

## Report on rating research

Bank's name:	<b>PUBLIC JOINT STOCK COMPANY «KREDOBANK»</b>
Registration date:	May 14, 1990
USREOU code:	09807862
Bank address (city, postal code, street):	79026, Lviv city, Sakharova street,78
Top executive, title:	<b>Krepak Dmytro</b> , Chairman of Board
Telephone/fax:	0 800 500 8 50
Web-site:	<a href="http://kredobank.com.ua">http://kredobank.com.ua</a>
Rating type:	Credit ratings of the bank, rating of deposits
Rating revision period:	Quarterly
Date of rating:	13.12.2013
Long-term Rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale (outlook):	<b>uaAA (stable)</b> The bank or separate bond with rating uaAA is characterized by a very high solvency compared to other Ukrainian borrowers or bonds
Short-term Rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale:	<b>uaK1 (stable)</b> The bank or separate bond is characterized by the highest solvency compared to other Ukrainian borrowers or bonds. The financial condition of such borrower enables to prevent the predicted risks in a short run
Deposit rating by RA 'Standard Rating' (Ukraine) according to the Ukrainian national scale:	<b>ua.1</b> The highest from among the possible reliability of deposits according to the national rating scale
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. History of creation and general description of the bank

PJSC "KREDOBANK" is one of the oldest banks of Ukraine. The Bank was found in Lviv and registered in the state bank of former USSR on May 14, 1990. October 14, 1991 the bank was reregistered in the National Bank of Ukraine. Till 2002 the Bank was known as JSC "Western Ukrainian Commercial Bank", and since July of 2003 before 01.03.2006 – JSC "Credit Bank (Ukraine)". In January of 2006 the Bank was renamed to PJSC "KREDOBANK".

Today PJSC "KREDOBANK" is the bank with the largest Polish investment in the banking institution of Ukraine. As of today investments of the strategic shareholder PKO Bank Polski SA amount to 99,6% in the structure of shareholders' equity of PJSC "KREDOBANK".

Regional network of PJSC "KREDOBANK" has 1 branch and 130 offices and covers most regions of Ukraine and the Autonomous Republic of Crimea. Besides, the bank actively develops its card business and established about 320 own ATMs. As of 01.10.2013 the clients of the Bank are about 37 thousand legal entities and entrepreneurs and 414 thousand individuals. Performing its activity on the territory of 22 regions of Ukraine and Kyiv city, KREDOBANK remains the regional leader on the territory of Lviv region and Western Ukraine as a whole.

### 2. Market share and business activity

As of 01.10.2013 PJSC "KREDOBANK" is referred to the third group of "Average banks" according to the classification of the National Bank of Ukraine.

According to the ranking of the National Bank of Ukraine PJSC "KREDOBANK" as of 01.10.2013 occupies:

- In terms of assets – 49 place;
- In terms of loans to individuals – 27 place;
- In terms of funds of individuals – 35 place;
- In terms of funds of legal entities – 46 place;
- By size of the authorized capital – 22 place.

According to the calculations of the Agency as of 01.10.2013:

- Proportion of assets of PJSC “KREDOBANK” amounted to 0,36% in assets of the banking system of Ukraine;
- The Bank’s share in the nationwide loan portfolio of the banking system of Ukraine amounted to 0,32%;
- The Bank’s share in the nationwide volume of the banks’ loans to individuals amounted to 0,58%.

According to the observations of the Agency, the proportion of JSC "KREDOBANK" in the banking system of Ukraine is gradually decreased. So as of 01.10.2010, the share of assets of JSC "KREDOBANK" in the assets of the banking system amounted to 0,53%. In the Agency’s opinion, such decline rates of the Bank’s proportion in the nationwide system are objective consequence of the changes in economics of Ukraine and are partially related to the regulatory restrictions, for example, in the field of foreign currency lending to individuals.

Therefore, the Agency estimates the proportion of JSC "KREDOBANK" in the banking system of Ukraine by assets in size of 0,36%, and refers the Bank to the group of average banks with strong positions in the specified group and particularly strong positions in Western regions of Ukraine.

