

Rating action: Update of a long-term credit rating according to the national scale
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The issuer: PSC Prominvestbank
 USREOU code of the issuer: 00039002
 Web-site of the issuer: www.pib.ua



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Credit rating of PSC Prominvestbank is updated

October 1, 2018 at the meeting of the rating committee of RA “Expert-Rating” it was decided to update a long-term credit rating of PSC Prominvestbank (00039002) at the level **uaAA+** according to the Ukrainian national scale. Updating the Bank’s credit rating, the Agency was guided by the results of the Bank’s activity for the 12 months of 2017 and the first half of 2018, regular and particular information of the Bank as an issuer, as well as by the results of analysis of specific forms of statistical statements of the Bank for the 2017 and January-August of 2018.

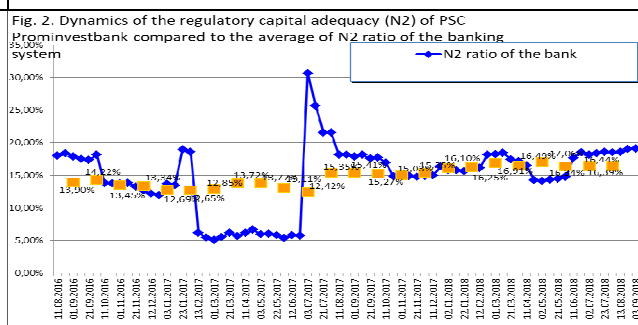
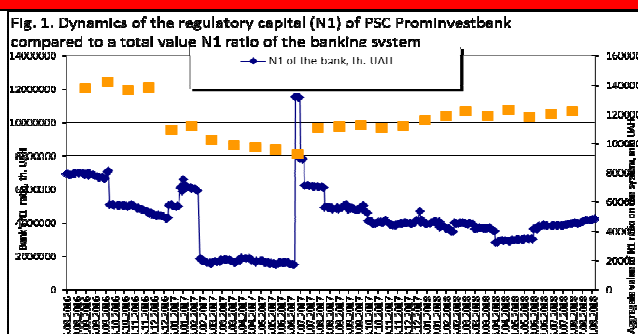
Equity and capital adequacy

As of 03.09.2018 the Bank’s regulatory capital (N1) has amounted to UAH 4,228 bn. From January, 2017 to the beginning of September, 2018 the Bank’s N1 ratio has grown by 7,14%. Throughout January, 2018 - August, 2018 the Bank’s regulatory capital has gradually increased. The revealed trends have reflected in the dynamics of the regulatory capital adequacy ratio of the Bank (N2).

After the Bank’s additional capitalization and the growth of N2 ratio from 5,67% (21.06.2017) up to 30,68% (03.07.2017), this normative showed a trend towards gradual growth up to 03.09.2018.

As of 03.09.2018 the Bank’s N2 ratio reached 19,06%, having exceeded by 9,06 p.p. the limit value, set by NBU.

Thus, at the beginning of September, 2018 PSC Prominvestbank still has been very well provided with regulatory capital.



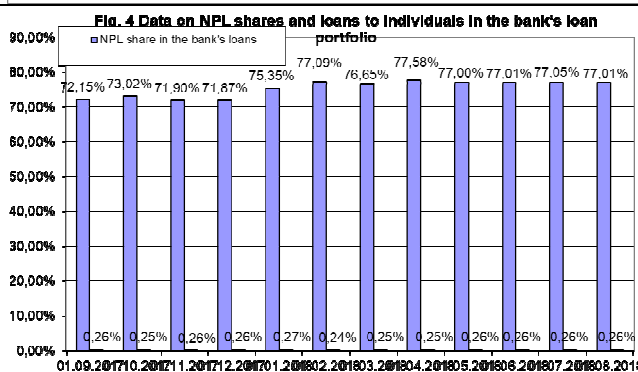
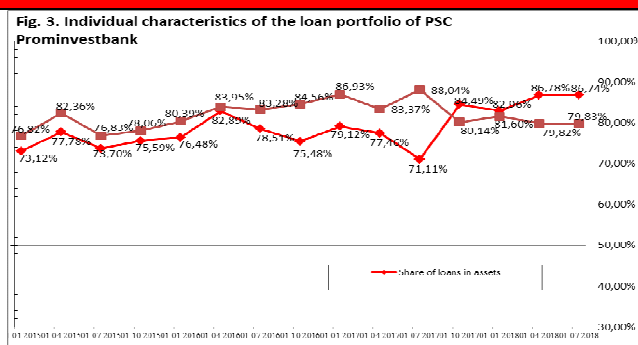
Asset structure and quality

As of 01.07.2018, based on the NBU data, the proportion of loans in the Bank’s assets was assessed 86,74% by the Agency, and the proportion of currency loans in the loan portfolio – 79,83%.

