

Rating report

(version for publication)



Credit rating of the bank according to Ukrainian national scale:	uaAAA
Rating interpretation according to the national scale:	Borrower (bank) with rating uaAAA is characterized by the highest solvency compared to other Ukrainian borrowers (banks)
Date of rating assignment:	May 29, 2017

PUBLIC JOINT-STOCK COMPANY «DEUTSCHE BANK DBU»

(full name of the bank)

01015, Kyiv, LAVRSKA str., build. 20

(location of the bank)

Registration date:	18.06.2009
USREOU code	36520434
Chairman of the Board	IVANOV-BLANKENBURG BORISLAV - chief since 26.10.2015;
Signatory	TOPOLNYTSKY ROMAN - signatory since 19.01.2016;
Signatory	WURTH BERND - signatory since 19.01.2016;
Phone	+380444944410
Fax	+380444944413
Web-site	https://www.db.com/ukraine/

*This report is the rating research, which expresses the opinion of RA "Expert Rating" analysts.
The report is the justification of the assigned rating, which is also the opinion of RA "Expert Rating" analysts.*

Please, read the restrictions and conditions on the use of the rating report on the last page of the report

1. General information

One of the largest global banking groups has been present in Ukraine since 1993. By summer 2009 Deutsche Bank held a representative office in Ukraine, but in October of 2009 Deutsche Bank began operations in Ukraine through a subsidiary bank under the name PJSC "DEUTSCHE BANK DBU" (hereinafter – the Bank). Deutsche Bank AKTIENGESELLSCHAFT (Germany) controls 100% shares of PJSC "DEUTSCHE BANK DBU" (Ukraine). The written permission to acquire 100% shares of the Bank in Ukraine was granted by NBU on 16th of December 2008.

Deutsche Bank AG conducts operations in Ukraine within three divisions:

- Capital market operations.
- Trade Finance.
- Cash Management Corporates.

PJSC "DEUTSCHE BANK DBU" in Ukraine is focused on corporate customers segment. As part of the capital market operations the Bank offers an FX and money market products (including loans) for optimizing of clients cash flows and risk management capabilities.

Trade Finance business division, which has been existing for more than 130 years with Deutsche Bank AG, helps the exporters and importers to find optimal solutions to carry out international and domestic trade transactions based on their own needs. Deutsche Bank AG offers its corporate and financial institution clients an advanced technology, on-line trading modules and a wide range of trading products and services through a global network, which covers 77 offices in 37 countries in order to improve the efficiency of international trade.

The Bank's division of Cash Management provides services of management and optimization of cash flows and working capital management. Deutsche Bank AG provides services for cash flow management to major multinational corporations and financial institutions worldwide. Hubs of the Deutsche Bank AG operate in Frankfurt, London, New York, Singapore and other major financial centers, that is why Deutsche Bank AG services in this segment always take into account the peculiarities of local markets and financial systems.

Consequently, it can be noted that PJSC "DEUTSCHE BANK DBU" specializes in corporate customers segment and provides Ukrainian market with a number of unique banking products and services, high quality of which is ensured by high standards of technologies and solutions offered by Deutsche Bank AG globally.

2. Market share and business activity

Assessing the market share of PJSC "DEUTSCHE BANK DBU" in the banking system of Ukraine, it should be taken into consideration that the Bank specializes in corporate customers segment and can not be classified as universal bank. PJSC "DEUTSCHE BANK DBU" has a very specific niche in Ukrainian banking services market being a part of a unified global network of offices of Deutsche Bank AG.

In fact, the market share of PJSC "DEUTSCHE BANK DBU" during the last 3 years fluctuated within the range of 0.07% - 0.2% in the total assets of the whole Ukrainian banking system. A relatively small market share of PJSC "DEUTSCHE BANK DBU" in Ukrainian banking system has no significant effect on its credit rating due to the Bank's access to the global network of Deutsche Bank AG and benefit from the global relationship with international clients portfolio, which ensures profitable and stable operational activity of the Bank.

Table 1

Data on assets and liabilities of PJSC "Deutsche Bank DBU" compared to general data in Ukrainian banking system, mln. UAH, %, p.p.

Indicators	(mln. UAH, %)					
	01.04.2017	01.01.2017	01.01.2016	01.01.2015	Change	Growth rate %
Assets of the banking system	1279243.821	1258643.603	1252570.443	1316717.870	-37474.049	-2.85%
Assets of the Bank	1427.276	2466.170	1648.424	862.534	564.742	65.47%
Share of the bank's assets in assets of the banking system	0.11%	0.20%	0.13%	0.07%	0.05 p.p.	-
Liabilities of the banking system	1132087.818	1142209.225	1157656.583	1168655.263	-36567.445	-3.13%
Liabilities of the Bank	1057.505	2110.855	1269.337	615.595	441.910	71.79%
Share of the bank's liabilities in liabilities of the banking system	0.09%	0.18%	0.11%	0.05%	0.04 p.p.	-

Source: NBU data, calculated by "RA "Expert-Rating", LLC

Note: perceiving data of the table, the changes should be taken into consideration, which were made by NBU in the methodology of forming public reporting of the banks in 2015–2017

3. External support

Deutsche Bank AG is the only among foreign banks represented in Ukraine, which in addition to traditional external support of the subsidiary, based on contributions to the authorized capital, provision of liquidity and reputational risks management, provides in writing its Declaration of Backing and ensures that PJSC "DEUTSCHE BANK DBU", Ukraine is able to meet their contractual liabilities. At the time of rating assignment the 32 subsidiary banks of Deutsche Bank AG, including PJSC "DEUTSCHE BANK DBU", had such kind of support. The availability of "firm guarantee" of Deutsche Bank, which is published publicly, is a very significant positive factor that affects the long-term credit rating and strengthens the competitive advantages of Deutsche Bank AG in Ukraine. The list of institutions, which have such guarantees from Deutsche Bank AG, is published on Deutsche Bank AG website in the section "Declaration of Backing".

