Focus	Scope	Sector	Research team
Ukraine	**Debt markets**	**Banks**	**Mykhaylo Demkiv**

Banking Sector Insight

About to take off

12 July 2016

READ FIRST THE DISCLOSURES SECTION FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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Executive summary

The Ukrainian banking system is bouncing back from the bottom of the financial crisis which was reached in 1H15. Increased solvency and the abundant level of liquidity at most banks paves the way for a credit revival.

Financial stabilisation is now on firmer ground. The Ukrainian banking system is showing strong signs of recovering: total deposits rose by 2.2%, net of FX effect, during the period January-May 2016 while UAH liquidity remains abundant with an excess of approximately UAH70bn. This has allowed the National Bank of Ukraine (NBU) to relax FX controls (in June) and lower the key rate by 5.5ppt (since 1 March 2016) to its current level of 16.5%.

All but two banks out of the top 20 have survived the most recent round of the stress test; and the failure of the two weakest has had hardly any impact on the rest of the banking system. The combined capital of the largest banks has increased by more than UAH98bn – or 72% – since 1Q15. Half of the banks obliged to conduct stress test have either demonstrated that they do not require recapitalisation or have completed the three-year programme ahead of schedule. We expect the other half to raise a combined UAH15bn or so in new capital by the end of 2016.

Despite an almost year-long delay in implementing the IMF programme, one of its targets – the establishment of transparent ownership structures – has already been achieved. The NBU reports that none of the solvent banks is hiding its real beneficiaries.

Privatbank makes limited progress. Loans to the sectors of economy where Privat Group has a significant presence represent up to 85% of the total gross portfolio. We believe that it poses the largest threat to the financial stability of the banking system. Privatbank is most likely to abstain from a massive capital injection in 2016 and concentrate instead on raising additional and better-quality collateral against issued loans. In 1Q16 it restructured its UAH2.1bn (as of 1 January 2016) debt to the NBU and is now expected to repay it by August 2017.

Given the sweeping changes in the banking sector, it is unlikely that Privatbank will be allowed to continue doing business as usual. Risk reduction may take longer than the expected three years. Moreover, if the bank fails to follow risk reduction programme, it is likely to be nationalised.

Abundant liquidity prevails. Nearly half of all Ukraine's banks have surplus UAH liquidity, which is "sterilised" by the NBU in the form of certificates of deposit (CDs) that have a short maturity (up to two weeks).

Despite their high levels of liquidity, the banks have so far been very cautious about reviving lending. There has been a noticeable expansion of the UAH-denominated corporate loan portfolios of Western banks such as Citi, ING and Credit Agricole; however, their combined market share is not sufficient to be able to say that there is already a lending revival in Ukraine. Together with an inflow of deposits, the expanded loan portfolios have driven interest rates down – by 200-220bps for UAH-denominated deposits since the beginning of 2016 and by 190-260% for USD-denominated deposits.

We expect UAH-denominated deposits to further decrease by 150-200bps by the end of 2016 if the current level of financial stability is maintained. Decreasing rates will boost demand for loans while legislative amendments aimed at protecting creditors' rights will enhance the bank's appetite for credit expansion. We believe that the banks will increase their loan exposure in the corporate sector in 2H16.

Russian banks might leave. Banks with Russian state capital are likely to consider exiting Ukraine in 2016 and 2017. These banks have among the highest NPL ratios – 47 to 80%, compared with 36% for the peer group. They also have significant exposure to Donbass and Russia-oriented businesses that were hardest hit during the recent crisis. Furthermore, some borrowers have taken advantage of the precarious political position of Russian-owned businesses by not paying their debts. Since the situation is not likely to improve on any these fronts in the foreseeable future, exiting Ukrainian market appears to be a rational strategy.

According to our estimates, both Prominvestbank and Sberbank have seen their gross loan portfolios decline, along with the simultaneous reduction in the level of deposits. We expect the further diminishing of their balance sheets in 2016.

Overview of the banking sector

The Ukrainian banking system is now clearly beyond the bottom of the current economic crisis. Since they have real, albeit not yet sufficient capital and excessive hryvnia liquidity, banks are likely to resume lending in 2H16. We see no major non-military threat to the stability of the financial sector other than that of Privatbank choosing not to cooperate with the authorities.

Replenishing lost capital

Most banks are meeting the recapitalisation schedule. Amid the ongoing economic crisis, the second stress test of Ukraine's top 20 banks was significantly tougher than the previous one, held in 2014. This time round, the conditions were tougher and better reflected today's reality – namely, the annexation of Crimea and continued military activities in Donbass. The regulator decided to carry out the asset quality review itself instead of employing third-party consultants, as had been the case with the previous test. Eighteen of the 20 banks have managed to survive beyond the first interim deadline in 2Q16, while the other two – Fidobank and Khreschatyk – have been declared insolvent.

Four banks – Ukrgazbank, ING Bank, Credit Agricole and Citi Bank – required no capital injection or had received one before the stress test. Credit Agricole had rid itself of problematic assets ahead of the current crisis; since then, asset quality deterioration has not been as severe as at other foreign banks thanks to the French bank's more conservative risk strategy. ING and Citi had limited credit exposure and concentrated on investing into the NBU's risk-free certificates of deposit (CDs). We note that the corporate loan portfolio of these banks is currently increasing, but their cumulative market share (just over 2%) does not justify deeming this a full-fledged lending revival.

Five other banks – which we believe to be Oschadbank Ukreximbank, Aval, VTB and Ukrsibbank – have successfully completed recapitalisation. Banks with foreign capital managed to convert both senior and subordinated loans from their parent banks into equity, while state banks received capital injections in the form of USD-indexed local government bonds.

The remaining nine banks are on schedule for recapitalisation – that is, to have non-negative Tier 1 capital and a regulatory 5% capital adequacy ratio by the end of December 2016. However, it should be noted that the deadline was originally 11 months earlier but was moved back to give the banks more time to find new sources of capital replenishment.

Smaller banks to face challenges. The first asset quality review of Ukraine's 40 next largest banks (after the country's top 20, discussed immediately above) began in 2Q16. We expect few banks to fail this rigorously conducted stress test. According to our estimates, this group of banks has increased its combined share capital by more than UAH8bn (56%) since the end of 2013 (compared with the 130% increase for the top group, which has now undergone two stress tests).

The financial position of Ukraine's other small banks will be monitored constantly throughout 2016 and 2017. One of the biggest challenges is the incremental increase in the minimum share capital requirement. Five banks have failed to meet that requirement, effective from June 17 – namely, UAH120m level. According to our estimates, around 50 banks have less than the UAH0.2bn in share capital that they will be required to possess in

July 2017. It is expected that consolidation between non-related banks – which is rare in Ukraine – will be expedited. Some banks that have a general licence but are not banking institutions (as they use shareholder funds to finance related businesses) may leave the market voluntarily. To date, there have been only two such cases but others may follow.

Low levels of collateral. According to the NBU's Financial Stability Report, the asset quality review of Ukraine's largest 20 banks has revealed that collateral levels are low. Property rights to other assets constitute 35.4% of the total assets accepted as collateral. The quality of such assets is considered significantly inferior to that of real estate (40% of the total assets accepted as collateral) and equipment (10%). In our opinion, local banks have significant capacity and need to seek better-quality collateral against issued loans in order to reduce their net credit exposure and hence reduce the amount of required capital.

The asset quality review has identified that the real share of NPLs (which, according to local classification standards, are those considered doubtful or hopeless) was 36% rather than the 27% reported by the banks themselves. At the same time, the credit quality of the retail loans was confirmed by assets quality review around 55% but significantly over-reported that of the corporate portfolio. This can be explained in part by the related party lending that is widespread among local banks. Such loans are often regarded as low risk owing to joint ownership; and for this reason, the collateralisation rules governing them are far more relaxed.

Privatbank's plans unclear. As we mentioned in our last report,[1] the recapitalisation of Privatbank is a much broader issue owing to the dependence of Privat Group as a whole on the bank. Privatbank is alleged to have large related party exposure, as 85% of its gross loan portfolio have been issued to the companies that operates in those sectors of economy where the group has significant presence. Most of that portfolio cannot be officially recognised as insider exposure owing to the bank's complex ownership structure. We still believe that neither the transformation of the banking sector nor the future stability of the banks is possible without drastically reducing the real – as opposed to the formal – level of related party lending risk.

While Privatbank has begun repaying its debt to the NBU, there is little progress on recapitalising and reducing insider lending

However, the bank has not reduced its loan portfolio, nor has it received an additional capital injection in 2015. Moreover, the annual shareholders' meeting in April failed to approve a share capital increase owing to the lack of a quorum. It should not be ruled out that the authorities will opt to nationalise the bank in response to Privatbank's failure to recapitalise and reduce insider lending.

However, it cannot be said that Privatbank's shareholders have chosen not to cooperate with the authorities. After having made several early repayments of NBU loans earlier this year, Privatbank owes the regulator UAH25bn, which accounts for 71% of all debt owned by the solvent banks. The restructuring of its debts implies monthly repayments of UAH650m, which Privatbank has now been making for four months. If the bank keeps to its agreed schedule, which implies increasing the amount repaid each month it is expected to repay the outstanding amount by August 2017.

High level of liquidity prevails

Most Ukrainian banks have abundant hryvnia liquidity as a result of the 2015 emission required by the Deposit Guarantee Fund (DGF) to pay out insured deposits. According to

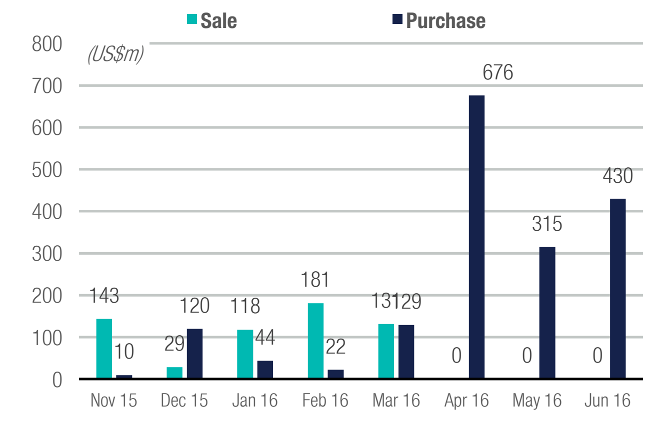
[1] See *ICU Banking Sector Insight: Wheels Slip,* 1 March 2016
https://www.icu.ua/download/1524/ICUDebtInsight-20160301.pdf

our estimates, the fund has disbursed UAH58bn since the beginning of 2015. For its part, the NBU has "sterilised" the surplus liquidity through its CDs (see Chart 3 below). Since the government's December 2015 decision to make social payments in advance, which resulted in a massive liquidity injection, the NBU has tightened its reserves requirements so that banks must now hold more reserves in the form of interest-free correspondent accounts with the regulator. In addition, solvent banks have repaid more than UAH15bn in NBU loans and purchased UAH12bn of UAH-denominated government bonds (net of sales), according to our estimates.

State banks account for the bulk of NBU loan repayments and net investments in government bonds as they have been the primary beneficiaries of the increased liquidity. All of Ukraine's largest state banks act as DGF agents in disbursing insured deposits to customers.

