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

# Banking Sector Insight

# Guided recovery

**19 MAY 2015**

READ FIRST THE DISCLOSURES SECTION FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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# Executive summary

**The Ukrainian banking is close to hitting the bottom of the economic crisis. Net losses of UAH41.9bn in 2014 and UAH80.9bn in 1Q15 alone have wiped out 23.1% of the banks' overall equity. The IMF has stipulated the measures that Ukraine must take to save the banking system; these will cost the country 7.5% of GDP in 2015.**

**Gradual recovery expected.** In our opinion, the Ukrainian banking sector is close to hitting the bottom of the current crisis in terms of solvency issues. Extraordinary losses in 1Q15 were anticipated and reflect a more realistic estimate of the true level of capitalisation of Ukraine's banks. Cooperation between the authorities and external creditors over the reform of the financial sector have yielded a number of long-awaited pieces of legislation aimed at achieving relative stability and thereby reduced the inherent risks. The banking sector has manage to survive the fall of two of the top 10 banks without significant damage. In our view, the remaining potentially insolvent banks would not cause the collapse of the system.

On the other hand, the current weak recovery could be jeopardised by a further escalation of the war in eastern Ukraine. During the past year, offensive actions by the Russia-backed separatists have triggered turbulence in the FX market and the outflow of deposits. However, our base-case scenario assumes no large-scale conflict but rather continuous destabilisation efforts in eastern Ukraine – a situation that the country's banking system would be able to handle.

**Government to save banking system.** As we predicted in our December 2014 *Banking Sector Insight: In a search of confidence*, Ukrainian banks are heavily undercapitalised. The average 1Q15 capital adequacy ratio fell below the minimum required level owing to the cost of more accurate recognition of loan portfolio quality and FX revaluation losses.

The last stress test was based on overoptimistic assumptions, and the current level of capital needs is significantly higher than the originally stated UAH66bn. In our opinion, the Ukrainian banking system requires capital injections totalling UAH150bn to absorb the losses from the current economic downturn. We expect the National Bank of Ukraine (NBU) to conduct the next stress test, which will examine the 20 largest banks to establish their additional capital needs. Since not all of the assessed banks will be able to obtain the required funds, there is a very high probability that large-scale involvement of the state will be necessary.

*IMF program implies government to spend UAH139bn in 2014 to save the banking sector*

The latest version of the memorandum signed by the Ukrainian authorities and the IMF puts the cost of saving Ukraine's banking system at 7.5% of GDP (UAH139bn) in 2015. That amount is to be raised by issuing new government bonds during the course of the year. The NBU is allowed to monetise only UAH55bn; the remaining UAH84bn will be needed to recapitalise the existing banks. We expect any major mergers or nationalisations to take place in 4Q15, assuming, that is, the measures stipulated in the IMF memorandum are implemented on schedule.

**Reducing risks.** The IMF programme stipulates a thorough investigation of excessive related-party lending, which is one of the biggest flaws of the Ukrainian banking system. The country's 20 largest banks are to be assessed using a revised and more demanding approach. We believe that some banks, including Privatbank, are likely to fail the revised test. In such a case, they would be required to present a plan whereby related-party lending is reduced over the next three years. This, of course, assumes that Ukraine honours its obligation to implement the IMF programme.

*Reducing the level of related parties lending will be a challenge for banks with local capital*

The IMF programme provides a very comprehensive roadmap for the reform of the Ukrainian banking sector. Currently, both the government and the parliament are trying to meet the deadlines and the intermediary targets stipulated by the programme. However, since the last tranche was disbursed, there have been some delays in implementing the programme amid an increase in the number of populist actions and bills.

**Banking sector clean-up intensified.** The NBU has introduced temporary administration at Delta Bank and Nadra Bank. Both of these institutions ranked earlier among the top 10 banks in Ukraine by total assets; moreover, NBU had classified Delta Bank as a systemically important institution just two months before it was declared insolvent. The authorities have announced that economic efficiency will be the criterion for deciding whether to nationalize the bank or let it fail. However, the actions taken vis-à-vis both of these banks can be described neither as well-timed nor as consistent with the best interests of the general public.

The Ukrainian government's experience during the last round of bank nationalisations – which took place in 2009 – was largely negative. However, at the same time, the retention rate of money disbursed through the Deposit Guarantee Fund (DGF) has been very low – at just 30-40%. For this reason, the most desirable solution at the current time would be for insolvent banks that have real assets but are unable to raise the required capital to merge with the existing state banks. According to our estimate, the share of government-owned banks could rise from 24% today to 45% by the end of 2015.

*Ukexim's restructure may set high expectations for bondholders of other Ukrainian banks*

**Debt restructuring.** The Ukrainian government has initiated a comprehensive restructuring of sovereign debt that would include bonds issued by the largest state banks. Ukreximbank has already announced the terms of its US$750m bond reprofiling, which includes an interest-rate increase and no haircut. The "no repayment of the principal" approach is expected to be applied to two bonds issued by Ukreximabank (2016 US$125m and 2018 US$600m) and another two by Oscahbank (2016 US$700m and 2018 US$500m) during the period 2015-18. This would allow to Ukraine to achieve the IMF's External Fund Facility Target 1.

In our view, the terms being offered to Ukrexim's bondholders are favourable and will serve as a guide for further restructurings. However, under those terms investors will not have as much leverage over Ukreximbank as they have had to date (the bank plays a key role in the import and export operations of Ukrainian enterprises). While the economy could withstand the default of Oschadbank, such a development would be undesirable for the authorities because of the negative publicity it would generate within the country.

Privatbank, which is the largest bank in Ukraine, is facing the maturity of its US$200m Eurobond in September and is likely to seek the reprofiling of that debt. Currently, there are no limitations for on-time loan repayments; but there is a risk that capital controls will be tightened. Unlike the state banks, Privatbank has no investments in government bonds and hence would need to obtain liquidity primarily from the local FX market.

# Overview of the banking sector

**Owing to the admittedly low capitalization of Ukraine's banks, strong guidance from both the NBU and the IMF will be required during the process of saving the banking system. The government share of the market will inevitably increase during this rescue.**

**UAH revaluation wipes out banks' capital.** Ukrainian banks lost 39% of aggregate regulatory capital in 1Q15. The average regulatory capital adequacy ratio (CAR) fell 8.4% – that is, below the 10% minimum required level. Most of this contraction was caused directly or indirectly by the 48.7% increase QoQ in the official exchange rate.

Some of the largest banks, including the foreign-owned Ukrsotsbank (Unicredit Group) and VTB Bank, were on the brink of de jure insolvency in 1Q15. We believe this has this will expedite the banks' recapitalisation processes, and we expect between UAH40bn and UAH70bn in capital injections from private shareholders in 2015, although this will be predominantly in the form of debt-to-equity conversion.

In our opinion, Ukrainian banks are unable to meet current capital requirements. For this reason, we expect the authorities to lower those requirements for the next few years.

*International financial institutions consider increasing their share of the Ukrainian banking sector*

**Old-new investors.** Currently there is only one solid investor in the Ukrainian banking sector – namely, the government. Private banks are reluctant to significantly increase their exposure. Meanwhile, both Western and Russian banks have increased the capital of their Ukrainian subsidiaries through debt-to-equity exchanges.

However, in April international financial institutions such as the EBRD and the IFC expressed interest in increasing their stakes in the market. Ukrgazbank, Raiffeisen Bank Aval and OTP Bank are currently the objects of that interest. In our opinion, such a move would be very positive for both the Ukrainian banking system and the Ukrainian economy. It is thought that the banks would issue new equity, which would mean a net FX cash inflow of approximately US$120m. Even though such funds would be small compared with the total volume of the banking sector, it would be a sign for other investors to enter the market.

**No let-up in deposit outflows.** In March 2015 there was a decrease in outstanding retail deposits for the 15th month in a row (since January 2014). The rapid devaluation of the hryvnia in February 2015 (+48% MoM) triggered another wave of panic and depositor runs on the banks. The NBU is currently imposing the maximum cap on FX withdrawals (equivalent to UAH15,000 per day); this measure is effective largely owing to the overwhelming share of large deposits (that is, above the upper limit of UAH0.2m for funds that are insured) – more than 80%, according to our estimate. Lifting this restriction would facilitate the inflow of new FX-denominated deposits; but to implement that measure, the regulator would need to be sure that existing depositors would choose to keep their money in the banks rather than being forced to do so. These regulations are scheduled to be reviewed once again at the beginning of June; however, we do not expect any large concessions to be made in this area.

Meanwhile, the central bank raised the key rate from 14.0% to 19.5% in February and to 30% in March in order to tackle inflation. We expect a slight increase in the rate for UAH-denominated deposits – 2-3ppt – as a result of this action. But historical data suggest that this monetary instrument has very little impact on the market cost of funding; for this reason, a spike in deposit rates similar to that in the key rate is very unlikely, in our view.

**Reforms are accelerating.** The NBU has recently made several significant amendments to banking sector regulations aimed at increasing its robustness:

- Strict rules on the definition of "related party" have been introduced. The regulator can assign such a status to a legal entity or person based on its own judgment and understanding of the bank's economic activity. Its decision takes effect unless the bank can prove otherwise. Exposure to insiders cannot exceed 25 per cent of the bank's share capital.
- Some Basel III capital requirements are now in place. The banks will need to form a counter-cyclical buffer while systemically important banks are subject to capital adequacy ratios that are several percentage points higher.
- Reporting quality is to be improved. The NBU is tackling the over-optimistic reporting of financials that banks have engaged in for many years. It will temporarily allow levels of capitalization significantly below the minimum required level. In our opinion, this increases the probability of successful recapitalizations as shareholders would not be able to provide the required amount of capital immediately.
- Term deposits without the option of early withdrawal have been written into law. This will reduce the liquidity risk for banks by decreasing the maturity gap.

While at least one year will be needed for these changes to make any real impact on the sector, it is generally thought that such move are in the right direction.

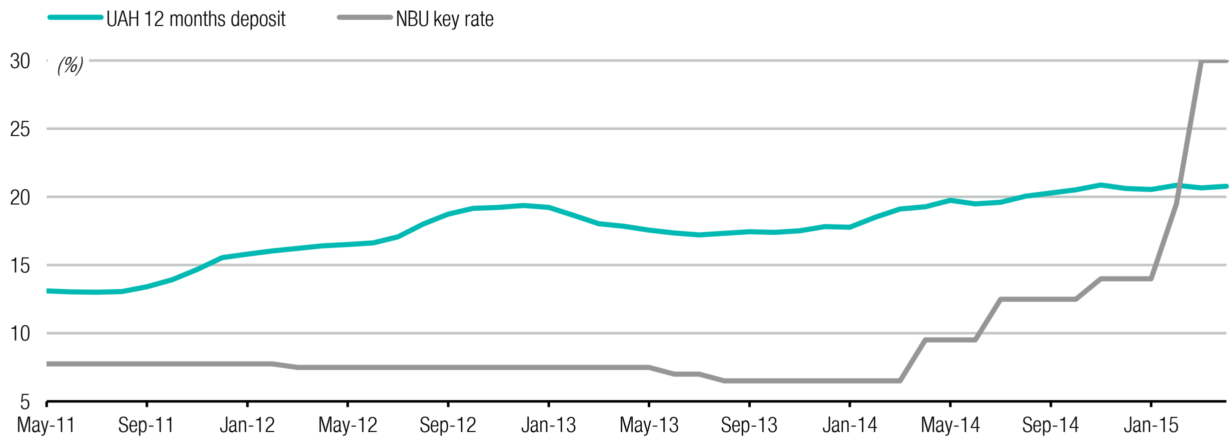
**Russian banks lose retail market.** Aggregate retail deposits in banks with Russian capital fell 41.9% YoY (net of FX revaluation) in 2014, while the rest of the market fared somewhat better, decreasing 28.1% YoY. Alfa Bank, which managed to largely conceal the fact that it is a Russian bank, registered a significantly smaller than average reduction in household deposits – just 19.3% YoY – while the state-owned VTB Bank and Sberbank saw decreases of 61.1% and 55.8% YoY, respectively. At the same time, the aggregate net retail loans of Russian banks dropped from 8.9% in 4Q13 to 6.9% in 4Q14.

Despite total net losses of UAH5.7bn in 4Q14 alone, Russian banks have declared their willingness to remain in Ukraine. Prominvestbank increased its share capital by UAH4.4bn in 4Q14, while VTB Bank has announced plans for capital injections totalling UAH4.2bn in 2Q15. However, we believe that state-owned Russian banks will have to focus on the corporate segment and that funding will have to be provided mainly by the parent groups. On average, the share of Russian banks' loans from other banks rose from 35.5% in 4Q13 to 48.9% in 4Q14. According to our estimates, their debt (including subordinated) to related parties totals US$5.3bn, while their aggregate share capital amounts to UAH30bn.

*Demand for the refinance has been down due to the drastic rise of its price*

**Refinancing costs rise.** The steep hike in the NBU key rate has increased the price of funding across the banking system. Banks have become less eager to borrow from the national bank – at current rates of 32-33% per annum; and most of the refinancing auctions are for very short periods – two weeks only – the only exception being for stabilisation loans, which are usually provided for two years. In addition, the NBU has granted a grace period stabilisation loans of until June 2015, during which the interest rate is set at 19.5%; this is close to the cost of the alternative source of funding – namely, retail deposits (see Chart 1 immediately below).

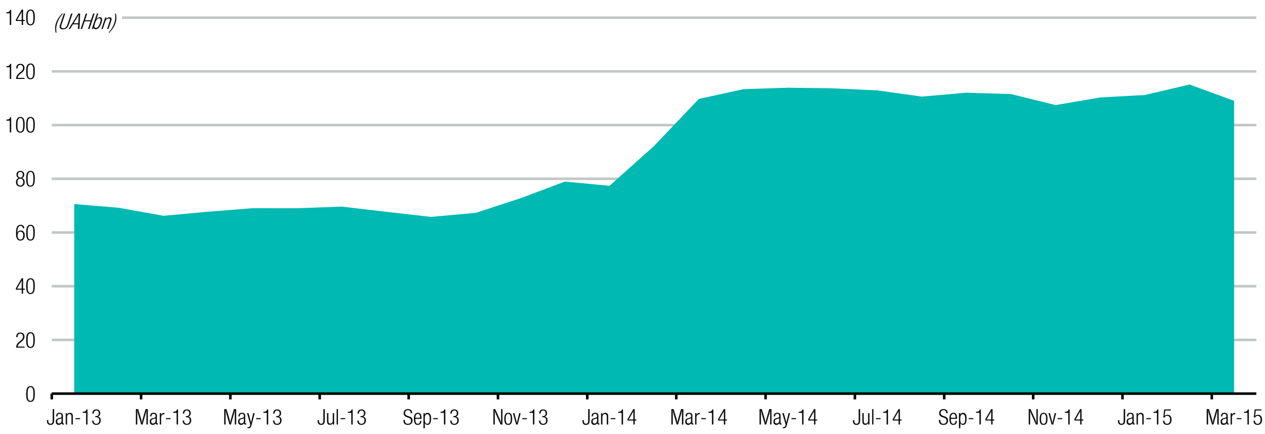
**Chart 1. NBU key rate vs the average deposit interest rate**




Sources: NBU

In 1Q15 the regulator granted stabilisation loans for up to two years totalling UAH2.9bn and refinance loans for up to one year totalling UAH3.2bn. Commercial banks received NBU loans worth a total of UAH23bn to compensate for the deposit withdrawals in March and April 2014 issue; the interest rate for those loans is 13% per annum for a period of up to 360 days. The bulk of those funds went to Privatbank (UAH10bn), Delta Bank (UAH4.1bn), VAB Bank (UAH1.9bn) and Financial Initiative (UAH1.5bn). Because the deposit outflow has lasted longer than expected, banks have required new NBU loans to repay existing old ones. This applies, in particular, to the country's largest bank – Privatbank – which in 1Q15 received stabilisation loans worth UAH7.7bn.

**Chart 2. NBU loans to banks (except banks in liquidation)**




Sources: NBU

We expect performing banks' outstanding debt to the NBU to gradually decrease owing to the significant cost of this type of funding. In our view, this will happen because:

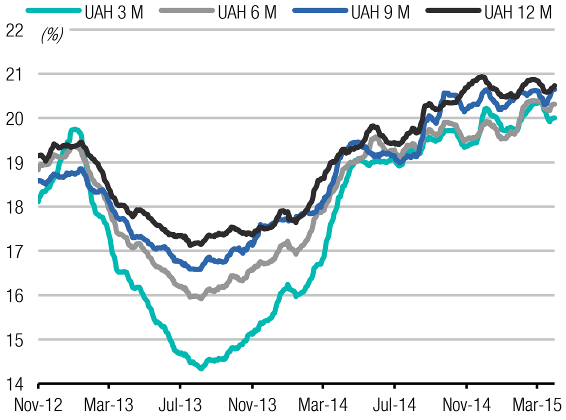
- Banks will try to substitute such debt with cheaper market funding;
- The NBU will acquire the collateral of insolvent banks during the liquidation processes.

At the same time, the regulator may increase the amount of loans to the banking sector if it decides to help individual banks to merge with institutions that are problematic.

**High interest rates to continue to prevail.** For some time now, the NBU key rate has not reflected the market price for money: indeed, the two have been moving completely independently of each other. While, the key rate still has limited influence only, it is gradually assuming a more important role, which is one of the objectives of the reform of the banking sector.

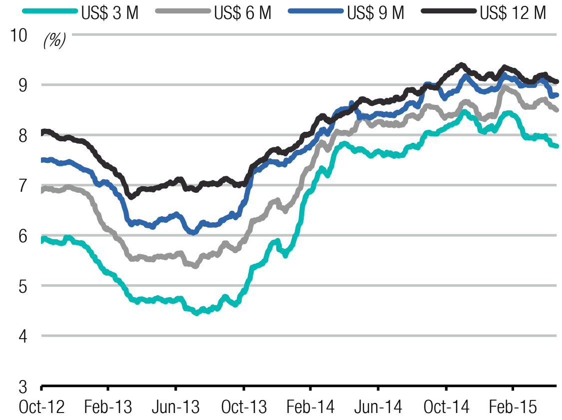
The average interest on UAH-denominated household deposits has not followed the sharp rise of the NBU key rate (see Chart 3 below). Banks have preferred to conduct short-term marketing campaigns aimed at raising the effective interest rate on deposit accounts. Ukraine's largest bank, Privatbank, has started to compensate customers for the income tax (21.5%) on interest income by increasing the effective interest rate by up to 6ppt for hryvnia deposits. In general, banks tend to make marketing-driven offers on deposit accounts that are relatively easy to withdraw if the overall interest rate goes down.

**Chart 3. Average interest rates on UAH household deposits**




Source: NBU, ICU.

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




Source: NBU, ICU

**Political obstacles to banking sector reforms.** UAH devaluation has hit FX borrowers hard, which, in turn, has led to a significant deterioration in their repayment discipline. Unlike during the 2008-09 crisis, the range of such borrowers has been narrowed down largely to just those with FX earnings. However, in 2014 retail loans issued prior to 2008 that had not been since converted into hryvnia turned very problematic. Borrowers have demanded that their FX loans be converted into hryvnia at a pre-2014 exchange rate – and populist officials have been encouraging such demands. For its part, the IMF has suggested that only mortgage loans that meet certain criteria can undergo such conversion and that there must be mutual agreement between the borrower and the bank.

The total gross amount of FX mortgage loans on the banks' balance sheets is US$3.4bn, according to our estimate. Nearly one-third of payments on these loans are overdue. Another obstacle for banks has been the ban imposed by the parliament on acquiring real estate from customers in default. That moratorium has been lifted for the time being; but there have been calls for it to be re-imposed, which are welcomed by the general public.

In our view, the different branches of government differ significantly over the goals of the banking sector reform. Various individuals are pushing for legislation that will set tougher terms for the restructuring of banks. A bill that recently passed in the first reading states that all FX loans, including consumer and auto loans, can be restructured. This would mean that the gross amount of bank assets subject to special term of subject to restructuring would increase to the equivalent of US$6.2bn

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

| Balance sheet figures (UAHm) | Privatbank | Ukreximbank | Oschadbank | PIB | Ukrsotsbank | Aval | Sberbank | FUIB | Alfa | VTB | OTP |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets | 248,041 | 158,121 | 150,818 | 66,314 | 55,278 | 52,797 | 59,815 | 40,163 | 43,128 | 42,887 | 24,099 |
| Net loans | 186,706 | 65,176 | 79,764 | 51,578 | 41,241 | 31,307 | 50,241 | 30,143 | 29,757 | 35,684 | 18,829 |
| Deposits | 172,240 | 77,136 | 67,558 | 16,126 | 23,448 | 32,562 | 18,939 | 27,628 | 20,943 | 9,082 | 16,606 |
| Total equity | 23,094 | 9,192 | 22,013 | 5,805 | 9,686 | 4,105 | 1,772 | 4,428 | 2,254 | 3,258 | 1,450 |
| **Quarterly P&L (UAHm)** | | | | | | | | | | | |
| Net interest income | 435 | 1,512 | 1,843 | 630 | 393 | 1,349 | 949 | 636 | 469 | 56 | 742 |
| Net commission income | 806 | 225 | 347 | 293 | 176 | 478 | 80 | 941 | 325 | 236 | 92 |
| Operating income (before LLP) | 2,576 | 8,190 | 5,678 | 422 | (175) | 1,614 | 1,866 | 1,648 | 2,049 | (39) | 1,031 |
| Operating expenses | (1,939) | (364) | (977) | (385) | (783) | (854) | (353) | (411) | (382) | (243) | (309) |
| Loan loss provisions (LLP) | (606) | (12,361) | (4,615) | (189) | (1,286) | (2,600) | (3,542) | (1,636) | (2,489) | (338) | (1,837) |
| Net income | 6 | (4,534) | 87 | (153) | (1,944) | (1,840) | (2,029) | (328) | (622) | (1,041) | (1,115) |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | | | |
| Net interest income | 7,814 | 5,172 | 6,573 | 2,012 | 1,061 | 5,021 | 3,615 | 2,401 | 1,755 | 1,191 | 2,408 |
| Net commission income | 3,009 | 697 | 1,293 | 807 | 668 | 1,763 | 339 | 1,640 | 958 | 615 | 358 |
| Operating income (before LLP) | 11,910 | 13,407 | 11,239 | 2,665 | 1,148 | 6,762 | 5,733 | 4,626 | 5,841 | 2,108 | 3,362 |
| Operating expenses | (8,217) | (1,870) | (3,927) | (1,642) | (2,862) | (3,507) | (1,582) | (1,369) | (1,705) | (1,317) | (2,430) |
| Loan loss provisions (LLP) | (2,948) | (26,901) | (16,012) | (5,070) | (3,871) | (6,217) | (6,203) | (3,967) | (5,853) | (2,248) | (3,399) |
| Net income | 462 | (14,403) | (8,633) | (4,157) | (4,629) | (2,265) | (2,025) | (408) | (1,368) | (1,653) | (2,435) |
| **Growth rates (%YoY)** | | | | | | | | | | | |
| Assets | 26.5 | 49.5 | 36.2 | 35.5 | 19.8 | 17.4 | 40.6 | 9.5 | 20.6 | 45.6 | 13.8 |
| Gross loans | 22.2 | 65.3 | 55.6 | 55.3 | 44.3 | 27.9 | 59.1 | 34.4 | 48.1 | 62.6 | 24.5 |
| Deposits | 11.8 | 70.9 | 13.9 | 2.6 | 53.1 | 50.9 | (20.5) | 15.7 | 6.1 | (21.1) | 18.1 |
| Total equity | 11.1 | (49.4) | 7.6 | (7.9) | 13.4 | (39.5) | (53.8) | (6.9) | (46.4) | (27.3) | (46.4) |
| **Key ratios (%)** | | | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 9.1 | 10.9 | 15.9 | 7.0 | 17.4 | 11.3 | 4.9 | 12.7 | 6.9 | 8.3 | 8.6 |
| Equity/assets | 9.3 | 5.8 | 14.6 | 8.8 | 17.5 | 7.8 | 3.0 | 11.0 | 5.2 | 7.6 | 6.0 |
| Cash & cash equivalents/liabilities | 11.1 | 12.9 | 13.3 | 7.6 | 6.7 | 21.8 | 4.8 | 14.1 | 14.8 | 4.8 | 5.1 |
| Net loans/deposits | 108.4 | 84.5 | 118.1 | 319.8 | 175.9 | 96.1 | 265.3 | 109.1 | 142.1 | 392.9 | 113.4 |
| Cost-to-income ratio | 69.0 | 14.0 | 34.9 | 61.6 | 249.2 | 51.9 | 27.6 | 29.6 | 29.2 | 62.5 | 72.3 |
| Net interest margin | 4.5 | 4.7 | 5.9 | 4.3 | 2.7 | 14.1 | 8.3 | 8.0 | 5.8 | 4.0 | 12.8 |
| ROAA | 0.2 | (10.9) | (6.8) | (7.5) | (9.5) | (4.8) | (4.2) | (1.1) | (3.6) | (4.6) | (11.0) |
| ROAE | 2.1 | (105.0) | (40.5) | (67.9) | (58.4) | (40.3) | (60.7) | (8.7) | (38.6) | (37.2) | (133.7) |
| NII/operating income | 65.6 | 38.6 | 58.5 | 75.5 | 92.4 | 74.2 | 63.0 | 51.9 | 30.1 | 56.5 | 71.6 |
| Core income/operating expenses | 131.7 | 313.8 | 200.3 | 171.7 | 60.4 | 193.4 | 249.8 | 295.3 | 159.2 | 137.1 | 113.9 |

Notes: Based on bank's 1Q15 UAS financial statements Sources: NBU, ICU.

