

Research Update:

KREDOBANK Upgraded To 'B-' On Improved Financials Through Stronger Explicit Parental Support; Outlook Stable

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Overview

- PJSC KREDOBANK's parent, Powszechna Kasa Oszczednosci Bank Polski (S.A.), is providing stronger explicit support through loan guarantees, funding and capital injections, which is helping to improve the bank's financial profile.
- We consider KREDOBANK a strategically important subsidiary of its parent and incorporate one notch of uplift above the bank's stand-alone credit profile to recognize the ongoing and extraordinary parental support.
- We are raising the long-term counterparty credit ratings on KREDOBANK to 'B-' from CCC+.
- The stable outlook balances parental support and gradual signs of economic recovery in Ukraine against the bank's high credit risk and poor profitability.

Rating Action

On Sept. 1, Standard & Poor's Ratings Services raised its long-term counterparty credit ratings on PJSC KREDOBANK to B- from CCC+. The outlook is stable. At the same time the 'C' short-term counterparty credit ratings were affirmed. The Ukrainian national scale rating was raised to 'uaBBB-' from 'uaBB-'.

Rationale

The rating action reflects an improvement in KREDOBANK's financial standing based on stronger explicit ongoing parental support from its 99.5% shareholder, Powszechna Kasa Oszczednosci Bank Polski (S.A.) (PKO; 'BBBpi'). PKO has provided KREDOBANK with funding and capital injections, as well as guarantees on a part of its problematic loan portfolio. This mitigates the bank's high credit risk amid challenging economic conditions in Ukraine.

We consider KREDOBANK a strategically important subsidiary of PKO, given the importance of Ukraine for PKO's growth strategy, the bank's integration into PKO, and the parent's record of support for the bank. Accordingly, the long-term rating incorporates a one-notch uplift above the bank's stand-alone credit profile.

PKO injected \$150 million of capital into KREDOBANK in 2009, which boosted the bank's capitalization; on Dec. 31, 2009, the bank's ratio of adjusted total

equity to assets was 11.6% compared with 1.6% a year earlier. As of Aug. 1, 2010, KREDOBANK has finalized registration of a further \$46 million capital increase. Funding support from PKO includes a \$90 million standby credit line and Ukrainian hryvnia (UAH) 276 (million in subordinated debt. Current parental funding accounts for 15% of liabilities. In July 2010, PKO approved UAH300 million in guarantees against the bank's problem loan portfolio and authorized a further UAH500 million later in the year.

KREDOBANK is a midsize Ukrainian commercial bank. It had total assets of \$650 million (UAH 5.2 billion) on Dec. 31, 2009. It has a good market position in western Ukraine (Lviv region).

KREDOBANK's credit risk profile has weakened significantly due to a sharp deterioration in domestic economic conditions and the subsequent negative effect on its loan portfolio. Nonperforming loans (overdue by more than 90 days) amounted to 56% of total loans on June 30, 2009. Loan loss reserves account for 31% of the loan book. To address its asset quality issues, the bank has enhanced its credit risk management with a focus on lending monitoring, debt collection, loan restructuring, and new underwriting policies. PKO's guarantees against the problematic loan portfolio may lead to a release of some loan loss reserves, which in turn may help to improve profitability. However, we expect KREDOBANK's profitability to remain weak due to its narrowing net interest margin and high provisioning burden.

KREDOBANK's funding profile has stabilized and its liquidity has improved, with cash and bank placements accounting for 19.5% of total assets as of June 30, 2010. KREDOBANK does not have any significant wholesale funding from abroad.

Outlook

The stable outlook balances parental support and gradual signs of economic recovery in Ukraine against KREDOBANK's high credit risk and poor profitability.

We would consider a positive rating action if problems afflicting the Ukrainian banking sector ease considerably and the bank can significantly improve its asset quality and liquidity position.

A negative rating action could be triggered by further deterioration in the bank's stand-alone credit profile or a reduction in parental support.

Related Criteria And Research

- Recovery Prospects From Bank Defaults In Kazakhstan, Russia, And Ukraine Are Still Uncertain, Jan. 19, 2010
- Bank Rating Analysis Methodology Profile, March 18, 2004
- Group Methodology, April 22, 2009

Ratings List

Upgraded; Ratings Affirmed

	To	From
PJSC KREDOBANK		
Counterparty Credit Rating	B-/Stable/C	CCC+/Stable/C
Ukraine National Scale Rating	uaBBB-/--/--	uaBB-/--/--
Certificate Of Deposit	B-/C	CCC+/C
Senior Unsecured	uaBBB-	uaBB-

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Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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