

The rating report

(version for publication)

(on basis of the Agreement no. 71/RA of August 10, 2011)



Credit rating of the Bank according to the Ukrainian national scale	uaA-
Interpretation of rating according to the national scale:	A borrower or a debt instrument with the rating uaA has high credit status compared with other Ukrainian borrowers or debt instruments. Credit status level depends upon influence of adverse commercial, financial and economic factors (The rating has been assigned according to the scale approved by the Resolution of the Cabinet of Ukraine no. 665 of April, 26, 2007)
Credit rating of the Bank according to Expert Rating RA international scale:	BBB-
Rating type	Borrower rating/ Debt instrument rating
Rating date:	September 29, 2011



PUBLIC JOINT STOCK COMPANY “MEGABANK”

(full name of the bank)

30, Artyoma str., 61002 Kharkiv, Ukraine
(legal address of the Bank)

30, Artyoma str., 61002 Kharkiv, Ukraine
(de facto address of the Bank)

Incorporation date	26 of June, 1990
USREOU code	09804119
Auditors	Ukrainian Audit Service Ltd
Registrar	PJSC "Ukrainian Securities Depository"
Phone	+38 (057) 714-06-12
Fax	+38 (057) 714-06-12
Chairman of Board	Zhukova Olena Myhailivna
Contact persons	Sedashv Vitaliy Valeryevich, Head of Securities Trade Department, tel. (057) 714-06-12, sedashv@megabank.net
E-mail	mega@megabank.net
Web-сайт	http://www.megabank.net/ua/

List of licenses issued to the Bank: NBU license authorizing banking operations no. 163 of 02.09.2009; NBU written permission no.163-5 of 29.09.2009 (unlimited validity); State Committee on Securities and Stock Market license authorizing professional activity on stock market of 23.10.2009 (valid until 23.10.2014); Series AB no. 493221 activity on trading in securities: Broker activity; Series AB no 493222 activity on trading in securities: Dealer activity; Series AB no 493223 activity on trading in securities: Underwriting; Series AB no. 493224 activity on trading in securities, securities management; Series AB no 493225 Depository activity of the depository; Series AB no. 493226 depository activity on keeping the registry of registered securities holders.

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

Information on emission of bonds by the Bank

Explication	Series G	Series H	Series I
Type of placement	public	public	public
Face value, currency	1 000,00 UAH	1 000,00 UAH	1 000,00 UAH
Issue amount	50 000 000,00	50 000 000,00	200 000 000,00
ISIN code	UA4000104053	UA4000104038	UA4000125322
Start of placement date	07.02.2011	15.04.2011	15.08.2011
End of placement date	05.08.2011 – scheduled date (in prospectus); 18.03.2011 – actual date	14.10.2011 – scheduled date (in prospectus); 13.05.2011 - actual date	15.02.2012
Coupon rate,%	1-4 coupon period – 14% per annum; 5-20 coupon period – to be established by the Supervisory Board of the Issuer	1-4 купонный период – 14% per annum; 5-20 coupon period – to be established by the Supervisory Board of the Issuer	14% per annum
Coupon period	quarterly	quarterly	quarterly
Payment date		See prospectus	See prospectus
Maturity date	08.02.2016	15.04.2016	From 15.08.2013 to 20.08.2013
Conditions of preterm buyout	*See the note		n/a
Agent on bonds placement	n/a	n/a	"INVESTMENT CAPITAL UKRAINE" Ltd, PJSC "VTB Bank"
Trading platform	PJSC "Ukrainian stock exchange"	PJSC "Ukrainian stock exchange"	PJSC "Stock exchange Perspective", PJSC "Ukrainian stock exchange"
Is there a guarantor on bonds? Describe the guarantee, name the Guarantor	no	no	no
Are there any conditions of issue restricting the rights of creditors?	no	no	no
Describe briefly the strategy of placement, which buyers of bonds is the bank focused on?			

*Note.

To sell the bonds the bond holder has to submit to the PJSC "MEGABANK" a declaration of sales intent in the following terms. Terms of redemption and declaration submission:

- G series:

Redemption date	Date of declaration reception beginning	Final date of declaration reception
07.02.2012	26.01.2012	31.01.2012
07.02.2013	26.01.2013	31.01.2013
07.02.2014	26.01.2014	31.01.2014
09.02.2015	26.01.2015	30.01.2015

- H series:

Redemption date	Date of declaration reception beginning	Final date of declaration reception
16.04.2012	31.03.2012	05.04.2012
15.04.2013	31.03.2013	05.04.2013
15.04.2014	31.03.2014	04.04.2014
15.04.2015	30.03.2015	03.04.2015

See detailed information in the prospectus by PJSC "MEGABANK"

1. Overview of the Bank

The Public joint-stock company MEGABANK operates in the market of banking services since 1990. According to NBU classification as of 01.07.2011 MEGABANK belongs to the third banking group of Ukraine. The bank provides a complete spectrum of classic banking services to 408 thousand clients, including 118 thousand receivers of pensions and other kinds of social payments.

