

The Rating Report

(version for publication)
(subject to the Agreement No. 46/PA of 02.11.2010)



Credit rating of the Bank according to Ukrainian national scale	uaBBB
Interpretation of rating according to the national scale:	The Bank is characterized by sufficient credit capacity in comparison with other Ukrainian banks. Level of credit capacity depends on the influence of adverse commercial, financial and economic conditions (The rating is defined according to the rating scale approved by the Resolution of the Cabinet of Ministers of Ukraine No. 665 of April, 26th, 2007)
Rating date:	December 20, 2010



Public Joint Stock Company “Kreditprombank” (Full name of the bank)

Ukraine, 01014, 38, Druzby narodov Blvd., Kyiv
(Bank legal address)

Ukraine, 01014, 38, Druzhby narodov Blvd., Kyiv
(Bank de facto address)

Incorporation date	May 20, 1997
National enterprises register code	21666051
Former names	Commercial bank "Incombank Ukraine" (20.05.97 – 16.09.99)
Rating agencies which services were used earlier	Moody's Investor Service, Fitch Ratings.
Auditors	"Ernst&Young LLC"; audit firm "South Star"
Registrar	The bank does not use services of a registrar
Phone	0 800 507-909
Fax	+38044 490-72-28
Chairman of Board	Leonidov Viktor Dmitrievich, Chairman of Board
Contact persons	Bogdan Elena, Head of Analysis Division of Information and Analysis Board of Finance and Economics Department, +38044 495-18-87, ebogdan@kreditprombank.com
E-mail	kpb@kreditprombank.com
Web address	http://kreditprombank.com/

List of licenses and permits issued to the Bank: PJSC Kreditprombank carries out the activity in accordance with NBU Banking License no. 174 dd. 01.04.2010 and Permit no. №174-3 dd. 01.04.2010. The Bank carries out activities in the security market under Licenses of Securities and Stock Market State Commission Series AB no. 534279 dd. 20.07.2010 for trading in securities, namely - securities management, and Series AB no. 520558 dd. 08.04.2010 authorizing professional activity in the security market: securities issue and circulation; custody activity – custodian; activity on keeping own register of registered owners.

*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*

Data on bank circulated bonds, as of 01.10.2010
(all series of bonds have been restructured)

Explication	Series C	Series D	Series F
Type of bond placement	public	public	private
Nominal value currency	UAH	UAH	UAH
Emission amount	50 000 000,00	50 000 000,00	350 000 000,00
ISIN code	UA 100079AC00	UA100079AD09	UA4000012876
Start date of placement	21.07.2005	22.08.2005	12.06.2007
End date of placement	20.12.2005	29.12.2005	12.06.2007
Coupon rate	20%	20%	17%
Periodicity of coupon payments	quarterly	quarterly	quarterly
Start payment date	21.07.2005	22.08.2005	12.06.2007
Retirement date	14.07.11-16.07.11	15.08.11-17.08.11	07.06.11-09.06.11
Provisions of early redemption	NA	NA	NA
Bonds placement agent	NA	NA	NA
Trading facility	unorganized market	unorganized market	unorganized market
Is there a bonds guarantor? Describe the type of guaranty, indicate the guarantor	NA	NA	NA
Are there any issue terms restricting rights of creditor?	NA	NA	NA
Shortly describe placement strategy, which share purchasers is the bank focused on?	No restrictions	No restrictions	According to the list of eligible owners

1. General overview of the bank

The Public Joint Stock Company “Kreditprombank” operated in the financial market of Ukraine since 1997. According to NBU classification for 2010, Kreditprombank belongs to Group I of largest banks of Ukraine. The Bank serves natural and legal persons, including enterprises of strategic industries, stable small and medium enterprises. A wide range of services is provided through national network of points of sales including 12 branches, the Kiev regional department and 172 outlets. The bank continuously implements the process of regional network optimisation.

On June 23, 1997 Kreditprombank (at that time “Incombank Ukraine”) got NBU Licence for banking business in Ukraine. In 1998 the Bank became a full-fledged member of S.W.I.F.T. In 2000 the Bank was reorganised into JSC and also became a member of Visa International and MasterCard International payment systems. In 2003 the Bank for the first time entered the corporate bond market as issuer and also was granted the status of Agent Bank on behalf of European Bank for Reconstruction and Development on issuing loans to small and medium businesses within SME-2 program.

Within 6 years, in 2000–2005, Kreditprombank actively formed regional branch network. During this period the branches in Lvov, Kharkov, Zaporozhe, Kremenichug, Vinnitsa, Lugansk, Nikolaev, Odessa, and more than 100 outlets across Ukraine have been open. In 2005–2007 the bank has been actively financing construction. In 2006 the bank was among the first in Ukraine to launch credit lines for construction financing funds, the same year it started to cooperate with the State Mortgage Institution. In 2007 the total portfolio of bank loans to developers was already estimated at the amount of UAH 160 m, that made less than 2% of Kreditprombank loan portfolio.

In 2008–2009 Kreditprombank passed through the crisis rather safely. Unlike Nadra, Kiev, Rodovid, Ukragazbank or Ukrprombank, its temporary liquidity problems have not outgrown into systemic problems. During crisis period the bank continued to discharge obligations with depositors in due time. However, during crisis time the bank asked creditors to restructure bond issues presuming public offer and a number of external loans.

In 2010 PJSC Kreditprombank concluded well-consolidated loan agreement with its foreign creditors. This document provides prolongation of current bank’s debt in the amount of over USD 300m for the term up to five years under competitive interest rates. Along with that, USD 100m will be converted into the shareholders equity of PJSC Kreditprombank. Shareholders’ equity of the Bank will be increased for total amount of USD 90 m at the expense of already made deposits and future injections of current shareholders.

A group made by more than twenty international creditors among which are the European Bank for Reconstruction and Development (EBRD), DEG (Deutsche Investitions - und Entwicklungsgesellschaft mbH), Cargill (Cargill Financial Services International, Inc.), Raiffeisen Zentralbank Oesterreich AG and London Forfaiting Company, will become owner of up to 49 % of Bank shares. New shareholders will delegate their two representatives to Kreditprombank Supervisory board which is composed of five members.

During the post-crisis period in 2009–2010 the Bank focused on introduction of advanced technologies into its business processes:

- CRM-system for call-center has been implemented;
- confirmation of quality management system conformity to the requirements of ISO 9001:2008 updated edition;

- connection to Bloomberg Professional information system;
- launch of new payment kiosks for utility, taxes and fees payments;
- customer remote servicing system Internet banking is been implemented, etc.

For the beginning of October, 2010 the assets of Kreditprombank made up UAH 15,45 bn., that allowed the bank to take 16th position in NBU ranking for assets amount. The analysis of bank overall performance indicators for 2009-2010 made it possible to draw the following positive conclusions:

1. From 01.10.2009 to 01.10.2010 bank assets grew on 2,27%, and shareholders' equity of the bank increased by 23,10 %. Growth of shareholders equity took place due to increase of authorized capital from UAH 1,35 to 1,84 bn. Capital adequacy ratio (H2) has grown on 2,97 % from 10,74 % (as of 01.10.2009) to 13,71 % (as of 01.10.2010) due to authorized capital priority growth rate over assets.

