

The Rating Report

(Version for publication)



Credit rating of the Bank according to Ukrainian national scale	uaBBB
Interpretation of rating according to the national scale:	The Borrower or the debt instrument with rating uaBBB 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
Rating date:	01.06.2012



PUBLIC JOINT STOCK COMPANY COMMERCIAL BANK ACCORDBANK

(Full name of the Bank)

6, Stetsenko str, Kiev, 04136, Ukraine
(bank address)

Incorporation date	03.06.2008
USREOU code	35960913
Auditors	Auditor company PKF Audit Finances
Phone	+38 (044) 5939960
Fax	+38 (044) 5939960
Chairman of Board	Solntsev Igor
Contact persons	Gusak Vadim, Investment Business Department Head, e-mail: gusak@accordbank.com.ua
E-mail	bank@accordbank.com.ua
Web-сайт	www.accordbank.com.ua

List of licenses issued to the Bank: NBU Banking License no. 245 dd. 07.11.2011, entitling for banking transactions. General license issued by NBU No. 245 dd. 07.11.2011 for exchange operations performance; State Committee on Securities and Stock Market licenses authorizing professional activity on stock market: trading in securities (validity of licenses: 28.08.2008 – 28.08.2013); broker activity Series AB no. 470739 of 16.07.2009; dealer activity, Series AB № 470740 of 16.07.2009, underwriting Series AB no. 470741 of 16.07.2009,); State Committee on Securities and Stock Market license authorizing professional activity on stock market – securities custody activity Series AB no. 70738 of 16.07.2009, validity 01.09.2008 – 01.09.2013.

*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*

Forecast data on bonds emission by PJSC CB ACCORDBANK*

Explication	To be filled in
Type of placement	Open
Face value, currency	1 000,00 UAH per share
Issue amount, UAH	UAH 50 m
ISIN code	-
Expected date of placement beginning	September October 2012
Expected date of placement end	September October 2013
Coupon rate	TBD
Coupon period	Quarterly
Payment starting date	Since placement date
Maturity date	In 3-5 years after placement beginning
Conditions of preterm buyout	Annually
Agent on bonds placement	-
Trading platform	-
Is there any guarantor, describe the nature of guarantee, name the guarantor	-
Guarantor USREOU code	-
Are there any emission conditions that would limit the rights of creditors?	-
Describe shortly placement strategy, what bond purchasers is the bank focusing on?	-

* - exact characteristics of bond issue of the Bank will be available after making an appropriate decision of the Supervisory Board of the Bank; after emission registration by NCSMS the Agency will reassess the impact of main parameters of bond emission on the credit risk of the Bank.

1. Overall bank review

In the year 2007 the citizens of Ukraine created Open Joint Stock Company Commercial bank Accordbank with authorized capital stock of UAH 80 million.

In 2008 JSC Commercial bank Accordbank was registered by the National Bank of Ukraine (Certificate of registration no. 324 dated 04.06.2008). Following the resolution of the general meeting of bank shareholders of 12.05.2009 the state registration of Bank was performed (on the 24.06.2009), the name Joint Stock Company Commercial bank Accordbank was changed for Public Joint Stock Company Commercial bank Accordbank. Public Joint Stock Company Commercial bank Accordbank is the legal successor of all rights and obligations of the Open Joint-Stock Company Commercial bank Accordbank.

Throughout 2009 the Bank increased authorized capital stock by UAH 16,4 m to UAH 96,4 m and opened four branches (two in Kiev, one - in Kherson, one - in Odessa).

Throughout 2011 the Bank increased regulatory capital by 34,1 UAH m to UAH 125,6 m at the expense of subordinated debt attraction. Also in 2011 bank branch no. 5 in Kiev was opened, the Bank joined the Independent Banking Association of Ukraine, Association of Ukrainian Banks, Association Ukrainian Credit Banking Union, Kiev Chamber of Commerce and Industry.

In Q1 2012 bank branch was opened in Kharkov, Bank web-site was updated and a program of active Internet advertisement of Bank started.

Territorially the Bank is presented in four regions of Ukraine, namely: Kiev, Kherson, Odessa, Kharkov. Currently Bank network totals 6 branches. As of 01.04.2012 the number of corporate and individual clients was 762 and 5031 accordingly.

The bank is a member of following associative entities:

- Associations Independent Banking Association of Ukraine;
- Associations of Ukrainian Banks;
- Associations Ukrainian Credit-Banking Union;
- Kiev Chamber of Commerce and Industry;
- Association Ukrainian Stock Exchange Dealers;
- Association Fund Partnership;
- Professional Association of Registrars and Depositories;
- Deposit Guarantee Fund.

The Bank is member of international payment system MasterCard International Incorporated (MasterCard Worldwide), and also member of the following systems of international money transfers: Western Union, MoneyGram, Avers (partner system of Avers: Leader, InterExpress, Caspian Money Transfer, Gold Crown, GEO Intel Express).

As of 01.04.2012 shareholders' equity of Bank constituted UAH 89,3 m, that is on 9,77 % less, than as of 01.04.2011. Reduction of Bank shareholders' equity occurred due to reduction of authorized capital stock by 9,31 %, which occurred due to redemption by the Bank of own shares from one of the shareholders of Bank in November, 2011 in the number of 9000 pieces, for the amount of UAH 9 million. (9,3361% of Bank authorized capital, the entire packet of shares belonging to the shareholder was redeemed from him). According to the decision of Bank shareholders, the shares are subject to sale within one year after the date of redemption.

