

14.05.2015

Ratings of PSC Prominvestbank are confirmed

May 14, 2015 at the meeting of the Rating committee of RA "Expert-Rating" it was decided to confirm a long-term credit rating of PSC Prominvestbank (00039002) at the level uaAAA according to the Ukrainian national scale. The borrower or the separate bond instrument with rating uaAAA is characterized by the highest solvency compared to other Ukrainian borrowers or bond instruments. Updating the ratings, the Agency was guided by the results of the Bank's activity for the first quarter of 2015, the regular and particular information of the Bank as an issuer, as well as the results of analysis of certain forms of statistical reporting of the Bank for the first quarter of 2015.

1. According to the results of the first quarter of 2015 the key balance sheet indicators of PSC Prominvestbank in hryvnia equivalent have demonstrated the following dynamics:

- Shareholders' equity has decreased by UAH 202,14 mln or by 3.37% and as at the beginning of the second quarter of 2015 has amounted to UAH 5.81 bn;
- Liabilities have grown by 29.74%: from UAH 46.64 bn up to UAH 60.51 bn. At the same time, the key sources of increasing the resource base of PSC "Prominvestbank" have still been funds of banks (+33.15% or UAH 8.96 bn) and funds of legal entities (+25.91% or UAH 1.57 bn), funds of individuals have also shown an increase (+11.56% or UAH 881.63 mln);
- Assets have increased by UAH 13.67 bn or by 25.97% and have amounted to UAH 66.31 bn, while the volume of customer credits and debt of the Bank, including reserves, has grown by 31.32% or by UAH 13.85 bn.

Table 1. **Key balance sheet indicators of PSC Prominvestbank for the first quarter of 2015, th. UAH, %, p.p.**

Indicators	01.04.2015	01.01.2015	Change	Growth rate, %
Shareholders' equity	5 804 593	6 006 733	-202 140	-3.37%
Authorized capital	8 192 613	8 212 007	-19 394	-0.24%
Shareholders' equity/Assets ratio, %	8.75%	11.41%	-2.66 p.p.	-
Total liabilities	60 509 695	46 637 895	13 871 800	29.74%
<i>Including liabilities in foreign currency</i>	51 219 517	37 473 245	13 746 272	36.68%
Funds of banks	35 979 531	27 022 065	8 957 466	33.15%
Funds of individuals	8 506 576	7 624 943	881 633	11.56%
Funds of legal entities	7 619 742	6 051 508	1 568 234	25.91%
Total assets	66 314 288	52 644 628	13 669 660	25.97%
Liquid assets (Cash and cash equivalents + Funds of mandatory reserves in NBU + Trading securities + Funds in other banks)	4 743 566	5 696 770	-953 204	-16.73%
Customer credits and debt, including reserves	58 067 493	44 218 997	13 848 496	31.32%
<i>Loan provisions</i>	6 489 024	5 718 248	770 776	13.48%
<i>Loan provisions/ customer credits and debt ratio, %</i>	11.17%	12.93%	-1.76 p.p.	-
Securities for sale	4 029 779	3 332 142	697 637	20.94%
Securities for sale provisions	88 725	88 725	-	-
Liquid assets/Liabilities ratio, %	7.84%	12.21%	-4.37 p.p.	-

Source: data of PSC Prominvestbank, calculations by RA «Expert-Rating»

According to the data of financial statements of PSC Prominvestbank, as of 01.04.2015 67.64% of credit operations of the Bank have been referred to the first (UAH 11.52 bn) and second (UAH 35.94 bn) categories of quality, i.e. have differed by minimal (the first quality category) and moderate (the second quality category) levels of risks. As of 01.04.2015 the proportion of non-performing loans of the Bank (attributed to the fourth and fifth categories of quality) has amounted to 16.08% that is by 1.88 p.p. less than as of 01.01.2015.

2. Regulatory capital of PSC Prominvestbank (N1) according to the results of the first quarter of 2015 has decreased by UAH 7.15 bn or by 60.64% and has amounted to UAH 4.64 bn. In its turn, the decrease in the regulatory capital against the background of the growth of the Bank's assets has resulted in the decrease in the normative of the regulatory capital adequacy (N2). Thus, for the period from 01.01.2015 to 01.04.2015 the normative N2 has reduced by 14.84 p.p.: from 21.82% down to 6.98%. It is by 3.02 p.p. lower, than the limit level set by the regulator, as well as by 1.37 p.p. lower, than the average indicator of this normative on the banking system of Ukraine.

