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Ukraine	**Debt markets**	**Banks**	**Mykhaylo Demkiv**

Banking Sector Insight

Overcoming the challenges

25 AUGUST 2015

READ FIRST THE DISCLOSURES SECTION FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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Executive summary

The Ukrainian banking sector remains undercapitalized amid the ongoing financial market instability. While there is still a very challenging period ahead, we believe that the Ukrainian banking sector is becoming more attractive as banks are ready to sell loan portfolios or their Ukrainian subsidiaries.

The bottom of crisis has been reached. The Ukrainian banking sector reached its lowest point in 1Q15 but has shown the first, albeit weak, signs of recovery in subsequent months. Most large banks whose financials were shaky have not survived until summer 2015 and have been put under administration. While we expect several other big or medium-sized banks to fail to meet recapitalisation requirements after the next stress test, they are not important enough to cause the collapse of a banking sector that has already survived the fall of Delta, Nadra and VAB.

The recognized level of recognised bad debt has yet to be raised to the real level following the asset quality review. But it is now clear [or something along these lines] that the current real level of NPLs (50-55%) is close to its peak. We expect a modest decline in the real quality of the loan portfolio as a result of the potential further currency devaluation and the slow rebound of the economy.

New opportunities for exiting the market. We have lowered our estimate of the amount of funding required by the Ukrainian banking sector – from UAH170bn (our estimate in 4Q14) to UAH120bn. This is because the banks have either implemented their 2014 recapitalization plans or gone bankrupt. Another stress test later this year will allow an assessment of the real value of banks' assets and will force them to prepare their credible recapitalisation plans. In our opinion, most of the major banks have access to sources of funding that will meet their needs.

However, the high official level of NPLs – 24.3% as of 2Q15 – together with the lack of new lending opportunities and the increased cost of funding will compel some of the leading banks to find a strategy for exiting from the Ukrainian market. The recent announcement by the Alfa Group that it intends to acquire Ukrsotsbank from Italy's Unicredit Group could lead to the first large merger deal. At the same time, we believe that the non-related party corporate-loan portfolios of large banks offer a good acquisition and restructuring opportunity for both new and existing players. New legislation aimed at improving the protection of creditors' rights and their ability to claim collateral is expected to pass in 4Q15 and will spearhead the M&A and loan purchases. Meanwhile, discounted loans will not only help towards improving bad debt collection but will also create an exit opportunity for those players that decide to leave.

Despite excessive UAH liquidity, banks are unlikely to increase lending anytime soon

Excessive UAH liquidity. NBU certificates of deposits outstanding reached UAH40-50bn in July 2015. However, because of the prevailing risks and the cautious attitude of the banks, we do not expect an immediate revival of lending activity. The National Bank of Ukraine's (NBU) 3Q15 report indicates that banks are expecting both an increase in the interest rates charged and stricter requirements for borrowers. The regulator, for its part, has announced that it has started selling off government bonds from its balance sheet in order to accommodate the spare liquidity.

FX-denominated deposits still declining. Although the hryvnia strengthened in 2Q15, FX-denominated deposits continued to decline during the same period, albeit at a slower pace – down 7.0% QoQ compared with -11.6% QoQ in 1Q15. Currently, the NBU is imposing capital controls and FX withdrawal limits; and these are discouraging both household and corporate clients from putting new FX funds into the banks.

The regulator has announced its plans to gradually lift those controls by 2Q16. Given the usual three-month restrictions revision period, we would expect an initial relaxation – including an increase in the maximum amount of withdrawals – in early September, followed by further loosening in December and March. And unless there is major escalation of the armed conflict in eastern Ukraine or a significant deterioration of economic conditions in the country as a whole, we would expect most of the restrictions to have been relaxed, or even removed, by June 2016.

Short net FX position has declined, reducing the risk of further devaluation

FX risks decrease. In our opinion, the net FX position of the banking sector has decreased from US$5.0bn in 4Q13 to just US$2.0bn in 2Q15. The key drivers of this decrease were: 1) the conversion of FX debt into equity by most of the banks that have foreign capital; 2) the recapitalisation of state banks with FX-indexed bonds; 3) changes to regulatory norms that have allowed banks to close the FX gap.

As regards foreign banking groups, their consolidated risk from a potential FX devaluation has not decreased as a result of the above-mentioned drivers. However, their Ukrainian subsidiaries are now less at risk and have thus become a more attractive target for takeover.

The continued rise of Privatbank. Despite the long-term decline of the Ukrainian banking sector as a whole, the leading bank has succeeded in boosting its market share. As of 2Q15, Privatbank accounted for 28.9% of total retail deposits (compared with 24.1% in 4Q13). We believe its success can be attributed to its already strong market position as well as the exceptionally high interest rates it offers.

However, the future prospects of the bank are not considered that bright owing to what is thought to be its excessive related-party exposure. Like many other large banks, Privatbank is expected to draw up a credible plan for reducing the extent of insider lending over the next three years.

Just as in any other country, the largest banks (Privatbank, Ukreximabank and Oschadbank) pose the inevitable “too-big-to fail” systemic risk for the banking sector. While government-owned banks are subject to close scrutiny by the authorities, private banks that do not have the backing of a major European banking group will come under scrupulous control.

Overview of the banking sector

The first signs of stabilization and recovery are evident in Ukraine's banking sector: the outflow of deposits has been reversed, while capital injections total UAH45.1bn during the last 12 months. The sector is undergoing consolidation; and Privatbank, for its part, is gaining an even larger market share.

The increase in NPLs is the result of the armed conflict in Donbas and the temporary inability of responsible customers to service their debts

Ukrainian banks become somewhat more attractive. 1Q15 was a terrible quarter for the Ukrainian banking sector: record high losses were recorded and the outflow of deposits was huge. But now Ukraine's banks are becoming more attractive for potential investors, as potential takeover targets (in the case of banks whose level of capitalisation is close to adequate) or on account of parts of their loan portfolios. According to official data, the share of NPLs in the overall loan portfolio reached 24.3% in 2Q15, while another 25-30% of that portfolio is performing only thanks to extensive restructuring and the granting of grace periods. Local banks are facing a higher cost of funding combined with the limited ability to receive cash flow from interest earned. According to our estimate, the amount of accrued but unpaid interest income has reached UAH100bn or nearly 9.2% of the total gross loan outstanding. That ratio grew by 1.8ppt in 1H15 and will continue to grow in the medium term.

We expect the imminent failure of several more insolvent banks which, combined, are far too small to destabilise the banking sector

The main reasons for the increase in NPLs are obvious: the decline of economic activity and the destruction caused by the armed conflict in Donbas. In addition, legal entities have suffered as a result of the failure of 50-plus banks. In our view, in 4Q13 more than 22.2% of total corporate deposits were parked in soon-to-be-insolvent banks. Moreover, as the cleaning up of the banking sector continues, banks such as Finance and Credit are finding themselves unable to meet the demands of their depositors in a timely manner. Yet, in our opinion, the soon-to-be-insolvent banks account for a very small share of the overall banking system and thus cannot be viewed as posing a threat to its stability.

Currently, we see the opportunity for acquiring the loan portfolios of troubled banks with foreign capital – especially Russian – once they have formed adequate reserves against loan portfolio losses. We expect that to happen between 3Q15 and 1Q16, after the NBU and independent auditors have undertaken a detailed assessment of the banks' balance sheets – a procedure that is stipulated and closely monitored by the IMF. The adoption of the various bills aimed at boosting creditors' rights, which are expected to pass in the parliament this autumn, will be crucial.

Recapitalisation needs remain significant... In our opinion, the Ukrainian banking sector still requires up to UAH120bn in additional capital. This is lower than our previous estimate of UAH170bn[1] owing to the factors discussed below. We have also changed our earlier key assumptions on the FX exchange rate: we have lowered FX rate to the level forecasted[2] for 4Q16 and excluded those banks that became insolvent during the period in between our earlier and current estimates.

...while most large banks have implemented 2014 recapitalisation plans. Out of the18 large banks that required additional capital according to the 2014 stress test,

[1] See "ICU Banking Sector Insight: Guided recovery", published in May 2015

[2] For more information, see "ICU Quarterly Report: Since the storm last February", published in June 2015.

12 have met all their obligations, while five – namely, Delta, Nadra, VAB, Financial Initiative and Imex – have failed to do so and have been put into administration. The last such bank – Privatbank – is expected to finish restructuring subordinated Eurobonds totalling US$150m by 30 September or raise the necessary Tier 2 capital from shareholders.

Debt-to-equity conversion has reduced the FX risk of banks with foreign capital and increased their interest margins

According to our estimates, Ukraine's solvent banks have increased their share capital by UAH45.1bn during the last 12 months. Of this amount, UAH30.4 has been raised by foreign banks through debt-to-equity conversion. While such operations have not resulted in any significant net cash inflows, they have had a positive impact on banks with foreign capital since the latter now enjoy lower interest expenses and significantly reduced FX risks having converted foreign-currency obligations into UAH-denominated equity.

In addition, the UAH value of subordinated debt that is part of Tier 2 regulatory capital increased by UAH41bn during the period January 2014 – June 2015 as a result of FX revaluation.

Unreported impairment losses. Despite the record-high losses incurred in 1Q15 – the losses of the Ukrainian banking system as a whole (that is, including insolvent banks) amounted to UAH80.9bn in that quarter – not all of the banks has reported sufficient loan loss reserves (LLR) owing to capitalisation constraints. The most obvious example is VTB Bank, which, according to the 2014 IFRS report (published before the massive devaluation of the hryvnia), had negative equity totalling UAH13.4bn. But according to local accounting standards, on which the NBU bases its supervision, the bank is solvent with equity totalling UAH2.9bn.

The upcoming assessment of loan portfolios is likely to reveal extensive related-party exposure, not least in the case of Privatbank

Excessive lending concentration. The current low level of capitalisation is partly the result of the methodology used. The NBU punishes banks that violate the lending concentration maximum (N7 ratio) by deducting the amount of excessive lending from the bank's regulatory capital. According to our estimate, the total amount of capital that has been deducted under this regulation is at least UAH19.1bn. Doing away with this regulation would immediately boost average capitalisation by 1.6ppt. The largest capital reductions due to excessive lending concentration can be found at Sberbank, Prominvestbank, VTB Bank, Alfa Bank and Privatbank.

Currently, banks are not being punished further for violation of the N7 ratio because in the case of most banks, non-compliance is due to the FX loan revaluation effect rather than deliberate fraud. However, scrupulous assessment of the loan portfolios of the 20 largest banks will/would likely yield significant related-party exposure. Banks with local capital such as Privatbank and Finance and Credit are among those at risk.

Liquidity is improving

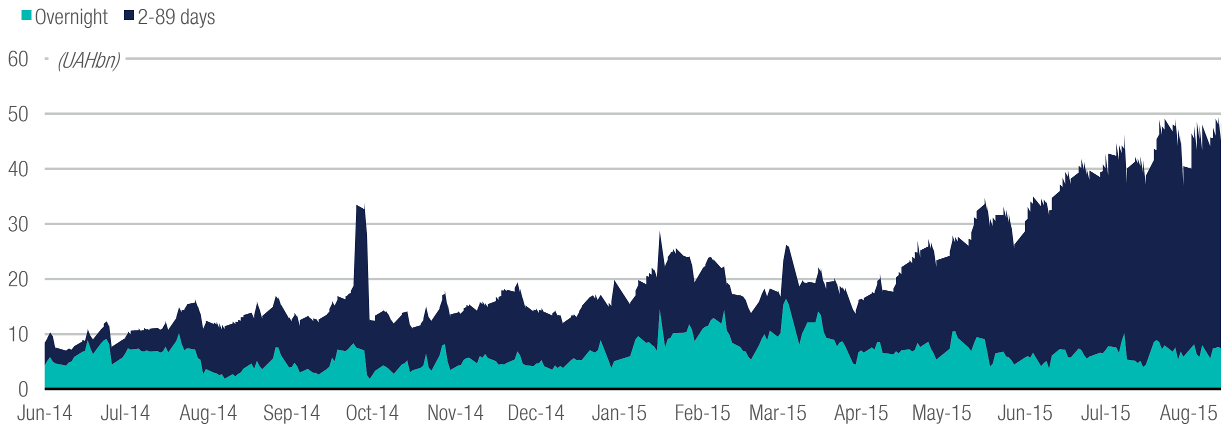
Despite excessive UAH liquidity, the banks are unlikely to resume large-scale lending in 2015

Hryvnia flow into the banks. There were clear signs of improving UAH liquidity in 2Q15. The banks accumulated NBU certificates totalling UAH40-50bn on their balance sheets (see Chart 1. NBU certificates of deposits outstandingChart 1), while the NBU issued new loans to just a handful of banks and in July was granting only overnight loan facilities. Also in 2Q15, UAH-denominated retail and corporate deposits increased by 2.2% QoQ or UAH3.8bn and 4.4% QoQ or UAH7.7bn, respectively.

In our opinion, these developments suggest that Ukraine's banks are enjoying solid local-currency liquidity. Indeed, with just a few exceptions – such as Finance and Credit – all the major banks now have sufficient UAH liquidity to meet the demands of their creditors. However, we do not expect an immediate revival of lending activity owing to the prevailing risks and the cautious attitude among the banks. NBU's 3Q15 report indicates that the banks are expecting both an increase in the interest rates charged and stricter requirements for borrowers.

Meanwhile, the regulator has announced it will start selling off government bonds from its balance sheet to accommodate the spare liquidity. As of 2Q15, the total amount of government bonds held by the NBU was UAH365bn.

Chart 1. NBU certificates of deposits outstanding

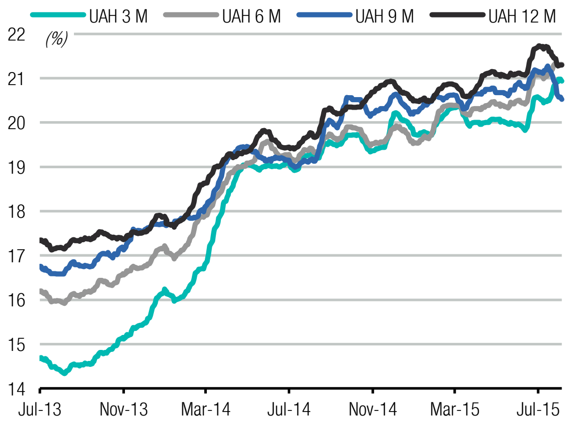


Sources: NBU

However, FX liquidity continues to be a problem for banks that do not have the support of major foreign banking groups. This is because FX-denominated deposits are continuing to decline, albeit at a slower pace. In 2Q15 FX-denominated retail deposits fell by 8.5% QoQ or US$1.0bn, net of the revaluation effect, while FX-denominated corporate deposits fell by 4.6% QoQ or UAH0.3bn.

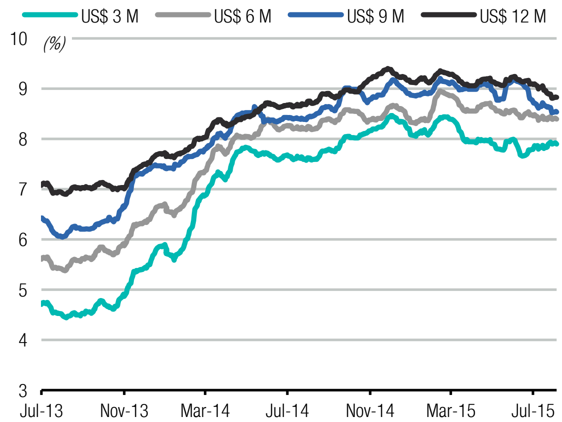
High interest rates prevail. According to official data, interest rates have stabilised at just over 20% for UAH-denominated retail deposits and 8% for their FX counterparts. However, these are the nominal rather than effective interest rates and thus do not represent the real cost of deposit funding for the banks. In order to boost deposits, some banks have started reimbursing customers for the taxes that are withheld when their deposits mature. Thus, such banks are not only paying depositors the full nominal interest rate but are also covering the cost of taxes levied. We estimate that the real effective interest rate on such deposits is around 28-30% for UAH-denominated retail deposits and 12-13% for USD-denominated ones.

Chart 2. Average interest rates on UAH household deposits



Source: NBU, ICU.

Chart 3. Average interest rates on USD household deposits



Source: NBU, ICU

Given that inflation is expected to reach 52.7%[3] in 2015 and in view of the overall low confidence in Ukraine's banking sector, we do not except interest rates to decrease more than 2ppt for UAH-denominated retail deposits and 0.5ppt for FX-denominated ones.

Changes in the rankings by deposits share

Safer banks gain market share. The period 2012-13 was the one that witnessed what we called the exodus of the European banks, which took place through sales and deleveraging. Banks such as Raiffeisen Bank Aval, Ukrsibbank and CreditAgricole Bank all significantly lowered their interest rates owing to their plans to reduce lending. In our opinion, Ukrainian deposit holders are very interest rate-sensitive as well as risk-friendly. When the leading banks lowered their interest rates, many retail deposits were shifted to banks that became insolvent in subsequent years. Nadra, Delta Bank and VAB were all among those banks offering their clients top rates, which ensured the rapid growth of deposits held by them.

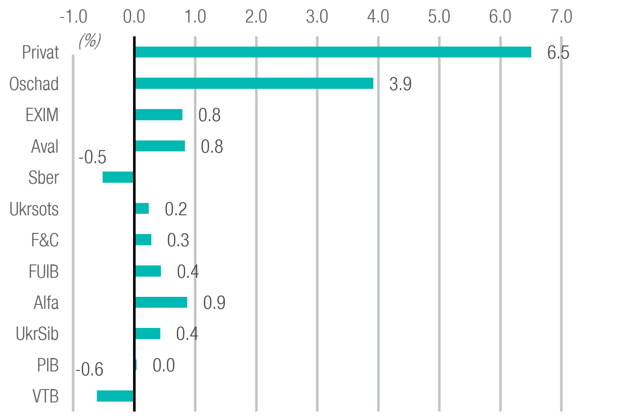
The banks that eventually had to declare bankruptcy applied risky models of excessive lending to related parties; and their retail deposit-fuelled growth has been responsible for making the Ukrainian banking sector more vulnerable: in the end, their aggressive advertising of high-interest rates proved too tempting for Ukrainian customers to resist.

Currently, we are observing the reversal of that process as insured depositors of banks that have failed are moving their funds elsewhere. State-owned banks and Privatbank are the main winners of this trend, as they perform disbursement of those funds, which, in our opinion, is positive since it will increase the financial stability of the banking system. However, the rapid rise of Privatbank poses additional risks, which we discuss in detail on p.10 below.

Corporate deposits go after Western banks. Many business clients have shifted their deposits to European and state banks, which are considered safer. During the period January 2014 to June 2015, such financial institutions increased their share of corporate deposits by 9.7%, net of the FX revaluation effect.

[3] For more information, see "ICU Quarterly Report: Since the storm February", published in June 2015.