In H2 2011 the Bank attracted funds of the investor – non-resident in the amount of USD 4,3 million on the conditions of subordinated debt for the period of 7 years under 7,7 % of annual interest. The permission for accounting subordinated debt in Bank capital was issued on 04.11.2011 by the Commission of the National Bank of Ukraine on supervision and regulation of banking activity. As a result of attraction of subordinated debt the volume of regulatory capital of Bank as of 01.04.2012 made up UAH 122,8m, that is on 25,56 % higher than as of 01.04.2011.

The analysis of key performance indicators of PJSC CB Accordbank for the last two years shows good dynamics of its development. From 01.04.2010 to 01.04.2012 Bank assets have increased by 68,54 % or on UAH 214,1 m and as of Q2 2012 beginning made up UAH 526,4 m, the volume of liabilities for the same period grew more than in 2 times (on 104,72% or on UAH 223,3 m) and for the last reporting date constituted UAH 436,5 m, funds of individuals grew by 106,07 % and constituted UAH 188,3 m, funds of legal entities - on 145,67 %, and made up UAH 96,7 UAH; Bank credit portfolio increased more than in 2 times (by 115,84 % or on UAH 183,5 UAH m) and as of 01.04.2012 constituted UAH 341,9 m (*See table 1*).

Table 1

Key performance indicators of PJSC CB Accordbank, UAH th, p.p., %

Indicators	Q1 of 2012 (01.04.2012)	Q1 of 2011 (01.04.2011)	Q1 of 2010 (01.04.2010)	Change 2011-2012	Growth rate 2011-2012	Change 2010-2012	Growth rate 2010-2012
Shareholder equity	89 939	99 674	99 132	-9 735	-9,77%	-9 193	-9,27%
Authorized capital	87 425	96 400	96 400	-8 975	-9,31%	-8 975	-9,31%
Regulatory capital (H1)	122 829	97 823	97 526	25 006	25,56%	25 303	25,94%
Total liabilities	436 470	281 571	213 203	154 899	55,01%	223 267	104,72%
Funds of other banks	80 531	68 711	47 014	11 820	17,20%	33 517	71,29%
Funds of individuals	188 328	139 243	91 391	49 085	35,25%	96 937	106,07%
Funds of legal entities	96 668	53 883	39 349	42 785	79,40%	57 319	145,67%
Total assets	526 409	381 245	312 335	145 164	38,08%	214 074	68,54%
Liquid assets (Cash and cash equivalents + Trade securities + Accounts held in other banks)	153 344	185 286	107 317	-31 942	-17,24%	46 027	42,89%
Client loans and debt	341 935	186 298	158 422	155 637	83,54%	183 513	115,84%
Securities for sale and for repayment	9 409	60	2 565	9 349	15581,67%	6 844	266,82%
ROE	0,10%	0,62%	0,19%	-0,52 p.p.	-	-0,09 p.p.	-
ROA	0,02%	0,16%	0,06%	-0,14 p.p.	-	-0,04 p.p.	-
Net profit	90	616	184	-526	-85,39%	-94,00	-51,09%

Source: PJSC CB Accordbank data, RA Expert-Rating calculations

Results of the Bank activity in the period from 01.04.2010 till 01.04.2012 also deserve positive assessment. In particular, Bank assets for the specified period have increased by 38,08 % (at mean market growth rate of 8,79 %), the credit portfolio growth rate constituted 83,54 % (thus the cumulative credit portfolio of bank system of Ukraine reduced on 12,77 %), and the volume of resources attracted by Bank grew on 55,01 % (whereas averagely in the system the liabilities increased by 7,43 %) (*see table 1*).

Thus, as of today PJSC CB Accordbank is a “young” dynamically developing bank showing profitable work and good KPIs growth rates in rather difficult post crisis macroeconomic conditions.

2. Market share and business activity

According to the classification of the National Bank of Ukraine, PJSC CB Accordbank belongs to fourth banking group on the size of assets wherein as of 01.04.2012 occupies 74th place. Thus thanks to high rates of asset growth outdoing the mean market indicators, PJSC CB Accordbank for the last year (following the results of Q1 2012 activity in comparison with Q1 2011 results) went up 7 positions within the banking group: from the 81st to 74th.

The dynamics of shares occupied by the Bank in the market of banking services of Ukraine following Q1 2012 in comparison with the similar period of 2011 shows gradual strengthening of its positions in all the segments of the market. So, for the last year Bank share in the assets of bank system increased by 0,011 p.p., in the credit portfolio – by 0,027 p.p. and in funds of clients – by 0,012 p.p. Thus, by Agency estimations, as of 01.04.2012 PJSC CB Accordbank occupies the following shares in basic segments of Ukrainian banking market: in system assets - 0,049 %, in credit portfolio - 0,051 %, in total amounts of funds of clients (legal entities and individuals) - 0,053 % (see table 2).

Table 2

The analysis of PJSC CB Accordbank market share in the Ukrainian market, UAH th, p.p., %

Indicators	01.04.2012	01.04.2011	Change	Growth rate, %
Bank assets	526 409	381 245	145 164	38,08%
Banking system assets	1 082 473 105	995 033 185	87 439 920	8,79%
Loans and debts of clients	341 935	186 298	155 637	83,54%
Banking system loans	670 016 569	768 065 850	-98 049 281	-12,77%
Funds of natural and legal persons of Bank	284 996	193 126	91 870	47,57%
Funds of natural and legal persons of the banking system	534 837 316	473 264 275	61 573 041	13,01%
Share of Bank in system assets	0,049%	0,038%	0,011 p.p.	-
Bank share in system loan portfolio	0,051%	0,024%	0,027 p.p.	-
Bank share in the funds of individuals and legal persons	0,053%	0,041%	0,012 p.p.	-

Source: PJSC CB Accordbank data, RA Expert-Rating calculations

According to data of the Association of Ukrainian banks, as of 01.04.2012 market positions of the Bank on such indicators as assets, credit and investment portfolio, deposits of individuals and deposits of legal entities have increased (in comparison with the beginning of current year), and made up accordingly 109 (116), 103 (130), 98 (114), 103 (126).