# 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 1Q15.**

Country
**Ukraine**

# Privatbank

| Sector | Credit ratings by Moody's/S&P/Fitch | Ticker(s) in Bloomberg |
|---|---|---|
| **Banks: Commercial banking** | **Ca/ CCC- /CCC** | **PRBANK** |

**Privatbank is currently entangled in a conflict between the authorities and the business group Privat, to which it belongs. It is very likely that the bank will lose some of its major corporate depositors as a result of that dispute. However, the President has given his assurance that the authorities will support the bank by any means necessary.**

**Privatbank has increased its dependence on the regulator: the total amount of NBU loans accounted for 11.9% of overall liabilities in 1Q15.**

**Capitalisation increases.** The regulatory capital adequacy ratio (CAR) dropped from 11.2% in 4Q14 to 9.1% in 1Q15. Following the UAH1.0bn capital injection in 4Q14, Privatbank announced its plan to raise UAH5bn in additional capital from existing shareholders during the period April-June 2015 as part of its recapitalisation plan.

**NBU support.** In March-April 2015 Privatbank is due to repay special NBU loans totalling UAH10bn whose aim was to preserve its liquidity. However, this amount will have to be rolled over by the regulator as retail deposits – which are the main source of funding (53.9% of 1Q15 overall liabilities) for the bank – continue to decline at present.

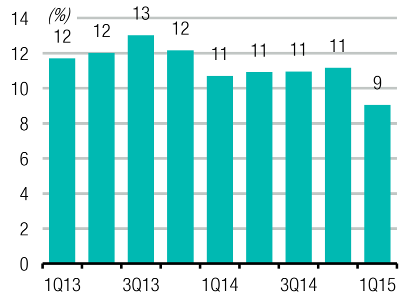
Owing to the absence of government bonds in its securities portfolio, Privatbank can offer only inferior collateral against the NBU loans – such as property or loan portfolios. For this reason the NBU has secured a personal guarantee from one of the bank's ultimate shareholders for the stabilisation loan granted to Privatbank in February 2015.

**Deposits outflow slows.** Retail deposits declined by 7.9% QoQ in 1Q15, while corporate deposits increased by 16.0% QoQ. Total customer accounts fell by 2.4% QoQ in 1Q15 compared with 2.3% QoQ in 4Q14.

In 2014 the bank lost a smaller share of retail deposits than market average (25.2% YoY compared with 29.4% YoY) as it is seen by many as too big to fail.

**Little deterioration in loan portfolio.** The share of bad debts remains very low – just 10.9% in 1Q15, up a mere 1.2ppt from 4Q14. The share of retail loans (predominantly credit cards and POS lending) in past due payments is increasing – 19.1% in 1Q15 compared with 16% in 4Q14. At the same time corporate lending, which accounted for 81.7% of 4Q14 total gross loans, continues to make only a small contribution (around 5.1%) to total payments overdue. Privatbank can face a significant regulatory risk. According to our earlier assessment, its share of overall such lending could be at least 40% (see ICU's *Banking sector primer: Repairs still ongoing*).

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q14** UAS | **1Q15** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 148,841 | 187,919 | 204,585 | 248,041 |
| Loans | 113,759 | 142,548 | 161,339 | 186,706 |
| Deposits | 106,324 | 133,551 | 141,338 | 172,240 |
| Equity | 18,301 | 20,312 | 22,696 | 23,094 |
| Net % income | 8,049 | 8,444 | 10,348 | 7,814 |
| Net com income | 3,274 | 2,557 | 2,870 | 3,009 |
| Operating inc. | 12,290 | 11,491 | 11,905 | 11,910 |
| PPI | 6,704 | 4,823 | 3,743 | 3,692 |
| LLP | -4,909 | -2,671 | -2,676 | -2,948 |
| Net income | 1,533 | 1,873 | 749 | 462 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 10.7 | 9.8 | N/a | N/a |
| CAR | 11.7 | 12.9 | 11.2 | 9.1 |
| Equity-to-assets | 12.3 | 10.8 | 11.1 | 9.3 |
| Net loan-to-deposit | 107.0 | 106.7 | 114.2 | 108.4 |
| Cash-to-liabilit. | 20.4 | 20.1 | 14.9 | 11.1 |
| ROAA | 2.1 | 1.1 | 0.4 | 0.2 |
| ROAE | 16.8 | 9.7 | 3.5 | 2.1 |
| Net % margin | 13.7 | 6.4 | 6.2 | 4.5 |
| NII-to-op income | 65.5 | 73.5 | 86.9 | 65.6 |
| Cost-to-income | 45.5 | 58.0 | 68.6 | 69.0 |
| LLR | 18.1 | 14.3 | 12.7 | 11.4 |
| 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

# Privatbank: Key quarterly UAS financials and ratios

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

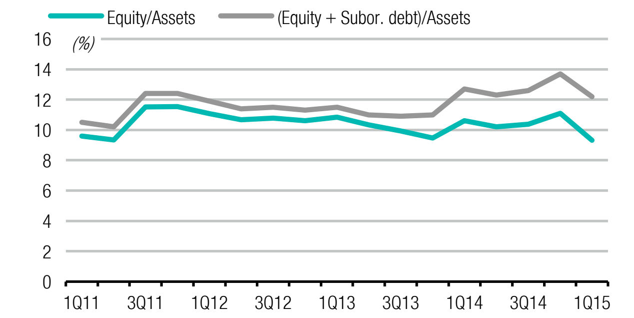
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 174,930 | 190,924 | 202,551 | 214,491 | 196,129 | 204,200 | 201,900 | 204,585 | 248,041 |
| Cash and cash equivalents | 22,500 | 32,194 | 33,970 | 33,723 | 17,676 | 21,963 | 17,114 | 27,076 | 24,925 |
| Gross loans | 146,054 | 150,537 | 154,249 | 166,259 | 172,408 | 168,653 | 172,896 | 184,748 | 210,743 |
| Gross business loans | 117,581 | 120,810 | 123,025 | 135,993 | 139,946 | 137,581 | 140,763 | 151,022 | 174,455 |
| Gross household loans | 28,473 | 29,726 | 31,224 | 30,266 | 32,462 | 31,072 | 32,132 | 33,726 | 36,288 |
| Loan loss reserves (LLR) | -25,032 | -24,775 | -25,066 | -23,711 | -23,679 | -21,765 | -22,473 | -23,410 | -24,037 |
| Deposits | 108,495 | 120,750 | 123,995 | 133,551 | 138,578 | 131,852 | 131,715 | 141,338 | 172,240 |
| Business deposits | 21,173 | 25,387 | 22,991 | 26,839 | 29,745 | 27,946 | 29,899 | 33,628 | 51,011 |
| Household deposits | 87,322 | 95,363 | 101,004 | 106,712 | 108,833 | 103,906 | 101,817 | 107,710 | 121,230 |
| Total equity | 18,959 | 19,734 | 20,109 | 20,312 | 20,791 | 20,855 | 20,948 | 22,696 | 23,094 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,893 | 2,373 | 1,985 | 2,194 | 2,969 | 2,359 | 2,363 | 2,657 | 435 |
| Net commission income | 663 | 339 | 722 | 832 | 667 | 655 | 699 | 849 | 806 |
| Operating income (before LLP) | 2,482 | 2,712 | 2,931 | 3,364 | 2,572 | 3,694 | 3,667 | 1,972 | 2,576 |
| Operating expenses | -1,330 | -1,622 | -1,772 | -1,944 | -1,883 | -1,932 | -2,013 | -2,334 | -1,939 |
| Loan loss provisions (LLP) | -465 | -263 | -684 | -1,257 | -334 | -1,494 | -1,695 | 847 | -606 |
| Net income | 624 | 758 | 349 | 141 | 294 | 93 | 40 | 322 | 6 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 8,114 | 8,698 | 8,070 | 8,444 | 9,520 | 9,506 | 9,885 | 10,348 | 7,814 |
| Net commission income | 2,984 | 2,265 | 2,464 | 2,557 | 2,560 | 2,876 | 2,853 | 2,870 | 3,009 |
| Operating income (before LLP) | 11,466 | 11,168 | 10,830 | 11,489 | 11,579 | 12,561 | 13,297 | 11,905 | 11,910 |
| Operating expenses | -5,712 | -6,022 | -6,260 | -6,669 | -7,222 | -7,532 | -7,772 | -8,161 | -8,217 |
| Loan loss provisions (LLP) | -3,602 | -2,544 | -1,969 | -2,669 | -2,537 | -3,769 | -4,779 | -2,676 | 2,94 |
| Net income | 1,890 | 2,325 | 2,274 | 1,873 | 1,543 | 878 | 568 | 749 | 462 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 13.8 | 18.0 | 23.1 | 24.4 | 12.1 | 7.0 | -0.3 | -4.6 | 26.5 |
| Gross loans | 14.0 | 14.3 | 13.3 | 19.6 | 18.0 | 12.0 | 12.1 | 11.1 | 22.2 |
| Deposits (by businesses) | -10.8 | 5.5 | 11.4 | 31.1 | 40.5 | 10.1 | 30.0 | 25.3 | 71.5 |
| Deposits (by households) | 14.7 | 21.7 | 22.4 | 24.3 | 24.6 | 9.0 | 0.8 | 0.9 | 11.4 |
| Deposits (total) | 8.7 | 17.9 | 20.2 | 25.6 | 27.7 | 9.2 | 6.2 | 5.8 | 24.3 |
| Total equity | 11.5 | 14.3 | 13.3 | 11.0 | 9.7 | 5.7 | 4.2 | 11.7 | 11.1 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 11.7 | 12.0 | 13.0 | 12.2 | 10.7 | 10.9 | 11.0 | 11.2 | 9.1 |
| Equity/assets | 10.8 | 10.3 | 9.9 | 9.5 | 10.6 | 10.2 | 10.4 | 11.1 | 9.3 |
| (Equity + sub-debt)/assets | 11.5 | 11.0 | 10.9 | 11.0 | 12.7 | 12.3 | 12.6 | 13.7 | 12.2 |
| Cash & cash equivalents/liabilities | 14.4 | 18.8 | 18.6 | 17.4 | 10.1 | 12.0 | 9.5 | 14.9 | 11.1 |
| Current liquidity (R5 by NBU) | 76.7 | 74.4 | 97.2 | 90.1 | 84.6 | 91.9 | 89.5 | 83.9 | 74.3 |
| Gross loans/deposits | 134.6 | 124.7 | 124.4 | 124.5 | 124.4 | 127.9 | 131.3 | 130.7 | 122.4 |
| Net loans/deposits | 111.5 | 104.2 | 104.2 | 106.7 | 107.3 | 111.4 | 114.2 | 114.2 | 108.4 |
| Cost-to-income ratio | 49.8 | 53.9 | 57.8 | 58.0 | 62.4 | 60.0 | 58.5 | 68.6 | 69.0 |
| Net interest margin | 6.9 | 7.1 | 6.3 | 6.2 | 6.6 | 6.2 | 6.1 | 6.2 | 4.5 |
| ROAA | 1.1 | 1.3 | 1.2 | 1.0 | 0.8 | 0.4 | 0.3 | 0.4 | 0.2 |
| ROAE | 10.5 | 12.4 | 11.8 | 9.5 | 7.6 | 4.3 | 2.7 | 3.5 | 2.1 |
| NII/operating income | 70.8 | 77.9 | 74.5 | 73.5 | 82.2 | 75.7 | 74.3 | 86.9 | 65.6 |
| Core income/operating expenses | 194.3 | 182.0 | 168.3 | 165.0 | 167.3 | 164.4 | 163.9 | 162.0 | 131.7 |

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.

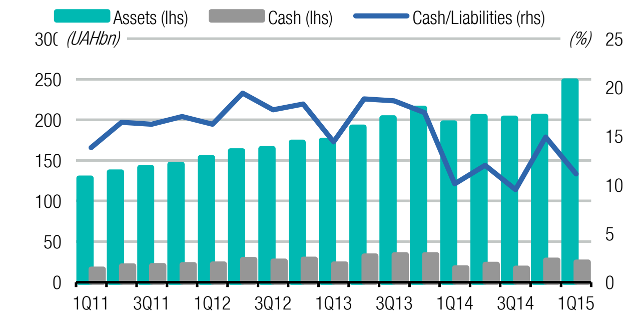
# Privatbank: Key credit metrics

### Chart 5. Capitalisation



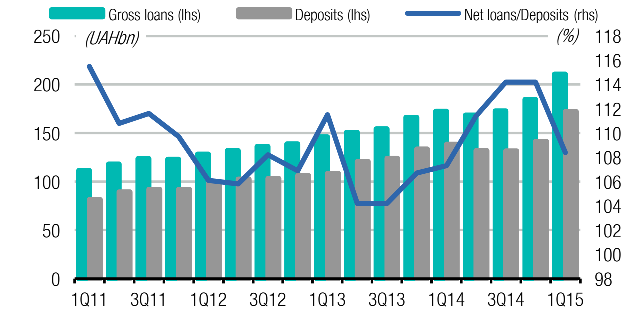

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 6. Liquidity



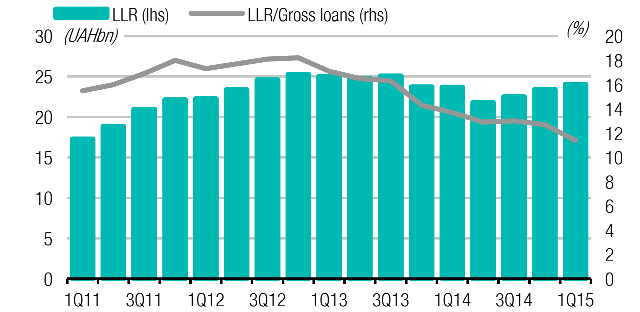

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 7. Loans and deposits



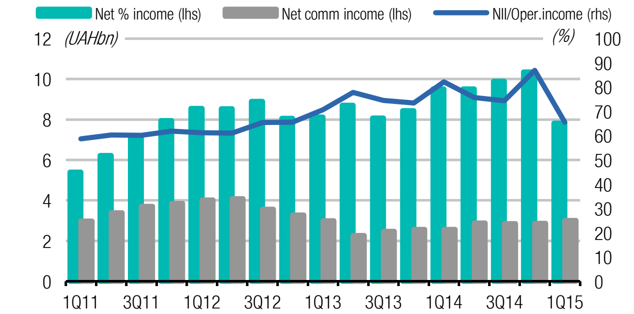

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 8. Loan loss reserves history



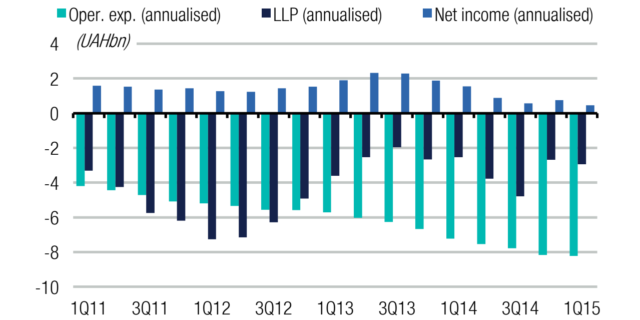

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 9. Income structure (annualised basis)



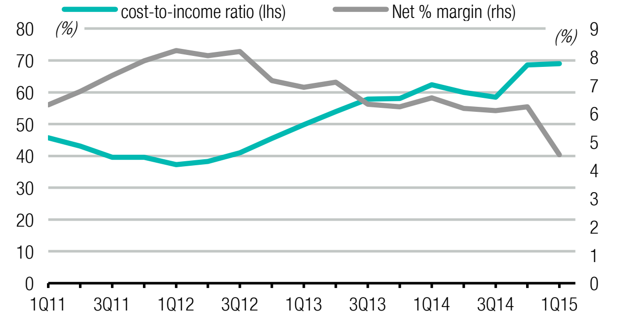

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 10. Expense and net income (annualised basis)



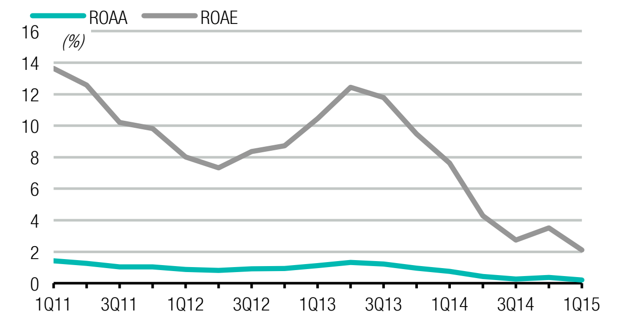

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 11. Financial performance ratios




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

### Chart 12. 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/CC**

Ticker(s) in Bloomberg
**EXIMUK**

**Ukreximbank is seeking to reprofile all three of its Eurobonds – which total US$1,475m – over the next three months. It has already committed itself to investor-friendly terms, including no haircut, a coupon increase and rapid bond amortization.**

**Record loss.** The bank finished 2014 with a UAH9.8bn net loss in accordance with local accounting standards (UAH11.2bn according to the IFRS), attributable mostly to the deterioration of the loan portfolio (UAH11.4bn of loan provisioning expenses) and losses from the FX devaluation (UAH4.3bn). A net loss of UAH14.4bn in 1Q15 alone has dramatically reduced the bank's capital.

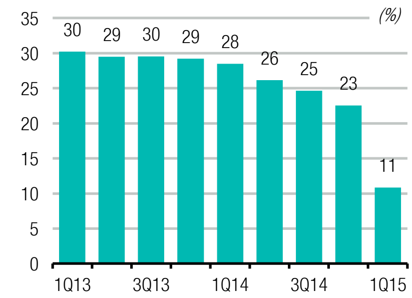
The share of bad credit exposure has reached 29.7% in 1Q15 with LLR coverage of 86.1% which has been rising for nine consecutive quarters.

**Capitalisation boost.** Ukreximbank received a UAH5.0bn capital injection in the form of government bonds in December 2014. Those funds are aimed at replenishing the bank's regulatory capital after it registered a net loss of UAH9.8bn in 2014. We believe that Ukreximbank is likely to require a capital injection from the government this year.

**Moderate liquidity drain.** In 1Q15 Ukreximbank saw its overall deposits shrink by 0.2% QoQ: the retail segment was down 9.4% QoQ but the corporate segment was up 5.2% QoQ net of the revaluation effect. This result is much better than the sector's average declines of 12.2% QoQ and 0.3% QoQ, respectively. While the bank managed to increase local currency outstanding by UAH1.bn (+5.2% QoQ), FX deposits shrank by US$144m (-5.7%). The outflow of hard currency from deposit is likely to continue in 2Q15. In addition, the bank has decreased the amount due to foreign banks, including the outstanding corresponding accounts. In our opinion, the ongoing hard currency drain weakens Ukreximbank's ability to repay the Eurobond.

**Securities exposure.** Local government bonds comprise 28.8% of Ukreximbank's total assets, according to our estimates. This ratio has been constantly growing due to the revaluation effect as nearly 75% of the portfolio is denominated in FX. However, the bank has little possibility to sell these bonds on the secondary market due to the limited amount of FX liquidity in other Ukrainian banks. In addition, Ukreximbank owns nearly 40.4% of the total outstanding local government bonds in foreign currency, according to our estimates.

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | 2013 IFRS | 2014 IFRS | 4Q14 UAS | 1Q15 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 93,275 | 123,530 | 126,000 | 158,121 |
| Loans | 41,625 | 49,974 | 52,094 | 65,176 |
| Deposits | 41,461 | 61,995 | 60,126 | 77,136 |
| Equity | 17,611 | 11,576 | 13,536 | 9,192 |
| Net % income | 3,945 | 2,668 | 4,629 | 5,172 |
| Net com income | 370 | 429 | 589 | 697 |
| Operating inc. | 4,471 | 2,524 | 8,258 | 13,407 |
| PPI | 3,120 | -1,011 | 6,448 | 11,536 |
| LLP | -2,786 | -11,431 | -17,197 | -26,901 |
| Net income | 201 | -11,249 | -9,806 | -14,404 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 23.7 | 12.1 | N/a | N/a |
| CAR | 28.9 | 17.8 | 22.6 | 10.9 |
| Equity-to-assets | 18.9 | 9.4 | 10.7 | 5.8 |
| Net loan-to-depos. | 100.4 | 80.6 | 86.6 | 84.5 |
| Cash-to-liabi. | 12.0 | 15.0 | 13.4 | 12.9 |
| ROAA | 0.2 | -10.4 | -8.3 | -10.9 |
| ROAE | 1.1 | -77.1 | -61.5 | -105.0 |
| Net % margin | 5.7 | 3.0 | 4.7 | 4.7 |
| NII-to-op income | 88.2 | 106.1 | 56.1 | 38.6 |
| Cost-to-income | 30.2 | 140.9 | 21.9 | 14.0 |
| LLR | 17.4 | 31.7 | 32.0 | 35.8 |
| NPLs | 31.1 | 48.4 | N/a | N/a |
| NPL coverage | 55.9 | 65.5 | 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

# Ukreximbank: Key quarterly UAS financials and ratios

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

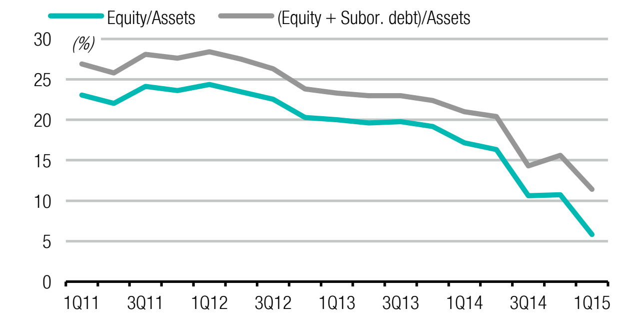
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 126,000 | 126,000 | 126,000 | 126,000 | 126,000 | 126,000 | 126,000 | 126,000 | 158,121 |
| Cash and cash equivalents | 15,117 | 15,117 | 15,117 | 15,117 | 15,117 | 15,117 | 15,117 | 15,117 | 19,238 |
| Gross loans | 76,602 | 76,602 | 76,602 | 76,602 | 76,602 | 76,602 | 76,602 | 76,602 | 101,518 |
| Gross business loans | 75,413 | 75,413 | 75,413 | 75,413 | 75,413 | 75,413 | 75,413 | 75,413 | 99,901 |
| Gross household loans | 1,189 | 1,189 | 1,189 | 1,189 | 1,189 | 1,189 | 1,189 | 1,189 | 1,617 |
| Loan loss reserves (LLR) | -24,508 | -24,508 | -24,508 | -24,508 | -24,508 | -24,508 | -24,508 | -24,508 | -36,342 |
| Deposits | 60,126 | 60,126 | 60,126 | 60,126 | 60,126 | 60,126 | 60,126 | 60,126 | 77,136 |
| Business deposits | 38,256 | 38,256 | 38,256 | 38,256 | 38,256 | 38,256 | 38,256 | 38,256 | 51,272 |
| Household deposits | 21,870 | 21,870 | 21,870 | 21,870 | 21,870 | 21,870 | 21,870 | 21,870 | 25,865 |
| Total equity | 13,536 | 13,536 | 13,536 | 13,536 | 13,536 | 13,536 | 13,536 | 13,536 | 9,192 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,507 | 1,507 | 1,507 | 1,507 | 1,507 | 1,507 | 1,507 | 1,507 | 1,512 |
| Net commission income | 192 | 192 | 192 | 192 | 192 | 192 | 192 | 192 | 225 |
| Operating income (before LLP) | 1,751 | 1,751 | 1,751 | 1,751 | 1,751 | 1,751 | 1,751 | 1,751 | 8,190 |
| Operating expenses | -638 | -638 | -638 | -638 | -638 | -638 | -638 | -638 | -364 |
| Loan loss provisions (LLP) | -7,923 | -7,923 | -7,923 | -7,923 | -7,923 | -7,923 | -7,923 | -7,923 | -12,361 |
| Net income | -5,855 | -5,855 | -5,855 | -5,855 | -5,855 | -5,855 | -5,855 | -5,855 | -4,534 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 4,629 | 4,629 | 4,629 | 4,629 | 4,629 | 4,629 | 4,629 | 4,629 | 5,172 |
| Net commission income | 589 | 589 | 589 | 589 | 589 | 589 | 589 | 589 | 697 |
| Operating income (before LLP) | 8,258 | 8,258 | 8,258 | 8,258 | 8,258 | 8,258 | 8,258 | 8,258 | 13,407 |
| Operating expenses | -1,810 | -1,810 | -1,810 | -1,810 | -1,810 | -1,810 | -1,810 | -1,810 | -1,870 |
| Loan loss provisions (LLP) | -17,197 | -17,197 | -17,197 | -17,197 | -17,197 | -17,197 | -17,197 | -17,197 | -26,901 |
| Net income | -9,806 | -9,806 | -9,806 | -9,806 | -9,806 | -9,806 | -9,806 | -9,806 | -14,403 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 33.5 | 33.5 | 33.5 | 33.5 | 33.5 | 33.5 | 33.5 | 33.5 | 49.5 |
| Gross loans | 49.3 | 49.3 | 49.3 | 49.3 | 49.3 | 49.3 | 49.3 | 49.3 | 65.3 |
| Deposits (by businesses) | 48.8 | 48.8 | 48.8 | 48.8 | 48.8 | 48.8 | 48.8 | 48.8 | 78.2 |
| Deposits (by households) | 26.7 | 26.7 | 26.7 | 26.7 | 26.7 | 26.7 | 26.7 | 26.7 | 41.3 |
| Deposits (total) | 39.9 | 39.9 | 39.9 | 39.9 | 39.9 | 39.9 | 39.9 | 39.9 | 63.8 |
| Total equity | -25.1 | -25.1 | -25.1 | -25.1 | -25.1 | -25.1 | -25.1 | -25.1 | -49.4 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 | 10.9 |
| Equity/assets | 10.7 | 10.7 | 10.7 | 10.7 | 10.7 | 10.7 | 10.7 | 10.7 | 5.8 |
| (Equity + sub-debt)/assets | 15.6 | 15.6 | 15.6 | 15.6 | 15.6 | 15.6 | 15.6 | 15.6 | 11.4 |
| Cash & cash equivalents/liabilities | 13.4 | 13.4 | 13.4 | 13.4 | 13.4 | 13.4 | 13.4 | 13.4 | 12.9 |
| Current liquidity (R5 by NBU) | 134.7 | 134.7 | 134.7 | 134.7 | 134.7 | 134.7 | 134.7 | 134.7 | 106.9 |
| Gross loans/deposits | 127.4 | 127.4 | 127.4 | 127.4 | 127.4 | 127.4 | 127.4 | 127.4 | 131.6 |
| Net loans/deposits | 86.6 | 86.6 | 86.6 | 86.6 | 86.6 | 86.6 | 86.6 | 86.6 | 84.5 |
| Cost-to-income ratio | 21.9 | 21.9 | 21.9 | 21.9 | 21.9 | 21.9 | 21.9 | 21.9 | 14.0 |
| Net interest margin | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 |
| ROAA | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 | -10.9 |
| ROAE | -61.5 | -61.5 | -61.5 | -61.5 | -61.5 | -61.5 | -61.5 | -61.5 | -105.0 |
| NII/operating income | 56.1 | 56.1 | 56.1 | 56.1 | 56.1 | 56.1 | 56.1 | 56.1 | 38.6 |
| Core income/operating expenses | 288.2 | 288.2 | 288.2 | 288.2 | 288.2 | 288.2 | 288.2 | 288.2 | 313.8 |

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.