In addition, the Agency draws attention to the large scale of operations of Deutsche Bank AG. Thus, as of 31st of December, 2016, the total assets of Deutsche Bank AG amounted to EUR 1.591 trillion, and total net revenues for 2016 amounted to EUR 30.014 billion. During 2016 Deutsche Bank AG showed a slight downward trend in total net revenues, assets, shareholders' equity and number of employed persons, but increased its common equity adequacy (Common Equity Tier 1 Capital Ratio), which indicates the ratio of equity to risk-weighted assets, up to the level of 11.8%.

Table 2

Key performance indicators of Deutsche Bank for 2016, bn. EUR, %

Indicator	2016 (31.12.2016)	2015 (31.12.2015)	Change	Growth rate, %
Total net revenues	30.014	33.525	-3.511	-10.47%
Common Equity Tier 1 Capital Ratio	11.80%	11.10%	0.70 p.p.	-
Total assets	1591	1629	-38	-2.33%
Shareholders' equity	60	63	-3	-4.76%
Number of employed persons, pers.	99744	101104	-1360	-1.35%

Source: Annual report of Deutsche Bank for 2016, page 2

At the date of rating assignment, Deutsche Bank AG had the following long-term credit ratings from the international rating agencies:

- Moody's Investors Service: A3
- Standard & Poor's: A-
- Fitch Ratings: A(emr)

The long-term credit ratings of Deutsche Bank AG from the above three international rating agencies were at the investment level and were considerably higher than the benchmark for investment grade (BBB-).

Thus at the moment of the long-term credit rating assignment, PJSC "DEUTSCHE BANK DBU" had a guaranteed support from its sole shareholder - Deutsche Bank AG. The scale of activities, financial results and current long-term credit ratings of Deutsche Bank AG indicated that Deutsche Bank AG, as a parent, will be able, if necessary, to provide PJSC "DEUTSCHE BANK DBU" with an unprecedentedly high level of external support.

4. Capital adequacy

As of 31st of March 2017 the authorized capital of PJSC "DEUTSCHE BANK DBU" exceeded UAH 200 mln and amounted to UAH 228.666 mln. Shareholders' equity at the same date amounted to UAH 369.770 mln. For the first quarter of 2017 the Bank's shareholders' equity increased by 4.07%, the authorized capital remained unchanged.

Table 3

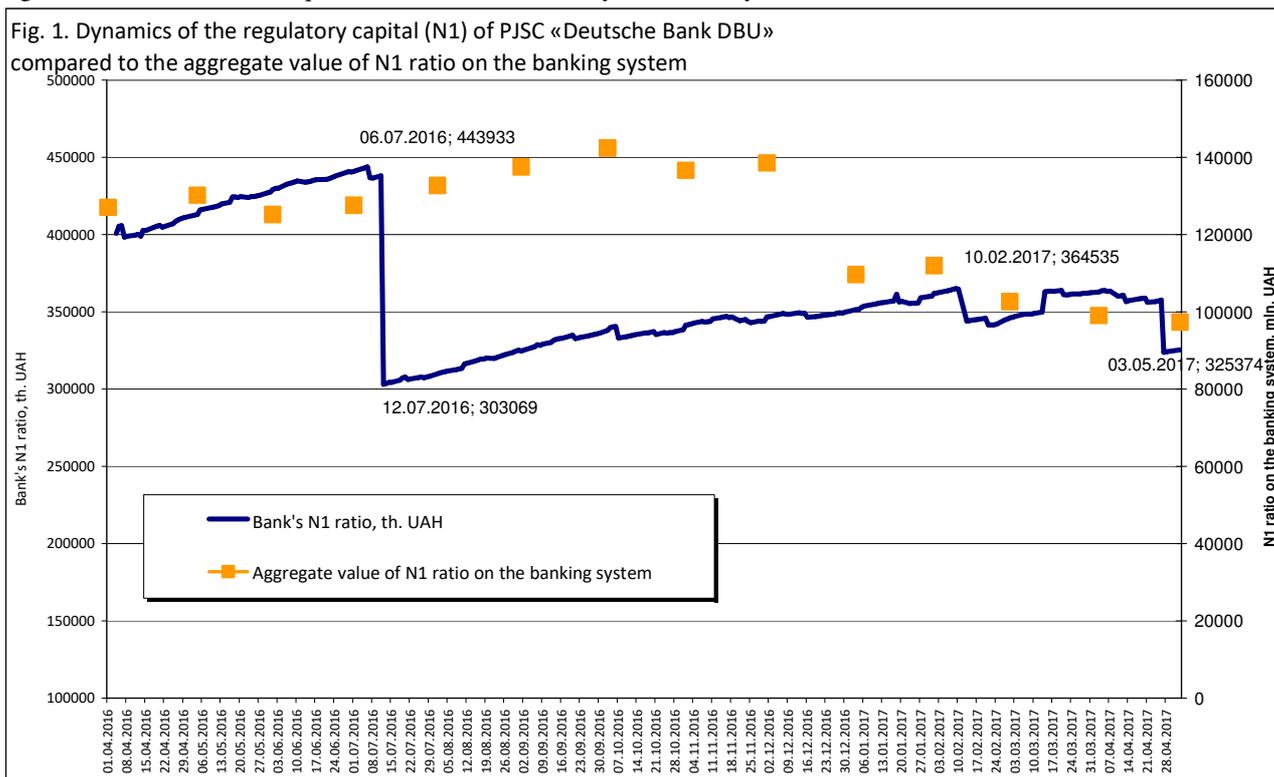
Shareholder' equity of PJSC "Deutsche Bank DBU" in the first quarter of 2017, th. UAH, %