The Bank performs banking activity according to the license of National bank of Ukraine no. 163 issued on 02.09.2009. The European Bank for Reconstruction and Development (EBRD), the Reconstruction Credit Institute (KfW) and the International Finance Corporation (IFC) are the shareholders of PJSC "MEGABANK".

The regional network of MEGABANK as of 01.07.2011 included 206 units, including 2 subsidiaries (in Kiev and Poltava), 1 representation (in Kiev), 202 branches and head office (in Kharkov). From 202 bank branches 21 are the central regional branches, 63 branches with expanded list of operations, 118 automated points of utilities payments reception based on MEGABANK implemented technology of Integrated Clearing Center (ICC). 87 unites operate in the regions: 2 subsidiaries, 21 central regional branches, 23 branches with expanded list of operations, 40 points of payments reception and 1 representation. 118 units operate in Kharkov and oblast, from those 40 branches with expanded list of operations, 78 points of payments acceptance and the head office. For the purpose of administrative expenses optimization and internal control strengthening 9 subsidiaries (in Vinnitsa, Donetsk, Zhitomir, Kirovograd, Nikolaev, Lvov, Kherson, Cherkassy and Chernigov) have been reorganized into the central regional branches.

The bank participates in the work of the following organizations:

- Association of Ukrainian Banks (AUB).
- Association “Ukrainian credit-bank union” (UCBU).
- Kharkov bank union.
- Association “Stock Partnership”.
- PJSC “Ukrainian Depository of Securities”.
- PJSC “Ukrainian Stock Exchange”.
- PJSC “PFTS Stock exchange”.
- Association "Ukrainian Stock Dealers".
- Professional Association of Registrars and Depositories (PARD).
- Deposit Guarantee Fund.
- Ukrainian Interbank Currency Exchange (UICE).
- Association “Ukrainian union of participants of National system of mass electronic payments”.
- Systems “MasterCard International” and “VISA International”.
- International payment systems and money transfer systems: “Western Union”, “Swift”, “PrivatMoney”, “MoneyGram”, “Anelik” and “Allure”.

The milestones in MEGABANK development throughout 2009-2011:

2009

- In March the Bank increased the authorized capital by UAH 150 m to UAH 350 m by carrying out an additional issue of shares.
- The bank emitted the 200-thousandth card of the National system of mass electronic payments (NSMEP).
- MEGABANK installed the first in Kharkov electronic self-service booth (M-box) with function of utility bills acceptance.
- The Bank has expanded the list of services provided with Integrated Clearing Center technology, namely: acceptance of bills for the use of cable television, on-door speakerphones and servicing of flue chimneys.
- The International Finance Corporation (IFC) and MEGABANK signed loan agreement on granting to the Bank of four-year financing for the amount of USD 10 m. with possibility of its conversion into a part of Bank stock directed on financing of all loan operations of Bank.
- The European Bank for Reconstruction and Development (EBRD), Credit Institute (KfW) and MEGABANK have signed contracts on joint purchase by EBRD and KfW of 30% of MEGABANK shares.
- The Bank changed name from Open Joint Stock company “MEGABANK” to PUBLIC JOINT-STOCK COMPANY “MEGABANK”. The name has been changed according to the Law of Ukraine “On Joint Stock Companies”.
- The European Bank for Reconstruction and Development (ERBD) and MEGABANK signed loan agreement on granting to the Bank of five years' financing in the amount of USD 15 m., directed on support of SME.
- The MEGABANK in October has increased authorized capital stock by UAH 150 m to UAH 500 m by carrying out additional emission. The European Bank for Reconstruction and Development (EBRD) and Credit Institute (KfW) became shareholders of bank, with 15% share of authorized capital each.
- The European Fund of Southeast Europe (EFSE) and MEGABANK have signed the agreement on granting to the Bank of subordinated credit for the amount of USD 10 m for 7 years, directed on increase in Bank capitalization and financing the enterprises of micro, small and medium business.
- The Credit Institute (KfW) and MEGABANK signed agreement on granting to the Bank of subordinated debt for the amount of USD equivalent to EURO 4,4 m, for seven years for the purpose of increasing Bank capitalization and financing SME.
- The International Finance Corporation (IFC) - member of World Bank Group - and MEGABANK have signed the agreement on granting to the Bank of subordinated credit for the amount of USD 10 m. for the period of seven years.