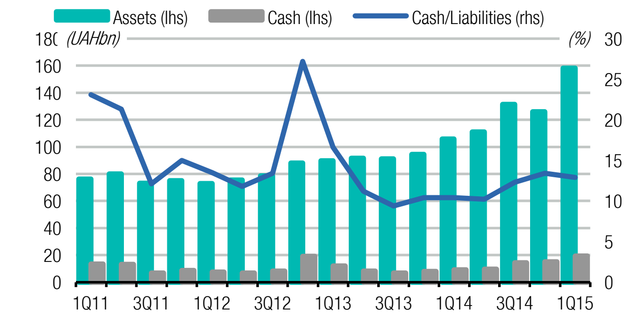
# Ukreximbank: Key credit metrics

### Chart 13. Capitalisation



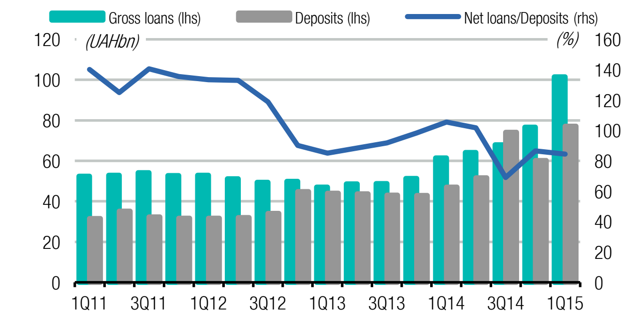

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 14. Liquidity



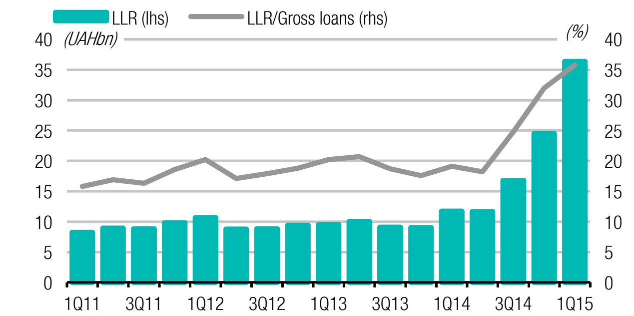

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 15. Loans and deposits



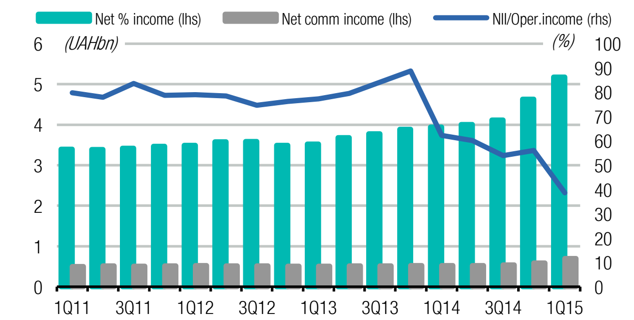

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 16. Loan loss reserves history



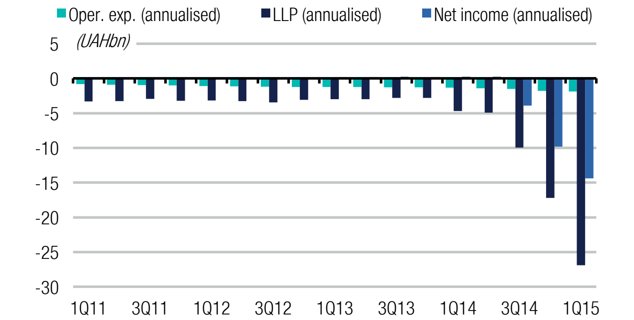

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 17. Income structure (annualised basis)



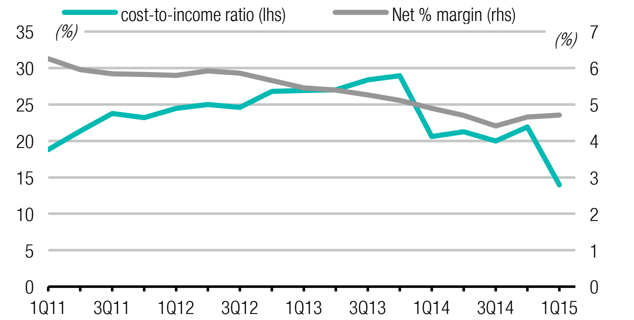

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 18. Expense and net income (annualised basis)



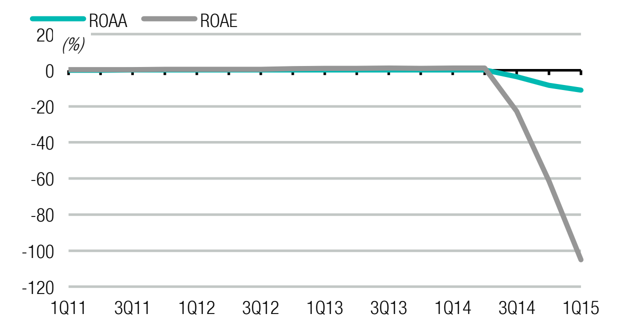

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 19. Financial performance ratios




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

### Chart 20. Financial performance ratios




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

Country
**Ukraine**

# Oschadbank

Sector
**Banks: Commercial banking**

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

Ticker(s) in Bloomberg
**OSCHAD**

**Oschadbank recognised profit of UAH87m in 1Q15 following record-high net losses of UAH9.1bn in 4Q14. This was a result of the Crimea loan portfolio being written off. The UAH11.6bn capital injection received last December will help the bank accommodate further losses.**

**Capitalisation boost.** Oschadbank received UAH11.6bn in new capital in 4Q14 in the form of government bonds. That is higher than the required amount identified by the stress test last year. We believe that the authorities would like to increase Oschad's ability to lend to number of large customers, including UAH5.0bn for the Odessa Port Plant and the State Railway Company.

Oschadbank had stabilization loans to the tune of UAH6.0bn and refinance loans totaling UAH5.4bn that are due to be repaid on 10 June 2015. However, in all likelihood it applied for an extension.

**Loan portfolio quality rapidly deteriorates.** The bank has recognised significant losses on its Crimea loan portfolio, which accounts for around 10% of its total gross loan portfolio. In 4Q14 its LLR ratio increased – from 25.8% to 27.2 for the corporate portfolio and from 52.1% to 56.2% for the retail portfolio.

Oschadbank has a high reserves to bad debt ratio of 88.5%. This suggests that if there is no further deterioration, the current level of reserves is adequate.

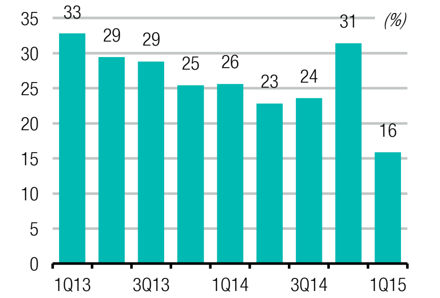
The Naftogaz UAH loan was not repaid in March 2015 as the government had authorised the rollover of that debt until June. We expect the NBU to extend its corresponding loan to Oschadbank for the same period in order to avoid liquidity issues. According to our estimates, Oschadbank's largest customer accounts for only 16.7% of the total gross corporate portfolio.

**Deposits are consolidated.** Oschadbank has increased the amount of corporate deposits by a significant 37.7% QoQ in 4Q14 and by further 24.7% in 1Q15 (net of the FX revaluation effect). We attribute that increase to new customers, especially in the state sector.

Retail deposits demonstrated weak decline of 1.3% QoQ net of revaluation. That result is much better than the sector average of -12.2% QoQ.

**Opportunities in the retail sector.** Despite the crisis, Oschadbank has begun renovating many of its branches. It has the largest network of branches – around 5,000 (or 29% of the total) – in Ukraine but only a relatively modest share of household deposits (8.7%) and a small share of net retail loans (1.6%).

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q14 UAS | 1Q15 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 83,421 | 101,699 | 128,104 | 150,818 |
| Loans | 51,338 | 52,180 | 69,272 | 79,764 |
| Deposits | 38,877 | 46,409 | 55,368 | 67,558 |
| Equity | 17,767 | 19,204 | 22,749 | 22,013 |
| Net % income | 5,293 | 5,511 | 6,294 | 6,573 |
| Net com income | 1,040 | 1,231 | 1,260 | 1,293 |
| Operating inc. | 6,644 | 6,999 | 7,556 | 11,239 |
| PPI | 3,472 | 3,511 | 3,694 | 7,312 |
| LLP | -2,738 | -2,586 | -12,290 | -16,012 |
| Net income | 663 | 711 | -8,564 | -8,633 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 25.1 | 23.2 | N/a | N/a |
| CAR | 27.9 | 24.7 | 31.4 | 15.9 |
| Equity-to-assets | 21.3 | 18.9 | 17.8 | 14.6 |
| Net loan-to-deposit | 132.1 | 112.4 | 125.1 | 118.1 |
| Cash-to-liabiliti. | 5.9 | 5.8 | 13.0 | 13.3 |
| ROAA | 0.8 | 0.7 | -7.3 | -6.8 |
| ROAE | 3.8 | 7.6 | -40.9 | -40.5 |
| Net % margin | 7.3 | 12.6 | 6.1 | 5.9 |
| NII-to-op income | 79.7 | 78.7 | 83.3 | 58.5 |
| Cost-to-income | 47.7 | 49.8 | 51.1 | 34.9 |
| LLR | 16.3 | 18.8 | 27.2 | 28.6 |
| 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**

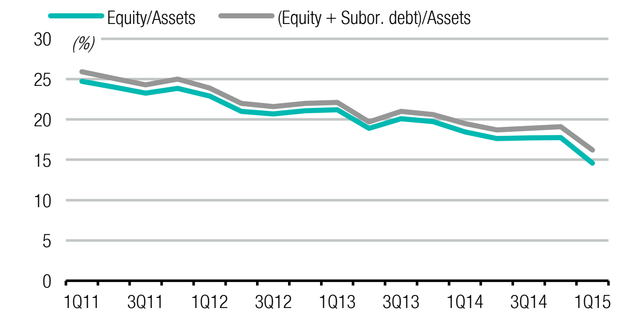
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 86,226 | 95,624 | 92,320 | 103,568 | 110,757 | 115,648 | 113,682 | 128,104 | 150,818 |
| Cash and cash equivalents | 9,587 | 7,394 | 6,539 | 7,470 | 7,113 | 6,565 | 8,402 | 13,698 | 17,136 |
| Gross loans | 60,520 | 61,871 | 64,356 | 64,281 | 71,812 | 77,648 | 79,826 | 95,105 | 111,707 |
| Gross business loans | 56,023 | 57,406 | 59,537 | 59,722 | 67,045 | 72,970 | 75,030 | 90,140 | 106,279 |
| Gross household loans | 4,497 | 4,465 | 4,819 | 4,559 | 4,766 | 4,677 | 4,796 | 4,965 | 5,428 |
| Loan loss reserves (LLR) | -10,849 | -11,194 | -12,213 | -12,735 | -13,545 | -14,239 | -15,026 | -25,833 | -31,944 |
| Deposits | 40,021 | 43,040 | 44,120 | 46,341 | 42,292 | 43,520 | 46,621 | 55,368 | 67,558 |
| Business deposits | 7,435 | 8,115 | 8,010 | 10,414 | 8,891 | 10,129 | 12,660 | 18,778 | 26,885 |
| Household deposits | 32,587 | 34,926 | 36,110 | 35,927 | 33,401 | 33,392 | 33,960 | 36,590 | 40,673 |
| Total equity | 18,276 | 18,069 | 18,566 | 20,456 | 20,450 | 20,398 | 20,115 | 22,749 | 22,013 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,348 | 1,344 | 1,402 | 1,434 | 1,564 | 1,463 | 1,644 | 1,624 | 1,843 |
| Net commission income | 281 | 274 | 292 | 385 | 314 | 297 | 297 | 352 | 347 |
| Operating income (before LLP) | 1,839 | 1,421 | 2,033 | 1,880 | 1,995 | 1,950 | 1,632 | 1,980 | 5,678 |
| Operating expenses | -805 | -799 | -861 | -1,016 | -912 | -998 | -931 | -1,022 | -977 |
| Loan loss provisions (LLP) | -847 | -314 | -1,017 | -558 | -892 | -580 | -574 | -10,243 | -4,615 |
| Net income | 137 | 157 | 187 | 198 | 156 | 184 | 211 | -9,115 | 87 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 5,072 | 5,245 | 5,370 | 5,528 | 5,744 | 5,862 | 6,105 | 6,294 | 6,573 |
| Net commission income | 1,059 | 1,087 | 1,127 | 1,231 | 1,264 | 1,288 | 1,292 | 1,260 | 1,293 |
| Operating income (before LLP) | 6,027 | 5,888 | 6,188 | 7,174 | 7,330 | 7,858 | 7,456 | 7,556 | 11,239 |
| Operating expenses | -3,312 | -3,332 | -3,408 | -3,481 | -3,588 | -3,787 | -3,857 | -3,863 | -3,927 |
| Loan loss provisions (LLP) | -2,152 | -1,761 | -2,012 | -2,736 | -2,782 | -3,047 | -2,604 | -12,290 | -16,012 |
| Net income | 525 | 631 | 636 | 679 | 697 | 725 | 749 | -8,564 | -8,633 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 10.0 | 12.9 | 6.8 | 20.4 | 28.4 | 20.9 | 23.1 | 23.7 | 36.2 |
| Gross loans | 4.9 | 3.2 | 6.6 | 4.8 | 18.7 | 25.5 | 24.0 | 48.0 | 55.6 |
| Deposits (by businesses) | -8.0 | 0.8 | -0.1 | 9.1 | 19.6 | 24.8 | 58.1 | 80.3 | 202.4 |
| Deposits (by households) | 20.5 | 20.4 | 24.0 | 20.3 | 2.5 | -4.4 | -6.0 | 1.8 | 21.8 |
| Deposits (total) | 14.0 | 16.1 | 18.8 | 17.6 | 5.7 | 1.1 | 5.7 | 19.5 | 59.7 |
| Total equity | 1.8 | 1.5 | 3.9 | 12.9 | 11.9 | 12.9 | 8.3 | 11.2 | 7.6 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 32.8 | 29.4 | 28.8 | 25.4 | 25.6 | 22.8 | 23.6 | 31.4 | 15.9 |
| Equity/assets | 21.2 | 18.9 | 20.1 | 19.8 | 18.5 | 17.6 | 17.7 | 17.8 | 14.6 |
| (Equity + sub-debt)/assets | 22.1 | 19.7 | 21.0 | 20.6 | 19.5 | 18.7 | 18.9 | 19.1 | 16.2 |
| Cash & cash equivalents/liabilities | 14.1 | 9.5 | 8.9 | 9.0 | 7.9 | 6.9 | 9.0 | 13.0 | 13.3 |
| Current liquidity (R5 by NBU) | 124.5 | 132.9 | 109.3 | 77.7 | 49.0 | 79.7 | 73.2 | 104.7 | 97.5 |
| Gross loans/deposits | 151.2 | 143.8 | 145.9 | 138.7 | 169.8 | 178.4 | 171.2 | 171.8 | 165.3 |
| Net loans/deposits | 124.1 | 117.7 | 118.2 | 111.2 | 137.8 | 145.7 | 139.0 | 125.1 | 118.1 |
| Cost-to-income ratio | 54.9 | 56.6 | 55.1 | 48.5 | 49.0 | 48.2 | 51.7 | 51.1 | 34.9 |
| Net interest margin | 7.2 | 7.3 | 7.2 | 6.8 | 6.5 | 6.2 | 6.1 | 6.1 | 5.9 |
| ROAA | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | -7.3 | -6.8 |
| ROAE | 2.9 | 3.5 | 3.5 | 3.6 | 3.6 | 3.6 | 3.7 | -40.9 | -40.5 |
| NII/operating income | 84.2 | 89.1 | 86.8 | 77.1 | 78.4 | 74.6 | 81.9 | 83.3 | 58.5 |
| Core income/operating expenses | 185.1 | 190.0 | 190.6 | 194.2 | 195.3 | 188.8 | 191.8 | 195.6 | 200.3 |

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.

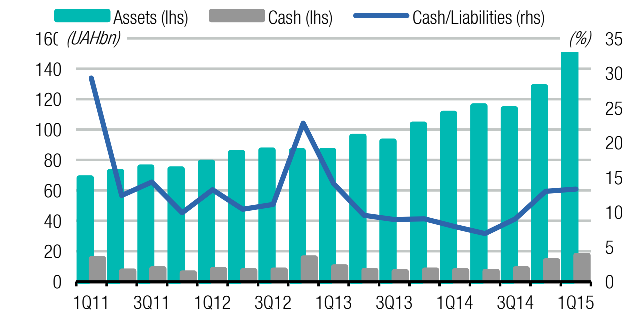
# Oschadbank: Key credit metrics

### Chart 21. Capitalisation



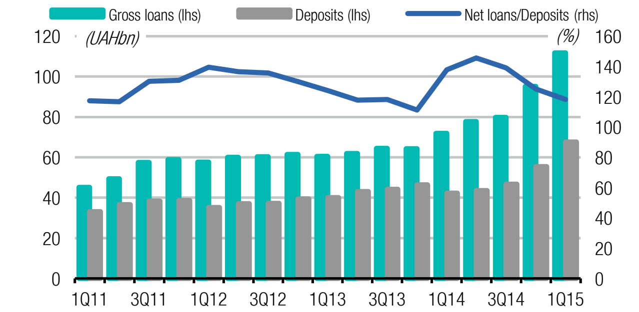

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 22. Liquidity



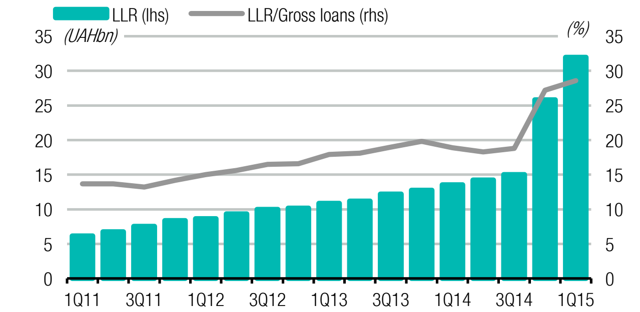

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 23. Loans and deposits



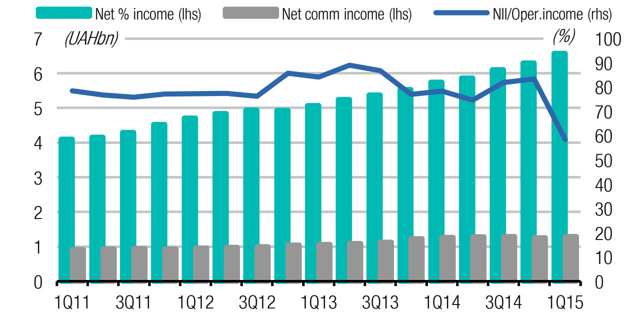

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 24. Loan loss reserves history



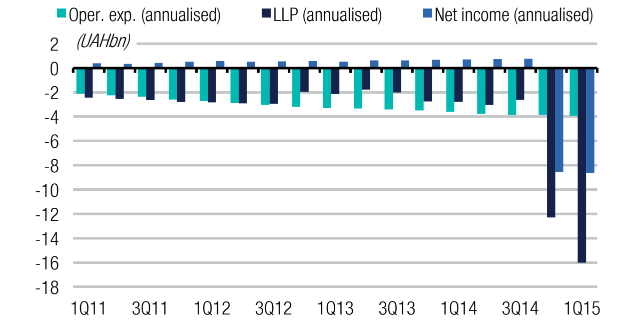

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 25. Income structure (annualised basis)



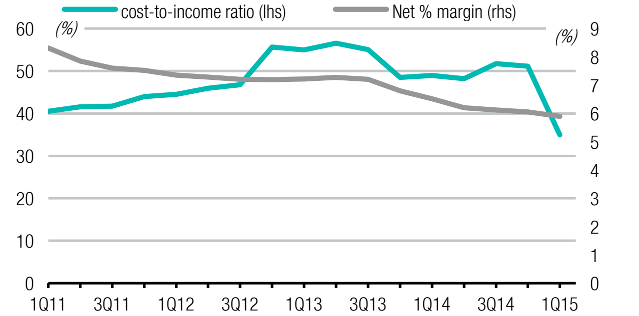

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 26. Expense and net income (annualised basis)



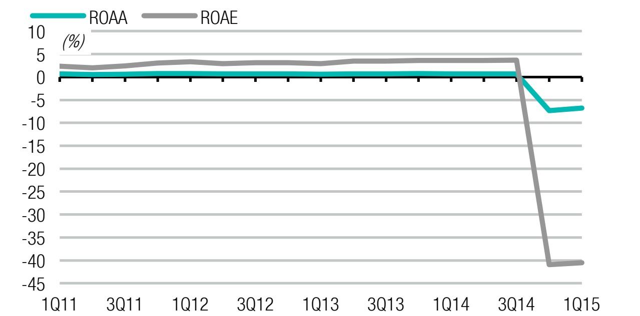

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 27. Financial performance ratios




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

### Chart 28. 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
**NR /NR/NR**

Ticker(s) in Bloomberg
**VEBBNK**

**Despite its on-going losses in Ukraine, Russia's Vnesheconombank has provided its Ukrainian subsidiary with a capital injection of UAH4.4bn (+53.7% QoQ). This is because it believes that a presence in the local banking sector and lending to Russia-oriented businesses will outweigh negative financials.**

**Capitalisation increased.** The parent bank increased PIB's share capital by UAH4.4bn in 4Q14, resulting in a regulatory CAR of 21.8%. In our view, it is more likely that PIB swapped the parent bank debt for equity without any significant net cash inflow.

During the period from 2009 (the year in which VEB took control over PIB) to 2014, the cumulative net loss of PIB amounted to UAH9.4bn.

**NBU funding.** PIB has replaced its one-year UAH1.4bn refinance loan (6.5% interest rate) that matured in November 2015 with a UAH1.7bn loan (19.5%) with the same maturity. Despite some political concerns about granting NBU loans to banks with Russian capital, those institutions have access to refinancing facilities on the same terms that are available to banks with non-Russian capital.

PIB continues to have a large liquidity cushion as the NBU current liquidity ratio (N5) stands at 141% (the minimum required level is 40%). The bulk of PIB's cash and cash equivalents is kept in correspondent accounts with the parent bank.