Chart 4. UAH retail depo market share change 4Q13-2Q15

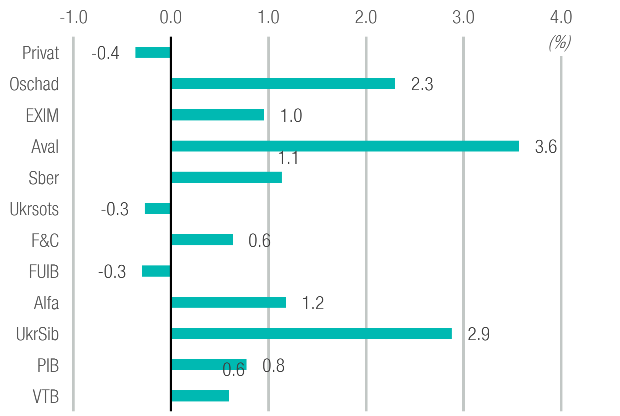


Source: NBU, ICU.

Chart 5. FX retail depo market share change 4Q13-2Q15

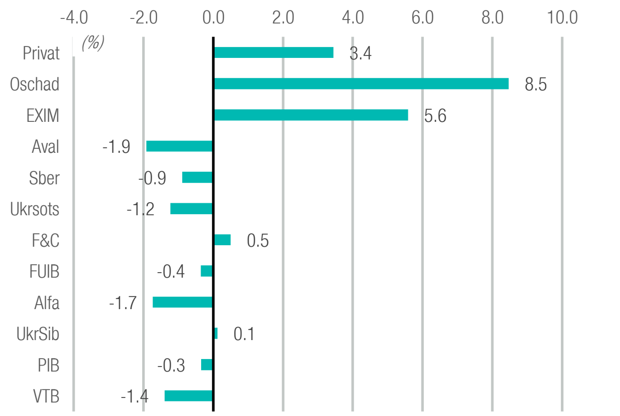
Source: NBU, ICU

Chart 6. UAH corporate depo market share change 4Q13-2Q15



Source: NBU, ICU.

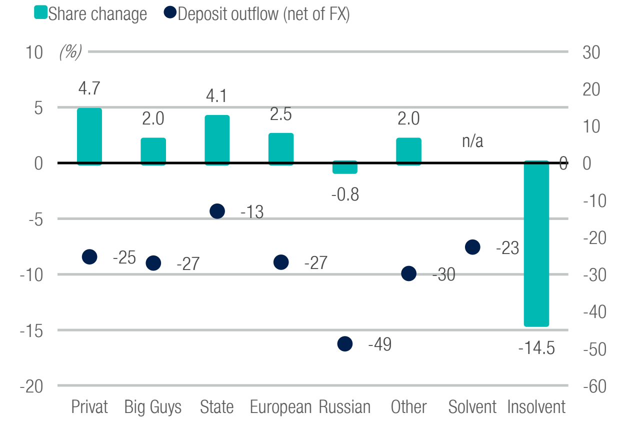
Chart 7. FX corporate depo market share change 4Q13-2Q15



Source: NBU, ICU

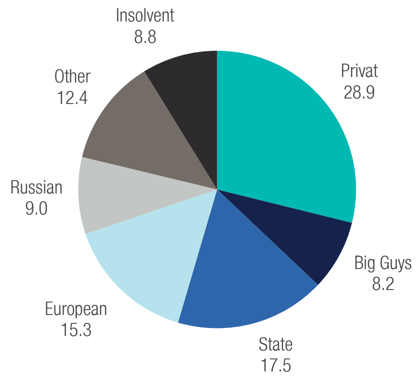
We understand that the specificity of cooperation with the banks is different for business and retail clients. However, we believe that, because of the insurance provided by the Deposit Guarantee Fund, retail customers are more likely than their corporate counterparts to choose a riskier bank offering high interest rates. While such a protection scheme has been in place for more than decade, the failure of more than 50 banks during the period from January 2014 to June 2015 has, in our opinion, redefined the behaviour of economic agents.

Chart 8. Retail depo market share change 4Q13-2Q15



Source: NBU, ICU.

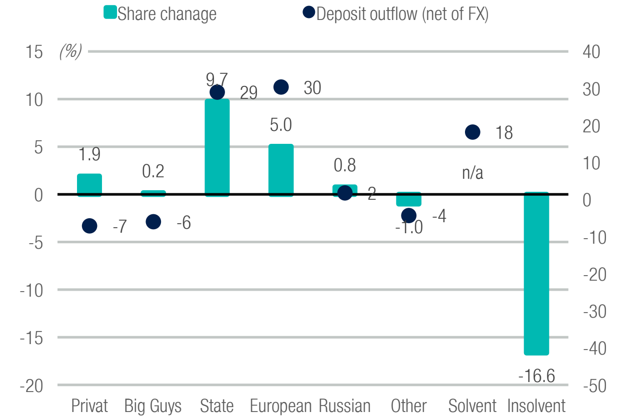
Chart 9. Breakdown of retail deposits 2Q15



Source: NBU, ICU

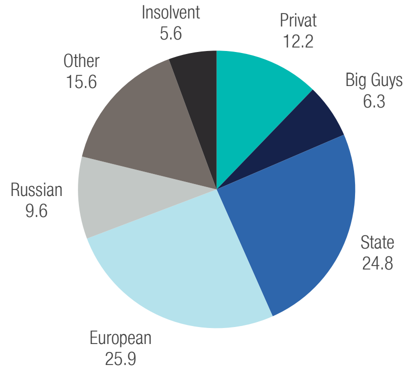
According to our estimates, the soon-to-be-insolvent banks accounted for 22.2% or UAH58.0bn of total corporate deposits as of 4Q13. Having lost most of those funds, corporate customers were no longer able to repay many existing debts

Chart 10. Corporate depo market share change 4Q13-2Q15



Source: NBU, ICU.

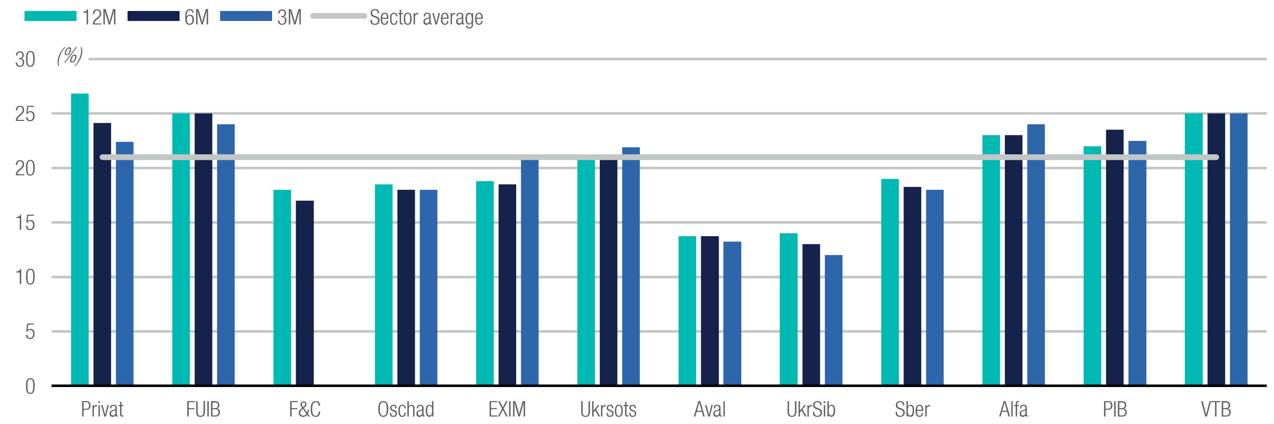
Chart 11. Breakdown of corporate deposits 2Q15



Source: NBU, ICU

The rapid rise of Privatbank. Privatbank has seen its share of the retail deposits market increase from 24.2% in 4Q13 to 28.9% in 2Q15. However, it was unable to avert a significant outflow of retail deposits during the period from January 2014 to June 2015, when the total declined by 25.3%, net of the FX effect, compared with the sector average of 39.0%. Privatbank also outperformed its peers in 2Q15 in terms of the growth of retail deposits (5.9% QoQ vs -3.3% QoQ), especially those denominated in UAH (13.6% QoQ vs 2.2% QoQ).

Chart 12. 2Q15 interest rates on retail UAH deposits



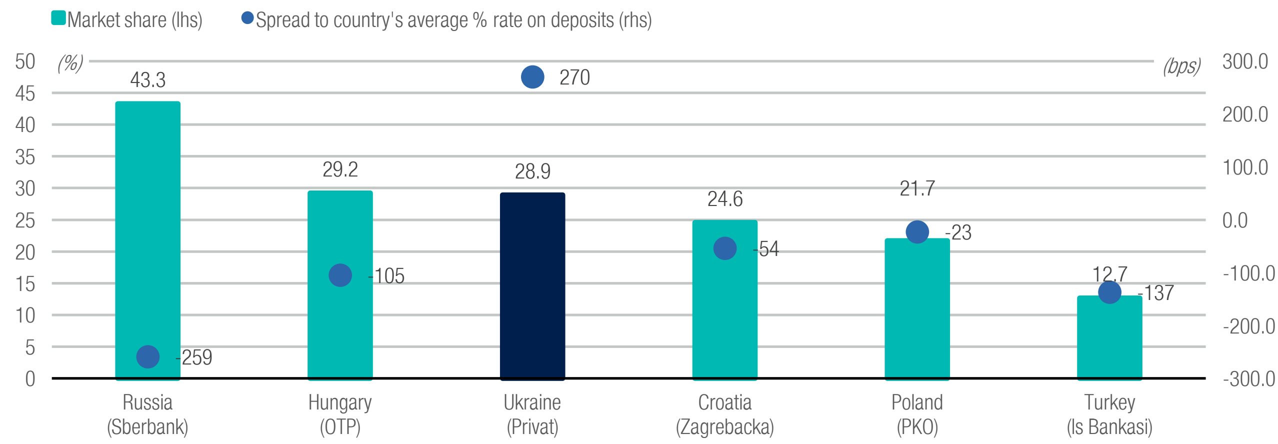
Sources: Banks' data

In our opinion, several factors are behind Privatbank's outstanding performance. First, it has deep market penetration and brand recognition – or, to be more precise, it boasts the second-largest branch network after state-owned Oschadbank, accounting for 22.4% of the sector total. Second, and possibly even more important, it offers higher-than-average interest rates can in fact be even more important. Indeed, as we noted above, Ukrainian depositors are predisposed towards high rates rather than being risk-averse.

Privatbank's current market share is not unusual for the region, whose leading banks have between one-fifth and one-third of all deposits – with the exception of Russia's Sberbank, which has inheritably huge market position and has the advantage of being an agent of the state. We have analysed the banks' average cost of retail deposits in local currencies and compared it with the sector average of the relevant country (see Chart 12). In most cases, those banks offer lower interest rates and are considered a conservative choice. For its part, Privatbank usually offers higher-than-average interest rates.

Judging from its current marketing promotions, Privatbank's real cost of UAH-denominated deposits could be no less than 500-600 bps higher than the market average. In our opinion, this indicates a clear misbalance in the Ukrainian banking sector and throws the sustainability of the country's largest bank into question.

Chart 13. Largest bank's market share of retail deposit versus in local currency vs their relative average cost



Sources: ICU estimations

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**
Assets	240,009	144,551	148,148	56,698	45,367	52,414	52,634	34,184	40,282	39,221
Net loans	179,564	59,251	70,433	41,786	30,149	27,185	46,312	26,557	26,914	30,219
Deposits	159,642	69,944	69,533	16,998	22,297	34,193	18,781	23,652	20,946	8,663
Total equity	25,223	11,901	19,075	6,329	8,586	3,953	2,106	3,888	2,247	2,929
Quarterly P&L (UAHm)										
Net interest income	1,813	1,668	1,921	606	225	1,439	1,129	600	334	(9)
Net commission income	929	231	370	117	166	411	82	182	170	217
Operating income (before LLP)	2,328	(293)	241	900	406	2,288	1,048	1,078	326	57
Operating expenses	(1,952)	(366)	(996)	(411)	(1,608)	(865)	(363)	(510)	(467)	(292)
Loan loss provisions (LLP)	(282)	1,345	(2,145)	(6,537)	(5,176)	(1,575)	(271)	(1,035)	227	(95)
Net income	55	686	(2,901)	(6,049)	(6,403)	(152)	413	(382)	(8)	(330)
Last 12-month period P&L (UAHm)										
Net interest income	7,268	5,774	7,031	2,180	888	5,278	3,869	2,387	1,683	770
Net commission income	3,283	800	1,366	810	686	1,791	330	1,731	975	703
Operating income (before LLP)	10,543	11,612	9,531	2,788	800	7,457	5,562	4,829	4,619	1,466
Operating expenses	(8,237)	(1,791)	(3,925)	(1,658)	(3,893)	(3,539)	(1,522)	(1,589)	(1,732)	(1,119)
Loan loss provisions (LLP)	(1,736)	(24,559)	(17,578)	(11,492)	(8,851)	(6,837)	(5,673)	(4,519)	(4,525)	(1,050)
Net income	423	(13,763)	(11,718)	(10,530)	(11,022)	(2,357)	(1,623)	(869)	(1,378)	(1,754)
Growth rates (%YoY)										
Assets	17.5	30.1	28.1	10.5	(2.3)	18.0	26.4	(4.5)	14.2	25.1
Gross loans	20.1	47.0	32.2	37.7	31.3	17.6	44.6	21.0	28.5	35.7
Deposits	12.6	50.8	14.2	(0.1)	37.8	34.6	(22.6)	6.0	(4.6)	(30.5)
Total equity	20.9	(34.4)	(6.5)	1.0	(0.4)	(37.4)	(44.9)	(19.9)	(46.5)	(31.2)
Key ratios (%)										
Capital adequacy ratio (R2 by NBU)	10.0	12.1	16.0	8.9	17.7	11.7	4.6	13.1	6.1	8.1
Equity/assets	10.5	8.2	12.9	11.2	18.9	7.5	4.0	11.4	5.6	7.5
Cash & cash equivalents/liabilities	11.9	11.4	20.5	9.9	13.2	25.0	4.2	12.4	11.6	3.4
Net loans/deposits	112.5	84.7	101.3	245.8	135.2	79.5	246.6	112.3	128.5	348.8
Cost-to-income ratio	78.1	15.4	41.2	59.5	486.7	47.5	27.4	32.9	37.5	76.3
Net interest margin	4.0	5.0	6.1	4.6	2.3	14.9	8.3	8.1	5.2	2.5
ROAA	0.2	(9.8)	(8.7)	(18.5)	(22.7)	(4.8)	(3.2)	(2.4)	(3.5)	(4.7)
ROAE	1.8	(113.3)	(55.8)	(171.7)	(139.3)	(46.9)	(55.9)	(19.5)	(45.1)	(42.6)
NII/operating income	68.9	49.7	73.8	78.2	111.0	70.8	69.6	49.4	36.4	52.5
Core income/operating expenses	128.1	367.0	213.9	180.3	40.4	199.8	275.8	259.3	153.5	131.7

Notes: Based on bank's 2Q15 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 2Q15.

Country
Ukraine

Privatbank

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

Privatbank is the only solvent bank in Ukraine that has not yet implemented its 2014 recapitalisation plan. Owing to repeated postponements of the restructuring of its subordinated US$150m Eurobond, the bank has been unable to raise the remaining UAH2.5bn of Tier 2 capital required. Its shareholders will be obliged to make up the shortfall using their own funds if no deal is reached by 30 September.

Capitalisation set to increase. While the 2014 stress test requirements will be met one way or another, the 2015 assessment could be more challenging for the bank. Its current capitalisation level is just 3 bps below the minimum requirement, but the rising level of bad debt and the relatively low share of bad debt coverage (67.6% as of 2Q15) suggest further capital injections will be necessary.

The bank's main challenge, in our opinion, will be the assessment of related-party lending exposure in its loan portfolio. Judging from a breakdown of the loan portfolio by industry, insider lending accounts for at least 45% of the total gross outstanding debt. To comply with regulatory requirements, the bank will have to significantly revise its business model.

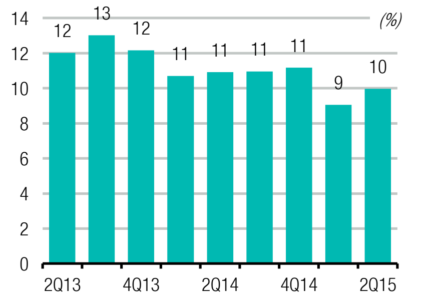
Debt restructuring. Privatbank is currently restructuring its US$200m 2015 Eurobond and its US$150m subordinated Eurobond. The NBU has pushed through the legislature a special act that recommends Privatbank pursue debt prolongation in order to avoid unwanted demand on the fragile FX market. Successful restructuring of its subordinated debt by 2021 would allow Privatbank to increase its regulatory capital by UAH120m or approximately 1.1ppt over that period.

Because the restructuring of its Eurobonds qualifies as selective default, Privatbank has seen the rating agencies lower its ratings.

Regaining deposits. Privatbank lost 25.3% of its retail deposits, net of the FX effect, during the period 4Q13-2Q15. However, its market share increased by 4.7ppt over the same period and accounted for 28.9% of the total market as of 2Q15. By comparison, the state banks combined account for just 17.5%. In 2Q15 the bank was offering interest rates that were 3-5ppt above the market average. As a result, it has witnessed significant growth of its UAH deposits (13.6% QoQ) and a lower-than-average level of outflows (-1.8% QoQ vs -5.9% QoQ for Ukraine's solvent banks).

Meanwhile, in 2Q15 corporate deposits declined by 13.2% QoQ, net of the FX effect. The bank currently risks losing several key customers in the energy sector that might opt to switch to state-owned banks. However, corporate

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	**2014** IFRS	**1Q15** UAS	**2Q15** UAS
Financials (UAHm)				
Assets	176,842	212,813	248,041	240,009
Loans	133,604	159,173	186,706	179,564
Deposits	130,754	140,680	172,240	159,642
Equity	22,539	24,497	23,094	25,223
Net % income	7,841	7,261	7,814	7,268
Net com income	2,848	3,347	3,009	3,283
Operating inc.	11,672	13,987	11,910	10,543
PPI	4,885	4,585	3,692	2,307
LLP	-3,624	-4,631	-2,948	-1,736
Net income	1,140	48	462	423
Ratios (%)				
Tier 1 ratio	14.2	11.6	N/a	N/a
CAR	15.6	13.6	9.1	10.0
Equity-to-assets	12.7	11.5	9.3	10.5
Net loan-to-deposit	102.2	113.1	108.4	112.5
Cash-to-liabilit.	13.8	7.7	11.1	11.9
ROAA	0.7	-	0.2	0.2
ROAE	5.2	0.2	2.1	1.8
Net % margin	5.3	4.5	4.5	4.0
NII-to-op income	67.2	51.9	65.6	68.9
Cost-to-income	58.1	67.2	69.0	78.1
LLR	13.4	11.9	11.4	11.4
NPLs	5.7	5.5	N/a	N/a
NPL coverage	235.6	216.4	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 deposits are not a primary source of funding: they accounted for just 18.8% of the bank's total liabilities in 2Q15.

Falling interest margin. The net interest margin (NIM) has continued to decline (from 4.5% in 1Q15 to 4.0% in 2Q15, according to UAS reporting standards). Privatbank is having to cope with growing interest expenses – especially on NBU loans (average rate of more than 22%, according to our estimates) and retail deposits (the bank offers above-average rates to its customers).

At the same time, interest income is not growing proportionally. The higher-margin retail segment generated 32.7% of total interest income in 2014, according to the IFRS annual report, but accounted for only 14.1% of total assets allocated in the banking sector. The economic slowdown is preventing the rapid growth of the consumer-lending market. However, the strong position of the bank in Ukraine's credit-card market (UAH22bn portfolio and more than 50% share of all bank cards) is likely to help the bank maintain its current level of this source of income.