2. From 01.10.2009 to 01.10.2010, the share of loans in assets decreased on 4,5%. By gradually reducing share of loans in assets the Bank was increasing liquidity. It is important that as of 01.10.2010 the loans made 69,87% of Bank assets, whilst on the average this indicator according to NBU data was 87,2% for the group I banks. Thus, in comparison to other group I banks, Kreditprombank did not allocate so many resources in favour of loan portfolio.

3. From 01.10.2009 till 01.10.2010, deposits of physical persons have grown on 54,16%, of legal persons — on 30,85%. In turn, obtained interbank loans dropped on 45%, NBU loans decreased on 10,28%, and also loans of international financial organizations decreased on 12,55%. In Agency's opinion, the revealed tendencies evidence to the improvement of bank resource base. Dependence on refinancing by NBU, international financial organisations and interbank market has been decreased noticeably. Growth of deposits share in resource base is also a positive factor in bank development.

4. PJSC Kreditprombank finished 9 months of 2010 with UAH 20.8 m net profit. In spite of 14% growth of active transaction reserves from 01.01.2010 to 01.10.2010, the bank has proved it's able to generate profit. It should be noted that 6 banks from 18 of NBU classification I group finished this period with loss. Availability of net profit at the end of 9 months is a positive outcome for PJSC Kreditprombank (Table 1).

Table 1

Key Performance Indicators of PJSC Kreditprombank (UAH th, %)

Indicators	01.10.2010	01.10.2009	Change	Growth rate	2009 (01.01.2010)	2008 (01.01.2009)	Change	Growth rate
Total assets (all assets – intrasystem + reserves)	15446080,0	15103680,0	342400,0	2,27%	14993210,0	15156230,9	-163020,8	-1,08%
Net assets (assets – reserve under active transactions)	13852885,1	13921022,9	-68137,8	-0,49%	13589849,1	14443987,8	-854138,7	-5,91%
Loan share in assets	69,87%	74,37%	-4,5%	-	73,84%	78,06%	-4,22%	-
Client loans (excluding interbank)	10791506,9	11233091,0	-441584,1	-3,93%	11070256,7	11831551,5	-761294,8	-6,43%
Share of troubled loans	10,70%	8,11%	2,59%	-	9,43%	2,11%	7,31%	-
Shareholders equity	1817968,6	1476846,3	341122,4	23,10%	1263606,7	1618943,7	-355337,1	-21,95%
Authorized capital (paid-in)	1838334,7	1350000,0	488334,7	36,17%	1350000,0	1350000,0	0,0	0,00%
Deposits of physical persons	3634375,3	2357537,7	1276837,6	54,16%	2419624,8	3298498,5	-878873,7	-26,64%
Received interbank loans	333964,8	607807,3	-273842,6	-45,05%	543054,9	994298,6	-451243,7	-45,38%
NBU loans	1847539,1	2059225,5	-211686,4	-10,28%	2059224,7	759294,8	1299930,0	171,20%
Loans of international financial organisations	3088108,0	3531436,1	-443328,1	-12,55%	3414315,3	3485115,9	-70800,6	-2,03%
Deposits of legal persons	1167766,1	892451,0	275315,1	30,85%	680025,2	1115864,4	-435839,2	-39,06%
Net profit	20814,8	-124724,9	145539,7	116,69%	-266286,5	3538,7	-269825,2	-7625,02%
Capital adequacy ratio (H2)	13,71%	10,74%	2,97%	-	16,05%	12,84%	3,21%	-

Source: PJSC Kreditprombank data, calculations by RA Expert Rating

Following tendencies should be considered negative:

1. From 01.10.2009 to 01.10.2010 asset quality impairment was in course, that is proper to the entire banking system of Ukraine. This fact is indirectly proved by already mentioned 35% growth of reserves under active transactions, and also by growth of troubled loans in bank portfolio on 2,59 % – from 8,11 to 10,7%. It should be noted that currently loan portfolio quality has practically stabilised, that is evidenced by insignificant change of troubled loans share from 10,57% to 10,7% during Q2 2010. This fact is also confirmed by minor change in reserves for this period, namely, 0,05%.

Though substantially slowed down, growth of troubled debts in Bank portfolio remains main type of risk which restrains and will restrain credit rating of Kreditprombank in the future.

Therefore we believe that positive factors influencing rating level of Kreditprombank are: improvement of resource base, recover of working profitability following the results of 9 months, increase of capital adequacy level, successful re-structuring of external debt and UAH bonds debt, reduction of loans share in the assets. A negative trend is an ongoing, though essentially slowed down, impairment of assets quality.

2. Assets quality

As most banks in Ukraine, Kreditprombank has a multilevel assets quality monitoring system. Monitoring of loan portfolio quality starts from the moment of credit request examination.

For automation of the process of borrower assessment and taking decision on client loan request, one of loan issuance acceleration tools used by the Bank is an automated system of credit decisions taking based on the scoring. The scoring system, the possibility of providing conclusion after request examination by Bank services, and also of decision-making on credit request by means of e-voting by authorized persons have been completely implemented in the Bank, that also promotes acceleration of loans issuance to the population.

Financial Risks Management Department and Special Assets Department are in charge of Quality Assurance in the Bank. Also Bank's security service carries out function of borrower's activity external conditions and reputation risk level (credit history) assessment, thereby providing main principle of risk assets organization — 'know you client', and also it checks other issues within its competence.

The conclusion of security service of Bank obligatorily belongs to the package of loan operation documents submitted for consideration to collegial bodies of the Bank. Whenever a negative conclusion on loan request is given by security service worker, the loan request will not proceed to further consideration and is considered rejected. When decision-making on recognizing the credit debt as troubled and determining on methods and terms of its repayment security service conclusion is also a must.

The Agency positively estimates assets quality management system of the Bank as a whole. Kreditprombank did not underwent the general trend and did not weaken security service role in loan portfolio quality management system before crisis, unlike many wholly foreign owned Ukrainian banks did. Nevertheless, as Agency analysis shows, the trend of though strongly slowed down, growth of troubled loans share, revealed in the first section of rating report, has been confirmed at more detailed analysis.

It should be noted that within the Q2 2010 the share of nonprime loans did practically become stable, it changed from 50,2% (on 01.07.2010) to 48,1% (on 01.10.2010) (*tab. 2*).