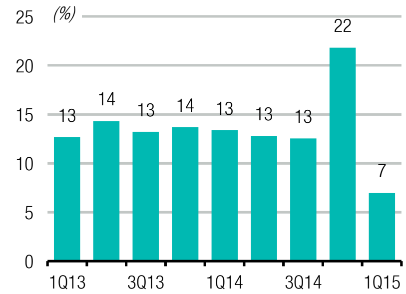
**NPLs on the rise.** The share of bad debt in the total loan portfolio increased from 12.2% in 3Q14 to 16.1% in 1Q15 or by UAH5.9bn. During the same period the LLR ratio increased from 3.5% to 11.2%.

We believe there will be further deterioration of the loan portfolio quality as more loans meet NPL criteria over time. Capital injections will help the bank accommodate the expected losses due to the large share of PIB's loan portfolio that stems from the Donbass region.

**Depositor flight.** Last year PIB lost 30.1% of total retail deposits compared with 2013, while corporate deposits declined by just 19.7% during the same period owing to an increase in UAH-denominated deposits. PIB has become highly dependent on wholesale finance: deposits accounted for only 26.7% of total liabilities (compared with the sector average of 59.7%) in 1Q15.

**FX trading turns unprofitable.** PIB lost UAH168m from FX trading in 1Q15 – compared with UAH1.4bn earned in 2014. Also in 1Q15, losses from FX revaluation amounted to UAH763m.

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q14** UAS | **1Q15** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 38,181 | 39,381 | 52,656 | 66,314 |
| Loans | 26,646 | 28,055 | 38,501 | 51,578 |
| Deposits | 14,505 | 14,513 | 13,683 | 16,126 |
| Equity | 5,070 | 5,008 | 6,076 | 5,805 |
| Net % income | 1,273 | 1,338 | 1,734 | 2,012 |
| Net com income | 213 | 293 | 595 | 807 |
| Operating inc. | 1,611 | 1,917 | 2,780 | 2,665 |
| PPI | 293 | 567 | 1,240 | 1,023 |
| LLP | -2,061 | -606 | -4,586 | -5,070 |
| Net income | -1,806 | -2 | -3,454 | -4,157 |
| **Ratios -%** | | | | |
| Tier 1 ratio | 8.9 | 8.7 | N/a | N/a |
| CAR | 17.4 | 16.9 | 21.8 | 7.0 |
| Equity-to-assets | 13.3 | 12.7 | 11.5 | 8.8 |
| Net loan-to-deposit | 183.7 | 193.3 | 281.4 | 319.8 |
| Cash-to-liabilit. | 13.8 | 12.0 | 8.7 | 7.6 |
| ROAA | -4.8 | - | -6.8 | -7.5 |
| ROAE | -41.1 | - | -55.3 | -67.9 |
| Net % margin | 4.4 | 4.4 | 4.0 | 4.3 |
| NII-to-op income | 79.0 | 69.8 | 62.4 | 75.5 |
| Cost-to-income | 81.8 | 70.4 | 55.4 | 61.6 |
| LLR | 14.2 | 7.8 | 13.2 | 11.2 |
| 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 5. Key financials and ratios derived from the bank's UAS financials**

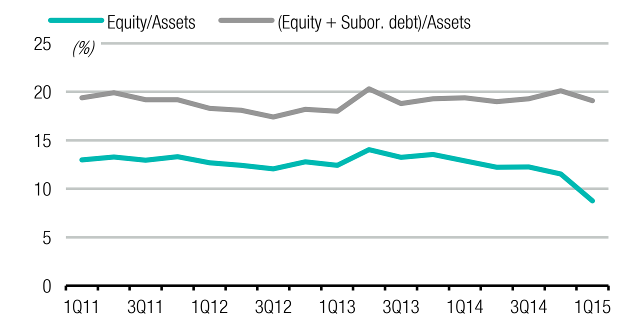
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 40,796 | 37,337 | 40,237 | 39,737 | 48,945 | 51,300 | 51,578 | 52,656 | 66,314 |
| Cash and cash equivalents | 2,608 | 2,131 | 2,834 | 2,633 | 3,276 | 2,896 | 2,513 | 4,057 | 4,573 |
| Gross loans | 31,436 | 30,982 | 33,037 | 30,628 | 37,402 | 39,226 | 38,454 | 44,336 | 58,067 |
| Gross business loans | 31,306 | 30,847 | 32,904 | 30,416 | 37,276 | 39,101 | 38,329 | 44,213 | 57,938 |
| Gross household loans | 130 | 135 | 133 | 212 | 126 | 125 | 125 | 124 | 129 |
| Loan loss reserves (LLR) | -1,975 | -4,850 | -4,963 | -2,227 | -1,997 | -1,126 | -1,359 | -5,836 | -6,489 |
| Deposits | 13,272 | 13,032 | 14,012 | 13,898 | 13,935 | 15,074 | 13,144 | 13,683 | 16,126 |
| Business deposits | 5,405 | 5,080 | 5,997 | 5,792 | 5,999 | 7,086 | 5,752 | 6,058 | 7,620 |
| Household deposits | 7,867 | 7,951 | 8,015 | 8,106 | 7,936 | 7,988 | 7,392 | 7,625 | 8,507 |
| Total equity | 5,061 | 5,238 | 5,322 | 5,384 | 6,300 | 6,268 | 6,322 | 6,076 | 5,805 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 280 | 313 | 327 | 313 | 352 | 438 | 485 | 458 | 630 |
| Net commission income | 76 | 89 | 120 | 88 | 81 | 114 | 185 | 215 | 293 |
| Operating income (before LLP) | 409 | 471 | 525 | 471 | 537 | 777 | 697 | 769 | 422 |
| Operating expenses | -276 | -321 | -365 | -457 | -283 | -395 | -356 | -506 | -385 |
| Loan loss provisions (LLP) | -121 | -2,826 | -130 | 40 | 296 | -115 | -140 | -4,626 | -189 |
| Net income | 14 | -2,675 | 30 | 55 | 550 | 325 | 202 | -4,531 | -153 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,320 | 1,247 | 1,234 | 1,233 | 1,305 | 1,430 | 1,589 | 1,734 | 2,012 |
| Net commission income | 288 | 307 | 355 | 373 | 378 | 403 | 468 | 595 | 807 |
| Operating income (before LLP) | 1,961 | 2,039 | 2,158 | 1,877 | 2,005 | 2,310 | 2,483 | 2,780 | 2,665 |
| Operating expenses | -1,376 | -1,382 | -1,420 | -1,419 | -1,426 | -1,500 | -1,491 | -1,540 | -1,642 |
| Loan loss provisions (LLP) | -767 | -3,500 | -3,550 | -3,036 | -2,619 | 92 | 81 | -4,586 | -5,070 |
| Net income | 235 | -2,427 | -2,395 | -2,575 | -2,039 | 960 | 1,132 | -3,454 | -4,157 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 0.8 | -8.9 | -3.8 | -3.8 | 20.0 | 37.4 | 28.2 | 32.5 | 35.5 |
| Gross loans | -1.8 | -5.1 | -0.6 | -2.1 | 19.0 | 26.6 | 16.4 | 44.8 | 55.3 |
| Deposits (by businesses) | -20.4 | -19.9 | 1.8 | -2.4 | 11.0 | 39.5 | -4.1 | 4.6 | 27.0 |
| Deposits (by households) | -9.2 | -6.7 | 1.2 | 0.7 | 0.9 | 0.5 | -7.8 | -5.9 | 7.2 |
| Deposits (total) | -14.1 | -12.3 | 1.4 | -0.6 | 5.0 | 15.7 | -6.2 | -1.5 | 15.7 |
| Total equity | -1.4 | 3.0 | 5.5 | 2.1 | 24.5 | 19.7 | 18.8 | 12.8 | -7.9 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 12.7 | 14.3 | 13.2 | 13.7 | 13.4 | 12.8 | 12.5 | 21.8 | 7.0 |
| Equity/assets | 12.4 | 14.0 | 13.2 | 13.5 | 12.9 | 12.2 | 12.3 | 11.5 | 8.8 |
| (Equity + sub-debt)/assets | 18.0 | 20.3 | 18.8 | 19.3 | 19.4 | 19.0 | 19.3 | 20.1 | 19.1 |
| Cash & cash equivalents/liabilities | 7.3 | 6.6 | 8.1 | 7.7 | 7.7 | 6.4 | 5.6 | 8.7 | 7.6 |
| Current liquidity (R5 by NBU) | 99.8 | 77.6 | 71.9 | 67.5 | 140.3 | 104.5 | 159.3 | 201.3 | 141.4 |
| Gross loans/deposits | 236.9 | 237.7 | 235.8 | 220.4 | 268.4 | 260.2 | 292.6 | 324.0 | 360.1 |
| Net loans/deposits | 222.0 | 200.5 | 200.4 | 204.3 | 254.1 | 252.8 | 282.2 | 281.4 | 319.8 |
| Cost-to-income ratio | 70.1 | 67.8 | 65.8 | 75.6 | 71.1 | 64.9 | 60.1 | 55.4 | 61.6 |
| Net interest margin | 3.8 | 3.7 | 3.8 | 3.8 | 3.8 | 3.8 | 3.9 | 4.0 | 4.3 |
| ROAA | 0.6 | -6.0 | -6.0 | -6.5 | -4.9 | 2.1 | 2.4 | -6.8 | -7.5 |
| ROAE | 4.6 | -47.1 | -45.9 | -49.0 | -36.7 | 16.5 | 18.7 | -55.3 | -67.9 |
| NII/operating income | 67.3 | 61.2 | 57.2 | 65.7 | 65.1 | 61.9 | 64.0 | 62.4 | 75.5 |
| Core income/operating expenses | 116.9 | 112.4 | 111.9 | 113.2 | 118.0 | 122.2 | 137.9 | 151.2 | 171.7 |

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.

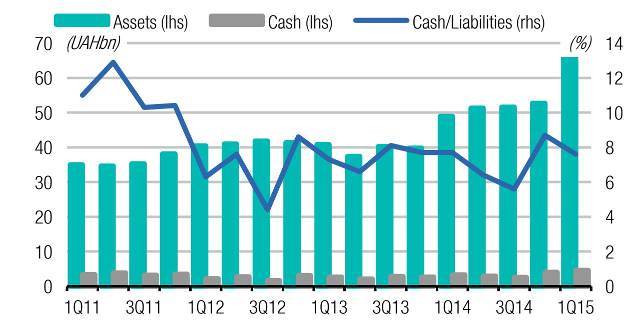
# Prominvestbank: Key credit metrics

### Chart 29. Capitalisation



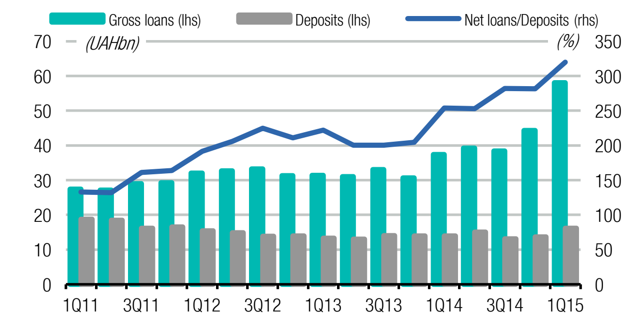

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 30. Liquidity



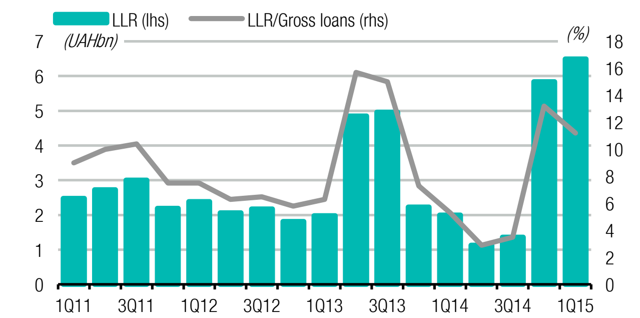

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 31. Loans and deposits



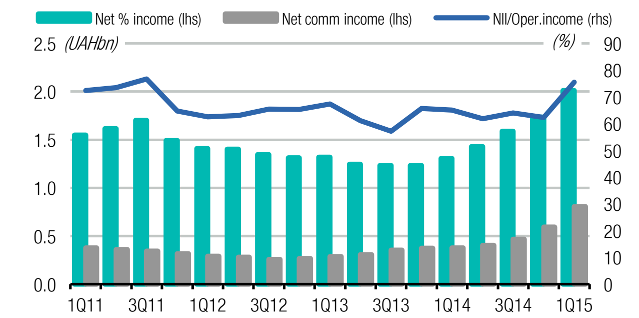

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 32. Loan loss reserves history



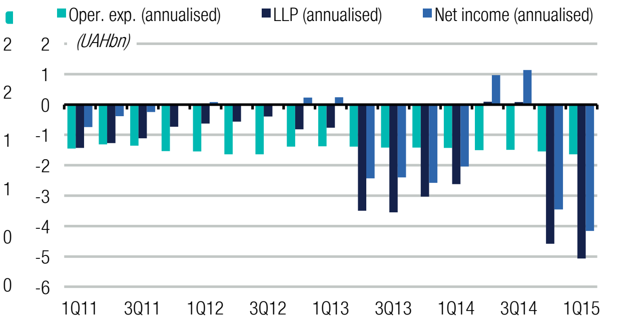

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 33. Income structure (annualised basis)



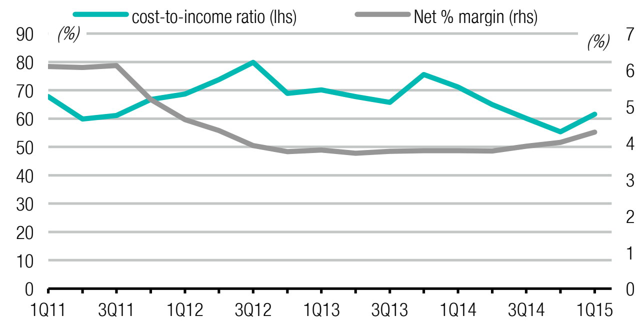

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 34. Expense and net income (annualised basis)



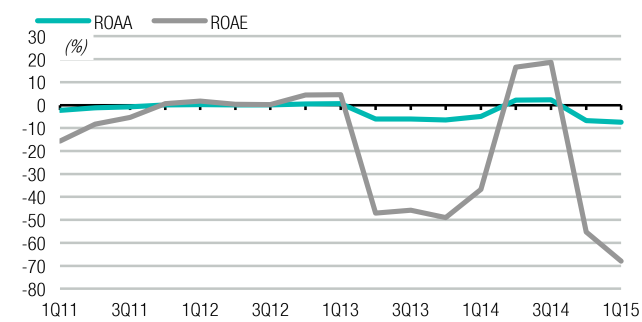

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 35. Financial performance ratios




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

### Chart 36. Financial performance ratios




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

Country
**Ukraine**

# Ukrsotsbank

Sector
**Banks: Commercial banking**

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

Ticker(s) in Bloomberg
**USCB**

**The parent bank, Unicredit Group, which wants to exit the Ukrainian market, is significantly behind its recapitalisation schedule. In our view, the Group will avert the insolvency of its Ukrainian subsidiary through either a capital injection or fire sale in order to prevent reputational damage.**

**Unicredit Group recently announced it will provide capital totalling US$0.5bn in 2015. We believe it will swap part of the nearly US$1.0bn outstanding debt for equity.**

**Insufficient capitalisation.** Ukrsotsbank was in violation of the minimum requirement for the regulatory CAR, which dropped from 14.3% in 3Q14 to just 7.6% in 4Q14. Under Ukrainian legislation, the bank has six months (until June 2015) to ensure compliance, otherwise the NBU will have to declare it insolvent. The recently announced capital injection will prevent such an outcome and increase the regulatory CAR to well above the 10% level.

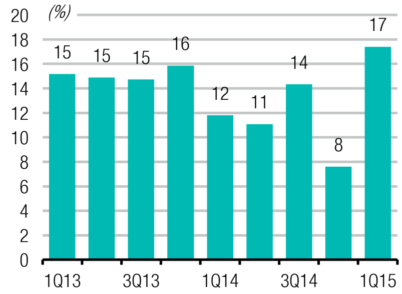
**Loan portfolio quality remains stable.** Ukrsotsbank recognised income from the release of provisions totalling UAH1.6bn.

Total credit exposure to the largest customer has declined from 44.2% of the bank's regulatory capital in 4Q14 to just 26.2% in 1Q15, both exceeding the maximum permitted level of 25%. But the regulator is unlikely to punish Ukrsotsbank since non-compliance with that requirement was caused by FX devaluation (current legislation provides for such an eventuality).

**Deposit outflow better than average.** Despite relatively strong liquidity and potential support from the parent group, Ukrsotsbank lost many household deposits in 1Q15 – UAH-denominated deposits contracted 13.5% QoQ, while FX-denominated ones shrank by 12.7% QoQ. Corporate customers have generally tended to transfer deposits to more stable Western banks. Nonetheless, UAH accounts declined by 12.4% QoQ or by UAH765m, FX accounts by 19.9% QoQ or the equivalent of US$40m.

**FX revaluation exacts heavy toll.** The bank has recognised net losses from FX revaluation as totalling UAH2.4bn owing to its large short net FX position. We estimate its negative net FX position at the equivalent of up to US$0.4bn, thus the bank is highly vulnerable to any further devaluation.

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q14 UAS | 1Q15 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 45,043 | 43,527 | 48,258 | 55,278 |
| Loans | 28,592 | 28,061 | 32,490 | 41,241 |
| Deposits | 20,324 | 21,775 | 22,501 | 23,448 |
| Equity | 10,278 | 9,145 | 6,239 | 9,686 |
| Net % income | 2,416 | 2,059 | 1,275 | 1,061 |
| Net com income | 672 | 713 | 645 | 668 |
| Operating inc. | 3,305 | 2,827 | 2,167 | 1,148 |
| PPI | 1,600 | 1,013 | -456 | -1,714 |
| LLP | -1,542 | -2,333 | -2,891 | -3,871 |
| Net income | 95 | -1,169 | -2,662 | -4,629 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 25 | 20 | N/a | N/a |
| CAR | 27 | 22 | 7.6 | 17.4 |
| Equity-to-assets | 22.8 | 21.0 | 12.9 | 17.5 |
| Net loan-to-deposit | 140.7 | 128.9 | 144.4 | 175.9 |
| Cash-to-liabilit. | 21.4 | 17.9 | 7.4 | 6.7 |
| ROAA | 0.2 | -2.6 | -5.7 | -9.5 |
| ROAE | 1.1 | -12.0 | -34.9 | -58.4 |
| Net % margin | 7.7 | 6.7 | 3.5 | 2.7 |
| NII-to-op income | 73.1 | 72.8 | 58.8 | 92.4 |
| Cost-to-income | 51.6 | 64.1 | 121.1 | 249.2 |
| LLR | 17.9 | 21.4 | 27.4 | 30.9 |
| 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

# Ukrsotsbank: Key quarterly UAS financials and ratios

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

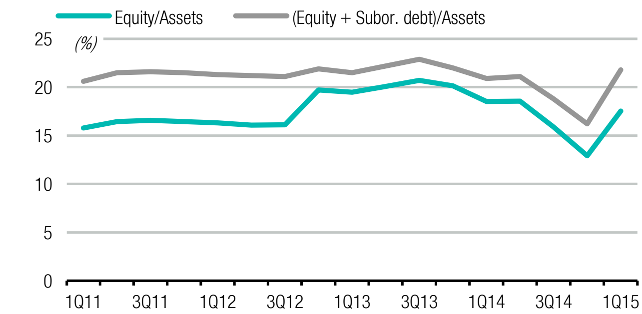
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 39,420 | 38,345 | 37,329 | 43,057 | 46,124 | 46,444 | 44,960 | 48,258 | 55,278 |
| Cash and cash equivalents | 5,269 | 3,933 | 3,735 | 5,402 | 3,556 | 4,360 | 2,803 | 3,120 | 3,035 |
| Gross loans | 31,919 | 32,146 | 31,724 | 35,273 | 41,375 | 39,757 | 41,161 | 44,770 | 59,717 |
| Gross business loans | 14,250 | 14,489 | 14,724 | 18,010 | 20,736 | 19,395 | 20,092 | 21,299 | 28,121 |
| Gross household loans | 17,669 | 17,658 | 17,000 | 17,263 | 20,640 | 20,363 | 21,070 | 23,471 | 31,596 |
| Loan loss reserves (LLR) | -7,939 | -8,116 | -7,328 | -7,899 | -8,869 | -8,252 | -10,330 | -12,280 | -18,476 |
| Deposits | 18,560 | 18,746 | 19,117 | 21,611 | 18,627 | 19,274 | 20,203 | 22,501 | 23,448 |
| Business deposits | 6,229 | 6,513 | 6,963 | 9,661 | 7,273 | 7,543 | 8,400 | 10,194 | 9,929 |
| Household deposits | 12,331 | 12,234 | 12,154 | 11,950 | 11,355 | 11,731 | 11,803 | 12,307 | 13,518 |
| Total equity | 7,683 | 7,698 | 7,732 | 8,668 | 8,544 | 8,617 | 7,143 | 6,239 | 9,686 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 427 | 517 | 553 | 770 | 607 | 398 | -17 | 286 | 393 |
| Net commission income | 149 | 159 | 188 | 222 | 153 | 148 | 147 | 197 | 176 |
| Operating income (before LLP) | 576 | 680 | 760 | 1,085 | 844 | 754 | 332 | 237 | -175 |
| Operating expenses | -418 | -444 | -497 | -724 | -545 | -577 | -586 | -916 | -783 |
| Loan loss provisions (LLP) | -143 | -197 | -251 | -345 | -307 | -196 | -1,554 | -835 | -1,286 |
| Net income | 4 | 2 | 2 | 3 | 23 | -10 | -1,560 | -1,115 | -1,944 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 2,178 | 2,045 | 1,989 | 2,268 | 2,448 | 2,328 | 1,758 | 1,275 | 1,061 |
| Net commission income | 663 | 663 | 683 | 719 | 722 | 711 | 670 | 645 | 668 |
| Operating income (before LLP) | 2,988 | 2,824 | 2,708 | 3,101 | 3,369 | 3,443 | 3,015 | 2,167 | 1,148 |
| Operating expenses | -1,772 | -1,683 | -1,823 | -2,083 | -2,210 | -2,344 | -2,432 | -2,624 | -2,862 |
| Loan loss provisions (LLP) | -1,161 | -1,061 | -810 | -936 | -1,100 | -1,099 | -2,402 | -2,891 | -3,871 |
| Net income | 10 | 10 | 10 | 11 | 30 | 18 | -1,545 | -2,662 | -4,629 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -2.4 | -4.1 | -7.5 | 10.9 | 17.0 | 21.1 | 20.4 | 12.1 | 19.8 |
| Gross loans | -15.0 | -13.4 | -13.9 | 9.9 | 29.6 | 23.7 | 29.7 | 26.9 | 44.3 |
| Deposits (by businesses) | -1.8 | 10.3 | 12.5 | 43.6 | 16.8 | 15.8 | 20.6 | 5.5 | 36.5 |
| Deposits (by households) | 11.1 | 11.1 | 10.2 | 2.6 | -7.9 | -4.1 | -2.9 | 3.0 | 19.1 |
| Deposits (total) | 6.4 | 10.8 | 11.0 | 17.6 | 0.4 | 2.8 | 5.7 | 4.1 | 25.9 |
| Total equity | 16.7 | 19.7 | 18.9 | 13.2 | 11.2 | 11.9 | -7.6 | -28.0 | 13.4 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 15.2 | 14.9 | 14.7 | 15.9 | 11.8 | 11.1 | 14.3 | 7.6 | 17.4 |
| Equity/assets | 19.5 | 20.1 | 20.7 | 20.1 | 18.5 | 18.6 | 15.9 | 12.9 | 17.5 |
| (Equity + sub-debt)/assets | 21.5 | 22.2 | 22.9 | 22.0 | 20.9 | 21.1 | 18.8 | 16.2 | 21.8 |
| Cash & cash equivalents/liabilities | 16.6 | 12.8 | 12.6 | 15.7 | 9.5 | 11.5 | 7.4 | 7.4 | 6.7 |
| Current liquidity (R5 by NBU) | 84.4 | 77.4 | 73.1 | 89.3 | 53.0 | 65.1 | 71.4 | 60.9 | 44.4 |
| Gross loans/deposits | 172.0 | 171.5 | 165.9 | 163.2 | 222.1 | 206.3 | 203.7 | 199.0 | 254.7 |
| Net loans/deposits | 129.2 | 128.2 | 127.6 | 126.7 | 174.5 | 163.5 | 152.6 | 144.4 | 175.9 |
| Cost-to-income ratio | 59.3 | 59.6 | 67.3 | 67.2 | 65.6 | 68.1 | 80.7 | 121.1 | 249.2 |
| Net interest margin | 7.3 | 7.1 | 7.1 | 7.7 | 7.7 | 6.9 | 4.9 | 3.5 | 2.7 |
| ROAA | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | -3.4 | -5.7 | -9.5 |
| ROAE | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 | 0.2 | -18.7 | -34.9 | -58.4 |
| NII/operating income | 72.9 | 72.4 | 73.4 | 73.1 | 72.7 | 67.6 | 58.3 | 58.8 | 92.4 |
| Core income/operating expenses | 160.4 | 160.9 | 146.5 | 143.4 | 143.4 | 129.7 | 99.8 | 73.2 | 60.4 |