Besides, the volume of the Bank's regulatory capital against the background of hryvnia devaluation has negatively reflected on the dynamics of some norms of the loan risk of PSC Prominvestbank (namely – N7 and N8), having provoked its violation. Thus, the normative of large loan risks of the Bank (N8) for the period from 01.01.2015 to

01.04.2015 has grown by 1073.69 p.p.: from 178.59% up to 1252.28% (with the limit set by NBU “not more 800%” and the average of the market – 651.32%).

In the context of the above, the Agency draws attention that as of 01.04.2015 with the statistical analysis of general indicators on the banking system of Ukraine an anomalous situation has been revealed when the average of the normative of the regulatory capital adequacy N2 has been by 1.65 p.p. less than the normative, i.e. in the banking system there have been a lot of banks, which haven't complied with N2.

The Agency reminds that in the first quarter of current year a resolution of the National Bank of Ukraine № 129 dated February 24, 2015 "**On some issues of banks' activities**" came into effect. In paragraph 2 of this resolution it comes to the following: «*Not to apply to banks the measures of influence for violation of economic standards of the minimal amount of regulatory capital (N1), the regulatory capital adequacy (N2), current liquidity (N5), short-term liquidity (N6), the maximum amount of loan risk per one counteragent (N7), large loan risks (N8), the maximum amount of loans, guarantees and sureties issued to the insider (N9), the maximum total amount of loans, guarantees and sureties issued to the insiders (N10), the limit of the total short open foreign exchange position related to the revaluation of accounts in foreign currency and bank metals due to the growth of foreign exchange rate to the national currency of Ukraine after February 6, 2014 and/or caused by the formation of reserves for possible losses on active banking operations after February 6, 2014 provided the bank's compliance with the norms N7, N8, N9, N10 at the date of conducting the agreement/performing operations and requirements of paragraphs 6 and 7 of this resolution*». The mentioned resolution has a long validity period – up to January 1, 2019.

Table 2. Key norms of PJSC «Prominvestbank» according to the results of the Q1 of 2015, th. UAH, %, p.p.

Norms	The norm set by NBU	01.04.2015		01.01.2015		Change, th. UAH, p.p.
		The Bank's norm	The average of the system	The Bank's norm	The average of the system	
Regulatory capital (N1), th. UAH	Not less than UAH 120 000 th.	4 641 255	-	11 790 572	-	-7 149 317
Regulatory capital adequacy (N2), %	Not less 10%	6.98%	8.35%	21.82%	15.60%	-14.84 p.p.
Instant liquidity (N4), %	Not less 20%	74.74%	49.11%	113.76%	57.13%	-39.02 p.p.
Current liquidity (N5), %	Not less 40%	141.40%	72.92%	201.26%	79.91%	-59.86 p.p.
Short-term liquidity (N6), %	Not less 60%	68.07%	78.76%	86.48%	86.14%	-18.41 p.p.
Norm of large loan risks (N8), %	Not more 800%	1 252.28%	651.32%	178.59%	250.04%	1 073.69 p.p.
Norm of the maximum amount of loans, guarantees and sureties, issued to the insiders (N10), %	Not more 30%	0.03%	1.08%	0.03%	1.37%	-

Source: data of PSC Prominvestbank, NBU, calculations by RA «Expert-Rating»

The Agency also draws attention that according to particular information of the Bank as an issuer of securities on April 23, 2015 the next meeting of shareholders of PSC Prominvestbank decided to increase the authorized capital by UAH 9.2 bn by private offering of additional shares of the existing par value from additional contributions. Thus, the main shareholder of PSC Prominvestbank once again on practice demonstrated the readiness to provide its business in Ukraine with external support that was predicted by the Agency. External support from the shareholder of PSC Prominvestbank eliminates the impact of risks on the Bank's activities and is an important factor in the assessment of long-term credit rating of the Bank and its bonds.

3. Liquidity norms of PSC Prominvestbank as of 01.04.2015 compared to 01.01.2015 have demonstrated the decrease in values that has corresponded to the average market dynamics, namely:

- Norm of instant liquidity (N4) has decreased by 39.02 p.p. and has amounted to 74.74%;
- Norm of current liquidity (N5) has decreased by 59.86 p.p. – down to 141.40%;
- Norm of short-term liquidity (N6) has reduced by 18.41 p.p. and has amounted to 68.07%.

