

## Report on the rating research

Customer:	PUBLIC JOINT-STOCK COMPANY «BANK «KONTRAKT»
Registration date:	18.05.1993
USREOU code:	19361746
Bank address (city, postal code, street):	58, Vozdvizhenskaya str., Kiev, 04071
Top executive, title:	<b>Alla Komisarenko</b> , Chairman of Board
Deputy:	<b>Pavel Krapivin</b> , first Deputy Chairman of the Board
Telephone/fax:	+38 (044) 537-62-88; +38 (044) 537-62-99
Web-site:	www.kontrakt.ua
Rating type:	Credit ratings of the bank, rating of deposits
Rating revision period:	Quarterly
Date of rating:	14.02.2014
Long-term Rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale (outlook):	<b>uaBBB+ (stable)</b> The bank or the separate bond instrument with rating uaBBB+ is characterized by sufficient solvency compared to other Ukrainian borrowers or bonds. The level of solvency depends on the impact of adverse commercial, financial and economic conditions.
Short-term Rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale:	<b>uaK3+ (stable)</b> The bank or the separate bond instrument is characterized by sufficient solvency compared to other Ukrainian banks. The financial state of this bank is satisfactory in order to prevent the foreseeable risks in a short term.
Deposit rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale:	<b>ua.3+</b> Deposit with this rating has acceptable level of reliability
The correlation of national (Ukrainian) scale ratings and the international scale ratings reflecting the rating in the countries of Agency operations is set by GPRC "Standard-Rating" Rating Committee	
<b>Informational restrictions:</b>	
The report on rating research has no restrictions to distribution. When using materials contained in the report, the reference on RA "Standard Rating" (Ukraine) is mandatory. The Agency considers true all information contained in the report on rating research	
<b>Ratings use limitations:</b>	
All the ratings by the Agency are not recommendations for purchase of securities, use of services or taking any economic decisions. The ratings irrespectively of the scale have to be perceived solely as opinions of Agency analysts on rating object and subject	

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### 1. Market share and business activity

Bank «Kontrakt» was registered in May of 1993 and already works in the Ukrainian market for over 20 years, being almost of the same age as the banking system of independent Ukraine.

Bank «Kontrakt» refers to the category of private banks. As of 01.10.2013 the Bank occupied the 127<sup>th</sup> position in the ranking of NBU in terms of assets and the 68<sup>th</sup> position in the fourth group of banks according NBU classification in terms of assets.

The estimated share of Bank «Kontrakt» by assets amounted to 0,057% on 01.10.2013, by deposits of individuals – 0,0657%. The estimated shares and positions in the rankings of NBU indicate that Bank «Kontrakt» refers to the category of small banks and does not claim to significant market shares.

The impact of the work scales of the bank on its loan risks in case of Bank «Kontrakt» remains minimal.

### 2. Capital adequacy and shareholders' support

As of 01.01.2014 the shareholders' equity of Bank «Kontrakt» amounted to UAH 120,899 mln. 71% of the shareholders' equity of the Bank was formed due to the authorized capital and 29% – due to reserves.