2010

- International Finance Corporation (IFC) became the shareholder of PJSC “MEGABANK”.
- The MEGABANK increased the regulatory capital on UAH 132 m by attracting subordinated credits from Credit Institute (KfW) in the amount of USD 6,5 m and from the International Finance Corporation (IFC) in the amount of USD 10 m.
- The European Bank for Reconstruction and Development (EBRD) assisted by the British consulting company PKF provided technical support to PJSC “MEGABANK” for improvement of Bank risks system.
- The German Credit Institute (KfW) with assistance of specialists from the International Project Consulting Company (IPC) organized the program of technical aid “Management of agrarian loans portfolio” for MEGABANK.
- The bank occupied the fourth place in PFTS rating of best dealers and entered the top five best depositories of securities on volume of conducted registrations.

- The representative of MEGABANK became member of Legislation committee /Legal committee of Professional Association of Registrars and Depositories (PARD).
- The MEGABANK was awarded with the diploma of international exhibition of innovative projects and export oriented goods “Power of growth”, conducted in Kharkov, for the presented innovative bank product - the electronic self-service terminal (m-box).
- The bank became one of the winners of the competition “National system of mass electronic payments - 10 steps to success” in the nomination “Significant contribution to the development of NSMEP Internet-Acquiring”.
- The European Fund of Southeast Europe (EFSE) opened to PJSC “MEGABANK” five years' credit lines for support of the enterprises of micro- and small business, and for financing agrarian projects for the total amount of USD 10 m.
- Throughout the year the Bank opened six branches from which three branches in Kharkov and three in Lvov. Thus five branches have been opened as automatic points of acceptance of payments and one as branch with expanded list of operations.
- The MEGABANK has installed in Kharkov 3 electronic self-service terminals (m-boxed) on acceptance of utility bills and has put into operation 2 new ATMs: in Konotop of Sumy oblast and in Kharkov.

2011

- The Bank issued bonds of G series and H series with validity of 5 years for the total amount of UAH 100 m.
- Together with the German Consulting Company “IPC GmbH” and with the technical support of German Credit Institute (KfW) the Bank implemented the program “Management of car loans portfolio”.
- For convenience and saving of client time the Bank opened three new branches on acceptance of municipal and other kinds of payments in the premises of large supermarkets and shopping centers of Kharkov.

Rather rapid growth rates of MEGABANK assets in 2006-2008 have been slowed in 2009-2010 by financial and economic crisis. Due to that the bank has been forced to maximally limit its active operations, and within 2009 – H1 2010 to concentrate all efforts on maintenance of own liquidity and work with trouble debt.

The analysis of MEGABANK key performance indicators in 2009-2010, and in H1 2011 proves to good dynamics of its development. So, the increase in assets of Bank for 2010 constituted 11,4 %, and for H1 2011 in comparison with the similar period of last year - 10,46 %. As a result, on 01.07.2011 the volume of Bank assets grew to UAH 3,767. (Table 1).

Table 1

Key Performance Indicators of PJSC ‘MEGABANK’, UAH thousand, %

Indicators	H1		2010 (01.01.2011)	2009 (01.01.2010)
	01.07.2011	01.07.2010		
Assets	3 767 164	3 410 541	3 641 116	3 268 548
Net assets (Assets – reserve under assets operations)	3 603 064	3 302 887	3 509 088	3 172 008
Client loans (excluding interbank)	2 810 080	2 560 946	2 603 647	2 321 560
Shareholder equity	648 635	639 491	636 701	634 026
Authorized capital (paid-in)	500 000	500 000	500 000	500 000
Deposits of individuals	1 087 658	810 073	1 013 749	777 615
Received interbank loans	409 856	401 780	498 301	431 008
Subordinate debt	199 063	305 570	307 611	229 140
NBU loans	0	267 272	46 000	315 131
IFO loans	288 874	96 783	101 782	57 244
Deposits of legal persons	795 099	638 403	765 538	583 681
Net profit	1 375	793	2 026	1 581

Sources: NBU and MEGABANK data, RA Expert Rating calculations

Since H2 2010 growth of available assets of clients and gradual renewal of crediting has been noticed. As of 01.07.2011 the amount of loans issued by the Bank has reached UAH 2,8 b that is by 9,73% higher than at the same date of 2010.

Thanks to rather high growth rates, the volume of funds of physical persons in Bank as of 01.07.2011 exceeded UAH 1 b. Rates of legal persons' funds increase have been a bit slower: 24,54 % between H1 2010 – H1 2011, and 31,16 % between the beginning of 2010 and beginning of 2011.

