



Focus
Ukraine

Scope
Debt markets

Sector
Banks

Research team
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Banking Sector Insight

In a search of confidence



8 DECEMBER 2014

READ FIRST THE DISCLOSURES SECTION FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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Executive summary

Our banking sector quarterly update focuses on the most recent financial data on banks – in this case, for 3Q14 – and discusses the latest developments in the sector as well as in the economy. In a nutshell, it contains the following viewpoints:

Vicious circle of lacking confidence. There is a significant lack of confidence in Ukrainian banks owing to their inability to satisfy creditors' claims in time magnified by the constant devaluation expectations and fears of bank's insolvency. Moreover, banks continue to experience a liquidity drain, which in itself complicates bank payments. The key issue is to pave the way to stability – namely, by ensuring that a number of large financial institutions have both sufficient capital and liquidity support from both shareholders and the regulator. Currently, the regular is in the process of identifying viable banks and looking for the means with which to support such banks as well as cover the losses of insolvent financial institutions. For confidence in the banks to return, some positive development – such as the restoration of creditor rights in a high-profile case – is equally necessary.

Deposits exodus. Another wave of deposits outflows was triggered by the intensification of warfare in late summer 2014 and expectations of the further devaluation of the hryvnia. FX deposits have been hit hardest owing to the restrictions on FX withdrawals, which caused panic among some clients. In total, during the first 10 months of 2014, Ukraine's banks lost 26.0% of retail deposits but just 4.1% of corporate deposits adjusted for UAH devaluation.

In our view, most deposits withdrawn from the banking system have been transferred to vaults rather than spent on real estate or cars. Therefore, deposit funding has a significant growth potential. However, the reversal of the deposits outflow can be expected only after devaluation expectations have receded and the delayed FX demand has been met.

In the meantime, the regulator has announced tentative plans to ease existing constraints. It recently announced that there will be no limits on withdrawals for registered certificates of deposits. Although this measure discriminates somewhat against existing depositors, we believe it is likely to facilitate the return of depositor confidence.

The largest banks require capital inflows totalling UAH66bn, according to the NBU stress test results

Capital inflows required. The National Bank of Ukraine (NBU)'s 2014 stress test of the largest 35 banks, which, combined, account for around three-quarters of the Ukrainian banking system, was carried out in order to identify the most problematic. The total required capital amounts to UAH66bn (which is the equivalent of 45% of existing regulatory capital). It is generally understood that the terms of this year's test were overoptimistic as regards both the implied UAH exchange rate and the recoverability of assets in the annexed territories. According to our estimates, which are based on an adverse scenario, the total amount of required capital is up to UAH134bn for the 35 largest banks or up to UAH170bn for the whole system.

We identify the following types of bank by capitalization requirements as stipulated in the results of the 2014 stress test:

- **Foreign banks**, which include VTB Bank, Prominvestbank and Ukrsofsbank, require UAH20.5bn of additional capital (our estimates stays at UAH49.7bn). That sum can be raised relatively easily by converting debt into equity. While foreign investors still have

to be convinced about positive changes in economic conditions, such as the new pro-reform economic policy team, the solvency of these banks is beyond reasonable doubt.

- **State-owned banks**, which need to be capitalized by UAH12.5bn. In our opinion, this is an adequate estimate of the capital required. The authorities are likely to provide the total amount of required capital during the upcoming three months. However, that amount may be revised in order to boost these banks' lending ability.
- **Large Ukrainian banks**, which are UAH23.5bn short of capital (our estimates stays at UAH49.7bn). Some of these banks are backed by industrial groups like SCM, Ferrexpo, Privat who have capabilities to support their equity. In case of fast and adequate position by authorities, recapitalization of these institutions might be provided without taxpayers' money. The rest of the Group (Delta and Nadra), controlled by shareholders who are limited in financing and/or capabilities (motivation). This bank might be the first in the chain for taxpayers' money in amount of up to of UAH11.0bn by our estimated.
- **Mid-size banks**, which need UAH10bn of capital (same under our estimates). In our opinion some of this bank (with foreign capital) may capitalize themselves, when others may be merged with larger financial institutions rather than being nationalised if their shareholders are unable to provide the necessary support. All in all the real money need from the state might be insignificant.

If case authorities are capable to move fast, be proactive and provide efficient motivation for investors to recapitalise the banks, the total cost of saving the Ukrainian banking system would decline to UAH40-50bn, which the state would likely be able to bear.

Nationalisation in the offing? So far in 2014, temporary administration has been introduced at 32 banks, which jointly account for more than 10% of the Ukrainian banking sector in terms of retail deposits. To date, VAB is the largest institution to have been declared insolvent: insured deposits at the bank total UAH7.1bn. Despite its large share of overall retail deposits (UAH10bn or 2.5% of the total), the authorities have refrained so far from nationalising the bank owing to the very significant share of related-party lending.

Given that there are currently several potentially insolvent large banks in the market, we predict the nationalisation of some systemically important financial institutions. The key criteria for nationalising will be whether the target bank has a viable business model and whether it is not crucially dependent on shareholder businesses.

The authorities still have tough decisions to make and the Ukrainian banking sector expects them to do so quickly. In our view, they will act by the end of 1Q15, otherwise there is a danger of perpetuating the vicious circle of lacking confidence described above.

Overview of the banking sector

The Ukrainian banking system currently faces two fundamental challenges: restoring confidence among depositors and re-establishing the solvency of key banks.

Recapitalisation

In the remainder of 4Q14 and in 2015 most banks will be kept busy increasing their regulatory capital in order to make up for losses from the current economic downturn and meet the new regulatory requirements.

State banks. We expect that, combined, the three largest state-owned banks (Oschadbank, Ukreximbank and Ukgazbank) will receive capital inflows totalling UAH12.5bn. This is the equivalent of 29.0% of their aggregate regulatory capital. We do not expect these institutions to experience any difficulty in acquiring that amount of funds since the increase is stipulated in the IMF memorandum.

The state banks are to receive the capital by the end of 2014 in the form of government bonds. Oschadbank will get the bulk of the total amount owing to the significant provision required for its Crimean corporate loan portfolio, which is 100% non-performing, according to the bank's chairman.

'Big guy' banks. Three banks with Ukrainian capital require additional capital totalling UAH23.5bn, which is equivalent to their current aggregate regulatory capital. While the names of these banks have not been revealed in the results of the stress test, we believe that Delta Bank and Nadra Bank must be on the list owing to their current low level of capitalisation.

Given the large amount of funds required and the lack of obvious sources for such funding, the most probable scenario is that recapitalisation will take place over the next two to three years. It is crucial that all these banks employ a profitable business strategy.

Two Russian banks, which we believe to be Prominvestbank and VTB Bank, will require additional support from their shareholders. Despite the current standoff between Russia and Ukraine, we expect the Russian banks to fulfil their commitments. However, the large losses of these banks raise questions about the expediency of their continued presence in Ukraine. The current position of the Russian authorities is that Russian state-owned banks ought to stay in Ukraine, while for its part, the privately owned Alfa Bank remains confident about the market and its potential in Ukraine.

The recent sanctions imposed on Russian state-owned banks and the FX shortage in Russia significantly limit the ability of those banks to provide hard currency funding to their Ukrainian subsidiaries. For that reason, more RUB and UAH funding in these banks is to be expected.

The total capital injection required by foreign (two Russian and one European) banks is UAH20.5bn.

Mid-size banks require a combined UAH10bn in additional capital inflows, which is the equivalent of 35% of their existing equity. In our view, this group of banks has less ability to attract capital than the other types of bank. However, the total amount of required funds is

not material compared with that required by the group of largest banks. Therefore we are confident that the government will be able to bail out those mid-size banks that are systemically important and liquidate those that are not.

Nationalisations are possible. In 3Q14 the key shareholder of VAB Bank publicly announced it has asked the authorities to participate in the private placement of its shares. Other institutions may follow its example and request a bailout. The IMF's general recommendation is to save those banks that account for at least 2% of the overall banking system. VAB is such a bank.

In our view, the authorities must have full control over the nationalised bank if they have provided it with capital.

2015 stress test. The NBU has announced it will conduct another stress test in 2015. Indeed, it is generally understood that the terms of this year's test were overoptimistic as regards both the implied UAH exchange rate and the recoverability of assets in the annexed territories.

According to our estimates, which are based on an adverse scenario, the total amount of required capital is UAH170bn. This implies the non-recoverability of Crimean loans and significant losses on the Donbas and FX loan portfolios. Meanwhile, since the private sector is unable to provide the banking system with the required amount, state support is inevitable. Currently, the IMF memorandum permits the government to invest up to UAH28.7bn in bank capital and the Deposit Guarantee Fund. The authorities may stipulate an increase in this amount; however, a real impact can be made only by international donors, which may be asked to provide funds totalling US\$5-10bn.

Deposits outflow

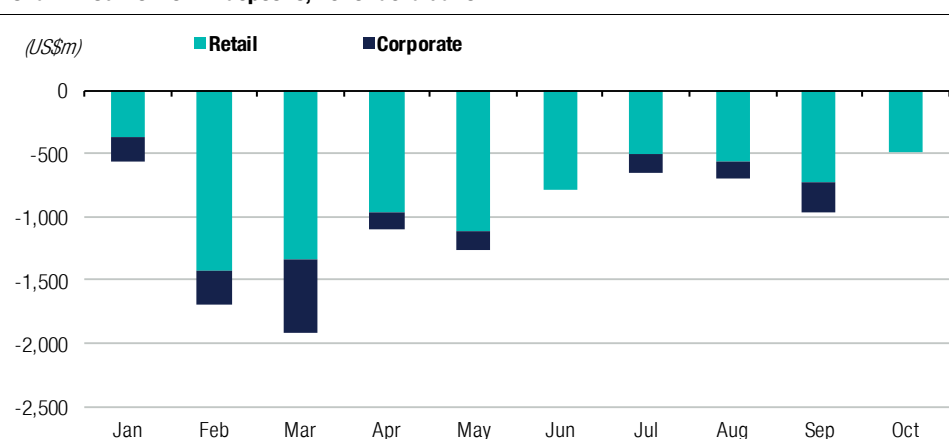
Withdrawals of deposits continued apace in 2Q14 and 3Q14 and remain a major problem for the banking system. Besides geopolitical factors, the huge demand to withdraw funds has been caused by the anticipated further devaluation of the hryvnia and the fear that FX deposits will be not returned in hard currency.

The banks have witnessed significant outflows of retail deposits, which were down 24.3% in the first nine months of 2014, while corporate deposits declined by only 1.6% (adjusted for UAH devaluation) during the same period. However, corporate clients have decreased their FX holdings in favour of the local currency, as evidenced by the current scarcity of FX liquidity.

FX deposits. According to our estimates, the total amount of FX cash and cash equivalents held by Ukrainian banks is approximately US\$7bn. Given the current pace of net withdrawals (see Chart 1 below), the banks have a buffer that will help them to survive the withdrawals, although the existing trend must be reversed.

According to NBU regulations, banks must limit withdrawals from retail FX deposits to the equivalent of UAH15,000 per day. They are permitted to pay out FX deposits early in UAH within that limit.

Chart 1. Outflow of FX deposits, net of devaluation

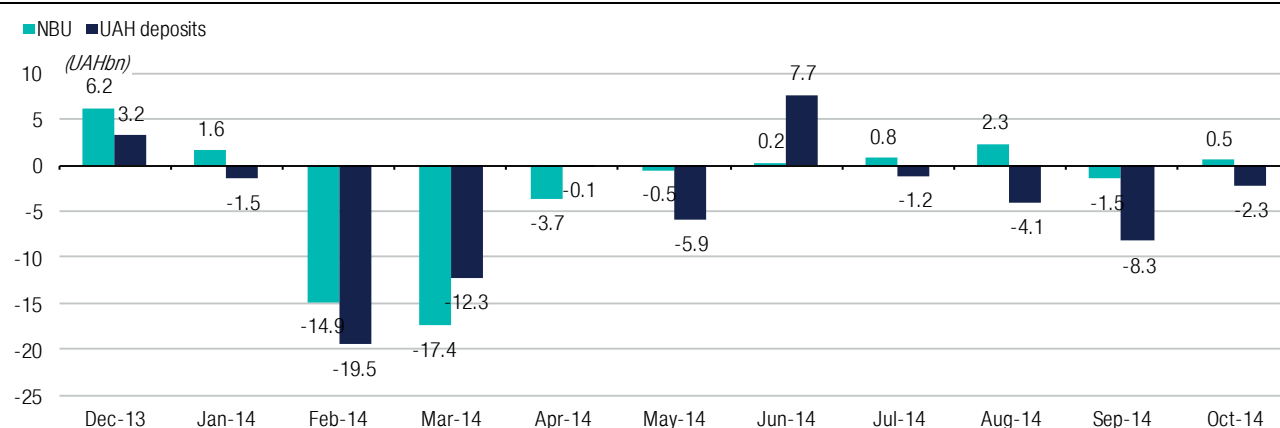


Source: National Bank of Ukraine.

UAH deposits. Local currency deposits have fared much better and have even grown – by UAH7.7bn or 3.5% MoM in June (following the presidential elections the previous month). In 1H14, the banks' combined debt to the NBU increased by UAH30.7bn, which allowed the UAH liquidity problem to be resolved. Beginning in 3Q14 this trend went into reverse as the NBU significantly reduced net lending to the banking sector (see Chart 2 below).

In our view, the outflow of UAH funds is more a problem of the individual banks than a symptom of the limited availability of the lender of last resort. However, the regulator will concentrate on systemically important banks that are currently experiencing difficulties with liquidity – like VAB Bank and Nadra Bank.

Chart 2. Net changes in UAH retail deposits vs. NBU loans (MoM)

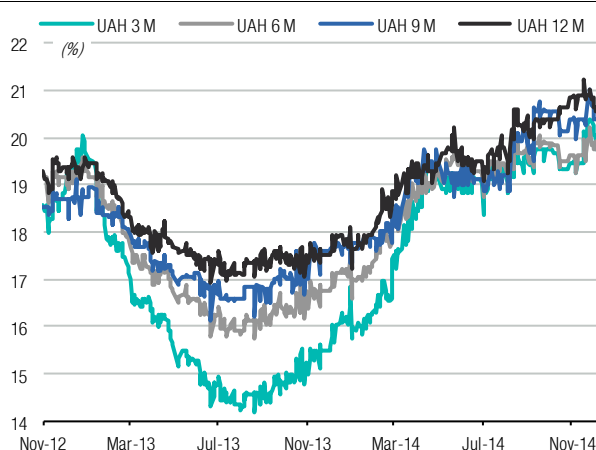


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Interest rates rising. Nominal interest rates on both UAH and FX household deposits have risen over the last 12 months amid the constant outflow of deposits. At the same time, high inflation expectations (19% in 2014) have contributed to keeping rates high in order to ensure that deposits remain attractive as an asset class.

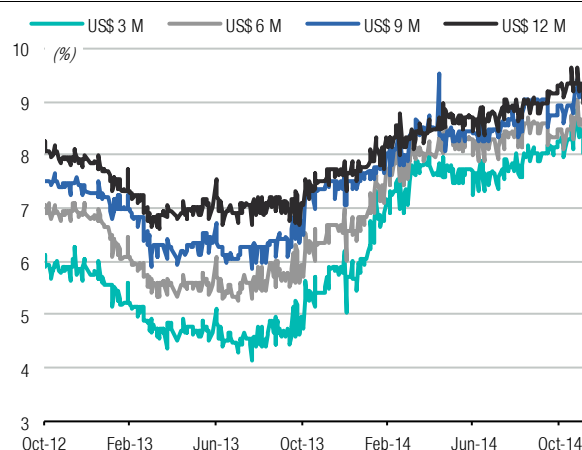
Surprisingly, despite the increase in interest rates, the average cost of deposit funding has fallen for most commercial banks so far in 2014. Most deposit contracts include zero or very low interest rates that apply if the customer requests an early withdrawal. This provides the banks with some slack on the net interest margin but has a devastating impact on their liquidity.

Chart 3. Average interest rates on UAH household deposits



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

Chart 4. Average interest rates on US\$ household deposits



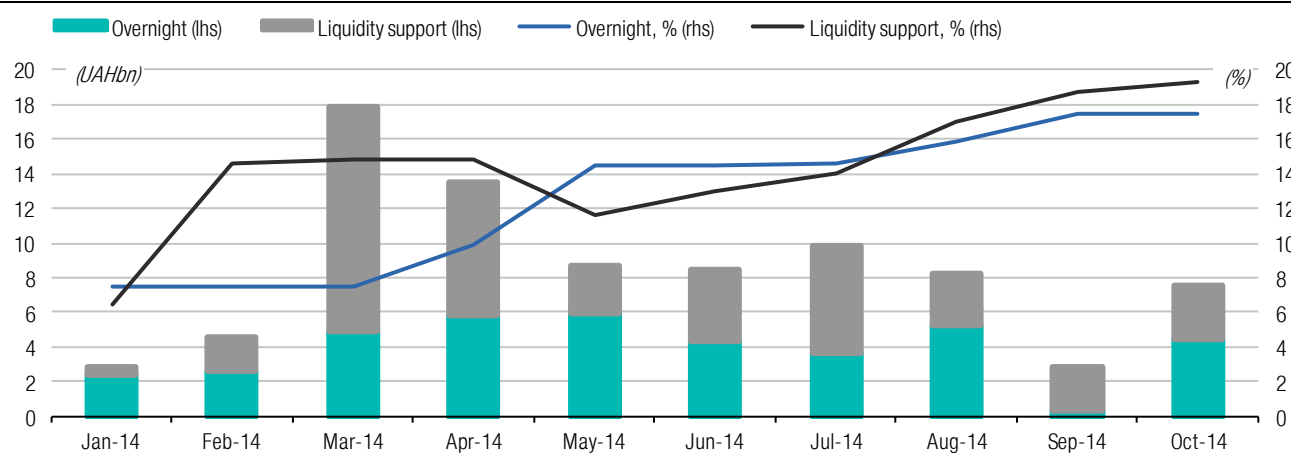
Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

We do not expect a significant decline in the interest rate in the next six months as banks will struggle to reverse the outflow of deposits. At the same time, negative expectations about the UAH/USD exchange rate are likely keep the rates at current levels and lead to some growth in hryvnia deposits. Rates on FX deposits will be influenced by the regulatory limits on FX withdrawals and the overall availability of foreign currency. An FX shortage will put significant pressure on interest rates

Loans from the NBU. The national bank has significantly lowered the net increase in refinancing loans to commercial banks, which amounted to UAH112.3bn in 3Q14. Nearly all this amount is due during the period 2014-16; however, the existing outflow of deposits means that repayment is a heavy burden weighing on the banks.

The regulator has responded by allowing all banks that have borrowed from it to postpone principal payments in 2014 as long as they continue to pay interest.

Chart 5. NBU short-term loans issued to commercial banks in 2014 and average interest rates



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

Banks can apply to reschedule the payment of existing loans over the next four years, during which period they will pay 25% of the outstanding principal each year on a monthly basis. The interest rate will be set at the NBU key rate, currently 12.5%, plus 1.5%, which is lower than the current market price of UAH funding (20.38% for 12M retail deposits).

In our view, commercial banks will be keen to enter into such an arrangement as most of their current loans are due in 2015 and 2016. However, the NBU has made several strict requirements:

- Banks must have sufficient collateral; leading valuation professionals will decide if this is the case.
- The key shareholder must make a personal financial guarantee for the whole amount of the NBU loan, otherwise the value of the loan and the property pledged as collateral will be significantly discounted.
- An on-site supervisor (already in place at most banks) must be appointed.
- Limitations on certain types of operations including capital withdrawals, early loan redemptions and purchases of securities.

Russian banks. Banks with Russian capital are determined to stay in Ukraine, according to the authorities of the Russian Federation. The aggregate amount of assets belonging to such banks is US\$13bn, while the aggregate amount of risk, which includes direct commercial lending, is US\$25bn. None of these banks was profitable in 2014 and there is further downside potential as regards losses in Donbas.

The Ukrainian subsidiaries of Russian banks will require additional support in the form of capital to meet the NBU requirements established by the recent stress test. Lending facilities will also be needed to boost liquidity, which has been hard hit by the large number of deposit withdrawals. The FX shortage in Russia and the sanctions imposed against that country significantly limit the means with which Russian banks can help their Ukrainian subsidiaries. Thus we do not expect any material inflows of hard currency into Ukraine as a result of the recapitalisation of Russian banks.

Table 1. Key financial figures and ratios of selected Ukrainian banks

Balance sheet figures (UAHm)	Privatbank	Ukreximbank	Oschadbank	DeltaProminvestbank	Ukrsotsbank	Aval	Sberbank	Nadra Bank	FUIB	Alfa	VTB
Assets	201,900	131,527	113,682	63,105	51,578	44,960	44,676	43,379	35,870	37,946	31,493
Net loans	150,423	51,088	64,800	46,234	37,096	30,832	28,448	34,692	31,015	24,419	25,035
Deposits	131,715	74,025	46,621	36,665	13,144	20,203	26,452	14,318	12,026	24,446	6,709
Total equity	20,948	13,971	20,115	4,911	6,322	7,143	5,879	3,835	4,035	4,765	5,174
Quarterly P&L (UAHm)											
Net interest income	2,363	1,086	1,644	-203	485	-17	1,201	897	-75	573	411
Net commission income	699	151	297	721	185	147	429	91	54	174	136
Operating income (before LLP)	3,667	1,963	1,632	1,590	697	332	1,973	1,310	396	959	699
Operating expenses	-2,013	-423	-931	-487	-356	-586	-953	-361	-292	-284	-281
Loan loss provisions (LLP)	-1,695	-5,621	-574	-1,068	-140	-1,554	-1,573	-1,034	-98	-854	-698
Net income	40	-4,061	211	35	202	-1,560	-366	-11	1	-145	-281
Last 12-month period P&L (UAHm)											
Net interest income	9,885	4,117	6,105	-591	1,589	1,758	4,599	2,929	-118	2,294	1,564
Net commission income	2,853	535	1,292	3,428	468	670	1,564	329	262	524	549
Operating income (before LLP)	13,297	7,633	7,456	5,073	2,483	3,015	5,817	4,204	2,407	3,376	2,497
Operating expenses	-7,772	-1,525	-3,857	-2,369	-1,491	-2,432	-3,404	-1,521	-1,504	-1,143	-1,329
Loan loss provisions (LLP)	-4,779	-9,944	-2,604	-2,620	81	-2,402	-3,995	-2,498	-828	-1,990	-1,816
Net income	568	-3,892	749	324	1,132	-1,545	-1,376	244	4	211	174
Growth rates (%YoY)											
Assets	-0.3	44.4	23.1	16.8	28.2	20.4	-0.3	29.2	22.2	8.5	8.3
Gross loans	12.1	39.3	24.0	35.9	16.4	29.7	19.4	49.4	30.1	25.8	15.9
Deposits	2.9	31.8	-0.5	31.8	-6.0	23.9	22.0	23.0	43.4	-0.5	-24.5
Total equity	4.2	-22.4	8.3	50.8	18.8	-7.6	-18.5	7.8	0.1	5.2	36.9
Key ratios (%)											
Capital adequacy ratio (R2 by NBU)	11.0	24.6	23.6	10.0	12.5	14.3	15.7	16.3	12.4	12.9	18.5
Equity/assets	89.5	103.3	73.2	40.2	159.3	71.4	86.4	48.7	20.9	72.1	64.1
Cash & cash equivalents/liabilities	10.4	10.6	17.7	7.8	12.3	15.9	13.2	8.8	11.3	12.6	16.4
Net loans/deposits	12.6	14.3	18.9	12.8	19.3	18.8	21.8	14.8	17.1	13.8	25.4
Cost-to-income ratio	9.5	12.3	9.0	10.1	5.6	7.4	12.2	7.8	1.9	20.7	7.5
Net interest margin	131.3	91.7	171.2	136.1	292.6	203.7	159.2	264.2	306.7	115.9	427.2
ROAA	114.2	69.0	139.0	126.1	282.2	152.6	107.5	242.3	257.9	99.9	373.1
ROAE	13.0	24.8	18.8	7.4	3.5	25.1	32.4	8.3	15.9	13.8	12.7
NII/operating income	9.1	24.1	16.9	4.9	3.5	15.4	16.9	7.6	16.1	6.2	9.8
Core income/operating expenses	30.0	63.7	48.9	10.1	15.8	34.4	54.2	25.2	15.8	44.5	37.0

Notes: Based on bank's 3Q14 UAS financial statements Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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 3Q14.