### 3. Capital adequacy and shareholders’ support

#### *Capital adequacy.*

The structure of shareholders’ equity of PJSC “KREDOBANK” had certain specifics, which was related to the presence of the Bank's significant losses in the long run. Shareholder of PJSC “KREDOBANK” provided the Bank with the long-term support due to increasing the authorized capital that affected the structure of shareholders’ equity of the Bank in the presence of uncovered losses and also resulted in the fact that the authorized capital of the Bank significantly exceeded the shareholders’ equity, for example, on 01.10.2013 in 3,5 times (*table 1*).

Table 1

#### **Data on the shareholders’ equity of PJSC «KREDOBANK» in the 9 months of 2013**

(th. UAH, %)

Indicators	01.10.2013	01.01.2013	Change	Growth rate, %
Authorized capital	1 918 969	1 918 969	-	-
Issuance differences	38	38	-	-
Retained earnings (uncovered loss)	(1 571 903)	(1 471 938)	99 965	6,79%
Reserve funds and other funds of the bank	40 176	40 176	-	-
Revaluation reserves	159 721	161 996	-2 275	-1,40%
Shareholders’ equity, total	547 001	649 241	-102 240	-15,75%
Total liabilities	4 424 748	4 562 021	-137 273	-3,01%

Shareholders’ equity of PJSC “KREDOBANK” decreased by 15,75% in the 9 months of 2013. The decrease in shareholders’ equity occurred due to the growth of uncovered loss. The Agency assesses the decrease in the Bank’s shareholders’ equity as negative, but emphasizes that the bank’s shareholder in past in practice repeatedly demonstrated his willingness to cover losses due to the replenishment of the authorized capital. Such trend is key, when determining the impact of capital adequacy of the bank on its financial

stability, whose level, in case of PJSC “KREDOBANK”, depends more on the behavior of the shareholder than on the current trends regarding changes in capital structure and capital norms.

However, analysis of capital norms of PJSC “KREDOBANK” during the 9 months of 2013 showed that the Bank’s management kept the situation under control and the Bank entered the fourth quarter of 2013 with notable reserve of norms.

Thus, the regulatory capital of the Bank increased by 1,91% up to UAH 559,084 mln in the 9 months of 2013 with the limit of UAH 120,0 mln. The norm of the regulatory capital adequacy (N2) decreased by 1,71 p.p. in the same period and on 01.10.2013 amounted to 14,43% that is by 4,43 p.p. more, than the limit.

The norm of the ratio of regulatory capital to total assets of the Bank (N3) as of 01.10.2013 was carried out with reserve of 3,01 p.p.

Table 2

**Data on dynamics of the capital norms of  
PJSC «KREDOBANK» in the 9 months of 2013**

Indicators	The norm	01.10.2013		01.01.2013	
		Bank's norm	System norm	Bank's norm	System norm
Regulatory capital (N1)	>120 mln. UAH	559 084	-	548 593	-
Norm of the regulatory capital adequacy (N2)	>10%	14,43%	17,92%	16,14%	18,06%
Norm of the ratio of regulatory capital to total assets (N3)	>9%	12,01%	13,87%	13,08%	14,89%

*Shareholders' support.*

The Agency reminds that PJSC “KREDOBANK” is the bank with the greatest Polish investment in the banking institution of Ukraine. As of today investments of the strategic shareholder PKO Bank Polski SA amount to 99,6% in the structure of the authorized capital of PJSC “KREDOBANK”.

PKO Bank Polski SA (Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna) is the largest Polish bank in terms of assets. It is the leader in the market of deposit-checking accounts, mortgage loans, payment cards, services to small and medium-sized enterprises and services through electronic channels.

PKO Bank Polski SA has the most branched network of branches and offices, which consists of 1 199 institutions and 2 911 ATMs. More than 27 thousands of employees work in the Bank’s system. PKO Bank Polski SA serves more than 6,25 mln of the clients’ accounts and issued almost 7,12 mln of payment cards.