Table 2

Loans and debts of the customers in 'PJSC Kreditprombank', 2009–2010, (th. UAH, %)

Indicators	01.10.2010			01.01.2010			01.01.2009			Change	Growth rate
	loans, th.UAH	%	Provision, %	loans, th.UAH	%	Provision, %	loans, th.UAH	%	Provision, %		
Interbanking loans	1403252	11,50%	0,24%	1511826	12,00%	0,21%	1340958	10,10%	0,04%	62294	4,60%
Loans to legal persons	8100028	66,10%	8,34%	7968629	63,10%	7,36%	8106416	61,20%	3,52%	-6388	-0,10%
Loans to natural persons	2691479	22,00%	19,86%	3101627	24,60%	17,22%	3705374	28,00%	7,33%	-1013895	-27,40%
Total Loans	12194759	99,50%	9,95%	12582082	99,70%	8,93%	13152748	99,30%	4,24%	-957989	-7,30%
Guarantees/ sureties	59977	0,50%	1,01%	40253	0,30%	0,30%	97739	0,70%	0,24%	-37761	-38,60%
Total	12254736	100,00%	9,91%	12622335	100,00%	8,90%	13250487	100,00%	4,21%	-995750	-7,50%
Nonprime loans (2,3,4,5)	5892158	48,10%	20,26%	5487137	43,50%	20,04%	3316828	25,00%	15,87%	2575330	77,60%

Source: PJSC Kreditprombank data, calculations by RA Expert Rating

The analysis shows that on the beginning of 2009 a quarter of loan portfolio qualified according to NBU classification as nonprime, while in October, 2010 — almost a half. Let it be reminded that for one and a half year from 01.01.2009 to 10.01.2010 the share of troubled loans in Bank portfolio grew from 2,11 to 10,7%, i.e. portfolio impairment is observed, however this trend is in line with what happened in the entire bank system of Ukraine.

Unfortunately, most Ukrainian banks, unlike Kreditprombank, do not publish information on troubled loans share in the portfolio. That is why it is not possible to compare results of Kreditprombank work with other banks of group I. Parity of reserves under credit transactions to Bank loan portfolio can provide some understanding about parities in portfolio quality. As of 01.10.2010, in Kreditprombank the parity of reserves under credit transactions to issued loans made approximately 10%. On the average in group I banks this indicator made 21,8 % for the same date. One of reasons explaining why the given comparison was in favor of Kreditprombank is the structure of its portfolio. On 01.10.2010 only 22% of loan portfolio total amount has been issued by the Bank to natural persons. And the Bank had to allocate significant reserves namely under credits to natural persons. Natural persons have proved less reliable borrowers than legal bodies during crisis period in Ukraine. Major banks wherein the share of loans to physical persons was larger, had to allocate greater volumes of reserves.

According to the Agency, the fact that in 2007–2008 Kreditprombank did not gave away to the general moods which were placing most resources in the market of individual loans, today has secured to it rather good portfolio manageability and satisfactory quality.

Good level of area diversification strengthens significantly Bank loan portfolio. Less than a third of loan portfolio corresponds to process industry, less than fifth part to trade and slightly over 15 % — to building and real estate operations. Mortgage loans occupy only 14,9% of the portfolio (*tab. 3*).

PJSC Kreditprombank loan portfolio structure per kinds of economic activities in 2009–2010 (th. UAH, %)

Indicators	01.10.2010		01.01.2010		01.01.2009		Change of area structure	Growth rate
	Loans, th UAH	%	Loans, th UAH	%	Loans, th UAH	%		
Process industry	3434809	31,80%	3467573	31,30%	3704766	31,40%	-269957	-7,30%
Trade: repair of cars, household products and articles of private use	2096598	19,40%	1927834	17,40%	1974216	16,70%	122382	6,20%
Operations with real estate, renting, engineering and services to the enterprises	1211221	11,20%	1156184	10,40%	836925	7,10%	374296	44,70%
Construction	603241	5,60%	627350	5,70%	699718	5,90%	-96477	-13,80%
Agriculture, hunting and forestry	258936	2,40%	286329	2,60%	318770	2,70%	-59834	-18,80%
Transport and communication activity	261441	2,40%	269563	2,40%	277084	2,30%	-15644	-5,60%
Mining industry	131732	1,20%	119393	1,10%	144406	1,20%	12674	-8,80%
Financial industry	46535	0,40%	30265	0,30%	55516	0,50%	-8981	-16,20%
Other	55516	0,50%	84138	0,80%	95015	0,80%	-39499	-41,60%
Total, legal persons:	8100028	75,10%	7968629	72,00%	8106416	68,60%	-6388	-0,10%
Mortgage loans	1609559	14,90%	1791314	16,20%	2142460	18,10%	-532902	-24,90%
Car loans	290098	2,70%	395550	3,60%	575570	4,90%	-285472	-49,60%
Other consumer loans (PC included)	543783	5,00%	614256	5,50%	598877	5,10%	-55094	-9,20%
Other types of natural persons loans (micro)	248040	2,30%	300508	2,70%	388467	3,30%	-140427	-36,10%
Total, natural persons:	2691479	24,90%	3101627	28,00%	3705374	31,40%	-1013895	-27,40%
Total:	10791507	100,00%	11070257	100,00%	11811790	100,00%	-1020283	-8,60%

Source: PJSC Kreditprombank data, calculations by RA Expert Rating

In 2010 Bank per area structure did not change essentially. Main change occurred in trade sector which share grew from the beginning of 2010 to 01.10.2010 from 24,2% to 25,9%, or on 1,7%. The specific weight of real estate and building areas remained at the level of 22,4%.

Due to pre-crisis economic expansion specific weight of investments into processing sector has reached the level of 45,7% as of 01.01.2009. Bank crediting policy in 2009–2010 aimed at reducing concentration of investments in this sector. As of 01.10.2010 the concentration decreased to 42,4%, or on 3,3%.

As of 01.10.2010 the greatest concentration (68,3 %) of investments in loan portfolio of legal persons has been observed in the processing branch — 42,4 % and trade - 25,9 % (share in loan credit portfolio of legal persons). Such structure, basically, reflects the structure of country's real sector (the mentioned areas also occupy the greatest specific weight in the gross national product structure). The risks of processing industry, basically, are connected with the risk of falling demand and international markets prices, and also rise in energy carriers prices. Risks of trade enterprises are connected with falling of demand because of decrease in purchasing capacity of the population, and also with increasing competition between trading companies in the country. The Bank plans to decrease concentration of credit investments for reduction of per area risks.

67,2 % of the loan portfolio have been the loans to big business. That is actually the Bank was dependent on the work of big companies. Only 9,4 % of loan portfolio corresponded to SME (tab. 4). The share of natural persons decreased during the crisis period and dropped from 29,3 to 23,3 % for 2,5 years. Such tactics of Bank can be regarded as anti-recessionary.

During 2008-2010 (from the end of 2007 to September 2010 inclusive) specific weight of big clients in Bank portfolio has grown on 13 %: from 54,2 to 67,2 %. This change occurred due to repayment of small/medium clients loans, at the expense of reappraisal of big borrowers currency loans, and also at the expense of increase in investments into large business of reliable clients with high assets quality and low level of reservation.