Undoubtedly, Bank capability to generate profit is a positive indicator. Profit volume was UAH 1 375 m as of 01.07.2011.

Two emissions performed for the total amount of UAH 300 m allowed the Bank to essentially improve capital adequacy indicator. In particular, the norm of authorized capital adequacy (H2) as of 01.07.2011 constituted 23,73 %. Authoritative international financial organizations - European Bank for Reconstruction and Development, International Finance Corporation and KfW became shareholders of the Bank.

2. Market share and business activity

According to NBU classification on the size of assets MEGABANK belongs to the third group of banks. As of 01.07.2011 the Bank occupied 6th place in the relevant group and 45th position among the 176 banks of Ukraine.

As of 01.07.2011 MEGABANK share in the assets of bank system constituted 0,37 %, in the loan portfolio - 0,36%, in the funds of physical and legal bodies - 0,38 %. It should be noted that for the last one and a half year the rate of Bank loan portfolio gain has outstripped the average indicator in the system that, in turn, allowed the Bank to slightly increase its specific weight in the cumulative loan portfolio of the banks of Ukraine (see Table 2).

Table 2

The analysis of PJSC “MEGABANK” market share in the Ukrainian market (UAH thousand, %)

Indicators	01.07.2011	01.01.2011	01.01.2010	Change (01.01.2010- 01.07.2011)	Growth rate,% (01.01.2010- 01.07.2011)
Assets	3 767 164	3 641 116	3 268 548	498 616	15,26%
Bank system assets	1 019 811 043	942 083 994	873 449 574	146 361 469	16,76%
Loans to clients (excl. interbank)	2 810 080	2 603 647	2 321 560	488 520	21,04%
Loans to bank system clients	789 549 434	750 536 379	726 295 788	63 253 646	8,71%
Funds of clients (excl. interbank)	1 882 757	1 779 287	1 361 296	521 461	38,31%
Funds of bank system clients (excl. interbank)	499 826 744	439 446 227	349 635 984	150 190 760	42,96%
Share of Bank in system assets	0,3694%	0,3865%	0,3742%	-0,0048 p.p.	-
Bank share in system loan portfolio	0,3559%	0,3469%	0,3196%	0,0363 n.n.	-
Bank share in the funds of individuals and legal persons	0,3767%	0,4049%	0,3893%	-0,0126 p.p.	-

Sources: NBU data, RA Expert Rating calculations

As a whole, the data shown in the table 2 prove to relative stability of the share occupied by the Bank in the bank system of Ukraine.

PJSC “FIRST UKRAINIAN INTERNATIONAL BANK”, PJSC “Joint Stock Bank “PIVDENNIY”, PJSC “PROCREDIT BANK”, PJSC “Raiffeisen Bank Aval” are the main competitors of MEGABANK. Thus, considering the harsh competition existing for today in the bank sector of Ukraine, the MEGABANK follows the way of innovative development, offering new bank products to the clients. In particular, in 2009 the MEGABANK installed the first in Kharkov electronic self-service booth (M-box) with the function of utility bills acceptance.

3. Capital adequacy, profitability and external support

Capital adequacy.

The analysis of PJSC “MEGABANK” capital adequacy norms shows that the Bank does not only prevents their decrease under the limits established by NBU, but also keeps them above the mean system level. So, as of 01.07.2011 the H2 was equal to 24 %, at the mean system value of 20,02 %, and H3 was 20 % whereas on the bank system its value was at the level of 14,98 % (see table 3).

At the same time the data of the table 3 prove to the trend of decrease in H2 and H3 values that is caused by uneven growth rates of shareholder equity and assets of the Bank. So, as of 01.07.2011 compared to 01.07.2010 equity growth constituted 1,43 % whereas for the same the period assets grew by 9,09 %. However, such dynamics is expectable and does not entail a threat for Bank solvency because Bank values of the given norms exceeded both the mean industry indicators and the limits set by the regulator.

Table 3

The analysis of PJSC “MEGABANK” capital adequacy (UAH thousand, %)

Indicators	01.07.2011	01.07.2010	01.01.2011	01.01.2010
Net assets	3603064	3302887	3509088	3172008
Shareholder equity	648635	639491	636701	634026
Authorized capital	500000	500000	500000	500000
Authorized capital/Shareholder equity ratio	77,08%	78,19%	78,53%	78,86%
Shareholder equity/assets ratio	18,00%	19,36%	18,14%	19,99%
Regulatory capital adequacy ratio H2	24%	35%	30%	31%
System average value H2	20,02%	20,80%	20,83%	18,08%
Normative value H2	>10%	>10%	>10%	>10%
H3, regulatory capital/ total assets ratio	20%	24%	20,03%	22%
System average value H3	14,98%	14,19%	14,57%	13,91%
Normative value H3	>9%	>9%	>9%	>9%

Sources: NBU, MEGABANK, RA Expert Rating calculations

The structure of PJSC “MEGABANK” shareholder equity is rather stable as of the dates considered. So, the greatest share in Bank capital - 77,08 %, corresponds to the statutory fund; the fixed assets revaluation reserve as of 01.07.2011 made 7,21% of the capital, emission differences - 0,02 %. That is money funds of shareholders are the key source of Bank equity generation.