Country

Ukraine

Privatbank

Sector

Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch Ticker(s) in Bloomberg

Ca/ CCC /CCC PRBANK

Privatbank's net income declined 57.5% QoQ in 3Q14 to just UAH40m owing to the increased cost of funding and the deterioration of the loan portfolio.

Capitalisation sufficient but not solid. The regulatory capital adequacy ratio (CAR) increased by 0.1ppt in 2Q14 to 11.0 owing to an increase in the UAH value of the FX-denominated part of the subordinated debt. In line with previous practice, Privatbank has injected its 2013 net profit, totalling UAH1.7bn, into the share capital. We do not currently expect any additional inflow of funds from shareholders.

Recent shareholders meeting approved the share capital increase by UAH1.6bn or 8.7%.

Deposits shrink. Retail deposits, which account for 56.3% of total liabilities declined for the third quarter in a row. While UAH-denominated deposits decreased by 3.3% QoQ in 3Q14, foreign-currency deposits declined 9.3% QoQ. The bank lost 22.6% of total household deposits and 12.8% of corporate deposits (net of revaluation) during the first nine months of 2014.

LLR set to increase. Privatbank increased provision expenses by 13.4% QoQ in 3Q14 mainly as a result of FX revaluation. The loan loss reserves (LLR) ratio for retail loans increased by 2.9ppt to 30.0%, while that for corporate loans fell from 9.7% in 2Q14 to 9.1% in 3Q14.

Privatbank has relatively low exposure to the Donbas region but had significant exposure to Crimea. We believe that the recovery rate of loans issued to Crimean companies will be virtually zero; as a result, additional reserves of UAH5.5bn will be needed.

NBU loan outstanding soars. In 1H14 Privatbank received four loans from the regulator totalling UAH17.6bn; as a result, its total debt to the NBU stood at UAH18.1bn as of 2Q14. The loans are due to mature in 2015-16. However, if the bank applies for them to be restructured to mature in 2018, it will need additional collateral or personal guarantees from the major shareholders.

During the period 2010-13, Privatbank paid the interest rate on the refinance loan as the NBU key rate plus 2ppt on the original loan had significantly increased interest expenses. The new loans granted by the regulator in the first half of 2014 bear an interest rate in keeping with current market conditions – between 14.25% and 19%, compared with 10.7% in 2013.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	2014	3Q14
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	148,841	187,919	204,200	201,900
Loans	113,759	142,548	146,888	150,423
Deposits	106,324	133,551	131,852	131,715
Equity	18,301	20,312	20,855	20,948
Net % income	8,049	8,444	9,506	9,885
Net com income	3,274	2,557	2,876	2,853
Operating inc.	12,290	11,491	12,561	13,297
PPI	6,704	4,823	5,029	5,524
LLP	-4,909	-2,671	-3,769	-4,779
Net income	1,533	1,873	878	568
Ratios (%)				
Tier 1 ratio	10.7	9.8	N/a	N/a
CAR	11.7	12.9	10.9	11.0
Equity-to-assets	12.3	10.8	10.2	10.4
Net loan-to-deposit	107.0	106.7	111.4	114.2
Cash-to-liabilities	20.4	20.1	12.0	9.5
ROAA	2.1	1.1	0.4	0.3
ROAE	16.8	9.7	4.3	2.7
Net % margin	13.7	6.4	6.2	6.1
NII-to-op income	65.5	73.5	75.7	74.3
Cost-to-income	45.5	58.0	60.0	58.5
LLR	18.1	14.3	12.9	13.0
NPLs	9.6	6.8	N/a	N/a
NPL coverage	189.6	208.6	N/a	N/a

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.

Privatbank: Key quarterly UAS financials and ratios

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

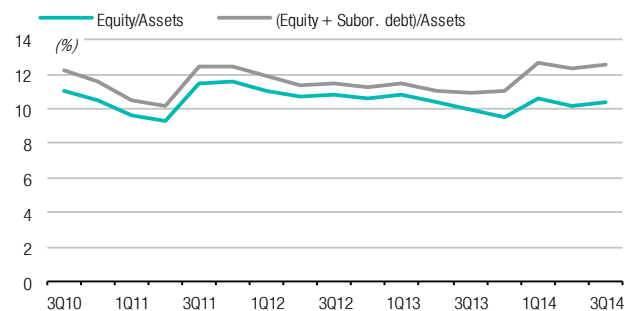
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	164,563	172,429	174,930	190,924	202,551	214,491	196,129	204,200	201,900
Cash and cash equivalents	26,024	28,196	22,500	32,194	33,970	33,723	17,676	21,963	17,114
Gross loans	136,195	138,961	146,054	150,537	154,249	166,259	172,408	168,653	172,896
Gross business loans	109,125	111,446	117,581	120,810	123,025	135,993	139,946	137,581	140,763
Gross household loans	27,070	27,514	28,473	29,726	31,224	30,266	32,462	31,072	32,132
Loan loss reserves (LLR)	-24,595	-25,235	-25,032	-24,775	-25,066	-23,711	-23,679	-21,765	-22,473
Deposits	103,150	106,342	108,495	120,750	123,995	133,551	138,578	131,852	131,715
Business deposits	20,641	20,477	21,173	25,387	22,991	26,839	29,745	27,946	29,899
Household deposits	82,508	85,865	87,322	95,363	101,004	106,712	108,833	103,906	101,817
Total equity	17,754	18,301	18,959	19,734	20,109	20,312	20,791	20,855	20,948
Quarterly P&L (UAHm)									
Net interest income	2,613	1,819	1,893	2,373	1,985	2,194	2,969	2,359	2,363
Net commission income	522	739	663	339	722	832	667	655	699
Operating income (before LLP)	3,269	2,704	2,482	2,712	2,931	3,364	2,572	3,694	3,667
Operating expenses	-1,535	-1,536	-1,330	-1,622	-1,772	-1,944	-1,883	-1,932	-2,013
Loan loss provisions (LLP)	-1,259	-557	-465	-263	-684	-1,257	-334	-1,494	-1,695
Net income	401	542	624	758	349	141	294	93	40
Last 12-month period P&L (UAHm)									
Net interest income	8,889	8,049	8,114	8,698	8,070	8,444	9,520	9,506	9,885
Net commission income	3,554	3,274	2,984	2,265	2,464	2,557	2,560	2,876	2,853
Operating income (before LLP)	13,573	12,290	11,466	11,168	10,830	11,489	11,579	12,561	13,297
Operating expenses	-5,563	-5,586	-5,712	-6,022	-6,260	-6,669	-7,222	-7,532	-7,772
Loan loss provisions (LLP)	-6,274	-4,909	-3,602	-2,544	-1,969	-2,669	-2,537	-3,769	-4,779
Net income	1,437	1,533	1,890	2,325	2,274	1,873	1,543	878	568
Growth rates (%YoY)									
Assets	16.4	18.8	13.8	18.0	23.1	24.4	12.1	7.0	-0.3
Gross loans	10.1	13.0	14.0	14.3	13.3	19.6	18.0	12.0	12.1
Deposits (by businesses)	-11.2	-5.2	-10.8	5.5	11.4	31.1	40.5	10.1	30.0
Deposits (by households)	19.8	22.2	14.7	21.7	22.4	24.3	24.6	9.0	0.8
Deposits (total)	12.0	15.8	8.7	17.9	20.2	25.6	27.7	9.2	6.2
Total equity	9.0	9.3	11.5	14.3	13.3	11.0	9.7	5.7	4.2
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.0	10.9	11.7	12.0	13.0	12.2	10.7	10.9	11.0
Equity/assets	10.8	10.6	10.8	10.3	9.9	9.5	10.6	10.2	10.4
(Equity + sub-debt)/assets	11.5	11.3	11.5	11.0	10.9	11.0	12.7	12.3	12.6
Cash & cash equivalents/liabilities	17.7	18.3	14.4	18.8	18.6	17.4	10.1	12.0	9.5
Current liquidity (R5 by NBU)	60.8	54.7	76.7	74.4	97.2	90.1	84.6	91.9	89.5
Gross loans/deposits	132.0	130.7	134.6	124.7	124.4	124.5	124.4	127.9	131.3
Net loans/deposits	108.2	106.9	111.5	104.2	104.2	106.7	107.3	111.4	114.2
Cost-to-income ratio	41.0	45.5	49.8	53.9	57.8	58.0	62.4	60.0	58.5
Net interest margin	8.2	7.2	6.9	7.1	6.3	6.2	6.6	6.2	6.1
ROAA	0.9	0.9	1.1	1.3	1.2	1.0	0.8	0.4	0.3
ROAE	8.4	8.7	10.5	12.4	11.8	9.5	7.6	4.3	2.7
NII/operating income	65.5	65.5	70.8	77.9	74.5	73.5	82.2	75.7	74.3
Core income/operating expenses	223.7	202.7	194.3	182.0	168.3	165.0	167.3	164.4	163.9

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.

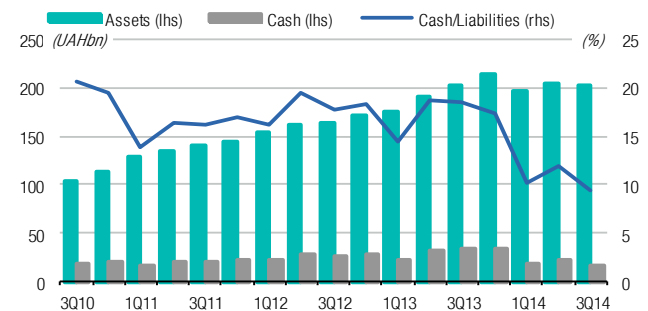
Privatbank: Key credit metrics

Chart 6. Capitalisation



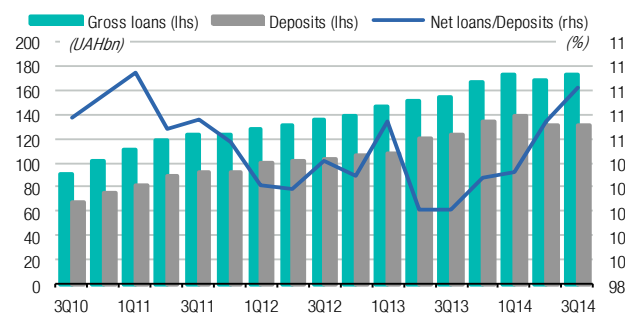
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 7. Liquidity



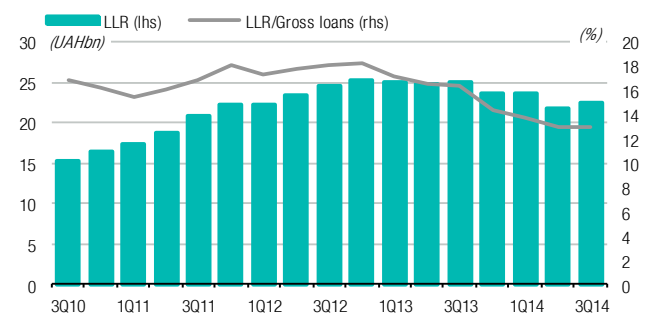
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Loans and deposits



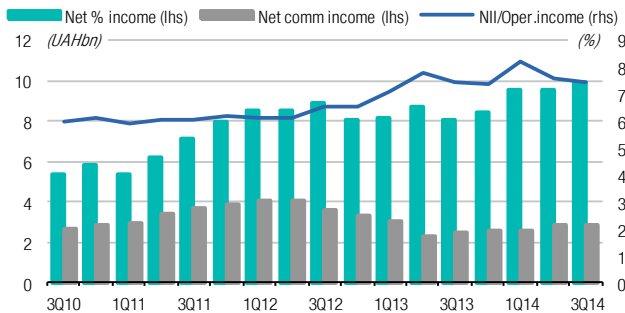
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 9. Loan loss reserves history



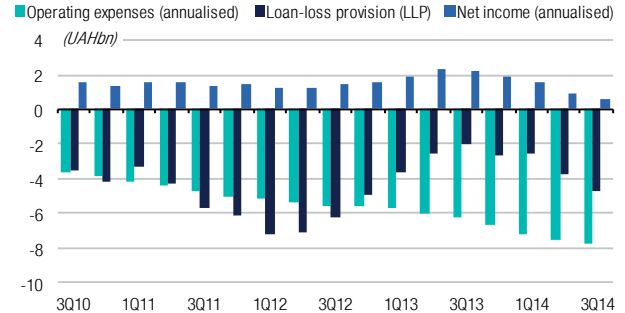
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 10. Income structure (annualised basis)



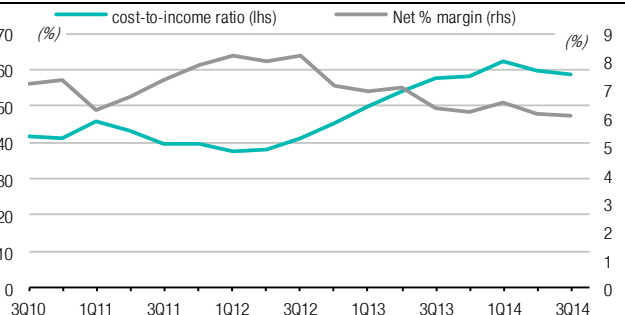
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 11. Expense and net income (annualised basis)



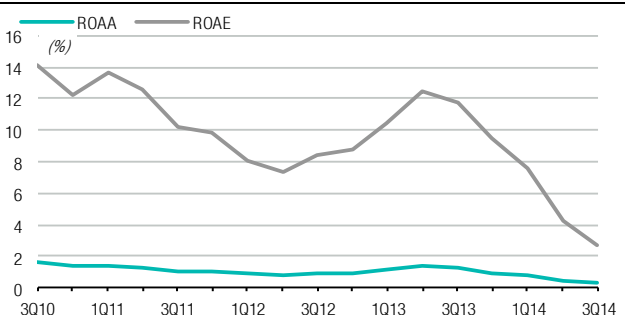
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 12. Financial performance ratios



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

Chart 13. 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 EXIMUK

Ticker(s) in Bloomberg

The current strong financials of Ukreximbank are expected to decrease significantly as a result of a more conservative approach to assets quality assessment. The authorities have already expressed their intention to inject additional capital into the bank.

Capitalisation inflow expected. Ukreximbank was among 15 banks at which an assets quality assessment was conducted in 2Q14. We believe that this year it will receive government funding totalling UAH1-2bn in additional capital inflow.

The bank has a high regulatory CAR – 24.6% as of 3Q14, which implies the possibility of recognising losses totalling UAH11.7bn before slipping below the statutory minimal level of capitalisation.

Deposit outflow reversed for now. The bank received a significant boost to UAH liquidity in 3Q13 as corporate deposits denominated in the local currency increased from UAH9.7bn in 2Q14 to UAH32.3bn in 3Q14. We believe that the bank is benefiting from its servicing of government-related corporations and that the boost will thus be of a temporary nature only.

Loan portfolio deteriorates. The share of bad debt in the total credit exposure increased from 25.1% in 2Q14 to 30.6% in 3Q14, while the reserves coverage ratio increased 11.6 ppt to 58.4%. The bank may recognise additional losses totalling UAH8.0bn had the NPL coverage was increased up to 100%.

Corporate lending has lost momentum, as evidenced by the decrease in the UAH-denominated business portfolio by 7.0% QoQ in 3Q14, following 7.9% growth QoQ in 2Q14.

The bank recognised UAH5.6bn in provisioning expenses in 3Q14, which is up 463.7% compared with 2Q14.

Unexpected gains. During the first nine months of 2014 the bank recognised UAH2.2bn as income from trading securities; this includes UAH330m of such income recognised in 3Q14. Those operations allowed the bank to cover some losses.

Securities balance rises. Ukreximbank's exposure to securities increased 42.5% QoQ in 3Q14 to UAH57.3bn or 43.6% of total assets. However, investment in NBU certificates of deposits, used to accommodate excess liquidity, accounts for most of that increase.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012 IFRS	2013 IFRS	2014 UAS	3Q14 UAS
Financials (UAHm)				
Assets	87,206	93,275	111,134	131,527
Loans	39,366	41,625	52,430	51,088
Deposits	42,834	41,461	51,563	74,025
Equity	17,380	17,611	18,156	13,971
Net % income	3,558	3,945	4,007	4,117
Net com income	384	370	520	535
Operating inc.	4,567	4,471	6,665	7,633
PPI	3,352	3,120	5,248	6,108
LLP	-3,091	-2,786	-4,928	-9,944
Net income	137	201	221	-3,892
Ratios (%)				
Tier 1 ratio	23.1	23.7	N/a	N/a
CAR	28.0	28.9	26.2	24.6
Equity-to-assets	19.9	18.9	16.3	10.6
Net loan-to-deposit	91.9	100.4	101.7	69.0
Cash-to-liabilities	28.3	12.0	10.2	12.3
ROAA	0.2	0.2	0.2	-3.5
ROAE	0.8	1.1	1.2	-22.8
Net % margin	6.0	5.7	4.7	4.4
NII-to-op income	77.9	88.2	60.1	53.9
Cost-to-income	26.6	30.2	21.3	20.0
LLR	18.8	17.4	18.2	24.8
NPLs	23.6	31.1	N/a	N/a
NPL coverage	79.9	55.9	N/a	N/a

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

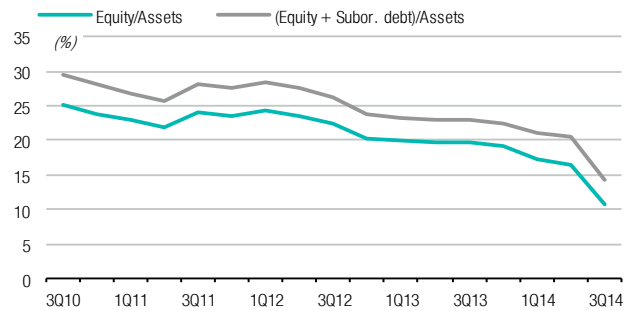
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	78,674	87,949	89,672	91,627	91,098	94,349	105,739	111,134	131,527
Cash and cash equivalents	8,155	19,078	11,895	8,274	6,863	7,964	9,070	9,530	14,447
Gross loans	49,308	49,806	47,000	48,637	48,725	51,307	61,410	64,092	67,893
Gross business loans	48,417	48,897	46,155	47,851	47,929	50,487	60,464	63,106	66,844
Gross household loans	892	909	845	786	796	820	946	986	1,048
Loan loss reserves (LLR)	-8,815	-9,384	-9,488	-10,044	-9,093	-9,033	-11,753	-11,662	-16,804
Deposits	34,069	44,841	44,062	43,677	43,114	42,970	47,083	51,563	74,025
Business deposits	18,905	29,038	28,055	27,480	26,458	25,704	28,772	32,182	54,179
Household deposits	15,164	15,803	16,007	16,197	16,656	17,266	18,311	19,381	19,846
Total equity	17,746	17,856	17,928	17,984	18,003	18,083	18,159	18,156	13,971
Quarterly P&L (UAHm)									
Net interest income	883	882	913	1,005	976	995	969	1,067	1,086
Net commission income	132	138	115	130	136	139	117	128	151
Operating income (before LLP)	1,137	1,234	1,078	1,179	995	1,127	3,041	1,502	1,963
Operating expenses	-292	-358	-265	-335	-315	-353	-303	-445	-423
Loan loss provisions (LLP)	-816	-676	-733	-776	-605	-670	-2,656	-997	-5,621
Net income	27	88	41	47	52	59	64	46	-4,061
Last 12-month period P&L (UAHm)									
Net interest income	3,583	3,489	3,521	3,683	3,776	3,889	3,944	4,007	4,117
Net commission income	518	509	508	514	518	519	521	520	535
Operating income (before LLP)	4,802	4,579	4,558	4,627	4,485	4,378	6,342	6,665	7,633
Operating expenses	-1,182	-1,227	-1,227	-1,251	-1,273	-1,268	-1,306	-1,417	-1,525
Loan loss provisions (LLP)	-3,467	-3,060	-2,988	-3,000	-2,789	-2,783	-4,707	-4,928	-9,944
Net income	100	160	180	203	227	199	222	221	-3,892
Growth rates (%YoY)									
Assets	7.7	17.1	23.1	21.3	15.8	7.3	17.9	21.3	44.4
Gross loans	-8.9	-5.6	-11.2	-4.9	-1.2	3.0	30.7	31.8	39.3
Deposits (by businesses)	-0.7	59.9	58.4	55.1	40.0	-11.5	2.6	17.1	104.8
Deposits (by households)	14.5	16.9	14.7	14.2	9.8	9.3	14.4	19.7	19.2
Deposits (total)	5.5	41.5	39.1	36.9	26.5	-4.2	6.9	18.1	71.7
Total equity	0.6	0.7	1.0	1.4	1.4	1.3	1.3	1.0	-22.4
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	31.9	29.2	30.2	29.5	29.6	29.2	28.5	26.2	24.6
Equity/assets	22.6	20.3	20.0	19.6	19.8	19.2	17.2	16.3	10.6
(Equity + sub-debt)/assets	26.3	23.8	23.3	23.0	23.0	22.4	21.0	20.4	14.3
Cash & cash equivalents/liabilities	13.4	27.2	16.6	11.2	9.4	10.4	10.4	10.2	12.3
Current liquidity (R5 by NBU)	131.6	90.7	132.3	106.6	109.2	54.7	115.9	114.9	103.3
Gross loans/deposits	144.7	111.1	106.7	111.4	113.0	119.4	130.4	124.3	91.7
Net loans/deposits	118.9	90.1	85.1	88.4	91.9	98.4	105.5	101.7	69.0
Cost-to-income ratio	24.6	26.8	26.9	27.0	28.4	29.0	20.6	21.3	20.0
Net interest margin	5.9	5.7	5.5	5.4	5.3	5.1	4.9	4.7	4.4
ROAA	0.1	0.2	0.2	0.2	0.3	0.2	0.2	0.2	-3.5
ROAE	0.6	0.9	1.0	1.1	1.3	1.1	1.2	1.2	-22.8
NII/operating income	74.6	76.2	77.2	79.6	84.2	88.8	62.2	60.1	53.9
Core income/operating expenses	347.0	325.9	328.3	335.6	337.4	347.8	341.8	319.5	305.0

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.