Table 4

Dynamics of PJSC Kreditprombank loan portfolio per client segments

Loan portfolio per client segments	30.06.2010		31.12.2009		29.12.2007		Deviation	
	Amount	%	Amount	%	Amount	%	Amount	%
1.Big business	7 276 210	67.2%	7 097 275	64.1%	4 579 418	54.2%	2 696 792	13.0%
2.Small and medium business	1 022 225	9.4%	1 171 863	10.6%	1 389 999	16.5%	-367 773	-7.0%
3.Natural persons	2 527 569	23.3%	2 801 119	25.3%	2 475 169	29.3%	52 399	-6.0%
Total	10 826 004	100.0%	11 070 257	100.0%	8 444 586	100.0%	2 381 418	

Source: PJSC Kreditprombank data, calculations by RA Expert Rating

Kreditprombank adhered to risk norms established by NBU, proper to loan portfolio of the bank. The Agency did not perform additional research concerning crediting of persons connected with the Bank, and in the conclusions about the level of such crediting the Agency relied solely on H9 and H10 values. The agency also draws attention to that H8-H10 normative values are observed by the Bank with large redundancy, and the value H7 exceeds the mean value in the system and very closely approaches the limit normative values established by NBU (tab. 5).

Table 5

Main normative values of risk characterizing PJSC Kreditprombank loan portfolio

Norm	Norm value	01.10.2010	01.01.2010	01.01.2009	Change
H7 Average of the system	< 25%	22,62%	21,56%	23,04%	-0,42%
H7 (Maximal size of loan risk per counteragent)		24,61%	20,75%	23,09%	1,52%
H8 Average of the system	< 800%	153,35%	169,21%	187,36%	-34,01%
H8 (Normative value for big loan risks)		356,13%	228,31%	177,50%	178,63%
H9 Average of the system	< 5%	0,86%	0,93%	1,66%	-0,80%
H9 (Norm of maximal amount of loans, warranties and sureties issued to one insider)		0,12%	0,10%	0,41%	-0,29%
H10 Average of the system	< 30%	3,31%	2,66%	5,76%	-2,45%
H10 (Norm of maximal amount of loans, warranties and sureties issued to insiders)		0,38%	0,44%	0,95%	-0,57%

Source: PJSC Kreditprombank data, calculations by RA Expert Rating

Summing up the analysis of assets quality, the Agency draws following conclusions:

1. Loans remain the main profitable assets of Kreditprombank: their share decreases, but they remain that working asset for which account the Bank generates main part of income.
2. Kreditprombank asset quality decreased in 2009, but at present is at satisfactory level and is estimated by Agency higher, than on the average in Group I according to NBU classification. The agency believes that risks of the Bank on loan operations have mainly macroeconomic and per area character. The bank has reliable enough system of selection of borrowers, however it is not able counter stay the systemic risks.
3. The bank did not specialize on crediting natural persons, that allowed to prevent sharp impairment of portfolio quality during the crisis period. The loan portfolio of legal persons has a good per area diversification.

3. Capital adequacy, profitability and external support

Capital adequacy. As of 01.10.2010, the Bank adhered to basic norm values of regulative capital adequacy H2 and H3. Bank equity is formed basically at the expense of authorized capital (101%). In 2010 the Bank raised authorised capital by UAH 488 m (36 %), and thus, now it makes UAH 1,84 bn. This step allowed the Bank to retain main normative values within NBU requirements and to increase the equity in 2010 (tab. 6).

Table 6

Analysis of PJSC Kreditprombank shareholders equity adequacy (UAH th, %)

Indicators	01.10.2010	01.01.2010	01.01.2009	Change	Growth rate, %
Assets	13 852 885	13 589 849	14 443 988	-591 103	-4.09%
Shareholders equity	1 817 969	1 263 606	1 618 943	199 026	12.29%
Authorized capital	1 838 335	1 350 000	1 350 000	488 335	36.17%
Authorized capital/Shareholders equity ratio	101.12%	106.84%	83.39%	17.73%	-
Shareholders equity/assets ratio	13.12%	9.30%	11.21%	1.91%	-
Regulatory capital adequacy norm H2	13.71%	16.05%	12.84%	0.87%	-
System average value H2	20,06%	18,08%	14,01%	6,05%	-
Normative value H2	>10%	>10%	>10%	-	-
H3, regulatory capital/ total assets ratio	9.87%	12.91%	12.08%	0.87%	-
System average value H3	14,57%	13,91%	11,83%	2,74%	-
Normative value H3	>9%	>9%	>9%	-	-

Source: PJSC Kreditprombank data, calculations by RA Expert Rating

The structure of Bank equity shows that the authorized capital has been the core when not only capital source. As of 01.10.2010, the loss of past years of the Bank made UAH 89,6 m. It is slightly under 5% of Bank's equity that cannot be judged as essential. Its amount compared to the equity is insignificant and cannot essentially influence the observance of normative values.

Considering that the Bank adheres to capital adequacy normative values with a small margin only, further observance of these norms, and accordingly the level of financial entity solvency will depend on two factors: the ability of shareholders to replenish the statutory fund and the net profit size (tab. 7).

Table 7

PJSC Kreditprombank shareholders equity structure in 2009-2010 (UAH th. %)

Indicator	01.10.2010		01.01.2010		01.01.2009		Structure change for 2009-2010	Growth rate in 2009-2010
	th. UAH	%	th. UAH	%	th. UAH	%		
Authorized capital	1838335	101,12%	1350000	106,84%	1350000	83,39%	488335	36,17%
Issue profit/loss	1061	0,06%	1061	0,08%	1061	0,07%	-	0,00%
Fixed assets revaluation reserve	86542	4,76%	86542	6,85%	90591	5,60%	-4049	-4,47%
Profit of previous years	-89657	-4,93%	-3816	-0,30%	-3494	-0,22%	-86163	2466,03%
Other	-18312	-1,01%	-170181	-13,47%	180785	11,17%	-199097	-110,13%
Shareholders equity	1817969	100,00%	1263606	100,00%	1618943	100,00%		

Source: PJSC Kreditprombank data, calculations by RA Expert Rating

Profitability The agency carried out the analysis of Bank's ability to generate incomes. The results of this analysis show that Bank has been profitable operationally, however growth of reserves exceeded the obtained income and actually led to losses. Following the results of 9 months 2010, return on equity of Bank (ROE) made 1,67%. Thus the Agency draws attention to two opposed tendencies: for 9 months of the 2010 net interest income at Kreditprombank has decreased on 13,4% to UAH 420 m. compared to the same period of last year, however the net spread has grown on 0,3 percentage points. It means that Bank operations' efficiency in the loan market has actually grown, however because of the decrease of loans share in the assets and reduction of loan portfolio NII has been decreasing. This statistics shows that the Bank has coped with general trend on decreasing interest rates and even managed to raise net spread (tab. 8) that proves to improvement of Bank possibilities to generate incomes from loan operations. (tab. 8).

Table 8

Analysis of PJSC Kreditprombank return on equity (UAH th., %)

Indicators	9 months of 2010	9 months of 2009	Change	2009	2008	Change
Net spread	5.13%	4.83%	0.30 p.p.	4.83%	4.10%	0.73 p.p.
Net interest income (NII)	420 382.5	485 966.7	-65 584.2	631 469.4	520 960.7	110 508.7
Return on sales	4.09%	-23.08%	27.17 p.p.	-37.16%	0.51%	-37.67 p.p.
Return on assets	0.21%	-1.28%	1.50 p.p.	-2.05%	0.03%	-2.08 p.p.
Return on equity	1.67%	-10.66%	12.32 p.p.	-17.22%	0.28%	-17.49 p.p.