Loan quality remains stable. The gross corporate loan portfolio grew a modest 1.0% QoQ in 2Q15, while the loan loss reserves (LLR) coverage of corporate loans declined from 7.8% in 1Q15 to 7.6% in 2Q15 – with no material write-offs. According to our estimates, the share of overdue payments in the gross corporate loan portfolio was just 8.3% in 2Q15 – significantly lower than that of peer banks. It seems that the share of insider lending allows Privatbank to control the level of bad debt through restructuring but sheds little light on whether such clients are truly creditworthy .

Mortgage loans constitute just 16.5% of the gross retail loan portfolio, while high-margin consumer loans in local currency account for most of the remainder of such lending. This portfolio is performing well – overdue payments account for only 5.3% of the total, according to our estimates.

Crimea-related developments. In 2014 Privatbank transferred its Crimean loan portfolio, whose net balance was UAH6.3bn, to its local subsidiary, along with all its liabilities on the peninsula. Later it sold that company to a related party. Investment in its subsidiaries declined by UAH1.1bn as a result of that transaction. Privatbank has not fulfilled its liabilities towards depositors – totaling UAH8.2bn – since the annexation. The Russian Deposit Insurance Agency for Crimea, for its part, paid out up to RUB0.7m to Privatbank retail deposit holders. In July 2015 Privatbank filed arbitration proceedings against the Russian Federation for for damages to compensate for the loss of assets in Ukraine.

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Privatbank: Key quarterly UAS financials and ratios

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

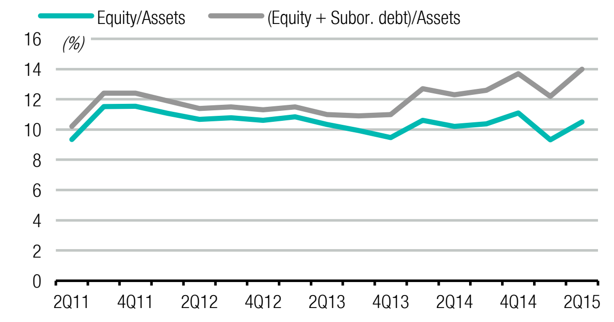
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	190,924	202,551	214,491	196,129	204,200	201,900	204,585	248,041	240,009
Cash and cash equivalents	32,194	33,970	33,723	17,676	21,963	17,114	27,076	24,925	25,635
Gross loans	150,537	154,249	166,259	172,408	168,653	172,896	184,748	210,743	202,622
Gross business loans	120,810	123,025	135,993	139,946	137,581	140,763	151,022	174,455	167,643
Gross household loans	29,726	31,224	30,266	32,462	31,072	32,132	33,726	36,288	34,979
Loan loss reserves (LLR)	-24,775	-25,066	-23,711	-23,679	-21,765	-22,473	-23,410	-24,037	-23,058
Deposits	120,750	123,995	133,551	138,578	131,852	131,715	141,338	172,240	159,642
Business deposits	25,387	22,991	26,839	29,745	27,946	29,899	33,628	51,011	40,432
Household deposits	95,363	101,004	106,712	108,833	103,906	101,817	107,710	121,230	119,210
Total equity	19,734	20,109	20,312	20,791	20,855	20,948	22,696	23,094	25,223
Quarterly P&L (UAHm)									
Net interest income	2,373	1,985	2,194	2,969	2,359	2,363	2,657	435	1,813
Net commission income	339	722	832	667	655	699	849	806	929
Operating income (before LLP)	2,712	2,931	3,364	2,572	3,694	3,667	1,972	2,576	2,328
Operating expenses	-1,622	-1,772	-1,944	-1,883	-1,932	-2,013	-2,334	-1,939	-1,952
Loan loss provisions (LLP)	-263	-684	-1,257	-334	-1,494	-1,695	847	-606	-282
Net income	758	349	141	294	93	40	322	6	55
Last 12-month period P&L (UAHm)									
Net interest income	8,698	8,070	8,444	9,520	9,506	9,885	10,348	7,814	7,268
Net commission income	2,265	2,464	2,557	2,560	2,876	2,853	2,870	3,009	3,283
Operating income (before LLP)	11,168	10,830	11,489	11,579	12,561	13,297	11,905	11,910	10,543
Operating expenses	-6,022	-6,260	-6,669	-7,222	-7,532	-7,772	-8,161	-8,217	-8,237
Loan loss provisions (LLP)	-2,544	-1,969	-2,669	-2,537	-3,769	-4,779	-2,676	2,94	-1,736
Net income	2,325	2,274	1,873	1,543	878	568	749	462	423
Growth rates (%YoY)									
Assets	18.0	23.1	24.4	12.1	7.0	-0.3	-4.6	26.5	17.5
Gross loans	14.3	13.3	19.6	18.0	12.0	12.1	11.1	22.2	20.1
Deposits (by businesses)	5.5	11.4	31.1	40.5	10.1	30.0	25.3	71.5	44.7
Deposits (by households)	21.7	22.4	24.3	24.6	9.0	0.8	0.9	11.4	14.7
Deposits (total)	17.9	20.2	25.6	27.7	9.2	6.2	5.8	24.3	21.1
Total equity	14.3	13.3	11.0	9.7	5.7	4.2	11.7	11.1	20.9
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	12.0	13.0	12.2	10.7	10.9	11.0	11.2	9.1	10.0
Equity/assets	10.3	9.9	9.5	10.6	10.2	10.4	11.1	9.3	10.5
(Equity + sub-debt)/assets	11.0	10.9	11.0	12.7	12.3	12.6	13.7	12.2	14.0
Cash & cash equivalents/liabilities	18.8	18.6	17.4	10.1	12.0	9.5	14.9	11.1	11.9
Current liquidity (R5 by NBU)	74.4	97.2	90.1	84.6	91.9	89.5	83.9	74.3	63.2
Gross loans/deposits	124.7	124.4	124.5	124.4	127.9	131.3	130.7	122.4	126.9
Net loans/deposits	104.2	104.2	106.7	107.3	111.4	114.2	114.2	108.4	112.5
Cost-to-income ratio	53.9	57.8	58.0	62.4	60.0	58.5	68.6	69.0	78.1
Net interest margin	7.1	6.3	6.2	6.6	6.2	6.1	6.2	4.5	4.0
ROAA	1.3	1.2	1.0	0.8	0.4	0.3	0.4	0.2	0.2
ROAE	12.4	11.8	9.5	7.6	4.3	2.7	3.5	2.1	1.8
NII/operating income	77.9	74.5	73.5	82.2	75.7	74.3	86.9	65.6	68.9
Core income/operating expenses	182.0	168.3	165.0	167.3	164.4	163.9	162.0	131.7	128.1

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.

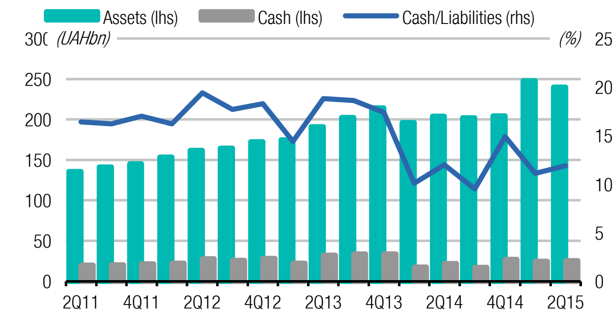
Privatbank: Key credit metrics

Chart 14. Capitalisation



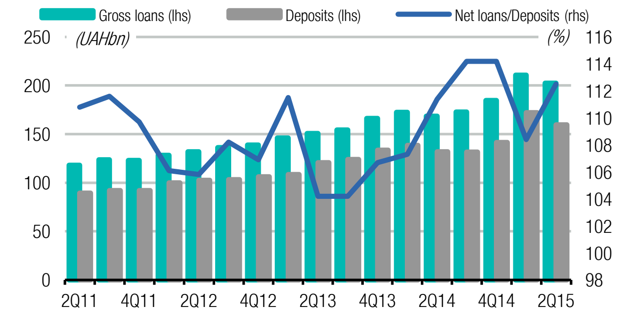
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 15. Liquidity



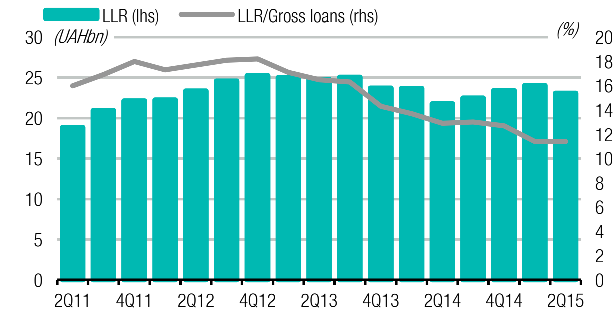
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 16. Loans and deposits



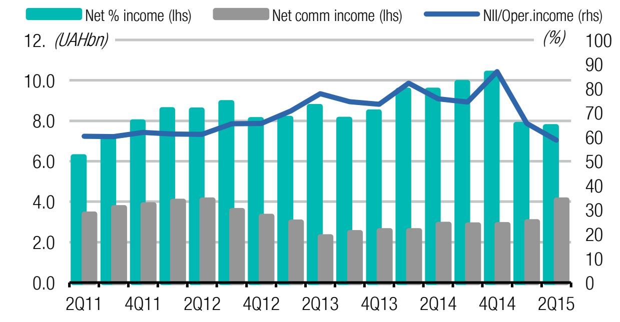
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 17. Loan loss reserves history



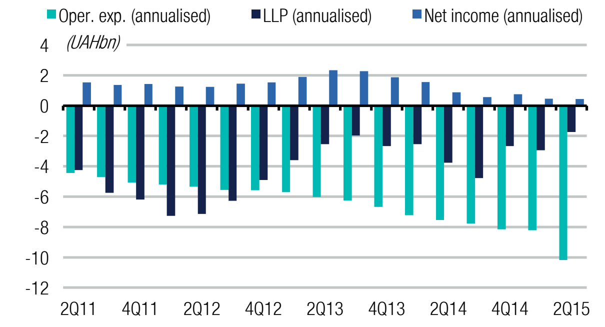
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 18. Income structure (annualised basis)



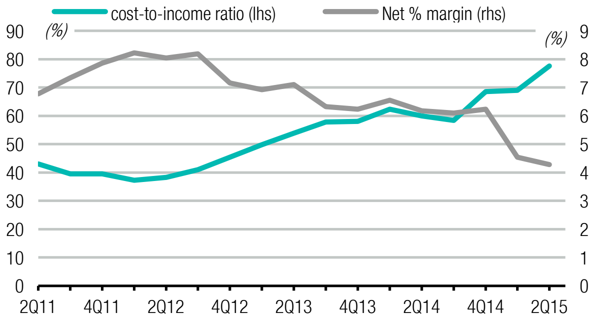
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 19. Expense and net income (annualised basis)



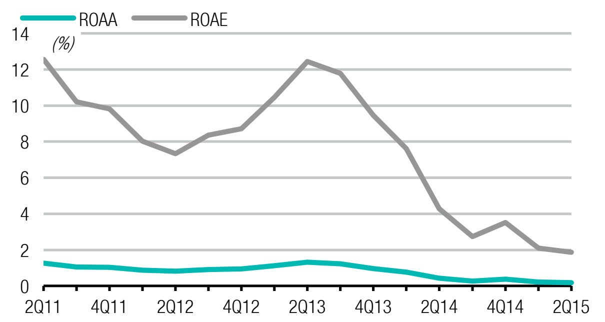
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 20. Financial performance ratios



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

Chart 21. Financial performance ratios



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

Country
Ukraine

Ukreximbank

Sector
Banks: Commercial banking

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

Ticker(s) in Bloomberg
EXIMUK

Ukreximbank has completed negotiations on a seven-year extension to its of its outstanding US$1,475m Eurobond, thereby meeting one of the IMF targets. The bank is moving more towards treasury bills rather than bonds issued by other banks as evidenced by securities investments now accounting for the largest share of its total assets.

Capitalisation increases. The regulatory capital adequacy ratio (CAR) grew 1.2 ppt in 2Q15 as a result of the decrease in risk-weighted assets by 11.2% QoQ. At the same time, the bank has reduced the excessive exposure to its largest borrower, which is excluded from the regulatory capital, according to local reporting standards.

The share of bad debt in the overall loan portfolio remained stable – at 29.8% – in 2Q15. The LLR coverage of bad debt– is respectable – at 90.2%.

Moderate deposit drain. The outflow of retail deposits has slowed following the end of the negative publicity about a potential default. Ukreximbank lost 5.5% of its retail deposits in 2Q15, while the share of corporate deposits remained unchanged, net of the FX effect. The US$1.1bn deposit held by the State Food and Grain Corporation of Ukraine remains the single largest at the bank, accounting for 68% of total FX corporate deposits or 18.3% of total liabilities in 2Q15.

The bank has been selected as one of the agents responsible for disbursing the insured deposits held at Delta Bank. It 30% average retention rate should help the bank gain new retail customers; however, its small network of branches (105 or 0.8% of the total) limits its retail operations.

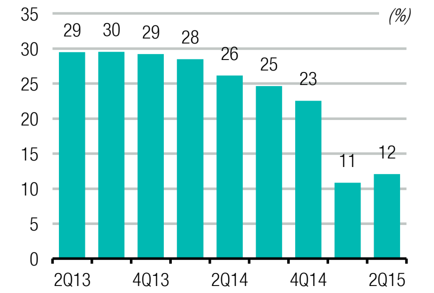
Treasury-oriented bank. For the first time, the share of securities in Ukreximbank's overall investments (41.1%) is larger than its loan portfolio. The cost-to-income ratio fell to just 10.9% in 2Q15, as operating expenses increased less than did operating income as a result of changes in the exchange rate.

According to our estimates, government bonds account for more than 80% of securities investments, which provides the bank with a substantial UAH liquidity cushion.

First profit in a long time. Ukreximbank recognised income from the release of provisions totalling UAH1.3bn in 2Q15 as the UAHUSD exchange rate fell. This resulted in a net profit of UAH686m for the same period.

The bank has a healthy net NIM of 5.0%, while, in our view, the last twelve months (LTM) net interest income of UAH5.8bn will accommodate the UAH375m annual additional interest expenses on the restructured debt.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	2014 IFRS	1Q15 UAS	2Q15 UAS
Financials (UAHm)				
Assets	93,275	123,530	158,121	144,551
Loans	41,625	49,974	65,176	59,251
Deposits	41,461	61,995	77,136	69,944
Equity	17,611	11,576	9,192	11,901
Net % income	3,945	2,668	5,172	5,774
Net com income	370	429	697	800
Operating inc.	4,471	2,524	13,407	11,612
PPI	3,120	-1,011	11,536	9,821
LLP	-2,786	-11,431	-26,901	-24,559
Net income	201	-11,249	-14,404	-13,763
Ratios (%)				
Tier 1 ratio	23.7	12.1	N/a	N/a
CAR	28.9	17.8	10.9	12.1
Equity-to-assets	18.9	9.4	5.8	8.2
Net loan-to-depos.	100.4	80.6	84.5	84.7
Cash-to-liabil.	12.0	15.0	12.9	11.4
ROAA	0.2	-10.4	-10.9	-9.8
ROAE	1.1	-77.1	-105.0	-113.3
Net % margin	5.7	3.0	4.7	5.0
NII-to-op income	88.2	106.1	38.6	49.7
Cost-to-income	30.2	140.9	14.0	15.4
LLR	17.4	31.7	35.8	37.1
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

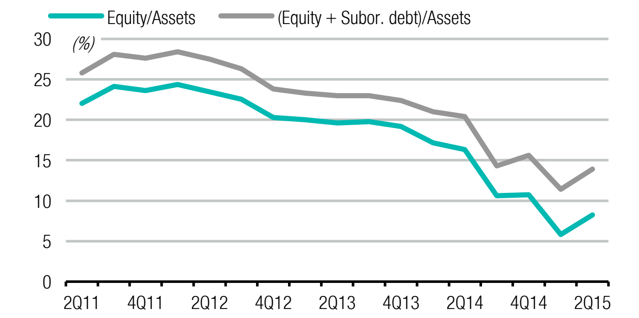
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	91,627	91,098	94,349	105,739	111,134	131,527	126,000	158,121	144,551
Cash and cash equivalents	8,274	6,863	7,964	9,070	9,530	14,447	15,117	19,238	15,173
Gross loans	48,637	48,725	51,307	61,410	64,092	67,893	76,602	101,518	94,190
Gross business loans	47,851	47,929	50,487	60,464	63,106	66,844	75,413	99,901	92,703
Gross household loans	786	796	820	946	986	1,048	1,189	1,617	1,487
Loan loss reserves (LLR)	-10,044	-9,093	-9,033	-11,753	-11,662	-16,804	-24,508	-36,342	-34,938
Deposits	43,677	43,114	42,970	47,083	51,563	74,025	60,126	77,136	69,944
Business deposits	27,480	26,458	25,704	28,772	32,182	54,179	38,256	51,272	47,299
Household deposits	16,197	16,656	17,266	18,311	19,381	19,846	21,870	25,864	22,645
Total equity	17,984	18,003	18,083	18,159	18,156	13,971	13,536	9,192	11,901
Quarterly P&L (UAHm)									
Net interest income	1,005	976	995	969	1,067	1,086	1,507	1,512	1,668
Net commission income	130	136	139	117	128	151	192	225	231
Operating income (before LLP)	1,179	995	1,127	3,041	1,502	1,963	1,751	8,190	-293
Operating expenses	-335	-315	-353	-303	-445	-423	-638	-364	-366
Loan loss provisions (LLP)	-776	-605	-670	-2,656	-997	-5,621	-7,923	-12,361	1,345
Net income	47	52	59	64	46	-4,061	-5,855	-4,534	686
Last 12-month period P&L (UAHm)									
Net interest income	3,683	3,776	3,889	3,944	4,007	4,117	4,629	5,172	5,774
Net commission income	514	518	519	521	520	535	589	697	800
Operating income (before LLP)	4,627	4,485	4,378	6,342	6,665	7,633	8,258	13,407	11,612
Operating expenses	-1,251	-1,273	-1,268	-1,306	-1,417	-1,525	-1,810	-1,870	-1,791
Loan loss provisions (LLP)	-3,000	-2,789	-2,783	-4,707	-4,928	-9,944	-17,197	-26,901	-24,559
Net income	203	227	199	222	221	-3,892	-9,806	-14,403	-13,763
Growth rates (%YoY)									
Assets	21.3	15.8	7.3	17.9	21.3	44.4	33.5	49.5	30.1
Gross loans	-4.9	-1.2	3.0	30.7	31.8	39.3	49.3	65.3	47.0
Deposits (by businesses)	55.1	40.0	-11.5	2.6	17.1	104.8	48.8	78.2	47.0
Deposits (by households)	14.2	9.8	9.3	14.4	19.7	19.2	26.7	41.3	16.8
Deposits (total)	36.9	26.5	-4.2	6.9	18.1	71.7	39.9	63.8	35.6
Total equity	1.4	1.4	1.3	1.3	1.0	-22.4	-25.1	-49.4	-34.4
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	29.5	29.6	29.2	28.5	26.2	24.6	22.6	10.9	12.1
Equity/assets	19.6	19.8	19.2	17.2	16.3	10.6	10.7	5.8	8.2
(Equity + sub-debt)/assets	23.0	23.0	22.4	21.0	20.4	14.3	15.6	11.4	13.9
Cash & cash equivalents/liabilities	11.2	9.4	10.4	10.4	10.2	12.3	13.4	12.9	11.4
Current liquidity (R5 by NBU)	106.6	109.2	54.7	115.9	114.9	103.3	134.7	106.9	101.6
Gross loans/deposits	111.4	113.0	119.4	130.4	124.3	91.7	127.4	131.6	134.7
Net loans/deposits	88.4	91.9	98.4	105.5	101.7	69.0	86.6	84.5	84.7
Cost-to-income ratio	27.0	28.4	29.0	20.6	21.3	20.0	21.9	14.0	15.4
Net interest margin	5.4	5.3	5.1	4.9	4.7	4.4	4.7	4.7	5.0
ROAA	0.2	0.3	0.2	0.2	0.2	-3.5	-8.3	-10.9	-9.8
ROAE	1.1	1.3	1.1	1.2	1.2	-22.8	-61.5	-105.0	-113.3
NII/operating income	79.6	84.2	88.8	62.2	60.1	53.9	56.1	38.6	49.7
Core income/operating expenses	335.6	337.4	347.8	341.8	319.5	305.0	288.2	313.8	367.0