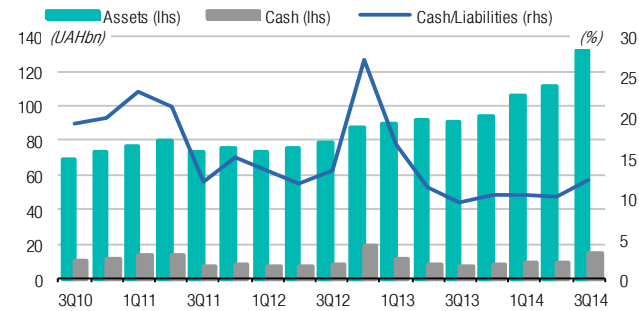
Ukreximbank: Key credit metrics

Chart 14. Capitalisation



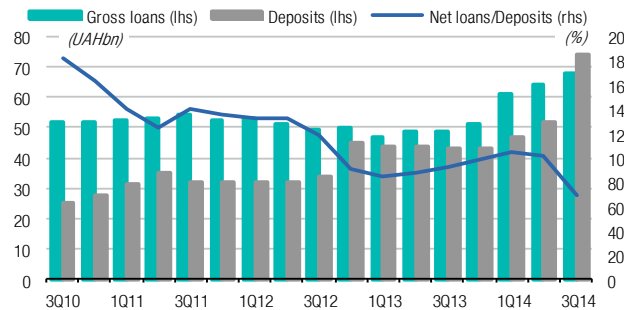
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 15. Liquidity



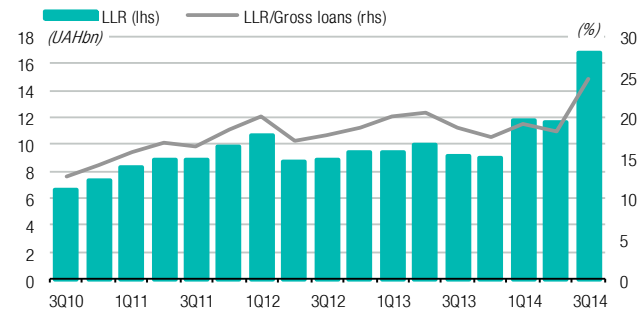
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 16. Loans and deposits



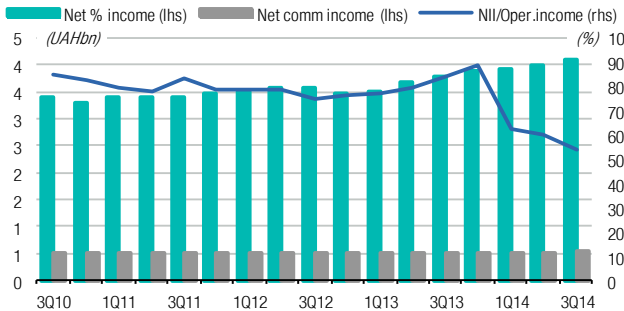
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 17. Loan loss reserves history



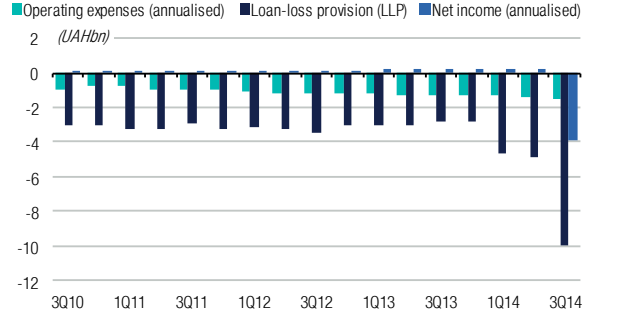
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 18. Income structure (annualised basis)



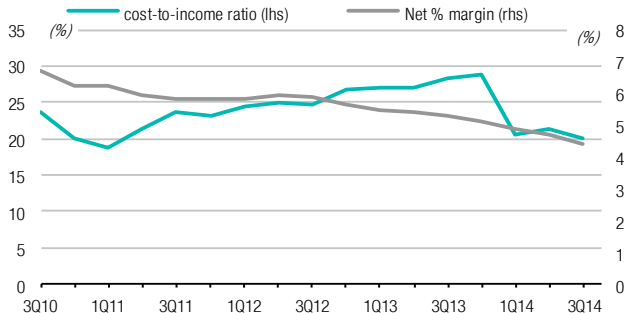
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 19. Expense and net income (annualised basis)



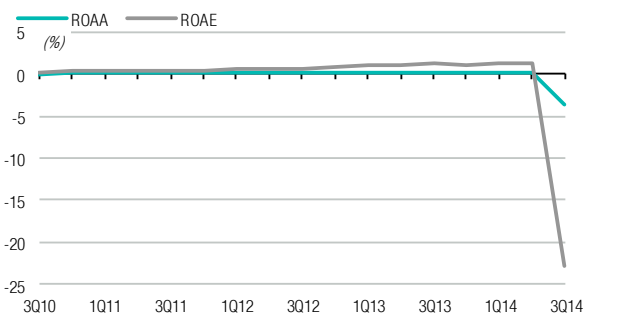
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 20. Financial performance ratios



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

Chart 21. 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 Ticker(s) in Bloomberg

Ca/ NR/CCC OSCHAD

Oschadbank faces two major issues in the coming six months: loss recognition followed by recapitalisation and the possible restructuring of the Naftogaz loan, whose share in the total gross portfolio declined from 24% in 4Q13 to 19% in 2Q14.

Capitalisation increase expected. Oschadbank was among the 15 banks at which an asset quality assessment was conducted in 2014. The government has announced its plans to increase the bank's capital by UAH11.6bn or 63.4%.

Currently, its regulatory CAR remains high, at 23.6% as of 2Q14. However, there is very significant downside potential due to the losses in Crimea (estimated at UAH7bn) and Donbas (at least UAH1bn).

Loan portfolio deteriorates. The share of bad debt in the overall loan portfolio grew by 0.7ppt in 3Q14 compared with 2Q14 to 10.7%. We believe that the bank has not yet recognised the current non-performing loans (NPLs) to large Crimean entities as non-recoverable. In our view, net loans totalling UAH7bn to a solar energy-generating company cannot be recovered owing to the geopolitical situation and the vital dependence of the sector on government subsidies, which the self-proclaimed government of Crimea is unable to provide.

Potential upside of Naftogaz loans. With less than six months until the Naftogaz loan is due to mature, it appears almost certain that Oschadbank's largest borrower will need to roll over the UAH15.3bn debt. A potential Naftogaz reform, which will imply the repayment of the debt to the state-owned bank, will release UAH2.8bn of the loan provision.

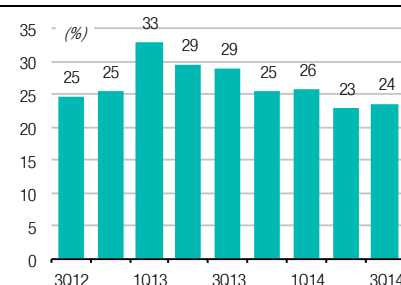
In 1H14 the terms and conditions of the loans to Naftogaz were revised, as a result of which the average interest rate increased from 12.4% in 4Q13 to 13.3% in 2Q14.

Deposits recover slowly. Total UAH deposits increased by UAH1.4bn or 4.1% QoQ in 3Q14. Unlike in the case of most other banks, both UAH- and FX-denominated deposits demonstrated growth – 4.1% QoQ and 6.1% QoQ, respectively.

Income rises slightly. The net interest margin declined from 6.8% in 4Q13 to 6.1% in 3Q14 owing to higher interest rates on NBU funding (13-14.5%), compared with an average cost of funding in 2013 of 8.7%.

The bank recognised moderate loan provision expenses of UAH574m in 3Q14, down 1.0% on 2Q14. The LRR ratio rose from 18.3% in 2Q14 to 18.8% in 3Q14 while the absolute amount of net earnings rose by UAH27m or 14.5% QoQ.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012 IFRS	2013 IFRS	2014 UAS	3Q14 UAS
Financials (UAHm)				
Assets	83,421	101,699	115,648	113,682
Loans	51,338	52,180	63,408	64,800
Deposits	38,877	46,409	43,520	46,621
Equity	17,767	19,204	20,398	20,115
Net % income	5,293	5,511	5,862	6,105
Net com income	1,040	1,231	1,288	1,292
Operating inc.	6,644	6,999	7,858	7,456
PPI	3,472	3,511	4,071	3,599
LLP	-2,738	-2,586	-3,047	-2,604
Net income	663	711	725	749
Ratios (%)				
Tier 1 ratio	25.1	23.2	N/a	N/a
CAR	27.9	24.7	22.8	23.6
Equity-to-assets	21.3	18.9	17.6	17.7
Net loan-to-deposit	132.1	112.4	145.7	139.0
Cash-to-liabilities	5.9	5.8	6.9	9.0
ROAA	0.8	0.7	0.7	0.7
ROAE	3.8	7.6	3.6	3.7
Net % margin	7.3	12.6	6.2	6.1
NII-to-op income	79.7	78.7	74.6	81.9
Cost-to-income	47.7	49.8	48.2	51.7
LLR	16.3	18.8	18.3	18.8
NPLs	7.3	10.8	N/a	N/a
NPL coverage	224.5	173.5	N/a	N/a

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

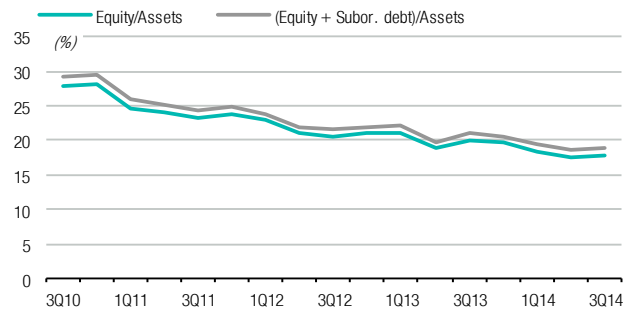
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	86,474	85,996	86,226	95,624	92,320	103,568	110,757	115,648	113,682
Cash and cash equivalents	7,605	15,489	9,587	7,394	6,539	7,470	7,113	6,565	8,402
Gross loans	60,382	61,348	60,520	61,871	64,356	64,281	71,812	77,648	79,826
Gross business loans	55,859	56,783	56,023	57,406	59,537	59,722	67,045	72,970	75,030
Gross household loans	4,524	4,565	4,497	4,465	4,819	4,559	4,766	4,677	4,796
Loan loss reserves (LLR)	-9,985	-10,161	-10,849	-11,194	-12,213	-12,735	-13,545	-14,239	-15,026
Deposits	37,143	39,399	40,021	43,040	44,120	46,341	42,292	43,520	46,621
Business deposits	8,017	9,545	7,435	8,115	8,010	10,414	8,891	10,129	12,660
Household deposits	29,127	29,854	32,587	34,926	36,110	35,927	33,401	33,392	33,960
Total equity	17,874	18,118	18,276	18,069	18,566	20,456	20,450	20,398	20,115
Quarterly P&L (UAHm)									
Net interest income	1,277	1,275	1,348	1,344	1,402	1,434	1,564	1,463	1,644
Net commission income	252	281	281	274	292	385	314	297	297
Operating income (before LLP)	1,733	894	1,839	1,421	2,033	1,880	1,995	1,950	1,632
Operating expenses	-786	-943	-805	-799	-861	-1,016	-912	-998	-931
Loan loss provisions (LLP)	-765	166	-847	-314	-1,017	-558	-892	-580	-574
Net income	183	155	137	157	187	198	156	184	211
Last 12-month period P&L (UAHm)									
Net interest income	4,935	4,928	5,072	5,245	5,370	5,528	5,744	5,862	6,105
Net commission income	998	1,040	1,059	1,087	1,127	1,231	1,264	1,288	1,292
Operating income (before LLP)	6,477	5,752	6,027	5,888	6,188	7,174	7,330	7,858	7,456
Operating expenses	-3,029	-3,203	-3,312	-3,332	-3,408	-3,481	-3,588	-3,787	-3,857
Loan loss provisions (LLP)	-2,935	-1,969	-2,152	-1,761	-2,012	-2,736	-2,782	-3,047	-2,604
Net income	557	566	525	631	636	679	697	725	749
Growth rates (%YoY)									
Assets	14.8	16.3	10.0	12.9	6.8	20.4	28.4	20.9	23.1
Gross loans	5.2	4.3	4.9	3.2	6.6	4.8	18.7	25.5	24.0
Deposits (by businesses)	-41.6	-28.5	-8.0	0.8	-0.1	9.1	19.6	24.8	58.1
Deposits (by households)	18.8	18.3	20.5	20.4	24.0	20.3	2.5	-4.4	-6.0
Deposits (total)	-2.9	2.1	14.0	16.1	18.8	17.6	5.7	1.1	5.7
Total equity	1.9	2.7	1.8	1.5	3.9	12.9	11.9	12.9	8.3
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	24.6	25.4	32.8	29.4	28.8	25.4	25.6	22.8	23.6
Equity/assets	20.7	21.1	21.2	18.9	20.1	19.8	18.5	17.6	17.7
(Equity + sub-debt)/assets	21.6	22.0	22.1	19.7	21.0	20.6	19.5	18.7	18.9
Cash & cash equivalents/liabilities	11.1	22.8	14.1	9.5	8.9	9.0	7.9	6.9	9.0
Current liquidity (R5 by NBU)	70.1	60.2	124.5	132.9	109.3	77.7	49.0	79.7	73.2
Gross loans/deposits	162.6	155.7	151.2	143.8	145.9	138.7	169.8	178.4	171.2
Net loans/deposits	135.7	129.9	124.1	117.7	118.2	111.2	137.8	145.7	139.0
Cost-to-income ratio	46.8	55.7	54.9	56.6	55.1	48.5	49.0	48.2	51.7
Net interest margin	7.2	7.2	7.2	7.3	7.2	6.8	6.5	6.2	6.1
ROAA	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7
ROAE	3.1	3.2	2.9	3.5	3.5	3.6	3.6	3.6	3.7
NII/operating income	76.2	85.7	84.2	89.1	86.8	77.1	78.4	74.6	81.9
Core income/operating expenses	195.9	186.4	185.1	190.0	190.6	194.2	195.3	188.8	191.8

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.

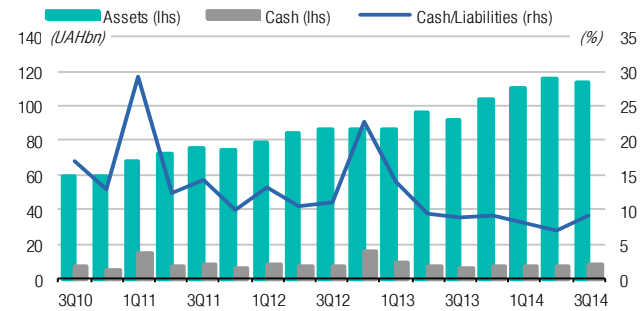
Oschadbank: Key credit metrics

Chart 22. Capitalisation



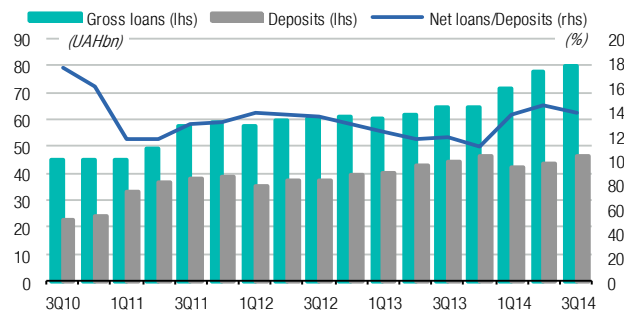
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 23. Liquidity



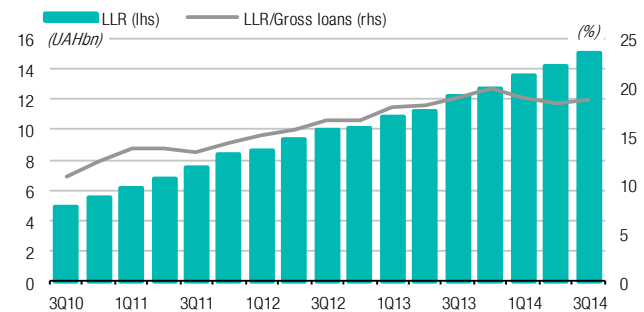
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 24. Loans and deposits



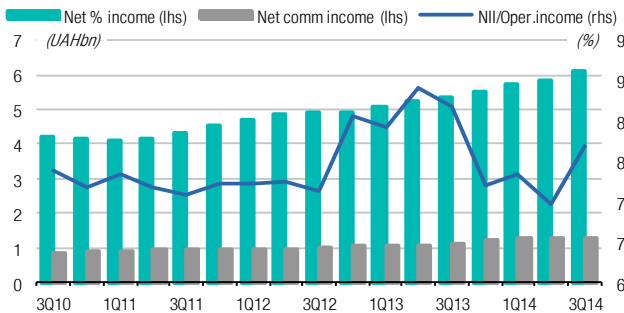
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 25. Loan loss reserves history



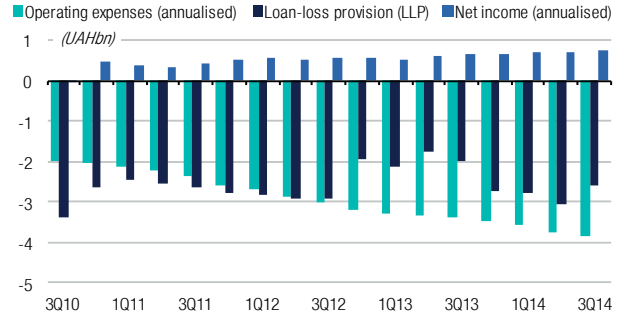
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 26. Income structure (annualised basis)



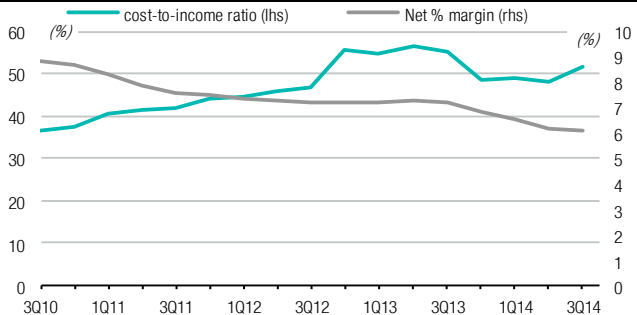
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 27. Expense and net income (annualised basis)



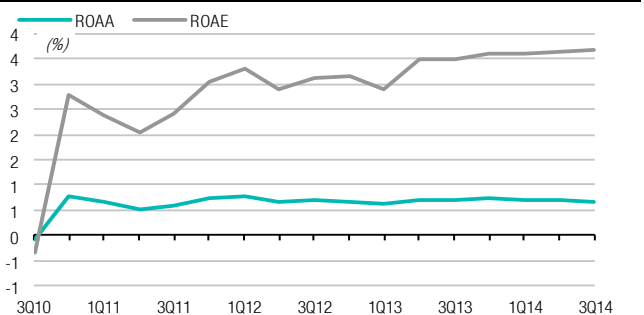
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 28. Financial performance ratios



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

Chart 29. Financial performance ratios



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

Country

Ukraine

Delta Bank

Sector

Banks: Commercial banking

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

NR / NR/ NR

Ticker(s) in Bloomberg

DELBK

The capitalisation of Delta Bank remains critically low – at the minimum required level – as demand for withdrawing deposits continues to be high. Given that the bank accounts for 6.0% or UAH24.8bn of the system's total retail deposits and given that its shareholders are committed to providing equity, we expect the regulator to continue to support it.

Capital increase announced. Delta Bank held an extraordinary shareholders meeting in September 2014 at which it was decided to increase the bank's share capital by UAH1.167bn. That amount, to be provided by the current shareholders, will increase the share capital by 31.3%. Capital inflows so far this year total UAH1.4bn.

No further growth expected. In September 2014 Greece's Eurobank Ergasias S.A. announced that its agreement with the Delta Bank Group was over owing to the failure to gain the regulator's approval. At the same time, low capitalisation prevented the bank from further growing its assets.

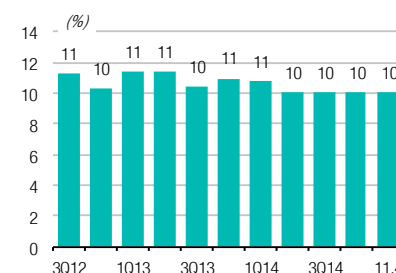
Interbank liabilities increase. The share of total liabilities due to other banks grew from just 23.0% in 4Q13 to 28.3% in 3Q14. Delta Bank has increased the total amount of loans received from both the NBU and other banks.

Withdrawals impair liquidity. Total deposits declined 15.1% adjusted for UAH devaluation during the first nine months of 2014 owing to withdrawals triggered by the overall economic situation and negative rumours about the bank's owner. Though steep, the decline is still below the sector average of 17.0%, since many withdrawal applications have been significantly delayed. Depositor panic caused the current liquidity ratio to fall to 40.0%, which is the minimum level required by the regulator.

The current high interest rates on deposits are expected to reverse the outflow of funds from the bank. However, lower high-yield consumer lending will deteriorate the bank's financials.

Loan portfolio deteriorates. The share of bad debt in the overall portfolio increased from 17.3% in 2Q14 to 21.9% in 3Q14. In our view, the bank has been overoptimistic about its impairment losses as the reserves coverage declined from 25.1% to 20.8% over the same period. We believe that the bank was unable to recognise a more adequate level of reserves owing to capitalisation constraints.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	2014	3Q14
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	29,647	54,670	61,477	63,105
Loans	18,695	40,126	44,271	46,234
Deposits	17,329	36,429	35,747	36,665
Equity	5,920	3,112	4,916	4,911
Net % income	571	2,021	-410	-591
Net com income	1,646	688	3,453	3,428
Operating inc.	2,366	3,423	4,383	5,073
PPI	1,347	1,458	2,096	2,704
LLP	-1,238	-1,564	-1,977	-2,620
Net income	92	140	359	324
Ratios (%)				
Tier 1 ratio	11.5	10.1	N/a	N/a
CAR	11.5	10.1	10.0	10.0
Equity-to-assets	20.0	5.7	8.0	7.8
Net loan-to-deposit	107.9	110.2	123.8	126.1
Cash-to-liabilities	21.5	10.5	12.3	10.1
ROAA	0.4	0.3	0.6	0.5
ROAE	1.8	4.6	9.0	7.4
Net % margin	2.9	5.9	-0.9	-1.2
NII-to-op income	24.1	59.0	-9.4	-11.7
Cost-to-income	43.1	57.4	52.2	46.7
LLR	15.0	8.6	7.6	7.4
NPLs	14.3	16.3	N/a	N/a
NPL coverage	105.1	52.6	N/a	N/a

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.