In plus, one should note that in the period from 01.09.2017 to 01.08.2018 the proportion of loans to individuals in the Bank’s loans fluctuated in the range 0,24%-0,27%. At the same period the proportion of non-performing loans (NPL), which are calculated by the Agency as a sum of the fifth class for loans to individuals and the tenth class for loans to legal entities, fluctuated in the range 71,87%-77,58%.

A significant amount of NPL of PSC Prominvestbank correlates with the large amount of provisions formed by the Bank. As well, the share of NPL in the Bank’s loan portfolio is stabilized at the level 77,01%.

The Agency considers that the peak stage of devaluation in Ukraine is passed, that will help to reduce pressure of the negative trends on the Bank in the transformation of currency risks into loan ones due to the devaluation processes. Besides, a



significant share of the Bank's loan portfolio is already covered by provisions that decrease the probability of the further deterioration of the loan portfolio quality.

Liquidity

For the period from 05.08.2016 to 03.09.2018 instant liquidity ratio of the Bank fluctuated in the range 25,43%-113,67%. As of 03.09.2018 the Bank's N4 ratio amounted to 84,25% that is by 64,25 p.p. more than a minimal acceptable value of the normative, set by NBU.

For the period from 05.08.2016 to 03.09.2018 current liquidity ratio of the Bank (N5) fluctuated in the range 72,96%-198,03%. As of 03.09.2018 the Bank's N5 ratio amounted to 81,79%, that is by 41,79 p.p. more than a minimal acceptable value of the normative, set by NBU.

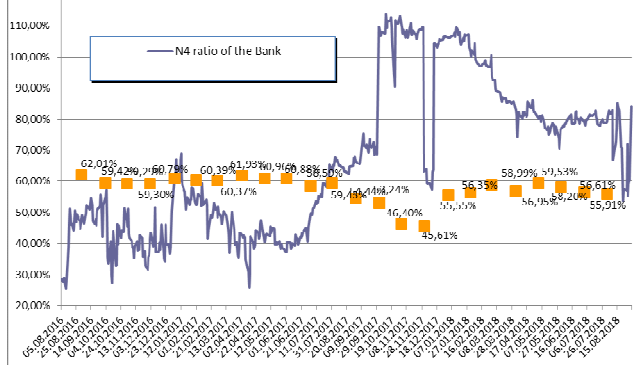
For the period from 05.08.2016 to 03.09.2018 short-term liquidity ratio of the Bank fluctuated in the range 68,5%-155,19%. As of 03.09.2018 the Bank's N6 ratio amounted to 81,48%, that is by 21,48 p.p. more than a minimal acceptable value of the normative, set by NBU.

Additionally, the Agency draws attention to the fact that the values of instant, short-term and current liquidity ratios of the Bank throughout the entire analyzed period were significantly more than the limit values, set by NBU. As well, they periodically exceeded the averages of these ratios on the banking system.

The Agency also draws attention to a significant increase in the reserve on instant liquidity ratio, which for the period from 02.10.2017 to 03.09.2018 was of long-term nature.

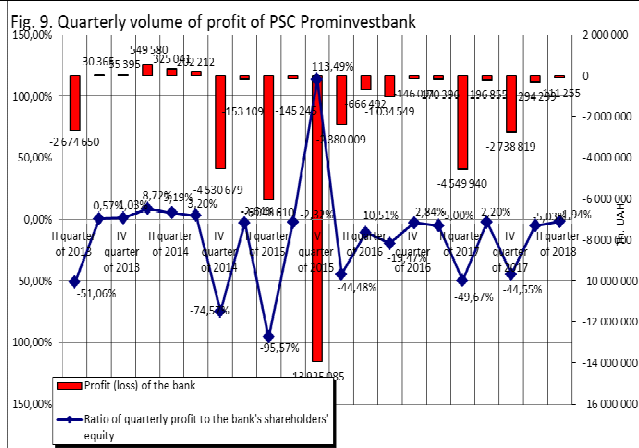
The Bank's provision with liquidity at a very high level combined with good provision of regulatory capital significantly reduces the Bank's own loan risks in the foreseeable future.