Source: PJSC Kreditprombank data, calculations by RA Expert Rating

Note:

Net spread is calculated as: (Interest income on loan operations / Loan portfolio (including Interbanking)) - (Interest expenses under deposits and other instruments / Interest liabilities).

Return on sales is calculated as: (Net profit / (Net interest income + net commission income + net fee and commission income + Results from securities trading operations + result from foreign currency trade)).

Estimating prospects of Bank work in 2011 and its capacity to generate profit, it should be remembered that since October, 2008 Kreditprombank faced a number of problems inherent to the entire bank system as a whole, namely: in result of growing financial crisis, production slump, market stagnation, the financial condition of Bank borrowers impaired. It led to loan portfolio impairment that caused necessity to replenish reserves under active operations. This factor became the reason of unprofitable activity conducted by the Bank in 2009. If the macroeconomic environment will be the same favorable for the Bank as in 2006-2007, than all grounds exist to forecast the recovery of Bank operations profitability in 2011.

External support. Officially the packages of PJSC 'Kreditprombank' shares belong to the following persons:

- Fintest Holding LTD (Cyprus) — 45,1089%;
- Homertron Trading LTD (Ireland) — 24,9710%;
- Trodat Trading LTD — 9,7894%;
- Bronte Trading LTD — 9,5121%;
- Crolmond LTD — 5,7035%;
- Papounnidis Konstantinos — 4,9150%.

Total: 100,0%.

According to the official information, 70,0799% of Kreditprombank shares are under actual control of the citizen of Greece Konstantinos Papounnidis. When determining the level of external support, the Agency takes into consideration only NBU official information and that fact that the Bank is controlled by the natural person non-resident of Ukraine. In the situation when natural person is the controlling shareholder, as a rule, it is impossible to define level of external support. Therefore as of 01.10.2010, the external support at PJSC 'Kreditprombank' has been identified as undefined. At the same time Bank investors and depositors, when making decision on cooperation with the Bank should consider 2 important factors:

1. In 2010 the current shareholders had clearly proved the external support: the authorised capital has been raised on 36 % by the amount of UAH 488,3 m.

2. In 2010 the Bank reached an agreement on re-structuring the debts with external creditors. EBRD and about 20 foreign creditors joined the structure of Bank creditors. Under agreement conditions after the re-structuring 49% of Bank shares will come under control of external creditors. This information has been publicly confirmed by the EBRD. On November, 19th, 2010 PJSC Kreditprombank made public its decision on placing shares of UAH 850 m face-value. Thus, after placement of shares the authorized capital of the Bank will grow on UAH 850 m. Kreditprombank plans to place shares at market value UAH 12,5 per share. In case of successful placement, according to the published decision, equity of Bank will increase on UAH 1,0625 bn., i.e. actually on 55% compared to the present level. Such scenario of situation development is estimated by the Agency as very probable and will automatically improve key indicators of Bank, that opens prospects for raising credit rating.

3. Along with change of Kreditprombank shareholders structure foreign shareholders and international financial organizations, such as the EBRD, will appear among the shareholders. These shareholders implicate a clear level of external support, they have concrete plans on Bank development that can become a reason for raising credit rating of the Bank in the future.

4. Liquidity

The function of Bank current liquidity management is assigned to the Treasury. Management of medium and long term liquidity is the prerogative of Asset and Liability Management Committee (ALMC) which twice a month reviews and approves the forecasts of flows of funds, prepared by Financial Risks Management Department.

According to Agency, in 2009–2010 the dynamics of liquidity ratios has been influenced mainly by:

1. Gradual increase of natural persons fixed deposits along with growing confidence of population to bank system. If on the beginning of 2009 the share of deposits with the term of 1 month in the structure of attracted deposits made 50%, than to the middle of 2010 it decreased to 20%.

2. Accumulation in the form of debts on call of international financing amounts with expired initial maturity being in process of re-structuring. After signing Frame agreement on re-structuring in the beginning of 2010 this entire amount of liabilities has been spaced, according to its conditions, that reduced pressure on liquidity ratios and improved their value.

As of 01.10.2010, PJSC Kreditprombank redundantly adhered to all NBU liquidity norm values. In 1 year and 9 months bank liquidity grew, that totally corresponds the general tendencies of the system.

Table 9

Main liquidity norms of PJSC Kreditprombank in 2009–2010

Норматив	Norm restriction	01.10.2010	01.01.2010	01.01.2009	Change
H4 An average of the system	> 20%	69.63%	64.45%	62.38%	7.25 п.п.
H4 (Norm of instantaneous liquidity)		93.21%	93.07%	69.65%	23.56 п.п.
H5 An average of the system	> 40%	81.72%	72.90%	75.16%	6.56 п.п.
H5 (Norm of current liquidity)		144.94%	45.23%	71.62%	73.32 п.п.
H6 An average of the system*	> 60%	100.28%	35.88%	32.99%	67.29 п.п.
H6 (Norm of short term liquidity)		104.11%	25.99%	25.38%	78.73 п.п.

Source: PJSC Kreditprombank data, calculations by RA Expert Rating

5. Market share and competitive environment

In 2010 as competitive those Banks have been chosen, which position is closest to that of Kreditprombank. Banks-competitors belongs to the group of 'biggest' ones: 'Finances and Credit', 'Forum', PUMB, Brokbiznesbank, and 'big' ones: Erste bank, Praveks-bank, 'Pivdenny', 'Universal'.

All considered banks-competitors position themselves as universal financial institutions providing full range of financial services to all client segments (corporate clients, retail, SME).

The bank supports its competitiveness at the expense of regular audit and updating of product portfolio in line with market trends, market price of products and formation of target product offers to target client segments - stably working big industrial enterprises and their employees, representatives of small and medium business, solvent retail clients.

By estimations of RA 'Expert-rating' with use of NBU data, as of 01.07.2010 the share of Kreditprombank in the assets of bank system made 1,56%, and in the credit portfolio of the system — 1,64%. These indicators allowed Kreditprombank to enter the group of biggest banks of Ukraine and to stay therein confidently (tab. 10).