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

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

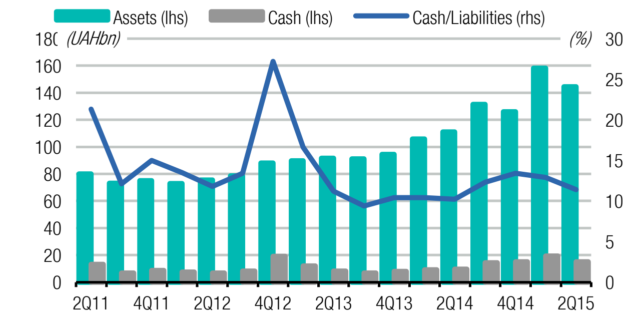
Ukreximbank: Key credit metrics

Chart 22. Capitalisation



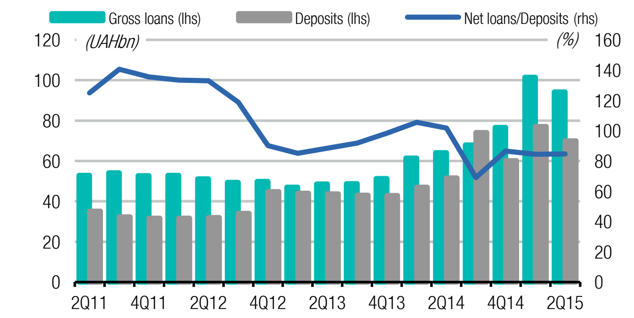
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 23. Liquidity



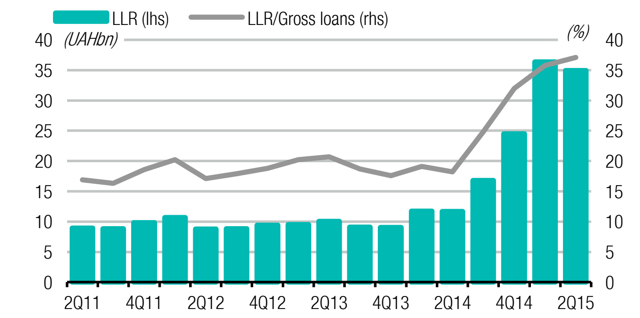
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 24. Loans and deposits



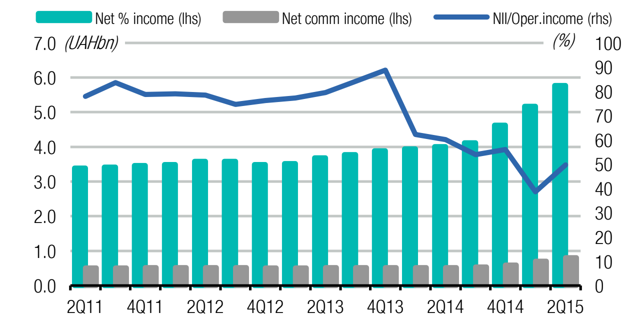
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 25. Loan loss reserves history



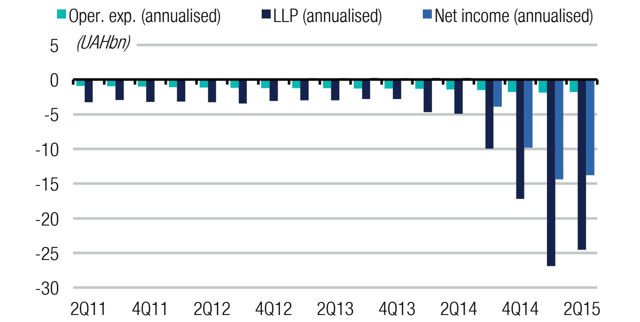
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 26. Income structure (annualised basis)



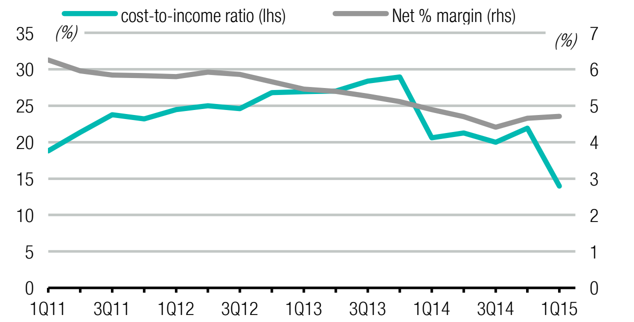
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 27. Expense and net income (annualised basis)



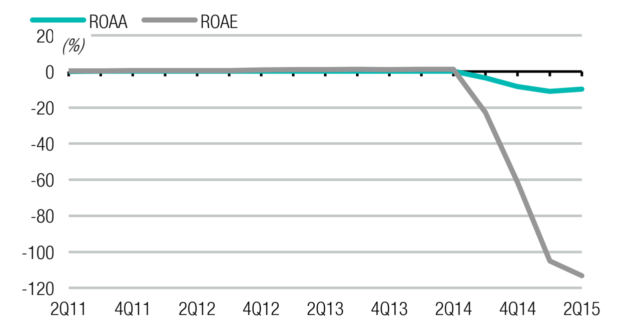
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 28. Financial performance ratios



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

Chart 29. Financial performance ratios



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

Country
Ukraine

Oschadbank

Sector
Banks: Commercial banking

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

Ticker(s) in Bloomberg
OSCHAD

According to our estimates, Oschadbank has completed negotiations on the restructuring of wholesale funding totalling UAH45bn, including Eurobonds, NBU funds and subordinated debt. More than 90% of that funding is now repayable within four to seven years.

Very high liquidity levels. We believe that Oschadbank enjoys very high levels of liquidity in both the local currency (NBU deposit certificates) and FX (proceeds from matured USD government bonds).

Naftogaz exposure. The banks' outstanding loan to Naftogaz (UAH15.2bn gross, UAH12.4bn net) has been extended by five years – until June 2020. The NBU has accordingly transferred its UAH16.6bn loan facility to Oschadbank with the 21.5% interest rate, which is the part of Naftogaz's financing scheme.

The bank's Naftogaz exposure also includes local bonds maturing in December 2016 worth UAH4.8bn with the interest rate of 10%.

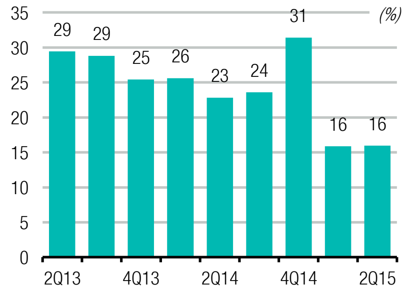
Deposit growth. In 2Q15 Oschadbank saw its retail deposits increase by 4.9% QoQ, net of the revaluation effect. Both UAH and FX deposits rose QoQ – by 6.7% and 1.9%, respectively. At the same time, the bank attracted more corporate deposits: these were up 11.9% QoQ. During the last 18 months, FX business deposits increased by the equivalent of US$533m or by 323.6%. We believe that this growth was due to the transfer to Oschadbank of FX current accounts held by state-controlled entities.

Provisioning losses. In 2Q15 the bank recognised net losses of UAH2.9bn as a result of provisioning expenses totalling UAH2.1bn. It also recognised the impairment of its securities portfolio by UAH2.1bn, which, in our opinion, can be attributed to investments in corporate securities.

The share of bad debt in the overall loan portfolio increased by 1.1ppt to 22.9% in 2Q15. The bank maintains an adequate level of bad debt provisioning – 89.7% as of 2Q15.

Debt restructuring. Oschadbank has agreed to a seven-year extension of both its Eurobonds, whose total outstanding is US$1.2bn. It is currently involved in debt restructuring talks with the provider of subordinated debt totalling US$0.1bn. If those talks are successful, the CAR of the bank is likely to be boosted by US$60m to 17.1%.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	2014 IFRS	1Q15 UAS	2Q15 UAS
Financials (UAHm)				
Assets	102,007	124,542	150,818	148,148
Loans	52,180	70,236	79,764	70,433
Deposits	46,484	56,266	67,558	69,533
Equity	19,188	19,214	22,013	19,075
Net % income	5,503	5,310	6,573	7,031
Net com income	1,231	1,260	1,293	1,366
Operating inc.	6,843	3,778	11,239	9,531
PPI	3,362	-452	7,312	5,606
LLP	-2,438	-9,662	-16,012	-17,578
Net income	710	-10,016	-8,633	-11,718
Ratios (%)				
Tier 1 ratio	23.1	17.9	N/a	N/a
CAR	24.6	18.5	15.9	16.0
Equity-to-assets	18.8	15.4	14.6	12.9
Net loan-to-deposit	112.3	124.8	118.1	101.3
Cash-to-liabil.	9.2	10.0	13.3	20.5
ROAA	0.7	-8.8	-6.8	-8.7
ROAE	3.7	-52.2	-40.5	-55.8
Net % margin	5.7	5.0	5.9	6.1
NII-to-op income	80.4	140.6	58.5	73.8
Cost-to-income	50.9	112.0	34.9	41.2
LLR	18.8	25.5	28.6	31.4
NPLs	10.8	17.9	N/a	N/a
NPL coverage	173.5	142.4	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

Oschadbank: Key quarterly UAS financials and ratios

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

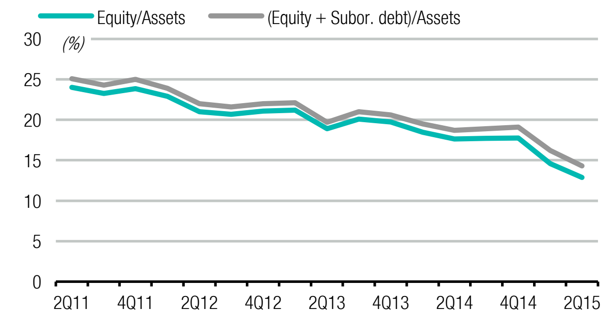
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	95,624	92,320	103,568	110,757	115,648	113,682	128,104	150,818	148,148
Cash and cash equivalents	7,394	6,539	7,470	7,113	6,565	8,402	13,698	17,136	26,432
Gross loans	61,871	64,356	64,281	71,812	77,648	79,826	95,105	111,707	102,624
Gross business loans	57,406	59,537	59,722	67,045	72,970	75,030	90,140	106,279	97,281
Gross household loans	4,465	4,819	4,559	4,766	4,677	4,796	4,965	5,428	5,344
Loan loss reserves (LLR)	-11,194	-12,213	-12,735	-13,545	-14,239	-15,026	-25,833	-31,944	-32,192
Deposits	43,040	44,120	46,341	42,292	43,520	46,621	55,368	67,558	69,533
Business deposits	8,115	8,010	10,414	8,891	10,129	12,660	18,778	26,885	28,394
Household deposits	34,926	36,110	35,927	33,401	33,392	33,960	36,590	40,673	41,139
Total equity	18,069	18,566	20,456	20,450	20,398	20,115	22,749	22,013	19,075
Quarterly P&L (UAHm)									
Net interest income	1,344	1,402	1,434	1,564	1,463	1,644	1,624	1,843	1,921
Net commission income	274	292	385	314	297	297	352	347	370
Operating income (before LLP)	1,421	2,033	1,880	1,995	1,950	1,632	1,980	5,678	241
Operating expenses	-799	-861	-1,016	-912	-998	-931	-1,022	-977	-996
Loan loss provisions (LLP)	-314	-1,017	-558	-892	-580	-574	-10,243	-4,615	-2,145
Net income	157	187	198	156	184	211	-9,115	87	-2,901
Last 12-month period P&L (UAHm)									
Net interest income	5,245	5,370	5,528	5,744	5,862	6,105	6,294	6,573	7,031
Net commission income	1,087	1,127	1,231	1,264	1,288	1,292	1,260	1,293	1,366
Operating income (before LLP)	5,888	6,188	7,174	7,330	7,858	7,456	7,556	11,239	9,531
Operating expenses	-3,332	-3,408	-3,481	-3,588	-3,787	-3,857	-3,863	-3,927	-3,925
Loan loss provisions (LLP)	-1,761	-2,012	-2,736	-2,782	-3,047	-2,604	-12,290	-16,012	-17,578
Net income	631	636	679	697	725	749	-8,564	-8,633	-11,718
Growth rates (%YoY)									
Assets	12.9	6.8	20.4	28.4	20.9	23.1	23.7	36.2	28.1
Gross loans	3.2	6.6	4.8	18.7	25.5	24.0	48.0	55.6	32.2
Deposits (by businesses)	0.8	-0.1	9.1	19.6	24.8	58.1	80.3	202.4	180.3
Deposits (by households)	20.4	24.0	20.3	2.5	-4.4	-6.0	1.8	21.8	23.2
Deposits (total)	16.1	18.8	17.6	5.7	1.1	5.7	19.5	59.7	59.8
Total equity	1.5	3.9	12.9	11.9	12.9	8.3	11.2	7.6	-6.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	29.4	28.8	25.4	25.6	22.8	23.6	31.4	15.9	16.0
Equity/assets	18.9	20.1	19.8	18.5	17.6	17.7	17.8	14.6	12.9
(Equity + sub-debt)/assets	19.7	21.0	20.6	19.5	18.7	18.9	19.1	16.2	14.3
Cash & cash equivalents/liabilities	9.5	8.9	9.0	7.9	6.9	9.0	13.0	13.3	20.5
Current liquidity (R5 by NBU)	132.9	109.3	77.7	49.0	79.7	73.2	104.7	97.5	111.1
Gross loans/deposits	143.8	145.9	138.7	169.8	178.4	171.2	171.8	165.3	147.6
Net loans/deposits	117.7	118.2	111.2	137.8	145.7	139.0	125.1	118.1	101.3
Cost-to-income ratio	56.6	55.1	48.5	49.0	48.2	51.7	51.1	34.9	41.2
Net interest margin	7.3	7.2	6.8	6.5	6.2	6.1	6.1	5.9	6.1
ROAA	0.7	0.7	0.7	0.7	0.7	0.7	-7.3	-6.8	-8.7
ROAE	3.5	3.5	3.6	3.6	3.6	3.7	-40.9	-40.5	-55.8
NII/operating income	89.1	86.8	77.1	78.4	74.6	81.9	83.3	58.5	73.8
Core income/operating expenses	190.0	190.6	194.2	195.3	188.8	191.8	195.6	200.3	213.9

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.

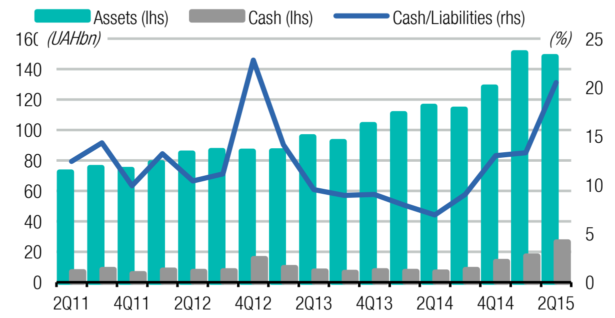
Oschadbank: Key credit metrics

Chart 30. Capitalisation



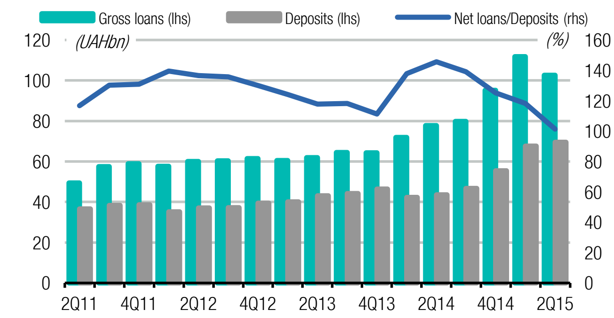
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 31. Liquidity



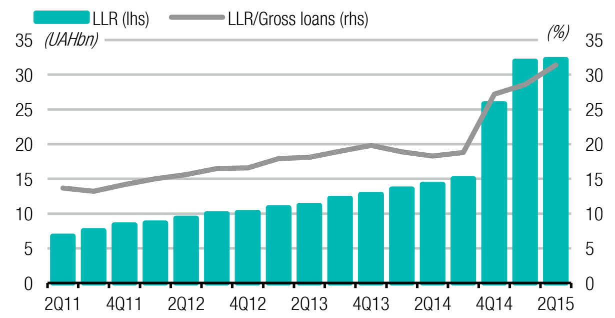
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 32. Loans and deposits



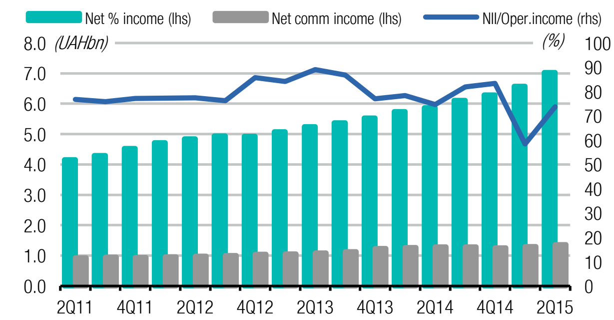
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 33. Loan loss reserves history



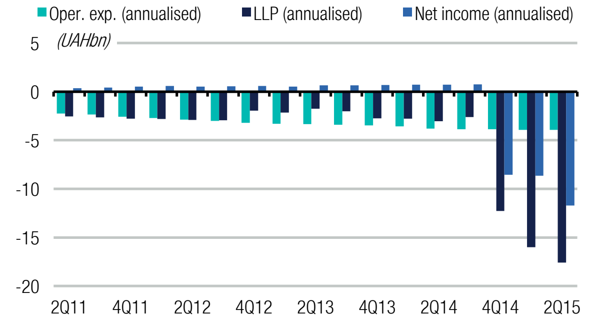
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 34. Income structure (annualised basis)



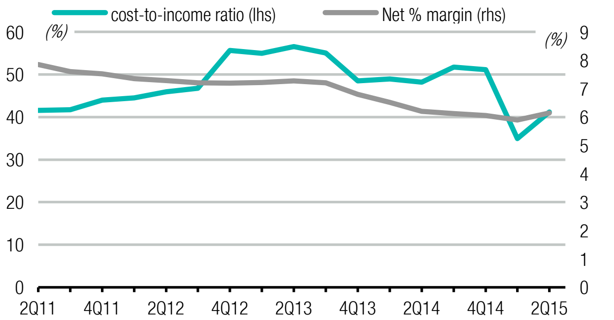
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 35. Expense and net income (annualised basis)



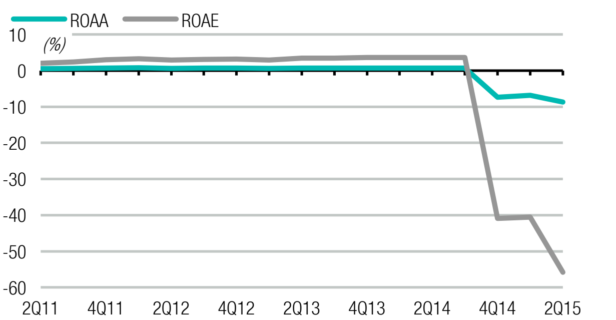
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 36. Financial performance ratios



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

Chart 37. Financial performance ratios



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

Country
Ukraine

Prominvestbank

Sector
Banks: Commercial banking

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

Ticker(s) in Bloomberg
VEBBNK

Despite a UAH6.4bn capital injection, PIB has still failed to meet the minimum capital requirement. In our opinion, the bank has yet to establish an adequate level of reserves and will require further capital injections. Even though sanctions have been imposed on the VEB Group, PIB has a sound potential for recapitalization in form of loans from VEB.

