

Case Study: Platinum Bank (Ukraine)

Platinum Bank's Story

Platinum Bank traces its roots to the 2004 creation of the International Mortgage Bank (IMB). At that time, the Ukrainian mortgage market was significantly underpenetrated and outstanding mortgages in the country stood at less than 1% of GDP—far below the 50%+ penetration rate seen in many developed markets. Recognizing the magnitude of this potential opportunity, Western NIS Enterprise Fund (WNISEF), now managed by Horizon Capital, founded IMB to originate and finance home mortgage loans in Ukraine. By early 2005, IMB was issued a banking license by the National Bank of Ukraine and began operations with an initial capitalization of US\$30 million in long-term debt financing.

After its founding, IMB set out at a rapid pace of growth and the following year Horizon Capital merged the bank with Favorit Capital—an unsecured point of sale lending company—to form the IMB Group. Under the leadership of its new Chief Executive Officer, Gregory Krasnov, IMB Group raised additional financing from multilateral organizations and new Western shareholders and the company grew into a diversified financial services company offering not only home mortgages, but also broader retail banking services.

The success of IMB Group's new strategy allowed the bank to capture market share from its competitors and grow into a leader in the market for consumer credit. At the same time, a lack of long-term financing in Ukraine drove the bank to build a retail deposit business to finance itself and to shift its asset-side focus away from home mortgages towards the more profitable unsecured consumer lending portion of its business, which became the engine of the bank's asset growth.



In line with its new strategy, IMB Group was rebranded into Platinum Bank. The bank also completed an acquisition of the Ukrainian operations of Home Credit Bank, enabling the bank to double its assets. In addition, Platinum Bank expanded its retail network, which now covers the country with 70 high-street deposit-taking branches, 50 Cash Loan branches, and 1,600 Sales Finance points of sale.

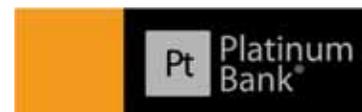
Platinum Bank was able to overcome the crisis while maintaining profitability and return on equity. Today, Platinum Bank serves over 1.5 million clients with a broad financial product portfolio including unsecured consumer loans, retail savings and current accounts, credit cards, as well as SME deposit products. While originally relying on the wholesale finance market for funds, Platinum Bank is currently financed almost exclusively through client deposits, which grew by 450% in 2011. As of January 2011, Platinum Bank ranked as the 10th largest retail lender in local currency, and a Top 5 player in its core segment of unsecured retail lending.

The Role Played by Private Equity

Horizon Capital was established in 2006 through a spin-off of investment professionals with over 10 years of experience managing WNISEF. WNISEF was established by the U.S. Congress in 1995 and funded by the U.S. government through USAID. When the fund entered the Ukrainian market, it was one of the first international investors to operate in the country. By 2004, the fund had nearly 10 years of experience

investing in high-growth companies in the region and had developed deep expertise and relationships in Ukraine's financial services sector. Based on its on-the-ground experience, the WNISEF team identified a growth opportunity in the country's mortgage market and set out to form a mortgage lender of its own. WNISEF assembled a management team, acquired a banking license and founded IMB. ▶

The Company



Essentials

Company: Platinum Bank
(www.platinumbank.com.ua)

Country: Ukraine

Sector: Banking and Financial Services

Business focus: Retail Banking

Size: US\$539 million in total assets (2011 unaudited), 3,700 employees

GP: Horizon Capital, a private equity fund manager focused on mid-cap companies operating in Ukraine, Belarus and Moldova

Date of investment: February 2004

Investment: Horizon Capital has a 45% stake in Platinum Bank

Impact Highlights

As an active owner, Horizon Capital successfully navigated the bank through the turbulent global financial crisis and supported its transformation into a diversified consumer lender

With the help of Horizon Capital, Platinum Bank raised US\$100 million in capital and attracted financial support from numerous IFIs

With a 35% compound annual growth rate in its "core" retail unsecured loan portfolio since 2006, Platinum Bank has become one of the fastest growing retail lenders in Ukraine

Platinum Bank stands out in Ukraine as one of the first financial institutions to adhere to the Global Reporting Initiative's economic, environmental and social sustainability reporting standards

Financial Performance



The Company View

“In the early days, the WNISEF team really identified the opportunity in the mortgage market and had a big impact in shaping the company. They brought in American consultants, they ran the pilot program on the balance sheet of another bank to confirm the concept, and they recruited the first management team to run the bank. Early on, this was really their project.”