Since 2006 the Bank conducts active work on attraction of means in the international capital markets, both through target programs on crediting small and medium business, and by attraction of subordinated debt for increase of own capitalization. So, in 2010 the MEGABANK raised the regulatory capital by UAH 132 m: subordinated credits from Credit Institute (KfW) in the amount of USD 6,5 m and from the International Finance Corporation (IFC) in the amount of USD 10 m. have been used for this purpose.

Profitability.

The analysis of Bank capability to generate incomes has shown that Banks operations are profitable. Thus it should be understood that Bank ROA and ROE are still too far from desirable standards of profitability. At the same time the Agency underlines negative influence of the crisis on Bank’s ROS, ROA and ROE. So, if before 2009 ROE varied in the range of 6-9,5%, in 2009 it already dropped to 0,3 %, and as of 01.07.2011 constituted only 0,4 %. However it should be noticed that in 2009 Bank authorized capital increased by 150 % that resulted in sharp decrease of ROE value. A similar trend is also present for ROS and ROA of the Bank (tab. 5).

Table 5

Analysis of PJSC “MEGABANK” profitability indicators (UAH thousand, %)

Indicators	H1 2011 (01.07.2011)	H1 2010 (01.07.2010)	2010 01.01.2011	2009 01.01.2010
Net spread, %	2,8	1,2	1,8	1,8
Net interest income, UAH th.	59151	38361	92135	84827
ROS, %	1,1	0,8	1,0	0,9
ROA, %	0,1	0,1	0,1	0,1
ROE, %	0,4	0,3	0,3	0,3

Sources: MEGABANK, RA Expert Rating calculations

Thus comparison of the above shown indicators between H1 2010 and H1 2011 proves to the begun rise. So, the net spread grew from 1,2 % to 2,8 %, the net interest income increased by UAH 20,790 m, ROS grew from 0,8 % to 1,1%, and ROE increased from 0,3 % to 0,4 %.

Support of shareholders.

The distribution of PJSC “MEGABANK” shares as of 01.07.2011 is shown in the table 6.

Table 6

PJSC MEGABANK shareholders as of 01.07.2011

Full name of the legal person; Surname, name, patronymic of the physical person	Country of registration of the shareholder	Percent in authorized capital stock (direct participation)
European Bank for Reconstruction and Development (Европейский Банк Реконструкции и Развития)	UK	15,00%
Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute)	Germany	15,00%
Close Joint Stock Company “M-Invest”	Ukraine	49,90%
IFC (International Finance Corporation)		6,02%
Subbotin Viktor Gheorghiyevich	Ukraine	4,99%

Source: Megabank

Mr. Subbotin V. G is the owner of 60,15 % of the authorized capital stock of Bank, including: by direct participation - of 4,99 %, by mediated participation – of 55,16%.

Foreign shareholders EBRD, KfW and IFC are the IFOs and provide a comprehensive aid to the Bank both in financing target programs, and in providing the technical (consulting) support. The consulting aid is financed by foreign shareholders and mainly concerns such issues as improvement of risk management system and agrarian loans.

As of the beginning of Q2 2011 EBRD assets constituted EURO 40,8 b, own means - EURO 13,2 b. Following Q1 results EBRD net profit has constituted EURO 330 m. 61 countries, mainly from EU, and the European Investment Bank (EIB) are EBRD shareholders. At the moment EBRD operates in 29 countries. It is important to understand that as of 01.04.2011 the EBRD possessed signed, but unpaid capital in the amount of EURO 20,8 b. That is, at any moment, when needed EBRD could increase the paid capital, governments of 61 countries being the shareholders was a guarantee of such increase. Such situation ensured EBRD the highest credit ratings from the international rating agencies S&P, Moody's and Fitch.

Kreditanstalt für Wiederaufbau is the credit organization which had been created by the federal government of Germany and functions in Germany actually since 1948. As of the beginning of 2011 the assets of KfW constituted EURO 442 b, shareholder equity – about EURO 15 b. KfW actively participates in the international capital market. KfW employs about 4500 persons, 2010 net profit made about EURO 3 b. KfW is supported by the government of Germany, i.e. the government of one of the financially best doing EU countries.