Table 1

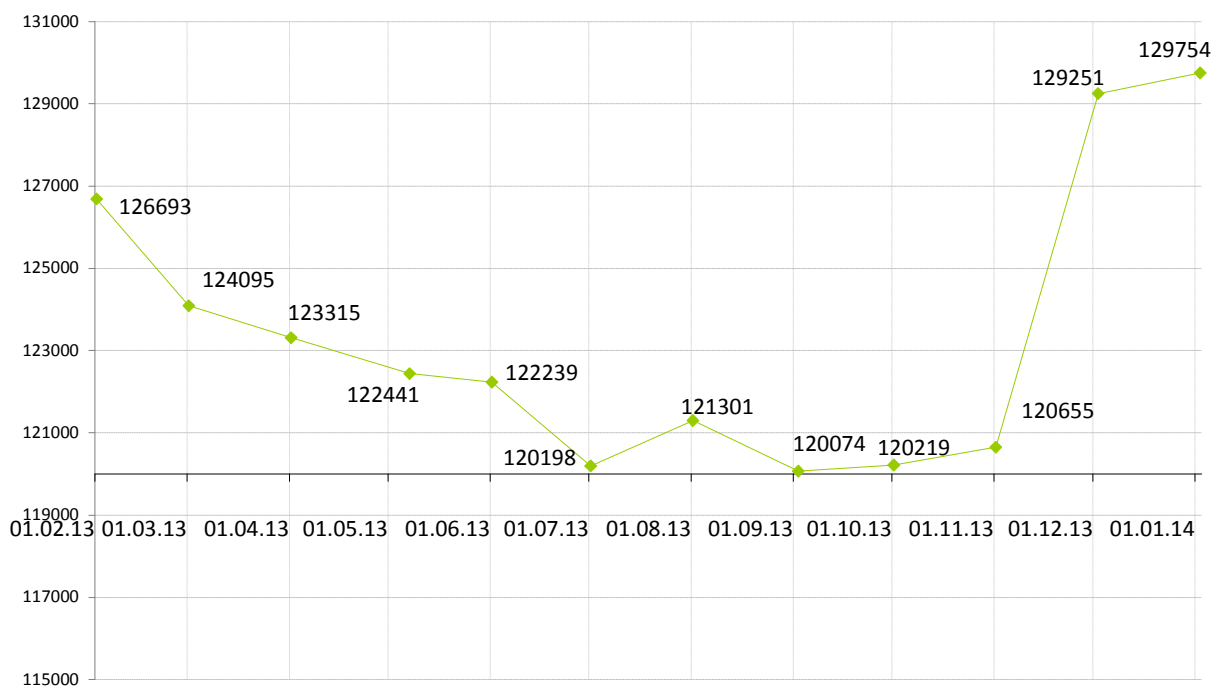
Data on shareholders' equity of PJSC «Bank «Kontrakt» in 2013

Indicators	01.01.2014	01.01.2013	Change	Growth rate, %
Authorized capital of the bank	86 000	86 000	-	-
Undistributed profit	210	318	-108	-33,96%
Reserve funds and other funds	10 991	10 672	319	2,99%
Revaluation reserve	23 698	23 698	-	-
<b>Shareholders' equity, total</b>	<b>120 899</b>	<b>120 688</b>	<b>211</b>	<b>0,17%</b>
<b>Total liabilities:</b>	<b>763 063</b>	<b>575 339</b>	<b>187 724</b>	<b>32,63%</b>

In 2013 the shareholders' equity of the Bank remained almost unchanged, having shown the growth rate 0,17%. Its structure also remained almost unchanged. With the application for the receipt of the preliminary rating assessment the Bank's management announced the planned increase of the authorized capital in 2014, however, for now this intention is not documented.

The monthly analysis of the dynamics of the regulatory capital (N1) of the Bank showed that during a year dynamics of this norm was differently directed. By the autumn the regulatory capital of the Bank slightly decreased, but during the last 2 months of 2013 grew up to UAH 129,754 mln.

**Fig. 1. The dynamics of the regulatory capital of PJSC "Bank "Kontrakt" in 2013**



Therefore, on 01.01.2014 Bank «Kontrakt» formed the reserve N1 with respect to the norm in amount of UAH 9,754 mln. In the Agency's opinion, this reserve is sufficient for maintaining the norm higher, than the limit, which is set by NBU, especially if we take into account that the activity of Bank «Kontrakt» was profitable during the last 2 years.