Table 10

The analysis of PJSC Kreditprombank share in the Ukrainian market (UAH th, %)

Indicators	01.07.2010	01.01.2010	01.01.2009	Change	Growth rate, %
Assets	13 822 606	13 578 404	14 534 276	244 202	1.80%
Loans to individual and legal persons	11 755 565	11 781 515	11 811 790	-25 950	-0.22%
Funds of individual and legal persons	5 632 822	4 655 998	7 632 851	976 824	20.98%
Share of the Bank in the assets of the system	1.56%	1.55%	1.57%	0.01%	-
Share of the Bank in the loan portfolio of the system	1.64%	1.63%	1.59%	0.01%	-
Share of the Bank in the funds of individual and legal persons	1.08%	0.98%	1.75%	0.09%	-

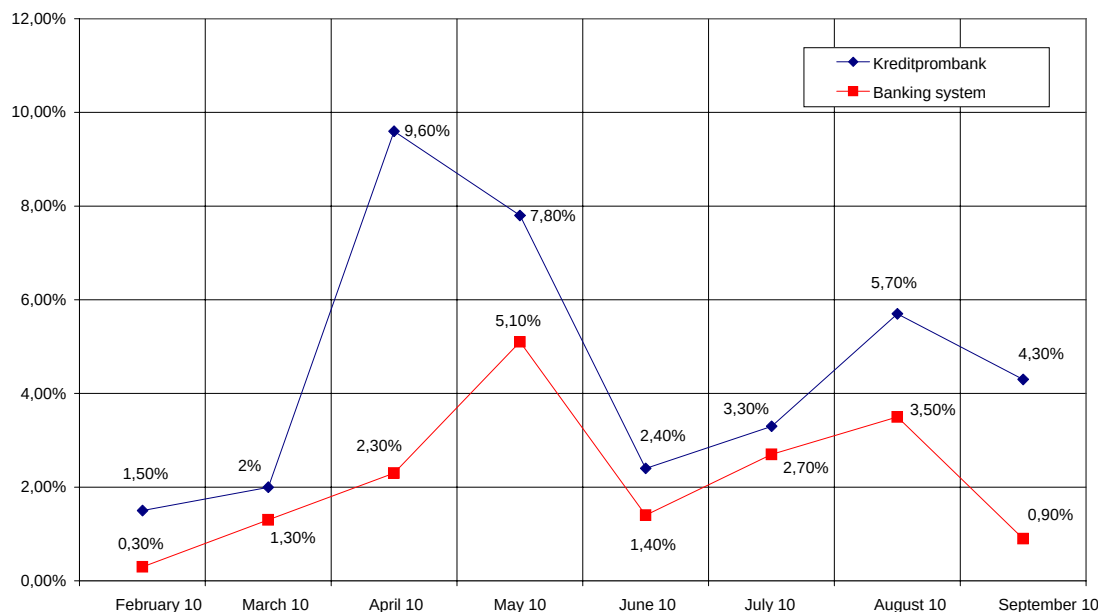
Source: PJSC Kreditprombank data, calculations by RA Expert Rating

There is a certain disproportion between bank share in the credit portfolio of the system and in deposits. On the beginning of 2010 the population depositary portfolio of Kreditprombank occupied less than 1% in the system, on 07.01.2010 — already 1,08%. Significant difference between Kreditprombank share in system assets and population deposits is caused by that formerly the Bank actively used borrowed means in its work.

Since February, 2009 the Bank is engaged in re-structuring debts with 30 different creditors, attractions from which have been made within the limits of numerous programs up to the end of 2008. Several loans for the total amount of 6 m. USD within the limits of previously opened programs of World Bank make an exception. Participation of Kreditprombank in the international programs has been suspended prior to re-structuring end.

In 2010, according to Agency, Kreditprombank was successfully implementing the strategy of escalating share of deposits in the resource base of Bank. Monitoring for 8 months of 2010 has shown that almost every month the growth rate of natural persons deposits at Kreditprombank was higher, than on the average in the system (*fig. 1*).

Fig. 1 Growth rate of deposit portfolio of natural persons of Kreditprombank and the banking system of Ukraine for the 8 months of 2010, % compared with the previous month



In the 2010 Kreditprombank considered the market of attraction of funds of retail clients as priority, taking into account its importance in the conditions of extremely limited external funding. Reengineering of the line of depositary products has been performed upon which results 3 blocks have been separated out:

- **Basic line** (has been realized in the form of depositary program 'Palette' as a part of fixed deposits 'Classical', 'Bonus', 'Target' and a demand deposit 'No limits') which satisfies key requirements of investors: preservation and augmentation of funds, reception of regular income, accumulation of means to concrete event, fast access to savings;
- **Narrow segment block** focused on target client groups of depositors: pensioners, participants of salary projects, representatives of scientific and student elite;
- **Promotion block** including seasonal offers and focused on client segment of innovators.

The deposit 'Barvy' being the first step of qualitative transformation of depositary line, has been launched in March, 2010. This type of deposit proved its efficiency and timeliness: during the promotion more than UAH 23 m have been attracted to this type of deposits.

According to Agency, Kreditprombank has competitive enough universal product line which can compete to any bank with participation of foreign capital. The ramified network of branches and outlets across the nation adds well to the universal product line of the Bank. Within the limits of the rating report, the Agency does not provide results of the entire product line analysis. The potential consumers can take notice of conditions and tariffs on the corporate Web-site of the Bank: <http://kreditprombank.com>

6. Presence of signs proper to speculative grade of rating

Despite positive conclusions on Bank status and improvement of its financial soundness, for the time being there is a number of factors imparting speculative characteristics to the credit rating:

1. In case of adverse macroeconomic trends, such as industrial production decrease, gross national product drop, unemployment growth, decrease in national currency exchange rate, etc., quality of Bank loan portfolio may continue decreasing, that adds to the probability of return to unprofitable operations in 2011. The economy of Ukraine recovers after crisis, this process takes course slowly, however, presently there are no factors which would counteract this process.

2. In 2009 the bank didn't manage to pay off foreign debt obligations. In Agency's opinion, it was the result of impaired loan servicing quality by clients of the bank and of the financial insolvency of some borrowers caused by financial crisis and production drop. Being in a satisfactory financial condition in 2008, the bank underwent stress in form of withdrawal of deposits, growth of external obligations volumes in terms of national currency and simultaneous impairment in loan portfolio quality. In Agency's opinion, in this situation Kreditprombank chose the only correct solution: to meet obligations under deposits of legal and natural persons, while asking the foreign creditors and

bondholders on the restructuring. De facto one may state that such strategy saved the bank against destabilization. In 2009, in connection with early redemption maturity of C, F series bonds emitted by the bank and maturity of series H bonds redemption, the bondholders presented to PJSC Kreditprombank the bonds for an overall face value of UAH 549,947 m in the terms of maturity, conditioned by decisions on bonds emission. In July of current year redemption of series G bonds for total nominal amount of UAH 437.5 m was realized (earlier in December, 2009 the bonds of series G in the amount of 62 500 pieces have been restructured). Thus, the total nominal amount of the bonds presented for retirement/redemption during 2009–2010 made UAH 1 049,947 m.

Within restructuring of obligations, realized by the bank during 2009–2010, agreements with bondholders on prolongation of terms on the average for 2 years have been reached. As of 01.12.2010, restructuring agreements have been made with bondholders of the bank on the bonds presented in 2009–2010 to early redemption or repayment.

Therefore, currently all bank obligations under bonds are restructured up to 2011–2012.

3. RA Expert Rating notes insufficient activity and client-targeting of Bank information policy in 2008–2010, that was expressed in no response to dissemination by mass-media of adverse and, in most cases, misleading information on the bank, and also in the just formal disclosure of information, in particular, of the special information on the emitter which disclosure is demanded by Securities and Stock Market State Commission.