Indicators	31.03.2017	31.12.2016	Change	Growth rate, %
Authorized capital	228666	228666	-	-
Retained earnings and other reserves	141104	126649	14455	11.41%
Total shareholders' equity	369770	355315	14455	4.07%
Total liabilities and shareholders' equity	1427276	2466140	-1038864	-42.13%
The ratio between authorized capital and shareholders' equity	61.84%	64.36%	-2.52 p.p.	-

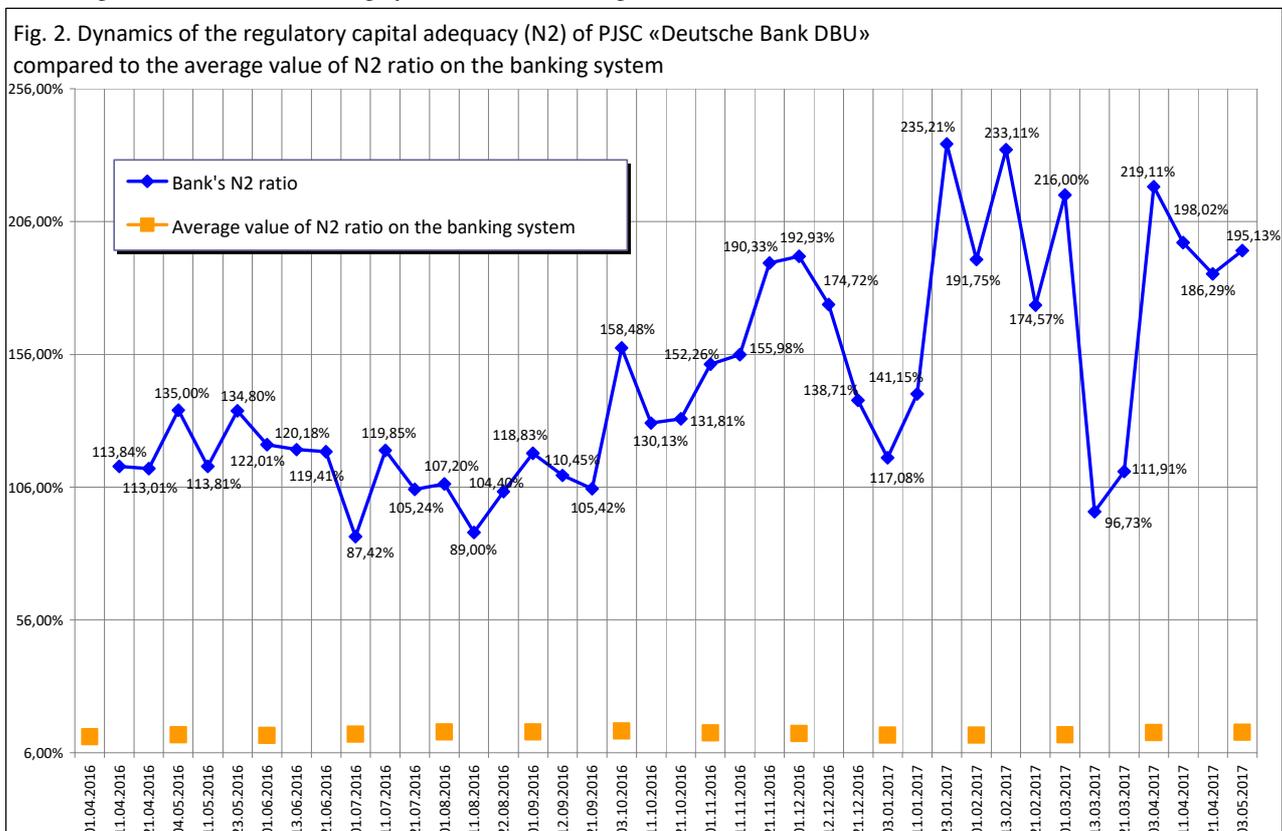
Source: Interim financial statements of PJSC "DEUTSCHE BANK DBU"

The analysis of regulatory capital dynamics showed that during the last 12 months the Bank's regulatory capital fluctuated in the range between UAH 303.069 and UAH 443.933 mln. As of 3rd of May, 2017 the regulatory capital of PJSC "DEUTSCHE BANK DBU" amounted to UAH 325.374 mln. Throughout the entire period of analysis the Bank maintained a substantial level of N1 ratio with respect to the minimum requirement, set by NBU. Moreover,

the authorized and regulatory capital of PJSC "Deutsche Bank DBU" at the beginning of the second quarter was higher than the minimum requirements that will be set by NBU in July at the level of UAH 200 mln.