Table 2

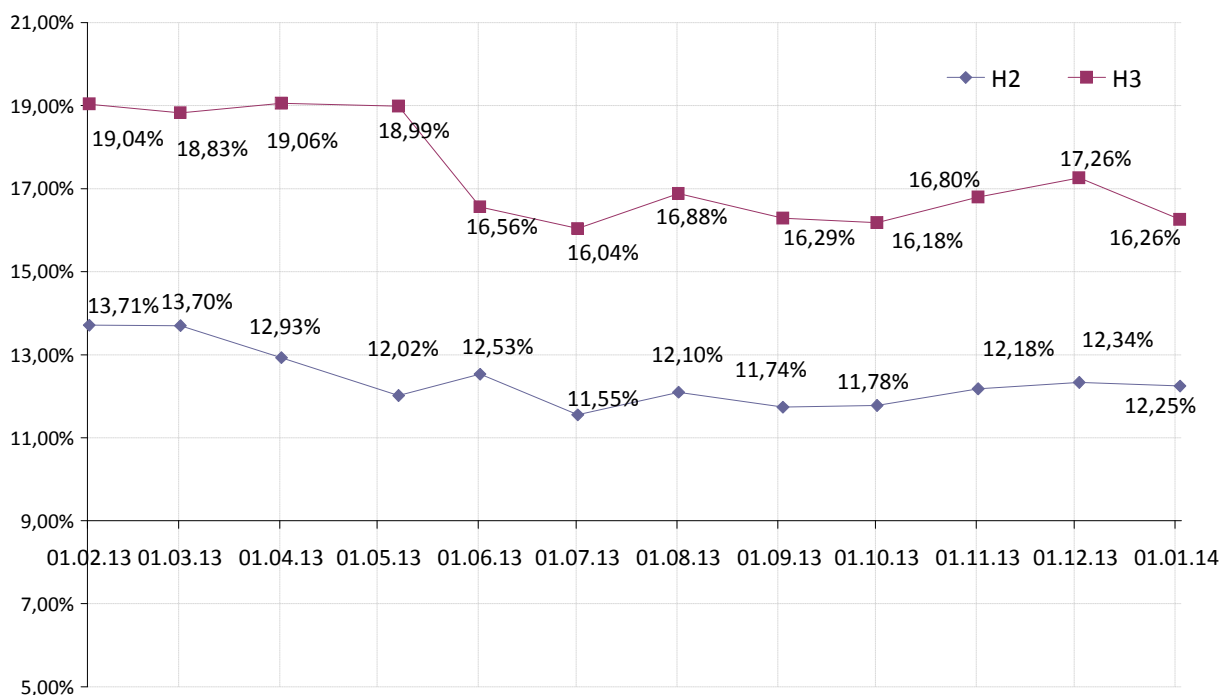
**Data on dynamics of the norms of equity of PJSC «Bank «Kontrakt» in 2013**

Indicator	The norm	01.01.2014		01.01.2013	
		Bank's value	Value on the system	Bank's value	Value on the system
Regulatory capital (N1)	>120 mln	129 754	-	125 222	-
The norm of the regulatory capital adequacy (N2)	>10%	12,25%	18,26%	14,48%	18,06%
The norm of the ratio of the regulatory capital to total assets (N3)	>9%	16,26%	13,98%	20,29%	14,89%

As of 01.01.2014 the regulatory capital adequacy of the Bank “Kontrakt” amounted to 12,25% that is by 2,25 p.p. higher, than the limit, set by NBU, but by 6,01 p.p. lower, than the average on the banking system. The situation with the compliance with the norm of the ratio of the regulatory capital to total assets (N3) was different. N3 on 01.01.2014 amounted to 16,26% that even by 2,28 p.p. more, than the average on the system.

Analysis of the monthly dynamics of the norms N2 and N3 indicates that throughout the year the two norms demonstrated differently directed dynamics, but within the limits indicated in table 2.

Fig. 2. Dynamics of the norms of equity N2 and N3 of PJSC "Bank "Kontrakt" in 2013



### *Support of shareholders*

As a result of analysis the Agency established that at the moment of publishing the rating research 98,93% of shares of PJSC “Bank “Kontrakt” directly or indirectly belonged to the non-resident of Ukraine – individual David Halpert, the citizen of USA, Illinois. In the past, Mr. Halpert was the co-owner of the group of companies WJ, represented in Ukraine by a number of elevators and companies on trade in agricultural products. Today, the group of companies WJ sold all of its assets and doesn’t conduct activities on the territory of Ukraine.