Large capital injection. In 2Q15 PIB increased its share capital by UAH6.4bn or 50.8% QoQ – less than the initially planned UAH9.2bn. In our view, this discrepancy can be explained by the stronger hryvnia and, consequently, the smaller UAH-denominated amount of required capitalisation. Hardly any net cash inflow has been generated by this capital increase as some of the outstanding debt to the parent group has now been repaid: the total such debt declined by US$0.3bn and RUB1.2bn. We estimate the amount of quasi-equity provided by VEB at US$1.5bn. EUR0.2bn and RUB0.2bn or 72.4% of 2Q15 total liabilities. More than half of this amount matures within less than one year.

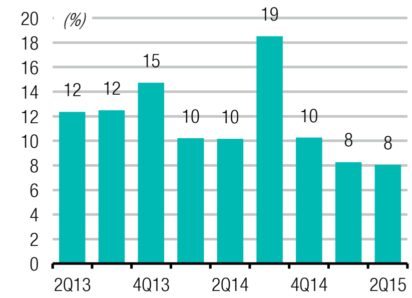
Given the insufficient amount of reserves and the current failure to meet the regulatory CAR, we expect the stress test to indicate further capital needs. However, the bank is unable to include capital totalling UAH4.4bn owing to excessive lending to a single borrower, which under NBU regulations must be deducted from the calculation of the regulatory CAR.

Loan portfolio deterioration may continue. As expected, the bank has used its available resources to create reserves against bad debt – 2Q15 loan loss provisioning expenses amounted to UAH6.5bn. It has classified 30.6% of its total credit exposure in 2Q15 as bad debt compared with 16.1% in 1Q15. Although the LLR coverage increased from 49.2% in 1Q15 to 59.5% in 2Q15, it remains well below the sector average of 71.0%.

On a more positive note, PIB increased corporate deposits by 26.0% QoQ, net of the FX effect, and retail deposits by 0.8% QoQ. For the first time since the takeover of the bank, the share of corporate deposits exceeds that of retail deposits.

FX risks. In our view, PIB has a very high exposure to FX risks: no less than 76.8% of its 2Q15 total net portfolio was FX-denominated (the average for Ukraine's solvent banks is 52.6%). The inevitable impairment of these assets means an increase in the bank's net FX position for which we believe there is insufficient coverage. The bank has recognised UAH640m losses from FX revaluation and UAH187m losses from FX trading in 1H15, while the income earned from derivatives during the same period has covered only UAH376m of those losses.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	**2014** IFRS	**1Q15** UAS	**2Q15** UAS
Financials (UAHm)				
Assets	39,381	50,527	66,314	56,698
Loans	28,055	36,402	51,578	41,786
Deposits	14,513	14,357	16,126	16,998
Equity	5,008	7,948	5,805	6,329
Net % income	1,338	1,611	2,012	2,180
Net com income	293	420	807	810
Operating inc.	1,998	1,429	2,665	2,788
PPI	596	-1,141	1,023	1,129
LLP	-636	-4,655	-5,070	-11,492
Net income	-2	-5,948	-4,157	-10,530
Ratios -%				
Tier 1 ratio	8.7	13.1	N/a	N/a
CAR	16.9	22.1	7.0	8.9
Equity-to-assets	12.7	15.7	8.8	11.2
Net loan-to-deposit	193.3	253.5	319.8	245.8
Cash-to-liabilit.	12.0	13.5	7.6	9.9
ROAA	-	-13.2	-7.5	-18.5
ROAE	-	-91.8	-67.9	-171.7
Net % margin	3.9	4.0	4.3	4.6
NII-to-op income	67.0	112.7	75.5	78.2
Cost-to-income	70.2	179.9	61.6	59.5
LLR	7.8	17.0	11.2	22.6
NPLs	19.8	47.2	N/a	N/a
NPL coverage	39.2	36.0	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

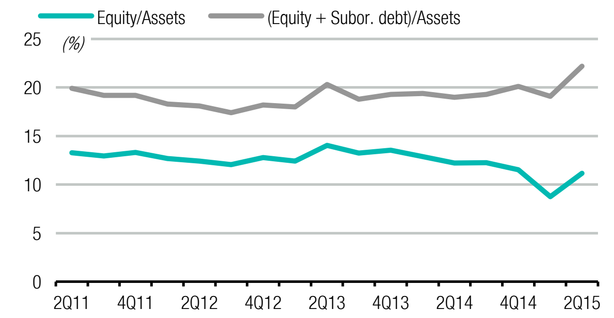
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	37,337	40,237	39,737	48,945	51,300	51,578	52,656	66,314	56,698
Cash and cash equivalents	2,131	2,834	2,633	3,276	2,896	2,513	4,057	4,573	4,976
Gross loans	30,982	33,037	30,628	37,402	39,226	38,454	44,336	58,067	54,011
Gross business loans	30,847	32,904	30,416	37,276	39,101	38,329	44,213	57,938	53,887
Gross household loans	135	133	212	126	125	125	124	129	125
Loan loss reserves (LLR)	-4,850	-4,963	-2,227	-1,997	-1,126	-1,359	-5,836	-6,489	-12,225
Deposits	13,032	14,012	13,898	13,935	15,074	13,144	13,683	16,126	16,998
Business deposits	5,080	5,997	5,792	5,999	7,086	5,752	6,058	7,620	9,061
Household deposits	7,951	8,015	8,106	7,936	7,988	7,392	7,625	8,507	7,936
Total equity	5,238	5,322	5,384	6,300	6,268	6,322	6,076	5,805	6,329
Quarterly P&L (UAHm)									
Net interest income	313	327	313	352	438	485	458	630	606
Net commission income	89	120	88	81	114	185	215	293	117
Operating income (before LLP)	471	525	471	537	777	697	769	422	900
Operating expenses	-321	-365	-457	-283	-395	-356	-506	-385	-411
Loan loss provisions (LLP)	-2,826	-130	40	296	-115	-140	-4,626	-189	-6,537
Net income	-2,675	30	55	550	325	202	-4,531	-153	-6,049
Last 12-month period P&L (UAHm)									
Net interest income	1,247	1,234	1,233	1,305	1,430	1,589	1,734	2,012	2,180
Net commission income	307	355	373	378	403	468	595	807	810
Operating income (before LLP)	2,039	2,158	1,877	2,005	2,310	2,483	2,780	2,665	2,788
Operating expenses	-1,382	-1,420	-1,419	-1,426	-1,500	-1,491	-1,540	-1,642	-1,658
Loan loss provisions (LLP)	-3,500	-3,550	-3,036	-2,619	92	81	-4,586	-5,070	-11,492
Net income	-2,427	-2,395	-2,575	-2,039	960	1,132	-3,454	-4,157	-10,530
Growth rates (%YoY)									
Assets	-8.9	-3.8	-3.8	20.0	37.4	28.2	32.5	35.5	10.5
Gross loans	-5.1	-0.6	-2.1	19.0	26.6	16.4	44.8	55.3	37.7
Deposits (by businesses)	-19.9	1.8	-2.4	11.0	39.5	-4.1	4.6	27.0	27.9
Deposits (by households)	-6.7	1.2	0.7	0.9	0.5	-7.8	-5.9	7.2	-0.6
Deposits (total)	-12.3	1.4	-0.6	5.0	15.7	-6.2	-1.5	15.7	12.8
Total equity	3.0	5.5	2.1	24.5	19.7	18.8	12.8	-7.9	1.0
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	14.3	13.2	13.7	13.4	12.8	12.5	21.8	7.0	8.9
Equity/assets	14.0	13.2	13.5	12.9	12.2	12.3	11.5	8.8	11.2
(Equity + sub-debt)/assets	20.3	18.8	19.3	19.4	19.0	19.3	20.1	19.1	22.2
Cash & cash equivalents/liabilities	6.6	8.1	7.7	7.7	6.4	5.6	8.7	7.6	9.9
Current liquidity (R5 by NBU)	77.6	71.9	67.5	140.3	104.5	159.3	201.3	141.4	124.7
Gross loans/deposits	237.7	235.8	220.4	268.4	260.2	292.6	324.0	360.1	317.8
Net loans/deposits	200.5	200.4	204.3	254.1	252.8	282.2	281.4	319.8	245.8
Cost-to-income ratio	67.8	65.8	75.6	71.1	64.9	60.1	55.4	61.6	59.5
Net interest margin	3.7	3.8	3.8	3.8	3.8	3.9	4.0	4.3	4.6
ROAA	-6.0	-6.0	-6.5	-4.9	2.1	2.4	-6.8	-7.5	-18.5
ROAE	-47.1	-45.9	-49.0	-36.7	16.5	18.7	-55.3	-67.9	-171.7
NII/operating income	61.2	57.2	65.7	65.1	61.9	64.0	62.4	75.5	78.2
Core income/operating expenses	112.4	111.9	113.2	118.0	122.2	137.9	151.2	171.7	180.3

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.

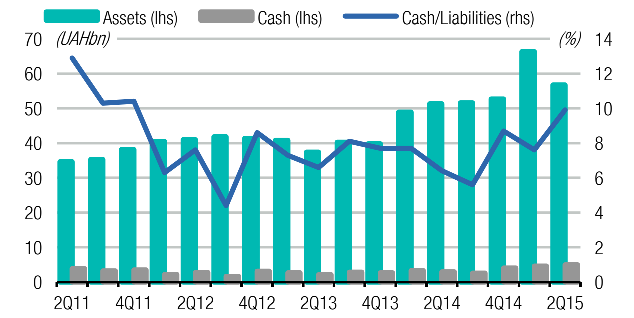
Prominvestbank: Key credit metrics

Chart 38. Capitalisation



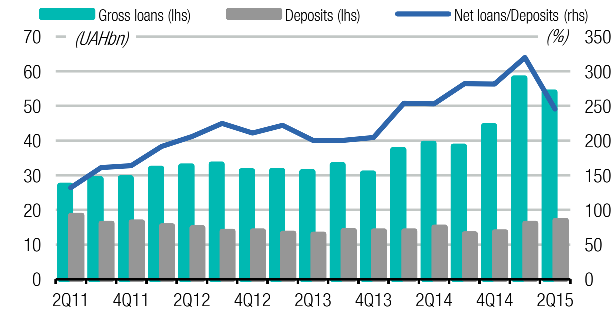
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 39. Liquidity



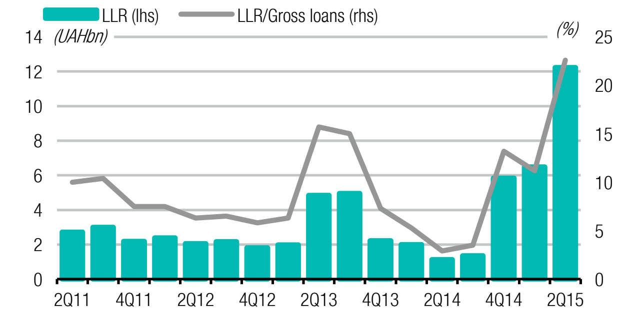
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 40. Loans and deposits



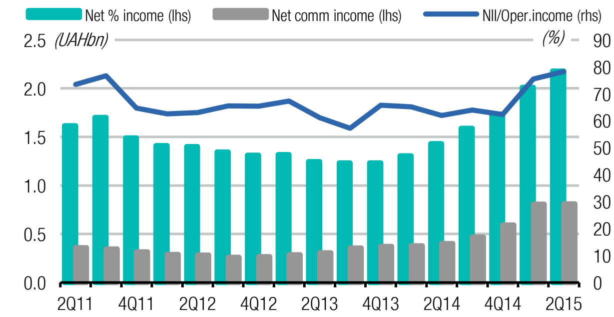
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 41. Loan loss reserves history



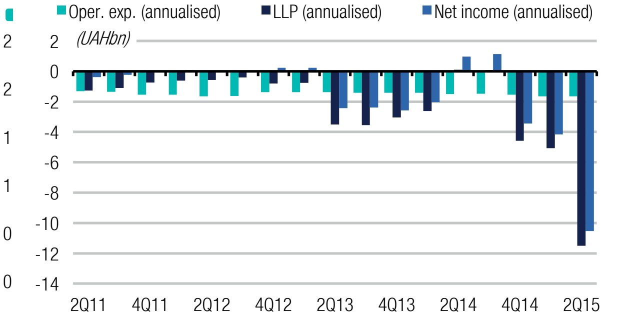
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 42. Income structure (annualised basis)



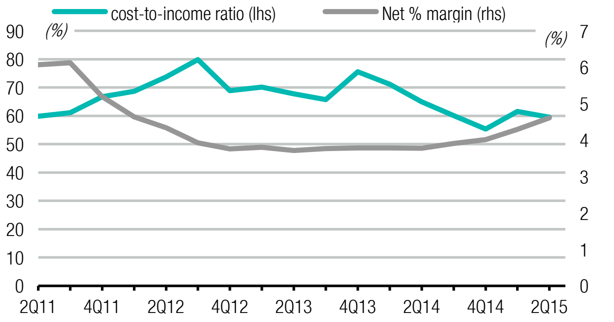
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 43. Expense and net income (annualised basis)



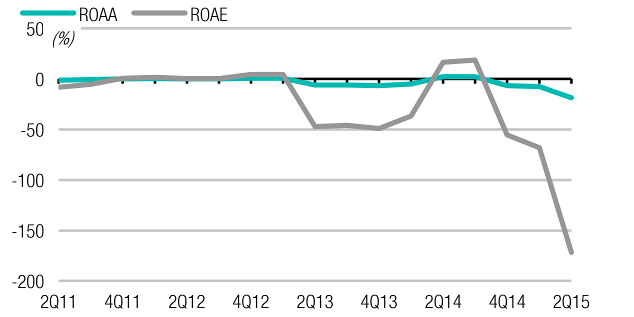
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 44. Financial performance ratios



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

Chart 45. Financial performance ratios



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

Country
Ukraine

Ukrsotsbank

Sector
Banks: Commercial banking

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

Ticker(s) in Bloomberg
USCB

Unicredit Group, which has long been seeking to sell its loss-generating Ukrainian subsidiary, is expected to conclude an equity swap agreement with Alfa Group by the end of 2015.

Large capital injection. In 1H15 Ukrsotsbank recorded the largest capital increase among Ukrainian banks, raising UAH10.6bn of additional share capital (+258.2%). However, the bank simultaneously repaid interbank loans from its parent structures totalling some US$0.5bn.

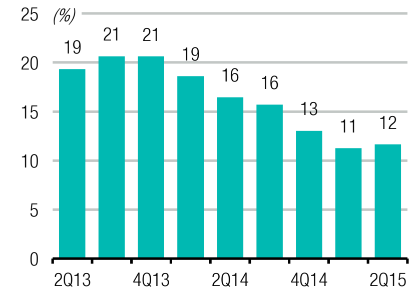
According to our estimates, as of 2Q15 quasi-equity funding accounted for US$0.5bn of interbank loans and US$0.1bn of subordinated debt issued by the EBRD and unconditionally guaranteed by the Unicredit Austria, which matures in 2019. Significant liquidity is allowing the bank to scale back further.

Poor loan portfolio performance offers opportunity. Ukrsotsbank has a very large share of NPLs – 56.7%, according to the 2014 IFRS report. Loans to households are the most problematic: the current level of provisioning is 49.8%. Retail mortgage loans account for around 20% of the total gross loan portfolio; because most of those loans have been issued in FX, the bank is offering voluntary restructuring and conversion into hryvnia. Ukrsotsbank is especially vulnerable to the potential forced conversion of FX loans to households since it accounts for 22.8% of the sector's total such assets.

In our view, if a purchase agreement is reached, Alfa Group will aim, above all, for more efficient debt collection. Ukrsotsbank's reserves against problematic loans are close to adequate. It increased its LLR coverage of bad debt from 54.3% in 1Q15 to 62.8% in 2Q15, which means it has edged closer to the sector average of 71.0%. Sufficient reserves to cover loan portfolio losses may be a significant plus for the Alfa Group, especially if the announced improvement in creditor protection takes place.

Operating income dwindling. The bank's share of interest-bearing assets has fallen as a result of the constantly rising amount of NPLs. Accordingly, the NIM has sunk to the very low level of 2.3% (compared with the sector average of 5.3%), while LTM pre-provisioning income plummeted to a record low of UAH0.8bn in 2Q15 (compared with UAH3.4bn in 2Q14).