“We’ve been extraordinarily happy with the partnership; we think it’s fantastic to have a partner that is deep on the ground and understands the market and the issues that we face. As far as I am concerned, the longer they remain shareholders the better.”

Gregory Krasnov, Chief Executive Officer, Platinum Bank



Ukraine Home Prices



“During the crisis in 2008 there were some tough discussions at the Supervisory Board level about our future, and a distinctive split emerged between our investors from outside Ukraine and our local investors that understood how Ukraine works. Horizon Capital was a leader of the second group and we are alive today, and in the position that we are, largely thanks to their support during this tough time.”

Gregory Krasnov, Chief Executive Officer, Platinum Bank

▶ Since Platinum Bank’s formation in 2004, WNISEF and later Horizon Capital made numerous contributions to its on-going success. First, the fund supported the bank in raising capital. Drawing on its contacts and experience among private investors and international finance institutions, WNISEF helped the newly formed IMB raise the long-term capital needed to fund its mortgage lending. Eventually, IMB would attract equity and debt capital from Warburg Pincus, Goldman Sachs, OPIC, EBRD and FMO, among others. Additionally, IMB became the first mortgage lender in Ukraine to receive a housing finance credit line from the IFC. As a result of these efforts, by 2008 the bank grew its balance sheet to US\$185 million and boasted a cash-to-assets ratio of over 20%. This excess liquidity proved critical in allowing the bank to weather the financial crisis that followed.

In addition to its support in raising funds, the investment fund also helped establish the bank’s high lending standards, another critical source of strength during the crisis. Drawing on its expertise in financial services and with the aid

of Western consultants, Horizon Capital helped implement best-in-class underwriting practices and recruited managers with experience in the U.S. and Western European lending markets.

Horizon Capital also introduced a Western-style corporate governance structure where representatives of various shareholders shared ideas and made strategic decisions at the Supervisory Board while leaving operational management to the Management Board. Also, Platinum Bank was one of the first banks in Ukraine (and still one of the few) to hire an independent Board Member on its Supervisory Board. Finally, Horizon introduced stock options in its management incentive plan, very rare in Ukraine at the time, and supported the company in introducing Western-style corporate social responsibility (CSR) programs.

Although Horizon’s role at Platinum Bank has evolved over time, the fund remains invested in Platinum Bank and actively supports on-going projects through its role on the company’s Supervisory Board.

Beyond the Bottom Line

Platinum Bank has adopted corporate social responsibility (CSR) as a core element of its business strategy and stands out in Ukraine as one of first financial institutions to publish a CSR report in accordance with the Global Reporting Initiative reporting standards.

Since 2010, the bank’s “Business with a Human Face” report has highlighted its CSR activities. In recent years, these have included its creation of high-paying jobs throughout the country, including among disadvantaged groups such as the handicapped; its foundation of the “Platinum Posidelki” and “Computer World for Children”

programs focused on teaching computer skills to Ukrainian youth; and its opening of computer classes in orphanages and secondary schools.

In addition to its CSR activities, Platinum Bank has also played a significant role in developing Ukraine’s mortgage market. As an early entrant into the market, Platinum Bank was a founding member of the Ukrainian Mortgage Association and was central in the formulation of the laws governing the sector.

By recruiting like-minded managers and supporting these initiatives at the Supervisory Board level, Horizon Capital helped to shape Platinum Bank’s community focus.