The analysis of the Bank's N2 ratio dynamics showed that during the entire period of analysis, this ratio fluctuated within the range of 87.42%–235.1%. Despite significant fluctuations of N2 ratio, PJSC "DEUTSCHE BANK DBU" had an unprecedentedly high level of regulatory capital. Required regulatory minimum of N2 ratio was 10%, and the average N2 ratio in the banking system was in the range of 12%–14%.

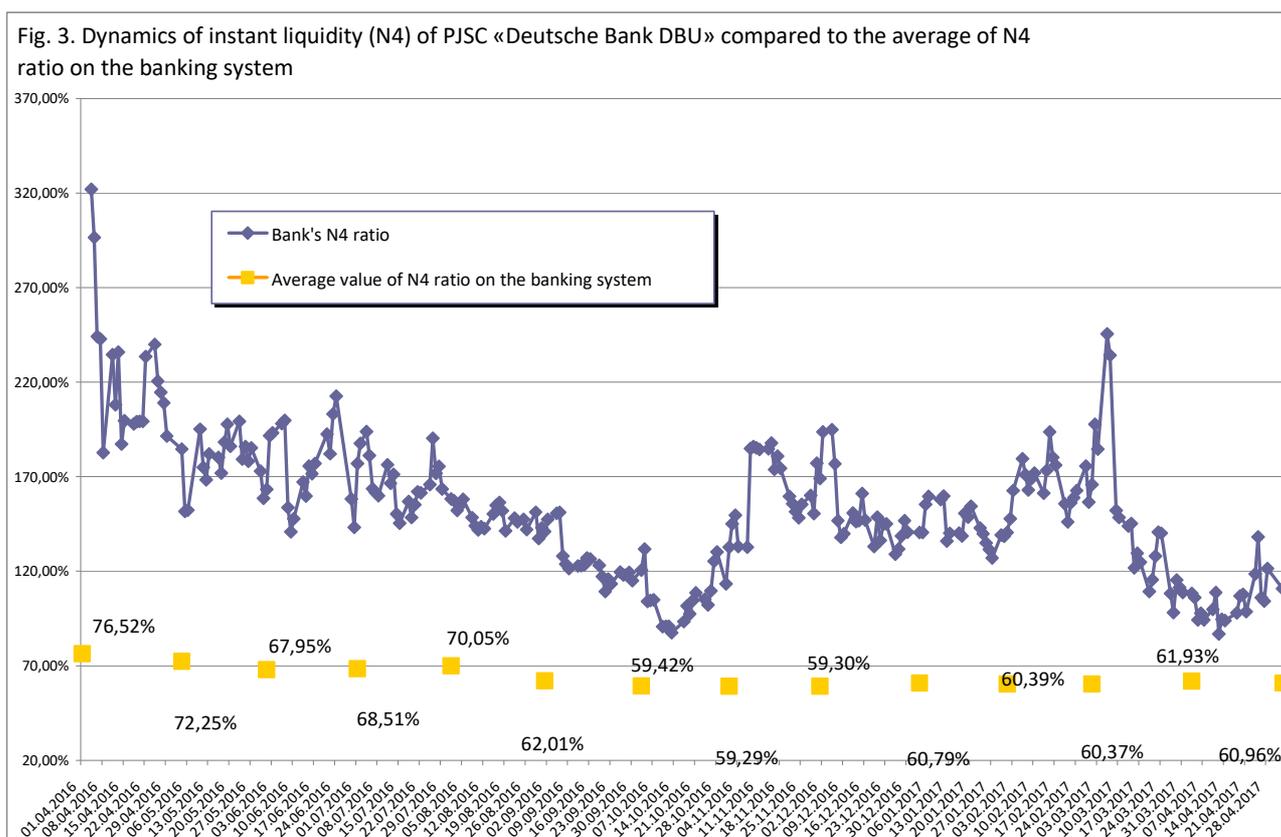


Thus, PJSC "Deutsche Bank DBU" entered the second quarter of 2017 with the authorized capital, the regulatory capital and the shareholders' equity, which exceeded the value of UAH 200 mln – a minimum requirement for the authorized and regulatory capital according to new NBU requirements, which come into force in July of 2017. Throughout the entire analysis period, PJSC "DEUTSCHE BANK DBU" maintained an unprecedentedly high level of

the regulatory capital adequacy (N2). As of 3rd of May, 2017 the Bank's N2 ratio was 195.13%, while minimum regulatory requirement was 10% and the average N2 ratio in the banking system was 13.77%.