IFC (International Finance Corporation) makes part of the World Bank Group. On the beginning of 2011 IFC had assets in the amount of USD 61 b and a credit and investment portfolio in the amount of USD 25,9 b. In the year 2010 IFC has financed 528 projects in 101 country of the world.

Thus, the Agency positively assesses both the level of Bank capital adequacy, and the level of external support by its shareholders. The presence of authoritative international financial organizations - European Bank for Reconstruction and Development, International Finance Corporation and KfW among the shareholders of the Bank do guarantee PJSC MEGABANK, in case of need, provision of good level of external support. It is important that EBRD, KfW and IFC have not simply given capital to the Bank, but also do operate in Ukraine. Their business activity in Ukraine, when necessary, can also become an element of external support.

4. Assets quality

For MEGABANK, as well as for most other Ukrainian banks, crediting remains main area of placement of financial resources. As of 01.07.2011 the specific weight of loans in the total amount of Bank assets constituted 82,37%. In the structure of loan portfolio loans to legal persons occupied 73,42 %, consumer loans to individuals - 17,14 %, and interbank credits - 5,4%. Loan provisions/credit portfolio ratio of the Bank constituted 3,75 % that is a low indicator compared to similar indicators of other banks. The share of substandard credits in Bank portfolio made 27,48% that is on 3,16 p.p. less than in H1 2010. Low share of bad loans - 0,93 % is a positive indicator of the quality of Bank credit portfolio (see table 7).

Table 7

Credits and customer debts of PJSC "MEGABANK" (excl. interests and reserves under accrued assets) (UAH th.)

Indicators	01.07.2011		01.07.2010		01.01.2011		01.01.2010	
	UAH th.	%	UAH th.	%	UAH th.	%	UAH th.	%
Interbank credits	167409	5,40%	140036	5,11%	235236	7,82%	218744	8,55%
Loans to legal persons (excl. Interbank)	2278245	73,42%	1984322	72,37%	2068090	68,74%	1686268	65,89%
Loans to natural persons	531835	17,14%	576624	21,03%	535556	17,80%	635292	24,82%
Total provisions under loan impairment	116467	3,75%	84918	3,10%	94223	3,13%	73092	2,86%
Troubled loans in the portfolio (non-prime, problem and bad), %	27,48%	-	30,64%	-	24,86%	-	18,10%	-
Bad loans in the portfolio, %	0,93%	-	0,39%	-	0,37%	-	1,15%	-
Warranties issued by the bank (in total)	125527	4,05%	40918	1,49%	169573	5,64%	18872	0,74%
Total loans:	3103017	100,00%	2741901	100,00%	3008456	100,00%	2559176	100,00%

Sources: MEGABANK, RA Expert Rating calculations

The analysis of MEGABANK credit portfolio per types of economic activities proves to good level of its diversification. In the portfolio of credits there are three key areas clearly dedicated to legal persons, which account for most credits issued by the Bank: agriculture (24 %), industry (23,83 %) and commerce (23 %). In the loan portfolio of natural persons a large share corresponds to consumer loans - 68,53 %, 14,71% - to mortgage loans and 14,73 % - to car loans.

Therefore, good branch diversification of credit portfolio, low share of bad loans and reserves under credit risks, and strict observance of credit risks norms prove to the weighed policy of the management in the field assets management and provide good grounds for assessing the quality of Bank assets as quite good one.

5. Liquidity

The dynamic of PJSC "MEGABANK" norms of instant, current and short-term liquidity is mainly influenced by such factors, as fluctuation of Bank correspondent account balance volume, and changes of customers' current account balances. Thus liquidity norms are not subject to seasonal fluctuations.

Assets and Liabilities Management Committee is in charge of overall liquidity management in the Bank, and the Main Department for Treasury Operations is responsible for current management.

As the data prove, MEGABANK adhered to all liquidity norms (H4, H5 and H6). As of 01.07.2011 and 01.01.2011 all norms have been observed above the NBU established requirements. At the same time it should be noted that H4 and H5 indicators in the Bank had lower than system average values, and H6, on the contrary - higher than system average. H4 and H5 deviation from average system values can be regarded as positive, because the Bank has begun to renew crediting process.

As a whole, the Agency assesses positively MEGABANK liquidity indicators and characterizes the current level of its liquidity as acceptable one.

6. Other factors considered at rating estimation

Interaction with state structures.