Delta Bank: Key quarterly UAS financials and ratios

Table 5. Key financials and ratios derived from the bank's UAS financials

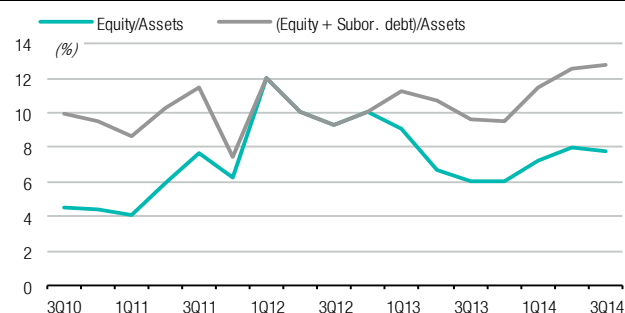
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	31,612	29,842	34,746	47,616	54,041	55,298	62,118	61,477	63,105
Cash and cash equivalents	3,832	4,906	7,711	10,725	9,267	5,361	6,341	6,930	5,901
Gross loans	19,599	21,265	24,744	30,751	36,720	43,220	48,562	47,913	49,909
Gross business loans	9,432	10,016	11,262	14,645	18,478	21,446	24,711	23,984	25,859
Gross household loans	10,167	11,250	13,482	16,105	18,242	21,774	23,851	23,930	24,051
Loan loss reserves (LLR)	-2,746	-3,244	-3,395	-2,655	-3,019	-3,110	-3,550	-3,642	-3,675
Deposits	15,026	17,198	22,628	29,892	33,834	36,126	37,168	35,747	36,665
Business deposits	3,574	3,846	6,518	8,475	10,048	9,991	10,571	9,709	11,827
Household deposits	11,452	13,352	16,110	21,417	23,786	26,135	26,597	26,038	24,838
Total equity	2,940	3,010	3,160	3,175	3,256	3,325	4,463	4,916	4,911
Quarterly P&L (UAHm)									
Net interest income	178	-163	-23	-173	-22	-85	-107	-196	-203
Net commission income	433	507	649	668	746	861	1,069	777	721
Operating income (before LLP)	668	386	593	641	900	1,200	1,067	1,216	1,590
Operating expenses	-307	1	-377	-414	-405	-769	-605	-508	-487
Loan loss provisions (LLP)	-366	-305	-118	-186	-425	-575	-397	-580	-1,068
Net income	24	36	98	38	71	96	73	120	35
Last 12-month period P&L (UAHm)									
Net interest income	1,537	571	440	-182	-382	-304	-388	-410	-591
Net commission income	1,249	1,646	1,948	2,257	2,569	2,923	3,343	3,453	3,428
Operating income (before LLP)	3,217	2,364	2,466	2,287	2,520	3,334	3,807	4,383	5,073
Operating expenses	-1,223	-1,019	-1,214	-1,098	-1,196	-1,965	-2,193	-2,287	-2,369
Loan loss provisions (LLP)	-1,780	-1,230	-1,052	-975	-1,033	-1,304	-1,583	-1,977	-2,620
Net income	12	98	184	196	243	303	277	359	324
Growth rates (%YoY)									
Assets	67.7	28.5	41.7	63.9	70.9	85.3	78.8	29.1	16.8
Gross loans	32.6	17.8	31.6	50.5	87.4	103.2	96.3	55.8	35.9
Deposits (by businesses)	78.7	75.4	133.6	179.8	181.1	159.8	62.2	14.6	17.7
Deposits (by households)	53.5	63.6	76.7	107.0	107.7	95.7	65.1	21.6	4.4
Deposits (total)	58.8	66.1	90.0	123.5	125.2	110.1	64.3	19.6	8.4
Total equity	103.9	107.7	7.5	8.6	10.7	10.5	41.3	54.9	50.8
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.4	11.4	10.4	11.0	10.7	10.1	10.0	10.0	10.0
Equity/assets	9.3	10.1	9.1	6.7	6.0	6.0	7.2	8.0	7.8
(Equity + sub-debt)/assets	9.3	10.1	11.3	10.7	9.6	9.5	11.5	12.6	12.8
Cash & cash equivalents/liabilities	13.4	18.3	24.4	24.1	18.2	10.3	11.0	12.3	10.1
Current liquidity (R5 by NBU)	72.2	66.3	79.5	81.6	52.1	40.3	50.0	40.0	40.2
Gross loans/deposits	130.4	123.6	109.4	102.9	108.5	119.6	130.7	134.0	136.1
Net loans/deposits	112.2	104.8	94.4	94.0	99.6	111.0	121.1	123.8	126.1
Cost-to-income ratio	38.0	43.1	49.2	48.0	47.5	59.0	57.6	52.2	46.7
Net interest margin	7.4	2.7	1.9	-0.7	-1.3	-0.8	-0.9	-0.9	-1.2
ROAA	0.0	0.3	0.6	0.5	0.6	0.6	0.5	0.6	0.5
ROAE	0.5	3.3	6.1	6.4	7.7	9.4	7.8	9.0	7.4
NII/operating income	47.8	24.2	17.9	-7.9	-15.1	-9.1	-10.2	-9.4	-11.7
Core income/operating expenses	227.8	217.6	196.8	189.1	183.0	133.3	134.7	133.0	119.8

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.

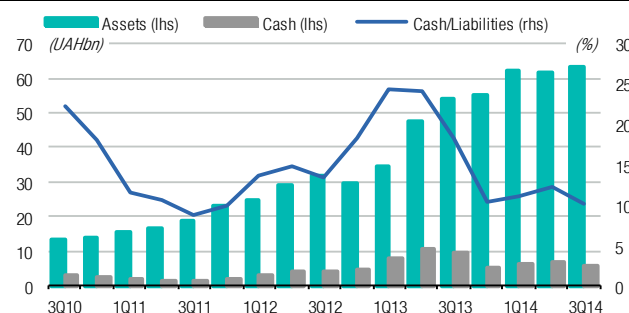
Delta Bank: Key credit metrics

Chart 30. Capitalisation



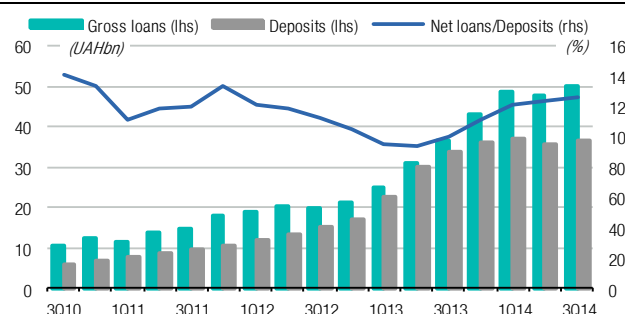
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 31. Liquidity



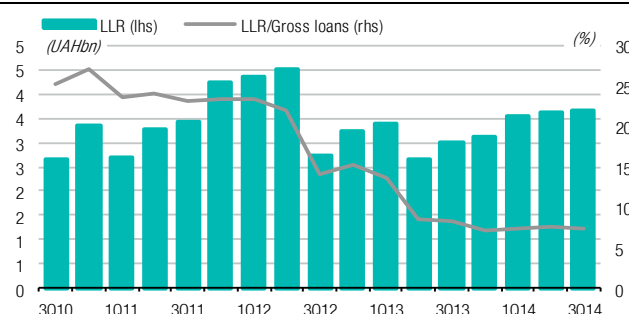
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 32. Loans and deposits



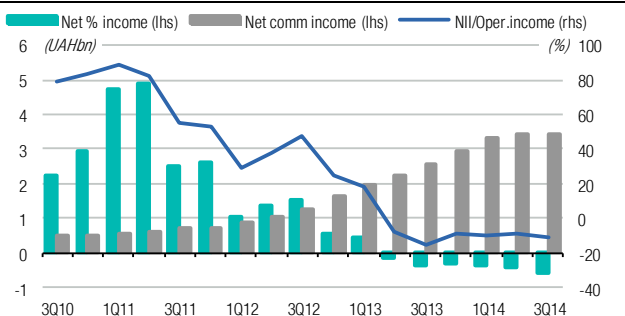
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 33. Loan loss reserves history



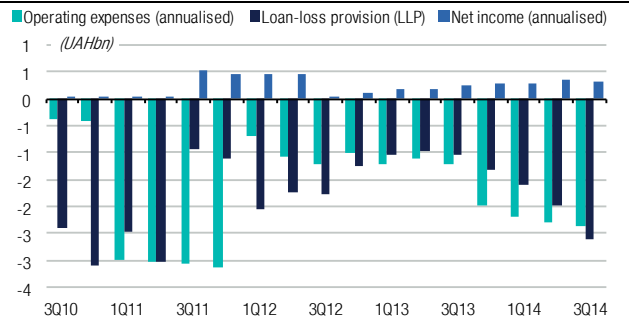
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 34. Income structure (annualised basis)



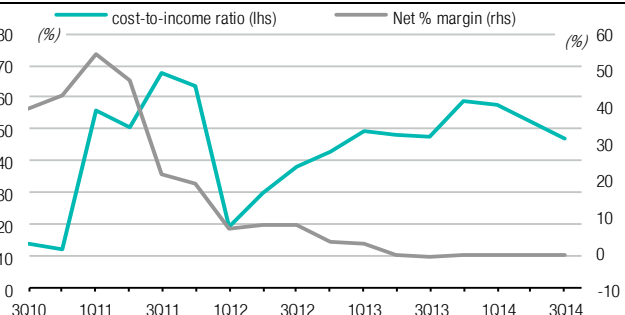
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 35. Expense and net income (annualised basis)



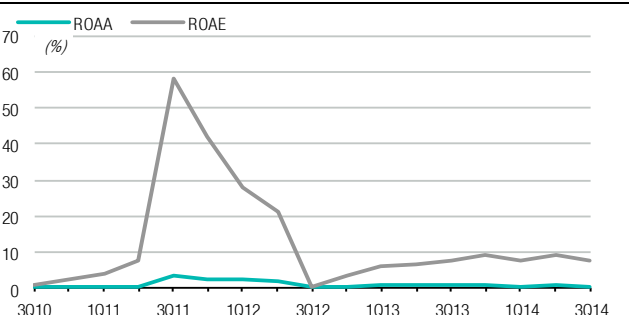
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 36. Financial performance ratios



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

Chart 37. Financial performance ratios



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

Country

Ukraine

Prominvestbank

Sector

Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch Ticker(s) in Bloomberg

NR /NR/NR VEBBNK

While the bank's source for potential capital inflows is solid – US\$2.0bn in loans from Vnesheconombank – its exposure to the Donbas region raises questions about its business model, which includes providing loans to entities with close economic ties to Russia.

Support from the parent. Loans from other banks accounted for UAH27.4bn or 60.5% of Prominvestbank's total liabilities in 3Q14. Most of that amount is denominated in FX (90.1% or the equivalent of US\$2.0bn) and provided by the parent group. According to our estimates, VEB's total exposure to its Ukrainian subsidiary increased by approximately US\$0.4bn during the first eight months of 2014.

Large related-party debt is, without doubt, the main candidate for conversion into equity if Prominvestbank needs additional capitalisation inflows. The current solid level of capitalisation (12.5% in 3Q14) has a downside potential owing to the bank's large corporate loan exposure in the Donbas region (c. 15% of the total).

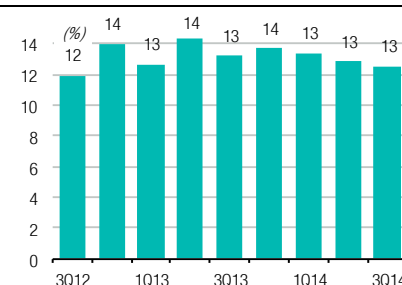
Liquidity declines. Total deposits adjusted for UAH devaluation declined by 8.2% in 1H14. This had a negative impact on the bank's cash-to-liabilities ratio, which sank to 6.4% in 2Q14. The bank has received no significant refinancing so far in 2014.

Cleaning up the loan portfolio. The LLR ratio decreased from 5.3% in 1Q14 to just 2.9% in 2Q14 as a result of the write-off of several bad assets. Thus, despite the economic downturn, the share of bad debt decreased from 12.9% in 1Q14 to 11.0% in 2Q14, while the reserve coverage stood at 29.6% and just 14.0%, respectively. Such low reserve coverage signals the need for additional large provision expenses in the future.

FX trading profits soar. The bank recognised FX trading profits totalling UAH708m in 2Q14, up some 400% on 1Q14. At the same time, the net FX revaluation loss for the quarter was UAH119m, while the revaluation of securities and derivatives resulted in a loss of UAH518m. The scale of such operations does not compare with that of previous years and is symptomatic of the high volatility of the UAH exchange rate.

Net interest income increased by 24.5% QoQ in 2Q14 owing to the more favourable interest rates on loans from the parent bank. As a result, the bank earned UAH325m in 2Q14 – 40.9% less than in the previous quarter.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	2014	3Q14
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	38,181	39,381	51,300	51,578
Loans	26,646	28,055	38,099	37,096
Deposits	14,505	14,513	15,074	13,144
Equity	5,070	5,008	6,268	6,322
Net % income	1,273	1,338	1,430	1,589
Net com income	213	293	403	468
Operating inc.	1,611	1,917	2,310	2,483
PPI	293	567	810	992
LLP	-2,061	-606	92	81
Net income	-1,806	-2	960	1,132
Ratios -%				
Tier 1 ratio	8.9	8.7	N/a	N/a
CAR	17.4	16.9	12.8	12.5
Equity-to-assets	13.3	12.7	12.2	12.3
Net loan-to-deposit	183.7	193.3	252.8	282.2
Cash-to-liabilities	13.8	12.0	6.4	5.6
ROAA	-4.8	-	2.1	2.4
ROAE	-41.1	-	16.5	18.7
Net % margin	4.4	4.4	3.8	3.9
NII-to-op income	79.0	69.8	61.9	64.0
Cost-to-income	81.8	70.4	64.9	60.1
LLR	14.2	7.8	2.9	3.5
NPLs	12.3	20.3	N/a	N/a
NPL coverage	115.4	38.1	N/a	N/a

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.

Prominvestbank: Key quarterly UAS financials and ratios

Table 6. Key financials and ratios derived from the bank's UAS financials

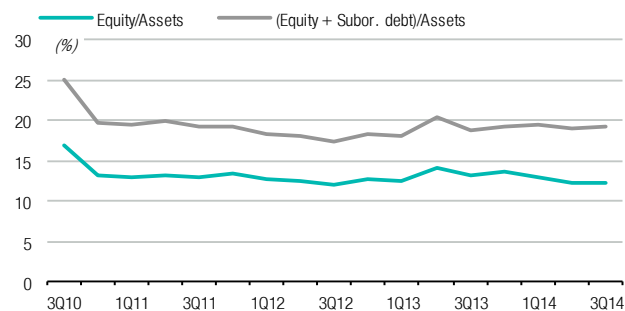
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	41,824	41,318	40,796	37,337	40,237	39,737	48,945	51,300	51,578
Cash and cash equivalents	1,631	3,111	2,608	2,131	2,834	2,633	3,276	2,896	2,513
Gross loans	33,245	31,300	31,436	30,982	33,037	30,628	37,402	39,226	38,454
Gross business loans	32,613	31,173	31,306	30,847	32,904	30,416	37,276	39,101	38,329
Gross household loans	632	127	130	135	133	212	126	125	125
Loan loss reserves (LLR)	-2,175	-1,813	-1,975	-4,850	-4,963	-2,227	-1,997	-1,126	-1,359
Deposits	13,814	13,986	13,272	13,032	14,012	13,898	13,935	15,074	13,144
Business deposits	5,891	5,937	5,405	5,080	5,997	5,792	5,999	7,086	5,752
Household deposits	7,923	8,049	7,867	7,951	8,015	8,106	7,936	7,988	7,392
Total equity	5,045	5,273	5,061	5,238	5,322	5,384	6,300	6,268	6,322
Quarterly P&L (UAHm)									
Net interest income	340	314	280	313	327	313	352	438	485
Net commission income	72	69	76	89	120	88	81	114	185
Operating income (before LLP)	406	752	409	471	525	471	537	777	697
Operating expenses	-328	-458	-276	-321	-365	-457	-283	-395	-356
Loan loss provisions (LLP)	-79	-474	-121	-2,826	-130	40	296	-115	-140
Net income	-1	236	14	-2,675	30	55	550	325	202
Last 12-month period P&L (UAHm)									
Net interest income	1,344	1,314	1,320	1,247	1,234	1,233	1,305	1,430	1,589
Net commission income	259	268	288	307	355	373	378	403	468
Operating income (before LLP)	2,052	2,010	1,961	2,039	2,158	1,877	2,005	2,310	2,483
Operating expenses	-1,640	-1,385	-1,376	-1,382	-1,420	-1,419	-1,426	-1,500	-1,491
Loan loss provisions (LLP)	-398	-815	-767	-3,500	-3,550	-3,036	-2,619	92	81
Net income	14	225	235	-2,427	-2,395	-2,575	-2,039	960	1,132
Growth rates (%YoY)									
Assets	18.6	8.3	0.8	-8.9	-3.8	-3.8	20.0	37.4	28.2
Gross loans	14.7	7.1	-1.8	-5.1	-0.6	-2.1	19.0	26.6	16.4
Deposits (by businesses)	-9.7	-21.0	-20.4	-19.9	1.8	-2.4	11.0	39.5	-4.1
Deposits (by households)	-17.6	-10.5	-9.2	-6.7	1.2	0.7	0.9	0.5	-7.8
Deposits (total)	-14.4	-15.3	-14.1	-12.3	1.4	-0.6	5.0	15.7	-6.2
Total equity	10.4	3.8	-1.4	3.0	5.5	2.1	24.5	19.7	18.8
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.9	14.0	12.7	14.3	13.2	13.7	13.4	12.8	12.5
Equity/assets	12.1	12.8	12.4	14.0	13.2	13.5	12.9	12.2	12.3
(Equity + sub-debt)/assets	17.4	18.2	18.0	20.3	18.8	19.3	19.4	19.0	19.3
Cash & cash equivalents/liabilities	4.4	8.6	7.3	6.6	8.1	7.7	7.7	6.4	5.6
Current liquidity (R5 by NBU)	76.1	88.0	99.8	77.6	71.9	67.5	140.3	104.5	159.3
Gross loans/deposits	240.7	223.8	236.9	237.7	235.8	220.4	268.4	260.2	292.6
Net loans/deposits	224.9	210.8	222.0	200.5	200.4	204.3	254.1	252.8	282.2
Cost-to-income ratio	79.9	68.9	70.1	67.8	65.8	75.6	71.1	64.9	60.1
Net interest margin	3.9	3.8	3.8	3.7	3.8	3.8	3.8	3.8	3.9
ROAA	0.0	0.5	0.6	-6.0	-6.0	-6.5	-4.9	2.1	2.4
ROAE	0.3	4.4	4.6	-47.1	-45.9	-49.0	-36.7	16.5	18.7
NII/operating income	65.5	65.4	67.3	61.2	57.2	65.7	65.1	61.9	64.0
Core income/operating expenses	97.8	114.2	116.9	112.4	111.9	113.2	118.0	122.2	137.9

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.

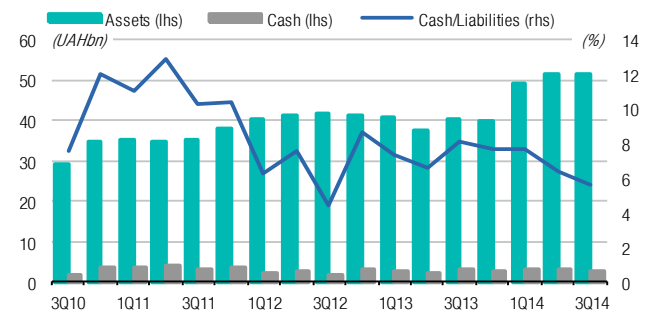
Prominvestbank: Key credit metrics

Chart 38. Capitalisation



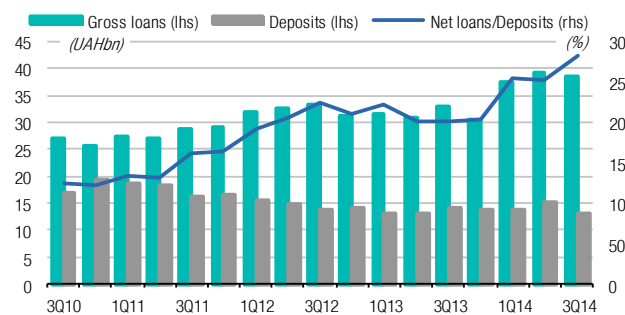
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 39. Liquidity



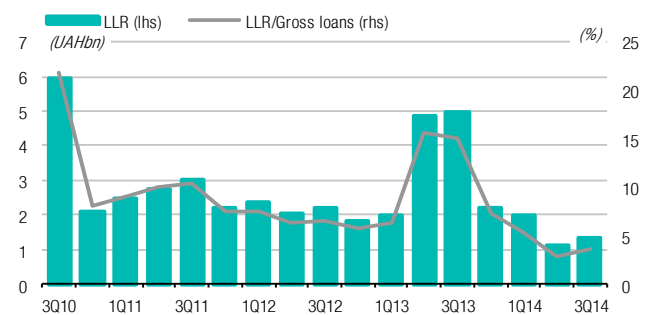
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 40. Loans and deposits



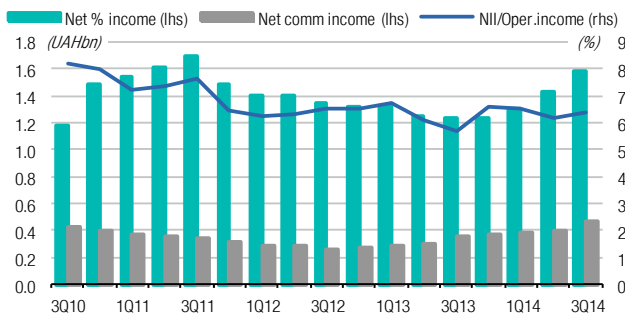
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 41. Loan loss reserves history



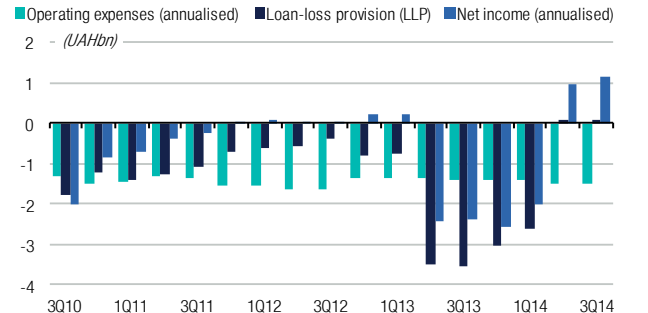
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 42. Income structure (annualised basis)



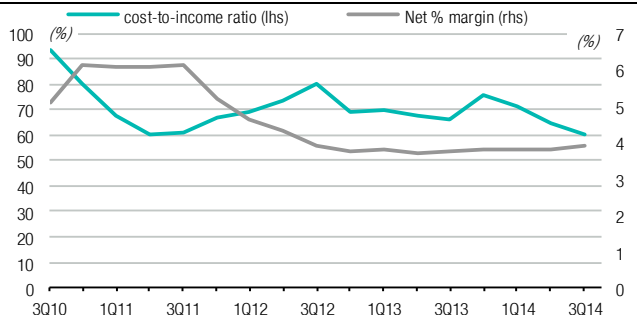
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 43. Expense and net income (annualised basis)



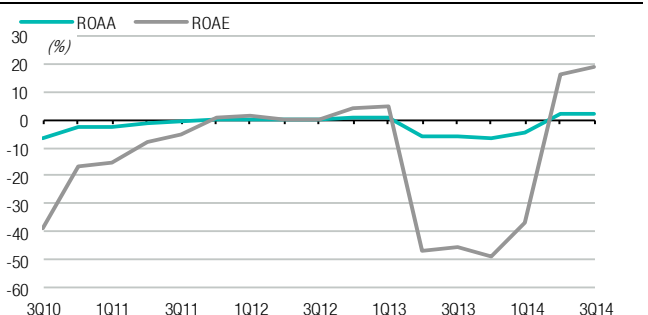
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 44. Financial performance ratios



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

Chart 45. Financial performance ratios



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

Country

Ukraine

Ukrasotsbank

Sector

Banks: Commercial banking

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

NR/NR/CCC

Ticker(s) in Bloomberg

USCB

Owing to the lack of profits over a long period and unclear prospects, there is an urgent need for reorganization, which is most likely to take place under the new ultimate shareholders. However, ownership change is very unlikely in the current economic conditions.

Liquidity under control. Ukrasotsbank received a short-term loan from the NBU in 1Q14 to stabilize liquidity. However, it paid that debt in August in order to avoid regulatory constraints on banks that have refinancing loans.

Ukrasotsbank lost 20.2% of total deposits adjusted for UAH devaluation during the first nine months of 2014. The parent group continues to provide support to the bank: according to our estimate, total outstanding debt from that source was US\$1.2bn in 2Q14.