The Bank regards as main competitors:

- At national level: AktaBank, Astra Bank, Bank Credit Dnepr, TAS-Combank, VAB Bank, Diamantbank, Zlatobank, Index Bank, Kyivska Rus bank, International Investment bank, First Ukrainian International Bank, Terra Bank, RD Bank, Pivdencombank;

- At regional level:

- In Odessa region: Marfin Bank, Imexbank, Pivdenny;

- In Kharkov region: MistoBank, Golden Gate Bank;

- In Kherson region: Khreschatik.

In compliance with the strategy of dynamical development, the Bank intensively develops its range of products. In particular, from the beginning of current year the Bank implemented the following new products: Profitable Accord - deposit and payment card (2 in 1) for individuals; Deposit gamma - deposit for physical and legal entities; High note - deposit for individuals; Seaman Card; technical credit for purchase and sale of currency in the interbank currency market of Ukraine for corporate clients. Thus competitiveness of Accordbank bank proposals in the market is ensured by:

- 1) actuality of the product and its conformity to market demand;
- 2) availability (universality) in purchase and use of product;
- 3) individual approach, taking into account personal requirements and specificity of activity of each client;
- 4) service that provides access and efficiency in use of products;
- 5) product cost.

The most popular credit products of Accordbank for private persons are overdrafts on salary cards of the workers of enterprises - bank customers, and also programs of mortgage consumer crediting and real estate and car loans.

The most popular credit products of Bank for corporate clients are revolving credit lines, overdrafts “Dynamical” and “Classical”, and also factoring.

Thanks to efficiency of emission and competitive cost the bank guarantees of Accordbank became products that aid attracting corporate clients to the services of the Bank.

The most popular deposit for corporate clients is the deposit “Dynamic” which works in the mode of deposit line and allows the company to operatively manage monetary flows, thus obtaining additional income.

The greatest growth of deposits from population is provided by:

- Deposit “Melody” (the deposit with the right of replenishment and monthly interest payment);
- Deposits “Accord” and “Accord +”;
- Deposit “Dynamic”;
- Saving (deposit) certificates to bearer.

Among new perspective depositary products of Bank there are deposits “Deposit gamma” and “High note”.

Among the card products the most attractive cards are the ones with chip MasterCard Standard and MasterCard Platinum, which are the embodiment of security and high status in the entire world.

Based on chip cards MasterCard Standard Chip and MasterCard Platinum Chip new product “Profitable Accord” was developed which combines current account, deposit and overdraft. Bank customer gets possibility of easy access to the means on the account with reception of additional income. The account balance in UAH or USD is monthly added an increased interest.

The actual cards remain the payments cards, issued under the salary projects with legal entities-clients of the bank by which the cash withdrawal at ATMs of Accordbank and banks-partners throughout Ukraine is carried out without the commissions.

Round-the-clock client support service functions in the Bank answering questions of the client on the status of the account and payment card, movement of funds, consulting on all bank products.

Thus, marketing banking policy is directed on active conquering of market positions offering to clients a wide range of banking services and products, meeting to the full modern requirements and standards of servicing.

3. Capital adequacy, profitability and external support

Capital adequacy

Capital adequacy indicators of the Bank demonstrate high values: as of 01.04.2012 shareholders' equity/assets ratio constituted 17,09 % (at average value on bank system - 14,99 %), norm of regulatory capital adequacy (H2) was 25,73 % (at mean market value - 17,88 %), and regulatory capital/ cumulative assets ratio (H3) was at the level of 23,30% (on the average in the system - at the level of 14,51 %) (see table 3).

Table 3

Analysis of PJSC CB Accordbank shareholder equity adequacy, UAH th, p.p., %

Indicators	01.04.2012	01.04.2011	Change	Growth rate, %
Total assets	526 409	381 245	145 164	38,08%
Shareholder equity	89 939	99 674	-9 735	-9,77%
Regulatory capital (H1)	122 829	97 823	25 006	25,56%
Shareholder equity/assets ratio	17,09%	26,14%	-9,05 p.p.	-
Regulatory capital adequacy ratio H2	25,73%	33,57%	-7,84 p.p.	-
System average value H2	17,88%	20,02%	-2,14 p.p.	-
Normative value H2	>10%	>10%	-	-
H3, regulatory capital/ total assets ratio	23,30%	25,26%	-1,96 p.p.	-
System average value H3	14,51%	14,19%	0,32 p.p.	-
Normative value H3	>9%	>9%	-	-

Source: PJSC CB Accordbank data, RA Expert-Rating calculations

In view of rather short period of Bank activity in the structure of its shareholders' equity the largest share corresponds to authorized capital stock - 97,2 %, the share of retained profits makes 1,47 %, reserve and other funds of bank occupy 1,35 % (see table 4). Thus in process of Bank development gradual increase in proportion of those components of the capital which shares as of today are very low should be expected.

