

Rating action: Update of a long-term credit rating according to the national scale

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The issuer: PSC Prominvestbank

USREOU code of the issuer: 00039002

Web-site of the issuer: www.pib.com.ua



www.expert-rating.com

Ratings of PSC Prominvestbank are confirmed

November 11, 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 and a deposit rating of PSC Prominvestbank at the level ua1 that is the highest of the possible assessments of deposit reliability according to the Agency’s 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 9 months 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 10 months of 2015.

Equity and capital adequacy

During the first 10 months of 2015 the Bank, including external support from shareholders, was provided with regulatory capital at an acceptable level. Dynamics of the Bank’s equity norms (N1 and N2) corresponded to those trends, which can be observed with the analysis of a total value of N1 ratio on the banking system.

For the period from 05.01.2015 to 02.11.2015 the norm of the Bank’s regulatory capital (N1) decreased by 71,96%. For the period from 05.01.2015 to 01.10.2015 the total value of N1 ratio on the banking system decreased by 56,37% (at the moment of preparing the rating update NBU didn’t publish data on the norms of the system on 01.11.2015).

Dynamics of the Bank’s N2 ratio corresponded to the average value of N2 ratio on the banking system during the entire analysis period, exceeding the average value of N2 ratio on the banking system and lagging behind it. As of 01.10.2015 the Bank’s N2 ratio amounted to 7,05% with the average 7,09% on the banking system.

The Agency also reminds that PSC Prominvestbank in April of 2015 announced about the increase in the authorized capital. For the period from 01.01.2015 to 01.10.2015 the authorized capital of PSC Prominvestbank was increased by UAH 10,796 bn or up to UAH 19,088 bn.

Fig. 1. Dynamics of the regulatory capital (N1) of PSC “Prominvestbank” compared to the total value of N1 ratio on the banking system

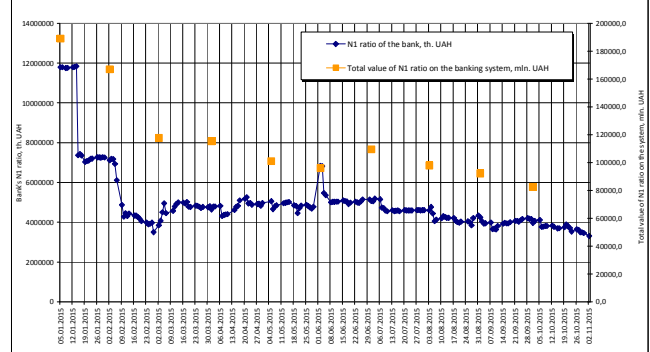
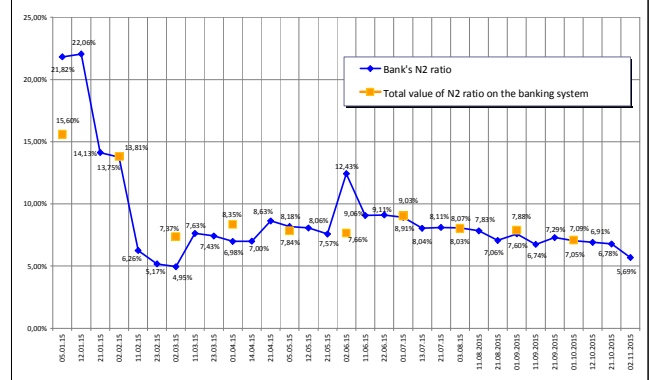


Fig. 2. Dynamics of the regulatory capital adequacy (N2) of PSC “Prominvestbank” compared to the total value of N2 ratio on the banking system

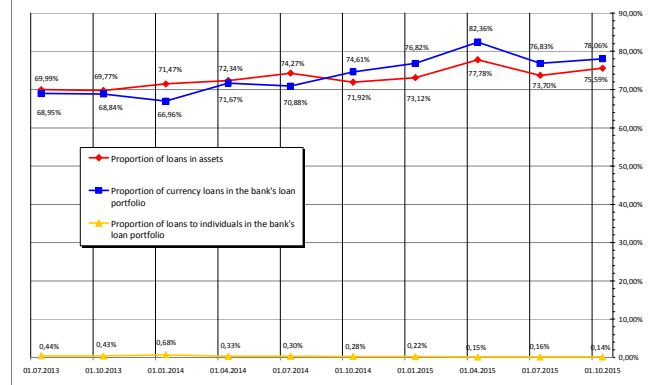


Asset structure and quality

For the 9 months of 2015 assets of PSC Prominvestbank in hryvnia equivalent grew by 6,16%, customer credits and debt increased by 9,73%, while loan provisions grew by 119,29%. The proportion of loans in the Bank’s assets for the period from 01.10.2013 to 01.10.2015 grew from 69,77% up to 78,06%. Loans to customers remained the main item of the Bank’s assets.