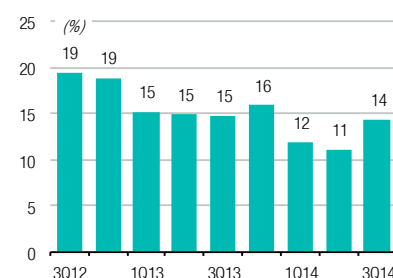
We do not expect any material quasi-equity inflows into Ukrasotsbank owing to the lack of business opportunities and the parent group's desire to decrease its exposure to Ukraine and exit the market when possible.

Poorly performing loan portfolio. The total share of bad debt increased from 37.1% in 2Q14 to 41.6% in 2Q14. Under recent legislation, 40% implies the status of problem bank, which Ukrasotsbank will most likely seek to avoid. In the absence of any expansion plans, we expect Ukrasotsbank to write off some of its existing NPLs in 2014. This may result in further significant provision losses since the reserve coverage for bad debts was 44.2% as of 3Q14.

Shaky capitalisation level. The regulatory CAR increased by 3.2ppt to 14.3% in 3Q14. Given the large amount of potentially under-provisioned bad assets, the bank is likely to require additional capital inflows. An obvious source of such funding is the large amount of debt to the parent group that could be converted into equity.

Interest income falls. Interest income declined by 40.9% or UAH397m QoQ in 3Q14 owing to the increased share of NPLs. Accordingly, the net interest margin (NIM), dropped by 2.0pp to 4.9%. Ukrasotsbank is trying to manage net operating income by lowering its cost of funding. It is offering below market average interest rates on deposits and paying 3% annually on USD-denominated loans from the parent bank.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012 IFRS	2013 IFRS	2014 UAS	3Q14 UAS
Financials (UAHm)				
Assets	45,043	43,527	46,444	44,960
Loans	28,592	28,061	31,506	30,832
Deposits	20,324	21,775	19,274	20,203
Equity	10,278	9,145	8,617	7,143
Net % income	2,416	2,059	2,328	1,758
Net com income	672	713	711	670
Operating inc.	3,305	2,827	3,443	3,015
PPI	1,600	1,013	1,099	583
LLP	-1,542	-2,333	-1,099	-2,402
Net income	95	-1,169	18	-1,545
Ratios (%)				
Tier 1 ratio	25	20	N/a	N/a
CAR	27	22	11.1	14.3
Equity-to-assets	22.8	21.0	18.6	15.9
Net loan-to-deposit	140.7	128.9	163.5	152.6
Cash-to-liabilities	21.4	17.9	11.5	7.4
ROAA	0.2	-2.6	0.0	-3.4
ROAE	1.1	-12.0	0.2	-18.7
Net % margin	7.7	6.7	6.9	4.9
NII-to-op income	73.1	72.8	67.6	58.3
Cost-to-income	51.6	64.1	68.1	80.7
LLR	17.9	21.4	20.8	25.1
NPLs	42.7	40.8	N/a	N/a
NPL coverage	41.9	52.4	N/a	N/a

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.

Ukrasotsbank: Key quarterly UAS financials and ratios

Table 7. Key financials and ratios derived from the bank's UAS financials

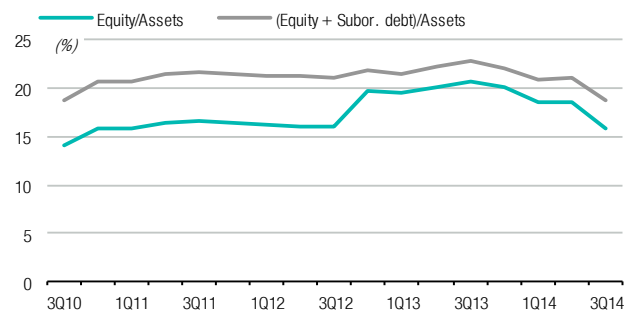
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	40,349	38,830	39,420	38,345	37,329	43,057	46,124	46,444	44,960
Cash and cash equivalents	4,134	5,949	5,269	3,933	3,735	5,402	3,556	4,360	2,803
Gross loans	36,866	32,094	31,919	32,146	31,724	35,273	41,375	39,757	41,161
Gross business loans	18,648	14,185	14,250	14,489	14,724	18,010	20,736	19,395	20,092
Gross household loans	18,218	17,909	17,669	17,658	17,000	17,263	20,640	20,363	21,070
Loan loss reserves (LLR)	-9,025	-8,405	-7,939	-8,116	-7,328	-7,899	-8,869	-8,252	-10,330
Deposits	17,219	18,370	18,560	18,746	19,117	21,611	18,627	19,274	20,203
Business deposits	6,189	6,726	6,229	6,513	6,963	9,661	7,273	7,543	8,400
Household deposits	11,030	11,645	12,331	12,234	12,154	11,950	11,355	11,731	11,803
Total equity	6,502	7,657	7,683	7,698	7,732	8,668	8,544	8,617	7,143
Quarterly P&L (UAHm)									
Net interest income	610	491	427	517	553	770	607	398	-17
Net commission income	168	187	149	159	188	222	153	148	147
Operating income (before LLP)	876	692	576	680	760	1,085	844	754	332
Operating expenses	-357	-465	-418	-444	-497	-724	-545	-577	-586
Loan loss provisions (LLP)	-503	-219	-143	-197	-251	-345	-307	-196	-1,554
Net income	2	2	4	2	2	3	23	-10	-1,560
Last 12-month period P&L (UAHm)									
Net interest income	2,647	2,409	2,178	2,045	1,989	2,268	2,448	2,328	1,758
Net commission income	627	647	663	663	683	719	722	711	670
Operating income (before LLP)	3,476	3,245	2,988	2,824	2,708	3,101	3,369	3,443	3,015
Operating expenses	-1,701	-1,698	-1,772	-1,683	-1,823	-2,083	-2,210	-2,344	-2,432
Loan loss provisions (LLP)	-1,721	-1,496	-1,161	-1,061	-810	-936	-1,100	-1,099	-2,402
Net income	15	8	10	10	10	11	30	18	-1,545
Growth rates (%YoY)									
Assets	1.8	-3.4	-2.4	-4.1	-7.5	10.9	17.0	21.1	20.4
Gross loans	-1.4	-13.8	-15.0	-13.4	-13.9	9.9	29.6	23.7	29.7
Deposits (by businesses)	-22.1	-4.3	-1.8	10.3	12.5	43.6	16.8	15.8	20.6
Deposits (by households)	7.5	9.0	11.1	11.1	10.2	2.6	-7.9	-4.1	-2.9
Deposits (total)	-5.4	3.7	6.4	10.8	11.0	17.6	0.4	2.8	5.7
Total equity	-1.0	15.9	16.7	19.7	18.9	13.2	11.2	11.9	-7.6
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	19.4	18.8	15.2	14.9	14.7	15.9	11.8	11.1	14.3
Equity/assets	16.1	19.7	19.5	20.1	20.7	20.1	18.5	18.6	15.9
(Equity + sub-debt)/assets	21.1	21.9	21.5	22.2	22.9	22.0	20.9	21.1	18.8
Cash & cash equivalents/liabilities	12.2	19.1	16.6	12.8	12.6	15.7	9.5	11.5	7.4
Current liquidity (R5 by NBU)	70.8	85.8	84.4	77.4	73.1	89.3	53.0	65.1	71.4
Gross loans/deposits	214.1	174.7	172.0	171.5	165.9	163.2	222.1	206.3	203.7
Net loans/deposits	161.7	129.0	129.2	128.2	127.6	126.7	174.5	163.5	152.6
Cost-to-income ratio	48.9	52.3	59.3	59.6	67.3	67.2	65.6	68.1	80.7
Net interest margin	8.4	7.9	7.3	7.1	7.1	7.7	7.7	6.9	4.9
ROAA	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	-3.4
ROAE	0.2	0.1	0.1	0.1	0.1	0.1	0.4	0.2	-18.7
NII/operating income	76.2	74.2	72.9	72.4	73.4	73.1	72.7	67.6	58.3
Core income/operating expenses	192.4	180.0	160.4	160.9	146.5	143.4	143.4	129.7	99.8

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.

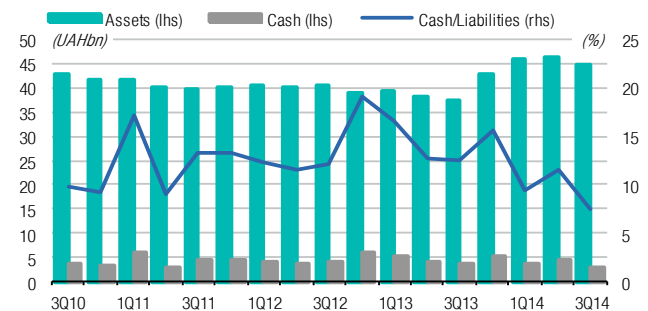
Ukrasotsbank: Key credit metrics

Chart 46. Capitalisation



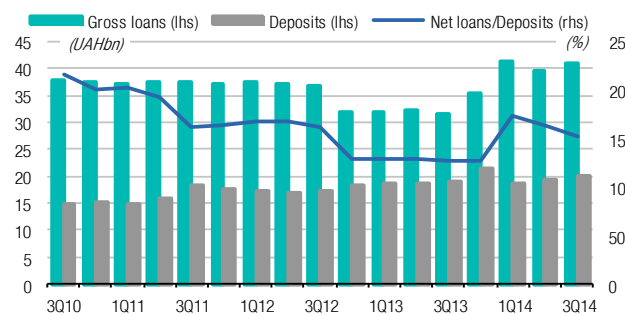
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 47. Liquidity



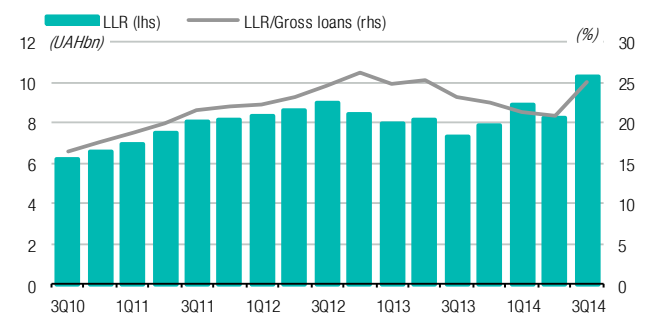
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 48. Loans and deposits



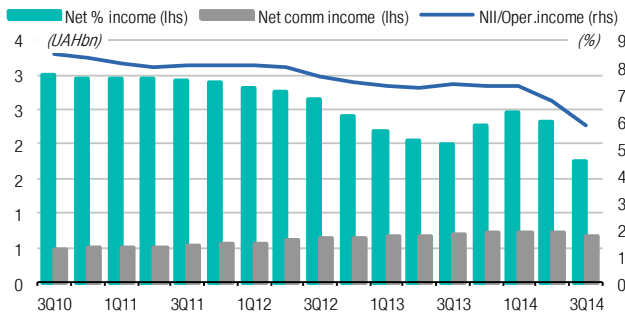
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 49. Loan loss reserves history



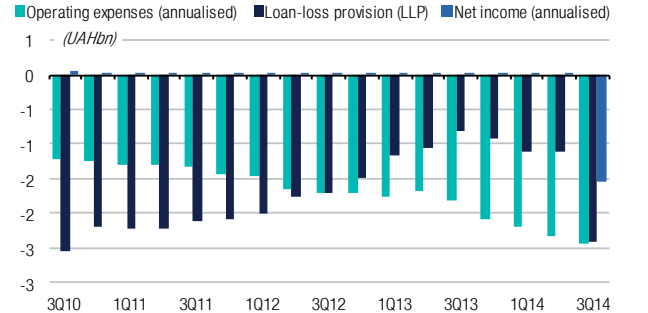
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 50. Income structure (annualised basis)



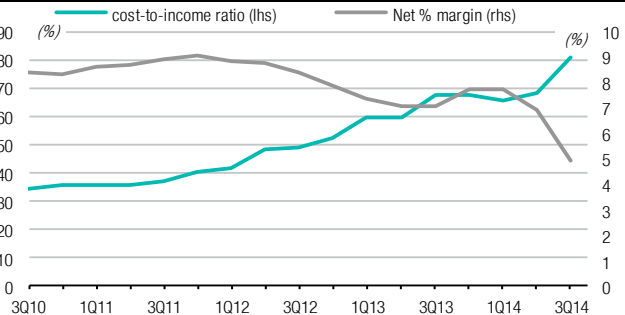
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 51. Expense and net income (annualised basis)



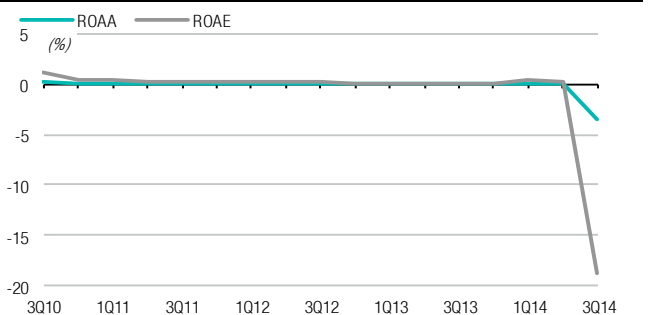
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 52. Financial performance ratios



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

Chart 53. Financial performance ratios



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

Country

Ukraine

Raiffeisen Bank Aval

Sector

Banks: Commercial banking

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

Ticker(s) in Bloomberg

Caa/ NR /NR AVAL

The current capitalisation level of Raiffeisen Bank International is adequate, according to the results of the European Central Bank (ECB) stress test. However, its loss-generating Ukrainian subsidiary remains a burden for the group's financials, making further attempts to sell the bank likely.

Capitalisation shrinking. The regulatory CAR dropped 0.8 ppt in 3Q14 owing to losses from large provision expenses so far in 2014. The current level of capitalisation will allow the bank to incur further losses of up to UAH3.0bn before reaching the minimum requirement.

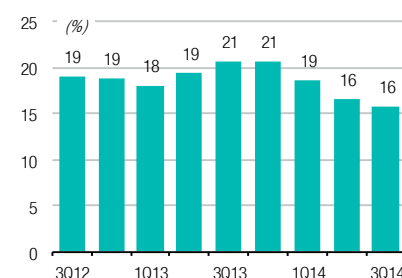
At the same time, the bank paid UAH900m in dividends in 2Q14, which exceeds total net income in FY2013 (UAH730m, according to local accounting standards). That decision can be attributed to the inability to sell the bank in current conditions. From the group's perspective, its timing was good, given the temporary ban on dividends withdrawal now in effect.

Loan portfolio: Poor quality but strong reserves. The share of bad debt in the overall loan portfolio increased by 2.3 ppt to 29.4% in 3Q14. The bank has adopted a conservative approach towards provisions by keeping LLR ratios high – 16.9% and 54.2% for corporate and retail customers, respectively.

Pre-provision income increased by 23.8% QoQ to UAH2.0bn in 3Q14 – its average level. The bank reported currency devaluation losses from its significant FX position at UAH1.6bn for the 9 months 2014.

High liquidity. Deposits adjusted for UAH devaluation declined by 11.8% during 9 months 2014. But the bank could not rely on the parent group to compensate for that outflow. The cash-to-liabilities ratio declined from 16.1% in 4Q13 to 12.2% in 3Q14. However, in our view Aval bank has a large liquidity cushion owing to the UAH6.0bn of government bonds.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	2014	3Q14
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	49,808	45,367	44,413	44,676
Loans	28,359	29,306	28,837	28,448
Deposits	28,554	27,185	25,768	26,452
Equity	8,221	9,118	6,318	5,879
Net % income	3,516	3,395	4,446	4,599
Net com income	1,322	1,360	1,536	1,564
Operating inc.	4,790	5,466	5,458	5,817
PPI	1,650	2,541	2,200	2,413
LLP	-1,103	-1,307	-2,943	-3,995
Net income	319	985	-795	-1,376
Ratios -%				
Tier 1 ratio	21.3	23.7	N/a	N/a
CAR	30.9	32.3	16.5	15.7
Equity-to-assets	16.5	20.1	14.2	13.2
Net loan-to-deposit	99.3	107.8	111.9	107.5
Cash-to-liabilities	24.8	17.4	11.9	12.2
ROAA	0.6	2.1	-1.8	-3.1
ROAE	4.0	11.4	-11.5	-21.0
Net % margin	9.2	9.6	12.8	13.2
NII-to-op income	73.4	62.1	81.4	79.1
Cost-to-income	65.6	53.5	59.7	58.5
LLR	23.9	22.0	29.7	32.4
NPLs	34.3	29.5	N/a	N/a
NPL coverage	69.7	74.7	N/a	N/a

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.

Raiffeisen Bank Aval: Key quarterly UAS financials and ratios

Table 8. Key financials and ratios derived from the bank's UAS financials

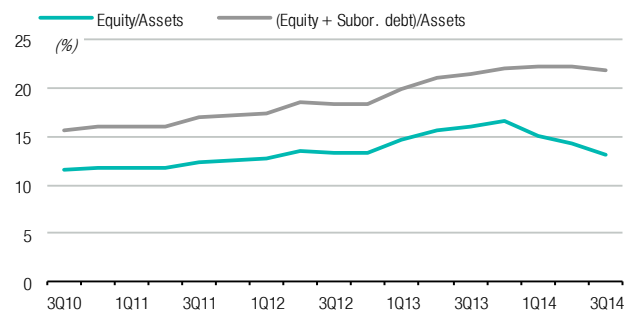
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	47,434	47,694	45,977	44,929	44,804	43,460	44,987	44,413	44,676
Cash and cash equivalents	8,364	9,797	6,184	5,559	7,243	5,844	5,236	4,535	4,733
Gross loans	37,145	35,987	36,059	36,054	35,263	35,896	41,175	41,046	42,104
Gross business loans	21,043	20,374	20,573	21,312	20,913	22,207	24,715	24,155	24,595
Gross household loans	16,102	15,613	15,486	14,742	14,349	13,688	16,460	16,892	17,509
Loan loss reserves (LLR)	-10,444	-9,916	-10,193	-9,436	-8,914	-8,849	-11,508	-12,209	-13,657
Deposits	27,624	27,804	28,973	28,761	28,735	26,419	23,851	25,768	26,452
Business deposits	12,394	12,369	12,574	11,992	13,083	11,787	10,361	10,833	12,604
Household deposits	15,229	15,436	16,399	16,768	15,653	14,633	13,490	14,935	13,848
Total equity	6,330	6,346	6,747	7,038	7,216	7,237	6,789	6,318	5,879
Quarterly P&L (UAHm)									
Net interest income	1,003	988	857	942	1,047	1,064	1,154	1,181	1,201
Net commission income	384	395	330	362	402	408	345	382	429
Operating income (before LLP)	1,435	1,436	1,240	1,514	1,614	1,549	702	1,593	1,973
Operating expenses	-829	-1,081	-813	-766	-807	-882	-736	-833	-953
Loan loss provisions (LLP)	-498	-283	-310	-247	-521	-595	-870	-956	-1,573
Net income	53	-35	84	438	216	-8	-943	-60	-366
Last 12-month period P&L (UAHm)									
Net interest income	4,244	4,046	3,824	3,789	3,834	3,910	4,206	4,446	4,599
Net commission income	1,397	1,430	1,450	1,470	1,488	1,501	1,516	1,536	1,564
Operating income (before LLP)	5,758	5,654	5,450	5,626	5,805	5,918	5,379	5,458	5,817
Operating expenses	-3,357	-3,558	-3,605	-3,490	-3,468	-3,269	-3,192	-3,258	-3,404
Loan loss provisions (LLP)	-2,162	-1,854	-1,507	-1,338	-1,362	-1,674	-2,234	-2,943	-3,995
Net income	75	34	107	540	703	730	-297	-795	-1,376
Growth rates (%YoY)									
Assets	-10.8	-7.1	-9.5	-5.4	-5.5	-8.9	-2.2	-1.2	-0.3
Gross loans	-17.7	-15.8	-8.1	-4.0	-5.1	-0.3	14.2	13.8	19.4
Deposits (by businesses)	-4.0	-1.9	-2.3	2.1	5.6	-4.7	-17.6	-9.7	-3.7
Deposits (by households)	-0.2	2.7	6.3	6.4	2.8	-5.2	-17.7	-10.9	-11.5
Deposits (total)	-2.0	0.6	2.4	4.5	4.0	-5.0	-17.7	-10.4	-7.9
Total equity	-4.1	-1.9	5.1	10.3	14.0	14.0	0.6	-10.2	-18.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	19.0	18.8	18.1	19.3	20.6	20.6	18.6	16.5	15.7
Equity/assets	13.3	13.3	14.7	15.7	16.1	16.7	15.1	14.2	13.2
(Equity + sub-debt)/assets	18.4	18.3	19.9	21.0	21.4	22.1	22.3	22.2	21.8
Cash & cash equivalents/liabilities	20.3	23.7	15.8	14.7	19.3	16.1	13.7	11.9	12.2
Current liquidity (R5 by NBU)	77.7	80.0	77.0	93.2	94.7	73.8	81.9	84.3	86.4
Gross loans/deposits	134.5	129.4	124.5	125.4	122.7	135.9	172.6	159.3	159.2
Net loans/deposits	96.7	93.8	89.3	92.5	91.7	102.4	124.4	111.9	107.5
Cost-to-income ratio	58.3	62.9	66.2	62.0	59.7	55.2	59.3	59.7	58.5
Net interest margin	11.4	11.3	10.8	10.8	11.0	11.3	12.2	12.8	13.2
ROAA	0.2	0.1	0.2	1.2	1.5	1.6	-0.7	-1.8	-3.1
ROAE	1.2	0.5	1.7	8.2	10.3	10.3	-4.2	-11.5	-21.0
NII/operating income	73.7	71.5	70.2	67.4	66.0	66.1	78.2	81.4	79.1
Core income/operating expenses	168.1	153.9	146.3	150.7	153.5	165.5	179.3	183.6	181.1

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.