The Agency assesses the possibility of external support of the Bank from the shareholder as high, but with the elements of uncertainty that is typical for any bank, which is controlled by an individual.

Therefore, Bank “Kontrakt” entered the 2014 year with good reserve of the regulatory capital and the norm of the ratio of the regulatory capital to total assets. Reserve of the norm of the regulatory capital adequacy of the Bank can be called noticeable. The Bank can claim to improve the credit rating, if the Bank provides the increase of the regulatory capital by 50% and higher.

### 3. Asset quality

In 2013 assets of PJSC “Bank “Kontrakt” grew by 32,63% up to UAH 763,063 mln. Positive growth rates were shown by cash and its equivalents (+11,01%), customer credits and debt (+3,14%) and other financial assets (+48,33%).

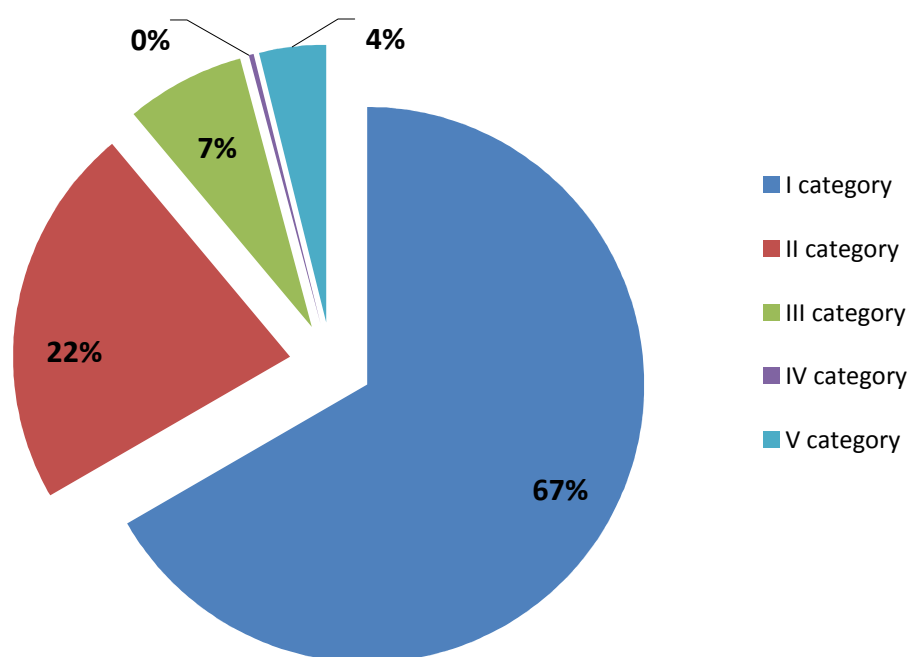
Table 3

**Assets of PJSC «Bank «Kontrakt» in 2013**

Indicator	01.01.2014	01.01.2013	Change	Growth rate, %
Cash and its equivalents	117 888	106 195	11 693	11,01%
Funds of mandatory reserves of the bank in NBU	3 623	3 760	-137	-3,64%
Funds in other banks	160	3 868	-3 708	-95,86%
Customer credits and debt, including:	299 718	290 585	9 133	3,14%
- Credits and debt of legal entities	253 632	226 112	27 520	12,17%
- Credits and debt of individuals	46 086	64 473	-18 387	-28,52%
Loan provisions	30 470	31 656	-1 186	-3,75%
Fixed assets and intangible assets	40 518	40 389	129	0,32%
Other financial assets	109 124	73 569	35 555	48,33%
<b>Total assets:</b>	<b>763 063</b>	<b>575 339</b>	<b>187 724</b>	<b>32,63%</b>

The increase in assets of Bank “Kontrakt” in 2013 slightly changed the proportion of loans in the Bank’s assets: it decreased from 50,51% down to 39,28%, but the loan activity of the Bank grew as a whole.