For the same period the proportion of currency loans in the Bank’s loan portfolio grew from 68,84% up to 78,06% that with significant rates of hryvnia devaluation was a little. However, currency loans occupy a great volume of the Bank’s loan portfolio that is why the quality of its loan portfolio can be sensitive to

Fig. 3. Specific characteristics of the loan portfolio of PSC “Prominvestbank”



devaluation processes.

For the period from 01.10.2013 to 01.10.2015 the proportion of loans to individuals in the Bank's loan portfolio decreased from 0,43% down to 0,14%.

For the same period the proportion of non-performing loans grew from 18,53% up to 37,16%. The fall of the loan portfolio quality was under control of the Bank, and its loan risks were partially compensated due to revenues from lending and other banking operations, and partially – due to funds of shareholders in the form of additional capitalization. As well, the Bank for the third quarter significantly increased loan provisions.

Liquidity

During the first 10 months of 2015 PSC Prominvestbank was very well provided with liquidity.

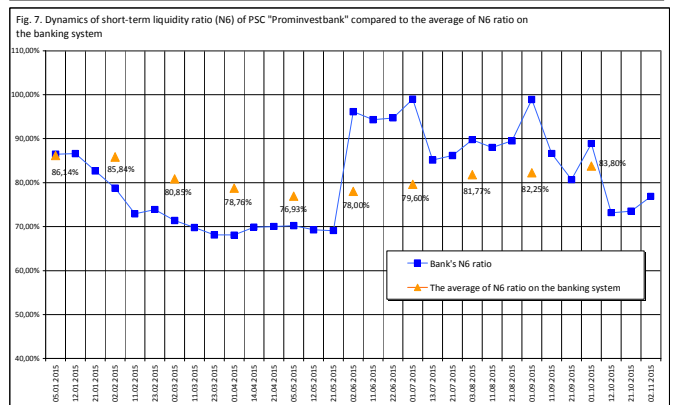
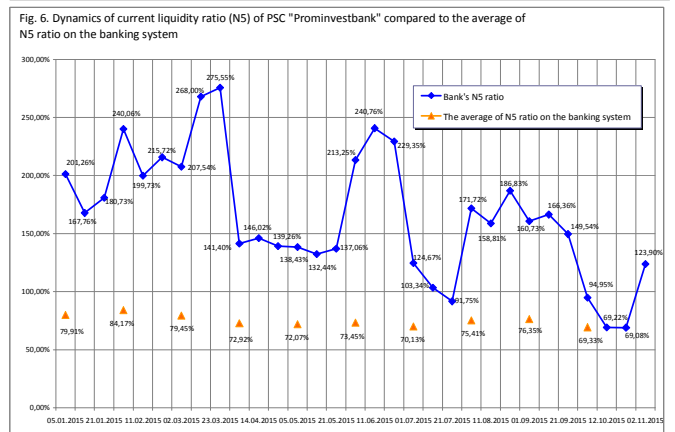
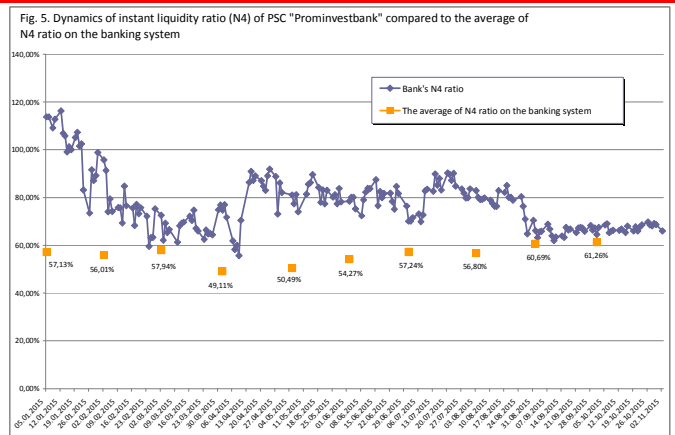
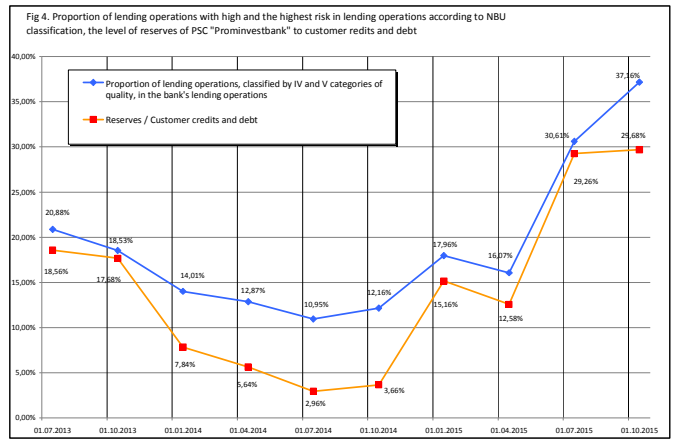
During the entire period of analysis the Bank complied N4 ratio within the normative, set by NBU. For the period from 05.01.2015 to 02.11.2015 instant liquidity ratio (N4) all the time was higher than the average of N4 ratio on the banking system of Ukraine. As of 02.11.2015 the Bank's N4 ratio amounted to 66,05% with the limit, set by NBU, at the level of not less than 20%.