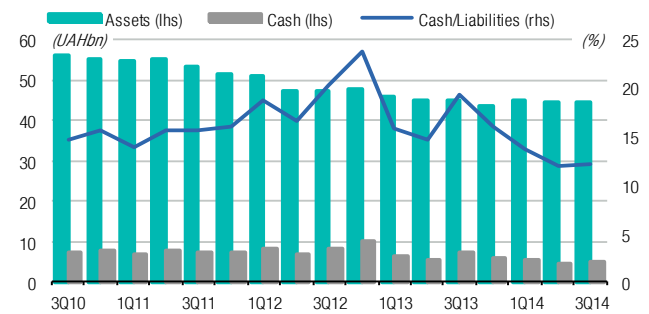
Raiffeisen Bank Aval: Key credit metrics

Chart 54. Capitalisation



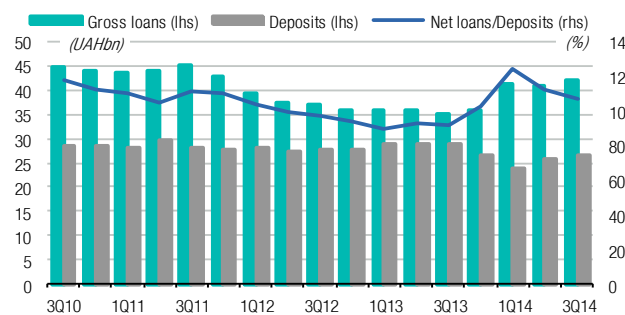
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 55. Liquidity



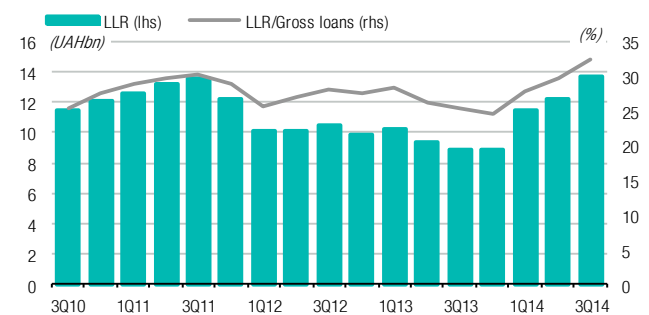
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 56. Loans and deposits



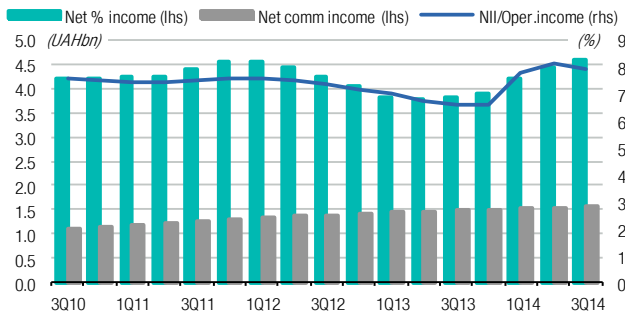
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 57. Loan loss reserves history



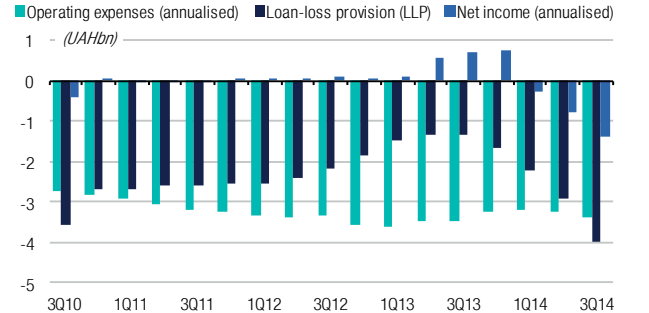
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 58. Income structure (annualised basis)



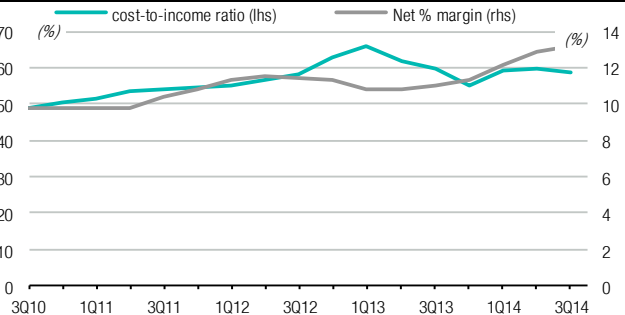
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 59. Expense and net income (annualised basis)



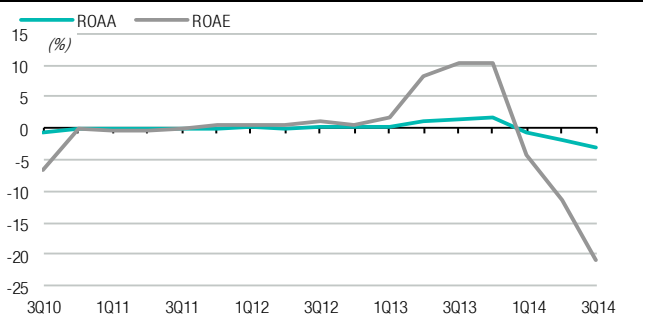
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 60. Financial performance ratios



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

Chart 61. Financial performance ratios



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

Country

Ukraine

Subsidiary Bank

Sberbank of Russia

Sector

Banks: Commercial banking

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

Ca/NR/NR SBUA

Ticker(s) in Bloomberg

According to the results of the ECB stress tests, Sberbank does not require additional capital inflows. Despite the continued standoff between Russia and Ukraine, the Russian parent group is unlikely to exit the Ukrainian market or significantly reduce the scale of its operations in the near future.

Capitalisation solid but liquidity required. The regulatory CAR increased by 4.9 ppt in 3Q14 owing to a decline in RWAs and the FX revaluation of Tier 2 capital. Bank has also attracted US\$88m of Tier 2 subordinated debt during the period.

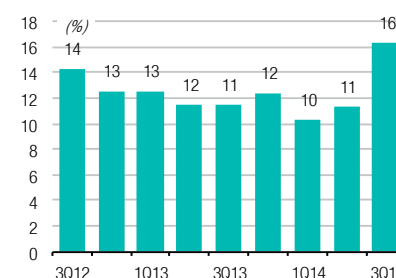
The parent bank, which issued Sberbank Ukraine with another US\$0.1bn loan in 2Q14, continues to be a primary source of funding amid the huge wave of deposit withdrawals. Sberbank Ukraine has borrowed no funds from the regulator so far this year.

Russian banks have been hit hardest by the run on deposits. Sberbank Ukraine's current liquidity ratio (H5) dropped to 47.2% in 2Q14 and 48.7% in 3Q14, which is only marginally above the 40% minimum required level. We expect the parent group to provide its Ukrainian subsidiary with short-term loans to boost liquidity. However, the imposed sanctions and the current shortage of USD in Russia may force Sberbank Ukraine to increase its interbank debt in RUB.

Loan portfolio deteriorates – owing to Donbas. The share of bad debt in the overall loan portfolio continues to increase – from 15.5% in 2Q14 to 18.5% in 3Q14. Sberbank Ukraine has a significant concentration of corporate loans in the Donetsk region, which poses an unmanageable risk. We expect a further increase in the share of bad debt in 2014.

Deposit withdrawals reduce expenses. The NIM increased by 0.6 ppt to a healthy 8.1% in 3Q14 and still has the potential for further growth. We believe that the large amount of customers wanting to withdraw funds early has temporarily decreased the cost of funding since those depositors have lost interest accrued.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	2014	3Q14
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	26,365	35,029	41,650	43,379
Loans	20,618	26,554	34,463	34,692
Deposits	13,219	18,863	15,852	14,318
Equity	3,548	4,091	3,822	3,835
Net % income	1,230	1,722	2,516	2,929
Net com income	203	271	313	329
Operating inc.	1,794	2,303	3,530	4,204
PPI	906	1,069	2,064	2,683
LLP	-391	-418	-1,606	-2,498
Net income	410	574	423	244
Ratios (%)				
Tier 1 ratio	14.5	12.7	N/a	N/a
CAR	16.0	14.9	11.4	16.3
Equity-to-assets	13.5	11.7	9.2	8.8
Net loan-to-deposit	156.0	140.8	217.4	242.3
Cash-to-liabilities	11.1	12.7	8.4	7.8
ROAA	1.9	1.9	1.1	0.6
ROAE	13.2	15.0	11.4	6.4
Net % margin	6.5	7.3	7.5	8.1
NII-to-op income	68.5	74.8	71.3	69.7
Cost-to-income	49.5	53.6	41.5	36.2
LLR	9.8	8.7	8.0	8.3
NPLs	9.0	6.8	N/a	N/a
NPL coverage	109.7	127.3	N/a	N/a

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.

Sberbank: Key quarterly UAS financials and ratios

Table 9. Key financials and ratios derived from the bank's UAS financials

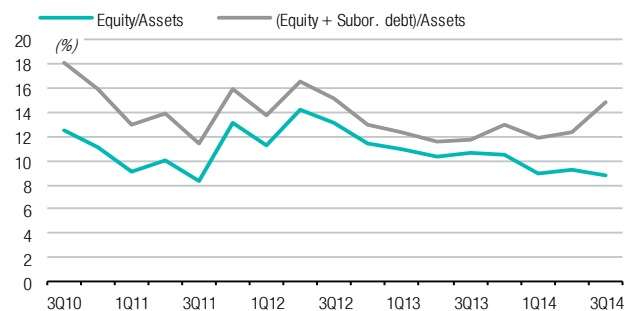
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	22,705	27,026	29,520	32,722	33,572	35,095	42,532	41,650	43,379
Cash and cash equivalents	1,894	2,304	2,383	2,516	3,455	4,005	3,631	3,177	3,103
Gross loans	18,904	21,408	21,574	24,423	25,319	27,364	36,466	37,465	37,828
Gross business loans	18,106	20,628	20,650	23,509	24,178	25,994	34,955	35,970	36,425
Gross household loans	798	781	924	915	1,141	1,371	1,511	1,495	1,403
Loan loss reserves (LLR)	-1,618	-1,273	-1,431	-1,452	-1,478	-1,452	-2,081	-3,002	-3,136
Deposits	11,497	13,280	15,862	17,197	18,482	18,910	19,637	15,852	14,318
Business deposits	3,903	4,230	5,042	5,142	5,146	4,953	5,014	3,648	4,169
Household deposits	7,595	9,050	10,820	12,055	13,336	13,958	14,623	12,203	10,149
Total equity	2,976	3,101	3,235	3,379	3,557	3,667	3,832	3,822	3,835
Quarterly P&L (UAHm)									
Net interest income	305	366	368	424	483	484	674	875	897
Net commission income	77	95	82	39	75	75	71	92	91
Operating income (before LLP)	490	606	495	553	636	645	1,030	1,219	1,310
Operating expenses	-221	-264	-259	-303	-306	-393	-343	-423	-361
Loan loss provisions (LLP)	-144	-147	-93	-96	-142	-97	-566	-801	-1,034
Net income	110	126	141	124	167	140	104	12	-11
Last 12-month period P&L (UAHm)									
Net interest income	1,125	1,242	1,329	1,463	1,641	1,759	2,064	2,516	2,929
Net commission income	233	280	311	293	291	271	261	313	329
Operating income (before LLP)	1,555	1,809	1,951	2,143	2,288	2,328	2,864	3,530	4,204
Operating expenses	-838	-893	-955	-1,047	-1,132	-1,262	-1,346	-1,466	-1,521
Loan loss provisions (LLP)	-283	-384	-400	-480	-479	-428	-902	-1,606	-2,498
Net income	395	410	474	501	559	573	535	423	244
Growth rates (%YoY)									
Assets	50.2	59.6	46.1	61.6	47.9	29.9	44.1	27.3	29.2
Gross loans	48.2	39.4	24.3	48.0	33.9	27.8	69.0	53.4	49.4
Deposits (by businesses)	40.1	30.7	42.4	74.2	31.9	17.1	-0.6	-29.1	-19.0
Deposits (by households)	91.2	107.8	107.9	95.7	75.6	54.2	35.1	1.2	-23.9
Deposits (total)	70.1	74.9	81.4	88.7	60.7	42.4	23.8	-7.8	-22.5
Total equity	137.3	40.0	41.4	17.6	19.5	18.3	18.5	13.1	7.8
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	14.3	12.6	12.6	11.5	11.5	12.4	10.4	11.4	16.3
Equity/assets	13.1	11.5	11.0	10.3	10.6	10.4	9.0	9.2	8.8
(Equity + sub-debt)/assets	15.2	13.0	12.4	11.6	11.8	13.0	11.9	12.4	14.8
Cash & cash equivalents/liabilities	9.6	9.6	9.1	8.6	11.5	12.7	9.4	8.4	7.8
Current liquidity (R5 by NBU)	55.1	78.1	67.4	75.2	66.7	71.4	62.3	47.2	48.7
Gross loans/deposits	164.4	161.2	136.0	142.0	137.0	144.7	185.7	236.3	264.2
Net loans/deposits	150.3	151.6	127.0	133.6	129.0	137.0	175.1	217.4	242.3
Cost-to-income ratio	53.9	49.4	49.0	48.9	49.5	54.2	47.0	41.5	36.2
Net interest margin	6.5	6.4	6.3	6.2	6.3	6.3	6.6	7.5	8.1
ROAA	2.0	1.8	1.9	1.8	1.8	1.8	1.5	1.1	0.6
ROAE	15.3	14.6	15.6	15.8	16.9	16.6	14.8	11.4	6.4
NII/operating income	72.4	68.6	68.1	68.3	71.7	75.6	72.1	71.3	69.7
Core income/operating expenses	162.1	170.2	171.7	167.6	170.6	160.9	172.8	193.0	214.2

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.

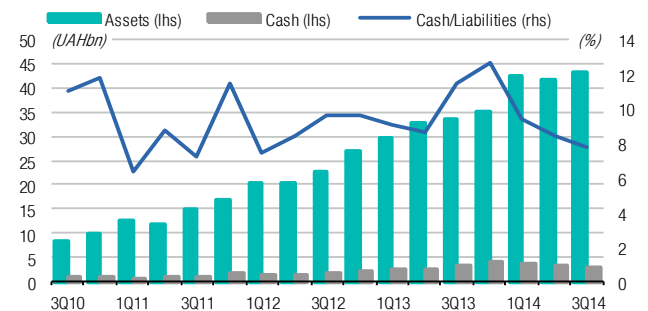
Sberbank: Key credit metrics

Chart 62. Capitalisation



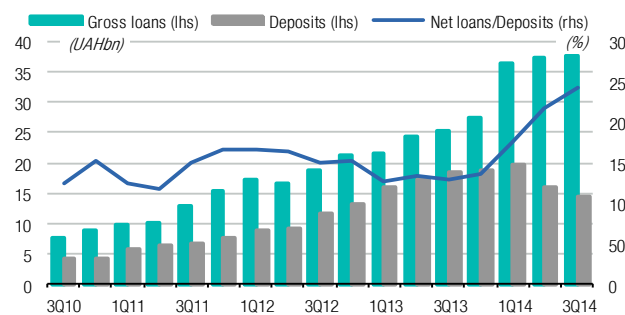
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 63. Liquidity



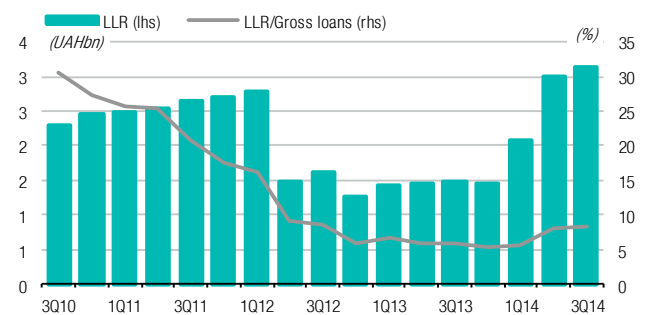
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 64. Loans and deposits



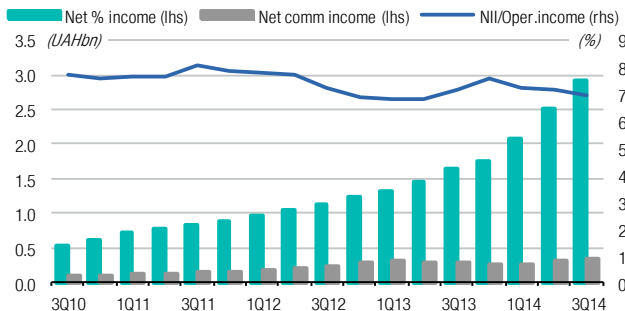
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 65. Loan loss reserves history



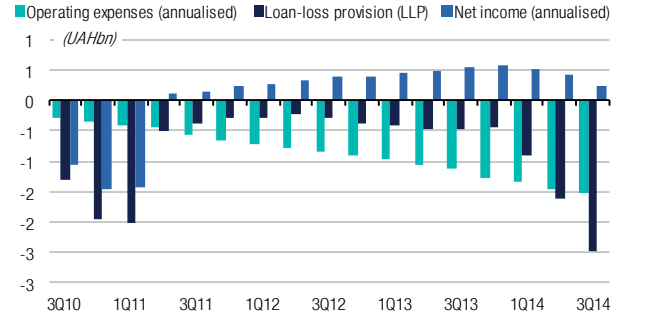
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 66. Income structure (annualised basis)



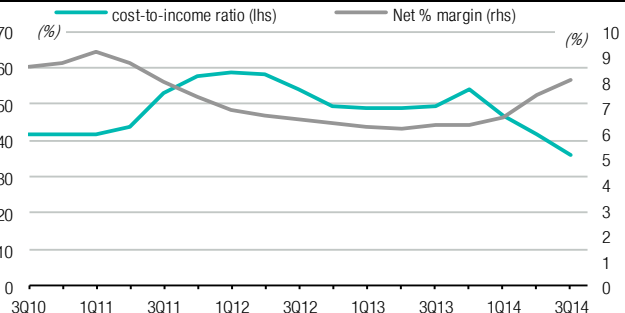
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 67. Expense and net income (annualised basis)



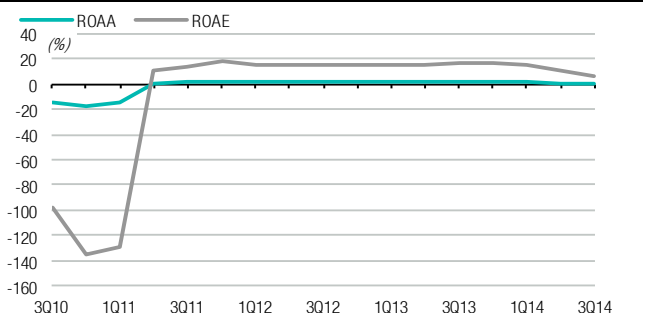
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 68. Financial performance ratios



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

Chart 69. Financial performance ratios



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

Country

Ukraine

Nadra Bank

Sector

Banks: Commercial banking

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

NR / NR /NR NADRA

Ticker(s) in Bloomberg

The de facto loss-making Nadra Bank urgently needs both recapitalisation and a new business model, in our view. Owing to numerous violations of NBU requirements, supervision over the bank is set to increase, raising questions about its future.

A recent shareholders' meeting approved capital inflows of a staggering UAH5.5bn, which increases the existing equity by 2.4 times. Given the magnitude of the increase, we see this move more as a verbal intervention than a realistic reflection of the additional capital injection.

Non-compliance risk. Nadra Bank has long been known for its non-compliance with NBU requirements on net FX positions. But its significant long FX position has allowed it to profit from devaluation. In 3Q14 the bank exceeded the maximum permitted amount of credit exposure per borrower (H7). In our view, this was owing to FX devaluation and signals stricter supervision over the bank by the regulator.

No provisioning. The bank recognised only UAH98m of provision expenses in 3Q14, while the LLR ratio of retail loans dropped 2.6ppt to 15.8%. This is counterintuitive, given current economic conditions. In our view, there is a big temptation for the bank to overvalue its loans in order to stay profitable on paper.

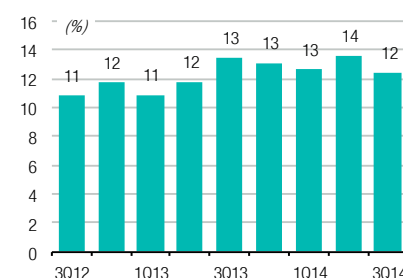
The share of bad debt grew 1.2ppt to 18.2% while the reserves coverage level remained modest – albeit overoptimistic, in our view – at 58.8%

Liquidity outflows. Both corporate and retail deposits continued to shrink in 3Q14 – by 10.3% and 8.6% QoQ, respectively. Liquidity declined to 20.9% in 3Q14; and while the minimum required level is almost twice as large as Nadra's.

Nadra Bank's debt to other banks amounts to UAH13.1bn or 41.1% of its total liabilities. We believe that the bulk of that sum has been provided by the regulator, which is most likely Nadra Bank's largest creditor.

Changes needed. Nadra Bank reported a net interest loss of UAH75m in 3Q14 owing to the increased cost of funding – in particular, NBU loans. Its non-performing portfolio is likely to be large, as are loans to related parties. Both types of debt are low-interest.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	2014	3Q14
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	24,004	27,537	37,109	35,870
Loans	19,670	22,418	30,256	31,015
Deposits	8,092	12,266	12,684	12,026
Equity	2,127	1,647	4,034	4,035
Net % income	395	-275	-16	-118
Net com income	133	224	274	262
Operating inc.	841	714	2,172	2,407
PPI	94	-348	692	903
LLP	78	-437	-619	-828
Net income	157	-420	4	4
Ratios (%)				
Tier 1 ratio	8.1	6.2	N/a	N/a
CAR	10.2	9.3	13.6	12.4
Equity-to-assets	8.9	6.0	10.9	11.3
Net loan-to-deposit	243.1	182.8	238.5	257.9
Cash-to-liabilities	10.1	9.4	3.1	1.9
ROAA	0.7	-1.6	0.0	0.0
ROAE	7.7	-22.2	0.1	0.1
Net % margin	2.0	-1.3	-0.1	-0.4
NII-to-op income	47.0	-38.5	-0.8	-4.9
Cost-to-income	88.8	148.7	68.1	62.5
LLR	25.6	23.8	15.6	15.9
NPLs	N/a	N/a	N/a	N/a
NPL coverage	N/a	N/a	N/a	N/a

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.

Nadra Bank: Key quarterly UAS financials and ratios

Table 10. Key financials and ratios derived from the bank's UAS financials

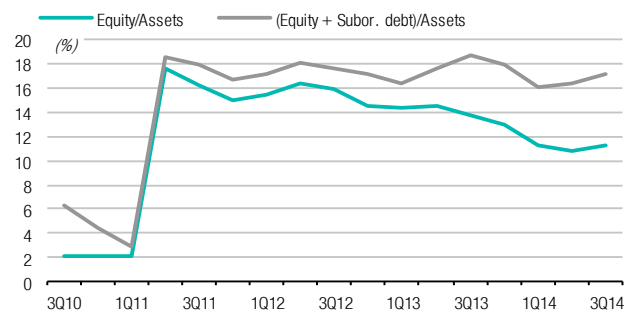
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	25,308	27,684	27,906	27,860	29,346	31,116	35,578	37,109	35,870
Cash and cash equivalents	1,152	2,079	1,453	1,200	1,320	1,729	1,511	1,023	601
Gross loans	24,205	25,790	27,528	27,274	28,347	29,160	33,980	35,842	36,888
Gross business loans	11,057	12,554	14,592	14,449	15,602	16,541	17,853	18,768	18,617
Gross household loans	13,148	13,235	12,936	12,824	12,745	12,619	16,127	17,074	18,271
Loan loss reserves (LLR)	-4,371	-4,427	-4,375	-4,311	-4,232	-4,128	-5,548	-5,587	-5,873
Deposits	6,755	8,741	10,463	9,942	10,763	13,052	14,858	12,684	12,026
Business deposits	4,154	5,645	6,730	5,421	5,258	6,512	8,199	7,064	6,640
Household deposits	2,601	3,096	3,733	4,520	5,505	6,540	6,659	5,619	5,386
Total equity	4,030	4,030	4,030	4,031	4,031	4,032	4,033	4,034	4,035
Quarterly P&L (UAHm)									
Net interest income	-95	62	43	65	27	92	16	-151	-75
Net commission income	40	50	58	55	66	82	61	65	54
Operating income (before LLP)	-9	240	165	211	161	394	1,294	323	396
Operating expenses	-206	-224	-198	-262	-267	-462	-435	-315	-292
Loan loss provisions (LLP)	82	-8	34	54	111	99	-825	-3	-98
Net income	0	0	0	0	1	1	1	1	1
Last 12-month period P&L (UAHm)									
Net interest income	-762	262	130	75	197	227	199	-16	-118
Net commission income	140	153	180	203	229	261	265	274	262
Operating income (before LLP)	92	1,203	1,148	607	777	931	2,060	2,172	2,407
Operating expenses	-1,885	-1,854	-1,879	-889	-951	-1,189	-1,426	-1,479	-1,504
Loan loss provisions (LLP)	1,660	526	608	162	191	297	-562	-619	-828
Net income	2	1	1	1	2	2	3	4	4
Growth rates (%YoY)									
Assets	3.0	3.5	7.5	13.5	16.0	12.4	27.5	33.2	22.2
Gross loans	-0.5	2.4	10.7	13.8	17.1	13.1	23.4	31.4	30.1
Deposits (by businesses)	-2.9	-7.1	31.3	35.3	26.6	15.4	21.8	30.3	26.3
Deposits (by households)	-18.0	19.6	41.4	74.6	111.6	111.2	78.4	24.3	-2.2
Deposits (total)	-9.3	0.9	34.8	50.7	59.3	49.3	42.0	27.6	11.7
Total equity	1.2	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	10.9	11.7	10.9	11.8	13.5	13.1	12.7	13.6	12.4
Equity/assets	15.9	14.6	14.4	14.5	13.7	13.0	11.3	10.9	11.3
(Equity + sub-debt)/assets	17.6	17.2	16.4	17.6	18.7	17.9	16.1	16.4	17.1
Cash & cash equivalents/liabilities	5.4	8.8	6.1	5.0	5.2	6.4	4.8	3.1	1.9
Current liquidity (R5 by NBU)	57.9	83.6	57.9	72.1	65.4	72.0	50.4	43.8	20.9
Gross loans/deposits	358.3	295.1	263.1	274.3	263.4	223.4	228.7	282.6	306.7
Net loans/deposits	293.6	244.4	221.3	231.0	224.1	191.8	191.4	238.5	257.9
Cost-to-income ratio	2,044.0	154.1	163.7	146.4	122.3	127.6	69.2	68.1	62.5
Net interest margin	-3.6	1.2	0.6	0.3	0.8	0.9	0.7	-0.1	-0.4
ROAA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROAE	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
NII/operating income	-826.0	21.7	11.3	12.4	25.4	24.4	9.7	-0.8	-4.9
Core income/operating expenses	-33.0	22.4	16.5	31.2	44.9	41.1	32.5	17.4	9.5

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.