Table 4

Structure of shareholder equity of PJSC CB Accordbank, UAH th, p.p., %

Indicator	01.04.2012		01.04.2011		Change of structure	Growth rate, %
	UAH th	%	UAH th	%		
Authorized capital	87 425	97,20%	96 400	96,72%	0,49 p.p.	-9,31%
Emission profit/loss	0	0,00%	0	0,00%	-	-
Unregistered contributions to the authorized capital	0	0,00%	0	0,00%	-	-
Retained earnings (uncovered loss)	1 321	1,47%	2 198	2,21%	-0,74 p.p.	-39,90%
Reserve and other funds	1 212	1,35%	1 075	1,08%	0,27 p.p.	12,74%
Revaluation reserve	-18	(0,02%)	0	0,00%	-	-
Shareholder equity, total	89 939	100,00%	99 674	100,00%	-	-9,77%

Source: PJSC CB Accordbank data, RA Expert-Rating calculations

Profitability

The volume of net profit of Bank following the results of Q1 2012 constituted UAH 90 thousand, that is on 85,39 % it is less, than for Q1 2011. The net interest income following the results of Q1 2012 in comparison with the similar period of 2011 increased by 27,76 % and made up UAH 6,1 m, net fees and commissions income has constituted UAH 1,4 m, the income from securities trading reached UAH 1,2 m, income from trade in foreign currency – UAH 397 thousands. Decrease in net commission and fee income on 40,92 % (see table 5) became one of the factors resulting in decrease of Bank net profit following Q1 2012 in comparison with the similar period of 2011.

Table 5

Analysis of PJSC CB Accordbank profitability indicators, UAH th, p.p., %

Indicators	Q1 of 2012 (01.04.2012)	Q1 of 2011 (01.04.2011)	Change	Growth rate, %
Net interest income	6 099	4 774	1 325	27,76%
Net fees and commission	1 441	2 439	-998	-40,92%
Results from securities trading	1 150	1	1 149	114 850,72%
Results from foreign exchange trading	397	-753	-	-
Profit before taxes	90	860	-770	-89,56%
Net profit	90	616	-526	-85,39%
ROA	0,02%	0,16%	-0,14 p.p.	-
ROE	0,10%	0,62%	-0,52 p.p.	-

Source: PJSC CB Accordbank data, RA Expert-Rating calculations

According to the Agency, despite net profit decrease in Q1 of 2012 vs. Q1 of 2011, Accordbank has all preconditions for improvement of profitability indicators in the near future that is aided by active development of the Bank: introduction of new bank products and expansion of client base.

Support by shareholders

All shareholders of Bank are individuals. See information on major shareholders of PJSC CB Accordbank and on their share in Bank authorized capital stock in the *table 6*.

Table 6

Information on PJSC CB Accordbank major shareholders as per 01.04.2012

Full name of legal entity; Full names of individual	Country	% of authorized capital	
		Direct participation	Indirect participation
Fesenko Svetlana Ilyinichna	Ukraine	22,1297	0,0000
Kirichenko Viktor Nikolayevich	Ukraine	20,7469	0,0000
Volynets Daniel Mefodyevich	Ukraine	20,7459	0,0000

Source: NBU

The Bank estimates hypothetical possibility of acting shareholders to increase by 100 % the authorized capital of Bank in case of need during the next 12 months as high. Program of Bank capitalization was adopted (approved by the decision of the Supervisory Board of Bank of 27.09.2011) and acts in the Bank, envisaging increase in the size of fixed capital up to UAH 144,8 million the for 2011-2018, including at the expense of increase in the size of authorized capital stock of Bank by emission of new shares.

On the 14.06.2012 the extraordinary General meeting of Bank shareholders has been announced, with the main purpose to consider the redemption by the Bank of the shares from one of shareholders. It is assumed that by results of the given operation the proportion of shares redeemed by the Bank will not exceed 9,9999 % of Bank authorized capital stock.

Thus, the analysis of PJSC CB Accordbank shareholders' equity adequacy indicators shows good level of bank solvency. Thus the Bank possesses considerable potential for intensive escalation of the portfolio of active operations as it adheres redundantly to all standard NBU capital adequacy requirements.

4. Quality of assets and activity diversification

A number of divisions are involved in the process of Bank assets quality management within their competence, in particular:

- Risks department,
- Credit department,
- Security service,
- Legal department.

Credit department of the Bank carries out the analysis of the borrower, manages the processes of preparation and gathering the needed documents, structuring the loans, on a regular basis carries out the inventory of the Bank's loan portfolio in order to assess loan risks and to change the data in the loans classification, provides an effective interaction with other departments of the bank in the process of examination and supporting the bank's loan portfolio.

The risk department of the Bank:

- Carries out the analysis and optimization of the ratio of the temporary structure of assets and liabilities;
- Performs the expert assessment of the financial status of the borrower, including the banks-counterparties;
- Carries out a quantitative assessment of the individual and portfolio loan risk, of its diversification's level;
- Monitors the compliance with the limits to the loan and other financial risks.

Bank security service performs:

- Check of solvency and business reputation of borrowers - legal entities, individuals and individual businessmen and submission of relevant conclusions for the consideration of credit committee;
- Check of mortgage property offered for securing the credit;
- Check of certain mortgage property under already issued credits;
- Negotiation with the debtor about possibility of voluntary repayment of an outstanding amount or its part;
- Granting of proposals on available other sources of debt acquittal, realization of pledge, other assets, and also, when expedient, carrying out with the debtor of work concerning possibility of debt re-structuring and rescheduling of debt repayment;
- Preparation of information and analytical data for realization of the relevant measures directed on collection of problem indebtedness;
- Carrying out the measures on search of the debtor, his property, elucidation of business reputation;
- Realization of measures directed to preservation of mortgage property.