5. Liquidity

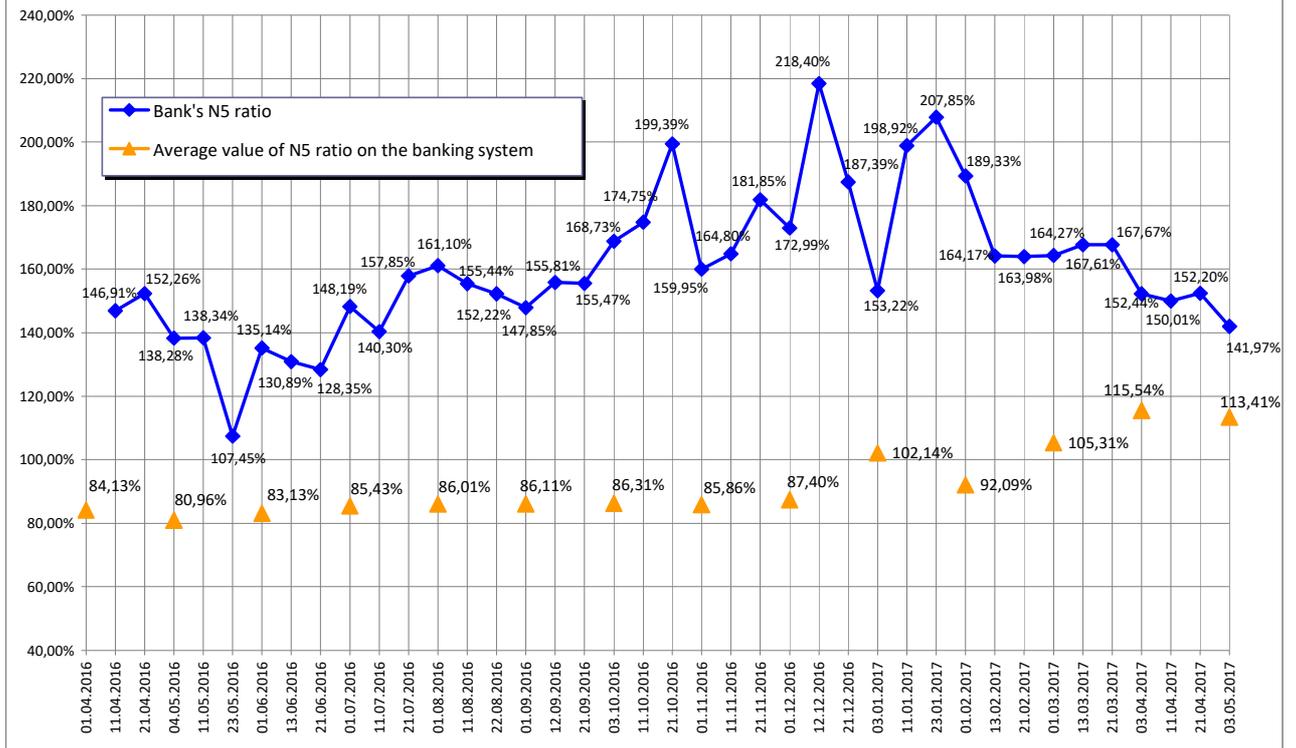
Throughout the entire analysis period, PJSC "DEUTSCHE BANK DBU" had a very high instant liquidity (N4) ratio. The Bank's N4 ratio fluctuated within the range of 86.83%–322.07%. As of 3rd of May, 2017, the N4 ratio of PJSC "DEUTSCHE BANK DBU" was equal to 110.81%, with the minimum regulatory requirement of 20% and the average value in the banking system of 60.96% (fig. 3). The Agency draws attention to the fact that, despite a significant volatility level of the Bank's N4 ratio over the last 13 months, PJSC "DEUTSCHE BANK DBU" regularly maintained a substantially high instant liquidity ratio. As a result of conservative policy of liquidity management in PJSC "DEUTSCHE BANK DBU", the Bank's N4 ratio did not fall below the average rate in the banking system throughout the entire analysis period.



Similar conclusions were made after the analysis of the dynamics of the Bank's current liquidity ratio (N5). Throughout the entire analysis period, the Bank's N5 ratio fluctuated within the range of 107.45%–218.4%. As of 3rd of May, 2017, the N5 current liquidity ratio amounted to 141.97%, with the minimum regulatory requirement of 40% and the average rate in the banking system of 113.41% (fig. 4). Throughout the entire analysis period, the Bank's N5 rate exceeded the market average rate and the minimum regulatory rate, set by NBU. Thus, PJSC "DEUTSCHE BANK DBU" maintained a substantially high current liquidity ratio on a systematic basis, which emphasizes a rather conservative current liquidity management in the Bank.