As of April 01, 2013 assets of the group of PKO Bank Polski SA amounted to PLN 197,1 bn. Profit of the group amounted to PLN 781,4 mln.

Equity of the group PKO Bank Polski SA amounted to PLN 25,4 bn. Indicator ROE of the group PKO Bank Polski SA amounted to 14,6% according to the results of the Q1 of 2013 and indicator solvency – 13,7%.

At the moment of publishing the report PKO Bank Polski SA had the following structure of shareholders:

- The State Treasury of the Republic of Poland – 31,39%;

- AVIVA OPEN-END PENSION FUND – 6,72%;
- ING OPEN-END PENSION FUND – 5,17%;
- freely circulating in the market of shares – 56,72%.

Therefore, the Agency refers PKO Bank Polski SA to the category of public corporations, whose activity is partially under State control.

The presence in PKO Bank Polski SA of active market of shares in Warsaw Stock Exchange (WSE) is assessed by the Agency as positive, since that provides the Bank with the access to the market sources of capital that guarantees the provision of its subsidiary banks with equity.

Therefore, PJSC “KREDOBANK” entered the fourth quarter of 2013 with noticeable reserve of equity norms, and PKO Bank Polski SA was able to provide the Bank with an unprecedented high level of external support, which in the past was repeatedly demonstrated in practice.

#### 4. Asset quality

Analysis of the asset structure of PJSC “KREDOBANK” indicates that the greatest component was the article “credits and clients’ debt”. Credits and clients’ debt of PJSC “KREDOBANK” grew by 7,59% up to UAH 2,367 bn in the 9 months of 2013.

Table 3

#### Assets of PJSC “KREDOBANK” in the 9 months of 2013

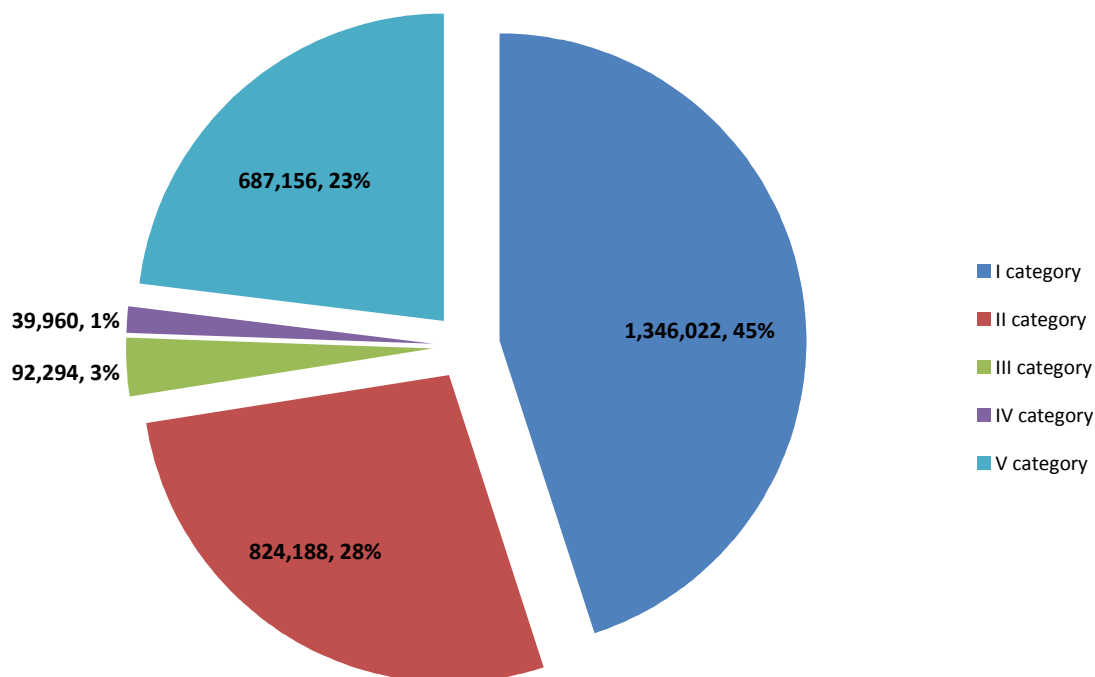
(th. UAH, %)