The legal department of the Bank takes part in managing the assets quality:

- By checking the documents, which entitle the proposed pledge (mortgage) property;
- Examines the credentials of persons representing the borrowers and pledgers when concluding the contracts;
- Conducts contractual work when restructuring debts and voluntary sale of property by the debtor;
- Performs measures of the forced debt collection (if required), including through the foreclosure of the property, pledged to the bank and presentation of claims to the guarantors.

Management of bank departments resources is performed centrally from the head office of Bank, on a single correspondent account, within 'zero' model of servicing of the consolidated correspondent account of NSEP NBU. Upon termination of each month the ALCO of Bank determines rates of transfer price for distribution of financial outcome between regional bank departments and the central office.

For the last 12 months PJSC CB Accordbank implemented the strategy of universal bank development. Bank actions have been directed on forming a qualitative credit portfolio, stable resource base and capital increase. From 01.04.2011 to 01.04.2012 the share of credit in the cumulative assets of Bank increased by 16,09 p.p.: from 48,87 % to 64,96 %. The most popular kinds of crediting in Bank were: opening of revolving and non-revolving credit lines, and also granting of consumer loans and overdraft credits under current and card accounts. Also the Bank performed operations with bank guarantees.

The analysis of Bank credit portfolio as of 01.04.2012 in comparison with 01.04.2011 proves to improvement of its key characteristics. So, for the specified period the share of non-performing loans of Bank reduced by 2,66 p.p. (from 3,75 % to 1,09 %), volume of loan impairment provisions decreased by 50,15 %, loan impairment provisions /loan portfolio ratio reduced by 2,93 p.p. (from 4,03 % to 1,09 %). Thus, the level of loan impairment provisions/loan portfolio ratio on the average in bank system of Ukraine from 01.04.2011 in the 01.04.2012 increased by 2,43 p.p., from 19,02 % to 21,45 %.

At the same time the Agency notes growth of Bank credit portfolio sensitivity to currency risks. So, from 01.04.2011 to 01.04.2012 the volume of credits and indebtedness of clients in foreign currency increased by 122,08 % whereof their share in the cumulative credit portfolio of Bank grew by 8,65 p.p.: from 41,18 % to 49,83 % (*see table 7*).

Table 7

Loans and debts of customers of PJSC CB Accordbank, UAH th, p.p., %

Indicators	01.04.2012		01.04.2011		Change, UAH th	Change, p.p.	Growth rate, %
	UAH th	%	UAH th	%			
Total loans and debts of customers:	341 935	100,00%	186 298	100,00%	155 637	-	83,54%
- incl. in foreign currency	170 370	49,83%	76 717	41,18%	93 653	8,65 p.p.	122,08%
- incl. loans to individuals	24 146	7,06%	42 007	22,55%	-17 861	-15,49 p.p.	-42,52%
- incl. nonperforming (bad and doubtful) loans	3 717	1,09%	6 979	3,75%	-3 262	-2,66 p.p.	-46,74%
Provisions under loan impairment	(3 739)	(1,09%)	(7 500)	(4,03%)	-3 761	-2,93 p.p.	-50,15%

Source: PJSC CB Accordbank data, RA Expert-Rating calculations

The analysis of Bank credit portfolio per economic activities proves to good level of its diversification. Thus the portfolio of credits to legal entities has clearly marked four key sectors corresponding to major part of the credits issued by the Bank: financial sector (24 %), industry (32 %), trade (32 %) and building (10 %).

Currently the Bank is not engaged in mass crediting of the population - as of 01.04.2012 the credits to individuals constituted 7,06 % of credit portfolio, thus, a year earlier that proportion was 22,55 % (*see table 7*). Thus the Bank has a wide range of programs of crediting individuals, in particular: credit secured by deposit, consumer credit secured by real estate, real estate credit, consumer credit secured by car, new car credit. In the portfolio of credits to individuals large share is occupied by consumer credits - 85 %, mortgage credits occupy 14 %, and the share of car credits constitutes only 1%.

The analysis of credit risks norms of PJSC CB Accordbank (H7, H8, H9 and H10) as of 01.04.2011 and 01.04.2012 proves to absence of any infringements of NBU established requirements. So, as of 01.04.2012 the norm of

the maximum size of credit risk per one counterpart (H7) has constituted 22,80 % (at required value of not more than 25%), the norm of large credit risks (H8) constituted 235,71 % (at required value of not more than 800%), the norm of the maximum size of credits, guarantees and guarantees issued to one insider (H9) was at level of 0,80 % (at required value of no more than 5 %), and the norm of the maximum size of credits, guarantees and guarantees issued to insiders (H10) was 1,82 % (at required value of no more than 30 %) (*see table 8*).

Table 8

Main norms of risk characterizing PJSC CB Accordbank loan portfolio, %, p.p.

Norm	Limit value	01.04.2012	01.04.2011	Change, p.p.
H7 Average of the system	< 25%	22,50%	21,76%	0,74 p.p.
H7 (Maximal size of loan risk per counteragent)		22,80%	24,35%	-1,55 p.p.
H8 Average of the system	< 800%	177,94%	173,82%	4,12 p.p.
H8 (Normative value for large loan risks)		235,71%	123,42%	112,29 p.p.
H9 Average of the system	< 5%	0,56%	0,90%	-0,34 p.p.
H9 (Norm of maximal amount of loans, warranties and sureties issued to one insider)		0,80%	4,88%	-4,08 p.p.
H10 Average of the system	< 30%	2,74%	2,38%	0,36 p.p.
H10 (Norm of maximal amount of loans, warranties and sureties issued to insiders)		1,82%	5,71%	-3,89 p.p.