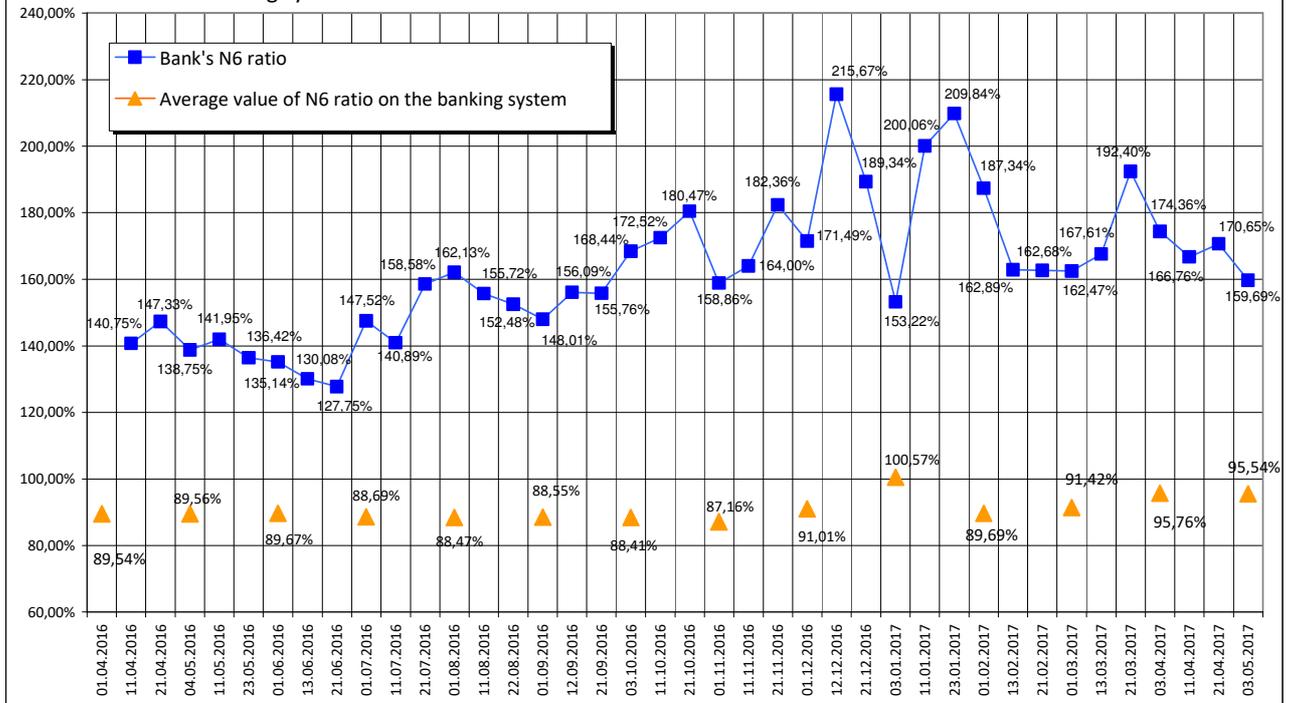
The analysis of short-term liquidity ratio (N6) of PJSC "DEUTSCHE BANK DBU" shows that during the entire period of analysis the Bank's N6 ratio never fell below the average rate in the banking system and below the minimum regulatory requirement set by the NBU. As of 3rd of May, 2017 the Bank's N6 ratio amounted to 159.69% with the minimum regulatory ratio of 60% and the average rate in the banking system of 113.41% (fig. 5).

Fig. 4. Dynamics of current liquidity (N5) of PJSC «Deutsche Bank DBU» compared to the average of N5 ratio on the banking system



A significantly high rate of N6 ratio comparing with the minimum regulatory requirement set by NBU was maintained on a systematic basis, which also emphasizes a conservative short-term liquidity management approach in PJSC "DEUTSCHE BANK DBU."

Fig. 5. Dynamics of short-term liquidity (N6) of PJSC «Deutsche Bank DBU» compared to the average of N6 ratio on the banking system



Thus, PJSC "DEUTSCHE BANK DBU" followed a conservative strategy of instant, current and short-term liquidity management. The Bank on a systematic basis maintained a substantially high rates of liquidity ratios (N4, N5 and N6), both in relation to the minimum regulatory requirements set by NBU, and in relation to the average respective ratios' rates in the banking system. So, for over a year PJSC "DEUTSCHE BANK DBU" was unprecedentedly well provided with liquidity, which positively influenced its long-term credit rating.

6. Asset structure and quality

The conservative liquidity management policy of PJSC "DEUTSCHE BANK DBU" is reflected in the structure of its assets. As of 31st of March, 2017, 43% of the Bank's assets were represented by "cash and funds in NBU", 34.34% accounted for "customer loans and receivables" and 21.6% were represented by "funds in other banks" (table 4).

Table 4

Assets of PJSC "Deutsche Bank DBU" in the first quarter of 2017, th. UAH, %

Indicators	31.03.2017		31.12.2016		Change	Growth rate, %
	th. UAH	%	th. UAH	%		
Total assets	1427276	100.00%	2466140	100.00%	-1038864	-42.13%
Cash and funds with NBU	613734	43.00%	1357908	55.06%	-744174	-54.80%
Funds in other banks	308228	21.60%	885196	35.89%	-576968	-65.18%
Customer loans and acc.receivables	490139	34.34%	210789	8.55%	279350	132.53%
Other assets*	15175	1.06%	12247	0.50%	2928	23.91%

Source: Interim financial statements of PJSC "Deutsche Bank DBU"

Note: * — item is calculated as the difference between total assets and the sum of key asset items presented in table 4

The analysis of interim financial statements of PJSC "Deutsche Bank DBU" for the first quarter of 2017 showed that the quality of the Bank's assets was on a very high level.

UAH 99.384 mln (16.19%) out of UAH 613.734 mln. of "cash and funds with NBU" were kept on correspondent (nostro) account with NBU and UAH 513.837 mln. (83.72%) were invested in NBU Certificates of Deposits. 99.57% out of UAH 308.228 mln of "other banks' funds" were kept with the banks with a long-term credit rating from BBB- to BBB+ according to the international scale of S&P.