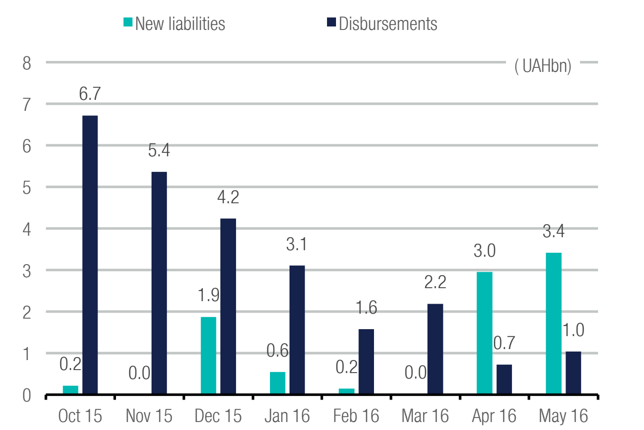
The government has introduced new requirements for banks that can disburse social benefits and provide payroll services to government-owned enterprises and organisations. Those rules would have prevented most banks benefiting from a sizable share of the cash flow to the advantage of the state banks and a handful of other banks. Privatbank is among those thought to have to suffered most from the policy changes as it is believed that such clients account for a significant portion of its customer base. It went to court to try to prevent new rules from coming into effect in May 2016. Now it is expected that the government will reconsider its decision and loosen some of the requirements, which are preventing Privatbank and other large banks (>1% share of total assets) in offering such payroll services.

Chart 1. FX interventions by the NBU



Source: NBU, ICU estimates.

Chart 2. DGF disbursements



Source: DGF, ICU estimates

FX interventions. The NBU has used a period of FX market stabilisation to increase its foreign reserves by purchasing almost US$1.0bn in the open market in April-May and it continues to make such purchases. In total, it has mopped up more than UAH25bn of UAH liquidity in April-May 2016.

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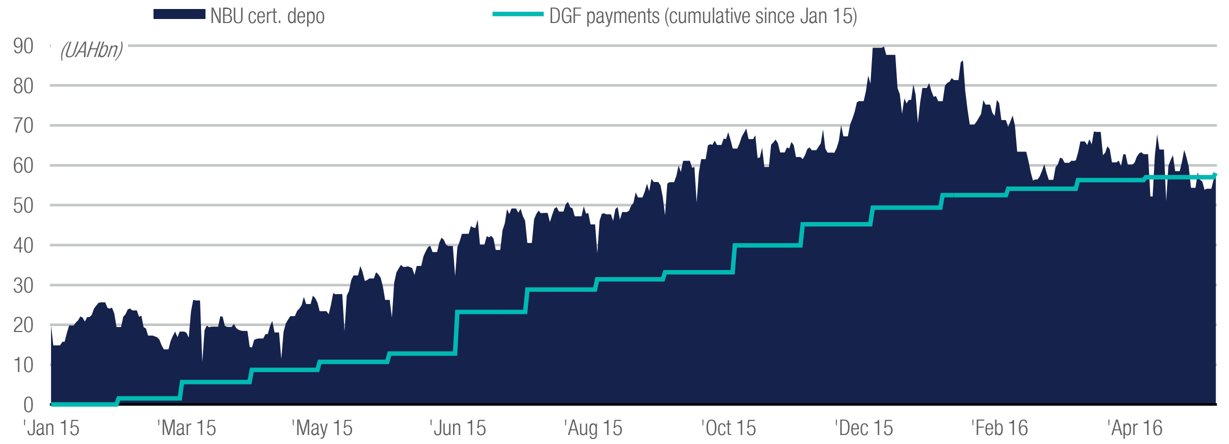
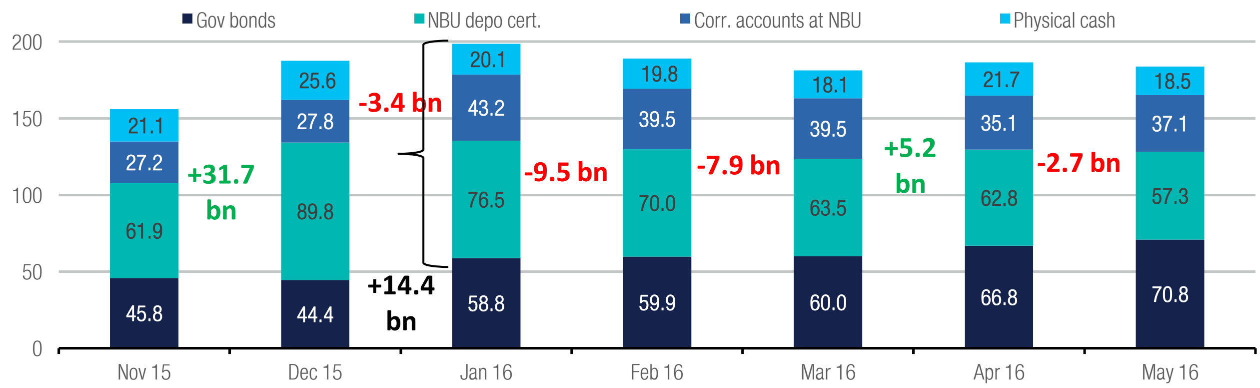
Chart 3. NBU deposit certificates outstanding vs DGF disbursements



Sources: NBU, DGF, ICU estimates

Chart 4. UAH liquidity dynamics



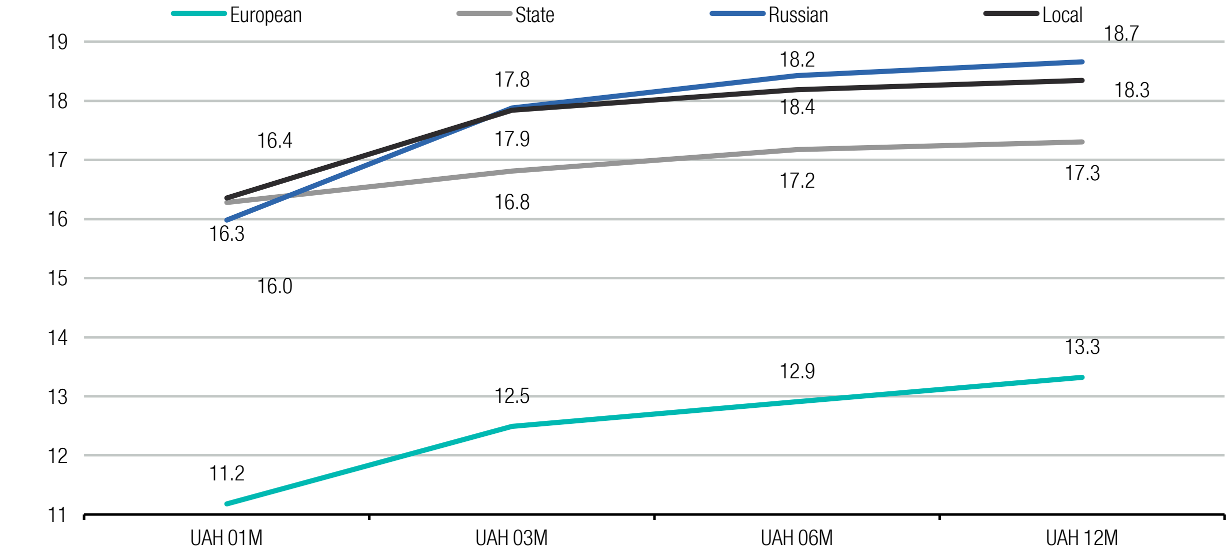
Sources: NBU, ICU

There is a large gap between the interest rates on deposits offered by banks with European capital and those offered by the rest of the banking sector. Since the banking system has shrunk by nearly one-third since 2013, many corporate and retail clients have chosen to play it safe and transfer their deposits to the more stable and much less problematic subsidiaries of the large European banking groups. As a result, the rates on offer have fallen further.

Meanwhile, the share of corporate deposits outstanding remains stable and significant (approximately two-thirds of total customer accounts). This allows for an even lower cost of funding in local currency for Ukrainian banks with European capital.

According to our estimates, investments in government bonds constitute around just 3% of total assets and investments in the NBU's CDs some 12%. That discrepancy can be explained by the extremely risk-averse parent banks, which have set a low maximum cap on such investments, and the very short maturity of CDs (up to two weeks).

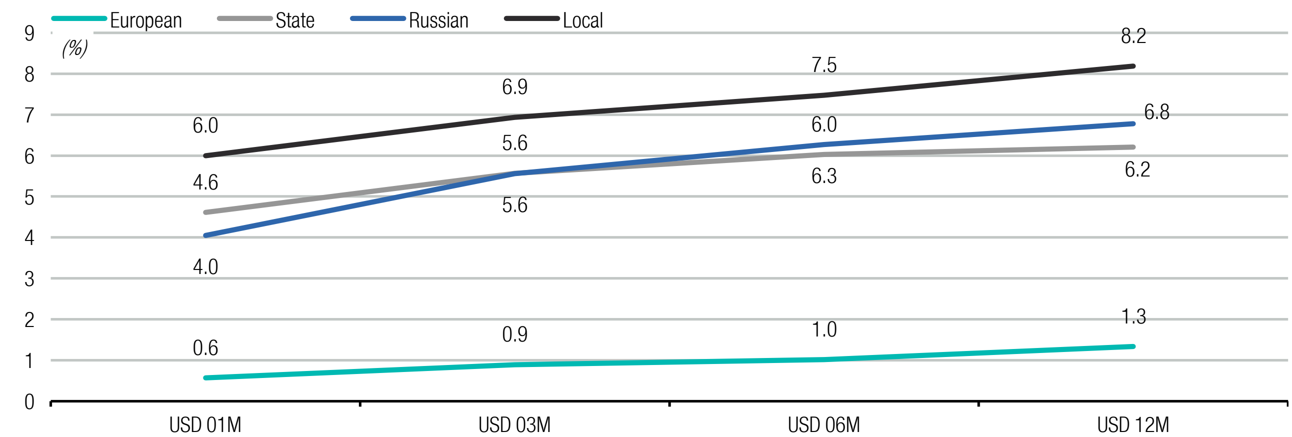
Chart 5. Average interest rates on UAH corporate deposits as of July 2016 by bank group



Sources: bin.ua, ICU estimations

Banks have reduced corporate lending in FX to a minimum, limiting their pool of borrowers to existing clients who have an outstanding record of payment discipline. FX lending to the retail sector has been since 2008-09 crisis. For this reason, commercial banks have few opportunities to invest FX under current circumstances.

Chart 6. Average interest rates on USD corporate deposits as of July 2016 by bank group



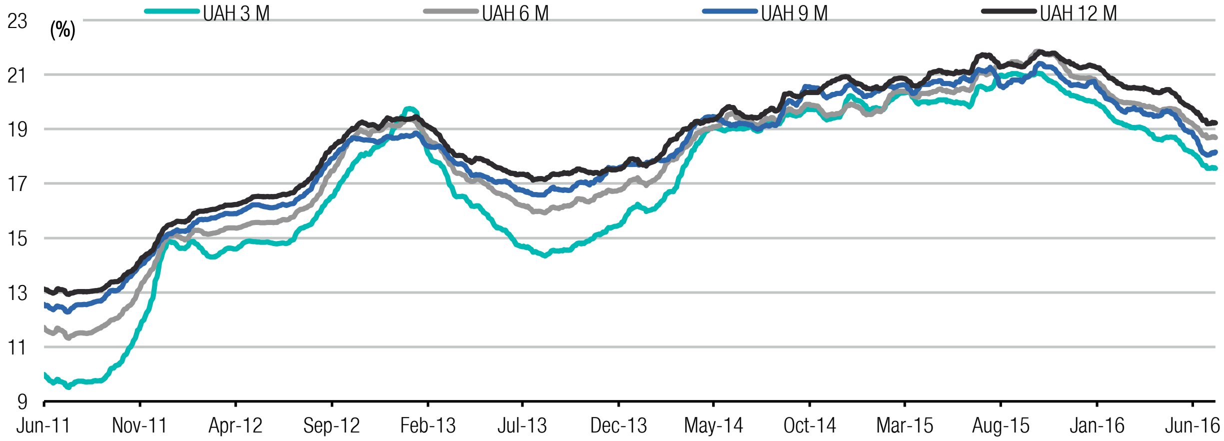
Sources: bin.ua, ICU estimations

Average interest rates on deposits continue to decline. The Ukrainian Index of Retail Deposit Rates (UIRD) has fallen for eight months in a row in June fell for the nineth consecutive month amid the ongoing relative stabilisation of the financial sector. We believe several factors contributed to that decline:

- *Increase in deposits*. UAH-denominated deposits grew by 14.4% YoY even taking into account bankruptcies such as that of the Finance and Credit bank. The outflow of FX deposits has abated to such an extent that the NBU was able to further relax FX regulations in June.
- *Little demand for money owing to lethargic lending*. Despite a tiny lending revival in the agricultural sector (see below), the banks have a lack of borrowers.
- *Clean-up of the banking sector has driven out the riskiest banks, like Nadra and VAB*. Without such banks, which offered the highest rates on the market, UIRD

USD 12M rate has fallen to its lowest level since the index was first introduced in 2011 (see Chart 8 below).