Source: PJSC CB Accordbank data, RA Expert-Rating calculations

Activity diversification

Within the last three years the Bank expanded the network of branches to develop and diversify its business, paying attention to effective development of branches in the regions. The bank diversifies investments in financial assets, investing means in interbank credits, liquid securities, and client credits. The bank does not practice unsecured lending; all credits have sufficient mortgage covering. Client credits to legal entities, in turn, are diversified per products, repayment terms, and national economy industries. When attracting resources structure of deposits i.e. proportion of deposits of private clients and corporate business, their terms is taken into account. For the purpose of diversification of business and preventing concentration the Bank establishes and monitors the relevant credit and portfolio limits on the financial instruments.

The Bank regularly carries out monitoring and analysis of concentrations according to the following segmentation of credit and depositary portfolios:

- Types of clients;
- Banking products;
- Terms of active-passive operations;
- Economic activities types;
- Repayment terms.

See information on volumes of credit indebtedness of three largest borrowers of Bank, and also on volumes of savings of three largest investors in the *table 9*.

Table 9

Volumes of loan debts and deposits of the largest borrowers and depositors of PJSC CB Accordbank

Top 3 borrowers	As of 01.04.2012, UAH th	Top-3 largest depositors	As of 01.04.2012, UAH th
Customer 1	28 000,0	Customer 1	22 418,1
Customer 2	27 637,4	Customer 2	13 724 ,0
Customer 3	23 824,3	Customer 3	10 009,5

Thus, as a whole the Agency positively estimates the quality of Bank assets. Small share of non-performing loans (1,09 %), low indicator of loan impairment provisions/loan portfolio ratio (1,09 %, at mean market value - 21,45%) and strict observance of NBU specifications prove to rather low level of risk concentration in Bank credit portfolio. Thus good branch diversification of credit portfolio proves to moderate dependence of Bank on branch risks.

5. Liquidity

Liquidity

Management of bank liquidity is performed by Committee on management of assets and liabilities (ALCO) and the divisions involved in assets and liabilities management. The primary goal of Committee is the organization of a comprehensive system of assets and liabilities management by controlling different kinds of risks, maintenance of Bank

balance liquidity, profitability of operations, planning of management and control of use of consolidated means of Bank. Liquidity management process in the Bank is continuous and is based on principles of management and observance of liquidity norms. The structure of liquidity management includes the following Bank divisions:

- Risk assessment department;
- Treasurer department;
- Investment business department;
- Business development department;
- Credit department;
- Cash turnover and cash operations department.

Analysis of values of instant, current and short-term bank liquidity (H4, H5, H6) as of 01.04.2011 and 01.04.2012 proves to redundant adherence by Bank to NBU established requirements. Thus, as of 01.04.2012 the norm of instant bank liquidity (H4) constituted 57,97 % (mean system - 54,25 %), current liquidity norm (H5) - 90,58 % (mean system - 72,88 %), and short-term liquidity norm - 87,63 % (mean system on Ukraine - 93,14 %) (see table 10).

Table 10

Liquidity norms of PJSC CB Accordbank, %, p.p.

Norm	Threshold value	01.04.2012	01.04.2011	Change, p.p.
H4 An average of the system	> 20%	54,25%	57,33%	-3,08 p.p.
H4 (Norm of the bank's instant liquidity)		57,97%	154,23%	-96,26 p.p.
H5 An average of the system	> 40%	72,88%	79,66%	-6,78 p.p.
H5 (Norm of current liquidity)		90,58%	167,32%	-76,74 p.p.
H6 An average of the system	> 60%	93,14%	90,94%	2,20 p.p.
H6 (Norm of short term liquidity)		87,63%	111,71%	-24,08 p.p.

Source: PJSC CB Accordbank data, RA Expert-Rating calculations

The dynamics of instant, current and short-term liquidity of PJSC CB Accordbank are mainly influenced by such factors, as fluctuation of balances on Bank correspondent account, and also by change of current account balances of clients. So, from H2 of the last year excess reserve of available assets reduced due to client credit portfolio escalation. The share of highly liquid assets decreased. From the beginning of current year the Bank transformed creditor position on interbank credit market which at the deficit of bank system liquidity aided to get additional interest income, into the debtor position.

Thus, the above mentioned indicators prove to good level of bank liquidity that allows it to carry out obligations to the clients and other counterparts in due time and in full.

6. Other factors considered at rating

Interaction with state authorities

During the last 24 months the Bank has been audited by the following competent state regulators:

- Divisions of the State tax inspection – 3 checks: total amount of accrued penalties based on the results of the revealed violations amounted to UAH 3543,75;
- Divisions of the National Bank of Ukraine – 7 checks: violations weren't revealed, penalties were not applied to the Bank;
- Others – 2 checks: violations weren't revealed, penalties were not applied to the Bank.

For the last 12 months the Bank paid penal sanctions following the audits by state regulators for the total amount of 3543,75 UAH., including 3373,75 UAH due to overpayment on the personal account on profit tax.

AML System

For the purpose of ensuring implementation of FATF Forty recommendations, international cooperation, according to the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, norms of the Laws of Ukraine “On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime or Terrorism Financing”, “On banks and banking activity” and Regulations of the National Bank of Ukraine “On execution of financial monitoring by the banks” the Bank developed Rules of internal financial monitoring and Program of execution of financial monitoring per lines of Bank activity.

Main principle of development and execution of Rules of internal financial monitoring and Program of execution of financial monitoring per lines of Bank activity consists in providing the participation of Bank employees (within their competence) in the revealing of financial operations which could be connected with legalization (laundering) of the proceeds from crime, or terrorism financing.