**Fig. 3. Structure of the loan portfolio of PJSC "Bank "Kontrakt" in terms of quality categories on 01.01.2014**



The quality of the loan portfolio of Bank “Kontrakt” was studied in terms of groups of classifying loans in terms of risk categories (fig.3). As of 01.01.2014 67% of the loan portfolio of the Bank referred to the first category of classification with the smallest level of risk. In the Agency’s opinion, the fourth and fifth categories of risk can be attributed to a number of problematic

loans of the Bank, which is about 4% of the portfolio that is significantly lower, than the average on the system.

Therefore, in 2013 PJSC “Bank “Kontrakt” demonstrated a good increase in the loan activity. As of 01.01.2014 the loan portfolio of the bank occupied 39,28% of assets, and 96% of the loan portfolio referred to the I-III categories of quality indicating a very low amount of loan risks, which were undertaken by Bank “Kontrakt” at the beginning of 2014.

#### 4. Liquidity

Analysis of the liquidity norms of PJSC “Bank “Kontrakt” showed that on 01.01.2014 the Bank selectively adhered to excess liquidity:

- Norm of instant liquidity (N4) was by 15,54 p.p. higher, than the average on the banking system;
- Norm of current liquidity (N5) was by 8,42 p.p. higher, than the average on the system;
- Norm of short-term liquidity (N6) was by 23,37 p.p. less, than the average on the system, but by 5,74 p.p. more, than the limit of the norm.

Table 4

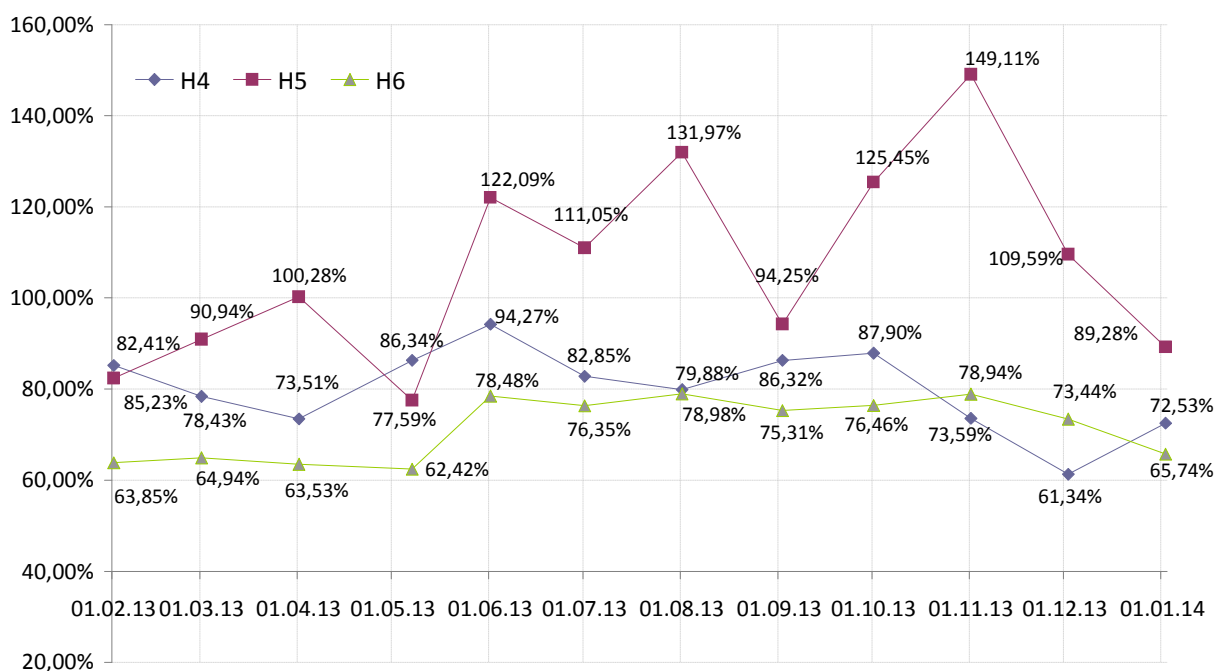
#### Data on dynamics of the liquidity norms of PJSC «Bank «Kontrakt» in 2013

Indicator	The norm	01.01.2014		01.01.2013	
		Bank's value	Value on the system	Bank's value	Value on the system
Norm of instant liquidity (N4)	>20%	72,53%	56,99%	104,78%	69,26%
Norm of current liquidity (N5)	>40%	89,28%	80,86%	117,37%	79,09%
Norm of short-term liquidity (N6)	>60%	65,74%	89,11%	63,92%	90,28%

The Agency gives a positive assessment to the dynamics of the Bank's liquidity: in 2013 the Bank reduced the excess of liquidity in terms of N4 and N5, as well as increased the reserve of N6.