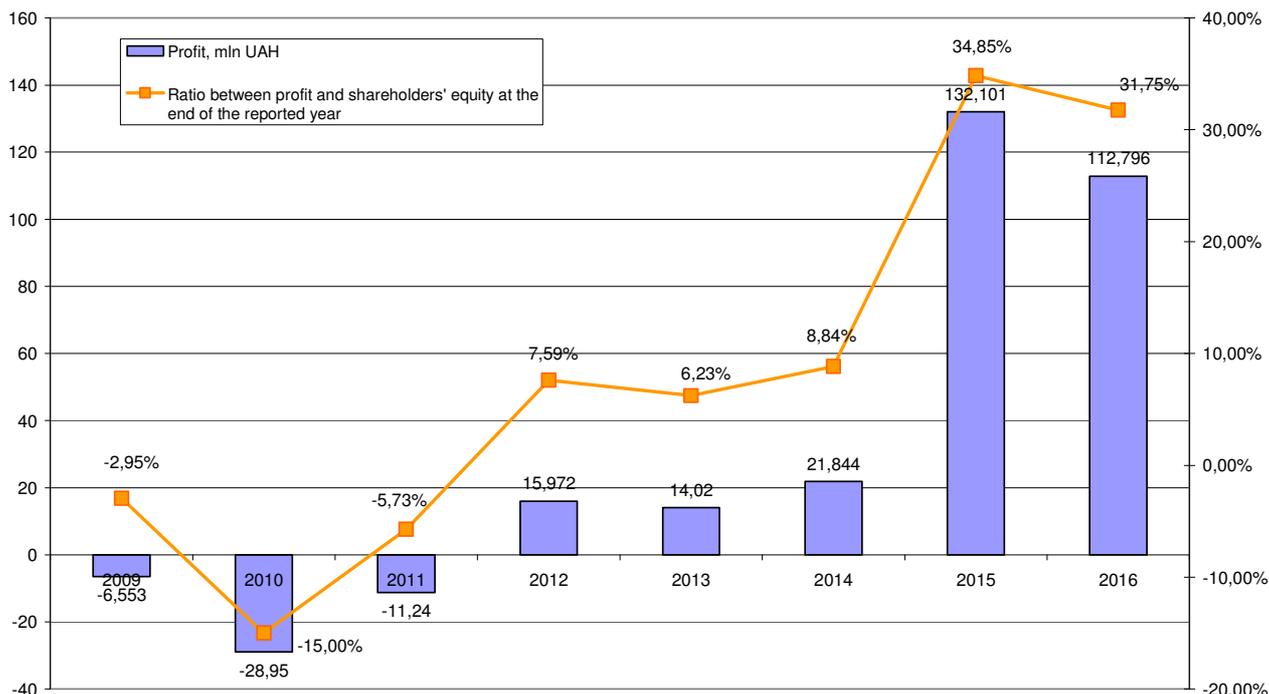
Additionally one should draw attention that as of 31st of March, 2017 "customer loans and acc.receivables" less provisions amounted to UAH 490.139 mln., at the same date the Bank created provisions for UAH 50k Only. The level of provisions covering "customer loans and acc. receivables" in PJSC "Deutsche Bank DBU" as of 31st of March, 2017 was one of the best in Ukrainian banking industry.

100% of the loan portfolio of PJSC "Deutsche Bank DBU" consisted from the loan granted to trading companies. Considering the quality of the portfolio and the specialization of the Bank, as well as the specifics of the trade sector, such situation is quite acceptable and cannot provide any negative influence on the long-term credit rating of the Bank.

7. Income and profit

An important fact was that PJSC "DEUTSCHE BANK DBU" successfully went through two banking crises which happened in Ukraine in 2008/2009 and 2014/2016, and only the first three calendar years of PJSC "DEUTSCHE BANK DBU" operational activity were unprofitable. The Bank achieved its best historical results in 2015–2016 (fig. 6).

Fig. 6. Dynamics of profit and the ratio of profit to shareholders' equity of PJSC "Deutsche Bank DBU", 2009-2016 (data of the annual reports of the bank for 2010-2016)



PJSC "DEUTSCHE BANK DBU" finished the first quarter of 2017 with profit of UAH 14.455 mln, which is 45.65% less comparing with the first quarter of 2016. For the same period the Bank decreased net interest income by

38.56%, but increased net fee and commission revenues by 20.13%. Net trading income for the first quarter 2017 decreased by 23.47%. Reduction in certain income and profit indicators of the Bank for the first quarter of 2017 had no negative impact on its long-term credit rating, because the activity of PJSC "Deutsche Bank DBU" remained profitable.

Table 5

Key items of income and profit of PJSC "Deutsche Bank DBU" in the first quarter of 2017, th. UAH, %

Indicators	QI of 2017	QI of 2016	Change	Growth rate, %
Interest income	37291	70953	-33662	-47.44%
Net interest income	28112	45758	-17646	-38.56%
Net fee and commission income	5938	4943	995	20.13%
Net trading income	2889	3775	-886	-23.47%
Profit	14455	26597	-12142	-45.65%
Ratio of profit to shareholders' equity	3.91%	7.49%	-3.58 p.p.	-

Thus, profitable operational activity of PJSC "DEUTSCHE BANK DBU" was of a systemic nature, as during the last 5 years and the first quarter of 2017 the Bank generated profit. This factor had a positive impact on a long-term credit rating of the Bank.

8. Other factors taken into account in the rating assessment

The agency has carried out a litigation research in the official database Unified State Register of Court Decisions, and found no essential litigation proceedings where PJSC "DEUTSCHE BANK DBU" was/is involved. The reason thereof is the qualitative loan portfolio and the specifics of transactions with customers.