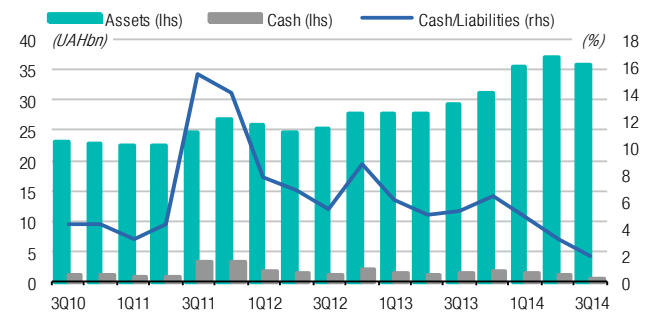
Nadra Bank: Key credit metrics

Chart 70. Capitalisation



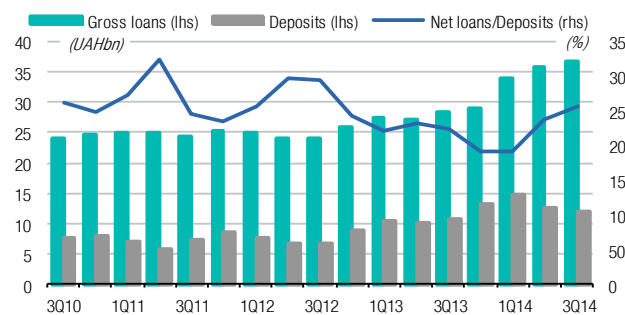
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 71. Liquidity



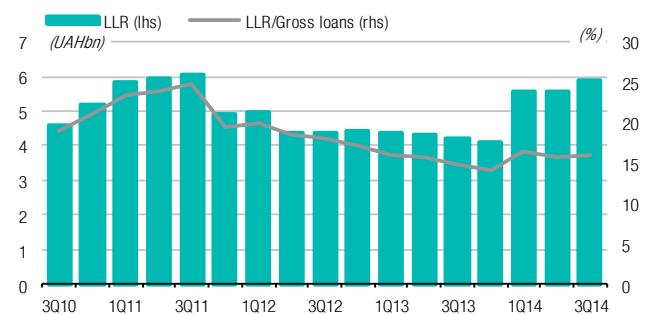
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 72. Loans and deposits



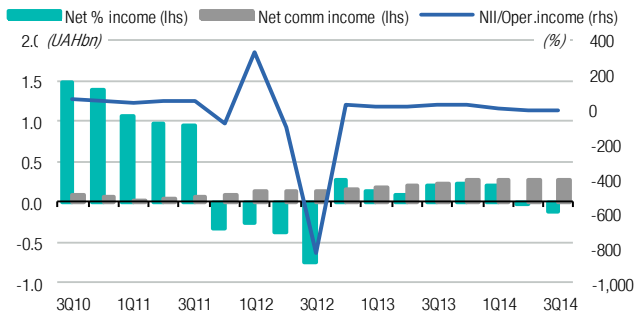
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 73. Loan loss reserves history



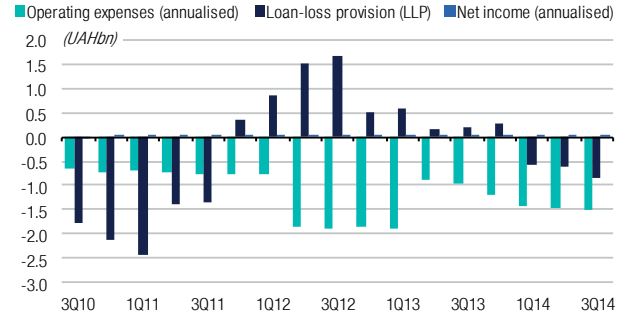
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 74. Income structure (annualised basis)



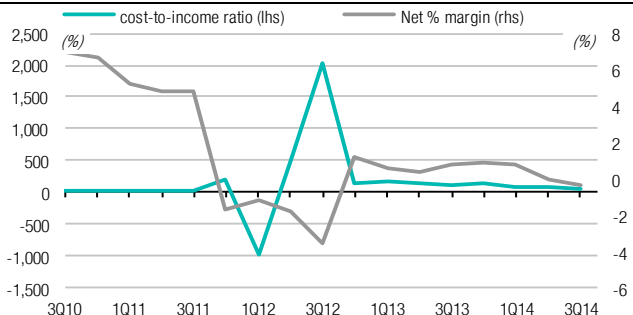
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 75. Expense and net income (annualised basis)



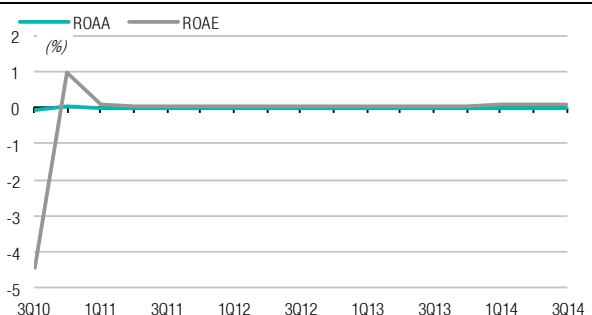
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 76. Financial performance ratios



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

Chart 77. 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

Ca/ NR /NR

Ticker(s) in Bloomberg

PUMBZ

The First Ukrainian International Bank (FUIB) has yet to recognise the impairment of its Donbas loan portfolio, which is subject to the impact of further political developments and warfare. The bank is currently in the process of restructuring its Eurobond in order to prevent significant liquidity outflows from the SCM Group.

Capital inflows may be needed. The capitalisation level of the bank is currently low and will continue to decline if additional provisioning is required. Bad debt coverage was at 63.4% in 3Q14 and is likely to have declined further since then.

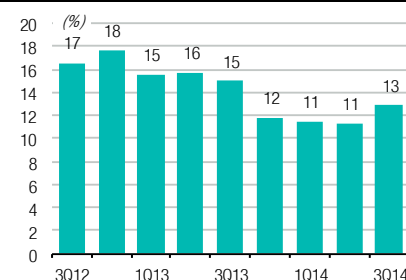
SCM helps compensate for deposit outflows. The total amount of retail deposits declined 12.8% during the first nine months of 2014, while corporate customers increased funds held at the bank by 17.0% over the same period. We believe that entities belonging to the SCM Group, which is the bank's parent organisation, made the largest contribution to that growth.

Owing to its significant position in government bonds, the bank can receive loans from the regulator if necessary. However, the current cost of funding (c. 8.1%) is cheaper than that of refinancing. Eurobond debt amounts to 10.5% of the bank's total liabilities.

Eurobond restructuring in the offing? The FUIB has Eurobonds worth US\$252m maturing in December 2014; most likely, it will try to roll over that debt. In our view, the major obstacle for the bank is the shortage of foreign currency in Ukraine, along with the overall financial problems of the SCM Group.

Merger with subsidiary. The FUIB has announced that it will acquire the assets and liabilities of its subsidiary Renaissance Capital so that it is no longer in violation of the NBU regulation on lending to related parties. Renaissance Capital's main focus is consumer lending, which has slowed down significantly. Thus the merger will somewhat reduce the group's operating costs.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	2014	3Q14
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	27,555	31,896	35,798	37,946
Loans	17,884	20,942	24,274	24,419
Deposits	17,611	20,932	23,801	24,446
Equity	5,060	5,542	4,853	4,765
Net % income	1,151	1,534	2,251	2,294
Net com income	308	492	482	524
Operating inc.	1,636	2,148	3,098	3,376
PPI	690	1,155	1,998	2,234
LLP	-290	-514	-1,396	-1,990
Net income	279	510	499	211
Ratios (%)				
Tier 1 ratio	19.8	18.6	N/a	N/a
CAR	23.5	21.2	11.3	12.9
Equity-to-assets	18.4	17.4	13.6	12.6
Net loan-to-deposit	101.5	100.0	102.0	99.9
Cash-to-liabilities	9.7	10.5	15.2	20.7
ROAA	1.0	1.7	1.4	0.6
ROAE	5.6	9.6	10.6	4.4
Net % margin	4.7	6.1	8.4	8.2
NII-to-op income	70.4	71.4	72.7	67.9
Cost-to-income	57.8	46.2	35.5	33.8
LLR	14.8	11.4	11.6	13.8
NPLs	18.5	14.4	N/a	N/a
NPL coverage	80.1	78.9	N/a	N/a

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

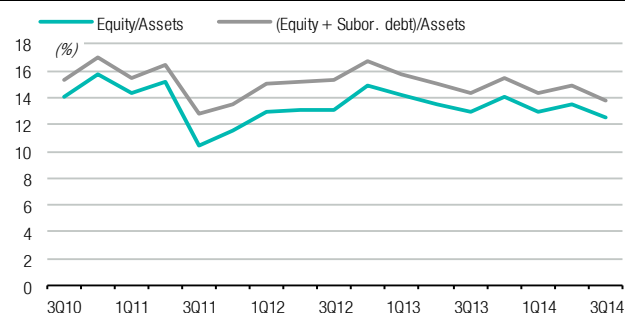
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	31,592	28,230	30,330	32,442	34,959	33,207	36,677	35,798	37,946
Cash and cash equivalents	5,008	4,402	4,526	4,400	7,654	4,910	6,646	4,690	6,860
Gross loans	20,306	20,767	20,886	21,221	22,511	23,196	27,005	27,462	28,322
Gross business loans	15,132	15,410	15,450	15,730	16,874	17,981	21,255	21,714	22,711
Gross household loans	5,174	5,357	5,435	5,491	5,637	5,215	5,750	5,748	5,611
Loan loss reserves (LLR)	-3,535	-3,767	-3,975	-3,857	-3,898	-3,298	-3,330	-3,188	-3,903
Deposits	17,604	17,465	19,108	19,678	22,528	20,444	24,351	23,801	24,446
Business deposits	7,827	7,324	8,266	8,116	11,010	9,279	12,753	12,085	13,258
Household deposits	9,777	10,141	10,842	11,562	11,518	11,164	11,598	11,716	11,188
Total equity	4,144	4,215	4,316	4,385	4,531	4,652	4,756	4,853	4,765
Quarterly P&L (UAHm)									
Net interest income	416	323	388	443	530	534	573	614	573
Net commission income	104	95	106	114	131	137	122	91	174
Operating income (before LLP)	472	621	528	636	681	722	821	874	959
Operating expenses	-235	-287	-225	-240	-242	-306	-263	-290	-284
Loan loss provisions (LLP)	-148	-197	-188	-308	-260	-266	-388	-483	-854
Net income	67	76	89	70	143	143	134	79	-145
Last 12-month period P&L (UAHm)									
Net interest income	1,583	1,512	1,524	1,569	1,684	1,895	2,080	2,251	2,294
Net commission income	354	365	393	419	446	488	505	482	524
Operating income (before LLP)	1,912	2,064	2,102	2,256	2,465	2,566	2,860	3,098	3,376
Operating expenses	-1,078	-1,105	-983	-988	-994	-1,013	-1,050	-1,100	-1,143
Loan loss provisions (LLP)	-454	-567	-663	-840	-952	-1,021	-1,220	-1,396	-1,990
Net income	302	271	322	302	379	445	490	499	211
Growth rates (%YoY)									
Assets	7.9	-19.0	-4.1	3.1	10.7	17.6	20.9	10.3	8.5
Gross loans	8.8	5.4	5.0	8.0	10.9	11.7	29.3	29.4	25.8
Deposits (by businesses)	-0.5	-36.1	17.8	14.1	40.7	26.7	54.3	48.9	20.4
Deposits (by households)	16.9	17.5	19.8	21.2	17.8	10.1	7.0	1.3	-2.9
Deposits (total)	8.4	-13.1	18.9	18.2	28.0	17.1	27.4	20.9	8.5
Total equity	35.6	4.6	5.9	7.1	9.3	10.4	10.2	10.7	5.2
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	16.6	17.6	15.5	15.7	15.0	11.8	11.5	11.3	12.9
Equity/assets	13.1	14.9	14.2	13.5	13.0	14.0	13.0	13.6	12.6
(Equity + sub-debt)/assets	15.3	16.7	15.8	15.0	14.4	15.5	14.3	14.9	13.8
Cash & cash equivalents/liabilities	18.2	18.3	17.4	15.7	25.2	17.2	20.8	15.2	20.7
Current liquidity (R5 by NBU)	79.7	70.2	82.7	78.1	76.8	64.3	81.9	60.1	72.1
Gross loans/deposits	115.3	118.9	109.3	107.8	99.9	113.5	110.9	115.4	115.9
Net loans/deposits	95.3	97.3	88.5	88.2	82.6	97.3	97.2	102.0	99.9
Cost-to-income ratio	56.4	53.5	46.8	43.8	40.3	39.5	36.7	35.5	33.8
Net interest margin	6.5	6.4	6.6	6.8	7.3	7.9	8.2	8.4	8.2
ROAA	0.9	0.9	1.1	1.0	1.2	1.4	1.4	1.4	0.6
ROAE	7.4	6.6	7.7	7.1	8.7	10.0	10.7	10.6	4.4
NII/operating income	82.8	73.2	72.5	69.5	68.3	73.9	72.7	72.7	67.9
Core income/operating expenses	179.7	169.9	195.1	201.3	214.2	235.4	246.2	248.4	246.7

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.

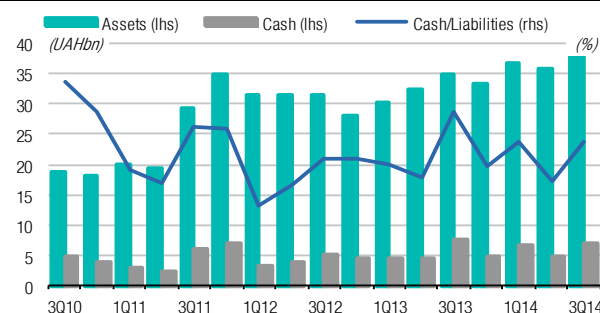
FUIB: Key credit metrics

Chart 78. Capitalisation



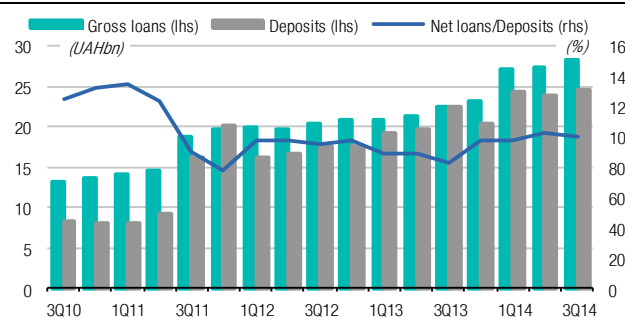
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 79. Liquidity



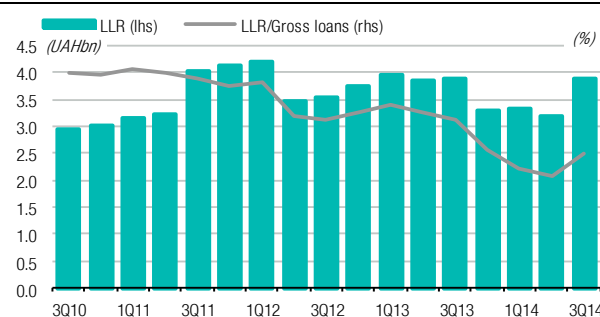
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 80. Loans and deposits



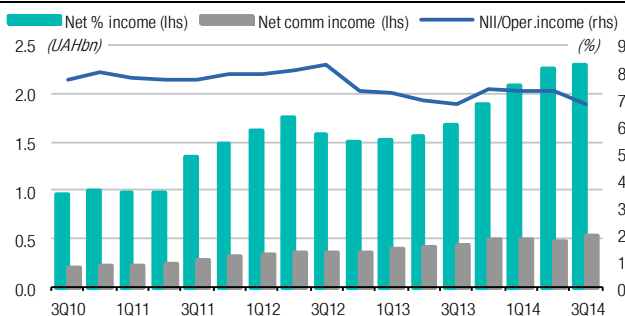
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 81. Loan loss reserves history



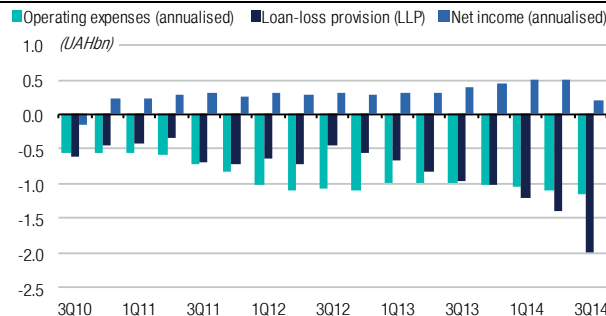
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 82. Income structure (annualised basis)



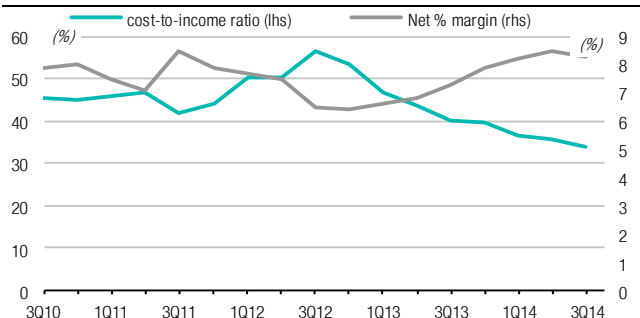
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 83. Expense and net income (annualised basis)



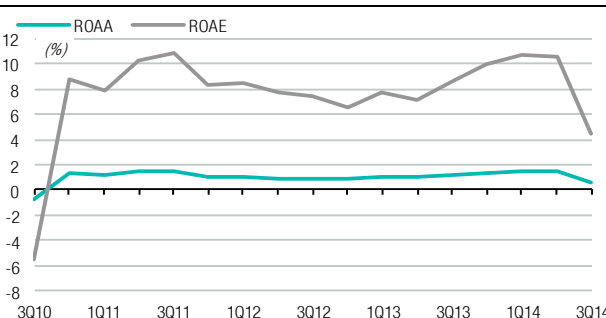
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 84. Financial performance ratios



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

Chart 85. Financial performance ratios



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

Country

Ukraine

Alfa Bank

Sector

Banks: Commercial banking

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

Ticker(s) in Bloomberg

NR / CCC / CCC N/A

Despite the lack of earnings potential, Alfa Bank regards Ukraine as a potentially profitable market. It is continuing to increase its presence in the local banking sector and is making a significant effort to avoid being seen as a Russian bank by the general public.

Solid capitalisation. Following the ECB 2014 stress test, Alfa Bank is unlikely to require any additional capital inflows since its regulatory CAR remains high – 15.8%. The bank can incur further losses of up to UAH2.0bn before reaching the minimum level of required capitalisation.

In its 1H14 IFRS report, the parent group, ABH Finance Limited, estimates Alfa Bank's total exposure to Ukraine at US\$464m. In our view, the group is likely to expand the scale of its operations in the country, despite the current geopolitical turbulence.

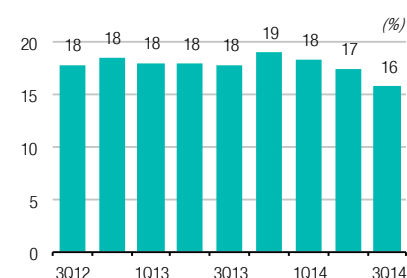
Liquidity remains strong. Alfa Bank lost 21.8% of total deposits, net of UAH devaluation, during the first nine months of 2014. This outflow was largely compensated for by the increase in interbank loans as well as the syndicated loan provided by the parent group. Moreover, the bank has a large liquidity cushion – UAH1.6-2.0bn in government bonds – which can be used as collateral for NBU funding.

Loan portfolio deteriorates. The share of bad debt in the overall loan portfolio grew to 11.2% in 3Q14. During the same period, the LLR ratio decreased to 11.2%, up from 11.6% in 2Q14.

Alfa Bank remains one of the few financial institutions that has continued to increase consumer lending. Compliance with NBU regulations allows it to offer credit to non-salaried customers.

Cost of funding rises. The NIM declined by 0.4ppt to 6.4% QoQ owing to higher interest rates on deposits and loans from international institutions. The bank is able to offer below market average interest rates on deposits because of the acceptable profit margin on consumer loans.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012 IFRS	2013 IFRS	2014 UAS	3Q14 UAS
Financials (UAHm)				
Assets	25,578	29,288	35,260	37,382
Loans	17,199	20,214	22,905	23,485
Deposits	14,376	15,838	16,846	15,549
Equity	4,102	4,102	4,200	4,197
Net % income	1,649	1,565	1,671	1,681
Net com income	355	508	573	654
Operating inc.	2,068	2,354	3,929	4,979
PPI	863	998	2,369	3,367
LLP	-800	-949	-2,328	-3,337
Net income	34	15	8	3
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/a	N/a
CAR	N/A	N/A	17.4	15.8
Equity-to-assets	16.0	14.0	11.9	11.2
Net loan-to-deposit	119.6	127.6	136.0	151.0
Cash-to-liabilities	27.2	24.2	22.4	20.2
ROAA	0.1	0.1	0.0	0.0
ROAE	0.8	0.4	0.2	0.1
Net % margin	8.6	7.5	6.8	6.4
NII-to-op income	79.7	66.5	42.5	33.8
Cost-to-income	58.3	57.6	39.7	32.4
LLR	12.9	9.1	11.6	11.2
NPLs	15.7	10.2	N/a	N/a
NPL coverage	82.3	88.6	N/a	N/a

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.