For the period from 05.01.2015 to 02.11.2015 the normative of current liquidity ratio of the Bank (N5) complied within the limits, set by NBU. As well, the Bank's N5 ratio stably exceeded the averages of this normative on the banking system. As of 02.11.2015 the Bank's N5 ratio amounted to 123,9% with the limit, set by NBU, at the level of not less 40%.

For the period from 05.01.2015 to 02.11.2015 the norm of the Bank's short-term liquidity (N6) complied within the limits, set by NBU. During June-September of 2015 the Bank's N6 ratio was more than the average value of this norm on the banking system of Ukraine.

In view of the difficult period in the economy of Ukraine and the aggravated risks in the banking sector, the policy of liquidity management in PSC Prominvestbank still can be considered optimal, oriented on a negative scenario of economic development and a further fall of the quality of banking assets.

Under conditions of the necessity of constant additional capitalization of the Bank, including due to funds of shareholders, the policy of maintaining a great surplus of liquidity guarantees to the Bank an uninterrupted operation with customers and partners, although it may reduce the profitability of operations. However, under conditions of crisis in the banking sector such "exchange" of the potential profitability to the liquidity reserve indicates a high level of the Bank's conservativeness.

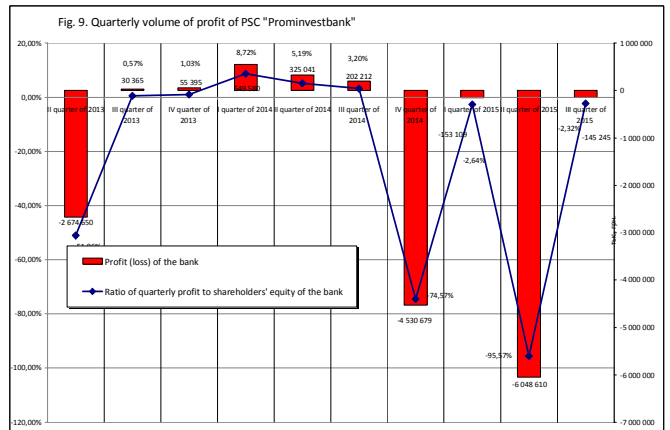
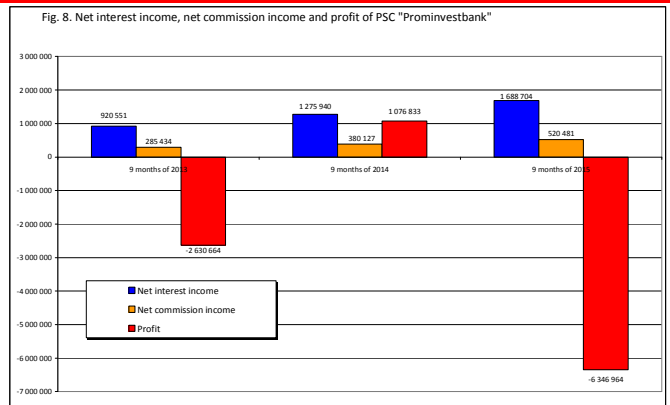