The agency has not found out proceedings initiated by the Bank versus government authorities which result could considerably affect the Bank's financial statement.

Top-management of the Bank has a good business reputation, good faith and extensive experience in the banking sector in Ukraine and abroad.

9. Summary of rating results

On 29th of May, 2017 at the meeting of the rating committee of "Rating agency "Expert-Rating", LLC it was decided to assign a long-term credit rating to Public Joint-Stock Company "DEUTSCHE BANK DBU" (USREOU code 36520434) at the level uaAAA according to the national scale. Borrower (bank) or separate bond instrument with rating uaAAA is characterized by the highest solvency compared to other Ukrainian borrowers or bond instruments. Making decision to assign the credit rating according to the national scale, the Agency was guided by the following conclusions:

1. PJSC "DEUTSCHE BANK DBU" specializes in corporate customers segment and provides Ukrainian market with a number of unique banking products and services, high quality of which is ensured by high standards of technologies and solutions offered by Deutsche Bank AG globally. Deutsche Bank AG has an extensive working experience in Ukraine: has been presented in Ukrainian market as a representative office since 1993 and as a subsidiary bank – since autumn of 2009.

2. In fact, the market share of PJSC "DEUTSCHE BANK DBU" during the last 3 years fluctuated within the range of 0.07% - 0.2% in the total assets of the whole Ukrainian banking system. A relatively small market share of PJSC "DEUTSCHE BANK DBU" in Ukrainian banking system has no significant effect on its credit rating due to the Bank's access to the global network of Deutsche Bank AG and benefit from the global relationship with international clients portfolio, which ensures profitable and stable operational activity of the Bank.

3. Deutsche Bank AG is the only among foreign banks represented in Ukraine, which provides in writing its Declaration of Backing and ensures that PJSC "DEUTSCHE BANK DBU", Ukraine is able to meet their contractual liabilities. The scale of activities, financial results and current long-term credit ratings of Deutsche Bank AG indicated that Deutsche Bank AG, as a parent, will be able, if necessary, to provide PJSC "DEUTSCHE BANK DBU" with an unprecedentedly high level of external support.

4. PJSC "DEUTSCHE BANK DBU" has entered the second quarter of 2017 with the authorized capital, the regulatory capital and the shareholders' equity, which exceeded the value of UAH 200 mln – a minimum requirement for the authorized and regulatory capital according to new NBU requirements, which come into force in July of 2017. Throughout the entire analysis period, PJSC "DEUTSCHE BANK DBU" maintained an unprecedentedly high level of the regulatory capital adequacy (N2). As of 3rd of May, 2017 the Bank's N2 ratio was 195.13%, while minimum regulatory requirement was 10% and the average N2 ratio in the banking system was 13.77%.

5. PJSC "DEUTSCHE BANK DBU" followed a conservative strategy of instant, current and short-term liquidity management. The Bank on a systematic basis maintained a substantially high rates of liquidity ratios (N4, N5 and N6), both in relation to the minimum regulatory requirements set by NBU, and in relation to the average respective ratios' rates in the banking system. So, for over a year PJSC "Deutsche Bank DBU" was unprecedentedly well provided with liquidity, which positively influenced its long-term credit rating.

6. Profitable operational activity of PJSC "DEUTSCHE BANK DBU" was of a systemic nature, as during the last 5 years and the first quarter of 2017 the Bank generated profit. This factor had a positive impact on a long-term credit rating of the Bank. PJSC "DEUTSCHE BANK DBU" finished the 2016 year with profit of UAH 112.796 mln, and the first quarter of 2017 – with profit of UAH 14.455 mln. According to the agency, systematic profitable operational activities of the Bank in Ukraine indicates that a strong and competitive business model of Deutsche Bank AG followed in emerging markets, has proven to be effective in Ukraine.

APPENDIX A

Use limitations on the rating report

The credit rating of the Rating agency "Expert-Rating" is an opinion of analysts, which reflects the ability of the issuer (securities) to comply with financial obligations. Credit ratings are of probabilistic nature and therefore, cannot be a recommendation to buy or sell securities or to use services of the issuer, bank, insurer. When assigning and maintaining ratings and rating outlooks RA "Expert Rating" relies on actual information which the Agency receives from issuers and underwriters and from other sources that the Agency considers reliable. The issuer, its auditor and underwriter, as well as other consultants are responsible for the accuracy of the information they provide to RA "Expert-Rating" or publish in accordance with requirements of current legislation.

RA "Expert-Rating" does not evaluate the risks associated with relations of issuers, banks, insurers with NBU NSSMC, Natskomfinposluh and tax authorities, if the Unified State Register of court decisions or other public sources that are credible, contain no facts that indicate the possible non-compliance of the issuers, banks, insurers with the regulator requirements that threaten the loss of their ability to pay. RA "Expert-Rating" does not assess the probable outcome of litigations between the issuer and its contractors, between the issuer and the state. RA "Expert-Rating" does not assess the political, military and natural risks, the impact development of which does not depend or weakly depends on the Agency, the client or the Government of Ukraine. This limitation is an integral part of any rating report.

Long-term credit rating is assigned according to the national scale, approved by the Cabinet of Ministers of Ukraine Resolution № 665 dated April 26, 2007.