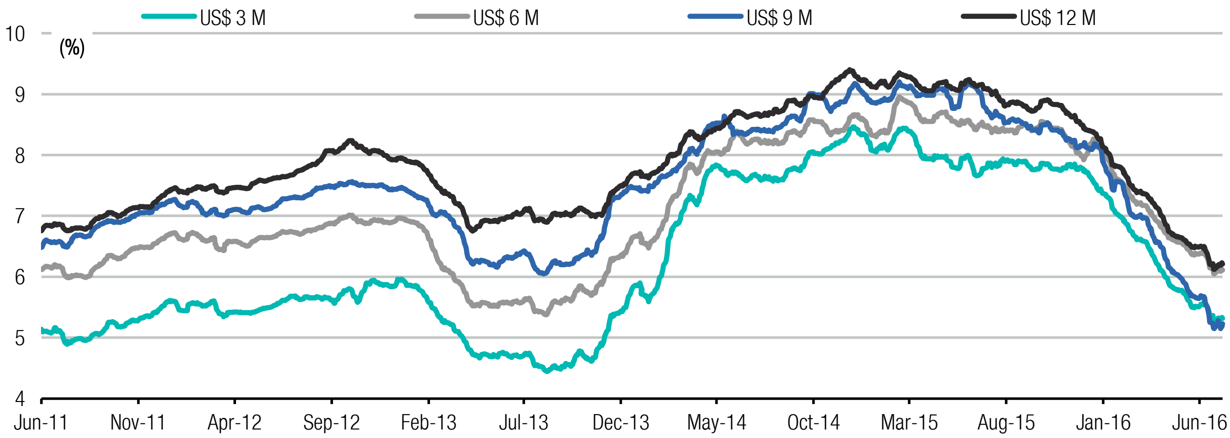
Chart 7. Average interest rates on UAH household deposits (UIRD)



Sources: NBU, ICU

We expect interest rates to continue to decline – by 200-300bps by the end of 2016 – in line with the fall of the NBU key rate to 15%[2].

Chart 8. Average interest rates on USD household deposits (UIRD)



Sources: NBU, ICU

Privatbank's market power. With one-third of total retail deposits, Privatbank has significant influence on the dynamics of interest rates. For its part, it has retained above market-average interest rates, despite having lowered rates on UAH-denominated retail deposits by 450 bps since the beginning of 2016 and by 250 bps on USD-denominated retail deposits.

We believe that Privat's share of retail deposits will continue to increase as rate-oriented clients will have fewer banks offering higher rates to choose from.

[2] For more details, see *ICU Macro Quarterly: A quiet recovery,* 24 May 2016 https://www.icu.ua/download/1621/ICUQtlyReport-20160524.pdf

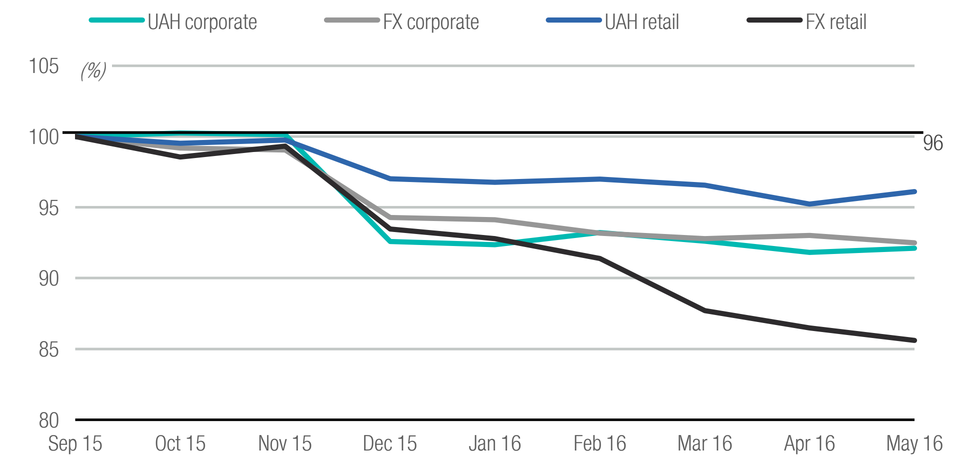
Tiny lending revival

While state banks show little appetite for credit expansion …

The amount of outstanding gross loans has been constantly declining since the beginning of the recent crisis, despite excessive hryvnia liquidity. Insolvent banks being driven out of the market is only one explanation for the falling figures. An important factor is that banks continue to experience a shortage of high-quality borrowers because most sectors are already weighed down by a very heavy debt burden. Metallurgy and the machine-building sectors are among those with the highest debt to operational income ratio – their performance having been hit by fluctuating commodities prices and the continued military conflict in eastern Ukraine. By contrast, the agricultural sector has one of the highest such ratios.

We compare current data with September 2015, which can be seen as a turning point towards relative stabilisation following the heavy turbulence of early 2015. Adjustment has been made to take into account the FX revaluation effect.

Chart 9. Gross loans dynamics (September 2015=100%)



Source: NBU, ICU estimations

… momentum among Western banks has begun to pick up

UAH-denominated corporate loans have declined by 8% since September 2015. The main reasons for this decline are insolvent banks, which are no longer included in the statistics, and Russian banks with state capital, which have reduced their balances. Ukrainian state banks show little appetite to expand lending, despite numerous politicians urging them to do so in order to stimulate the economy.

Banks with European and US capital have increased the amount of UAH-denominated gross business loans. For example, the UAH portfolio of Citibank has increased by 48% or UAH1.5bn since September 2015. Aval's portfolio grew by 14% or UAH2.1bn over the same period, Ukrsibbank's by 18% or UAH1.8bn and Procreditbank's by 31% and UAH1.0bn. The low cost of funding in hryvnia, which we highlighted earlier, give those banks the advantage of being able to offer higher rates to higher-quality borrowers.

FX-denominated corporate loans have similarly declined by 8%, adjusted for the revaluation effect. The sale of such loans played a significant role in the US$1.5bn decline in the FX gross portfolio. Prominvestbank, Sberbank and Ukrgazbank have all sold some of their FX loans (including non-performing ones). Once again, Western banks were among the handful of financial institutions in Ukraine that have managed to slightly grow their portfolios.

UAH-denominated retail loans have registered the smallest decline to date, falling just 4% since 3Q15. Almost one-third of all such loans are concentrated in Privatbank where they mainly take the form of credit card outstanding debt. Its outstanding volume of loans has remained virtually unchanged, as a result of which the UAH-denominated loan dynamic has been kept stable. Fidobank and Michael Bank, both of which have been declared insolvent, grew the most aggressively – namely, 188% or UAH1.0bn and 56% or UAH2.0bn growth, respectively, since September 2015. However, Fidobank has achieved such an increase by converting FX mortgage loans into hryvnia.

While the parliament still stumbles over the law on FX mortgage conversion, some banks – including those with Western capital – are offering their customers ways to switch FX loans to UAH-denominated ones.

FX-denominated retail loans are stagnating owing to legal restrictions on the origination of new loans. The total FX debt of households to solvent banks is just over US$3.5bn, of which mortgages account for US$2bn. The total amount of FX mortgages has declined from the equivalent of US$7.8bn because insolvent banks are no longer included in the statistics.

If the law on compulsory restructuring is passed by the parliament, it will have only a limited negative impact on the banking system and its financials owing to the large amount of reserves already formed for these loans (of which NPLs account for around 80%) and the eligibility criteria.

Bank pages

This part of the report provides credit analysis of selected banks. We provide a snapshot summary of our view on each bank and a historical perspective of its key financial data and ratios as of 1Q16.

Country
Ukraine

Privatbank

Sector
Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch
Ca/ B- / CCC

Ticker(s) in Bloomberg
PRBANK

Privatbank is gradually lowering the level of risk it poses for Ukraine's banking sector as a whole by securing additional capital and curbing related-party lending. However, the sheer scale of the changes required raises questions about the bank's ability to tackle the risk issue.

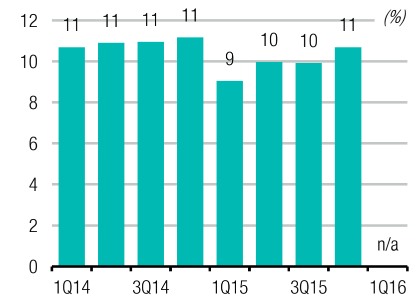
Solvency is slowly improving. Privatbank reports its capitalisation as exceeding the required minimum level of 10%, which is considerably higher than one of other large banks. However, it will have to both boost its capital and cut down on its related-party lending in order to lower the risk it poses for the Ukrainian banking system as a whole. Privatbank has announced that US$80m of subordinated debt (Tier 1 capital) will be converted into Tier 1 common stock in 2016.

At the same time, the Privatbank has agreed a risk-reduction programme with the NBU that provides for repossession of collateral issued against bank's loans to related parties. According to the bank's IFRS consolidated report, its total loan exposure of UAH31.8bn will in effect be written off and the bank will take possession of the collateral, thereby reducing its exposure to related-party loans. The bank will recognize on its balance sheet non-banking assets such as ski resorts, tank farms (oil depots), tyre plants and real estate whose combined value is the same as that of its total loan exposure. It will rent those assets to their previous owners and/or those currently operating them in exchange for lease payments. According to the bank's auditors, this approach may result in the bank's formal list of related parties expanding. If that proves to be the case, we believe it will better reflect just who the real related entities are.

Privatbank's exposure to other borrowers – notably in the oil-trading, ferroalloy, manufacturing and chemical industries – has not yet been addressed. We believe, however, that it consists largely of related-party loans.