Indicators	01.10.2013	01.01.2013	Change	Growth rate, %
Cash and cash equivalents	420 818	885 236	-464 418	-52,46%
Reserve funds in NBU	1	0	1	-
Funds in other banks	4 885	4 678	207	4,42%
Credits and debt of clients, including:	2 367 800	2 200 727	167 073	7,59%
- credits and debts of legal entities	1 544 358	1 472 626	71 732	4,87%
- credits and debts of individuals	823 442	728 101	95 341	13,09%
Credit loss and clients debt provision	313 975	240 530	73 445	30,53%
Portfolio securities for sale	762 409	574 799	187 610	32,64%
Portfolio securities to redeem	74 293	122 799	-48 506	-39,50%
Fixed capital and intangible assets	540 347	535 212	5 135	0,96%
Other financial assets	28 168	32 586	-4 418	-13,56%
Total assets:	4 424 748	4 562 021	-137 273	-3,01%

Clients credits and debt in the structure of assets of PJSC “KREDOBANK” increased from 48,24% up to 53,51% in the 9 months of 2013. The Agency appreciates the trend of the increase in the Bank’s loan portfolio and the portfolio of its securities. This trend results in the increase of the proportion of income assets of the Bank in its asset structure that in future will affect the Bank’s incomes and probably will result in the profitable activity in 2014.

The loan portfolio quality of PJSC “KREDOBANK” is close to satisfactory level. According to the data of the Bank’s statements as of 01.10.2013, 24% of the loan portfolio referred to the category of problem loans (IV–V category).

Fig. 1 The structure of the loan portfolio of PJSC "KREDOBANK" by categories of loan quality



Therefore, as of 01.10.2013 the loan portfolio of PJSC "KREDOBANK" was assessed in size of UAH 2,238 bn that amounted to more than 50% of the Bank's assets. Since the beginning of the year the Bank's loan portfolio grew by 7,59%. On 01.10.2013 only 24% of the issued loans were classified as problem ones.

## 5. Liquidity

PJSC "KREDOBANK" entered the fourth quarter with noticeable reserve of liquidity.

Table 4

### Data on dynamics of liquidity norms of PJSC "KREDOBANK" in the 9 months of 2013

Indicators	The norm	01.10.2013		01.01.2013	
		Bank's indicator	Indicator on the system	Bank's indicator	Indicator on the system
Instant liquidity norm (N4)	>20%	26,66%	56,27%	100,75%	69,26%
Current liquidity norm (N5)	>40%	77,39%	87,95%	100,57%	79,09%
Short term liquidity norm (N6)	>60%	62,18%	88,27%	82,68%	90,28%

Instant liquidity norm exceeded the limit, set by NBU, by 6,66 p.p.

Current liquidity norm exceeded the limit, set by NBU, by 37,39 p.p.

Short-term liquidity norm exceeded the limit, which was set by NBU, by 2,18 p.p.

In the Agency's opinion, The Bank is provided with liquidity according to the NBU norms and has significant reserve of current liquidity that positively reflects on its financial condition.

## 6. Revenues and expenditures

According to the results of the 9 months of 2013 PJSC “KREDOBANK” received loss of UAH 101,469 mln that is by 55,88% more, than in the same period of 2012. One of the reasons of increasing the Bank’s losses is significant growth of the Bank’s reserves for credit transactions. The Agency reminds that in the period from 01.01.2013 to 01.10.2013 clients credits and debt provisions grew more than by UAH 73,4 mln.

At the same time, according to the results of the 9 months of 2013 the Bank demonstrated the relative stability of key items of income. First of all, net interest income amounted to UAH 112,913 mln that was only by 2,91% less, than in the same period of 2012. Net commission income amounted to UAH 103,06 mln that was by 8,92% more, than in the same period of 2012.