7. Other factors considered at rating

Interaction with state and judicial authorities. Within the analysed period Kreditprombank has been inspected by state bodies: NBU, Securities and Stock Market State Commission, tax inspection, etc. According to the bank, no major infringements have been revealed. Within the last 12 months, supervising bodies did not issue instructions on imposeure of essential penalties on Kreditprombank.

In Agency's opinion, Kreditprombank has well developed anti-money laundering system and cooperates effectively with the State Committee for Financial Monitoring of Ukraine within the current legislation.

As of the time of rating report publication, Kreditprombank was not under legal prosecution neither a claimant in courts for amounts exceeding 5 % of shareholders equity of the bank.

Management. RA Expert Rating highly estimates professional skills of key managers of the Bank, each of whom has professional education and considerable, as to Ukrainian measures, banking experience.

Chairman of Board. Leonidov Viktor Dmitrievich, b. 1955, in the Russian Federation, Perm Oblast, Kosa district, Vertanty village. Graduated from Kharkov Aviation Institute and Kharkov National University of Economics, economic profile. Banking experience of more than 11 years, in PJSC Kreditprombank — since September, 2002. He held posts of Chairman of Board Advisor, Kharkov branch manager, Deputy Chairman of Board and First Deputy Chairman of Board. Since June, 2008 – Chairman of Board of PJSC Kreditprombank.

Deputy Chairman of Board. Golosenin Igor Alexandrovych, b. 1971, in Kramatorsk city of Donetsk oblast. Graduated from Kramatorsk Industrial Institute and Donetsk National University. Economist. Banking experience of 9 years from which in Kreditprombank - more than 5 years. He headed the Donbass branch for a long time, and since May, 2008 is Deputy Chairman of Board.

Deputy Chairman of Board – Chief Financial Officer. Meteyko Nikolay Ivanovych, b. 1954, in Chernigov oblast, Nosovka district, Ploske village. Graduated from Kyiv Institute of National Economy. Economist. Banking sector experience — over 15 years from which in Kreditprombank – over 13 years. He held positions of Chief of Finance Department, Deputy Financial Officer, Vice President, Chief of Financial and Economic Department, and since January, 2005 — Deputy Chairman of Board – Chief Financial Officer.

Deputy Chairman of Board – Chief Operations Director. Hilchevsky Anatoliy Ivanovich, b. 1955, in Bakhmach city of Chernigov oblast. Graduated from the University with specializations in “general physics” and “banking”. He is PhD in Technical Sciences and also has qualification of financial economist. He works in banking sector over 17 years from which in PJSC Kreditprombanke — over 11 years. He held positions of Deputy Financial Officer, Deputy Financial Officer — Chief of Department of Coordination of Branches and Banking Holding Activity, Chief of Department of New Banking Products, and since October, 2002 — Deputy Chairman of Board — Chief Operations Director.

During the last 12 months the following top managers left Kreditprombank:

- Lychkaty L. K., Deputy Chairman of Board, Chief of Department of Security and Assets Monitoring (08.07.09), of his own volition;
- Shkolyarenko K. A., Deputy Chairman of Board (21.08.2009), of his own volition;
- Perepelitsa V. A., Deputy Chairman of Board (01.10.2009), of his own volition;

In Agency's opinion, changes in the structure of Bank top-managers are proper for crisis period. The structure of Bank key top-managers did not change, and succession has been kept in the Board.

8. Summary of estimation results and rating visualization.

In the period from November 3, till December 17, 2010 RA Expert Rating performed estimation of PJSC Kreditprombank (National enterprises register code 21666051) credit rating. After detailed study of PJSC Kreditprombank activities, on December 20, 2010 Rating Committee of RA Expert Rating decided on awarding to the Bank of the credit rating according to the national scale at the level **uaBBB** (the Bank is characterized by sufficient credit capacity in comparison with other Ukrainian banks. Level of credit capacity depends on the influence of adverse commercial, financial and economic conditions. The rating is assigned according to the national scale approved by the Resolution of the Cabinet of Ministers of Ukraine No. 665 of April 26, 2007).

See in the rating report the detailed substantiation of rating estimation by Expert Rating RA. When assigning investment level rating, the Rating Committee was guided by the following:

1. PJSC Kreditprombank is the only of the biggest banks in Ukraine which managed to pass through the crisis thanks to solely restructuring external debts and debts under bonds while completely meeting obligations under deposits and without fundamentally changing shareholder structure. The given fact highlights professionalism of Bank management and good level of managing ability in the financial institution.

2. As of 01.07.2010, PJSC Kreditprombank assets corresponded to 1,56% of system assets, loan portfolio - 1,64 %. Following the results of nine months of 2010, the assets of the bank exceeded UAH 15 bn. that allowed the Bank to occupy the 16th position in NBU ranking for assets amount and also to enter the group of biggest banks of Ukraine. Kreditprombank possesses a significant share of credit market while maintaining simultaneously satisfactory quality of portfolio and rather high quality of assets.

3. Kreditprombank finished nine months of 2010 with UAH 20,8 m net profit, thus reversing the crisis trend and publicly having shown to creditors that the bank returns to the period of profit generation ability. Following the results of 9 months of 2010, the Agency notices the decrease in net interest income of the bank and simultaneous spread growth, that indicates growth of yield of Kreditprombank operations. The 2011 also can with high probability become profitable for the bank under condition of financial market stability and presence of economic growth in Ukraine.

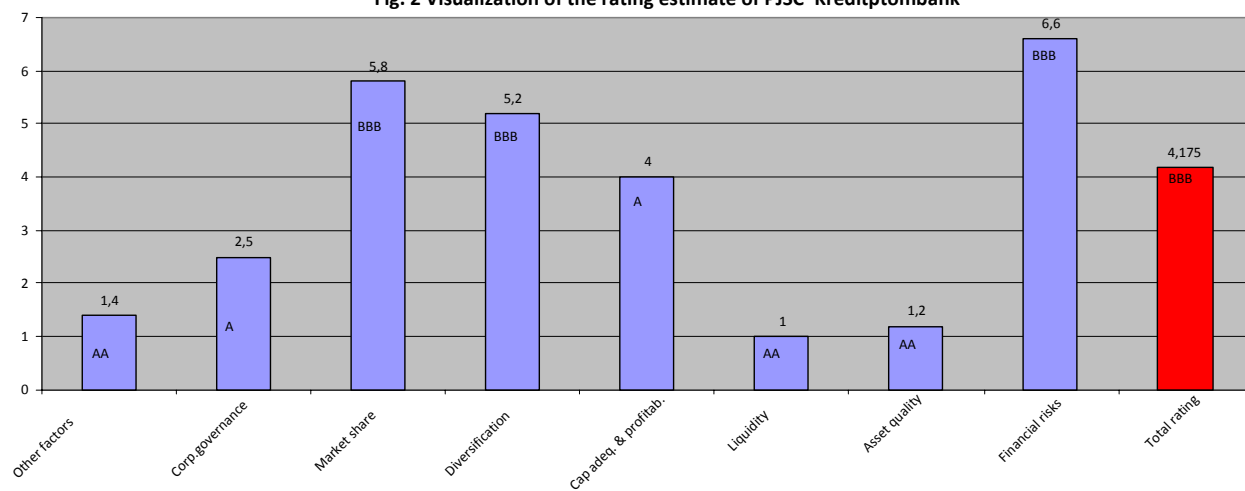
4. In September, 2010 PJSC Kreditprombank signed the agreement with foreign creditors, providing restructuring of debt in the amount of ca. USD 400 m. The Agency positively estimates the presence of the given arrangements: nearly USD 100 m will be used for replenishment of authorized capital of the Bank and will provide a good solvency margin. Under the terms of agreement, after restructuring, 49% of Bank shares will pass under control of external creditors. This information has been publicly confirmed by EBRD. On November, 19th, 2010 PJSC Kreditprombank has published the decision on placement of shares by face value of UAH 850 m. Thus, after placement of shares the Bank authorised capital will grow on UAH 850 m. Kreditprombank plans to realize this placement at market value UAH 12,5 per share. According to the published decision, in case of successful placement, the shareholder equity of the bank will grow on UAH 1,0625 bn., i.e., actually on 55% from the present level. Such scenario is estimated by the Agency as very probable and will automatically improve key indicators of the Bank that opens prospects for raising its credit rating.