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

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

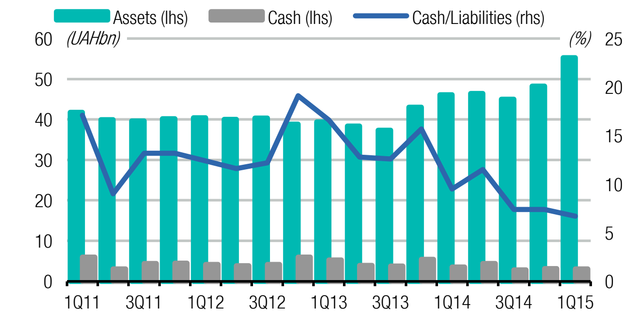
# Ukrsotsbank: Key credit metrics

### Chart 37. Capitalisation



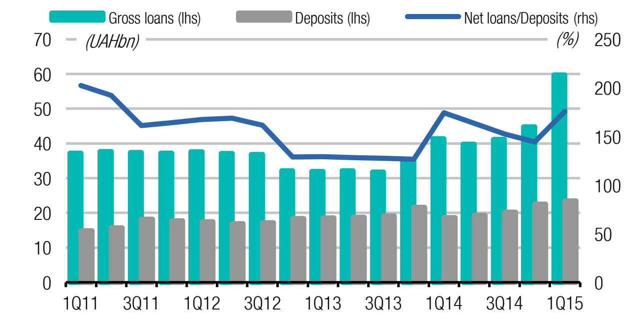

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 38. Liquidity



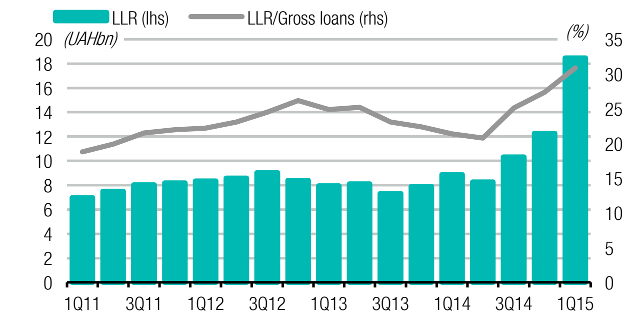

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 39. Loans and deposits



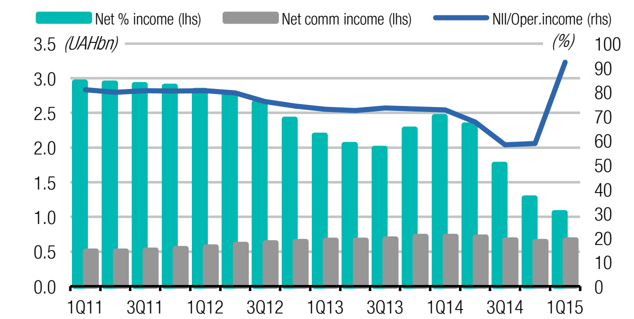

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 40. Loan loss reserves history



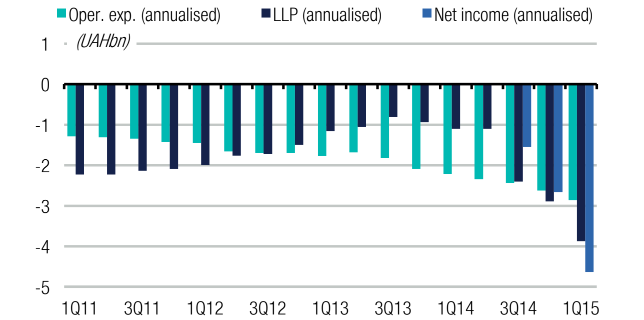

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 41. Income structure (annualised basis)



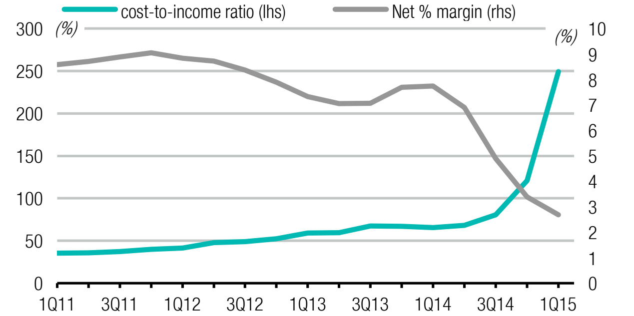

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 42. Expense and net income (annualised basis)



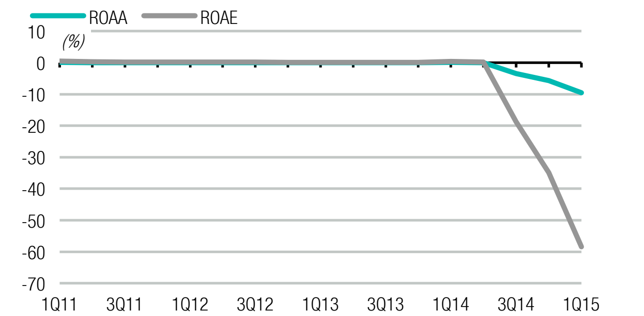

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 43. Financial performance ratios




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

### Chart 44. 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
**Ca/ NR /NR**

Ticker(s) in Bloomberg
**AVAL**

**Despite the continued outflow of retail deposits (-6.3% QoQ in 1Q15), the bank's liquidity level remains high. Limited lending opportunities and significant FX risks would push the Raiffeisen Group further towards scaling back its operations in Ukraine.**

**Capitalisation could be at risk.** The bank's regulatory capital declined by only UAH245bn or 0.4% QoQ in 1Q15 as a result FX subordinated debt revaluation. While the regulatory CAR (11.3%) remains above the minimum required level of 10%, further FX losses could require the parent group to inject new capital in 2015.

**Businesses looking for safe haven.** Corporate customers consider Aval to be a relatively secure bank for servicing their accounts, which in 1Q15 grew for the fourth quarter in a row – by 8.3% QoQ net of revaluation. At the same time, FX deposits continued to flee the bank but their share of total corporate accounts remains relatively low – 26.3%.

Meanwhile, retail accounts have decreased for six out of the last seven quarters (net of FX revaluation effect). The net outflow amounted to 6.3% QoQ, which slightly outperformed the market average of 12.2% QoQ (net of FX revaluation effect). At the same time, there has been no sign of scaling back operations in terms of number of branches or employees, except in the occupied territories.

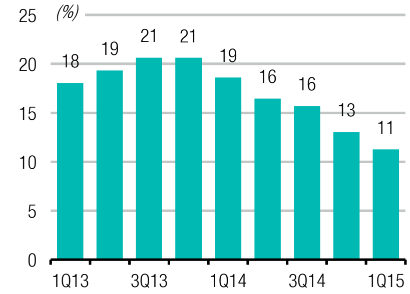
**Portfolio shrinking.** UAH-denominated gross corporate loans declined by 2.3% QoQ in 1Q15, while FX lending contracted by 6.5% QoQ. Decline of the FX share of the total portfolio, in our opinion, will help the bank to mitigate the risk of further loan impairment; at the same time, it will put pressure on the net FX position of the bank.

The share of bad debt in the total loan portfolio increased materially in 1Q15 – by 7.3ppt to 36.8% – as a result of FX loans impairment. The interest-bearing share of the corporate portfolio declined from 92.1% in 4Q14 to 89.4% in 1Q15, while the corresponding share of the retail portfolio was significantly lower – 67.8% in 4Q14 and 62.7% in 1Q15.

The bank has significantly limited lending, opting instead to keep spare liquidity in NBU deposit certificates.

**Large FX losses.** The bank lost UAH1.8bn in 1Q15 as a result of the FX revaluation(loss of UAH1.8bn). According to our estimate, the net FX position of the bank is US$190m.

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q14** UAS | **1Q15** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 49,808 | 45,367 | 46,859 | 52,797 |
| Loans | 28,359 | 29,306 | 29,705 | 31,307 |
| Deposits | 28,554 | 27,185 | 28,800 | 32,562 |
| Equity | 8,221 | 9,118 | 6,148 | 4,105 |
| Net % income | 3,516 | 3,395 | 4,826 | 5,021 |
| Net com income | 1,322 | 1,360 | 1,630 | 1,763 |
| Operating inc. | 4,790 | 5,466 | 5,850 | 6,762 |
| PPI | 1,650 | 2,541 | 2,461 | 3,255 |
| LLP | -1,103 | -1,307 | -4,488 | -6,217 |
| Net income | 319 | 985 | -1,367 | -2,265 |
| **Ratios -%** | | | | |
| Tier 1 ratio | 21.3 | 23.7 | N/a | N/a |
| CAR | 30.9 | 32.3 | 13.1 | 11.3 |
| Equity-to-assets | 16.5 | 20.1 | 13.1 | 7.8 |
| Net loan-to-deposit | 99.3 | 107.8 | 103.1 | 96.1 |
| Cash-to-liabilit. | 24.8 | 17.4 | 16.8 | 21.8 |
| ROAA | 0.6 | 2.1 | -3.0 | -4.8 |
| ROAE | 4.0 | 11.4 | -21.8 | -40.3 |
| Net % margin | 9.2 | 9.6 | 13.7 | 14.1 |
| NII-to-op income | 73.4 | 62.1 | 82.5 | 74.2 |
| Cost-to-income | 65.6 | 53.5 | 57.9 | 51.9 |
| LLR | 23.9 | 22.0 | 31.8 | 40.5 |
| 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 7. Key financials and ratios derived from the bank's UAS financials**

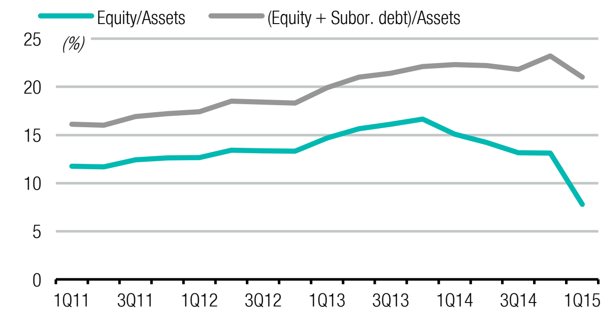
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 45,977 | 44,929 | 44,804 | 43,460 | 44,987 | 44,413 | 44,676 | 46,859 | 52,797 |
| Cash and cash equivalents | 6,184 | 5,559 | 7,243 | 5,844 | 5,236 | 4,535 | 4,733 | 6,843 | 10,595 |
| Gross loans | 36,059 | 36,054 | 35,263 | 35,896 | 41,175 | 41,046 | 42,104 | 43,572 | 52,648 |
| Gross business loans | 20,573 | 21,312 | 20,913 | 22,207 | 24,715 | 24,155 | 24,595 | 24,521 | 27,804 |
| Gross household loans | 15,486 | 14,742 | 14,349 | 13,688 | 16,460 | 16,892 | 17,509 | 19,051 | 24,843 |
| Loan loss reserves (LLR) | -10,193 | -9,436 | -8,914 | -8,849 | -11,508 | -12,209 | -13,657 | -13,866 | -21,340 |
| Deposits | 28,973 | 28,761 | 28,735 | 26,419 | 23,851 | 25,768 | 26,452 | 28,800 | 32,562 |
| Business deposits | 12,574 | 11,992 | 13,083 | 11,787 | 10,361 | 10,833 | 12,604 | 14,593 | 16,757 |
| Household deposits | 16,399 | 16,768 | 15,653 | 14,633 | 13,490 | 14,935 | 13,848 | 14,207 | 15,805 |
| Total equity | 6,747 | 7,038 | 7,216 | 7,237 | 6,789 | 6,318 | 5,879 | 6,148 | 4,105 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 857 | 942 | 1,047 | 1,064 | 1,154 | 1,181 | 1,201 | 1,290 | 1,349 |
| Net commission income | 330 | 362 | 402 | 408 | 345 | 382 | 429 | 473 | 478 |
| Operating income (before LLP) | 1,240 | 1,514 | 1,614 | 1,549 | 702 | 1,593 | 1,973 | 1,582 | 1,614 |
| Operating expenses | -813 | -766 | -807 | -882 | -736 | -833 | -953 | -867 | -854 |
| Loan loss provisions (LLP) | -310 | -247 | -521 | -595 | -870 | -956 | -1,573 | -1,088 | -2,600 |
| Net income | 84 | 438 | 216 | -8 | -943 | -60 | -366 | 1 | -1,840 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 3,824 | 3,789 | 3,834 | 3,910 | 4,206 | 4,446 | 4,599 | 4,826 | 5,021 |
| Net commission income | 1,450 | 1,470 | 1,488 | 1,501 | 1,516 | 1,536 | 1,564 | 1,630 | 1,763 |
| Operating income (before LLP) | 5,450 | 5,626 | 5,805 | 5,918 | 5,379 | 5,458 | 5,817 | 5,850 | 6,762 |
| Operating expenses | -3,605 | -3,490 | -3,468 | -3,269 | -3,192 | -3,258 | -3,404 | -3,389 | -3,507 |
| Loan loss provisions (LLP) | -1,507 | -1,338 | -1,362 | -1,674 | -2,234 | -2,943 | -3,995 | -4,488 | -6,217 |
| Net income | 107 | 540 | 703 | 730 | -297 | -795 | -1,376 | -1,367 | -2,265 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -9.5 | -5.4 | -5.5 | -8.9 | -2.2 | -1.2 | -0.3 | 7.8 | 17.4 |
| Gross loans | -8.1 | -4.0 | -5.1 | -0.3 | 14.2 | 13.8 | 19.4 | 21.4 | 27.9 |
| Deposits (by businesses) | -2.3 | 2.1 | 5.6 | -4.7 | -17.6 | -9.7 | -3.7 | 23.8 | 61.7 |
| Deposits (by households) | 6.3 | 6.4 | 2.8 | -5.2 | -17.7 | -10.9 | -11.5 | -2.9 | 17.2 |
| Deposits (total) | 2.4 | 4.5 | 4.0 | -5.0 | -17.7 | -10.4 | -7.9 | 9.0 | 36.5 |
| Total equity | 5.1 | 10.3 | 14.0 | 14.0 | 0.6 | -10.2 | -18.5 | -15.0 | -39.5 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 18.1 | 19.3 | 20.6 | 20.6 | 18.6 | 16.5 | 15.7 | 13.1 | 11.3 |
| Equity/assets | 14.7 | 15.7 | 16.1 | 16.7 | 15.1 | 14.2 | 13.2 | 13.1 | 7.8 |
| (Equity + sub-debt)/assets | 19.9 | 21.0 | 21.4 | 22.1 | 22.3 | 22.2 | 21.8 | 23.2 | 21.0 |
| Cash & cash equivalents/liabilities | 15.8 | 14.7 | 19.3 | 16.1 | 13.7 | 11.9 | 12.2 | 16.8 | 21.8 |
| Current liquidity (R5 by NBU) | 77.0 | 93.2 | 94.7 | 73.8 | 81.9 | 84.3 | 86.4 | 68.9 | 87.4 |
| Gross loans/deposits | 124.5 | 125.4 | 122.7 | 135.9 | 172.6 | 159.3 | 159.2 | 151.3 | 161.7 |
| Net loans/deposits | 89.3 | 92.5 | 91.7 | 102.4 | 124.4 | 111.9 | 107.5 | 103.1 | 96.1 |
| Cost-to-income ratio | 66.2 | 62.0 | 59.7 | 55.2 | 59.3 | 59.7 | 58.5 | 57.9 | 51.9 |
| Net interest margin | 10.8 | 10.8 | 11.0 | 11.3 | 12.2 | 12.8 | 13.2 | 13.7 | 14.1 |
| ROAA | 0.2 | 1.2 | 1.5 | 1.6 | -0.7 | -1.8 | -3.1 | -3.0 | -4.8 |
| ROAE | 1.7 | 8.2 | 10.3 | 10.3 | -4.2 | -11.5 | -21.0 | -21.8 | -40.3 |
| NII/operating income | 70.2 | 67.4 | 66.0 | 66.1 | 78.2 | 81.4 | 79.1 | 82.5 | 74.2 |
| Core income/operating expenses | 146.3 | 150.7 | 153.5 | 165.5 | 179.3 | 183.6 | 181.1 | 190.5 | 193.4 |

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

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

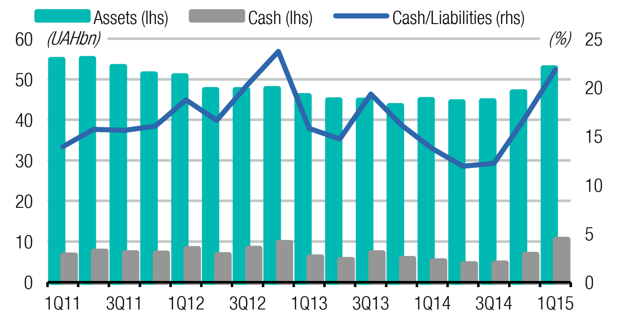
# Raiffeisen Bank Aval: Key credit metrics

**Chart 45. Capitalisation**



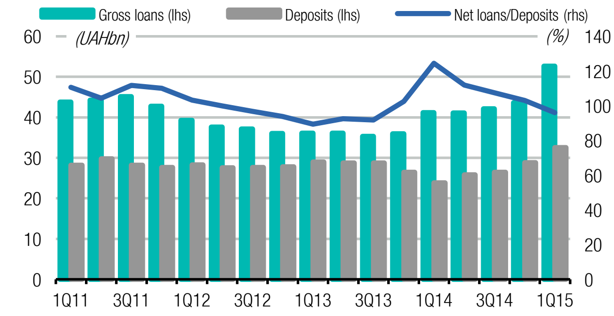

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 46. Liquidity**



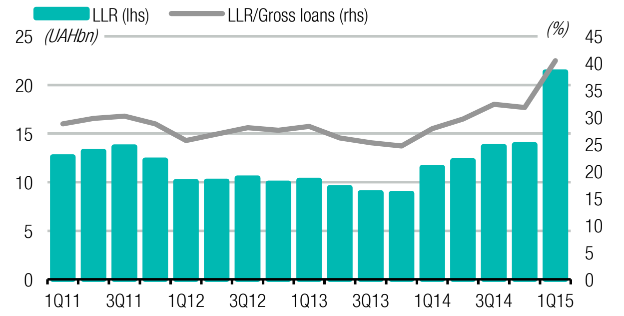

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 47. Loans and deposits**



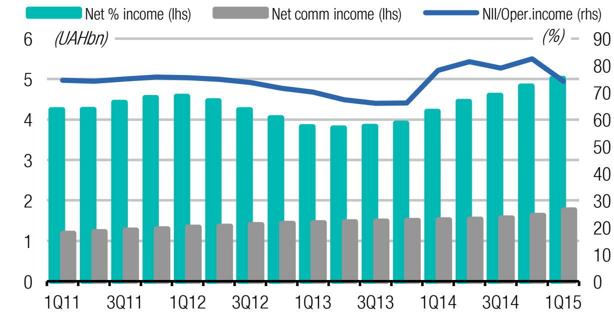

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 48. Loan loss reserves history**



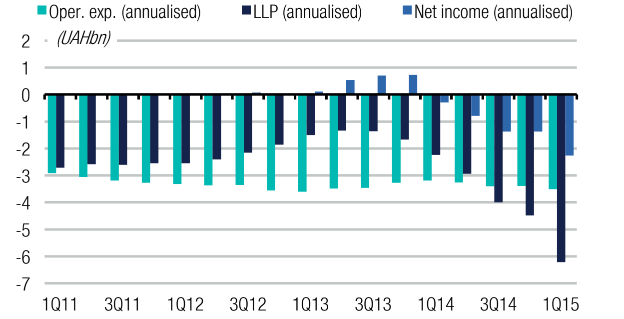

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 49. Income structure (annualised basis)**



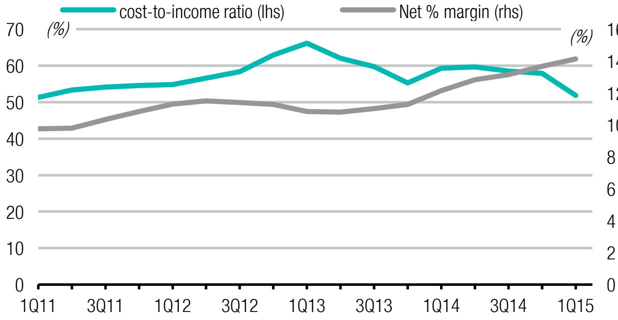

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 50. Expense and net income (annualised basis)**



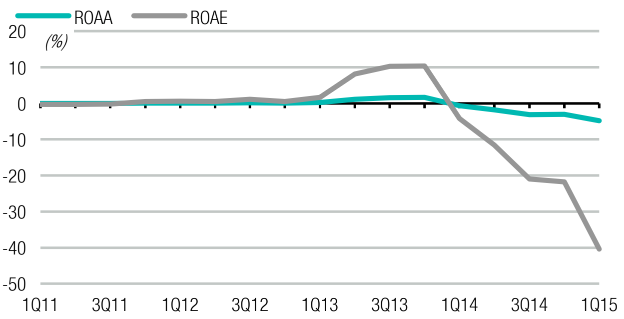

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 51. Financial performance ratios**




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

**Chart 52. Financial performance ratios**




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

Country
**Ukraine**

# Subsidiary Bank Sberbank of Russia

| Sector | Credit ratings by Moody's/S&P/Fitch | Ticker(s) in Bloomberg |
|---|---|---|
| **Banks: Commercial banking** | **Ca/NR/NR** | **SBUA** |

**In 2014 Sberbank Russia had to provide its Ukrainian subsidiary with desperately needed funding in the wake of the massive run on the bank by depositors. The expected further deterioration of the loan portfolio, especially in the occupied regions, is likely to make additional capital injections necessary.**

**Capitalisation still sound.** The regulatory CAR fell to 4.9% as a result of exposure to the largest borrower (which was excessive) being subtracted from the regulatory capital. We expect Sberbank to require additional capital as a result of further deterioration of the loan portfolio and FX losses.

The bank has a potential reliable source of capital inflow – namely short-term loans from the parent bank (approximately UAH24bn as of 4Q14).

**NPLs set to rise.** The share of bad credit exposure in the overall loan portfolio declined by 1.4ppt – to 18.9% in 1Q15 without any material write-offs. Nevertheless, we expect an increase in NPLs in 2015 owing to the significant share of Donbass loans in the bank's portfolio (around 20%).

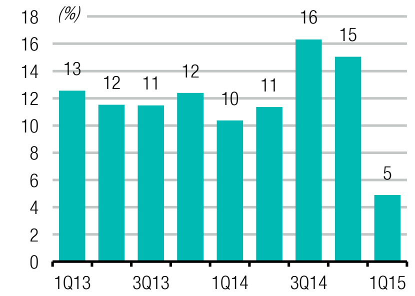
The bank's NPL coverage is rather low – just 56.2% as of 1Q15, while the LLR ratio is 13.8%. In our view, both are significantly below what can be deemed adequate.

**Depositors continue to flee.** Like other banks with Russian capital, Sberbank witnessed the flight of large numbers of retail customers in 2014: retail accounts contracted by 55.8% YoY (net of the FX revaluation effect). The situation worsen somewhat in 1Q15, which registered a loss of 12.3%QoQ compared with -10.8% QoQ the previous quarter.

The results for 11Q15 were much better in the corporate segment: up 16.3%QoQ (UAH-denominated accounts rose 17.5% QoQ and FX-denominated 13.4% QoQ). The share of retail customer deposits declined from 50.7% of total liabilities in 1Q14 to just 32.6% in 1Q15. Sberbank Russia had to compensate its Ukrainian subsidiary for the loss of those deposits, which had a positive impact on the latter's cost of funding.

The bank earned UAH133bn from FX trading in 1Q15 – a decrease of 45.0% QoQ – while FX assets and liabilities were revalued to the tune of UAH701m. The bank reported record-high provisioning expenses of UAH3.5bn in 1Q15, which were largely due to its having to form reserves for FX-denominated loans.

