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The rating of JSC "PIRAEUS BANK ICB" was updated

The long-term credit rating of PIRAEUS BANK ICB (USREOU code 20034231) was updated on a national scale at the uaAA level by the decision of the rating committee of the Standard-Rating Rating Agency. A bank or individual debt instrument with a rating of uaAA is characterized by a very high creditworthiness compared to other Ukrainian borrowers or debt instruments. The decision to update the credit rating of PIRAEUS BANK MKB JSC was made according to the analysis of the Bank's results for 2019, as well as the data of the Bank's statistical reporting for January-February 2020.

1. For the period from January 1, 2019 to January 1, 2020, the key balance indicators of JSC "PIRAEUS BANK MKB" showed the following dynamics:

- assets grew by 9.22% to 2,986 billion UAH;
- volume of loans and customer debt increased by 2.16% and amounted to 1,379 billion UAH;
- cash and cash equivalents increased by 31.99% to 635,835 UAH million;
- investments in securities decreased by 0.37% to 716,873 UAH million;
- liabilities increased by 10.36% to 2,347 billion UAH;
- equity grew by 5.23% and amounted to 639,362 UAH million

In 2019, the Bank significantly replenished its resource base by attracting funds from individuals, the amount of which for the period from January 1, 2019 to January 1, 2020 increased by 181.840 million or 20.65% (from UAH 880.678 million to UAH 1.063 billion). The increase was also demonstrated by funds from legal entities, the volume of which increased by UAH 29.298 million during the specified period or 3.28%. These dynamics were reflected in the structure of the Bank's liabilities, namely: the share of funds of individuals increased by 3.37 percentage points (from 32.21% to 35.58%), and the share of funds of legal entities decreased by 1.77 percentage points (from 32.63% to 30.86%).

Table 1

Main balance sheet indicators of PIRAEUS BANK MKB JSC UAH thousand, %

Indicator	01/01/2020		01/01/2019		Growth rate, %
	thousand UAH	%	thousand UAH	%	
Funds of legal entities	921 414	30,86%	892 116	32,63%	3.28%
Funds of individuals	1,062,518	35,58%	880 678	32,21%	20.65%
Commitment to everything	2 346 810	78,59%	2 126 499	77,78%	10.36%
Share capital	2 531 347	84,77%	2 531 347	92,58%	-
Net equity	639 362	21.41%	607 602	22,22%	5.23%
Cash and cash equivalents	635 845	21,29%	481 741	17.62%	31,99%
Loans and receivables	1 379 409	46,19%	1,350,254	49,39%	2.16%
Fixed assets (incl.intangible assets)	123 372	4.13%	76 836	2.81%	60,57%
Securities	716 873	24.01%	719 513	26,32%	-0.37%
Other assets	21 882	0.73%	13 736	0.50%	59,30%
Total assets:	2,986,173	100.00%	2 734 101	100.00%	9.22%

Source: NBU and financial data reporting of the Bank

As of 01.01.2020 compared to 01.01.2019 in the structure of assets PIRAEUS BANK ICB JSC the following changes took place:

- share of loans and customer debt decreased by 3.20 percentage points: from 49,39% to 46,19%;

- the share of cash and cash equivalents increased by 3.67 percentage points: from 17.62% to 21.29%;
- the share of investments in securities decreased by 2.31 percentage points: from 26.32% to 24.01%.

Also, the Agency draws attention to the fact that as of 01.01.2020 the Bank's securities portfolio was 100% formed from securities issued by the NBU, i.e. from the highest quality assets, which are characterized by a low level of risk.

Thus, following the results of 2019, PIRAEUS BANK ICB JSC increased the scale of its activity, demonstrating the growth of assets, liabilities and equity. At the same time, the Bank showed a good growth rate of individuals' funds. In addition, the Agency reminds that the business strategy of JSC "PIRAEUS BANK MKB" is focused on expanding lending to small and medium enterprises (SMEs), which is facilitated by the Bank's cooperation with the German-Ukrainian Fund and the European Bank for Reconstruction and Development (EBRD). Thus, on July 10, 2019, PIRAEUS BANK ICB JSC and the German-Ukrainian Fund signed a partnership agreement for the joint implementation of the Fund's programs to support the financing of SMEs. In addition, JSC "PIRAEUS BANK ICD" expanded the framework of cooperation with the EBRD by signing on February 7, 2020 two cooperation agreements aimed at supporting SMEs. PIRAEUS BANK ICB JSC has been a member of the EBRD's Trade Facilitation Program for a long time. In particular, the first signed agreement between PIRAEUS BANK ICB JSC and the EBRD (with a limit of 10 million euros) is an agreement on the distribution of risks of default on loans. Under this agreement, the EBRD would assume part of the risk up to a maximum of 50% of each loan to a specific client provided by the Bank. The second agreement guarantees the provision of financing in the hryvnia equivalent of 5 million US dollars for lending to small and medium enterprises.

2. The regulatory capital of JSC "PIRAEUS BANK ICD" (N1) as of 01.01.2020 compared to 01.01.2019 increased by 5.69% and amounted to 625,298 million UAH, that being 3.1 times higher than the limit set by the NBU at the level of UAH 200 million. The regulatory capital adequacy ratio of the Bank (H2) for the period from 01.01.2019 to 01.01.2020 increased by 1.42 percentage points, and amounted to 37.72%, which is 3.8 times exceeded the normative value set by the NBU, and was by 18.06 percentage points higher than the average value of this standard in the banking system of Ukraine. Fixed capital adequacy ratio PIRAEUS BANK ICD JSC (N3) as of 01.01.2020 was 35.52%, which was 27.895 percentage points above the limit set by the NBU (taking into account the capital stock buffer), and by 22.02 percentage points higher than the market average.