Programs of realization of financial monitoring are developed and implemented by Bank to ensure functioning of intrabank system of prevention of legalization (laundering) of proceeds from crime. Programs of realization of financial monitoring are developed by Bank according to separate directions of its activity on servicing the clients, and are permanently updated in the course of carrying out financial monitoring.

The programs of realization of financial monitoring contain certain criteria and signs specified by the legislation of Ukraine of financial operations subject to financial monitoring.

For provision of execution of the requirements of laws of Ukraine on prevention of legalization of proceeds from crime, the Bank developed and implements program of identification and examination of the clients, and also program of training and improvement of professional skills of employees.

The bank does not only establish the personal identity of clients, but also monitors operations on accounts to find out the transactions not corresponding to normal or expectable operations for the given client or account type.

The program of client identification includes procedures of client identification and check of information on each client “to a reasonable and practically accomplishable extent”, for the Bank to have a grounded possibility to assert that it really knows the client. During establishment of relations with the client the Bank identifies more specifically the purpose and character of client future business relations with Bank.

Bank policy consists in prevention of use of its operations for criminal purposes in international scale. The bank serves only those clients, which sources of wealth and means can be reasonably named as legitimate ones.

The intrabank system of prevention and counteraction to legalization (laundering) of proceeds from crime is headed by the head of financial monitoring department – a responsible officer of Bank.

A separate structural division for prevention of legalization (laundering) of proceeds from crime has been setup in the Bank with due account for specifics of its organization, main directions of activity, client base and level of risks connected with clients and their operations. The division, i.e. Financial Monitoring Department, is headed by a dedicated responsible officer.

The order of Statefinmonitoring dated 30.08.2010 no 152 approved the procedure of electronic interaction of reporting entities and Statefinmonitoring of Ukraine. The procedure determines interaction mechanisms between reporting entities and Statefinmonitoring, and also requirements and formats of electronic exchange messages as regards financial monitoring.

From the moment of the beginning of Bank of activity and up to 01.04.2012, 697 requests have been received from Statefinmonitoring: in 2008 - 1, in 2009 - 300, in 2010 - 8, in 2011 - 318, in 2012 - 70.

All cases initiated by the Bank in courts and the amount of settled and not settled claims of Bank for the last 12 months do not exceed 5% of its credit portfolio (as of 01.04.2012 the size of credit portfolio of Bank constituted UAH 343,7 m).

Staff and management

See the information on bank employees in the *table 11*.

Table 11

Indicators	In Q1 2012		In Q1 2011		Change of structure, p.p.	Growth rate, %
	persons	%	persons	%		
Total regular employees	123	100,0%	112	100,0%	0	9,8%
Including with experience ≤ 3 years	23	18,7%	13	11,6%	7,1	76,9%
Including with experience > 3 years	100	81,3%	99	88,4%	-7,1	1,0%
Regular employees certified by NCSMS	7	5,7%	6	5,4%	0,3	16,7%
Regular employees with cand.sc. or Ph.D. degree	1	0,8%	1	0,9%	-0,1	0

Management.

In October, 2011, in connection with registration of new edition of Articles of bank and possibility of increase of number of members of Supervisory Board to 7 persons, the decision of General meeting of shareholders of bank elected the Supervisory Board of Bank composed by Chairman of Supervisory Board Ratushnyuk Olga and members of the Supervisory Board: Volynets Daniel, Guley Anatoliiy, Kuzymkiv Zinoviy, Mishchenko Sergey, Paprotsky Orest and Fesenko Svetlana.

Also in October, 2011 by the decision of the Supervisory Board Solntsev Igor was elected Chairman of Board, which position at that point in time was vacant and since 07.10.2011 he entered the office. According to the decision of the Commission of the National Bank of Ukraine on supervision and regulation of banking activity dated 25.11.2011, Solntsev Igor was approved on the post of Chairman of Board of PJSC CB Accordbank.

Chairman of board: Solntsev Igor

Born on May 15, 1967. In 1992 graduated from Sverdlovsk institute of national economy with the specialty “industry planning”.

1992-1994 - CB Privatbank, Dnepropetrovsk: Head of department;

1994-2005 – JSC CB Credit-Dnepr: Head of Department, Deputy Chairman of Board, First Deputy Chairman of Board, Interim Chairman of Board, Chairman of Board.
 2005-2010 - JSCB Forum: First Deputy Chairman of Board.
 2010-2011 PJSC Alpha bank: Deputy Director of Corporate Business.
 Since 2011 - PJSC CB Accordbank: Interim Chairman of Board, Chairman of Board.

First deputy Chairman of Board: Kot Zynayida

Born on August 15, 1960. In 1983 graduated from Kiev Institute of National economy after D.S.Korotchenko with the specialty Finance and Credit.

1983-1987 – Oktyabrsky Department of Stroybank of the USSR: economist, senior economist.
 1988-1992 - Oktyabrsky Department of Promstroybank of USSR of Kiev: senior economist, head economist.
 1992-1993 - Oktyabrsky department of JSCB Ukrneftegazbank: Deputy Head of Department.
 1993-1999 - Kiev JSCB Kievbirzhhbank: Head of sector , Head of department.
 1999-2000 - JSCB Ukrgazbank: Head of department.
 2000-2001 - CB STOYIK: Head of department - Deputy Head of Department.
 2001-2002 - Kiev branch of JSCB Yuzhkombank: Head of sector, Deputy Director of Branch.
 2002-2007 –LLC CB Aktiv bank: Deputy Chairman of Board.
 Since 2008 - PJSC CB Accordbank: Chairman of Board, First Deputy Chairman of Board.