NBU loan restructuring. According to our estimates, Privatbank's debt to the NBU accounts for 71% -- or UAH25bn –of all such debt owed by Ukraine's solvent banks. Privatbank is obliged to repay the regulator UAH650m a month from March 2016 onwards – a schedule to which the bank is adhering. Through an incremental increase in those monthly payments, the bank expects to pay its entire debt to the NBU by August 2017. In order to do so, it will have to increase its UAH-denominated deposits (both retail and corporate) by approximately 30%. Over the last 12 months, its UAH-denominated deposits grew by 24% YoY.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2014 IFRS	2015 IFRS	1Q15 UAS	1Q16 UAS
Financials (UAHm)				
Assets		263 248 041 276 551		
	212,813	784		
Loans		189 186 706 186 335		
	159,173	147		
Deposits		177 172 240 188 145		
	140,680	974		
Equity	24,497	27 488	23 094	27 864
Net % income	7,261	2 278	7 814	4 543
Net com inc.	3,347	5 351	3 009	4 975
Operating inc.	13,987	14 042	11 910	16 421
PPI	4,585	5 866	3 692	8 172
LLP	-4,631	-5 611	-2 948	-7 701
Net income	48	216	462	421
Ratios (%)				
Tier 1 ratio	11.6	7.7	N/a	N/a
CAR	13.6	11.0	9.1	N/a
Equity-to-assets	11.5	10.4	9.3	10.1
Net loan-to-depo.	113	106	108.4	99.0
Cash-to-liabilit.	7.7	14.4	11.1	13.5
ROAA	-	0.1	0.2	0.2
ROAE	0.2	0.8	2.1	1.6
Net % margin	4.5	1.2	4.5	2.2
NII-to-op inc.	51.9	16.2	65.6	27.7
Cost-to-income	67.2	58.2	69.0	50.2
LLR	11.9	12.9	11.4	13.6
NPLs	5.5	12.3	10.9	10.4
NPL coverage	216.4	104.4	84.0	90.7

Notes: P&L figures and ratios are on a 12-month annualised basis; CAR – capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); PPI – pre-provision income LLP – loan loss provision; ROAA and

Deposits flowing back. Owing to the failure of nearly one-third of the Ukrainian banking system, Privatbank has managed to attract new clients previously. Both retail and corporate UAH deposits are around record high levels as of 1Q16. Privatbank is one of the very few large banks with FX retail deposits growing. With the equivalent of US$3.1bn outstanding in 1Q16 bank has returned to the 1Q15 level and continue to attract new deposits. Corporate FX deposit demonstrate steady decline, losing 38% of its USD equivalent since 4Q13.

Privatbank offers interest rates that are generally above the market average and certainly much higher than a bank with its market share should be offering.[3] Thus it has attracted depositors who have a greater risk appetite – since many banks that have offered similarly high rates have been driven out of the market. Unlike some of its main competitors, Privatbank is unable to lure new customers as a DGF agent since it has, in effect, not served in that capacity since 3Q15. However, the bank successfully lobbied against the government's plans to limit the number of those institutions eligible to provide payroll services to state-controlled entities and handle payments to social welfare recipients. Currently, the bank continues to operate in that segment and the new, amended eligibility criteria are unlikely to affect it.

Lower quality lending highlights needs for more reserves. Privatbank has a significantly lower NPL ratio than that of its peers. Only 10.4% of its total credit exposure was classified as doubtful or hopeless (which is the local classification standard for NPLs) as of 1Q16. We believe that what appears to be a large share of insider lending in the overall loan portfolio does not permit an accurate assessment of the loan portfolio quality. In our opinion, the payment discipline of those granted such loans is correlated to the shareholder's ability to exercise control over the bank. There has been a significant increase in what the NBU defines as third-quality credit exposure (see Chart 13 below), which has reached 47.2%: under the NBU definition, this means borrowers whose financial situation is deteriorating but whose payments are not yet 90+ days in arrears . We believe this a clear indication of the need to recognise additional provisioning and, to this end, persuade shareholders to make a capital injection.

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[3] See *ICU Banking Sector Insight: Overcoming the challenges*, 25 August 2015.

Privatbank: Key quarterly UAS financials and ratios

Table 1. Key financials and ratios derived from the bank's UAS financials

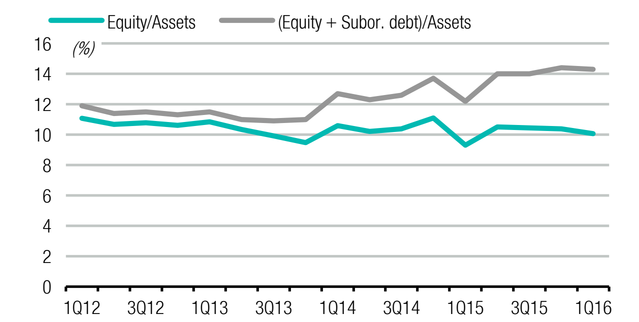
	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Balance sheet figures (UAHm)									
Assets	196,129	204,200	201,900	204 585	248 041	240 009	241 809	264 886	276 551
Cash and cash equivalents	17,676	21,963	17,114	27 076	24 925	25 635	24 979	36 260	33 449
Gross loans	172,408	168,653	172,896	184 749	210 743	202 622	204 466	205 726	215 628
Gross business loans	139,946	137,581	140,763	151 022	174 455	167 643	169 376	172 312	180 821
Gross household loans	32,462	31,072	32,132	33 726	36 288	34 979	35 090	33 414	34 807
Loan loss reserves (LLR)	-23,679	-21,765	-22,473	-23 410	-24 037	-23 058	-23 104	-27 916	-29 293
Deposits	138,578	131,852	131,715	141 338	172 240	159 642	161 657	178 121	188 145
Business deposits	29,745	27,946	29,899	33 628	51 011	40 432	40 110	39 442	40 457
Household deposits	108,833	103,906	101,817	107 710	121 230	119 210	121 547	138 679	147 688
Total equity	20,791	20,855	20,948	22 696	23 094	25 223	25 277	27 487	27 864
Quarterly P&L (UAHm)									
Net interest income	2,969	2,359	2,363	2 657	435	1 813	1 063	899	768
Net commission income	667	655	699	849	806	929	1 086	1 506	1 454
Operating income (before LLP)	2,572	3,694	3,667	1 972	2 576	2 328	1 853	9 727	2 513
Operating expenses	-1,883	-1,932	-2,013	-2 334	-1 939	-1 952	-1 917	-2 374	-2 007
Loan loss provisions (LLP)	-334	-1,494	-1,695	847	-606	-282	98	-7 257	-260
Net income	294	93	40	322	6	55	29	126	211
Last 12-month period P&L (UAHm)									
Net interest income	9,520	9,506	9,885	10 348	7 814	7 268	5 968	4 210	4 543
Net commission income	2,560	2,876	2,853	2 870	3 009	3 283	3 670	4 326	4 975
Operating income (before LLP)	11,579	12,561	13,297	11 905	11 910	10 543	8 729	16 484	16 421
Operating expenses	-7,222	-7,532	-7,772	-8 161	-8 217	-8 237	-8 141	-8 181	-8 249
Loan loss provisions (LLP)	-2,537	-3,769	-4,779	-2 676	-2 948	-1 736	57	-8 047	-7 701
Net income	1,543	878	568	749	462	423	412	216	421
Growth rates (%YoY)									
Assets	12.1	7.0	-0.3	-4.6	26.5	17.5	19.8	29.5	11.5
Gross loans	18.0	12.0	12.1	11.1	22.2	20.1	18.3	11.4	2.3
Deposits (by businesses)	40.5	10.1	30.0	25.3	71.5	44.7	34.2	17.3	-20.7
Deposits (by households)	24.6	9.0	0.8	0.9	11.4	14.7	19.4	28.8	21.8
Deposits (total)	27.7	9.2	6.2	5.8	24.3	21.1	22.7	26.0	9.2
Total equity	9.7	5.7	4.2	11.7	11.1	20.9	20.7	21.1	20.7
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	10.7	10.9	11.0	11.2	9.1	10.0	9.9	10.7	0.0
Equity/assets	10.6	10.2	10.4	11.1	9.3	10.5	10.5	10.4	10.1
(Equity + sub-debt)/assets	12.7	12.3	12.6	13.7	12.2	14.0	14.0	14.4	14.3
Cash & cash equivalents/liabilities	10.1	12.0	9.5	14.9	11.1	11.9	11.5	15.3	13.5
Current liquidity (R5 by NBU)	84.6	91.9	89.5	83.9	74.3	63.2	68.6	0.0	0.0
Gross loans/deposits	124.4	127.9	131.3	130.7	122.4	126.9	126.5	115.5	114.6
Net loans/deposits	107.3	111.4	114.2	114.2	108.4	112.5	112.2	99.8	99.0
Cost-to-income ratio	62.4	60.0	58.5	68.6	69.0	78.1	93.3	49.6	50.2
Net interest margin	6.6	6.2	6.1	6.2	4.5	4.0	3.2	2.1	2.2
ROAA	0.8	0.4	0.3	0.4	0.2	0.2	0.2	0.1	0.2
ROAE	7.6	4.3	2.7	3.5	2.1	1.8	1.7	0.9	1.6
NII/operating income	82.2	75.7	74.3	86.9	65.6	68.9	68.4	25.5	27.7
Core income/operating expenses	167.3	164.4	163.9	162.0	131.7	128.1	118.4	104.3	115.4

Notes: P&L ratios are on a 12-month annualised basis; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income; core income includes net interest income and commission income; LLP – loan loss provision; LLR – loan loss reserves.

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

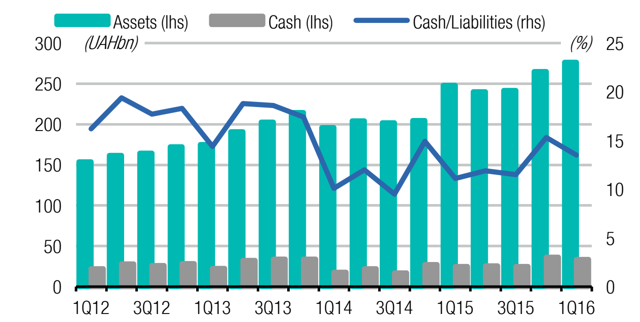
Privatbank: Key credit metrics

Chart 10. Capitalisation



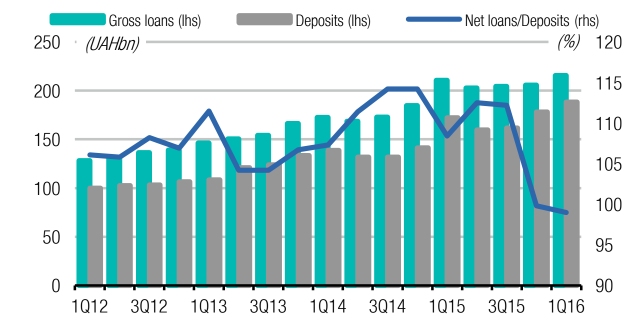
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 11. Liquidity



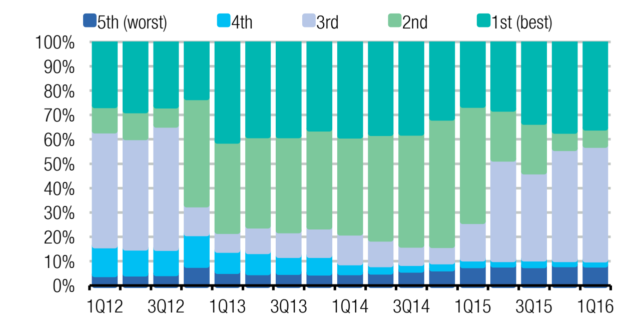
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 12. Loans and deposits



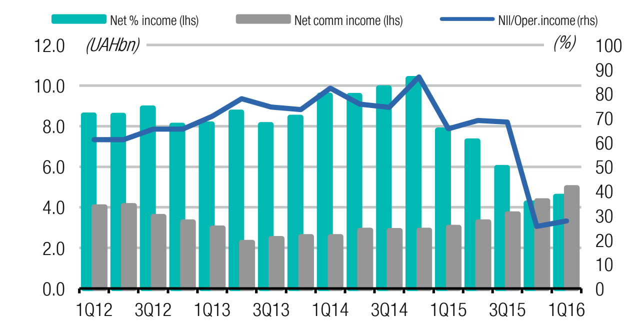
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 13. Total credit exposure quality



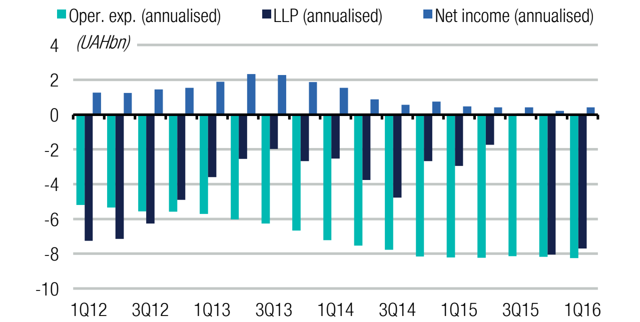
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 14. Income structure (annualised basis)