Fig. 5. Dynamics of instant liquidity ratio (N4) of PSC Prominvestbank compared to the average value of N4 ratio of the banking system



The Bank finished the first quarter of 2018 with loss of UAH 294,300 mln. The Bank finished the first half of 2018 with loss of UAH 405,555 mln. The amount of loss with the availability of the Bank's good provision with equity and liquidity wasn't considerable for the Bank.

The Agency draws attention to the fact that the Bank didn't lose the ability to generate key items of income. In particular, the Bank finished the first half of 2018 with net interest income of UAH 652,061 mln and net commission income of UAH 102,868 mln (or according to IFRS standard UAH 93,036 mln).



Other factors

Verification on the Unified State Register of court decisions showed that with respect to PSC Prominvestbank there are no court decisions which would have a significant impact on its stability or the results of its activity. The Bank as a lender actively defends its rights in the courts of Ukraine.

The Agency studied the decision of the Kiev Court of Appeal related to the arrest of the Bank's shares and the injunction against him of alienating the Bank's property dated September 08, 2018 in case number 796/165/2018. The agency recalls that it does not evaluate the outcome of litigation. According to Agency estimates, the decision of the court does not bear any risks in relation to the operating activities of the Bank. This court decision is not a direct claim to property or ordinary shares of the Bank, but merely acts as an interim measure in relation to the execution of a decision of another court. Thus, even if we consider the worst option, in which the Bank loses the case in the Supreme Court, challenging the decision of the appellate court, the claims of the plaintiffs are not aimed at acquiring shares of the Bank, but at receiving monetary compensation from the direct owner of PSC Prominvestbank. Nevertheless, the Agency admits a negative impact on the Bank's performance indicators of these events, but this influence may be of an informational nature, which is related to the dissemination of information by the media that does not correspond to the meaning of the Court Decision. In this regard, the Agency worsens the outlook to negative, because it believes that the informational consequences of the publication of the court decision are not enough for other rating actions.

The Agency reminds that sanctions, provided by the Ukrainian authorities with respect to the Ukrainian banks with participation of Russian government capital, still introduce additional tension in the Ukrainian-Russian relations. In the Agency's opinion, tensions in Russian-Ukrainian relations can create risks for PSC Prominvestbank, the nature of which do not depend on PSC Prominvestbank, and which cannot be quantified or analyzed. Meanwhile, the Agency draws attention to the fact that the shareholder of PJSC Prominvestbank at the end of June, 2017 carried out the additional capitalization of the Bank, thereby significantly having improved the Bank's capital ratios and having had a positive impact on the dynamics of its liquidity ratios. These trends also were observed as at the beginning of September, 2018.

The management of the key shareholder PSC Prominvestbank - Vnesheconombank of the Russian Federation - has more than once announced the intention to sell its subsidiary bank in Ukraine. At the same time, while the deal has not been officially announced by both parties (the seller and the buyer) and has not passed all the permitting stages in the NBU, RA "Expert-Rating" has no reason to expect changes in the Bank's rating in the future. Also, the decision of the Kyiv Court of Appeal dated 08/09/2018 in case number 796/165/2018 may impede a potential transaction. The agency reminds that Vnesheconombank RF has an international investment level credit rating from the international rating agency Fitch.

Generalization

At the moment of rating update PSC Prominvestbank performed its commitments to clients and lenders according to its own internal rules and regulations, as well as according to current legislation.

At the beginning of September, 2018 PSC Prominvestbank:

- Was very well provided with regulatory capital;
- Possessed a very high level of instant liquidity, as well as a high level of current and short-term liquidity;
- In summer, 2017 the Bank was provided with support (additional capitalization) by its key shareholder, which positively affected the key financial indicators of the Bank and its dynamics till September, 2018;
- The Bank's activity remained unprofitable.

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