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q14** UAS | **1Q15** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 26,365 | 35,029 | 46,740 | 59,815 |
| Loans | 20,618 | 26,554 | 37,692 | 50,241 |
| Deposits | 13,219 | 18,863 | 14,935 | 18,939 |
| Equity | 3,548 | 4,091 | 3,904 | 1,772 |
| Net % income | 1,230 | 1,722 | 3,339 | 3,615 |
| Net com income | 203 | 271 | 330 | 339 |
| Operating inc. | 1,794 | 2,303 | 4,898 | 5,733 |
| PPI | 906 | 1,069 | 3,325 | 4,151 |
| LLP | -391 | -418 | -3,227 | -6,203 |
| Net income | 410 | 574 | 108 | -2,025 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 14.5 | 12.7 | N/a | N/a |
| CAR | 16.0 | 14.9 | 15.0 | 4.9 |
| Equity-to-assets | 13.5 | 11.7 | 8.4 | 3.0 |
| Net loan-to-deposit | 156.0 | 140.8 | 252.4 | 265.3 |
| Cash-to-liabilit. | 11.1 | 12.7 | 6.4 | 4.8 |
| ROAA | 1.9 | 1.9 | 0.2 | -4.2 |
| ROAE | 13.2 | 15.0 | 2.8 | -60.7 |
| Net % margin | 6.5 | 7.3 | 8.5 | 8.3 |
| NII-to-op income | 68.5 | 74.8 | 68.2 | 63.0 |
| Cost-to-income | 49.5 | 53.6 | 32.1 | 27.6 |
| LLR | 9.8 | 8.7 | 9.8 | 13.4 |
| 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 8. Key financials and ratios derived from the bank's UAS financials**

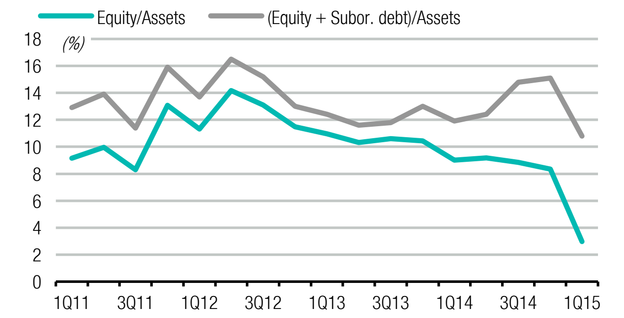
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 4Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 29,520 | 32,722 | 33,572 | 35,095 | 42,532 | 41,650 | 43,379 | 46,740 | 59,815 |
| Cash and cash equivalents | 2,383 | 2,516 | 3,455 | 4,005 | 3,631 | 3,177 | 3,103 | 2,732 | 2,785 |
| Gross loans | 21,574 | 24,423 | 25,319 | 27,364 | 36,466 | 37,465 | 37,828 | 41,767 | 58,025 |
| Gross business loans | 20,650 | 23,509 | 24,178 | 25,994 | 34,955 | 35,970 | 36,425 | 40,537 | 56,824 |
| Gross household loans | 924 | 915 | 1,141 | 1,371 | 1,511 | 1,495 | 1,403 | 1,230 | 1,201 |
| Loan loss reserves (LLR) | -1,431 | -1,452 | -1,478 | -1,452 | -2,081 | -3,002 | -3,136 | -4,075 | -7,784 |
| Deposits | 15,862 | 17,197 | 18,482 | 18,910 | 19,637 | 15,852 | 14,318 | 14,935 | 18,939 |
| Business deposits | 5,042 | 5,142 | 5,146 | 4,953 | 5,014 | 3,648 | 4,169 | 4,287 | 6,008 |
| Household deposits | 10,820 | 12,055 | 13,336 | 13,958 | 14,623 | 12,203 | 10,149 | 10,648 | 12,931 |
| Total equity | 3,235 | 3,379 | 3,557 | 3,667 | 3,832 | 3,822 | 3,835 | 3,904 | 1,772 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 368 | 424 | 483 | 484 | 674 | 875 | 897 | 894 | 949 |
| Net commission income | 82 | 39 | 75 | 75 | 71 | 92 | 91 | 76 | 80 |
| Operating income (before LLP) | 495 | 553 | 636 | 645 | 1,030 | 1,219 | 1,310 | 1,338 | 1,866 |
| Operating expenses | -259 | -303 | -306 | -393 | -343 | -423 | -361 | -445 | -353 |
| Loan loss provisions (LLP) | -93 | -96 | -142 | -97 | -566 | -801 | -1,034 | -826 | -3,542 |
| Net income | 141 | 124 | 167 | 140 | 104 | 12 | -11 | 4 | -2,029 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,329 | 1,463 | 1,641 | 1,759 | 2,064 | 2,516 | 2,929 | 3,339 | 3,615 |
| Net commission income | 311 | 293 | 291 | 271 | 261 | 313 | 329 | 330 | 339 |
| Operating income (before LLP) | 1,951 | 2,143 | 2,288 | 2,328 | 2,864 | 3,530 | 4,204 | 4,898 | 5,733 |
| Operating expenses | -955 | -1,047 | -1,132 | -1,262 | -1,346 | -1,466 | -1,521 | -1,573 | -1,582 |
| Loan loss provisions (LLP) | -400 | -480 | -479 | -428 | -902 | -1,606 | -2,498 | -3,227 | -6,203 |
| Net income | 474 | 501 | 559 | 573 | 535 | 423 | 244 | 108 | -2,025 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 46.1 | 61.6 | 47.9 | 29.9 | 44.1 | 27.3 | 29.2 | 33.2 | 40.6 |
| Gross loans | 24.3 | 48.0 | 33.9 | 27.8 | 69.0 | 53.4 | 49.4 | 52.6 | 59.1 |
| Deposits (by businesses) | 42.4 | 74.2 | 31.9 | 17.1 | -0.6 | -29.1 | -19.0 | -13.4 | 19.8 |
| Deposits (by households) | 107.9 | 95.7 | 75.6 | 54.2 | 35.1 | 1.2 | -23.9 | -23.7 | -11.6 |
| Deposits (total) | 81.4 | 88.7 | 60.7 | 42.4 | 23.8 | -7.8 | -22.5 | -21.0 | -3.6 |
| Total equity | 41.4 | 17.6 | 19.5 | 18.3 | 18.5 | 13.1 | 7.8 | 6.5 | -53.8 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 12.6 | 11.5 | 11.5 | 12.4 | 10.4 | 11.4 | 16.3 | 15.0 | 4.9 |
| Equity/assets | 11.0 | 10.3 | 10.6 | 10.4 | 9.0 | 9.2 | 8.8 | 8.4 | 3.0 |
| (Equity + sub-debt)/assets | 12.4 | 11.6 | 11.8 | 13.0 | 11.9 | 12.4 | 14.8 | 15.1 | 10.8 |
| Cash & cash equivalents/liabilities | 9.1 | 8.6 | 11.5 | 12.7 | 9.4 | 8.4 | 7.8 | 6.4 | 4.8 |
| Current liquidity (R5 by NBU) | 67.4 | 75.2 | 66.7 | 71.4 | 62.3 | 47.2 | 48.7 | 46.7 | 41.8 |
| Gross loans/deposits | 136.0 | 142.0 | 137.0 | 144.7 | 185.7 | 236.3 | 264.2 | 279.7 | 306.4 |
| Net loans/deposits | 127.0 | 133.6 | 129.0 | 137.0 | 175.1 | 217.4 | 242.3 | 252.4 | 265.3 |
| Cost-to-income ratio | 49.0 | 48.9 | 49.5 | 54.2 | 47.0 | 41.5 | 36.2 | 32.1 | 27.6 |
| Net interest margin | 6.3 | 6.2 | 6.3 | 6.3 | 6.6 | 7.5 | 8.1 | 8.5 | 8.3 |
| ROAA | 1.9 | 1.8 | 1.8 | 1.8 | 1.5 | 1.1 | 0.6 | 0.2 | -4.2 |
| ROAE | 15.6 | 15.8 | 16.9 | 16.6 | 14.8 | 11.4 | 6.4 | 2.8 | -60.7 |
| NII/operating income | 68.1 | 68.3 | 71.7 | 75.6 | 72.1 | 71.3 | 69.7 | 68.2 | 63.0 |
| Core income/operating expenses | 171.7 | 167.6 | 170.6 | 160.9 | 172.8 | 193.0 | 214.2 | 233.3 | 249.8 |

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.

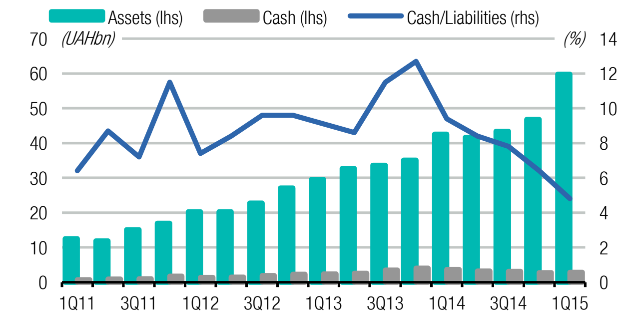
# Sberbank: Key credit metrics

**Chart 53. Capitalisation**



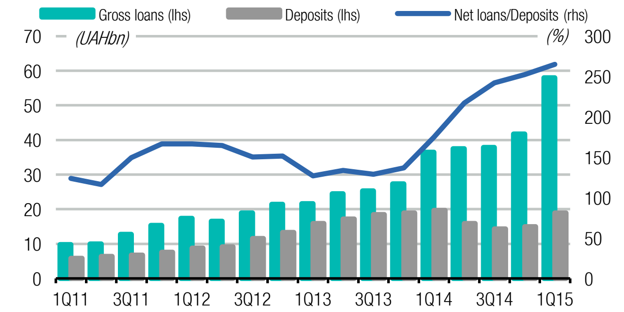

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 54. Liquidity**



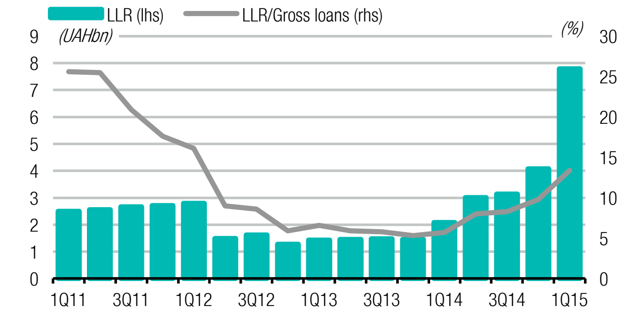

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 55. Loans and deposits**



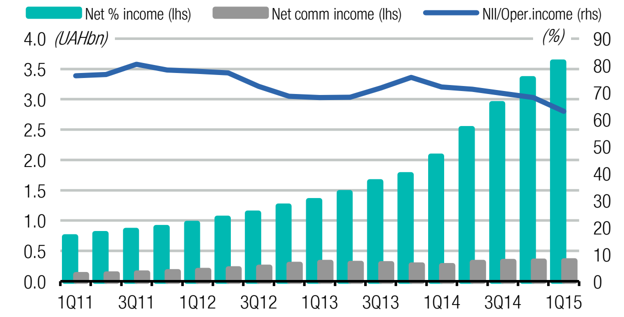

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 56. Loan loss reserves history**



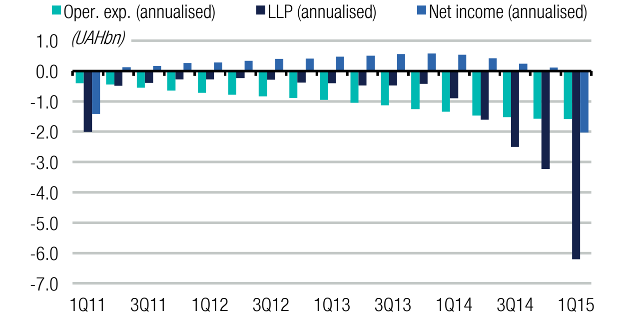

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 57. Income structure (annualised basis)**



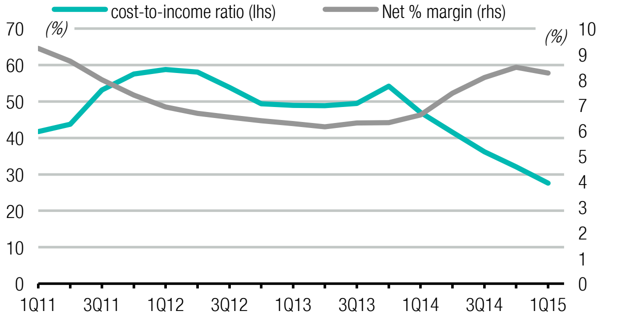

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 58. Expense and net income (annualised basis)**



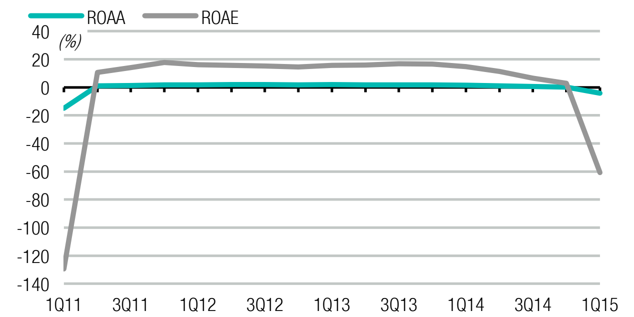

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 59. Financial performance ratios**




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

**Chart 60. 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
**PUMBUZ**

**Despite significant credit exposure to the Donbass region, FUIB remained profitable in 2014. In response to the crisis, it initiated the restructuring of its Eurobonds in 4Q14 and merged with its retail subsidiary in 1H2015.**

**Capitalisation increases.** FUIB decreased slightly the regulatory CAR from 14.2% to 12.7% in 2014. The bank is in the final stage of merging with its subsidiary Renaissance Capital (total assets of UAH1.8bn as of 4Q14). As a result of the merger, the share capital of FUIB should increase by UAH0.3bn or 8.2%.

**Clean-up of the loan portfolio.** FUIB has written off a significant amount of bad credit (more than UAH1.0bn) in 4Q14. Further loan impairment led to the share of NPLs in the total loan portfolio increasing by 1.6ppt QoQ – to 13.4% – in 1Q15. The bank continues to ensure relatively high reserve coverage for those loans – 72.8% in 4Q14. Its corporate portfolio (LLR of 10.8%) is much healthier than the retail portfolio (LLR of 44.4%) partly owing to sufficiently tight payment discipline from the SCM Group and its related businesses.

SCM Group-related loans amount to UAH554m or just 2.3% of the total gross corporate loan portfolio according to the bank's 4Q14 report. We consider this an advantage, given the legislative changes that aim to punish banks that have an excessive share of related party lending. In a recent statement, the regulator recognised FUIB's low credit exposure to such clients compared with that of other banks with Ukrainian capital.

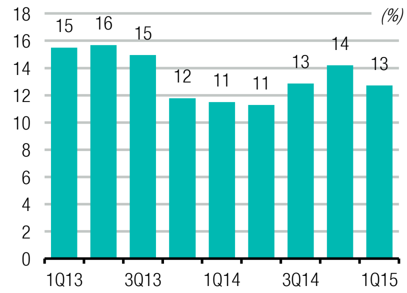
**UAH deposits on the rise.** As a result of its heavy advertising campaign, FUIB increased the amount of retail deposits in local currency by 3.2% QoQ in 4Q14 but recorded a 6.6%QoQ contraction in 1Q15.

**Not profitable anymore.** FUIB remained profitable in 2014, earning net income of UAH54m, despite its record-high UAH2.7bn provisioning expenses. 1Q15 brought loss of UAH328m due to the large (UAH1.6bn) provisioning expenses..

Last year the bank reduced the total number of branches by 21.7% (to 126), which is close to the average in the sector. Most of the closed branches were in the occupied territories.

**Eurobonds restructured.** In 4Q14 the bank completed the restructuring of its Eurobonds, reducing the total outstanding by US$45m to US$208m. The cash-to-liabilities ratio decreased from 20.7% in 3Q14 to 15.1% in 4Q14 as a result of the upfront payment and the outflow of FX deposits (down 5.1% QoQ).

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q14 UAS | 1Q15 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 27,555 | 31,896 | 35,439 | 40,163 |
| Loans | 17,884 | 20,942 | 25,834 | 30,143 |
| Deposits | 17,611 | 20,932 | 24,516 | 27,628 |
| Equity | 5,060 | 5,542 | 4,777 | 4,428 |
| Net % income | 1,151 | 1,534 | 2,338 | 2,401 |
| Net com income | 308 | 492 | 822 | 1,640 |
| Operating inc. | 1,636 | 2,148 | 3,799 | 4,626 |
| PPI | 690 | 1,155 | 2,578 | 3,257 |
| LLP | -290 | -514 | -2,719 | -3,967 |
| Net income | 279 | 510 | 54 | -408 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 19.8 | 18.6 | N/a | N/a |
| CAR | 23.5 | 21.2 | 14.2 | 12.7 |
| Equity-to-assets | 18.4 | 17.4 | 13.5 | 11.0 |
| Net loan-to-deposit | 101.5 | 100.0 | 105.4 | 109.1 |
| Cash-to-liabilit. | 9.7 | 10.5 | 15.1 | 14.1 |
| ROAA | 1.0 | 1.7 | 0.1 | -1.1 |
| ROAE | 5.6 | 9.6 | 1.1 | -8.7 |
| Net % margin | 4.7 | 6.1 | 8.2 | 8.0 |
| NII-to-op income | 70.4 | 71.4 | 61.6 | 51.9 |
| Cost-to-income | 57.8 | 46.2 | 32.1 | 29.6 |
| LLR | 14.8 | 11.4 | 13.2 | 16.9 |
| 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 9. Key financials and ratios derived from the bank's UAS financials**

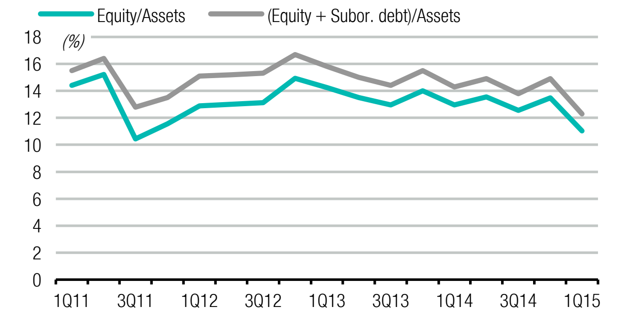
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 30,330 | 32,442 | 34,959 | 33,207 | 36,677 | 35,798 | 37,946 | 35,439 | 40,163 |
| Cash and cash equivalents | 4,526 | 4,400 | 7,654 | 4,910 | 6,646 | 4,690 | 6,860 | 4,642 | 5,037 |
| Gross loans | 20,886 | 21,221 | 22,511 | 23,196 | 27,005 | 27,462 | 28,322 | 29,748 | 36,283 |
| Gross business loans | 15,450 | 15,730 | 16,874 | 17,981 | 21,255 | 21,714 | 22,711 | 24,351 | 29,633 |
| Gross household loans | 5,435 | 5,491 | 5,637 | 5,215 | 5,750 | 5,748 | 5,611 | 5,396 | 6,651 |
| Loan loss reserves (LLR) | -3,975 | -3,857 | -3,898 | -3,298 | -3,330 | -3,188 | -3,903 | -3,914 | -6,141 |
| Deposits | 19,108 | 19,678 | 22,528 | 20,444 | 24,351 | 23,801 | 24,446 | 24,516 | 27,628 |
| Business deposits | 8,266 | 8,116 | 11,010 | 9,279 | 12,753 | 12,085 | 13,258 | 12,138 | 13,315 |
| Household deposits | 10,842 | 11,562 | 11,518 | 11,164 | 11,598 | 11,716 | 11,188 | 12,378 | 14,313 |
| Total equity | 4,316 | 4,385 | 4,531 | 4,652 | 4,756 | 4,853 | 4,765 | 4,777 | 4,428 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 388 | 443 | 530 | 534 | 573 | 614 | 573 | 578 | 636 |
| Net commission income | 106 | 114 | 131 | 137 | 122 | 91 | 174 | 435 | 941 |
| Operating income (before LLP) | 528 | 636 | 681 | 722 | 821 | 874 | 959 | 1,144 | 1,648 |
| Operating expenses | -225 | -240 | -242 | -306 | -263 | -290 | -284 | -384 | -411 |
| Loan loss provisions (LLP) | -188 | -308 | -260 | -266 | -388 | -483 | -854 | -994 | -1,636 |
| Net income | 89 | 70 | 143 | 143 | 134 | 79 | -145 | -14 | -328 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,524 | 1,569 | 1,684 | 1,895 | 2,080 | 2,251 | 2,294 | 2,338 | 2,401 |
| Net commission income | 393 | 419 | 446 | 488 | 505 | 482 | 524 | 822 | 1,640 |
| Operating income (before LLP) | 2,102 | 2,256 | 2,465 | 2,566 | 2,860 | 3,098 | 3,376 | 3,799 | 4,626 |
| Operating expenses | -983 | -988 | -994 | -1,013 | -1,050 | -1,100 | -1,143 | -1,221 | -1,369 |
| Loan loss provisions (LLP) | -663 | -840 | -952 | -1,021 | -1,220 | -1,396 | -1,990 | -2,719 | -3,967 |
| Net income | 322 | 302 | 379 | 445 | 490 | 499 | 211 | 54 | -408 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -4.1 | 3.1 | 10.7 | 17.6 | 20.9 | 10.3 | 8.5 | 6.7 | 9.5 |
| Gross loans | 5.0 | 8.0 | 10.9 | 11.7 | 29.3 | 29.4 | 25.8 | 28.2 | 34.4 |
| Deposits (by businesses) | 17.8 | 14.1 | 40.7 | 26.7 | 54.3 | 48.9 | 20.4 | 30.8 | 4.4 |
| Deposits (by households) | 19.8 | 21.2 | 17.8 | 10.1 | 7.0 | 1.3 | -2.9 | 10.9 | 23.4 |
| Deposits (total) | 18.9 | 18.2 | 28.0 | 17.1 | 27.4 | 20.9 | 8.5 | 19.9 | 13.5 |
| Total equity | 5.9 | 7.1 | 9.3 | 10.4 | 10.2 | 10.7 | 5.2 | 2.7 | -6.9 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 15.5 | 15.7 | 15.0 | 11.8 | 11.5 | 11.3 | 12.9 | 14.2 | 12.7 |
| Equity/assets | 14.2 | 13.5 | 13.0 | 14.0 | 13.0 | 13.6 | 12.6 | 13.5 | 11.0 |
| (Equity + sub-debt)/assets | 15.8 | 15.0 | 14.4 | 15.5 | 14.3 | 14.9 | 13.8 | 14.9 | 12.3 |
| Cash & cash equivalents/liabilities | 17.4 | 15.7 | 25.2 | 17.2 | 20.8 | 15.2 | 20.7 | 15.1 | 14.1 |
| Current liquidity (R5 by NBU) | 82.7 | 78.1 | 76.8 | 64.3 | 81.9 | 60.1 | 72.1 | 54.2 | 62.3 |
| Gross loans/deposits | 109.3 | 107.8 | 99.9 | 113.5 | 110.9 | 115.4 | 115.9 | 121.3 | 131.3 |
| Net loans/deposits | 88.5 | 88.2 | 82.6 | 97.3 | 97.2 | 102.0 | 99.9 | 105.4 | 109.1 |
| Cost-to-income ratio | 46.8 | 43.8 | 40.3 | 39.5 | 36.7 | 35.5 | 33.8 | 32.1 | 29.6 |
| Net interest margin | 6.6 | 6.8 | 7.3 | 7.9 | 8.2 | 8.4 | 8.2 | 8.2 | 8.0 |
| ROAA | 1.1 | 1.0 | 1.2 | 1.4 | 1.4 | 1.4 | 0.6 | 0.1 | -1.1 |
| ROAE | 7.7 | 7.1 | 8.7 | 10.0 | 10.7 | 10.6 | 4.4 | 1.1 | -8.7 |
| NII/operating income | 72.5 | 69.5 | 68.3 | 73.9 | 72.7 | 72.7 | 67.9 | 61.6 | 51.9 |
| Core income/operating expenses | 195.1 | 201.3 | 214.2 | 235.4 | 246.2 | 248.4 | 246.7 | 258.9 | 295.3 |

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.