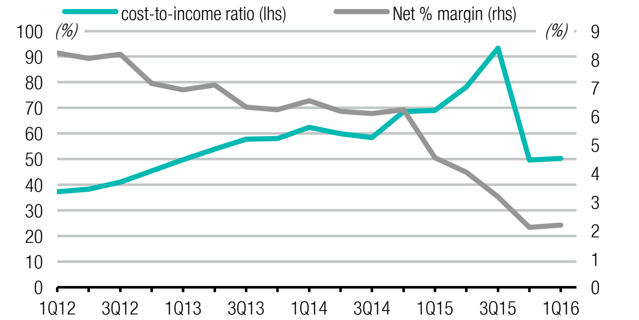
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 15. Expense and net income (annualised basis)



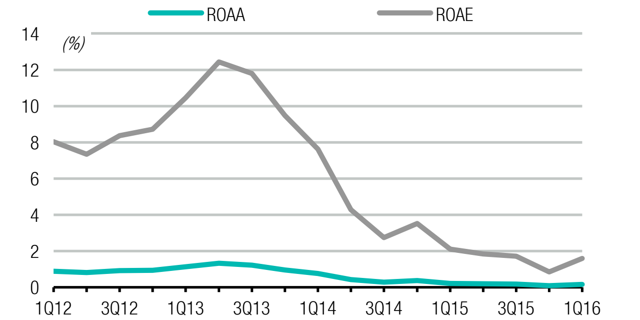
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 16. Financial performance ratios



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 17. Financial performance ratios



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Country
Ukraine

Ukreximbank

Sector
Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch
Ca/ NR/CCC

Ticker(s) in Bloomberg
EXIMUK

Ukreximbank is currently undergoing a lengthy restructuring that is likely to result in its part-privatisation. To date it has concentrated on the collection of NPLs, which seem to have stopped growing.

Capitalisation restored. Ukreximbank has received a UAH9.3bn capital injection, which has restored its level of capitalisation to the near 10% regulatory capital adequacy ratio (CAR. We believe that the bank will not require another capital injection this year but that one may be necessary in 2017.

Ukreximbank has gained a number of retail and corporate clients since the beginning of 2015. This has allowed it to reduce its debt to the NBU from UAH5.3bn in 2Q15 to UAH1.3bn in 2Q16.

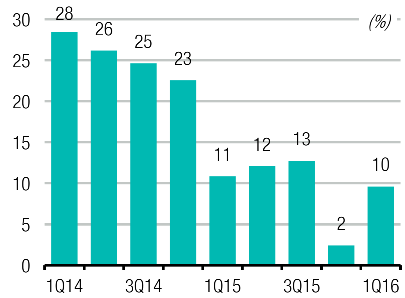
Lending weak. To date, the bank has focused on the recovery of existing loans and made little effort towards credit expansion. Gross loans increased 6.5% QoQ in 1Q16 owing to the FX revaluation effect, However, there was a 1.8% QoQ increase in UAH-denominated net loans during the same period. Given such low loan expansion figures, Ukreximbank is far from helping to stimulate economic growth through lending – a role that many politicians are advocating it should play.

NPLs remained unchanged at 29.4% in 1Q16. Ukreximbank derecognised in 4Q15 previously accrued interest income from those NPLs amid changes to the Ukrainian banking sector's accounting practices. Almost 40% of all the bank's interest income comes from securities, according to our estimates.

Investing in securities. Above all, Ukreximbank has been buying government bonds and NBU CDs, which, combined, constitute more than 40% of the bank's net total assets and have already surpassed loans in terms of exposure. The bank has been active in the FX government bonds market, while we have observed no changes in its UAH bonds portfolio.

Ukreximbank's retail strategy is unclear. The authorities want to transform it into a bank that concentrates solely on servicing import and export operations as well as the government's international deals. Currently, its operations are more or less universal in nature and its retail segment is growing somewhat as it serves as a DGF agent. In order to opt out of the retail segment, the bank would have to find alternative funding for household deposits totalling UAH25.8bn (16.9% of its total liabilities as of 1Q16)

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2014 IFRS	2015 IFRS	1Q15 UAS	1Q16 UAS
Financials (UAHm)				
Assets	123 531	141 285	158 121	157 251
Loans	49 974	55 039	65 176	56 858
Deposits	61 995	79 323	77 136	81 690
Equity	11 576	-3 127	9 192	4 641
Net % income	2 675	2 385	5 172	1 709
Net com inc.	430	709	697	976
Operating inc.	2 544	-1 771	13 407	-10 124
PPI	-1 014	-3 746	11 536	-11 667
LLP	-11 430	-10 386	-26 901	712
Net income	-11 247	-14 131	-14 403	-10 956
Ratios (%)				
Tier 1 ratio	12.2	-4.2	N/a	N/a
CAR	17.8	-4.2	10.9	9.6
Equity-to-assets	9.4	-2.2	5.8	3.0
Net loan-to-depo.	80.6	69.4	84.5	69.6
Cash-to-liabilit.	80.6	69.4	12.9	4.1
ROAA	15.1	12.5	-10.9	-7.5
ROAE	-9.1	-10.7	-105.0	-219.9
Net % margin	-97.2	-334.5	4.7	1.3
NII-to-op inc.	2.3	1.9	38.6	-16.9
Cost-to-income	105.1	-134.7	14.0	-15.3
LLR	31.2	42.7	35.8	44.4
NPLs	N/a	N/a	29.7	39.2
NPL coverage	N/a	N/a	94.9	83.4

Notes: P&L figures and ratios are on a 12-month annualised basis; CAR – capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); PPI – pre-provision income LLP – loan loss provision; ROAA and ROAE – return on average assets and equity, respectively; NII – net interest income; LLR – loan loss reserves; NPL – non-performing loans (>90 days overdue). Sources: Bank data, ICU.

Ukreximbank: Key quarterly UAS financials and ratios

Table 2. Key financials and ratios derived from the bank's UAS financials

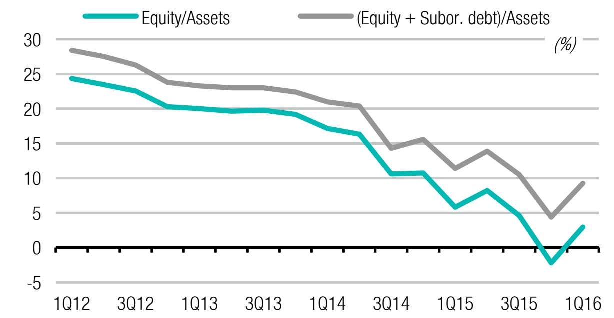
	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Balance sheet figures (UAHm)									
Assets	105,739	111,134	131,527	126,000	158,121	144,551	140 192	141 285	157 251
Cash and cash equivalents	9,070	9,530	14,447	15,117	19,238	15,173	15 616	3 294	6 191
Gross loans	61,410	64,092	67,893	76,602	101,518	94,190	95 939	96 000	102 204
Gross business loans	60,464	63,106	66,844	75,413	99,901	92,703	94 419	94 697	100 823
Gross household loans	946	986	1,048	1,189	1,617	1,487	1 520	1 303	1 381
Loan loss reserves (LLR)	-11,753	-11,662	-16,804	-24,508	-36,342	-34,938	-38 292	-40 961	-45 347
Deposits	47,083	51,563	74,025	60,126	77,136	69,944	71 120	77 679	81 690
Business deposits	28,772	32,182	54,179	38,256	51,272	47,299	48 968	53 303	55 923
Household deposits	18,311	19,381	19,846	21,870	25,864	22,645	22 153	24 376	25 767
Total equity	18,159	18,156	13,971	13,536	9,192	11,901	6 512	-3 127	4 641
Quarterly P&L (UAHm)									
Net interest income	969	1,067	1,086	1,507	1,512	1,668	1 642	-2 439	837
Net commission income	117	128	151	192	225	231	244	266	236
Operating income (before LLP)	3,041	1,502	1,963	1,751	8,190	-293	-652	-9 432	253
Operating expenses	-303	-445	-423	-638	-364	-366	-368	-451	-359
Loan loss provisions (LLP)	-2,656	-997	-5,621	-7,923	-12,361	1,345	-3 461	4 080	-1 252
Net income	64	46	-4,061	-5,855	-4,534	686	-4 481	-5 803	-1 357
Last 12-month period P&L (UAHm)									
Net interest income	3,944	4,007	4,117	4,629	5,172	5,774	6 330	2 385	1 709
Net commission income	521	520	535	589	697	800	892	966	976
Operating income (before LLP)	6,342	6,665	7,633	8,258	13,407	11,612	8 997	-2 187	-10 124
Operating expenses	-1,306	-1,417	-1,525	-1,810	-1,870	-1,791	-1 736	-1 549	-1 544
Loan loss provisions (LLP)	-4,707	-4,928	-9,944	-17,197	-26,901	-24,559	-22 400	-10 397	712
Net income	222	221	-3,892	-9,806	-14,403	-13,763	-14 184	-14 132	-10 956
Growth rates (%YoY)									
Assets	17.9	21.3	44.4	33.5	49.5	30.1	6.6	12.1	-0.6
Gross loans	30.7	31.8	39.3	49.3	65.3	47.0	41.3	25.3	0.7
Deposits (by businesses)	2.6	17.1	104.8	48.8	78.2	47.0	-9.6	39.3	9.1
Deposits (by households)	14.4	19.7	19.2	26.7	41.3	16.8	11.6	11.5	-0.4
Deposits (total)	6.9	18.1	71.7	39.9	63.8	35.6	-3.9	29.2	5.9
Total equity	1.3	1.0	-22.4	-25.1	-49.4	-34.4	-53.4	-123.1	-49.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	28.5	26.2	24.6	22.6	10.9	12.1	12.7	2.4	9.6
Equity/assets	17.2	16.3	10.6	10.7	5.8	8.2	4.6	-2.2	3.0
(Equity + sub-debt)/assets	21.0	20.4	14.3	15.6	11.4	13.9	10.5	4.4	9.3
Cash & cash equivalents/liabilities	10.4	10.2	12.3	13.4	12.9	11.4	11.7	2.3	4.1
Current liquidity (R5 by NBU)	115.9	114.9	103.3	134.7	106.9	101.6	125.6	0.0	0.0
Gross loans/deposits	130.4	124.3	91.7	127.4	131.6	134.7	134.9	123.6	125.1
Net loans/deposits	105.5	101.7	69.0	86.6	84.5	84.7	81.1	70.9	69.6
Cost-to-income ratio	20.6	21.3	20.0	21.9	14.0	15.4	19.3	-70.8	-15.3
Net interest margin	4.9	4.7	4.4	4.7	4.7	5.0	5.3	1.9	1.3
ROAA	0.2	0.2	-3.5	-8.3	-10.9	-9.8	-10.0	-9.7	-7.5
ROAE	1.2	1.2	-22.8	-61.5	-105.0	-113.3	-137.9	-230.9	-219.9
NII/operating income	62.2	60.1	53.9	56.1	38.6	49.7	70.4	-109.0	-16.9
Core income/operating expenses	341.8	319.5	305.0	288.2	313.8	367.0	416.0	216.3	173.9

Notes: P&L ratios are on a 12-month annualised basis; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income; core income includes net interest income and commission income; LLP – loan loss provision; LLR – loan loss reserves.