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	2014 IFRS	1Q15 UAS	2Q15 UAS
Financials (UAHm)				
Assets	43,647	48,078	55,278	45,367
Loans	28,061	32,631	41,241	30,149
Deposits	21,788	23,362	23,448	22,297
Equity	9,260	6,140	9,686	8,586
Net % income	2,059	1,326	1,061	888
Net com income	710	637	668	686
Operating inc.	2,825	2,293	1,148	800
PPI	1,028	368	-1,714	-3,093
LLP	-2,332	-4,267	-3,871	-8,851
Net income	-1,154	-3,366	-4,629	-11,022
Ratios (%)				
Tier 1 ratio	20.5	7.1	N/a	N/a
CAR	23.0	10.0	17.4	17.7
Equity-to-assets	21.2	12.8	17.5	18.9
Net loan-to-deposit	128.8	139.7	175.9	135.2
Cash-to-liabilit.	15.8	7.5	6.7	13.2
ROAA	-2.6	-7.3	-9.5	-22.7
ROAE	-11.8	-43.7	-58.4	-139.3
Net % margin	5.8	3.6	2.7	2.3
NII-to-op income	72.9	57.8	92.4	111.0
Cost-to-income	63.6	83.9	249.2	486.7
LLR	21.4	29.6	30.9	42.2
NPLs	40.8	56.7	N/a	N/a
NPL coverage	52.4	52.2	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

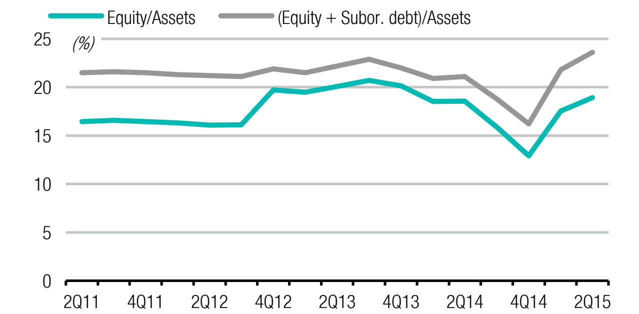
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	38,345	37,329	43,057	46,124	46,444	44,960	48,258	55,278	45,367
Cash and cash equivalents	3,933	3,735	5,402	3,556	4,360	2,803	3,120	3,035	4,849
Gross loans	32,146	31,724	35,273	41,375	39,757	41,161	44,770	59,717	52,188
Gross business loans	14,489	14,724	18,010	20,736	19,395	20,092	21,299	28,121	24,135
Gross household loans	17,658	17,000	17,263	20,640	20,363	21,070	23,471	31,596	28,052
Loan loss reserves (LLR)	-8,116	-7,328	-7,899	-8,869	-8,252	-10,330	-12,280	-18,476	-22,039
Deposits	18,746	19,117	21,611	18,627	19,274	20,203	22,501	23,448	22,297
Business deposits	6,513	6,963	9,661	7,273	7,543	8,400	10,194	9,929	9,718
Household deposits	12,234	12,154	11,950	11,355	11,731	11,803	12,307	13,518	12,579
Total equity	7,698	7,732	8,668	8,544	8,617	7,143	6,239	9,686	8,586
Quarterly P&L (UAHm)									
Net interest income	517	553	770	607	398	-17	286	393	225
Net commission income	159	188	222	153	148	147	197	176	166
Operating income (before LLP)	680	760	1,085	844	754	332	237	-175	406
Operating expenses	-444	-497	-724	-545	-577	-586	-916	-783	-1,608
Loan loss provisions (LLP)	-197	-251	-345	-307	-196	-1,554	-835	-1,286	-5,176
Net income	2	2	3	23	-10	-1,560	-1,115	-1,944	-6,403
Last 12-month period P&L (UAHm)									
Net interest income	2,045	1,989	2,268	2,448	2,328	1,758	1,275	1,061	888
Net commission income	663	683	719	722	711	670	645	668	686
Operating income (before LLP)	2,824	2,708	3,101	3,369	3,443	3,015	2,167	1,148	800
Operating expenses	-1,683	-1,823	-2,083	-2,210	-2,344	-2,432	-2,624	-2,862	-3,893
Loan loss provisions (LLP)	-1,061	-810	-936	-1,100	-1,099	-2,402	-2,891	-3,871	-8,851
Net income	10	10	11	30	18	-1,545	-2,662	-4,629	-11,022
Growth rates (%YoY)									
Assets	-4.1	-7.5	10.9	17.0	21.1	20.4	12.1	19.8	-2.3
Gross loans	-13.4	-13.9	9.9	29.6	23.7	29.7	26.9	44.3	31.3
Deposits (by businesses)	10.3	12.5	43.6	16.8	15.8	20.6	5.5	36.5	28.8
Deposits (by households)	11.1	10.2	2.6	-7.9	-4.1	-2.9	3.0	19.1	7.2
Deposits (total)	10.8	11.0	17.6	0.4	2.8	5.7	4.1	25.9	15.7
Total equity	19.7	18.9	13.2	11.2	11.9	-7.6	-28.0	13.4	-0.4
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	14.9	14.7	15.9	11.8	11.1	14.3	7.6	17.4	17.7
Equity/assets	20.1	20.7	20.1	18.5	18.6	15.9	12.9	17.5	18.9
(Equity + sub-debt)/assets	22.2	22.9	22.0	20.9	21.1	18.8	16.2	21.8	23.6
Cash & cash equivalents/liabilities	12.8	12.6	15.7	9.5	11.5	7.4	7.4	6.7	13.2
Current liquidity (R5 by NBU)	77.4	73.1	89.3	53.0	65.1	71.4	60.9	44.4	52.2
Gross loans/deposits	171.5	165.9	163.2	222.1	206.3	203.7	199.0	254.7	234.1
Net loans/deposits	128.2	127.6	126.7	174.5	163.5	152.6	144.4	175.9	135.2
Cost-to-income ratio	59.6	67.3	67.2	65.6	68.1	80.7	121.1	249.2	486.7
Net interest margin	7.1	7.1	7.7	7.7	6.9	4.9	3.5	2.7	2.3
ROAA	0.0	0.0	0.0	0.1	0.0	-3.4	-5.7	-9.5	-22.7
ROAE	0.1	0.1	0.1	0.4	0.2	-18.7	-34.9	-58.4	-139.3
NII/operating income	72.4	73.4	73.1	72.7	67.6	58.3	58.8	92.4	111.0
Core income/operating expenses	160.9	146.5	143.4	143.4	129.7	99.8	73.2	60.4	40.4

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.

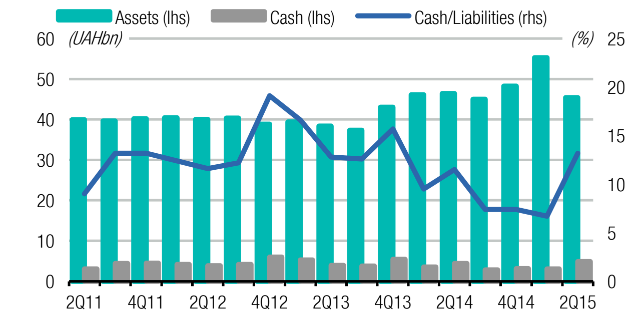
Ukrsotsbank: Key credit metrics

Chart 46. Capitalisation



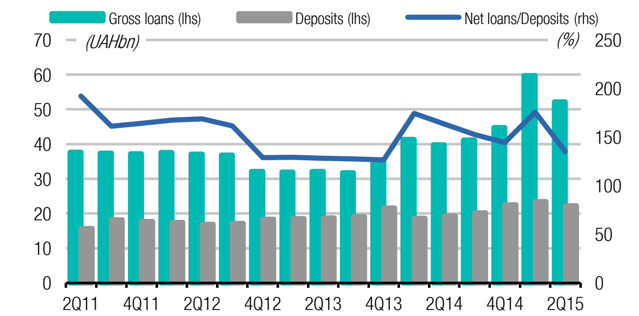
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 47. Liquidity



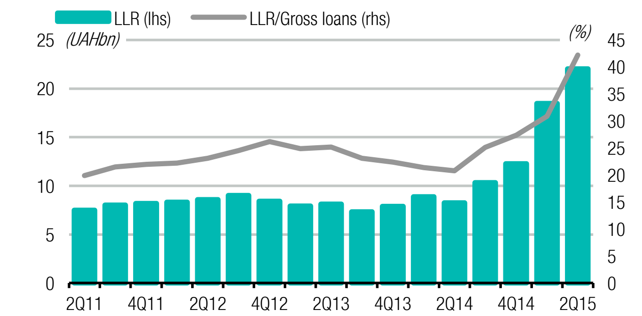
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 48. Loans and deposits



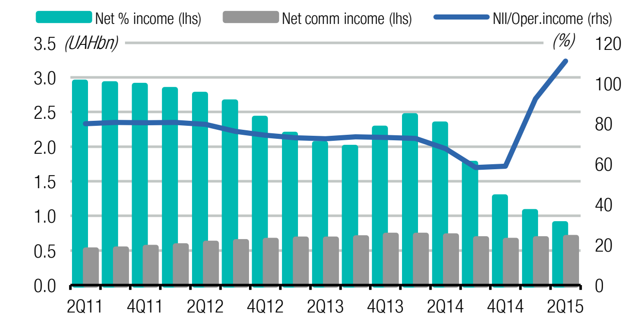
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 49. Loan loss reserves history



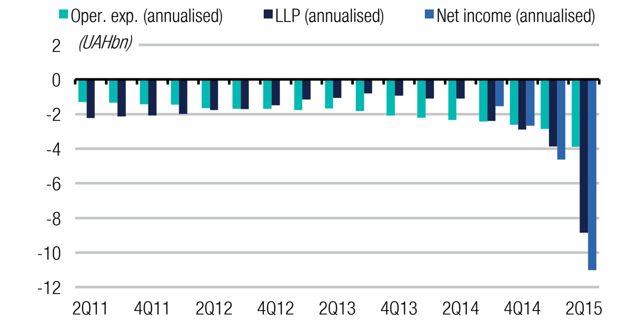
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 50. Income structure (annualised basis)



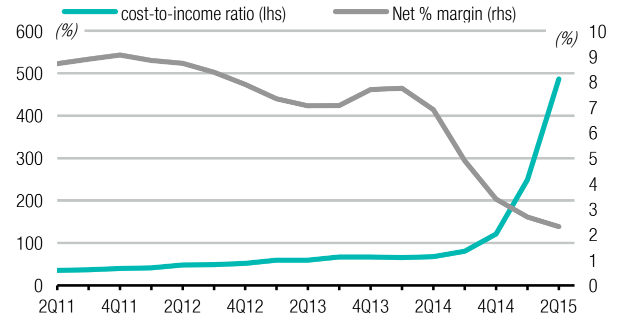
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 51. Expense and net income (annualised basis)



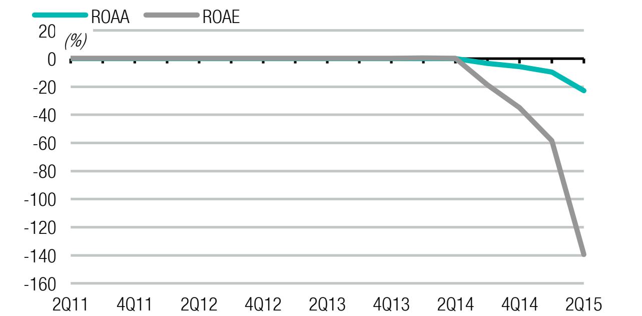
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 52. Financial performance ratios



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

Chart 53. Financial performance ratios



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

Country
Ukraine

Raiffeisen Bank Aval

Sector
Banks: Commercial banking

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

Ticker(s) in Bloomberg
AVAL

Raiffeisen Group is another foreign investor that is seeking to exit the Ukrainian market. Currently, it looks likely that the EBRD will become a minority equity partner in Aval.

Capitalisation remains stable. Aval was one of the few banks in Ukraine that neither required a capital injection after the 2014 stress test nor saw its capitalisation fall below the required level. The bank has been able to keep step with the FX-driven increase in risk-weighted assets owing to the proportionate increase in the UAH equivalent of its Tier 2 subordinated debt, which totals US$295m.

Aval's potential minority investor – the EBRD – is expected to purchase new shares rather than buy part of the Raiffeisen stake. Assuming it obtains a 15% share, the net cash inflow should amount to UAH1.1bn or USD50m.

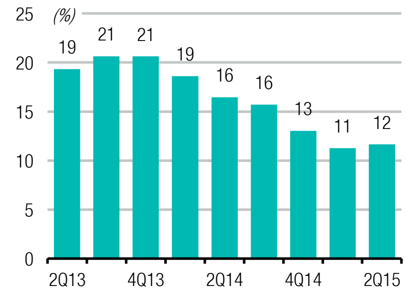
High liquidity provides opportunity for scaling back. In 2Q15 Aval had a very high cash-to-liabilities ratio of 25.0%, compared with the sector average of 14.5%. In our view, the bank has both sufficient FX liquidity (current accounts with the parent group) and sufficient UAH liquidity (government securities). Meanwhile, loans from the parent group amounted to US$265m and have a short (up to one-year) maturity. Investments in securities accounted for 14.9% of the bank's 2Q15 total assets and cash and cash equivalents 23.1%.

Securing a stronger position in the deposit market. Despite the very low interest rates it offers, Aval increased the volume of its retail deposits by 4.4% QoQ in 2Q15. Not least, it has been very successful in attracting UAH corporate deposits: its market share increased by 3.6ppt to 8.3% over 2014-1H15.

Aval enjoys a low cost of funding – just 5.2% according to our estimates, compared with the sector average of 8.2%.

Poor retail loan portfolio performance. Aval increased the LLR coverage of its gross loan portfolio from 40.5% in 1Q15 to 43.7% in 2Q15. However, the performance of its retail loan portfolio is weak compared with that of the corporate segment: the former accounts for 64.8% of the LLR and the latter just 24.8%.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	2014 IFRS	1Q15 UAS	2Q15 UAS
Financials (UAHm)				
Assets	45,367	44,941	52,797	52,414
Loans	29,306	28,377	31,307	27,185
Deposits	27,185	29,829	32,562	34,193
Equity	9,118	4,413	4,105	3,953
Net % income	3,395	4,018	5,021	5,278
Net com income	1,360	1,474	1,763	1,791
Operating inc.	5,466	6,527	6,762	7,457
PPI	2,497	3,286	3,255	3,918
LLP	-1,263	-8,027	-6,217	-6,837
Net income	985	-3,806	-2,265	-2,357
Ratios -%				
Tier 1 ratio	23.7	9.8	N/a	N/a
CAR	32.3	17.2	11.3	11.7
Equity-to-assets	20.1	9.8	7.8	7.5
Net loan-to-deposit	107.8	95.1	96.1	79.5
Cash-to-liabilit.	17.4	16.5	21.8	25.0
ROAA	2.1	-8.4	-4.8	-4.8
ROAE	11.4	-56.3	-40.3	-46.9
Net % margin	8.9	10.6	14.1	14.9
NII-to-op income	62.1	61.6	74.2	70.8
Cost-to-income	54.3	49.7	51.9	47.5
LLR	22.0	41.5	40.5	43.7
NPLs	30.0	46.3	N/a	N/a
NPL coverage	73.4	89.7	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

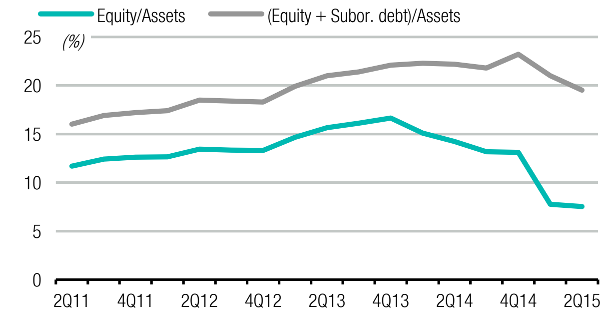
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	44,929	44,804	43,460	44,987	44,413	44,676	46,859	52,797	52,414
Cash and cash equivalents	5,559	7,243	5,844	5,236	4,535	4,733	6,843	10,595	12,123
Gross loans	36,054	35,263	35,896	41,175	41,046	42,104	43,572	52,648	48,257
Gross business loans	21,312	20,913	22,207	24,715	24,155	24,595	24,521	27,804	25,513
Gross household loans	14,742	14,349	13,688	16,460	16,892	17,509	19,051	24,843	22,744
Loan loss reserves (LLR)	-9,436	-8,914	-8,849	-11,508	-12,209	-13,657	-13,866	-21,340	-21,071
Deposits	28,761	28,735	26,419	23,851	25,768	26,452	28,800	32,562	34,193
Business deposits	11,992	13,083	11,787	10,361	10,833	12,604	14,593	16,757	18,492
Household deposits	16,768	15,653	14,633	13,490	14,935	13,848	14,207	15,805	15,701
Total equity	7,038	7,216	7,237	6,789	6,318	5,879	6,148	4,105	3,953
Quarterly P&L (UAHm)									
Net interest income	942	1,047	1,064	1,154	1,181	1,201	1,290	1,349	1,439
Net commission income	362	402	408	345	382	429	473	478	411
Operating income (before LLP)	1,514	1,614	1,549	702	1,593	1,973	1,582	1,614	2,288
Operating expenses	-766	-807	-882	-736	-833	-953	-867	-854	-865
Loan loss provisions (LLP)	-247	-521	-595	-870	-956	-1,573	-1,088	-2,600	-1,575
Net income	438	216	-8	-943	-60	-366	1	-1,840	-152
Last 12-month period P&L (UAHm)									
Net interest income	3,789	3,834	3,910	4,206	4,446	4,599	4,826	5,021	5,278
Net commission income	1,470	1,488	1,501	1,516	1,536	1,564	1,630	1,763	1,791
Operating income (before LLP)	5,626	5,805	5,918	5,379	5,458	5,817	5,850	6,762	7,457
Operating expenses	-3,490	-3,468	-3,269	-3,192	-3,258	-3,404	-3,389	-3,507	-3,539
Loan loss provisions (LLP)	-1,338	-1,362	-1,674	-2,234	-2,943	-3,995	-4,488	-6,217	-6,837
Net income	540	703	730	-297	-795	-1,376	-1,367	-2,265	-2,357
Growth rates (%YoY)									
Assets	-5.4	-5.5	-8.9	-2.2	-1.2	-0.3	7.8	17.4	18.0
Gross loans	-4.0	-5.1	-0.3	14.2	13.8	19.4	21.4	27.9	17.6
Deposits (by businesses)	2.1	5.6	-4.7	-17.6	-9.7	-3.7	23.8	61.7	70.7
Deposits (by households)	6.4	2.8	-5.2	-17.7	-10.9	-11.5	-2.9	17.2	5.1
Deposits (total)	4.5	4.0	-5.0	-17.7	-10.4	-7.9	9.0	36.5	32.7
Total equity	10.3	14.0	14.0	0.6	-10.2	-18.5	-15.0	-39.5	-37.4
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	19.3	20.6	20.6	18.6	16.5	15.7	13.1	11.3	11.7
Equity/assets	15.7	16.1	16.7	15.1	14.2	13.2	13.1	7.8	7.5
(Equity + sub-debt)/assets	21.0	21.4	22.1	22.3	22.2	21.8	23.2	21.0	19.5
Cash & cash equivalents/liabilities	14.7	19.3	16.1	13.7	11.9	12.2	16.8	21.8	25.0
Current liquidity (R5 by NBU)	93.2	94.7	73.8	81.9	84.3	86.4	68.9	87.4	94.7
Gross loans/deposits	125.4	122.7	135.9	172.6	159.3	159.2	151.3	161.7	141.1
Net loans/deposits	92.5	91.7	102.4	124.4	111.9	107.5	103.1	96.1	79.5
Cost-to-income ratio	62.0	59.7	55.2	59.3	59.7	58.5	57.9	51.9	47.5
Net interest margin	10.8	11.0	11.3	12.2	12.8	13.2	13.7	14.1	14.9
ROAA	1.2	1.5	1.6	-0.7	-1.8	-3.1	-3.0	-4.8	-4.8
ROAE	8.2	10.3	10.3	-4.2	-11.5	-21.0	-21.8	-40.3	-46.9
NII/operating income	67.4	66.0	66.1	78.2	81.4	79.1	82.5	74.2	70.8
Core income/operating expenses	150.7	153.5	165.5	179.3	183.6	181.1	190.5	193.4	199.8

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.