The second reason for significant loss of the Bank can be considered as high administrative expenditures compared to the key articles of the Bank’s income. However, the Agency pays attention that the Bank managed to reduce administrative and other operating expenditures by 13,56% in the 9 months of 2013 compared to the same period of 2012.

Table 5

### Data on dynamics of separate articles of income and expenses and net profit of PJSC “KREDOBANK” in the 9 months of 2013

Indicators	(th. UAH, %)			
	9 months of 2013	9 months of 2012	Change	Growth rate, %
Net interest income	112 913	116 294	-3 381	-2,91%
Net commission income	103 060	94 620	8 440	8,92%
Result from operations with foreign currency	7 175	5 729	1 446	25,24%
Administrative and other operative costs	245 919	284 485	-38 566	-13,56%
Loss	(101 469)	(65 094)	36 375	55,88%

Therefore, according to the results of the 9 months of 2013 PJSC “KREDOBANK” received significant loss of UAH 101,469 mln. Significant amount of loss was related to the increase in clients’ credits and debt provision, as well as to great administrative and operative costs, which the bank gradually reduced.

## 7. Relations with authorities

At the moment of preparing report on rating research the Agency didn’t reveal significant problems in relations between PJSC “KREDOBANK” and state authorities, primarily the regulators of financial market and tax authorities.

## 8. Summary of rating components

According to the results of research the rating committee of RA “Standard-Rating” (Ukraine) decided to assign the long-term credit rating at the level **uaAA** to PJSC “KREDOBANK”. Bank or separate bond with rating **uaAA** is

characterized by a very high solvency compared to other Ukrainian borrowers or bonds. It was also decided to assign a short-term credit rating at the highest rate **uaK1** and the highest rating of deposits **ua.1** to the bank.

Summarizing the results of the analysis, the Agency was based on the following conclusions:

1. PJSC "KREDOBANK" is one of the oldest banks of Ukraine. The Bank was found in Lviv and registered in the state bank of former USSR on May 14, 1990. Regional network of PJSC "KREDOBANK" has 1 branch and 130 offices. As of 01.10.2013 the clients of the Bank are about 37 thousand legal entities and entrepreneurs and 414 thousand individuals.

2. The Agency estimates the proportion of JSC "KREDOBANK" in the banking system of Ukraine by assets in size of 0,36%, and refers the Bank to the group of average banks with strong positions in the specified group and particularly strong positions in Western regions of Ukraine.

3. PJSC "KREDOBANK" is the bank with the greatest Polish investment in the banking institution of Ukraine. As of today investments of the strategic shareholder Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA) amount to 99,6% in the structure of the authorized capital of PJSC "KREDOBANK".

4. Therefore, PJSC "KREDOBANK" entered the fourth quarter of 2013 with noticeable reserve of equity norms. The norm of the regulatory capital adequacy (N2) 01.10.2013 was carried out with reserve of 4,43 p.p. The norm of the ratio of regulatory capital to total assets of the Bank (N3) as of 01.10.2013 was carried out with reserve of 3,01 p.p. The regulatory capital of the Bank increased by 1,91% in the 9 months of 2013.

5. As of 01.10.2013 the loan portfolio of PJSC "KREDOBANK" was assessed in size of UAH 2,238 bn that amounted to more than 50% of the Bank's assets. Since the beginning of the year the Bank's loan portfolio grew by 7,59%. On 01.10.2013 only 24% of the issued loans were referred to the category of problem ones that restrains a long-term credit rating of the Bank from the highest rating.

6. According to the results of the 9 months of 2013 PJSC "KREDOBANK" received significant loss of UAH 101,469 mln. Significant amount of loss was related to the increase in clients' credits and debt provision, as well as to great administrative and operative costs, which the bank gradually reduced.

One of the key factors, which enabled RA "Standard-Rating" (Ukraine) to determine the rating of PJSC "KREDOBANK" at the highest level, is a high level of external support from the key shareholder of the Bank – PKO Bank Polski SA. Such level of support in the past repeatedly proven in practice, and PKO Bank Polski SA was referred by the Agency to the category of banks with the active market of shares, whose activities were under state control.



**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'.