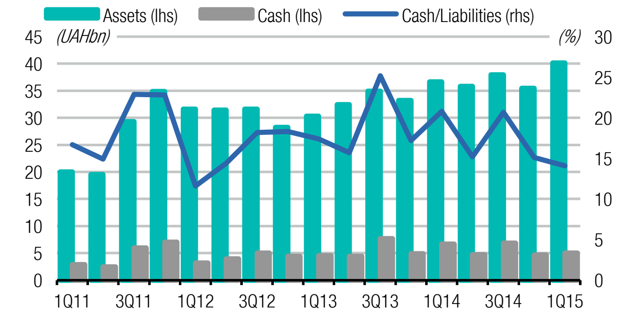
# FUIB: Key credit metrics

### Chart 61. Capitalisation



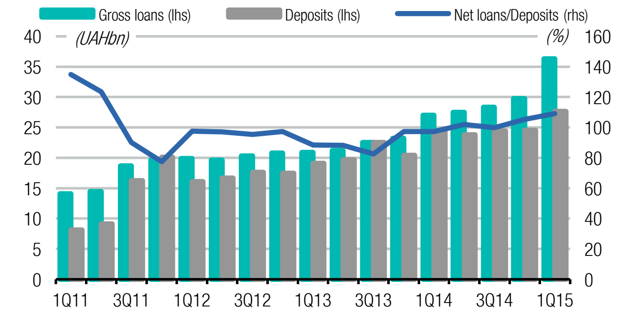

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 62. Liquidity



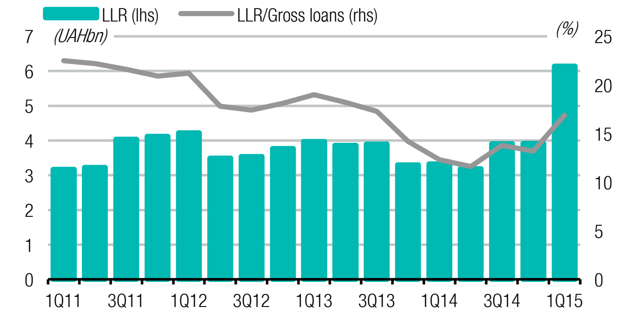

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 63. Loans and deposits



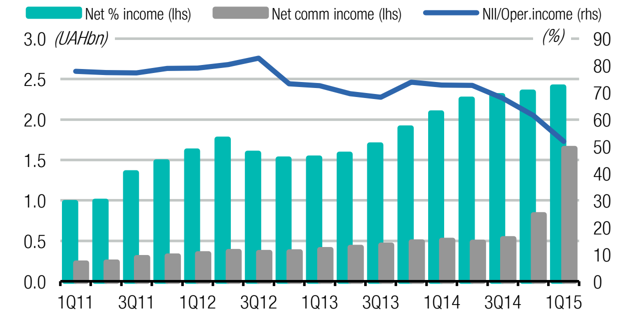

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 64. Loan loss reserves history



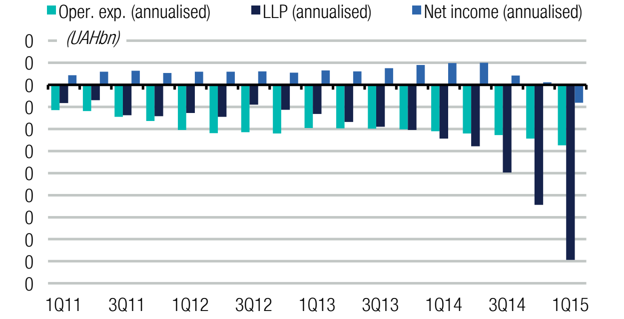

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 65. Income structure (annualised basis)



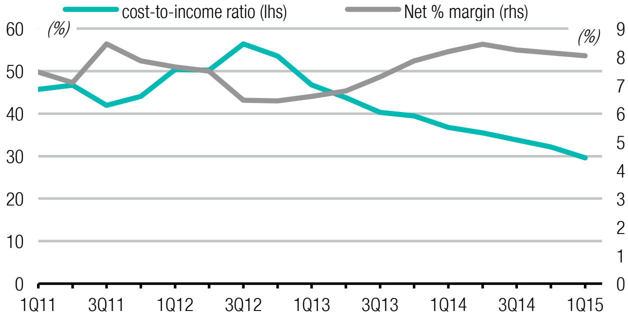

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 66. Expense and net income (annualised basis)



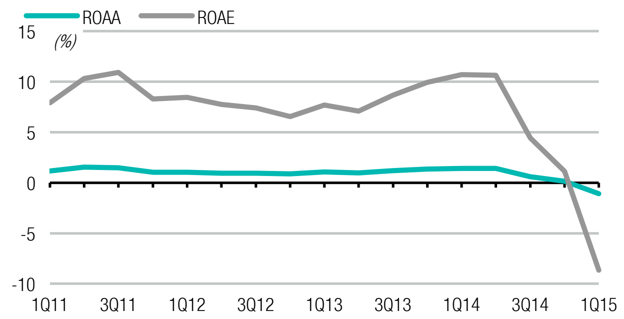

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 67. Financial performance ratios




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

### Chart 68. 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
**NR / CCC / CCC**

Ticker(s) in Bloomberg
**N/A**

**Alfa Bank has managed to avoid being seen as a Russian bank and is trying to increase its share of the currently declining retail market.**

**Capitalisation.** The regulatory CAR grew by 0.8 ppt to 16.7% in 4Q14 owing to the additional US$50m of subordinated debt provided by the Alfa Group. We believe that the bank plans to substitute US$53m of Tier 2 capital that will not be eligible for inclusion in the regulatory capital in 3Q15 owing to maturity criteria.

As in the case of many of other banks, the further contraction of the regulatory CAR – to just 6.9% in 1Q15 – has been caused mainly by the new methodology used to calculate the ratio. Most important, exposure to the largest borrower, which was excessive, has been subtracted from the regulatory capital

Alfa Bank has a significant liquidity buffer of FX and indexed government bonds on its balance sheet (UAH1bn as of 1Q15, according to our estimates), which will allow it to obtain refinancing from the NBU if needed.

**Not so Russian any longer.** Alfa Group has restructured its ownership status to make it more international: today there is no direct Russian ownership of its Ukrainian subsidiary. The bank finished 2014 with significantly better results in the retail segment than did other banks with Russian capital.

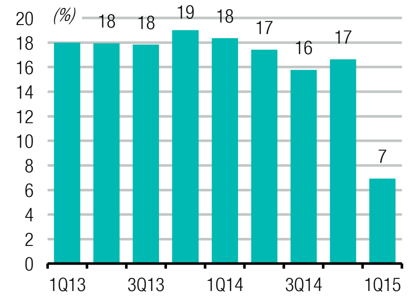
Total retail deposits contracted by just 19.3% YoY in 2014, while the average for Russian banks in Ukraine was 41.9% YoY. Alfa Bank reported 15.2% QoQ growth of corporate deposits and an 0.8% increase QoQ of retail deposits (net of FX revaluation effect) in 4Q14.

**Slight deterioration of loan portfolio.** The share of bad credit exposure increased from 12.7% in 4Q14 to 20.5% in 1Q15, while LLR coverage was 48.2%. Alfa Bank increased the LLR ratio for corporate loans by 4.3ppt – to 12.3% in 1Q15 – which, in our opinion, is overoptimistic given the increasing share of overdue payments.

Despite having lent actively throughout most of 2014, the bank reduced such activities in the retail segment in 4Q14 and 1Q15 by cutting number of new loans issued. We believe that the risk factor was key to this decision as existing liquidity will allow the bank to increase lending in the future.

**Turning unprofitable.** While Alfa Bank had reported small but persistent net income in previous quarters, it witnessed the second consecutive quarterly net loss of earnings in 1Q15. The UAH622m loss was caused by an increase in provisioning expenses of UAH2.5bn (127.9% QoQ).

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q14 UAS | 1Q15 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 25,578 | 29,288 | 36,694 | 43,128 |
| Loans | 17,199 | 20,214 | 25,609 | 29,757 |
| Deposits | 14,376 | 15,838 | 18,061 | 20,943 |
| Equity | 4,102 | 4,102 | 3,510 | 2,254 |
| Net % income | 1,649 | 1,565 | 1,718 | 1,755 |
| Net com income | 355 | 508 | 767 | 958 |
| Operating inc. | 2,068 | 2,354 | 4,935 | 5,841 |
| PPI | 863 | 998 | 3,228 | 4,136 |
| LLP | -800 | -949 | -4,114 | -5,853 |
| Net income | 34 | 15 | -744 | -1,368 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | N/A | N/A | N/a | N/a |
| CAR | N/A | N/A | 16.6 | 6.9 |
| Equity-to-assets | 16.0 | 14.0 | 9.6 | 5.2 |
| Net loan-to-deposit | 119.6 | 127.6 | 141.8 | 142.1 |
| Cash-to-liabilit. | 27.2 | 24.2 | 13.9 | 14.8 |
| ROAA | 0.1 | 0.1 | -2.1 | -3.6 |
| ROAE | 0.8 | 0.4 | -18.5 | -38.6 |
| Net % margin | 8.6 | 7.5 | 6.2 | 5.8 |
| NII-to-op income | 79.7 | 66.5 | 34.8 | 30.1 |
| Cost-to-income | 58.3 | 57.6 | 34.6 | 29.2 |
| LLR | 12.9 | 9.1 | 13.2 | 18.1 |
| 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 10. Key financials and ratios derived from the bank's UAS financials**

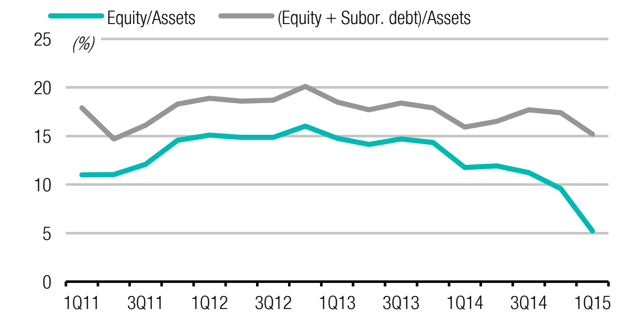
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 27,954 | 29,634 | 28,496 | 29,293 | 35,773 | 35,260 | 37,382 | 36,694 | 43,128 |
| Cash and cash equivalents | 5,184 | 4,941 | 4,523 | 6,066 | 9,521 | 6,970 | 6,697 | 4,617 | 6,033 |
| Gross loans | 21,650 | 21,584 | 21,091 | 22,012 | 24,551 | 25,911 | 26,444 | 29,509 | 36,351 |
| Gross business loans | 15,282 | 15,052 | 14,829 | 15,919 | 17,570 | 18,720 | 19,103 | 22,562 | 28,947 |
| Gross household loans | 6,368 | 6,532 | 6,261 | 6,094 | 6,981 | 7,190 | 7,341 | 6,946 | 7,404 |
| Loan loss reserves (LLR) | -2,964 | -2,580 | -1,996 | -1,784 | -2,402 | -3,005 | -2,959 | -3,900 | -6,594 |
| Deposits | 15,927 | 15,761 | 14,365 | 15,831 | 18,137 | 16,846 | 15,549 | 18,061 | 20,943 |
| Business deposits | 6,174 | 6,231 | 5,334 | 6,573 | 8,866 | 6,753 | 6,014 | 7,545 | 8,642 |
| Household deposits | 9,753 | 9,530 | 9,032 | 9,258 | 9,271 | 10,093 | 9,535 | 10,516 | 12,301 |
| Total equity | 4,129 | 4,184 | 4,184 | 4,199 | 4,208 | 4,200 | 4,197 | 3,510 | 2,254 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 338 | 432 | 412 | 422 | 431 | 406 | 422 | 459 | 469 |
| Net commission income | 115 | 107 | 126 | 160 | 134 | 153 | 207 | 273 | 325 |
| Operating income (before LLP) | 587 | 621 | 525 | 713 | 1,144 | 1,548 | 1,575 | 669 | 2,049 |
| Operating expenses | -300 | -375 | -354 | -381 | -385 | -440 | -407 | -476 | -382 |
| Loan loss provisions (LLP) | -278 | -235 | -161 | -316 | -749 | -1,102 | -1,171 | -1,092 | -2,489 |
| Net income | 5 | 4 | 2 | 2 | 2 | 2 | -3 | -745 | -622 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,742 | 1,726 | 1,600 | 1,604 | 1,697 | 1,671 | 1,681 | 1,718 | 1,755 |
| Net commission income | 419 | 454 | 499 | 508 | 527 | 573 | 654 | 767 | 958 |
| Operating income (before LLP) | 2,377 | 2,431 | 2,317 | 2,446 | 3,003 | 3,929 | 4,979 | 4,935 | 5,841 |
| Operating expenses | -1,251 | -1,339 | -1,401 | -1,410 | -1,495 | -1,560 | -1,613 | -1,708 | -1,705 |
| Loan loss provisions (LLP) | -1,067 | -1,032 | -852 | -989 | -1,461 | -2,328 | -3,337 | -4,114 | -5,853 |
| Net income | 26 | 20 | 16 | 13 | 11 | 8 | 3 | -744 | -1,368 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 1.1 | 6.1 | 3.8 | 14.5 | 28.0 | 19.0 | 31.2 | 25.3 | 20.6 |
| Gross loans | -5.5 | -4.4 | 0.5 | 10.5 | 13.4 | 20.0 | 25.4 | 34.1 | 48.1 |
| Deposits (by businesses) | 14.4 | 18.5 | -7.1 | 17.1 | 43.6 | 8.4 | 12.8 | 14.8 | -2.5 |
| Deposits (by households) | 35.6 | 25.5 | 3.9 | 5.6 | -4.9 | 5.9 | 5.6 | 13.6 | 32.7 |
| Deposits (total) | 26.5 | 22.6 | -0.5 | 10.1 | 13.9 | 6.9 | 8.2 | 14.1 | 15.5 |
| Total equity | -1.0 | 0.9 | 2.5 | 2.4 | 1.9 | 0.4 | 0.3 | -16.4 | -46.4 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 18.0 | 18.0 | 17.9 | 19.0 | 18.4 | 17.4 | 15.8 | 16.6 | 6.9 |
| Equity/assets | 14.8 | 14.1 | 14.7 | 14.3 | 11.8 | 11.9 | 11.2 | 9.6 | 5.2 |
| (Equity + sub-debt)/assets | 18.5 | 17.7 | 18.4 | 17.9 | 15.9 | 16.5 | 17.7 | 17.4 | 15.2 |
| Cash & cash equivalents/liabilities | 21.8 | 19.4 | 18.6 | 24.2 | 30.2 | 22.4 | 20.2 | 13.9 | 14.8 |
| Current liquidity (R5 by NBU) | 126.2 | 174.0 | 135.8 | 148.7 | 180.0 | 164.1 | 125.0 | 89.0 | 67.8 |
| Gross loans/deposits | 135.9 | 136.9 | 146.8 | 139.0 | 135.4 | 153.8 | 170.1 | 163.4 | 173.6 |
| Net loans/deposits | 117.3 | 120.6 | 132.9 | 127.8 | 122.1 | 136.0 | 151.0 | 141.8 | 142.1 |
| Cost-to-income ratio | 52.6 | 55.1 | 60.5 | 57.7 | 49.8 | 39.7 | 32.4 | 34.6 | 29.2 |
| Net interest margin | 8.4 | 8.2 | 7.4 | 7.1 | 7.2 | 6.8 | 6.4 | 6.2 | 5.8 |
| ROAA | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | -2.1 | -3.6 |
| ROAE | 0.6 | 0.5 | 0.4 | 0.3 | 0.3 | 0.2 | 0.1 | -18.5 | -38.6 |
| NII/operating income | 73.3 | 71.0 | 69.1 | 65.6 | 56.5 | 42.5 | 33.8 | 34.8 | 30.1 |
| Core income/operating expenses | 172.8 | 162.9 | 149.8 | 149.8 | 148.7 | 143.8 | 144.8 | 145.5 | 159.2 |

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.

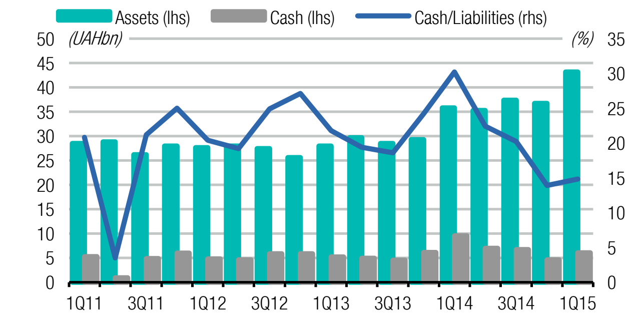
# Alfa Bank: Key credit metrics

### Chart 69. Capitalisation



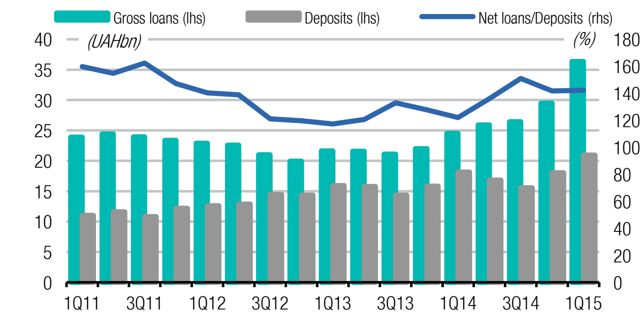

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 70. Liquidity



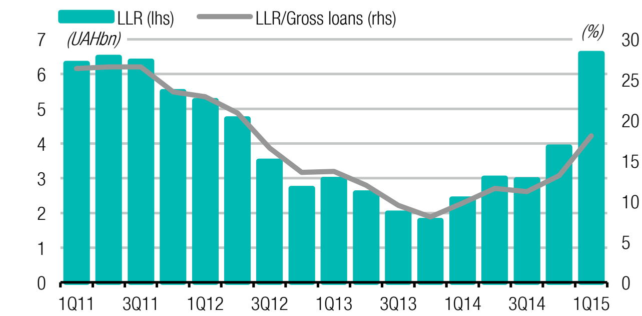

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 71. Loans and deposits



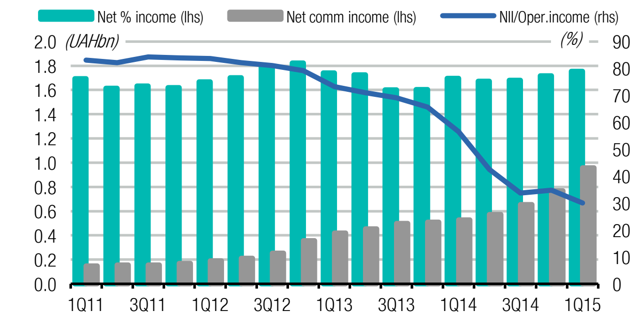

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 72. Loan loss reserves history



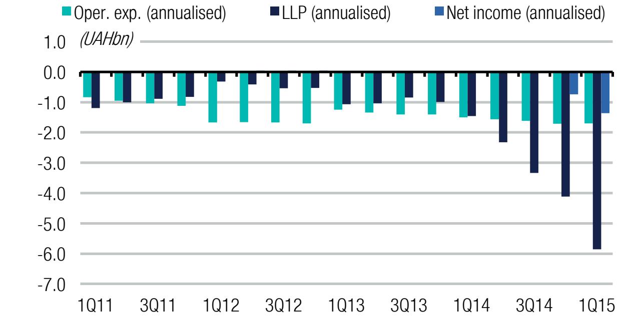

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 73. Income structure (annualised basis)



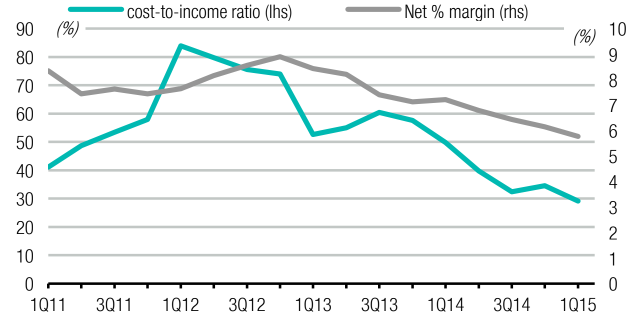

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 74. Expense and net income (annualised basis)



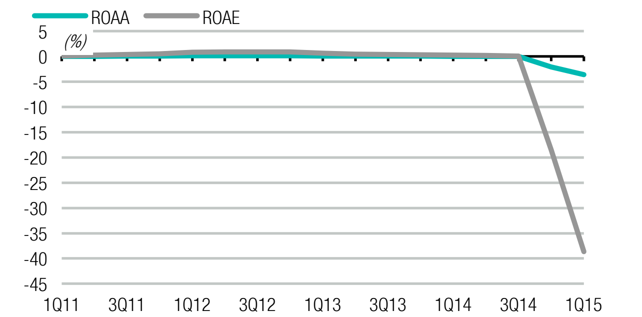

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 75. Financial performance ratios




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

### Chart 76. 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
**NR / NR / CCC**

Ticker(s) in Bloomberg
**VTB**

**VTB's 4Q14 financials were excessively optimistic about the level of LLR, in our opinion. The UAH4.2bn capital injection in 1Q15 allowed the bank to form reserves that are more adequate and will confirm its commitment to remain in the Ukrainian market.**

**Capitalisation dwindling rapidly.** The regulatory CAR dropped by 2.0ppt – to just 8.3% – in 4Q14. UAH devaluation and further loan portfolio impairment have, in effect, annihilated VTB's regulatory capital. Shareholders responded by increasing the bank's share capital by UAH4.2bn in 1Q15.

VTB Russia has estimated its total losses in Ukraine in 2014 (including direct lending to Ukrainian companies) at US$677m. We believe it is unlikely that the bank will turn profitable in 2015–16, given the currently low level of provisions.

**Loan reserves are low.** The LLR ratio increased from 10.2% in 4Q14 to 20.1% in 1Q15. Given that 82.0% of the net loan portfolio is denominated in FX, the current level of reserves is still understated, in our opinion: reserve coverage for bad debt was reported at just 52.3% in 1Q15. The bank has recognised UAH338m provision expenses in 1Q15.

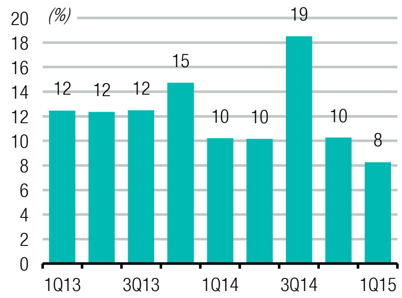
**Losing retail business.** VTB lost 10.4% of total deposits (net of the revaluation effect) in 1Q15. During the 2014 the decline amounted to 61.1% YoY, significantly higher than the average of 41.9% YoY among banks with Russian capital, which have been hardest hit. At the same time, the share of gross retail loans in the overall gross loan portfolio declined from 14.0% in 1Q14 to just 6.8% in 1Q15 owing to the low share of FX loans compared with the corporate segment (the revaluation effect) and very modest volume of new lending.

VTB reduced the number of its branches by 53.5% YoY (or 69) in 2014. While the occupied territories accounted for most of the closures, the bank's share of total branches in Ukraine declined from 0.66% to 0.39% in 2014.

**No losses reported.** Net income in 2014 amounted to UAH1.0bn; that figure includes income from investment property revaluation totalling UAH881m. VTB recognised UAH1.3bn loss from FX trading and revaluation in 1Q15.

Loan impairment negatively affected the net interest margin, which shrank 1.5ppt to 4.0% in 1Q15. Total interest income remained increased by just 6.4%QoQ during the quarter, despite the USD/UAH official exchange rate increasing by 48.7% over that period and 71.9% of the assets being FX-denominated.

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q14 UAS | 1Q15 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 32,848 | 24,247 | 36,502 | 42,887 |
| Loans | 23,756 | 17,923 | 29,286 | 35,684 |
| Deposits | 12,072 | 11,211 | 7,900 | 9,082 |
| Equity | 3,880 | 2,165 | 5,088 | 3,258 |
| Net % income | 1,723 | 1,348 | 1,490 | 1,191 |
| Net com income | 464 | 265 | 514 | 615 |
| Operating inc. | 2,356 | 1,773 | 2,862 | 2,108 |
| PPI | 993 | 528 | 1,527 | 791 |
| LLP | -1,884 | -2,184 | -1,109 | -2,248 |
| Net income | -695 | -1,717 | 643 | -1,653 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 7.2 | 9.5 | N/a | N/a |
| CAR | 24.3 | 14.9 | 10.3 | 8.3 |
| Equity-to-assets | 11.8 | 8.9 | 13.9 | 7.6 |
| Net loan-to-deposit | 196.8 | 159.9 | 370.7 | 392.9 |
| Cash-to-liabilit. | 12.8 | 11.8 | 6.4 | 4.8 |
| ROAA | -2.0 | -6.0 | 2.0 | -4.6 |
| ROAE | -16.4 | -56.8 | 13.5 | -37.2 |
| Net % margin | 5.9 | 5.7 | 5.5 | 4.0 |
| NII-to-op income | 73.2 | 76.1 | 52.0 | 56.5 |
| Cost-to-income | 57.8 | 70.2 | 46.6 | 62.5 |
| LLR | 15.8 | 24.9 | 10.2 | 20.1 |
| 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 11. Key financials and ratios derived from the bank's UAS financials**