A monthly dynamics of the liquidity norms indicates the same trends that were revealed and with the tabular analysis. It is seen that during the last 2 months of 2013 the excess of short-term liquidity (N6) significantly decreased.

Fig. 4. Dynamics of the liquidity norms N4, N5 and N6 of PJSC "Bank "Kontrakt" in 2013



Therefore, on 01.01.2014 PJSC “Bank “Kontrakt” maintained sustainable reserve of liquidity and during the 2013 year conducted its optimization. Despite that, on 01.01.2014 the norms of instant and current liquidity of the Bank were significantly higher, than the averages on the banking system of Ukraine.

## 5. Revenues and costs of the bank

PJSC “Bank “Kontrakt” finished the 2013 year with net profit of UAH 210 th. that is by 33,96% less, than in 2012. The decrease of the annual amount of profit corresponds to the general trend on the banking system of Ukraine.

Table 5

### Data on dynamics of certain articles of income, costs and net profit of PJSC «Bank «Kontrakt» in 2013

Indicator	2013	2012	Change	Growth rate, %
Net interest income	(4 880)	1 618	-	-
Net commission income	25 765	21 347	4 418	20,70%
Result from operations with foreign currency	3 543	6 887	-3 344	-48,56%
Administrative and other operating costs	41 848	28 623	13 225	46,20%
<b>Net profit</b>	<b>210</b>	<b>318</b>	<b>-108</b>	<b>-33,96%</b>

The decrease of net interest income in 2013 down to -4,88 mln UAH should be referred to negative factors. This loss was partially covered by the Bank due to a noticeable increase in net commission income. Significant negative value of net interest income according to the results of 2013 is not something catastrophic for Bank “Kontrakt”, since it relates to the category of small banks, whose loan portfolio, as usual, is less diversified and there can be noticeable time lags between the periods of paying interests on loans.

Therefore, in 2013 the Bank's activity remained profitable. Despite the fall of profit in 2013 compared to 2012, the decrease rates of profit of Bank "Kontrakt" were significantly less, than the averages on the banking system.

## 6. Relations with authorities

Chairman and members of the management of PJSC "Bank "Kontrakt" weren't held criminally liable and don't have the criminal record for acquisitive crimes.

Results of NBU inspections and tax authorities do not carry significant risks for the activity of PJSC "Bank "Kontrakt" and, in the Agency's opinion, can't have a significant impact on the results of the Bank's activity.

## 7. Summary of rating components

Generalizing all the components of the assessment of the credit risk, RA "Standard-Rating" has decided to assign the credit rating at the level **uaBBB+** according to the national scale to PJSC "Bank "Kontrakt" (19361746). The Bank with a long-term credit rating uaBBB+ is characterized by sufficient solvency compared to other Ukrainian banks. The level of solvency depends on the impact of adverse commercial, financial and economic conditions. Short-term credit rating uaK3+ and rating of deposits ua3+ are also assigned to the bank. Assigning the ratings of the investment level, the Agency was guided by the following conclusions:

1. The Bank «Kontrakt» entered the 2014 year with good reserve of regulatory capital (N1 is UAH 129,754 mln) and the norm of the ratio of regulatory capital to total assets (N3 – 16,26%). Reserve of the norm of the regulatory capital adequacy of the Bank can be called significant (N2 – 12,25%). The Bank can claim to improve the credit rating, if provides the increase of the regulatory capital by 50% and higher.