Deputy Chairman of Board: Koshlata Olga

Born on April 7, 1956. In 1977 graduated from Kiev Institute of National Economy after D.S.Korotchenko with the specialty „accounting in the industry”, in 1998 graduated from Kiev National Economic University with the specialty “Finance and Credit”.

1977-1987 - Shevchenkovsky branch of Stroybank of the USSR: Senior accountant, economist.
 1988-1999 - Shevchenkovsky department of Promstroybank of the USSR: Deputy general accountant - chief of operational department, General Accountant.
 1999-2003 - JSCB National credit: General Accountant of Shevchenkovsky branch in Kiev.
 2003-2004 - Shevchenkovsky branch of Prominvestbank in Kiev: General Accountant.
 2004-2009 - JSC Vseukrainsky joint stock bank (JSC VABANK, currently VAB Bank): Director of the Second Kiev Branch, Regional director.
 Since 2009 - PJSC CB Accordbank: Deputy Chairman of Board.

Chief accountant: Litosh Oksana

Born on June 20, 1968. Received the complete high education – in 1990 graduated from the Kiev Institute of National Economy of specialty “statistics”.

1995-2001 – the Kiev branch of Simferopol joint-stock bank “AKSI-Bank”: cashier, accountant, senior accountant, deputy chief accountant-head department of interbank operations, chief accountant, head of department of accounting and reporting.

2001-2002 – JSB “Syntez”: deputy chief accountant, chief accountant.

2002-2007 – “CB “Aktiv-bank”, LLC: chief accountant.

Since 2008 – PJSC “CB “Accordbank”: chief accountant.

No members of management and control organs of the Bank have neither cancelled nor not cancelled criminal records.

7. Summary of rating and rating visualization

See complete substantiation of rating by RA Expert-Rating in the rating report. When assigning investment grade rating, the Rating committee was guided by the following:

1. PJSC CB Accordbank has begun activity in the banking market of Ukraine in 2008, in the difficult macroeconomic conditions produced by global financial and economic crisis. Nevertheless, during its existence the Bank has shown positive development trends - as of 01.04.2012 Bank assets constituted UAH 526,4 m, credit portfolio – UAH 341,9 m, shareholders' equity – UAH 89,3 m, liabilities – UAH 436,5 m, funds of individuals – UAH 188,3 m, funds of legal bodies – UAH 96,7 m. Currently PJSC CB Accordbank is a “young” dynamically developing bank showing profitable work and high growth rates of KPIs. In particular, from 01.04.2011 to 01.04.2012 Bank assets grew by 38,08 % (at mean market growth rate - 8,79 %), the credit portfolio growth rate constituted 83,54 % (at that the cumulative credit portfolio of bank system of Ukraine shrank by 12,77 %), and the volume of resources attracted by the Bank grew by 55,01 % (whereas in the mean on system the liabilities increased by 7,43 %).

2. The indicators of PJSC CB Accordbank shareholders' equity adequacy prove to good level of solvency. As of 01.04.2012 shareholders' equity/assets ratio made 17,09 % (at mean value on bank system - 14,99 %), regulatory capital adequacy norm (H2) was 25,73 % (at mean market value - 17,88 %), and regulatory capital/cumulative assets ratio (H3) was at the level of 23,30 % (mean at the system - at the level of 14,51 %). In 2011 the Bank attracted a subordinated debt, due to which the regulatory capital of Bank increased - as of 01.04.2012 its volume reached UAH 122,8 UAH m, that is on 25,56 % higher than as of 01.04.2011.

3. The Agency has positively estimated the quality of PJSC CB Accordbank assets. The small share of non-performing loans (1,09 %), low indicator of loan impairment provisions/credit portfolio ratio (1,09 %, at mean market value - 21,45 %) and strict observance of NBU norms prove to rather low level of risks concentration in Bank credit portfolio. As of 01.04.2012 credits to individuals constituted 7,06 % of Bank credit portfolio, thus, one year earlier their share was at the level of 22,55 %. Thus the portfolio of credits to legal entities has clearly marked four key sectors corresponding to major part of the credits issued by the Bank: financial sector (24 %), industry (32 %), trade (32 %) and building (10 %). The good branch diversification of credit portfolio proves to moderate dependence of Bank on branch risks.

4. During the entire period of activity the Bank did stably generate profit. Following the results of Q1 2012 the volume of net profit of Bank constituted UAH 90 thousands, that however, is on 85,39 % less, than for Q1 2011. The net interest income following the results of Q1 2012 in comparison with the similar period of 2011 increased by 27,76% and constituted UAH 6,1 m, net fee and commission income constituted UAH 1,4 m, income from securities trading reached UAH 1,2 m. According to the Agency, despite noted decrease in net profit in Q1 2012 in comparison with Q1 2011, Accordbank has all preconditions for improving profitability indicators in immediate perspective that is aided by active development of Bank through introduction of new bank products and expansion of client base.

5. The analysis of norms of instant, current and short-term bank liquidity (H4, H5, H6) as of 01.04.2011 and 01.04.2012 proves to redundant observance by the Bank of NBU established requirements and to good liquidity level, allowing it to timely and in full meet the obligations to customers, investors and other counterparties. So, as of 01.04.2012 the norm of instant bank liquidity (H4) constituted 57,97 % (mean system - 54,25 %), current liquidity norm (H5) - 90,58 % (bank system - 72,88 %), and short-term liquidity norm (H6) - 87,63 % (at average norm on banks of Ukraine - 93,14 %). Besides that, high indicators of liquidity prove to availability at the Bank of certain reserve of resources for further escalation of the portfolio of earning assets.

Appendix A

Use limitations of the rating report

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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 however its liabilities are 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. 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.