Despite a decrease, the liquidity norms of PSC Prominvestbank as at the beginning of the Q2 of 2015 have been met with noticeable reserve with respect to the limits set by NBU: N4 has exceeded the normative indicator by 54.74 p.p., N5 – by 101.40 p.p., and N6 – by 8.07 p.p. Besides, the norms of instant (N4) and current (N5) liquidity of the Bank have exceeded the averages of these norms on the banking system of Ukraine (by 25.63 p.p. and 68.48 p.p. respectively), at the same time, the norm of short-term liquidity of the Bank (N6) has been lower than the average of the market by 10.69 p.p.

4. Key items of income of PSC Prominvestbank according to the results of the Q1 of 2015 compared to the Q1 of 2014 have shown a significant increase: net interest income has increased by UAH 278.16 mln or by 78.99%, and net commission income has grown by UAH 212 mln or in 3.6 times. Despite an increase in the volume of key income, according to the results of the Q1 of 2015 PSC Prominvestbank has received a loss of UAH 153.11 mln, while according to the results of the same period of last year the Bank has shown profit of UAH 549.58 mln. At the same time, it should be noted that according to the information of the National Bank of Ukraine, losses of the operating banks in the Q1 of 2015 have amounted to UAH 16.2 bn. Negative financial result of banks has been formed only due to considerable volumes of deductions to reserves for possible losses from active operations.

Table 3. Separate indicators of income and expenses of PSC Prominvestbank for the first quarter of 2015-2014, th. UAH, %, p.p.

Indicators	Q1 of 2015	Q1 of 2014	Change	Growth rate, %
Net interest income	630 284	352 127	278 157	78.99%
Net commission income	292 863	80 865	211 998	262.16%
Net commission income/ Net interest income ratio	46.47%	22.96%	23.51 p.p.	-
Result from operations with foreign currency	(168 216)	176 923	-	-
Administrative and other operating expenses	385 271	283 489	101 782	35.90%
Net profit (loss)	(153 109)	549 580	-	-
ROE, %	(2.64%)	9.15%	-	-

Source: data of PSC Prominvestbank, calculations by RA «Expert-Rating»

Among the main factors of pressure on the financial results of PSC Prominvestbank should be highlighted the following:

- Significant increase in the volume of negative result from revaluation of foreign exchange (by UAH 681.28 mln or in 9.4 times – up to UAH 762.68 mln), as well as significant increase in deductions to reserve for impairment of receivables and other financial assets (by UAH 289.97 mln or in 243.5 times: from UAH 1.2 mln according to the results of the Q1 of 2014 up to UAH 291.17 mln according to the results of the Q1 of 2015);
- Volume of deductions to loan and funds in other banks reserves in the Q1 of 2015 has amounted to UAH 176.38 mln;
- Negative result from operations with foreign currency according to the results of the Q1 of 2015 has been at the level UAH 168.22 mln.

Therefore, according to the results of the Q1 of 2015 PSC Prominvestbank has demonstrated:

- Weighty increase in assets and liabilities (in UAH equivalent) against the background of the decrease in volumes of shareholders' equity and regulatory capital.
- On 01.04.2015 the norm of the regulatory capital adequacy of the Bank (N2) has been lower than the limit level set by the regulator and has been lower than the average of this norm on the banking system of Ukraine.
- Decrease in the volume of regulatory capital of PSC Prominvestbank against the background of hryvnia devaluation has negatively affected the dynamics of some norms of the Bank's credit risk (namely – N7 and N8), having provoked its violation.
- Decrease in N2 of the Bank in the first quarter has repeated general trend on the banking system. April 23 at the meeting of shareholders it was decided to increase the authorized capital of the Bank by UAH 9.2 bn that will result in the growth and formation of considerable reserve on norms N1 and N2 and other norms of the Bank deriving from the regulatory capital.
- Liquidity norms of PSC Prominvestbank despite the decrease in values, as at the beginning of the second quarter of 2015 have been met with noticeable reserve with respect to the limits set by NBU. The Bank has been very well provided with liquidity.
- In the Q1 of 2015 the Bank has demonstrated a progress in the increase in net interest and net commission income that emphasize the ability of PSC Prominvestbank to generate revenues in difficult economic conditions.

Analytical service of RA «Expert-Rating»