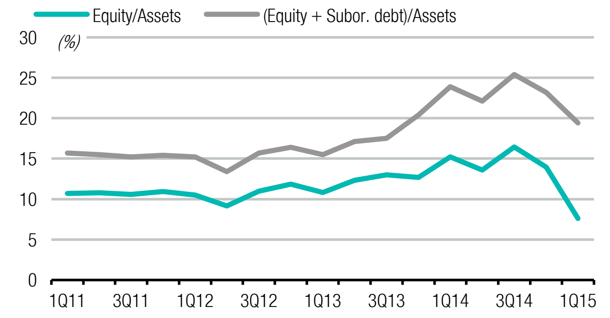
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 32,118 | 29,523 | 29,089 | 25,286 | 29,460 | 31,359 | 31,493 | 36,502 | 42,887 |
| Cash and cash equivalents | 4,156 | 2,504 | 2,751 | 3,195 | 1,817 | 2,750 | 1,971 | 2,011 | 1,915 |
| Gross loans | 27,295 | 25,355 | 24,738 | 22,923 | 27,483 | 28,787 | 28,664 | 32,602 | 44,678 |
| Gross business loans | 22,873 | 21,021 | 20,723 | 18,953 | 23,628 | 25,153 | 25,631 | 29,703 | 41,636 |
| Gross household loans | 4,421 | 4,334 | 4,015 | 3,970 | 3,855 | 3,634 | 3,033 | 2,899 | 3,042 |
| Loan loss reserves (LLR) | -5,173 | -4,312 | -4,123 | -4,234 | -3,095 | -4,289 | -3,628 | -3,316 | -8,994 |
| Deposits | 12,878 | 12,490 | 12,277 | 11,148 | 9,302 | 8,234 | 6,709 | 7,900 | 9,082 |
| Business deposits | 5,884 | 5,009 | 4,948 | 4,085 | 3,639 | 3,299 | 2,690 | 3,991 | 4,684 |
| Household deposits | 6,994 | 7,481 | 7,330 | 7,062 | 5,663 | 4,935 | 4,019 | 3,910 | 4,398 |
| Total equity | 3,481 | 3,641 | 3,779 | 3,207 | 4,481 | 4,258 | 5,174 | 5,088 | 3,258 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 368 | 567 | 450 | 386 | 354 | 412 | 411 | 312 | 56 |
| Net commission income | 89 | 100 | 131 | 148 | 135 | 130 | 136 | 113 | 236 |
| Operating income (before LLP) | 561 | 684 | 624 | 383 | 715 | 699 | 699 | 749 | -39 |
| Operating expenses | -277 | -295 | -263 | -297 | -260 | -490 | -281 | -303 | -243 |
| Loan loss provisions (LLP) | -205 | -228 | -221 | -625 | 801 | -1,293 | -698 | 82 | -338 |
| Net income | 79 | 160 | 139 | -572 | 1,255 | -229 | -281 | -103 | -1,041 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,771 | 1,837 | 1,800 | 1,771 | 1,758 | 1,603 | 1,564 | 1,490 | 1,191 |
| Net commission income | 545 | 487 | 457 | 468 | 514 | 543 | 549 | 514 | 615 |
| Operating income (before LLP) | 2,559 | 2,503 | 2,432 | 2,252 | 2,405 | 2,421 | 2,497 | 2,862 | 2,108 |
| Operating expenses | -1,531 | -1,530 | -1,403 | -1,133 | -1,116 | -1,311 | -1,329 | -1,335 | -1,317 |
| Loan loss provisions (LLP) | -574 | -157 | -393 | -1,280 | -274 | -1,339 | -1,816 | -1,109 | -2,248 |
| Net income | 445 | 808 | 636 | -194 | 982 | 593 | 174 | 643 | -1,653 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -9.3 | -22.7 | -15.7 | -26.1 | -8.3 | 6.2 | 8.3 | 44.4 | 45.6 |
| Gross loans | -17.2 | -18.3 | -18.4 | -21.1 | 0.7 | 13.5 | 15.9 | 42.2 | 62.6 |
| Deposits (by businesses) | 0.9 | -9.6 | -17.3 | -30.7 | -38.2 | -34.1 | -45.6 | -2.3 | 28.7 |
| Deposits (by households) | 29.3 | 33.7 | 33.5 | 13.5 | -19.0 | -34.0 | -45.2 | -44.6 | -22.3 |
| Deposits (total) | 14.6 | 12.2 | 7.0 | -8.0 | -27.8 | -34.1 | -45.3 | -29.1 | -2.4 |
| Total equity | -6.4 | 4.2 | -0.3 | -20.8 | 28.7 | 17.0 | 36.9 | 58.6 | -27.3 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 12.5 | 12.4 | 12.5 | 14.7 | 10.2 | 10.2 | 18.5 | 10.3 | 8.3 |
| Equity/assets | 10.8 | 12.3 | 13.0 | 12.7 | 15.2 | 13.6 | 16.4 | 13.9 | 7.6 |
| (Equity + sub-debt)/assets | 15.5 | 17.1 | 17.5 | 20.4 | 23.9 | 22.1 | 25.4 | 23.2 | 19.4 |
| Cash & cash equivalents/liabilities | 14.5 | 9.7 | 10.9 | 14.5 | 7.3 | 10.1 | 7.5 | 6.4 | 4.8 |
| Current liquidity (R5 by NBU) | 80.0 | 53.6 | 56.8 | 64.1 | 46.2 | 60.9 | 64.1 | 61.0 | 42.4 |
| Gross loans/deposits | 211.9 | 203.0 | 201.5 | 205.6 | 295.4 | 349.6 | 427.2 | 412.7 | 492.0 |
| Net loans/deposits | 171.8 | 168.5 | 167.9 | 167.6 | 262.2 | 297.5 | 373.1 | 370.7 | 392.9 |
| Cost-to-income ratio | 59.8 | 61.1 | 57.7 | 50.3 | 46.4 | 54.1 | 53.2 | 46.6 | 62.5 |
| Net interest margin | 6.3 | 7.0 | 7.3 | 7.7 | 7.5 | 6.7 | 6.3 | 5.5 | 4.0 |
| ROAA | 1.3 | 2.5 | 2.0 | -0.7 | 3.5 | 2.1 | 0.6 | 2.0 | -4.6 |
| ROAE | 12.0 | 21.6 | 17.0 | -5.5 | 26.0 | 15.1 | 4.1 | 13.5 | -37.2 |
| NII/operating income | 69.2 | 73.4 | 74.0 | 78.7 | 73.1 | 66.2 | 62.6 | 52.0 | 56.5 |
| Core income/operating expenses | 151.2 | 151.9 | 160.9 | 197.7 | 203.6 | 163.7 | 159.0 | 150.1 | 137.1 |

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.

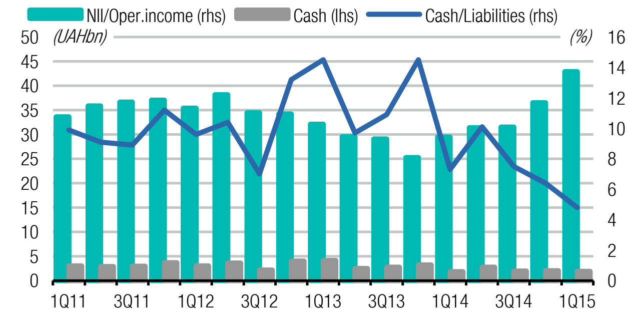
# VTB: Key credit metrics

### Chart 77. Capitalisation



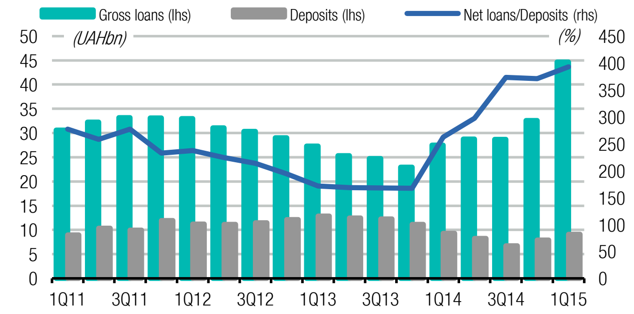

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 78. Liquidity



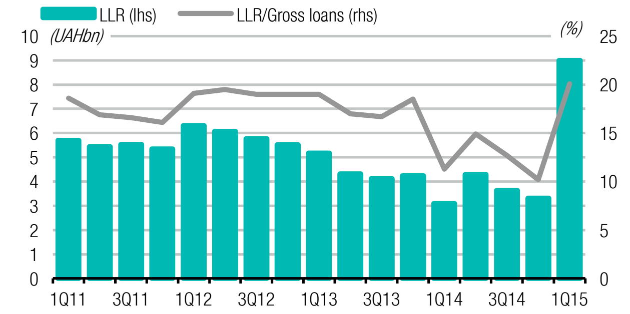

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 79. Loans and deposits



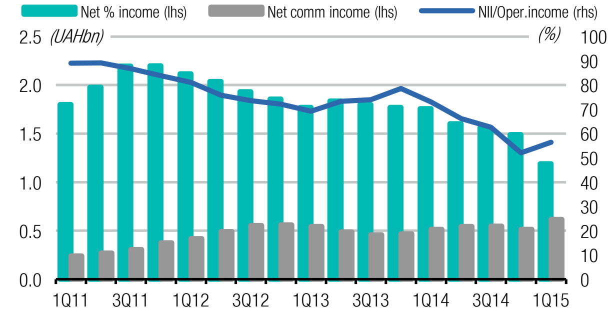

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 80. Loan loss reserves history



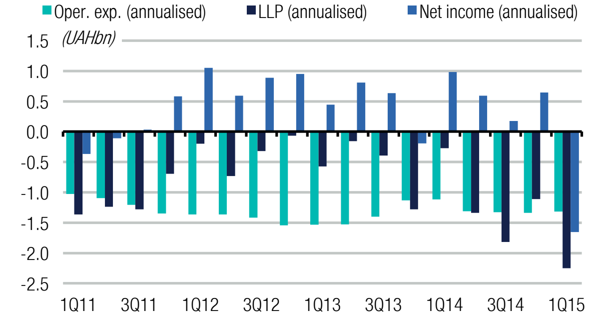

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 81. Income structure (annualised basis)



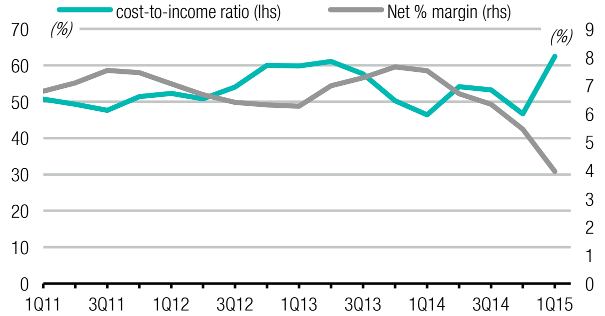

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 82. Expense and net income (annualised basis)



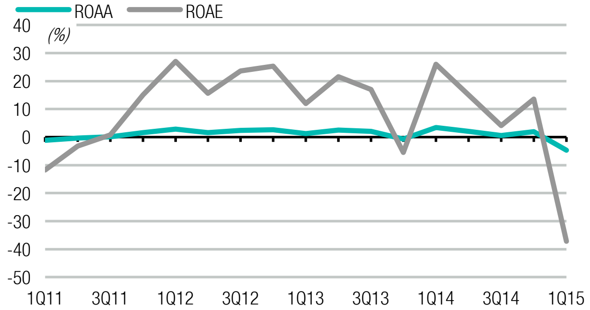

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 83. Financial performance ratios




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

### Chart 84. Financial performance ratios




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

Country
**Ukraine**

# OTP Bank

Sector
**Banks: Commercial banking**

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

Ticker(s) in Bloomberg
**N/A**

**OTP Bank was among the most efficient banks in Ukraine in terms of retaining depositors in 2014. But the large share of FX loans, including mortgages, and the short net FX position remain weaknesses, suggesting further losses in 2015.**

**Despite having made a capital injection, the OTP Group's total exposure to its Ukrainian subsidiary expressed in USD terms continues to decrease.**

**Capitalisation still not sufficient.** In response to the decline of the bank's regulatory capital to UAH2.6bn (regulatory CAR of 10.4%) in 4Q14, additional share capital of UAH0.8bn was raised in February 2015. Simultaneously, the bank repaid USD$150m due to the parent structure and CHF13m that was owed to the EBRD in 4Q14.

The substitution of FX debt with share capital will have a positive impact on the already troubled net FX position of the bank. However, we expect OTP to require an additional capital inflow in 2015 as its CAR ratio dropped below the required minimum.

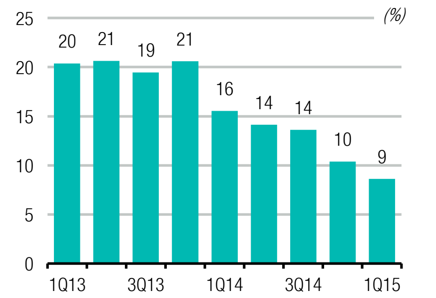
**UAH devaluation hits loan portfolio.** FX mortgage loans once again dominate the retail portfolio of OTP Bank owing to the revaluation effect and smaller volumes of consumer lending in 2014. The bank has not signed up to the memorandum on FX loan restructuring and conversion into UAH.

The LLR ratio decreased by 0.7ppt to 21.6% in 1Q15, while the share of bad credit in the overall loan portfolio rose by 2.5ppt to 21.4%. OTP Bank maintains a moderate level of bad debt coverage – 66.9% as of 1Q15.

**Strong vote of confidence from depositors.** UAH-denominated retail deposits rose by UAH825m or 38.4% QoQ in 2014 – the largest increase in absolute terms among Ukrainian banks. FX deposits declined by 26.2% YoY over the same period – in line with the market – while corporate deposits rose by 23.3% YoY. In the corporate segment, deposits in local currency and FX increased by 32.1% YoY and 1.9% YoY, respectively

But in 1Q15 this overall positive situation went into reverse when OTP Bank witnessed widespread panic among its depositors. UAH-denominated retail deposits contracted by 22.7% QoQ, while FX-denominated deposits shrank by 13.0% QoQ. This outflow can be explained in part by the bank's high level of liquidity, which allows it to repay customers in a timely manner.

**Regulatory capital adequacy ratio (UAS)**




Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q14 UAS | 1Q15 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 20,632 | 19,461 | 21,506 | 24,099 |
| Loans | 15,155 | 15,246 | 16,018 | 18,829 |
| Deposits | 9,054 | 9,577 | 14,003 | 16,606 |
| Equity | 3,862 | 4,179 | 1,375 | 1,450 |
| Net % income | 1,634 | 1,912 | 2,277 | 2,408 |
| Net com income | 449 | 616 | 336 | 358 |
| Operating inc. | 2,232 | 2,616 | 3,151 | 3,362 |
| PPI | 1,260 | 1,487 | 705 | 932 |
| LLP | -1,011 | -1,007 | -2,873 | -3,399 |
| Net income | 183 | 349 | -1,999 | -2,435 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 18.4 | 20.2 | N/a | N/a |
| CAR | 31.2 | 32.2 | 10.4 | 8.6 |
| Equity-to-assets | 18.7 | 21.5 | 6.4 | 6.0 |
| Net loan-to-deposit | 167.4 | 159.2 | 114.4 | 113.4 |
| Cash-to-liabilit. | 7.1 | 13.0 | 7.8 | 5.1 |
| ROAA | 0.8 | 1.7 | -9.3 | -11.0 |
| ROAE | 4.9 | 8.7 | -93.6 | -133.7 |
| Net % margin | 8.3 | 10.8 | 12.8 | 12.8 |
| NII-to-op income | 73.2 | 73.1 | 72.3 | 71.6 |
| Cost-to-income | 43.5 | 43.2 | 77.6 | 72.3 |
| LLR | 17.7 | 17.5 | 22.3 | 21.6 |
| 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,

# OTP Bank: Key quarterly UAS financials and ratios

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

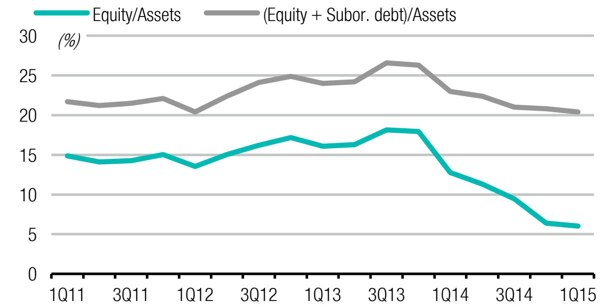
| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 19,983 | 19,920 | 18,556 | 18,722 | 21,174 | 21,142 | 21,902 | 21,506 | 24,099 |
| Cash and cash equivalents | 1,832 | 1,865 | 2,189 | 2,373 | 2,606 | 2,660 | 2,800 | 1,567 | 1,154 |
| Gross loans | 17,577 | 17,379 | 16,803 | 16,978 | 19,307 | 19,269 | 19,863 | 20,617 | 24,031 |
| Gross business loans | 10,979 | 10,676 | 9,549 | 9,469 | 11,049 | 11,073 | 11,687 | 12,222 | 14,277 |
| Gross household loans | 6,598 | 6,704 | 7,254 | 7,510 | 8,258 | 8,195 | 8,175 | 8,395 | 9,754 |
| Loan loss reserves (LLR) | -3,485 | -3,563 | -3,280 | -2,855 | -3,410 | -3,973 | -4,397 | -4,600 | -5,201 |
| Deposits | 9,181 | 9,185 | 9,233 | 9,537 | 10,371 | 11,463 | 12,415 | 14,003 | 16,606 |
| Business deposits | 3,486 | 3,504 | 3,699 | 4,127 | 4,389 | 4,558 | 5,201 | 6,279 | 8,164 |
| Household deposits | 5,695 | 5,682 | 5,533 | 5,411 | 5,982 | 6,905 | 7,213 | 7,724 | 8,442 |
| Total equity | 3,211 | 3,241 | 3,365 | 3,359 | 2,706 | 2,391 | 2,071 | 1,375 | 1,450 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 470 | 449 | 477 | 517 | 610 | 603 | 553 | 510 | 742 |
| Net commission income | 75 | 87 | 111 | 94 | 70 | 74 | 92 | 100 | 92 |
| Operating income (before LLP) | 609 | 601 | 660 | 762 | 820 | 812 | 745 | 773 | 1,031 |
| Operating expenses | -308 | -366 | -341 | -452 | -325 | -445 | -541 | -1,135 | -309 |
| Loan loss provisions (LLP) | -295 | -229 | -234 | -201 | -1,311 | -738 | -560 | -264 | -1,837 |
| Net income | 6 | 6 | 85 | 21 | -678 | -317 | -316 | -688 | -1,115 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,778 | 2,253 | 1,918 | 1,912 | 2,052 | 2,206 | 2,283 | 2,277 | 2,408 |
| Net commission income | 333 | 415 | 364 | 367 | 363 | 349 | 330 | 336 | 358 |
| Operating income (before LLP) | 2,341 | 2,957 | 2,550 | 2,632 | 2,844 | 3,055 | 3,140 | 3,151 | 3,362 |
| Operating expenses | -1,313 | -1,648 | -1,405 | -1,467 | -1,484 | -1,563 | -1,763 | -2,446 | -2,430 |
| Loan loss provisions (LLP) | -755 | -998 | -782 | -959 | -1,974 | -2,484 | -2,809 | -2,873 | -3,399 |
| Net income | 261 | 312 | 354 | 117 | -567 | -890 | -1,290 | -1,999 | -2,435 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -14.6 | -6.6 | -7.0 | -7.8 | 6.0 | 6.1 | 18.0 | 14.9 | 13.8 |
| Gross loans | -11.0 | -7.1 | -4.5 | -5.7 | 9.8 | 10.9 | 18.2 | 21.4 | 24.5 |
| Deposits (by businesses) | -27.6 | -6.1 | 9.9 | 20.5 | 25.9 | 30.1 | 40.6 | 52.1 | 86.0 |
| Deposits (by households) | 13.6 | 3.7 | 1.6 | -2.3 | 5.0 | 21.5 | 30.4 | 42.8 | 41.1 |
| Deposits (total) | -6.6 | -0.3 | 4.8 | 6.4 | 13.0 | 24.8 | 34.5 | 46.8 | 60.1 |
| Total equity | 1.4 | 1.0 | 4.0 | -3.7 | -15.7 | -26.2 | -38.4 | -59.1 | -46.4 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 20.4 | 20.6 | 19.5 | 20.6 | 15.6 | 14.1 | 13.6 | 10.4 | 8.6 |
| Equity/assets | 16.1 | 16.3 | 18.1 | 17.9 | 12.8 | 11.3 | 9.5 | 6.4 | 6.0 |
| (Equity + sub-debt)/assets | 24.0 | 24.2 | 26.6 | 26.3 | 23.0 | 22.4 | 21.0 | 20.8 | 20.4 |
| Cash & cash equivalents/liabilities | 10.9 | 11.2 | 14.4 | 15.4 | 14.1 | 14.2 | 14.1 | 7.8 | 5.1 |
| Current liquidity (R5 by NBU) | 66.0 | 73.3 | 66.7 | 64.0 | 82.8 | 86.3 | 93.9 | 63.4 | 59.8 |
| Gross loans/deposits | 191.5 | 189.2 | 182.0 | 178.0 | 186.2 | 168.1 | 160.0 | 147.2 | 144.7 |
| Net loans/deposits | 153.5 | 150.4 | 146.5 | 148.1 | 153.3 | 133.4 | 124.6 | 114.4 | 113.4 |
| Cost-to-income ratio | 56.1 | 55.7 | 55.1 | 55.7 | 52.2 | 51.2 | 56.1 | 77.6 | 72.3 |
| Net interest margin | 10.5 | 13.5 | 11.7 | 11.9 | 12.7 | 13.5 | 13.4 | 12.8 | 12.8 |
| ROAA | 1.3 | 1.6 | 1.8 | 0.6 | -2.9 | -4.5 | -6.2 | -9.3 | -11.0 |
| ROAE | 7.9 | 9.5 | 10.7 | 3.6 | -17.9 | -30.1 | -49.0 | -93.6 | -133.7 |
| NII/operating income | 76.0 | 76.2 | 75.2 | 72.6 | 72.2 | 72.2 | 72.7 | 72.3 | 71.6 |
| Core income/operating expenses | 160.7 | 161.9 | 162.5 | 155.3 | 162.7 | 163.5 | 148.2 | 106.8 | 113.9 |

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.

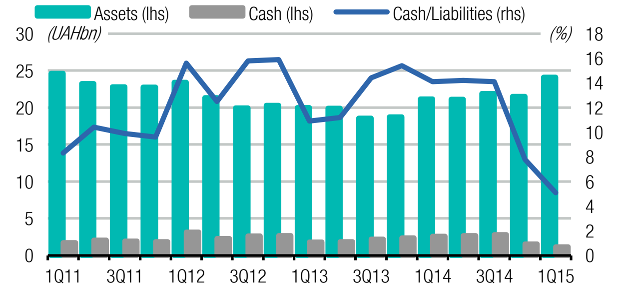
# OTP Bank: Key credit metrics

### Chart 85. Capitalisation



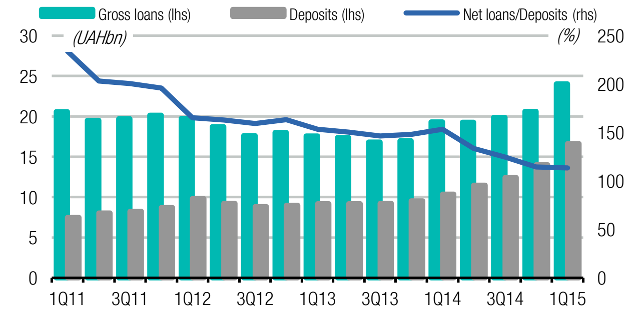

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 86. Liquidity



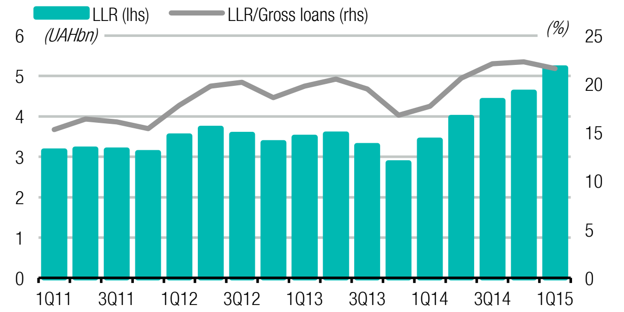

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 87. Loans and deposits



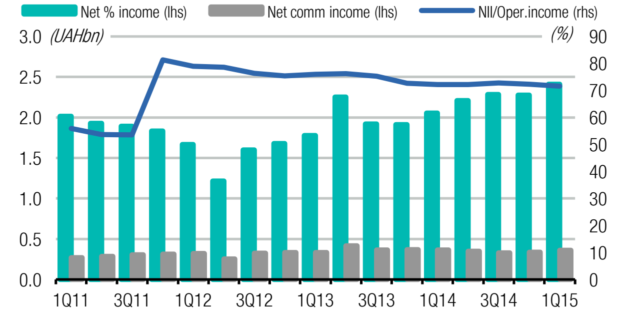

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 88. Loan loss reserves history



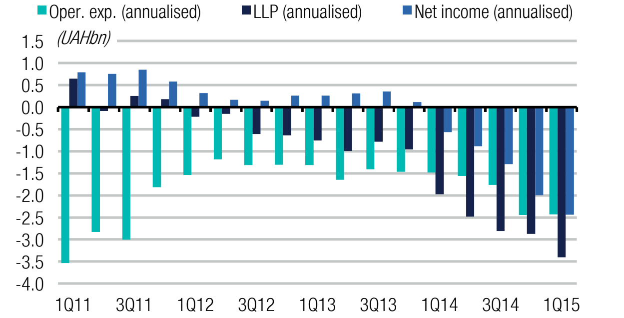

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 89. Income structure (annualised basis)



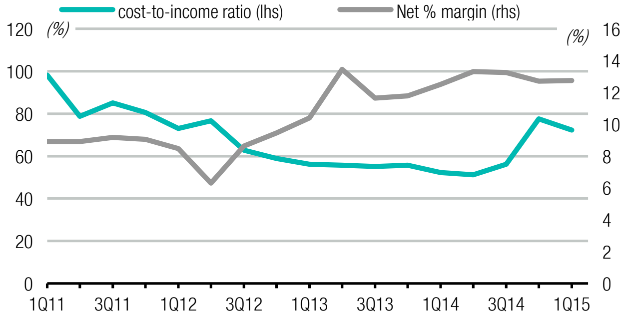

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 90. Expense and net income (annualised basis)



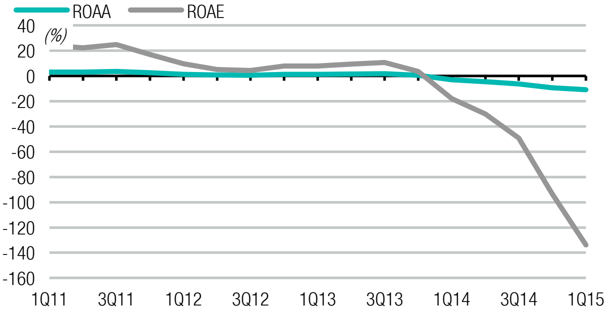

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 91. Financial performance ratios




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

### Chart 92. 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.

## EQUITY RATING DEFINITIONS

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

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

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

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

## DEBT RATING DEFINITIONS

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

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

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

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