For the last year two audits have been performed in MEGABANK: planned audit by SCSSM for observance of legislative requirements on securities (Audit act of 17.09.2010) and the audit by the Fund of Social Insurance on Temporary Disability (Kharkov oblast department, Executive Management, act no. 582 of 22.07.2011). The aforementioned audits did not reveal any violations.

During the last 12 months there have been no unsettled claims of Bank to clients neither of clients to Bank.

Management.

RA Expert Rating positively assesses the team of PJSC "MEGABANK" managers. Considerable banking experience of key managers provides to the Bank a due level of safety and understanding by the shareholders and key managers of main banking business processes and risks.

Zhukova Olena Myhailivna - Chairman of the Management Board. From 1993 to 1999 held a number of positions in the Joint-Stock East Ukrainian Exchange Bank "Grant" (Kharkov) - from economist to deputy chief accountant of subsidiary. She started working in MEGABANK in 1999 in the position of Head of Sector, and after making a career (Head of Department, Deputy Chief Accountant, Deputy Chairman of Board), had been appointed Chairwoman of Board of the Bank. The total working experience of Elena Zhukova in bank companies makes 17 years, from them 11 years in PJSC "MEGABANK". Elena Zhukova graduated from Kharkov Public Catering Institute (with the speciality Trade Economy) and from the Kharkov National University by V.N.Karazin (with the speciality Finance and Credit).

Laschenko Olexandr Mykolayovych - First Deputy Chairman of Board of Management. Has begun the career in 1993 on the position of procedural officer in the Arbitration Court of Kharkov oblast. Also worked as legal adviser and senior legal adviser in the Joint-Stock Company International Insurance Company "Inter-Risk" (city of Kharkov). Since September, 1995 works in PJSC "MEGABANK" wherein before been appointed First Deputy Chairman of Board held the posts of the Head of Legal Department and Deputy Chairman of Board. Has 15 years of banking experience. Alexander Laschenko graduated from the National Legal Academy by Yaroslav the Wise (with the speciality Jurisprudence) and from the International Solomon University (with the speciality Finance).

Shpylov Olexandr Olexandrovyeh - Deputy Chairman of the Management Board. Started working activity in December, 1997 on the post of PJSC "MEGABANK" economist, also occupied posts of Head of Sector, Deputy Director of Subsidiary, Head of Department, Director of Subsidiary. Has 15 years of overall banking experience. Alexander graduated from Kharkov State University (with the speciality Economic Theory).

Yatsenko Olexiy Olexiyovich - Deputy Chairman of the Management Board. Started working activity in March, 2003 on the post of PJSC "MEGABANK" economist, also occupied posts of Head of Sector, Head of Department, Head of Main Department. Has 8 years of banking experience. Alexey graduated from Kharkov State Auto Road University (with the speciality Traffic Organisation and Adjustment) and from the Kharkov National University by V.N. Karazin (with the speciality Banking).

Sergeyev Yuriy Yevgeniyovych - Deputy-Chairman of the Management Board, Head of the Integrated Clearing Center. Has 12 years of banking experience. Works in PJSC "MEGABANK" for 12 years. Graduated from the Kharkov Institute of Radio Electronics (with the specialty Automated Control Systems) and International Solomon University (with the specialty Finance).

Pidgorna Viktoriya Viktorivna - Deputy Chairman of the Management Board. Has 17 years of banking experience, in PJSC "MEGABANK" works for 9 years. Graduated from Kharkov Institute of Municipal Engineers (with the specialty Economics and Management in Building)

Porubay Olga Petrivna – Member of Board, Chief Accountant. Has 18 years of banking experience. In PJSC "MEGABANK" works for 17 years. Graduated from Kharkov State University by M. Gorky (with the specialty Statistics), the National Law Academy of Ukraine by Yaroslav the Wise (with the specialty Jurisprudence)

The personnel.

As of 01.04.2011, the Bank has 1620 persons regularly employed.

7. Summary and visualization of rating

During the period from September, 10 till September, 28th the analytical service of RA Expert Rating performed rating research on the Public Joint Stock Company "MEGABANK" (USREOU code 09804119). On September, 28th the Rating Committee of RA "Expert-rating" decided on assignment of borrower rating and credit

rating to the bonds of series G, H, I of the Public Joint-Stock Company "MEGABANK" at the level **uaA-** on the national scale.

When assigning the investment grade level, the Agency was guided by the following conclusions:

1. The Agency positively estimated the quality of PJSC "MEGABANK" assets. Crediting remains the main direction of Bank resources allocation wherein more than 70 % are loans to legal persons. Thus the Bank adheres to good branch portfolio diversification of loans to legal persons. Three areas are dedicated approximately one quarter each of the total amount of issued loans. Those are: agriculture (24 %), industry (23,83 %) and commerce (23 %). Besides, Bank credit portfolio is not burdened by such nowadays problematic asset as mortgage loans to physical persons - as of 01.07.2011 their share in the portfolio constituted only 2,52 %. The share of bad credits in Bank portfolio makes only 0,93 %, and the value of loan provisions/loan portfolio ratio corresponds to 3,75 % that is greatly below average bank system indicator.