Additionally, the Agency notes that as of March 1, 2020, N1 of the Bank amounted to UAH 614.212 million, H2 of the Bank was at the level of 36.76%, and N3 was 35.27%. High values of capital ratios of PIRAEUS BANK MKB JSC have a positive effect on its credit rating.

The Agency also draws attention to the data on the results of the assessment of the stability of banks (based on the assessment of asset quality - AQR), conducted by the National Bank of Ukraine in 2019, which showed that JSC "PIRAEUS BANK ICB" has sufficient stock level according to N2 and N3 standards.

Table 2

Basic standards of JSC "PIRAEUS BANK ICB", UAH thousand, %

Indicator	Normative value	01/01/2020		01/01/2019	
		on the system	bank	on the system	bank
Regulatory capital (N1)	> 200 million	-	625 298	-	591 641
Regulatory capital adequacy ratio (N2)	> 10%	19.66%	37.72%	16.18%	36.30%
Fixed capital adequacy ratio (N3)	> 7,625%	13.50%	35.52%	-	33.09% *
Short-term liquidity ratio (N6)	> 60%	94.35%	112.33%	93.52%	108.03%
Liquidity coverage ratio for all currencies (LCR)	> 100%	-	293.11%	-	175.83%
Foreign currency liquidity coverage ratio (LCRfc)	> 100%	-	303.49%	-	160.47%
Maximum credit risk ratio per counterparty (N7)	<25%	17.61%	13.00%	19.83%	14.11%
High credit risk ratio (N8)	<800%	105.00%	46.46%	176.23%	98.43%

Source: NBU data and the Bank's statistical reporting

Note: in the absence of calculation of the standard on the 1st of each month, the Agency provides data for the next working day

* data according to the N3 standard are given as of 02/01/2019

Liquidity ratios of PIRAEUS BANK MKB JSC for the period from January 1, 2019 to January 1, 2020 showed upward dynamics:

- the short-term liquidity ratio (N6) increased by 4.30 percentage points and amounted to 112.33%;
- liquidity coverage ratio for all currencies (LCR) increased by 117.28 percentage points to 293.11%;
- foreign currency liquidity coverage ratio (LCRfc) showed an increase of 143.02 percentage points and amounted to 303.49%.

As of 01.01.2020, all three liquidity ratios of PIRAEUS BANK ICB JSC with a large margin exceeded the NBU limits: the short-term liquidity ratio (N6) was 52.33 percentage points more than the limit set by the regulator, the ratio of liquidity coverage ratio for all currencies (LCRv) was 2.9 times higher than the normative value set by the NBU, and the ratio of liquidity coverage ratio in foreign currency (LCRs) was more than three times higher than the limit value. In addition, the N6 of the Bank exceeded the average of this standard for the banking system of Ukraine by 17.98 percentage points. The Agency also draws attention to the fact that as of 01.03.2020 the N6 of the Bank was 109.24%, LCRv was at the level of 272.91%, and LCRs was 283.92%. At the same time, the Agency reminds that the high values of the standards of LCRs and LCRs indicate that the Bank has formed a significant liquidity reserve to cover the expected net cash outflow for 30 days, taking into account the stress scenario.

Thus, as of the beginning of March 2020, PIRAEUS BANK ICB JSC maintained a high level of liquidity reserves, as evidenced by the importance of the relevant standards of the Bank.

3. Following the results of 2019 JSC "PIRAEUS BANK ICB" received a profit of 30,797 UAH million, which is 39.81% less than the amount of profit received by the Bank in 2018. In this case, the key items of income PIRAEUS BANK ICB JSC showed an increase. In 2019, compared to 2018, the Bank's net interest income increased by 2.18% and amounted to 225,377 UAH million, and net commission income increased by 3.28% to 102,352 UAH million.

Table 3

Data on key items of income and expenses of JSC "PIRAEUS BANK MKB" UAH thousand, %

Indicator	2019	2018	Change	Growth rate, %
Interest income	297 809	273 902	23 906	8.73%
Interest expenses	72 432	53 341	19 090	35.79%
Net interest income	225 377	220 561	4 816	2.18%
Commission income	128 761	124 403	4 358	3.50%
Commission expenses	26 409	25 303	1 106	4.37%
Net commission income	102 352	99 100	3 252	3.28%
Administrative and other operating expenses	308 765	266 489	42 276	15.86%
Profit / (loss)	30 797	51 165	-20 368	-39.81%

Source: NBU and financial data reporting of the Bank

The Agency positively assesses the Bank's ability to increase revenues and generate profits.

Thus, following the results of 2019, PIRAEUS BANK ICB JSC increased the scale of its activity, demonstrating the growth of assets, liabilities and equity. At the same time, the Bank showed a good growth rate of individuals' funds and increased key items of its income, as well as maintaining a high level of capital ratios (N1, N2 and N3) and liquidity ratios (N6, LCR and LCRfc). Relevant factors, as well as the fact that PIRAEUS BANK ICB JSC is a bank of Piraeus Bank Group, one of the largest European systemic banks, allowed the Agency to update the credit rating of PIRAEUS BANK MKB Joint Stock Company at such a high level.

Rating Agency "Standard-Rating" (Ukraine)