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

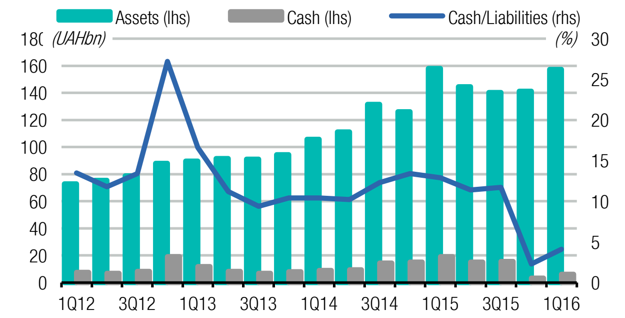
Ukreximbank: Key credit metrics

Chart 18. Capitalisation



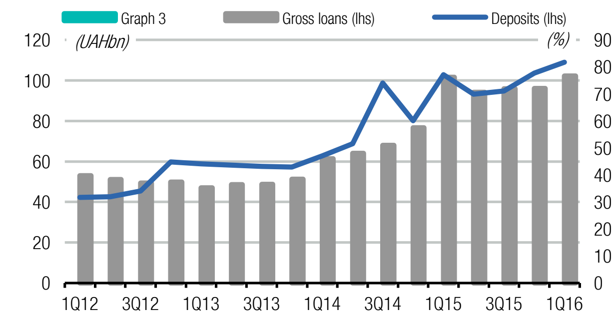
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 19. Liquidity



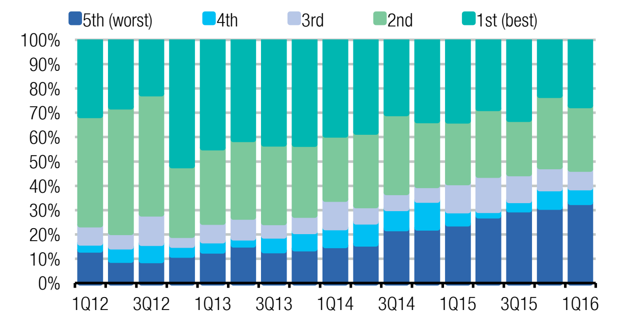
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 20. Loans and deposits



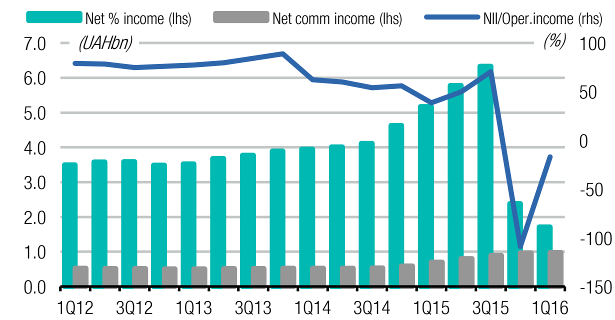
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 21. Total credit exposure quality



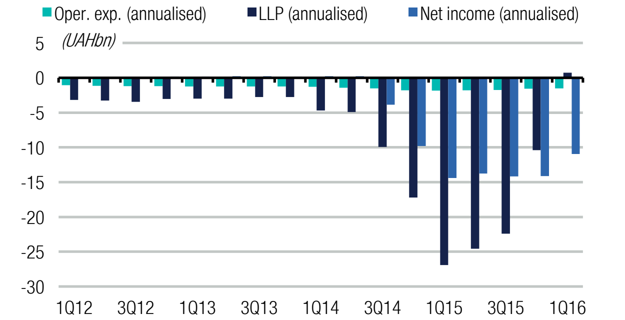
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 22. Income structure (annualised basis)



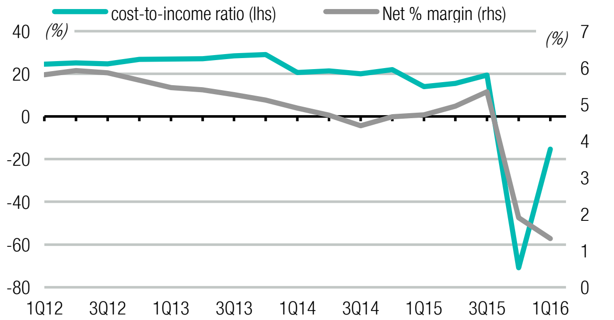
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 23. Expense and net income (annualised basis)



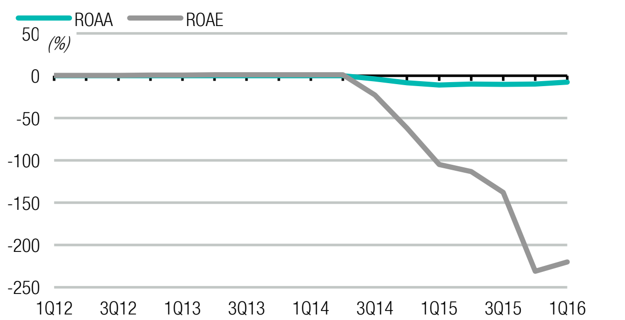
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 24. Financial performance ratios



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 25. Financial performance ratios



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Country
Ukraine

Oschadbank

Sector
Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch
Ca/ NR/CCC

Ticker(s) in Bloomberg
OSCHAD

Oschadbank's high level of liquidity and sufficient capitalisation means that its financial situation is sound, despite the very high share of NPLs in its overall loan portfolio. In 1Q16 the bank reported its first post-crisis profit, which came in at UAH112m.

Capitalisation increase. Oschadbank received a capital injection of UAH5.0bn in the form of FX-indexed government bonds in 1Q16. As a result, the bank's level of capitalisation is now above the required minimum. We believe it will not need another capital injection in 2016.

Massive inflow of deposits. Oschadbank is the only large bank that has managed to increase its deposit portfolio in comparison with 4Q13 in both the corporate and retail sectors. Above all, it has benefited from the banking sector cleaning as customers, including state-controlled entities, have opted for the more financially sound state-owned banks. This is most evident from the FX retail deposits at Oschadbank returning to their pre-crisis level, net of the FX revaluation effect.

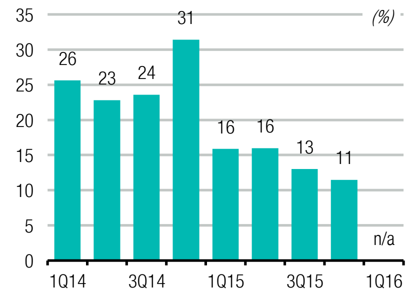
The high level of liquidity has allowed the bank to repay most of its debt to the regulator. According to our estimates, Oschadbank has reduced that debt from UAh19.6bn in 4Q14 – its highest level – to just UAH3.5bn. Interest rates offered on deposit (14-17.5%) have fallen below the cost of NBU financing (18%), which has served as a catalyst for the bank to rid itself of its debt to the regulator.

Oschadbank has been using its UAH and USD liquidity to grow its government bond portfolio in 2016. At the same time, it has been reducing its investments in NBU CDs.

Small increase in lending. NPLs reached 47.5% of the bank's total credit exposure in 1Q16, which is 5.6ppt higher than in 4Q15. Oschadbank has not been lending very actively, as a result of which there has been an increase in the share of bad debts as good loans have been repaid in part. The bank increased its net UAH retail loan exposure by 26.1% YoY in 2015 and by 0.6% QoQ in 1Q16. While Oschadbank is actively granting loans to boost the efficient energy use of households, such loans constitute only some 1% of its total gross loan portfolio.

First post crisis profit. Oschadbank reported UAH112m of net income in 1Q16. In our view, income from the release of provisioning is attributable to accounting changes as the loan-loss reserves to gross loan ratio increased from 40.0% in 4Q15 to 40.3% in 1Q16.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2014 IFRS	2015 IFRS	1Q15 UAS	1Q16 UAS
Financials (UAHm)				
Assets	124,542	159 133	150 818	180 982
Loans	70,236	65 462	79 764	69 009
Deposits	56,266	94 270	67 558	111 600
Equity	19,214	7 340	22 013	13 303
Net % income	5,310	5 891	6 573	5 851
Net com income	1,260	1 634	1 293	1 765
Operating inc.	3,778	7 708	11 239	2 796
PPI	-452	3 462	7 312	-1 586
LLP	-9,662	-15 735	-16 012	-10 662
Net income	-10,016	-12 273	-8 633	-12 248
Ratios (%)				
Tier 1 ratio	17.9	4.5	N/a	N/a
CAR	18.5	6.3	15.9	n/a
Equity-to-assets	15.4	4.6	14.6	7.4
Net loan-to-depos.	125	69.4	118.1	61.8
Cash-to-liabil.	10.0	15.0	13.3	21.9
ROAA	-8.8	-8.7	-6.8	-7.6
ROAE	-52.2	-92.4	-40.5	-86.4
Net % margin	5.0	4.4	5.9	4.6
NII-to-op inc.	140.6	76.4	58.5	209.3
Cost-to-income	112.0	55.1	34.9	156.7
LLR	25.5	40.1	28.6	40.3
NPLs	17.9	45.0	21.8	47.5
NPL coverage	142.4	89.1	114.2	76.2

Notes: P&L figures and ratios are on a 12-month annualised basis; CAR – capital adequacy ratio -Basel IFRS accounts and NBU R2 UAS accounts); PPI – pre-provision income LLP – loan loss provision; ROAA and ROAE – return on average assets and equity, respectively; NII – net interest income; LLR – loan loss reserves; NPL – non-performing loans ->90 days overdue). Sources: Bank data, ICU.

