

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

EXIMUK

In its 1Q15 IFRS financial results, First Ukrainian International Bank (FUIB) claimed that its loan portfolio suffered little despite the extreme USD/UAH rate fluctuations. Actively engaged in loan restructurings with its corporate clients, the bank has avoided official write-offs of nonperforming loans.

Operations in occupied territories. By FUIB estimates, its loan exposure in the Donbass region constitutes only 17.6% of the 1Q15 total loan portfolio. Only 5.2% of the deposits remain in the occupied areas as the bank allowed clients to transfer deposits to branches in militant-free areas. The bank has used the same approach to its Crimean depositors that have been fully accounted for while the loan portfolio has been sold.

Loan portfolio quality declines slightly. The share of NPLs has increased from 18.2% in 4Q14 to 20.7% in 1Q15. The quality of the retail portfolio is inferior to that of the corporate portfolio due to the shorter maturities of retail loans and severely limited lending activity in 2014-2015. According to our estimates, 25.3% of retail loans and 10.2% of corporate loans were delinquent as of April 2015.

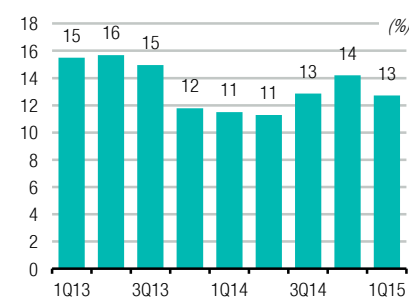
NPLs could have been much higher had FUIB not offered grace periods and other special terms to some of its corporate clients challenged by recent developments. According to the bank, nearly 20% of its portfolio is performing under restructuring terms.

Related parties' share of the total loan portfolio has declined from 5.1% in 4Q14 to 3.2% in 1Q15. The bank breached the official NBU limit on insider lending by 3.7ppt of the regulatory capital (or by UAH0.2bn). We do not expect the NBU to take action against the bank as the breach was the result of the extreme currency devaluation.

The bank will undergo the NBU's detailed related party transaction test in 2Q15-3Q15. Unlike other banks with local capital, FUIB, in our opinion, has lower risks due to its stronger market orientation.

Deposits show signs of growth. FUIB experienced a net inflow of UAH retail deposits in March-May as a result of aggressive marketing and offering above-average interest rates. FX retail deposits have continued to decline in line with the market trend, but the magnitude of FX withdrawals has retreated.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2014	1Q15	4Q14	1Q15
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	37,431	40,946	35,439	40,163
Loans	28,356	31,173	25,834	30,143
Deposits	26,273	28,942	24,516	27,628
Equity	5,532	5,269	4,777	4,428
Net % income	2,345	564	2,338	2,401
Net com income	834	240	822	1,640
Operating inc.	1,477	-42	3,799	4,626
PPI	N/a	N/a	2,578	3,257
LLP	-2,863	-1,588	-2,719	-3,967
Net income	-136	-349	54	-408
Ratios (%)				
Tier 1 ratio	14	11	N/a	N/a
CAR	17.4	13.9	14.2	12.7
Equity-to-assets	14.8	12.9	13.5	11.0
Net loan-to-deposit	107.9	107.7	105.4	109.1
Cash-to-liability	8.0	8.5	15.1	14.1
ROAA	-0.4	-3.6	0.1	-1.1
ROAE	-2.4	-26.4	1.1	-8.7
Net % margin	7.3	6.7	8.2	8.0
NII-to-op income	N/a	N/a	61.6	51.9
Cost-to-income	37.9	24.1	32.1	29.6
LLR	15.2	20.2	13.2	16.9
NPLs	18.2	20.7	N/a	N/a
NPL coverage	83.7	97.7	N/a	N/a

Notes: UAS 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 has reliable support from insiders, including SCM Group and other related parties. While their share of total 1Q15 deposits has fallen to 24.5% from 27.2% in 4Q14, the majority of these funds constitute working capital of entities that belong to SCM Group, according to the bank's management.

Solid interest margin. Although a declining portfolio of cheaper FX deposits and higher rates on UAH deposits has pushed the cost of funding from 8.4% in 4Q14 to 9.9% in 1Q15, the bank still has a positive and healthy net interest margin (NIM) of 6.7% in 1Q15 (down 0.6ppt from 4Q14). A relatively low share of RP lending and a significant consumer loan portfolio allow FUIB to keep net interest income at UAH564m in 1Q15, up 12.8% QoQ from 4Q14.

Low operating expenses. Salaries constitute roughly 50% of the total operating expenses. Despite the 60.9% YoY increase in CPI in April 2015, the bank has not experienced proportionally higher operating expenses due to the time lag effect and staff reductions. The bank claims to have increased salaries on average by 10% in 1Q15.

Capitalization. FUIB passed the 2014 stress test and was not subjected to a regulator mandated capital injection. The bank currently has no plans for immediate recapitalization.

Disclosures

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

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

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

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

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



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