 3

Key items of income and expenses of JSC “UkrSibbank”, in kUAH, p.p., %

Indicator	I half of 2014	I half of 2013	Change	Growth rate, %
Net interest income	737,925	699,609	38,316	5.48%
Net commission income	313,272	296,970	16,302	5.49%
Net commission income to net interest income ratio	42.45%	42.45%	0.01 p.p.	-
Result from operations with securities in the bank’s portfolio	0	-21,463	21,463	-
Result from operations with foreign currency	111,981	26,473	85,508	323.00%
Administrative and other operating expenses	963,101	989,241	-26,140	-2.64%
Net profit / (loss)	-437,589	18,153	-	-
Return on equity (ROE), %	-19.74%	0.68%	-	-

All things considered, the Agency believes that losses of JSC “UkrSibbank” in the first half of 2014 were caused by provisions made for loan impairment and were predominantly of a technical nature. As of 01.07.2014, the Bank had an excellent level of capital adequacy and significant liquidity. Dynamics of legal entities and individuals’ funds shows that JSC “UkrSibbank” was not significantly impacted by an overall tendency of deposits outflow that impacted the banking system of Ukraine in the first half of 2014.

Analytic service of Rating Agency “Expert-Rating”