Oschadbank: Key quarterly UAS financials and ratios

Table 3. Key financials and ratios derived from the bank's UAS financials

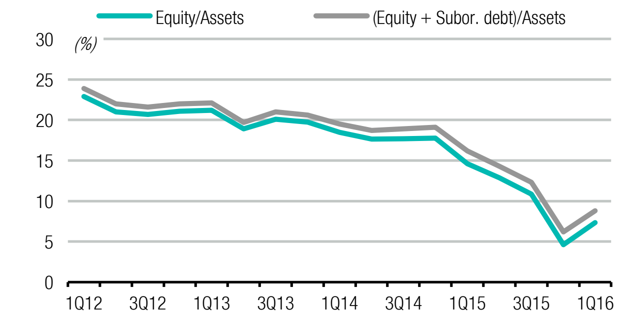
	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Balance sheet figures (UAHm)									
Assets	110,757	115,648	113,682	128,104	150,818	148,148	156 596	159 389	180 982
Cash and cash equivalents	7,113	6,565	8,402	13,698	17,136	26,432	30 409	22 708	36 732
Gross loans	71,812	77,648	79,826	95,105	111,707	102,624	104 863	109 442	115 574
Gross business loans	67,045	72,970	75,030	90,140	106,279	97,281	99 050	103 478	109 550
Gross household loans	4,766	4,677	4,796	4,965	5,428	5,344	5 813	5 963	6 025
Loan loss reserves (LLR)	-13,545	-14,239	-15,026	-25,833	-31,944	-32,192	-35 705	-43 755	-46 566
Deposits	42,292	43,520	46,621	55,368	67,558	69,533	83 935	93 438	111 600
Business deposits	8,891	10,129	12,660	18,778	26,885	28,394	41 320	39 490	57 168
Household deposits	33,401	33,392	33,960	36,590	40,673	41,139	42 614	53 948	54 432
Total equity	20,450	20,398	20,115	22,749	22,013	19,075	16 969	7 340	13 303
Quarterly P&L (UAHm)									
Net interest income	1,564	1,463	1,644	1,624	1,843	1,921	2 051	76	1 803
Net commission income	314	297	297	352	347	370	409	509	478
Operating income (before LLP)	1,995	1,950	1,632	1,980	5,678	241	1 497	932	126
Operating expenses	-912	-998	-931	-1,022	-977	-996	-1 042	-1 231	-1 113
Loan loss provisions (LLP)	-892	-580	-574	-10,243	-4,615	-2,145	-3 042	-6 573	1 098
Net income	156	184	211	-9,115	87	-2,901	-2 587	-6 872	112
Last 12-month period P&L (UAHm)									
Net interest income	5,744	5,862	6,105	6,294	6,573	7,031	7 439	5 891	5 851
Net commission income	1,264	1,288	1,292	1,260	1,293	1,366	1 478	1 634	1 765
Operating income (before LLP)	7,330	7,858	7,456	7,556	11,239	9,531	9 396	8 348	2 796
Operating expenses	-3,588	-3,787	-3,857	-3,863	-3,927	-3,925	-4 036	-4 246	-4 382
Loan loss provisions (LLP)	-2,782	-3,047	-2,604	-12,290	-16,012	-17,578	-20 045	-16 375	-10 662
Net income	697	725	749	-8,564	-8,633	-11,718	-14 516	-12 273	-12 248
Growth rates (%YoY)									
Assets	28.4	20.9	23.1	23.7	36.2	28.1	37.7	24.4	20.0
Gross loans	18.7	25.5	24.0	48.0	55.6	32.2	31.4	15.1	3.5
Deposits (by businesses)	19.6	24.8	58.1	80.3	202.4	180.3	226.4	110.3	112.6
Deposits (by households)	2.5	-4.4	-6.0	1.8	21.8	23.2	25.5	47.4	33.8
Deposits (total)	5.7	1.1	5.7	19.5	59.7	59.8	80.0	68.8	65.2
Total equity	11.9	12.9	8.3	11.2	7.6	-6.5	-15.6	-67.7	-39.6
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	25.6	22.8	23.6	31.4	15.9	16.0	13.0	11.5	0.0
Equity/assets	18.5	17.6	17.7	17.8	14.6	12.9	10.8	4.6	7.4
(Equity + sub-debt)/assets	19.5	18.7	18.9	19.1	16.2	14.3	12.3	6.2	8.8
Cash & cash equivalents/liabilities	7.9	6.9	9.0	13.0	13.3	20.5	21.8	14.9	21.9
Current liquidity (R5 by NBU)	49.0	79.7	73.2	104.7	97.5	111.1	97.3	0.0	0.0
Gross loans/deposits	169.8	178.4	171.2	171.8	165.3	147.6	124.9	117.1	103.6
Net loans/deposits	137.8	145.7	139.0	125.1	118.1	101.3	82.4	70.3	61.8
Cost-to-income ratio	49.0	48.2	51.7	51.1	34.9	41.2	43.0	50.9	156.7
Net interest margin	6.5	6.2	6.1	6.1	5.9	6.1	6.2	4.7	4.6
ROAA	0.7	0.7	0.7	-7.3	-6.8	-8.7	-9.9	-8.0	-7.6
ROAE	3.6	3.6	3.7	-40.9	-40.5	-55.8	-71.9	-75.1	-86.4
NII/operating income	78.4	74.6	81.9	83.3	58.5	73.8	79.2	70.6	209.3
Core income/operating expenses	195.3	188.8	191.8	195.6	200.3	213.9	220.9	177.2	173.8

Notes: P&L ratios are on a 12-month annualised basis; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income; core income includes net interest income and commission income; LLP – loan loss provision; LLR – loan loss reserves.

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

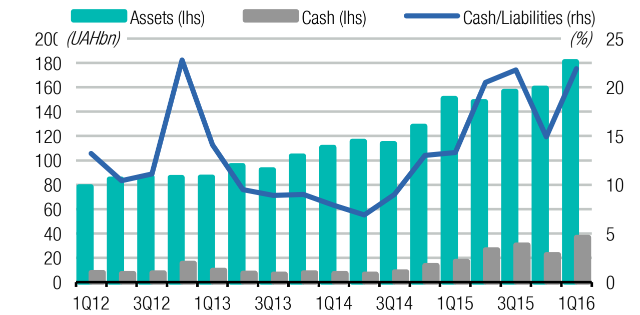
Oschadbank: Key credit metrics

Chart 26. Capitalisation



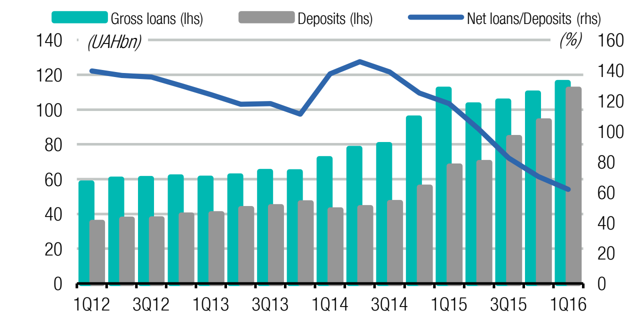
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 27. Liquidity



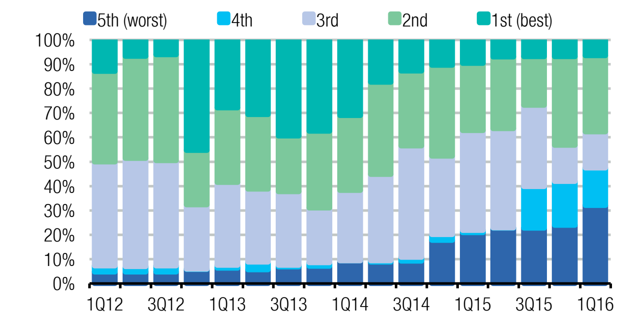
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 28. Loans and deposits



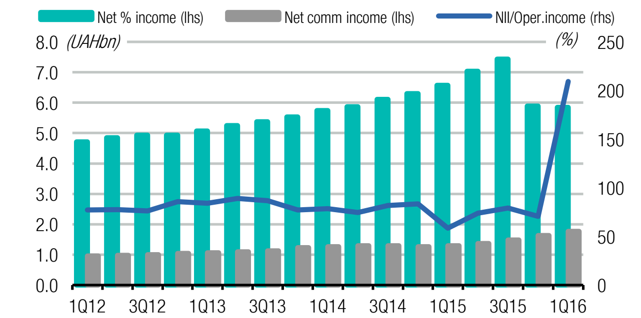
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 29. Total credit exposure quality



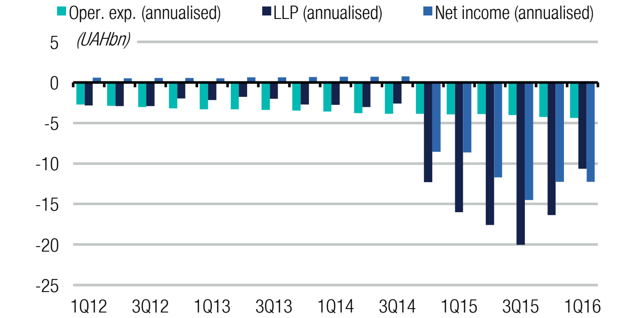
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 30. Income structure (annualised basis)



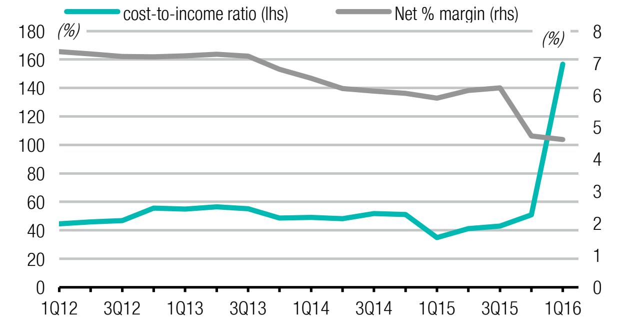
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 31. Expense and net income (annualised basis)



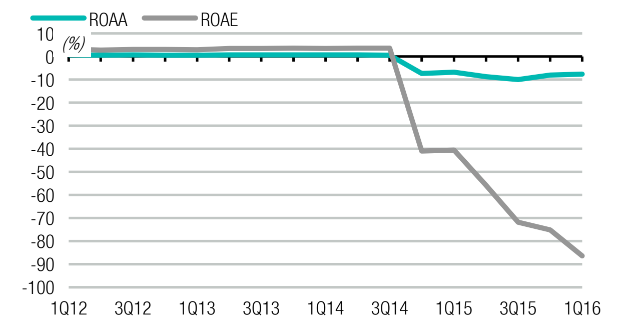
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 32. Financial performance ratios



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 33. Financial performance ratios



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Country
Ukraine

First Ukrainian International Bank

Sector
Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch
NR / NR /NR

Ticker(s) in Bloomberg
PUMBUZ

First Ukrainian International Bank (FUIB) is to increase its capital for the first time since 2011 in response to the results of the recent stress test. It plans to concentrate on bad debt collection and the high-yield retail segment in 2Q16.

Recapitalisation plan. The recent stress test revealed the need for an additional UAH1.2bn in capital (35% share capital increase), which FUIB's shareholders have agreed to provide by September 2016. Owing to the acceptable level of UAH liquidity, it appears that no net cash inflow is required for this recapitalisation. Related-party deposits account for 17.8% – or UAH5.2bn – of the bank's total deposits, of which approximately 70% are considered stable.

The bank has not disclosed its regulatory CAR for 1Q16; we believe it to be above the minimum required level of 5% but below the recapitalisation target of 10%, primarily because of its related-party loan exposure. As excessive net exposure is deducted from the regulatory capital, the bank must either reduce its loan exposure or seek a capital injection.

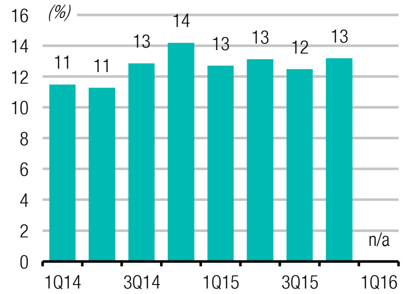
Bad debt collection. NPL growth has declined significantly to 25.8 as of 1Q16. In 2015 FUIB made cash collections of NPLs worth UAH1bn and plans to collect the remaining UAH9.5bn of gross loans overdue by more than 90 days during the next three years.

The bank also plans to grow its high-margin retail consumer loan portfolio, which currently accounts for 37% of gross retail loans. However, the total outstanding has declined by a quarter over the last year as the volume of newly issued loans is constantly lower than the amount repaid.

Deposits show signs of growth. Overall, deposits increased by 0.5% QoQ in 1Q16, net of the FX revaluation effect. Corporate deposits grew 2.8% QoQ while retail deposits contracted by 1.7% QoQ owing to the outflow in the FX segment. The bank recently introduced CDs for retail customers, which legally circumvent NBU constraints on FX withdrawals. Such instruments enable the bank to keep customers who have FX deposits outstanding that are significantly above the average amount but who would be unable to withdraw that amount of money all at once because of the regulatory limits on withdrawals. We believe that as soon as there is further FX liberalisation, this instrument will offer few advantages.