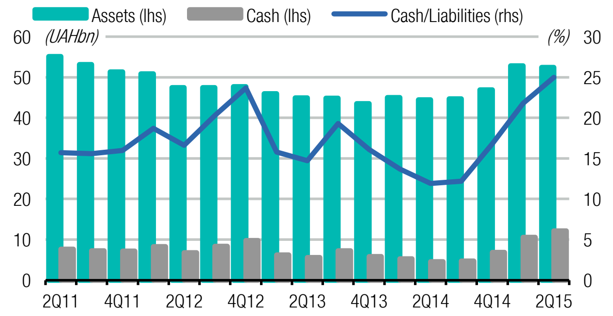
Raiffeisen Bank Aval: Key credit metrics

Chart 54. Capitalisation



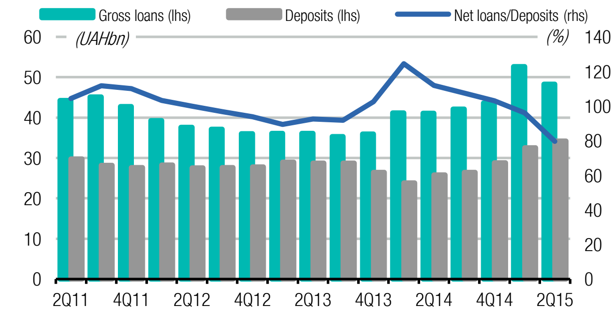
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 55. Liquidity



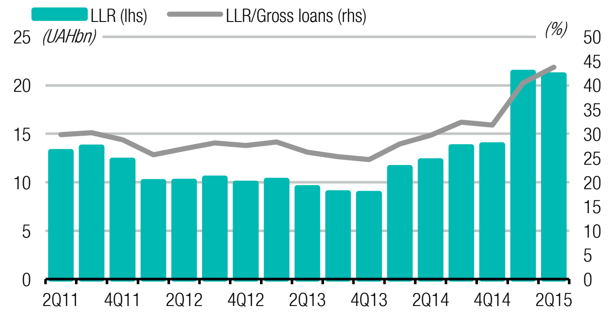
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 56. Loans and deposits



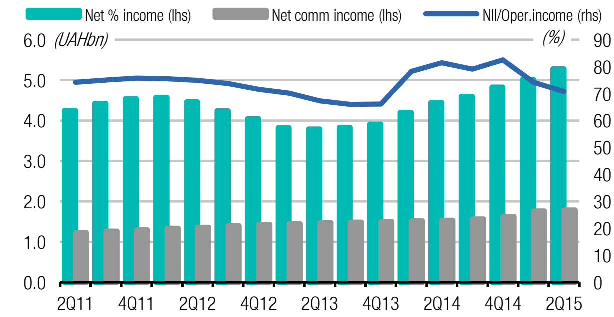
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 57. Loan loss reserves history



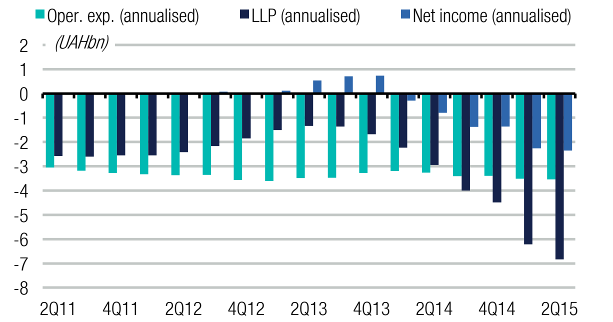
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 58. Income structure (annualised basis)



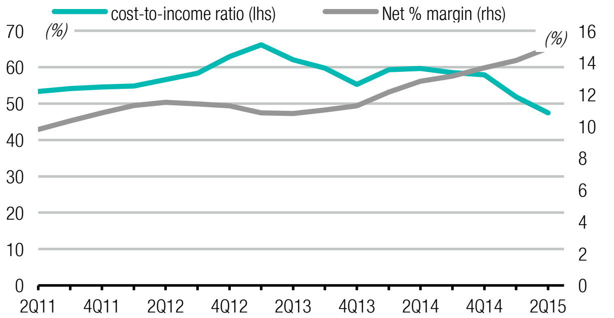
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 59. Expense and net income (annualised basis)



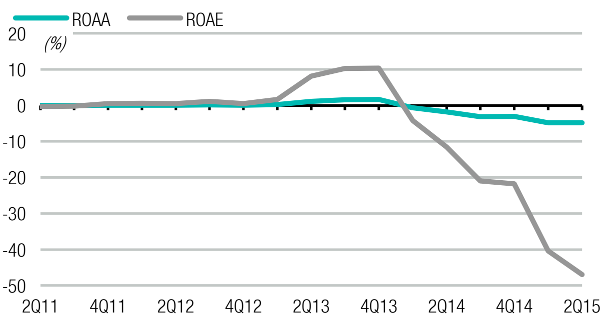
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 60. Financial performance ratios



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

Chart 61. Financial performance ratios



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

Country
Ukraine

Subsidiary Bank Sberbank of Russia

Sector
Banks: Commercial banking

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

Ticker(s) in Bloomberg
SBUA

Among the large solvent banks in Ukraine, Sberbank reported the lowest capitalization in 2Q15 as a result of the regulatory penalty for excessive lending concentration. However, the bank has sufficient sources through which it can raise capital.

Low capitalisation level. Judging from its regulatory CAR (just 4.2% -- which is less than half of the required minimum), Sberbank needs a capital injection of at least UAH2.7bn. The level of its capitalisation has declined dramatically (by 10.4ppt in 1H15) as a result of excessive lending concentration; under NBU regulations, such lending must be deducted from the calculation of the regulatory capital. Thus the bank is prohibited from including UAH4.7bn in that calculation.

Excessive liquidity. Although Sberbank's cash-to-liabilities ratio is just 4.2%, its liquidity is quite solid] owing to government bonds totalling some UAH3.0bn. Unlike most foreign-owned banks in Ukraine, Sberbank has no significant outstanding due from the parent group. This limits the ability of the Russian banking group to scale back its exposure to Ukraine.

At the same time, the amount Sberbank owes the parent group is UAH31.1bn or 61.1% of 2Q15 total liabilities. Except for its subordinated debt totalling US$0.2bn, all funds have a very short maturity (up to 90 days) and could thus be used for any capital injection.

Problematic loans exposure. In 2Q15 Sberbank reported a modest 4.5ppt increase in the share of bad debt in the overall loan portfolio to 23.4%. However, its LLR coverage is low – at just 50.6% – which we believe indicates underprovisioning. Given that 88.4% of its total loans were issued in FX and that it has significant exposure to war-affected areas, the real share of problematic debt could be significantly higher – at 30-35%.

Profit in 2Q15. Sberbank reported net income of UAH413m in 2Q15 following a net loss of UAH2.0bn in 1Q15 Owing to significantly lower provisioning expenses.

Between January 2014 and June 2015, the bank lost 62.6% of its retail deposits and has been compensated for that loss by cheaper funding from the parent group. As a result, its NIM is a very healthy 8.3%. In 2Q15 Sberbank reported that its net interest income (NII) increased by 19.0% QoQ, despite hryvnia appreciation.

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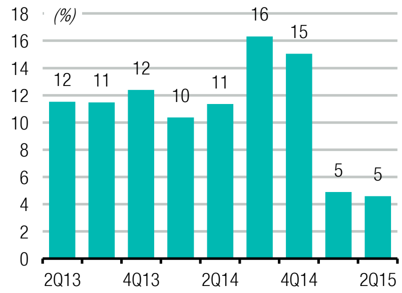
Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	2014 IFRS	1Q15 UAS	2Q15 UAS
Financials (UAHm)				
Assets	35,029	46,444	59,815	52,634
Loans	26,554	37,700	50,241	46,312
Deposits	18,863	15,084	18,939	18,781
Equity	4,091	3,782	1,772	2,106
Net % income	1,722	3,082	3,615	3,869
Net com income	271	330	339	330
Operating inc.	2,296	3,796	5,733	5,562
PPI	1,062	2,250	4,151	4,039
LLP	-411	-2,705	-6,203	-5,673
Net income	574	-398	-2,025	-1,623
Ratios (%)				
Tier 1 ratio	12.7	8.6	N/a	N/a
CAR	14.9	13.2	4.9	4.6
Equity-to-assets	11.7	8.1	3.0	4.0
Net loan-to-deposit	140.8	249.9	265.3	246.6
Cash-to-liabilit.	12.7	6.3	4.8	4.2
ROAA	1.9	-1.0	-4.2	-3.2
ROAE	15.0	-10.1	-60.7	-55.9
Net % margin	5.2	8.0	8.3	8.3
NII-to-op income	75.0	81.2	63.0	69.6
Cost-to-income	53.8	40.7	27.6	27.4
LLR	8.7	15.3	13.4	14.5
NPLs	6.8	17.2	N/a	N/a
NPL coverage	127.3	89.2	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

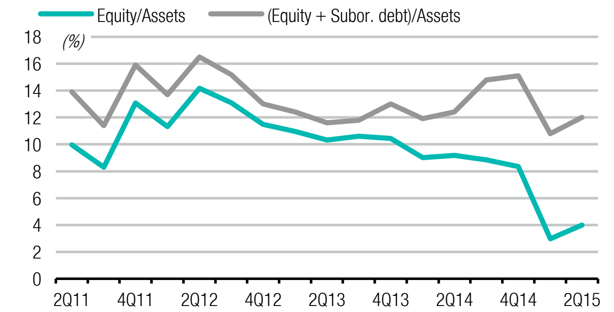
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	32,722	33,572	35,095	42,532	41,650	43,379	46,740	59,815	52,634
Cash and cash equivalents	2,516	3,455	4,005	3,631	3,177	3,103	2,732	2,785	2,097
Gross loans	24,423	25,319	27,364	36,466	37,465	37,828	41,767	58,025	54,187
Gross business loans	23,509	24,178	25,994	34,955	35,970	36,425	40,537	56,824	53,031
Gross household loans	915	1,141	1,371	1,511	1,495	1,403	1,230	1,201	1,156
Loan loss reserves (LLR)	-1,452	-1,478	-1,452	-2,081	-3,002	-3,136	-4,075	-7,784	-7,875
Deposits	17,197	18,482	18,910	19,637	15,852	14,318	14,935	18,939	18,781
Business deposits	5,142	5,146	4,953	5,014	3,648	4,169	4,287	6,008	7,690
Household deposits	12,055	13,336	13,958	14,623	12,203	10,149	10,648	12,931	11,091
Total equity	3,379	3,557	3,667	3,832	3,822	3,835	3,904	1,772	2,106
Quarterly P&L (UAHm)									
Net interest income	424	483	484	674	875	897	894	949	1,129
Net commission income	39	75	75	71	92	91	76	80	82
Operating income (before LLP)	553	636	645	1,030	1,219	1,310	1,338	1,866	1,048
Operating expenses	-303	-306	-393	-343	-423	-361	-445	-353	-363
Loan loss provisions (LLP)	-96	-142	-97	-566	-801	-1,034	-826	-3,542	-271
Net income	124	167	140	104	12	-11	4	-2,029	413
Last 12-month period P&L (UAHm)									
Net interest income	1,463	1,641	1,759	2,064	2,516	2,929	3,339	3,615	3,869
Net commission income	293	291	271	261	313	329	330	339	330
Operating income (before LLP)	2,143	2,288	2,328	2,864	3,530	4,204	4,898	5,733	5,562
Operating expenses	-1,047	-1,132	-1,262	-1,346	-1,466	-1,521	-1,573	-1,582	-1,522
Loan loss provisions (LLP)	-480	-479	-428	-902	-1,606	-2,498	-3,227	-6,203	-5,673
Net income	501	559	573	535	423	244	108	-2,025	-1,623
Growth rates (%YoY)									
Assets	61.6	47.9	29.9	44.1	27.3	29.2	33.2	40.6	26.4
Gross loans	48.0	33.9	27.8	69.0	53.4	49.4	52.6	59.1	44.6
Deposits (by businesses)	74.2	31.9	17.1	-0.6	-29.1	-19.0	-13.4	19.8	110.8
Deposits (by households)	95.7	75.6	54.2	35.1	1.2	-23.9	-23.7	-11.6	-9.1
Deposits (total)	88.7	60.7	42.4	23.8	-7.8	-22.5	-21.0	-3.6	18.5
Total equity	17.6	19.5	18.3	18.5	13.1	7.8	6.5	-53.8	-44.9
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.5	11.5	12.4	10.4	11.4	16.3	15.0	4.9	4.6
Equity/assets	10.3	10.6	10.4	9.0	9.2	8.8	8.4	3.0	4.0
(Equity + sub-debt)/assets	11.6	11.8	13.0	11.9	12.4	14.8	15.1	10.8	12.0
Cash & cash equivalents/liabilities	8.6	11.5	12.7	9.4	8.4	7.8	6.4	4.8	4.2
Current liquidity (R5 by NBU)	75.2	66.7	71.4	62.3	47.2	48.7	46.7	41.8	43.3
Gross loans/deposits	142.0	137.0	144.7	185.7	236.3	264.2	279.7	306.4	288.5
Net loans/deposits	133.6	129.0	137.0	175.1	217.4	242.3	252.4	265.3	246.6
Cost-to-income ratio	48.9	49.5	54.2	47.0	41.5	36.2	32.1	27.6	27.4
Net interest margin	6.2	6.3	6.3	6.6	7.5	8.1	8.5	8.3	8.3
ROAA	1.8	1.8	1.8	1.5	1.1	0.6	0.2	-4.2	-3.2
ROAE	15.8	16.9	16.6	14.8	11.4	6.4	2.8	-60.7	-55.9
NII/operating income	68.3	71.7	75.6	72.1	71.3	69.7	68.2	63.0	69.6
Core income/operating expenses	167.6	170.6	160.9	172.8	193.0	214.2	233.3	249.8	275.8

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.

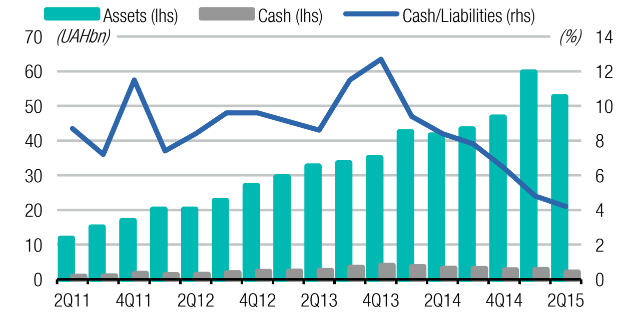
Sberbank: Key credit metrics

Chart 62. Capitalisation



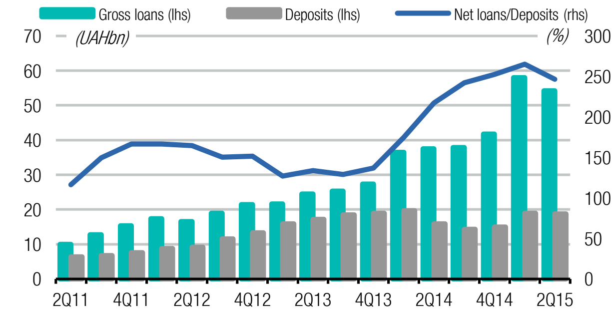
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 63. Liquidity



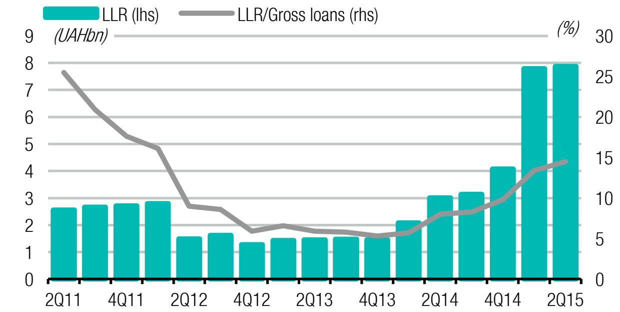
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 64. Loans and deposits



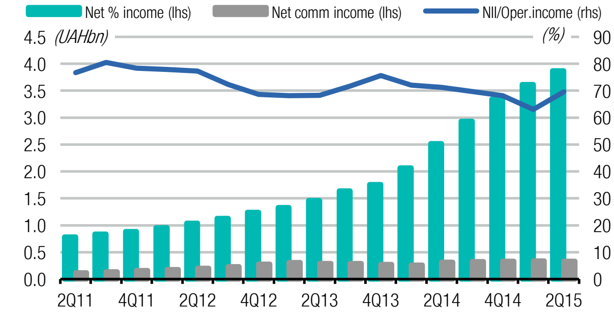
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 65. Loan loss reserves history



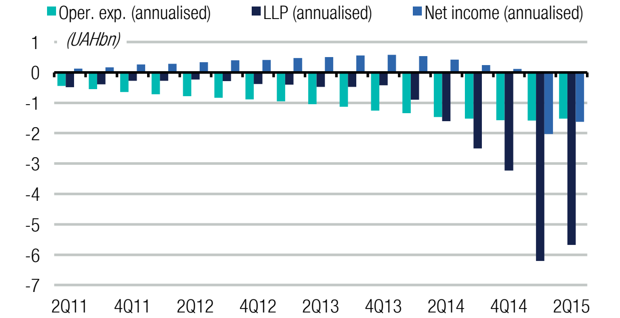
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 66. Income structure (annualised basis)



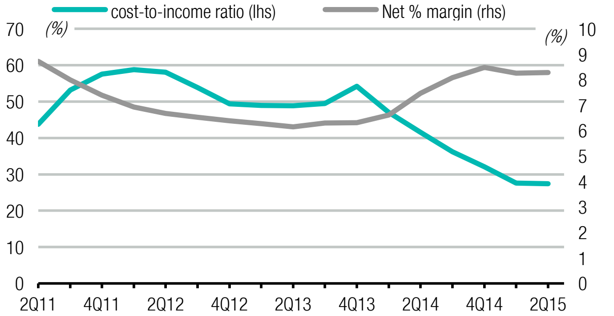
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 67. Expense and net income (annualised basis)



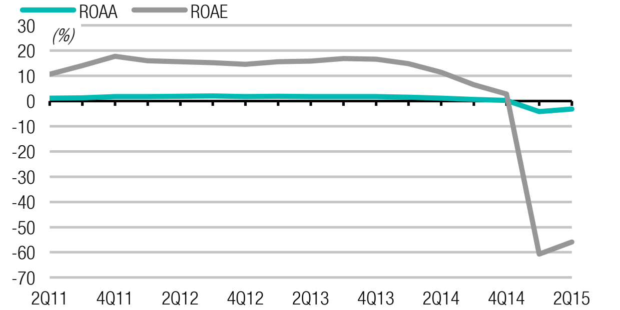
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 68. Financial performance ratios



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

Chart 69. Financial performance ratios



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

Country
Ukraine

First Ukrainian International Bank

Sector
Banks: Commercial banking

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

Ticker(s) in Bloomberg
PUMBUZ

FUIB plans to survive the financial crisis without increasing its share capital. Solid liquidity and relatively limited related-party lending are the bank's strengths, in our opinion.

Capital injection may be needed . Having passed the 2014 stress test and therefore not subject to a mandatory capital injection, the bank currently has no plans for immediate recapitalisation. However, owing to the less optimistic outlook for FUIB's loan portfolio quality, a capital injection may be deemed necessary following this year's assessment.