2. Within the last 5 years the Bank worked with profit. The crisis impacted essentially the dynamics of profitability indicators. Comparison of main indicators of Bank profitability for H1 2011 with the same period of the previous year proves to the beginning of Bank profitability recovery to pre-crisis level. Thus bank liquidity indicators are at high level.

3. The bank as of 01.07.2011 adhered with redundancy to all liquidity norms. At the prescribed norm of instant liquidity below 20 %, the H4 value in the Bank was 42 %. The prescribed current liquidity being not less than 40%, at the Bank it constituted 56 %, at the prescribed short-term liquidity of not less than 60 % at the Bank it constituted 109 %. Considering that from three liquidity norms only H6 was above system average in the Bank, the Agency assesses Bank policy of liquidity management as moderate maintenance of excessive liquidity.

4. The assessment of accomplishment by MEGABANK of NBU established capital norms proves to that the Bank adheres to strategy of excessive capitalization. So, as of 01.07.2011 the norm of regulatory capital adequacy (H2) was at the level of 23,73% at NBU request of 10 %, and the regulatory capital to total assets ratio (H3) was equal to 20% at the required minimum value of 9 %. Such high parameter of capital adequacy have been reached by the Bank thanks to carrying out two emissions for the total amount of UAH 300 m, during which the structure of its shareholders was joint by EBRD, International Finance Corporation (IFC) and Reconstruction Credit Institute (KfW).

5. The Agency estimates as high the level of external support which EBRD, IFC and KfW can render to the bank. According to Agency, the activity of the aforementioned IFOs bears in itself minimal credit risks that is confirmed by their high credit ratings from international rating agencies. Besides that, the EBRD, IFC and KfW have sufficient scale of work to provide the affiliated and associated companies in Ukraine a required level of external support. EBRD assets as of 01.04.2011 constituted EURO 40,8 b, IFC assets on the beginning of 2011 exceeded USD 61 b, KfW assets on the beginning of 2011 exceeded EURO 442 b. It is important that all three organizations are not only able to provide the Bank with the capital, but also perform an activity in Ukraine that can also positively influence business processes in PJSC "MEGABANK".

See the rating report for full substantiation of rating assigned by RA Expert Rating.

Appendix A

Use limitations of the rating report

The present report is an intellectual property of Expert Rating RA ltd. All intellectual property rights owned by Expert Rating RA ltd are protected in conformity with the legislation of Ukraine. No part of this report may be sold, reproduced or distributed by third parties without previous written approval of Expert Rating RA ltd. All information contained in the present report, had been obtained by Expert Rating RA ltd from sources which Expert Rating RA ltd considers as reliable. Due to the possibility of human or technical error, and other factors, Expert Rating RA ltd does not guarantee the absolute reliability of the provided information. The credit rating of the Bank, and any part of the information contained in the report, should be regarded exclusively as an opinion on the degree of withstanding by the financial entity to adverse factors and not as recommendation about purchase or sale of securities or recommendation about use of bank services. Expert Rating RA ltd does not bear responsibility for any consequences of credit, investment or economic decisions of third parties taken solely based on information on ratings, awarded by Expert Rating RA ltd.

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 resistibility 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 Institute 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 it is necessary to take care of difference in the systems of account and accounting policy.

Table A

International rating scale for credit ratings used by RA Expert Rating		
Rating	Stability level	Interpretation of stability level
aaa	Highest	There is highest probability of that the company will withstand the influence of adverse factors. The company corresponds to aa level but its obligations are additionally guaranteed by the foreign shareholders or the state.
aa	Very high	There is very high probability of that the company will withstand the influence of adverse factors.
a	High	There is high probability of that the company will withstand the influence of adverse factors.
bbb	Good	There is normal probability of that the company will withstand the influence of adverse factors.
bb	Acceptable	There is acceptable probability of that the company will withstand the influence of adverse factors.
b	Satisfactory	There is satisfactory probability of that the company will withstand the influence of adverse factors.
ccc	Alerting	There is alerting probability of that the company will withstand the influence of adverse factors.
cc	Low	There is low probability of that the company will withstand the influence of adverse factors. As a rule, the company removed from rating process

Every type of letter corresponds to three kinds of outlook:

Positive (+);
Neutral (0);
Negative (-).

This appendix is an integral part of any rating report.