Still no profit. The bank recognised a net loss of UAH265m in 1Q16 – which is 77.8% down on 4Q15 – owing to high provisioning expenses (UAH615m). We estimate the cost of risk at 12.3% and the net interest margin at 6.1% in 1Q16.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2014 IFRS	2015 IFRS	1Q15 UAS	1Q16 IFRS
Financials (UAHm)				
Assets	37 431	37 644	40 163	39 393
Loans	28 356	26 288	30 143	26 489
Deposits	26 273	27 585	27 628	29 038
Equity	5 532	3 667	4 428	3 404
Net % income	2 345	2 146	2 401	1 892
Net com income	834	909	1 640	183
Operating inc.	4 340	4 311	4 626	3 422
PPI	2 690	2 665	3 257	1 797
LLP	-2 863	-4 821	-3 967	-3 845
Net income	-136	-1 752	-408	-1 690
Ratios (%)				
Tier 1 ratio	14.1	9.9	N/a	N/a
CAR	17.4	13.2	12.7	N/a
Equity-to-assets	14.8	9.7	11.0	8.6
Net loan-to-depos.	107.9	95.3	109.1	91.2
Cash-to-liability	14.0	15.2	14.1	7.7
ROAA	-0.4	-4.7	-1.1	-4.6
ROAE	-2.4	-36.1	-8.7	-45.1
Net % margin	7.3	6.5	8.0	6.1
NII-to-op inc.	54.0	49.8	51.9	55.3
Cost-to-income	38.0	38.2	29.6	47.5
LLR	15.2	28.6	16.9	28.4
NPLs	18.2	25.9	13.4	25.8
NPL coverage	83.7	110.6	96.1	99.5

Notes: P&L figures and ratios are on a 12-month annualised basis; CAR – capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); PPI – pre-provision income LLP – loan loss provision; ROAA and ROAE – return on average assets and equity, respectively; NII – net interest income; LLR – loan loss reserves; NPL – non-performing loans (>90 days overdue). Sources: Bank data, ICU.

FUIB: Key quarterly UAS financials and ratios

Table 4. Key financials and ratios derived from the bank's UAS financials

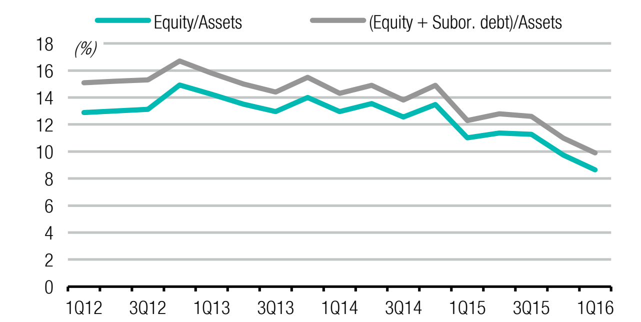
	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Balance sheet figures (UAHm)									
Assets	36,677	35,798	37,946	35,439	40,163	34,184	35 865	37 644	39 393
Cash and cash equivalents	6,646	4,690	6,860	4,642	5,037	3,755	5 035	2 142	2 754
Gross loans	27,005	27,462	28,322	29,748	36,283	33,241	33 054	36 848	36 988
Gross business loans	21,255	21,714	22,711	24,351	29,633	27,149	27 213	29 058	30 154
Gross household loans	5,750	5,748	5,611	5,396	6,651	6,092	5 841	7 790	6 834
Loan loss reserves (LLR)	-3,330	-3,188	-3,903	-3,914	-6,141	-6,684	-7 132	-10 561	-10 500
Deposits	24,351	23,801	24,446	24,516	27,628	23,652	24 176	27 585	29 038
Business deposits	12,753	12,085	13,258	12,138	13,315	10,795	11 601	13 585	14 543
Household deposits	11,598	11,716	11,188	12,378	14,313	12,857	12 575	14 000	14 495
Total equity	4,756	4,853	4,765	4,777	4,428	3,888	4 041	3 667	3 404
Quarterly P&L (UAHm)									
Net interest income	573	614	573	578	636	600	709	202	381
Net commission income	122	91	174	435	941	182	239	-453	215
Operating income (before LLP)	821	874	959	1,144	1,648	1,078	1 181	434	730
Operating expenses	-263	-290	-284	-384	-411	-510	-476	-233	-407
Loan loss provisions (LLP)	-388	-483	-854	-994	-1,636	-1,035	-538	-1 658	-614
Net income	134	79	-145	-14	-328	-382	154	-1 197	-265
Last 12-month period P&L (UAHm)									
Net interest income	2,080	2,251	2,294	2,338	2,401	2,387	2 523	2 146	1 892
Net commission income	505	482	524	822	1,640	1,731	1 797	909	183
Operating income (before LLP)	2,860	3,098	3,376	3,799	4,626	4,829	5 051	4 341	3 422
Operating expenses	-1,050	-1,100	-1,143	-1,221	-1,369	-1,589	-1 780	-1 630	-1 626
Loan loss provisions (LLP)	-1,220	-1,396	-1,990	-2,719	-3,967	-4,519	-4 203	-4 867	-3 845
Net income	490	499	211	54	-408	-869	-570	-1 752	-1 690
Growth rates (%YoY)									
Assets	20.9	10.3	8.5	6.7	9.5	-4.5	-5.5	6.2	-1.9
Gross loans	29.3	29.4	25.8	28.2	34.4	21.0	16.7	23.9	1.9
Deposits (by businesses)	54.3	48.9	20.4	30.8	4.4	-10.7	-12.5	11.9	9.2
Deposits (by households)	7.0	1.3	-2.9	10.9	23.4	9.7	12.4	13.1	1.3
Deposits (total)	27.4	20.9	8.5	19.9	13.5	-0.6	-1.1	12.5	5.1
Total equity	10.2	10.7	5.2	2.7	-6.9	-19.9	-15.2	-23.2	-23.1
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.5	11.3	12.9	14.2	12.7	13.1	12.5	13.2	n/a
Equity/assets	13.0	13.6	12.6	13.5	11.0	11.4	11.3	9.7	8.6
(Equity + sub-debt)/assets	14.3	14.9	13.8	14.9	12.3	12.8	12.6	11.0	9.9
Cash & cash equivalents/liabilities	20.8	15.2	20.7	15.1	14.1	12.4	15.8	6.3	7.7
Current liquidity (R5 by NBU)	81.9	60.1	72.1	54.2	62.3	50.4	61.2	0.0	0.0
Gross loans/deposits	110.9	115.4	115.9	121.3	131.3	140.5	136.7	133.6	127.4
Net loans/deposits	97.2	102.0	99.9	105.4	109.1	112.3	107.2	95.3	91.2
Cost-to-income ratio	36.7	35.5	33.8	32.1	29.6	32.9	35.3	37.5	47.5
Net interest margin	8.2	8.4	8.2	8.2	8.0	8.1	8.6	7.0	6.1
ROAA	1.4	1.4	0.6	0.1	-1.1	-2.4	-1.6	-4.7	-4.6
ROAE	10.7	10.6	4.4	1.1	-8.7	-19.5	-13.3	-43.7	-45.1
NII/operating income	72.7	72.7	67.9	61.6	51.9	49.4	49.9	49.4	55.3
Core income/operating expenses	246.2	248.4	246.7	258.9	295.3	259.3	242.6	187.5	127.6

Notes: P&L ratios are on a 12-month annualised basis; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income; core income includes net interest income and commission income; LLP – loan loss provision; LLR – loan loss reserves.

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

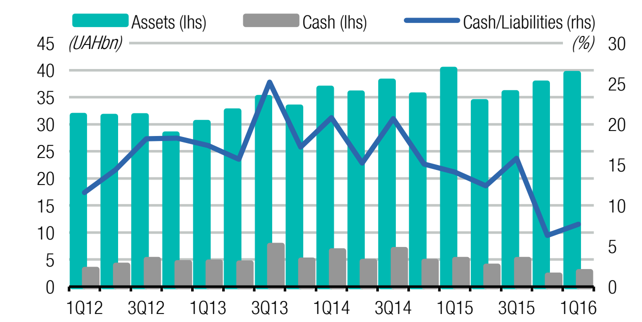
FUIB: Key credit metrics

Chart 34. Capitalisation



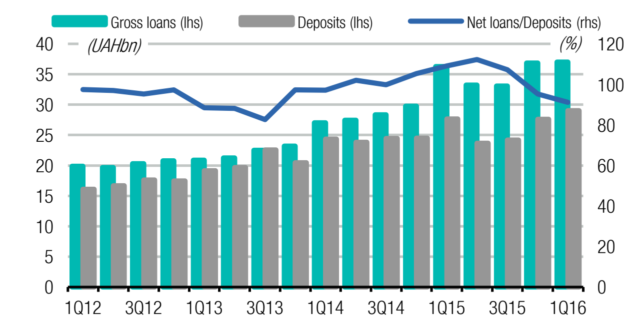
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 35. Liquidity



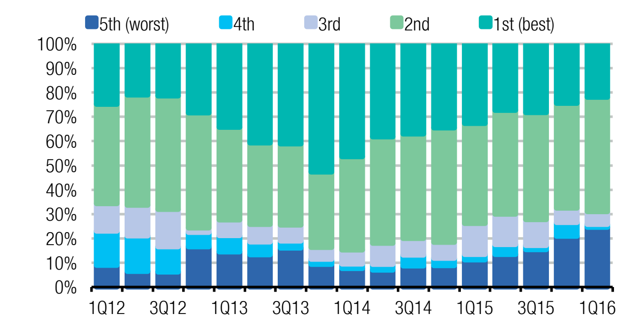
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 36. Loans and deposits



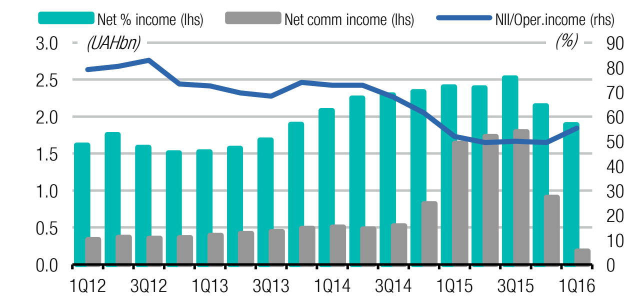
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 37. Total credit exposure quality



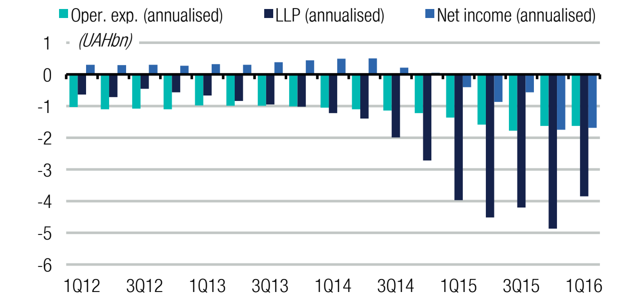
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 38. Income structure (annualised basis)



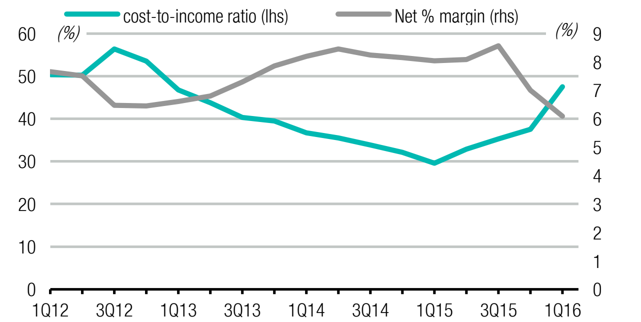
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 39. Expense and net income (annualised basis)



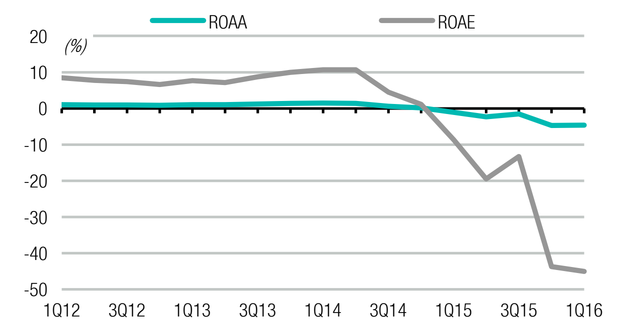
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 40. Financial performance ratios



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 41. Financial performance ratios



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Disclosures

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EQUITY RATING DEFINITIONS

Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark

Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark

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