2. At the moment of assigning the ratings 98,93% of shares of PJSC "Bank "Kontrakt" directly or indirectly belonged to the non-resident of Ukraine – the individual David Halpert, the citizen of the USA. The Agency assesses the possibility of external support from a shareholder of the Bank as high, but with the elements of uncertainty that is peculiar to any bank, which is controlled by the individual.

3. The estimated share of the Bank "Kontrakt" by assets on 01.10.2013 amounted to 0,057%, by deposits of population 0,0657%. The estimated shares and positions in the rankings of NBU indicate that the Bank "Kontrakt" refers to the category of small banks and does not claim significant market shares. The impact of the work scale of the bank on its loan risks in case of the Bank "Kontrakt" remains minimal.



4. In 2013 PJSC “Bank “Kontrakt” demonstrated a good increase in assets (up to UAH 763,063 mln) and a noticeable increase in loan activity. As of 01.01.2014 the loan portfolio of the Bank occupied 39,28% of assets and amounted to almost UAH 300 mln. 96% of the loan portfolio belonged to the I-III categories of quality, indicating extremely low volume of loan risks, which were accepted by the Bank “Kontrakt” at the beginning of 2014.

5. On 01.01.2014 the Bank maintained significant reserve of instant and current liquidity at the level 72,53% and 89,28% respectively. During the 2013 year the Bank carried out the optimization of liquidity, despite that the norms of instant and current liquidity of the Bank on 01.01.2014 were significantly higher, than the average on the banking system.

6. In 2013 the Bank’s activity remained profitable. Despite the fall of profit in 2013 compared to 2012, the decrease rates of profit of the Bank “Kontrakt” were significantly less, than the average on the banking system. Net profit of the Bank amounted to UAH 210 th. in 2013, and in 2012 – UAH 318 th.

## Rating scale for estimation of banks credit rating

National rating scale adapted by RA 'Standard Rating' (Ukraine)  
for the assessment of credit risks of Ukrainian banks

Rating	Contents of banks credit rating according to the national scale
<b>Investment grade levels of rating</b>	
<b>uaAAA</b>	The bank or the debt instrument with the rating uaAAA is characterized by high credit status in comparison with other Ukrainian banks or debt instruments
<b>uaAA</b>	The bank or the debt instrument with the rating uaAA is characterized by very high credit status in comparison with other Ukrainian banks or debt instruments
<b>uaA</b>	The bank or the debt instrument with the rating uaA is characterized by high credit status in comparison with other Ukrainian banks or debt instruments Credit status level is sensitive to the influence of adverse commercial, financial and economic conditions.
<b>uaBBB</b>	The bank or the debt instrument with the rating uaBBB is characterized by sufficient credit status in comparison with other Ukrainian banks or debt instruments Credit status level depends upon the influence of adverse commercial, financial and economic conditions.
<b>Speculative grade levels of rating</b>	
<b>uaBB</b>	The bank or the debt instrument with the rating uaBB is characterized by lower than sufficient credit status in comparison with other Ukrainian banks or debt instruments. Credit status level is strongly dependent upon the influence of adverse commercial, financial and economic conditions.
<b>uaB</b>	The bank or the debt instrument with the rating uaB is characterized by low credit status in comparison with other Ukrainian banks or debt instruments. Credit status level is very strongly dependent upon the influence of adverse commercial, financial and economic conditions.
<b>uaCCC</b>	The bank or the debt instrument with the rating uaCCC is characterized by very low credit status in comparison with other Ukrainian banks or debt instruments. There is potential probability of default
<b>uaCC</b>	The bank or the debt instrument with the rating uaCC is characterized by high probability of default
<b>uaC</b>	The Bank is expecting default of liabilities.
<b>uaD</b>	The Bank defaulted. The payout of principal amount and interests on debt obligations has been suspended without reaching an agreement with creditors on restructuring the debt upon maturity.

«-» or «+» are intermediate rating categories within the major categories:

The national scale of credit rating for Ukrainian banks has been approved by the resolution of the Cabinet of Ukraine no. 665 of April, 26th, 2007 'On approval of national rating scale'.