Profitability of operations

PSC Prominvestbank finished the 9 months of 2015 with a loss of UAH 6,347 bn against profit for the same period of 2014 in the amount of UAH 1,076 bn. In the Agency's opinion, the unprofitable activity of the Bank still was affected by: the need to increase loan provisions and the hryvnia devaluation.

The Agency draws attention to the Bank's ability to provide a constant increase in net interest income (NII). Thus, NII of the Bank for the 9 months of 2013 amounted to UAH 0,920 bn, for the 9 months of 2014 - UAH 1,276 bn, for the 9 months of 2015 - UAH 1,689 bn. The same trend was revealed with the analysis of net commission income that indicates the Bank's ability to provide the increase in key income items in a crisis period.

Analysis of dynamics of the quarterly volume of profit shows that the Bank finished the third quarter of 2015 with a loss of only UAH 145,245 mln. Considering the scale of operations, assets and equity of PSC Prominvestbank, that means a significant decrease in the level of the Bank's unprofitability.



Other factors

Verification on the Unified State Register of court decisions showed that with respect to PSC Prominvestbank there are no court decisions which would have a significant impact on its stability or the results of its activity.

In addition, the Agency notes that the tension in Russian-Ukrainian relations can create risks for PSC Prominvestbank, the character and the nature of which is independent of PSC Prominvestbank and which are difficult measurable to numerical estimates. Studying these forms of risks, the Agency was guided by the normative documents of the National Bank and the facts of the interaction of PSC Prominvestbank with state institutions in Ukraine. The Agency reminds that since January of 2015 PSC Prominvestbank was recognized by NBU as a systemically important bank. On July 10, 2015 The Deposit Guarantee Fund of individuals chose PSC Prominvestbank as one of its agent banks in the years 2015-2016 to make payments of guaranteed amounts on deposits to depositors of insolvent banks that are under liquidation. It also should be taken into account that the rating of PSC Prominvestbank according to the national scale can be decreased in case of a further decrease of a sovereign rating of Russian Federation by international rating agencies.

In September of 2015 PSC Prominvestbank annulled all the licenses of NSMSC to conduct professional activity in the securities market. NSMSC was governed by the Law of Ukraine "On Protection of Economic Competition" and "On Defense of Ukraine". The Agency assumes that cancellation of licenses will negatively affect the revenues of PSC Prominvestbank in future, but the impact of this factor on the Bank's revenues, in the Agency's opinion, remains minimal.

Generalization

As of 11.11.2015 PSC Prominvestbank performed its commitments to clients and lenders according to current legislation.

During the first seven months of 2015 the Bank, including external support from shareholders, was provided with regulatory capital at an acceptable level. Dynamics of the Bank's equity norms (N1 and N2) corresponded to the market trends. Support from a shareholder was performed in practice in the third quarter of 2015 in the form of the increase in the authorized capital.

As of 01.10.2015 the proportion of non-performing loans of the Bank grew up to 37,16%, the Bank formed loan provisions adequate to the dynamics of loan portfolio quality. For the period from 01.01.2015 to 01.10.2015 the volume of loan provisions grew by 119,29% up to UAH 12,539 bn.

During the first 10 months of 2015 PSC Prominvestbank was very well provided with liquidity. As of 02.11.2015 the norm of instant liquidity (N4 ratio) amounted to 66,05% with the limit of not less than 20%, the norm of current liquidity (N5) - 123,9% with the limit value of not less 40%, the norm of short-term liquidity (N6) - 76,88% with the limit value of not less 60%.

The Agency draws attention to the Bank's ability to provide a constant increase in net interest income (NII) in a long-term period, as well as to the fact that in the third quarter of 2015 the Bank managed to significantly reduce a loss.

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