Alfa Bank: Key quarterly UAS financials and ratios

Table 12. Key financials and ratios derived from the bank's UAS financials

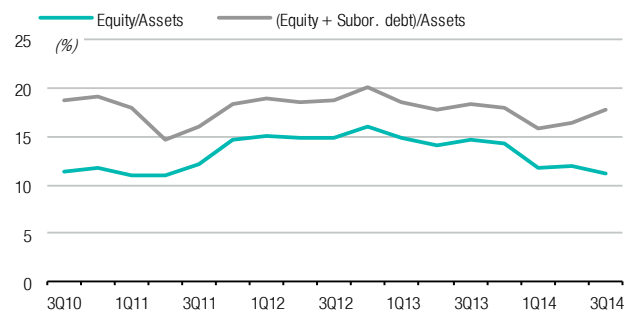
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	27,457	25,589	27,954	29,634	28,496	29,293	35,773	35,260	37,382
Cash and cash equivalents	5,827	5,833	5,184	4,941	4,523	6,066	9,521	6,970	6,697
Gross loans	20,984	19,923	21,650	21,584	21,091	22,012	24,551	25,911	26,444
Gross business loans	14,571	13,481	15,282	15,052	14,829	15,919	17,570	18,720	19,103
Gross household loans	6,413	6,443	6,368	6,532	6,261	6,094	6,981	7,190	7,341
Loan loss reserves (LLR)	-3,491	-2,712	-2,964	-2,580	-1,996	-1,784	-2,402	-3,005	-2,959
Deposits	14,435	14,376	15,927	15,761	14,365	15,831	18,137	16,846	15,549
Business deposits	5,739	5,612	6,174	6,231	5,334	6,573	8,866	6,753	6,014
Household deposits	8,697	8,765	9,753	9,530	9,032	9,258	9,271	10,093	9,535
Total equity	4,082	4,100	4,129	4,184	4,184	4,199	4,208	4,200	4,197
Quarterly P&L (UAHm)									
Net interest income	538	418	338	432	412	422	431	406	422
Net commission income	82	150	115	107	126	160	134	153	207
Operating income (before LLP)	639	584	587	621	525	713	1,144	1,548	1,575
Operating expenses	-292	-372	-300	-375	-354	-381	-385	-440	-407
Loan loss provisions (LLP)	-341	-178	-278	-235	-161	-316	-749	-1,102	-1,171
Net income	5	5	5	4	2	2	2	2	-3
Last 12-month period P&L (UAHm)									
Net interest income	1,793	1,822	1,742	1,726	1,600	1,604	1,697	1,671	1,681
Net commission income	253	355	419	454	499	508	527	573	654
Operating income (before LLP)	2,213	2,302	2,377	2,431	2,317	2,446	3,003	3,929	4,979
Operating expenses	-1,673	-1,703	-1,251	-1,339	-1,401	-1,410	-1,495	-1,560	-1,613
Loan loss provisions (LLP)	-536	-534	-1,067	-1,032	-852	-989	-1,461	-2,328	-3,337
Net income	36	36	26	20	16	13	11	8	3
Growth rates (%YoY)									
Assets	5.0	-8.5	1.1	6.1	3.8	14.5	28.0	19.0	31.2
Gross loans	-12.3	-14.9	-5.5	-4.4	0.5	10.5	13.4	20.0	25.4
Deposits (by businesses)	13.7	-0.3	14.4	18.5	-7.1	17.1	43.6	8.4	12.8
Deposits (by households)	50.8	33.9	35.6	25.5	3.9	5.6	-4.9	5.9	5.6
Deposits (total)	33.5	18.1	26.5	22.6	-0.5	10.1	13.9	6.9	8.2
Total equity	29.3	0.6	-1.0	0.9	2.5	2.4	1.9	0.4	0.3
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	17.9	18.5	18.0	18.0	17.9	19.0	18.4	17.4	15.8
Equity/assets	14.9	16.0	14.8	14.1	14.7	14.3	11.8	11.9	11.2
(Equity + sub-debt)/assets	18.7	20.1	18.5	17.7	18.4	17.9	15.9	16.5	17.7
Cash & cash equivalents/liabilities	24.9	27.1	21.8	19.4	18.6	24.2	30.2	22.4	20.2
Current liquidity (R5 by NBU)	110.0	105.9	126.2	174.0	135.8	148.7	180.0	164.1	125.0
Gross loans/deposits	145.4	138.6	135.9	136.9	146.8	139.0	135.4	153.8	170.1
Net loans/deposits	121.2	119.7	117.3	120.6	132.9	127.8	122.1	136.0	151.0
Cost-to-income ratio	75.6	74.0	52.6	55.1	60.5	57.7	49.8	39.7	32.4
Net interest margin	8.6	8.9	8.4	8.2	7.4	7.1	7.2	6.8	6.4
ROAA	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
ROAE	0.9	0.9	0.6	0.5	0.4	0.3	0.3	0.2	0.1
NII/operating income	81.0	79.2	73.3	71.0	69.1	65.6	56.5	42.5	33.8
Core income/operating expenses	122.3	127.9	172.8	162.9	149.8	149.8	148.7	143.8	144.8

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.

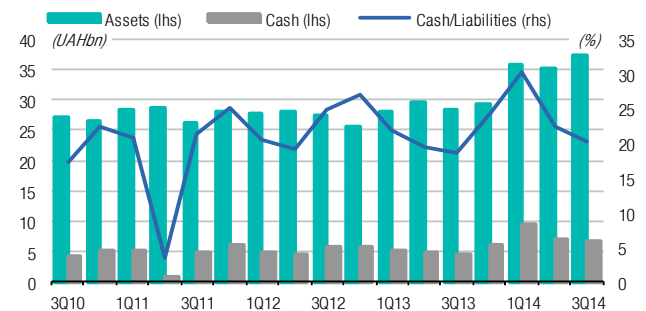
Alfa Bank: Key credit metrics

Chart 86. Capitalisation



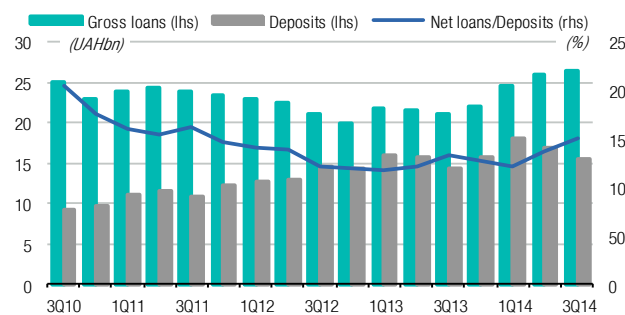
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 87. Liquidity



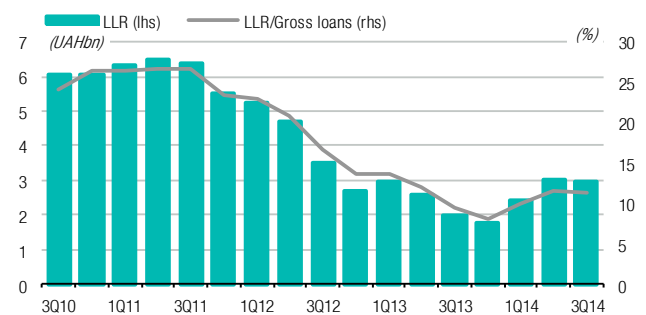
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 88. Loans and deposits



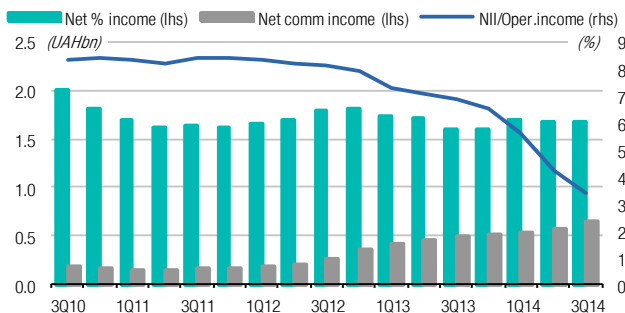
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 89. Loan loss reserves history



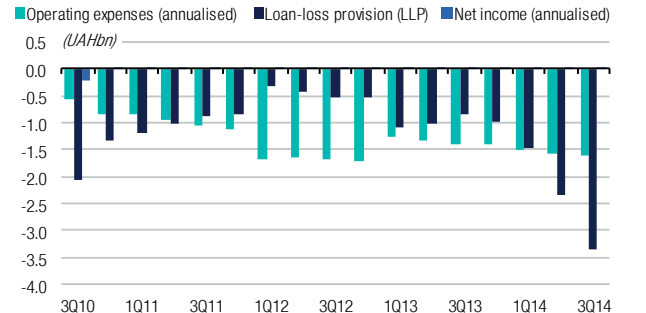
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 90. Income structure (annualised basis)



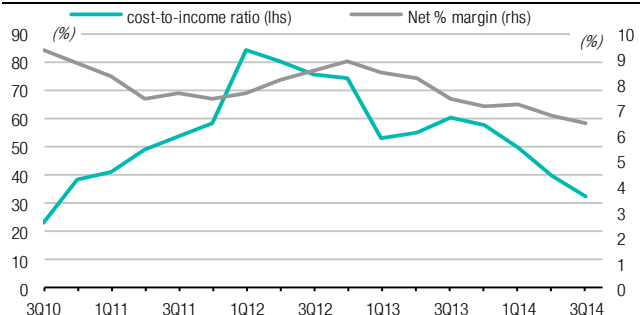
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 91. Expense and net income (annualised basis)



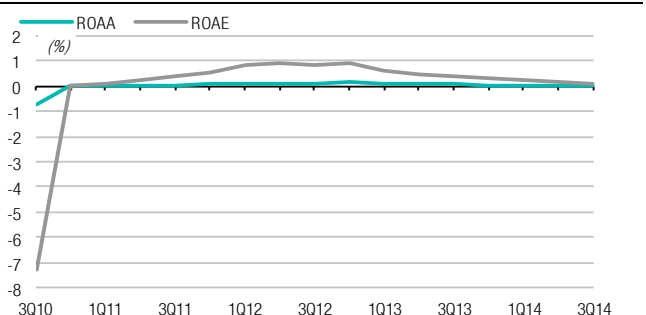
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 92. Financial performance ratios



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

Chart 93. Financial performance ratios



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

Country

Ukraine

VTB Bank

Sector

Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch Ticker(s) in Bloomberg

NR / NR / CCC VTB

VTB Bank is one of the most troubled of the banks with Russian capital owing to the large share of NPLs in the overall loan portfolio. The Russian parent has yet to decide if it is expedient to continue operating in the country, given the amount of real losses. For their part, Russian officials have said they are opposed to Russian state banks leaving the Ukrainian market.

Capital inflows. The capitalisation of VTB Bank fell to the minimum required level of 10.2% in 1H14, making it an ideal candidate for additional capital inflows. In 3Q14 the bank received UAH2.0bn in new share capital, of which net cash inflows account for a significant part.

Sanctions imposed on VTB Russia limit to some extent the amount of liquidity it can provide to its Ukrainian subsidiary. For this reason, the latter will receive more UAH and RUB funding than the more common USD funding.

Poor loan portfolio quality. The share of bad debt in the overall loan portfolio decreased by from 27.4% in 2Q14 to just 17.5% in 3Q14 as the result of the write-off. Meanwhile, LLR coverage stands at just 50.9%. In our view, there is potential for the loan portfolio to deteriorate further.

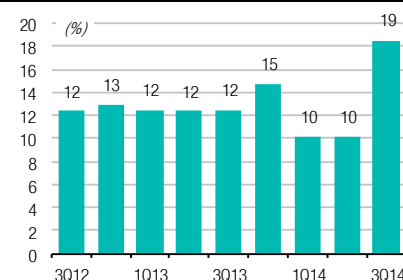
Despite loan provision expenses totalling UAH0.7bn, the LLR ratio decreased from 14.9% in 2Q14 to 12.7% in 3Q14.

Deposits vanish. Historically, the bank's reliance on deposits, especially household ones, has been low. In 3Q14 it failed to reverse the outflow of customer funds as corporate deposits declined by 40.2% (adjusted for UAH devaluation) and retail deposits shrank by a staggering 55.5% during the first nine months of 2014.

The parent group had no choice but to compensate for those outflows. According to our estimates, debt to the VTB Group may account for 70% of the bank's total liabilities. Owing to the fact that it has a relatively small amount of government bonds, VTB Bank cannot expect to obtain significant refinancing loans.

Operating income grows. The NIM has the potential to increase as retail deposit funding is gradually replaced by less expensive interbank funding. FX trading income increased by 130.9% QoQ to UAH171m in 3Q14.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	2014	3Q14
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	32,848	24,247	31,359	31,493
Loans	23,756	17,923	24,498	25,035
Deposits	12,072	11,211	8,234	6,709
Equity	3,880	2,165	4,258	5,174
Net % income	1,723	1,348	1,603	1,564
Net com income	464	265	543	549
Operating inc.	2,356	1,773	2,421	2,497
PPI	993	528	1,110	1,168
LLP	-1,884	-2,184	-1,339	-1,816
Net income	-695	-1,717	593	174
Ratios (%)				
Tier 1 ratio	7.2	9.5	N/a	N/a
CAR	24.3	14.9	10.2	18.5
Equity-to-assets	11.8	8.9	13.6	16.4
Net loan-to-deposit	196.8	159.9	297.5	373.1
Cash-to-liabilities	12.8	11.8	10.1	7.5
ROAA	-2.0	-6.0	2.1	0.6
ROAE	-16.4	-56.8	15.1	4.1
Net % margin	5.9	5.7	6.7	6.3
NII-to-op income	73.2	76.1	66.2	62.6
Cost-to-income	57.8	70.2	54.1	53.2
LLR	15.8	24.9	14.9	12.7
NPLs	N/a	N/a	N/a	N/a
NPL coverage	N/a	N/a	N/a	N/a

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.

VTB: Key quarterly UAS financials and ratios

Table 13. Key financials and ratios derived from the bank's UAS financials

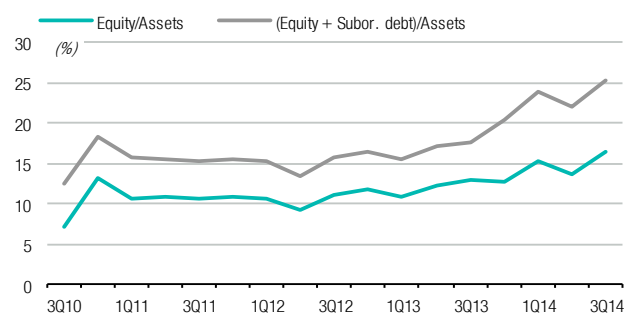
	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Balance sheet figures (UAHm)									
Assets	34,489	34,212	32,118	29,523	29,089	25,286	29,460	31,359	31,493
Cash and cash equivalents	2,161	3,987	4,156	2,504	2,751	3,195	1,817	2,750	1,971
Gross loans	30,307	29,048	27,295	25,355	24,738	22,923	27,483	28,787	28,664
Gross business loans	25,469	24,394	22,873	21,021	20,723	18,953	23,628	25,153	25,631
Gross household loans	4,838	4,654	4,421	4,334	4,015	3,970	3,855	3,634	3,033
Loan loss reserves (LLR)	-5,773	-5,516	-5,173	-4,312	-4,123	-4,234	-3,095	-4,289	-3,628
Deposits	11,472	12,120	12,878	12,490	12,277	11,148	9,302	8,234	6,709
Business deposits	5,980	5,898	5,884	5,009	4,948	4,085	3,639	3,299	2,690
Household deposits	5,492	6,223	6,994	7,481	7,330	7,062	5,663	4,935	4,019
Total equity	3,790	4,051	3,481	3,641	3,779	3,207	4,481	4,258	5,174
Quarterly P&L (UAHm)									
Net interest income	487	415	368	567	450	386	354	412	411
Net commission income	161	137	89	100	131	148	135	130	136
Operating income (before LLP)	696	563	561	684	624	383	715	699	699
Operating expenses	-390	-567	-277	-295	-263	-297	-260	-490	-281
Loan loss provisions (LLP)	15	262	-205	-228	-221	-625	801	-1,293	-698
Net income	311	258	79	160	139	-572	1,255	-229	-281
Last 12-month period P&L (UAHm)									
Net interest income	1,931	1,856	1,771	1,837	1,800	1,771	1,758	1,603	1,564
Net commission income	556	562	545	487	457	468	514	543	549
Operating income (before LLP)	2,624	2,570	2,559	2,503	2,432	2,252	2,405	2,421	2,497
Operating expenses	-1,418	-1,542	-1,531	-1,530	-1,403	-1,133	-1,116	-1,311	-1,329
Loan loss provisions (LLP)	-321	-68	-574	-157	-393	-1,280	-274	-1,339	-1,816
Net income	876	951	445	808	636	-194	982	593	174
Growth rates (%YoY)									
Assets	-5.9	-7.7	-9.3	-22.7	-15.7	-26.1	-8.3	6.2	8.3
Gross loans	-8.7	-12.3	-17.2	-18.3	-18.4	-21.1	0.7	13.5	15.9
Deposits (by businesses)	15.4	-9.4	0.9	-9.6	-17.3	-30.7	-38.2	-34.1	-45.6
Deposits (by households)	14.3	14.6	29.3	33.7	33.5	13.5	-19.0	-34.0	-45.2
Deposits (total)	14.9	1.5	14.6	12.2	7.0	-8.0	-27.8	-34.1	-45.3
Total equity	-2.2	-0.1	-6.4	4.2	-0.3	-20.8	28.7	17.0	36.9
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	12.4	13.0	12.5	12.4	12.5	14.7	10.2	10.2	18.5
Equity/assets	11.0	11.8	10.8	12.3	13.0	12.7	15.2	13.6	16.4
(Equity + sub-debt)/assets	15.7	16.4	15.5	17.1	17.5	20.4	23.9	22.1	25.4
Cash & cash equivalents/liabilities	7.0	13.2	14.5	9.7	10.9	14.5	7.3	10.1	7.5
Current liquidity (R5 by NBU)	83.5	73.3	80.0	53.6	56.8	64.1	46.2	60.9	64.1
Gross loans/deposits	264.2	239.7	211.9	203.0	201.5	205.6	295.4	349.6	427.2
Net loans/deposits	213.9	194.2	171.8	168.5	167.9	167.6	262.2	297.5	373.1
Cost-to-income ratio	54.0	60.0	59.8	61.1	57.7	50.3	46.4	54.1	53.2
Net interest margin	6.4	6.3	6.3	7.0	7.3	7.7	7.5	6.7	6.3
ROAA	2.4	2.7	1.3	2.5	2.0	-0.7	3.5	2.1	0.6
ROAE	23.3	25.3	12.0	21.6	17.0	-5.5	26.0	15.1	4.1
NII/operating income	73.6	72.2	69.2	73.4	74.0	78.7	73.1	66.2	62.6
Core income/operating expenses	175.4	156.8	151.2	151.9	160.9	197.7	203.6	163.7	159.0

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.

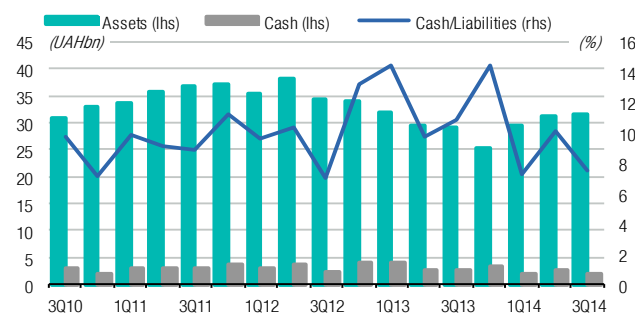
VTB: Key credit metrics

Chart 94. Capitalisation



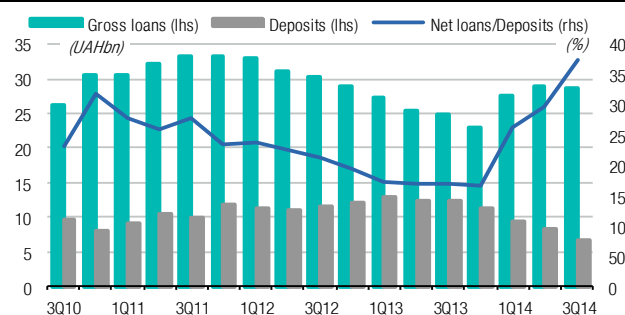
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 95. Liquidity



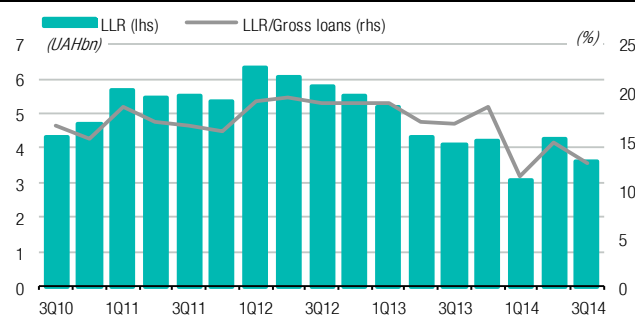
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 96. Loans and deposits



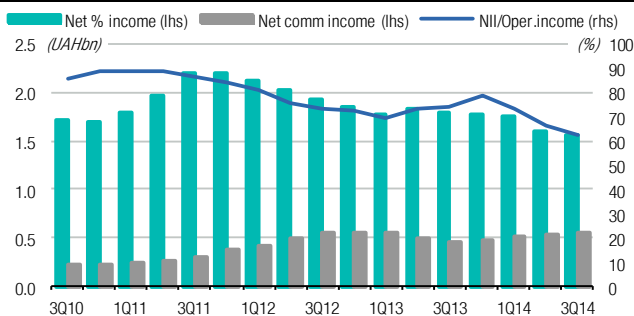
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 97. Loan loss reserves history



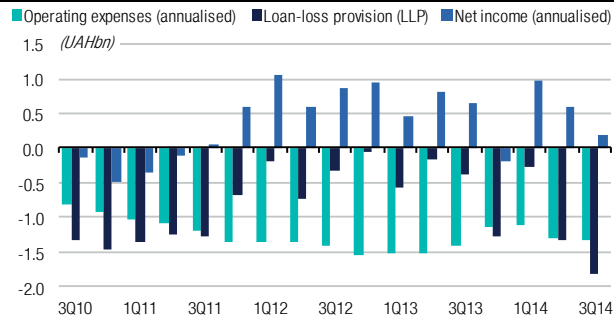
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 98. Income structure (annualised basis)



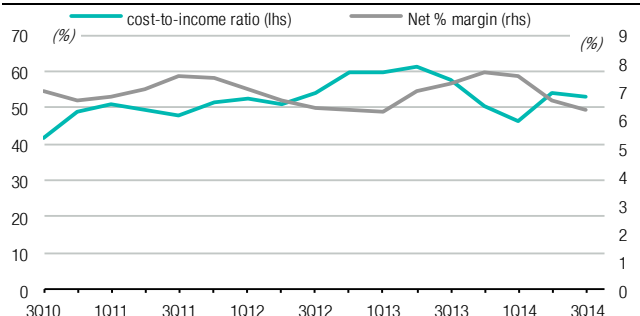
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 99. Expense and net income (annualised basis)



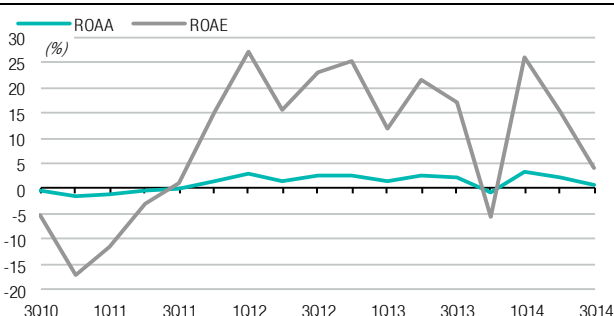
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 100. Financial performance ratios



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

Chart 101. Financial performance ratios



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

Disclosures

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This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

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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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