5. Along with change of shareholders structure, the foreign shareholders and international financial and credit organisations, such as EBRD, will be included into the structure of shareholders. The mentioned shareholders bring in a clear level of external support, and presence of their concrete plans on bank development also may become the reason for raising credit rating in the future.

6. In 2009 the bank did not managed to pay off under foreign debt obligations. In Agency's opinion, it was the result of impaired loan servicing quality by clients of the bank and financial insolvency of some borrowers, caused by financial crisis and drop in production. Being in a satisfactory financial condition in 2008, the bank underwent stress in form of withdrawal of deposits, growth of external obligations volumes in terms of national currency and simultaneous impairment in loan portfolio quality. In Agency's opinion, in this situation Kreditprombank chose the only correct solution: to meet obligations under deposits of legal and natural persons, while asking the foreign creditors and bondholders on the restructuring. De facto it can be said that such strategy saved the bank against destabilization. However, in 2009 Kreditprombank has consciously created a precedent by declaring a technical default to bondholders without having executed the offer.

Following the results of analysis and collegial discussion of PJSC Kreditprombank rating estimation on the Rating Committee the Bank obtained 4,175 points, and the given amount of points corresponds to rating estimation **uaBBB**. However, the Agency sees prospects for raising the rating in the future along with completion of restructuring, inclusion of EBRD into structure of shareholders and fulfilment by the bank of its obligations to bondholders in the summer of 2011.

Fig. 2 Visualization of the rating estimate of PJSC 'Kreditprombank'



Calculations section

Table

Summary of rating estimate (upon H1 2010)

Название показателя	aa	a	Bbb	bb	b
	1	3	6	9	12
Period of bank actual work	Over 60 months Fact = over 13 years	Over 36 months	Over 24 months	Over 12 month.	Under 12 months.
Ratio of settled and not settled claims of bank clients and regulators to its regulatory capital	0% Fact = under 2%	10%	15%	20%	25%
Personnel turnover rate (employees dismissed / annual average number of employees)	Up to 5% Fact = 3%	Under 10%	Under 20%	Under 30%	Over 30%
Set of factors (1 K)	No conflicts with minority shareholders, the complete set of reporting in the system of information disclosure	No conflicts with minority shareholders, partial availability of set of reporting in the system of information disclosure	No conflicts with minority shareholders, no reporting, incl. exact information on shareholders, available in the system of information disclosure,	Conflicts with minority shareholders in the past, no reporting in the system of information disclosure	Conflicts between the shareholders, no exact information on shareholders structure, no regular information in SMIDA for the previous years
Norm of maximal amount of loans, warranties and sureties issued to one insider (H9)	Not higher than 1% Fact = 0,12%	Not higher than 2%	Not higher than 3%	Not higher than 4%	Not higher than 5%
Norm of maximal overall amount of loans, warranties and sureties issued to insiders (H10)	Not higher than 5% Fact = 0,38%	Not higher than 10%	Not higher than 15%	Not higher than 20%	Not higher than 30%
Market share (Bank net assets / Total net assets of the banking system)	Over 5%	3-5%	2-3%	1-2% Fact as of 01.09.10=1,66%	Below 1%
Market share ratio (customer deposits (excluding interbank) / Average amount of banking system deposits (excluding interbank))	Over 2 Fact as of 01.09.10=2,54%	2,-1,5	1,5-1	1-0,8	0,8-0,5
Set of factors 2 (D)	Presence of external loans, support by IFO and foreign shareholders from non offshore jurisdictions, or state support	Presence of external loans, support by IFO, state support	Presence of external loans or support by IFO	Previous external loans or previous support by IFO	No external loans nor support by IFO in the past
H 7	Not higher than 17%	Not higher than 20%	Not higher than 23%	Not higher than 24%	Not higher than 25% Fact =24,61%
H 8	Not higher than 1,5 X PK	Not higher than 2,0 X PK	Not higher than 4,0 X PK Fact =3,56%	Not higher than 6,0 X PK	Not higher than 8 X PK
H 11	Not higher than 1,0% Fact =0,17%	Not higher than 1,5%	Not higher than 2,5%	Not higher than 5%	Not higher than 15%
Share of large clients deposits ((Amount of deposits of customers exceeding 5% of total customer deposits) / (Total customer deposits))	Not higher than 17% Fact =14,74%	Not higher than 20%	Not higher than 23%	Not higher than 24%	Over 25%
Net interest margin in the operational income (Net interest margin / Operational income)	Not higher than 60%	60-70%	70-80% Fact =72,46%	80-90%	Over 90%
H 2	Over 14%	12-14% Fact =13,71%	10-12%	8-10%	6-8%
H 3	Over 8% Fact =9,87%	6-8%	4-6%	3-4%	2-3%
ROE (ration between net profit and shareholders equity)	Over 20%	15-20%	10-15%	5-10%	0-5% Fact =1,67%
H 4	Over 35% Fact =93,21%	30-35%	25-30%	20-25%	Below 20%
H 5	Over 55% Fact =144,94%	50-55%	45-50%	40-45%	Below 40%
H 6	Over 35% Fact =104,4%	30-35%	25-30%	20-25%	Below 20%
Asset quality level ((Negatively classified assets) / Total bank assets)	Below 5%	5-8%	8-10% Fact = 9,53%	10-20%	20-30%
H13	Up to 5%	Up to 10%	Up to 20%	Up to 30% Fact =27,2571%	Over 30%
GAP index (deviation from 100%, interest rate sensitive assets / interest rate sensitive liabilities)	0-5% Fact =4,31%	Up to 10%	Up to 20%	Up to 30%	Over 30%

Appendix A

Use limitations of the rating report

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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 institution 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 not 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 rul. The company is usually removed from rating process

Every type of letter corresponds to three kinds of outlook:

Positive (+);

Neutral ();

Negative (–).

This appendix is an integral part of any rating report.