Solid liquidity. The bank continues to have a sound 12.4% cash-to-liabilities ratio and has acquired another UAH1.0bn in government bonds and NBU deposit certificates. At the same time, its UAH liquidity is looking much improved owing to the growth of local currency deposits.

Loan portfolio quality declines further. The share of bad debt in the overall loan portfolio increased from 13.4% in 1Q15 to 17.5% in 2Q15. The quality of the retail loan portfolio is inferior to that of the corporate one owing to the shorter maturities of retail loans and severely limited lending activity in 2014-15. According to our estimates, 28.3% of retail loans and 23.2% of corporate loans were delinquent as of 2Q15.

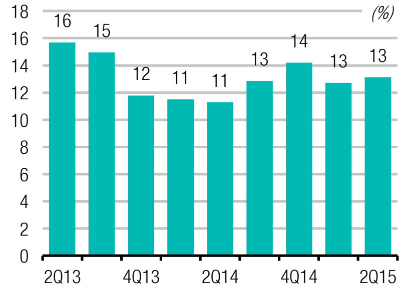
The volume of NPLs could have been much higher had FUIB not offered grace periods and other special terms to some corporate clients challenged by recent developments. According to the bank, nearly 20% of its portfolio is performing under restructured terms.

FX and corporate deposits decline. In 2Q15 outstanding UAH-denominated retail deposits increased by 6.1% QoQ, while their FX counterparts continued to decline – down 7.6% QoQ. Corporate deposits, a large share of which are held by legal entities controlled by the same entities as is the FUIB (around 25%), declined by 14.7% QoQ in 2Q15. Deposits remain the most essential part of the bank's overall funding, accounting for 78.1% (compared with the sector average of 61.9%). The other main source of funding is Eurobonds (14.3%).

Moderate losses. In 2Q15 FUIB recognised net losses totalling UAH382m – up 16.6% on 1Q15. We believe the key driver was the increase in operating expenses, which grew by 24.2% or UAH0.1bn.

Improved accounting procedures account for the significant reduction in net commission income (-UAH759m) as well as the decline in provisioning expenses (-UAH601m).

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	2014 IFRS	1Q15 UAS	2Q15 UAS
Financials (UAHm)				
Assets	27,555	31,896	40,163	34,184
Loans	17,884	20,942	30,143	26,557
Deposits	17,611	20,932	27,628	23,652
Equity	5,060	5,542	4,428	3,888
Net % income	1,151	1,534	2,401	2,387
Net com income	308	492	1,640	1,731
Operating inc.	1,636	2,148	4,626	4,829
PPI	690	1,155	3,257	3,241
LLP	-290	-514	-3,967	-4,519
Net income	279	510	-408	-869
Ratios (%)				
Tier 1 ratio	19.8	18.6	N/a	N/a
CAR	23.5	21.2	12.7	13.1
Equity-to-assets	18.4	17.4	11.0	11.4
Net loan-to-deposit	101.5	100.0	109.1	112.3
Cash-to-liabilit.	9.7	10.5	14.1	12.4
ROAA	1.0	1.7	-1.1	-2.4
ROAE	5.6	9.6	-8.7	-19.5
Net % margin	4.7	6.1	8.0	8.1
NII-to-op income	70.4	71.4	51.9	49.4
Cost-to-income	57.8	46.2	29.6	32.9
LLR	14.8	11.4	16.9	20.1
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

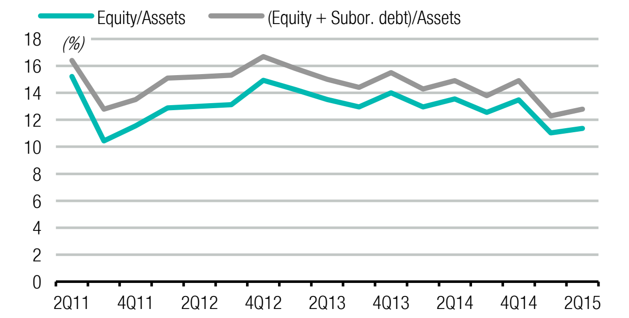
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	32,442	34,959	33,207	36,677	35,798	37,946	35,439	40,163	34,184
Cash and cash equivalents	4,400	7,654	4,910	6,646	4,690	6,860	4,642	5,037	3,755
Gross loans	21,221	22,511	23,196	27,005	27,462	28,322	29,748	36,283	33,241
Gross business loans	15,730	16,874	17,981	21,255	21,714	22,711	24,351	29,633	27,149
Gross household loans	5,491	5,637	5,215	5,750	5,748	5,611	5,396	6,651	6,092
Loan loss reserves (LLR)	-3,857	-3,898	-3,298	-3,330	-3,188	-3,903	-3,914	-6,141	-6,684
Deposits	19,678	22,528	20,444	24,351	23,801	24,446	24,516	27,628	23,652
Business deposits	8,116	11,010	9,279	12,753	12,085	13,258	12,138	13,315	10,795
Household deposits	11,562	11,518	11,164	11,598	11,716	11,188	12,378	14,313	12,857
Total equity	4,385	4,531	4,652	4,756	4,853	4,765	4,777	4,428	3,888
Quarterly P&L (UAHm)									
Net interest income	443	530	534	573	614	573	578	636	600
Net commission income	114	131	137	122	91	174	435	941	182
Operating income (before LLP)	636	681	722	821	874	959	1,144	1,648	1,078
Operating expenses	-240	-242	-306	-263	-290	-284	-384	-411	-510
Loan loss provisions (LLP)	-308	-260	-266	-388	-483	-854	-994	-1,636	-1,035
Net income	70	143	143	134	79	-145	-14	-328	-382
Last 12-month period P&L (UAHm)									
Net interest income	1,569	1,684	1,895	2,080	2,251	2,294	2,338	2,401	2,387
Net commission income	419	446	488	505	482	524	822	1,640	1,731
Operating income (before LLP)	2,256	2,465	2,566	2,860	3,098	3,376	3,799	4,626	4,829
Operating expenses	-988	-994	-1,013	-1,050	-1,100	-1,143	-1,221	-1,369	-1,589
Loan loss provisions (LLP)	-840	-952	-1,021	-1,220	-1,396	-1,990	-2,719	-3,967	-4,519
Net income	302	379	445	490	499	211	54	-408	-869
Growth rates (%YoY)									
Assets	3.1	10.7	17.6	20.9	10.3	8.5	6.7	9.5	-4.5
Gross loans	8.0	10.9	11.7	29.3	29.4	25.8	28.2	34.4	21.0
Deposits (by businesses)	14.1	40.7	26.7	54.3	48.9	20.4	30.8	4.4	-10.7
Deposits (by households)	21.2	17.8	10.1	7.0	1.3	-2.9	10.9	23.4	9.7
Deposits (total)	18.2	28.0	17.1	27.4	20.9	8.5	19.9	13.5	-0.6
Total equity	7.1	9.3	10.4	10.2	10.7	5.2	2.7	-6.9	-19.9
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	15.7	15.0	11.8	11.5	11.3	12.9	14.2	12.7	13.1
Equity/assets	13.5	13.0	14.0	13.0	13.6	12.6	13.5	11.0	11.4
(Equity + sub-debt)/assets	15.0	14.4	15.5	14.3	14.9	13.8	14.9	12.3	12.8
Cash & cash equivalents/liabilities	15.7	25.2	17.2	20.8	15.2	20.7	15.1	14.1	12.4
Current liquidity (R5 by NBU)	78.1	76.8	64.3	81.9	60.1	72.1	54.2	62.3	50.4
Gross loans/deposits	107.8	99.9	113.5	110.9	115.4	115.9	121.3	131.3	140.5
Net loans/deposits	88.2	82.6	97.3	97.2	102.0	99.9	105.4	109.1	112.3
Cost-to-income ratio	43.8	40.3	39.5	36.7	35.5	33.8	32.1	29.6	32.9
Net interest margin	6.8	7.3	7.9	8.2	8.4	8.2	8.2	8.0	8.1
ROAA	1.0	1.2	1.4	1.4	1.4	0.6	0.1	-1.1	-2.4
ROAE	7.1	8.7	10.0	10.7	10.6	4.4	1.1	-8.7	-19.5
NII/operating income	69.5	68.3	73.9	72.7	72.7	67.9	61.6	51.9	49.4
Core income/operating expenses	201.3	214.2	235.4	246.2	248.4	246.7	258.9	295.3	259.3

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.

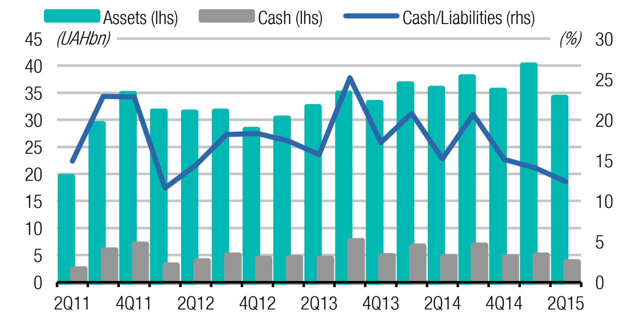
FUIB: Key credit metrics

Chart 70. Capitalisation



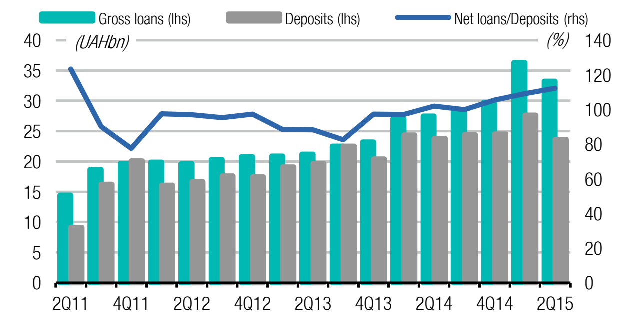
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 71. Liquidity



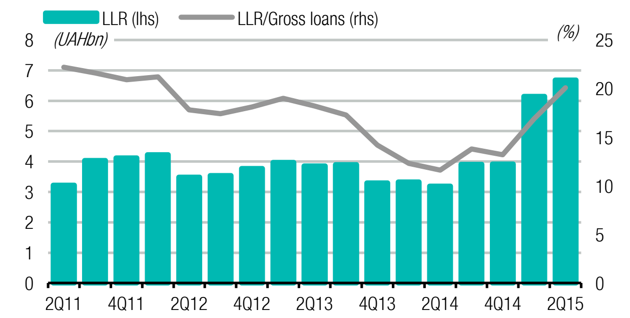
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 72. Loans and deposits



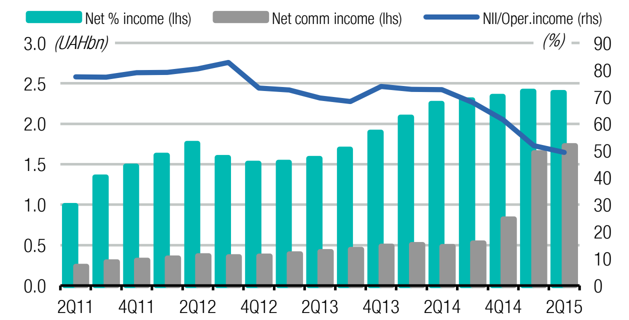
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 73. Loan loss reserves history



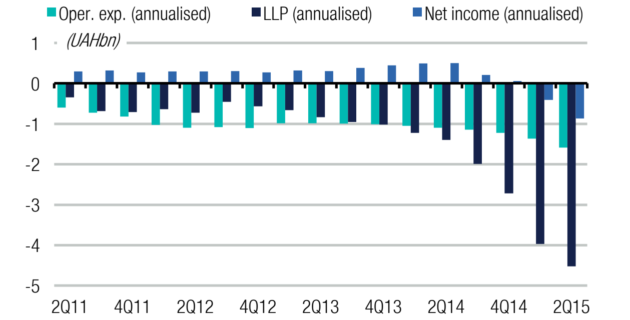
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 74. Income structure (annualised basis)



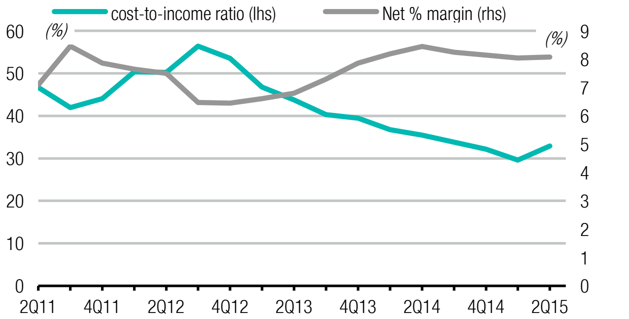
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 75. Expense and net income (annualised basis)



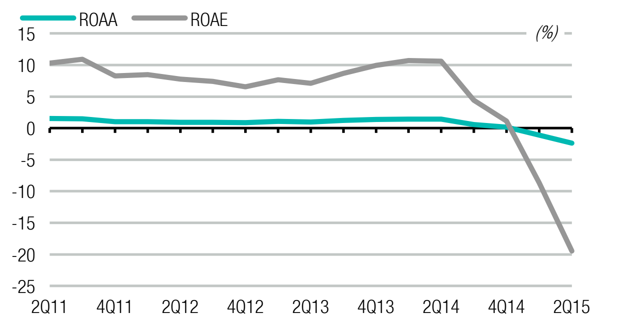
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 76. Financial performance ratios



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

Chart 77. Financial performance ratios



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

Country
Ukraine

Alfa Bank

Sector
Banks: Commercial banking

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

Ticker(s) in Bloomberg
N/A

We expect Alfa Bank to increase its market share by 2-3% if a deal is reached with Unicredit Group. In our opinion, debt collection is one of the bank's main strengths and would help lower the level of NPLs at Ukrsotsbank.

Potential to increase capital. Like other banks with Russian capital, Alfa suffers from excessive lending concentration, which is penalised by deductions in the calculation of the regulatory CAR (in the case of Alfa, UAH1.9bn or 42%). The bank will be in a position to increase its capital by UAH0.8bn or 31.0% if it succeeds in extending Tier 2 subordinated debt from the parent group worth US$132m at least until 2020.

If the bank decides to purchase loan portfolios from Ukrsotsbank (instead of pursuing the more lengthy merger process), it will require a capital injection. We estimate the total amount of interbank loans from the parent group at around US$0.1bn as of 2Q15.

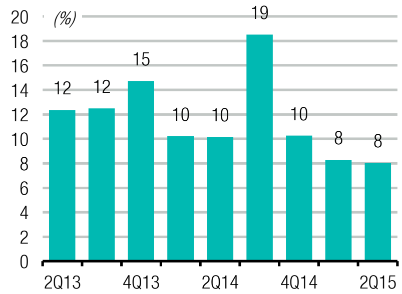
Solid liquidity. The bank's cash-to-liabilities ratio reached 11.6% in 2Q15, up just 3.2ppt on the previous quarter. However, we believe the bank has a significant local-currency cushion in the form of government bonds and NBU deposit certificates (UAH2.9bn)

Increase in deposits. Alfa was very active in attracting new deposits in 2Q15 – retail deposits increased by 1.2% QoQ and corporate ones by 13.2% QoQ, net of the FX effect. At the same time, the bank began issuing certificates of deposits – mainly for those denominated in FX – that ensure customers they will face no limits on FX withdrawals. According to our estimates, as of 2Q15 the volume of such deposits is equivalent to UAH0.3bn or almost 4% of total retail deposits. The inflow of deposits last quarter allowed the bank to repay all its loans from the NBU.

Alfa reported a decline in the share of bad debt in its total loan portfolio from 20.5% in 1Q15 to 18.7% in 2Q15, yielding income from the release of provisions totalling UAH0.2bn against net losses of UAH2.5bn. At the same time, the bank increased its LLR coverage of bad debt by 8.5ppt to 56.7% while the ratio of LLR to gross loans rose by 1.1ppt to 19.2%.

Interest margin falls. In 2Q15 the aggressive growth of deposits, which is being fuelled by high interest rates, had a negative impact on the NIM, which declined by 0.6ppt to 5.2%. We estimate Alfa's cost of funding at 12.1%, compared with the sector average of 8.2%. The bank has succeeded in reducing the amount of new consumer loans that have high margins. For this reason, the share of overdue loans is constantly increasing even as performing loans are repaid.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	2014 IFRS	1Q15 UAS	2Q15 UAS
Financials (UAHm)				
Assets	29,288	35,244	43,128	40,282
Loans	20,214	24,487	29,757	26,914
Deposits	15,838	18,061	20,943	20,946
Equity	4,190	2,063	2,254	2,247
Net % income	1,565	1,644	1,755	1,683
Net com income	508	767	958	975
Operating inc.	2,353	3,497	5,841	4,619
PPI	997	1,824	4,136	2,887
LLP	-949	-4,458	-5,853	-4,525
Net income	15	-2,193	-1,368	-1,378
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/a	N/a
CAR	N/A	N/A	6.9	6.1
Equity-to-assets	14.3	14.0	5.2	5.6
Net loan-to-deposit	127.6	127.6	142.1	128.5
Cash-to-liabilit.	24.2	13.9	14.8	11.6
ROAA	0.1	-6.8	-3.6	-3.5
ROAE	0.4	-70.1	-38.6	-45.1
Net % margin	5.5	5.3	5.8	5.2
NII-to-op income	66.5	47.0	30.1	36.4
Cost-to-income	57.6	47.8	29.2	37.5
LLR	9.1	17.7	18.1	19.2
NPLs	11.5	13.9	N/a	N/a
NPL coverage	78.9	127.7	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.

Alfa Bank: Key quarterly UAS financials and ratios

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

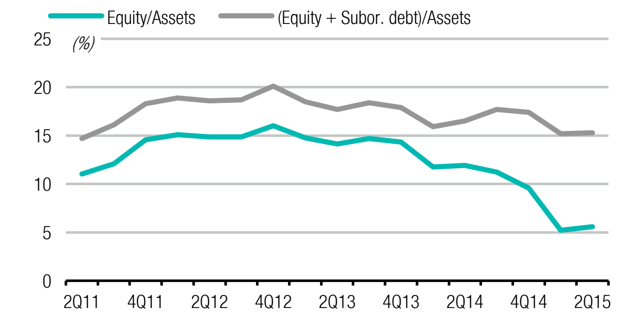
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	29,634	28,496	29,293	35,773	35,260	37,382	36,694	43,128	40,282
Cash and cash equivalents	4,941	4,523	6,066	9,521	6,970	6,697	4,617	6,033	4,410
Gross loans	21,584	21,091	22,012	24,551	25,911	26,444	29,509	36,351	33,301
Gross business loans	15,052	14,829	15,919	17,570	18,720	19,103	22,562	28,947	26,440
Gross household loans	6,532	6,261	6,094	6,981	7,190	7,341	6,946	7,404	6,861
Loan loss reserves (LLR)	-2,580	-1,996	-1,784	-2,402	-3,005	-2,959	-3,900	-6,594	-6,387
Deposits	15,761	14,365	15,831	18,137	16,846	15,549	18,061	20,943	20,946
Business deposits	6,231	5,334	6,573	8,866	6,753	6,014	7,545	8,642	9,286
Household deposits	9,530	9,032	9,258	9,271	10,093	9,535	10,516	12,301	11,660
Total equity	4,184	4,184	4,199	4,208	4,200	4,197	3,510	2,254	2,247
Quarterly P&L (UAHm)									
Net interest income	432	412	422	431	406	422	459	469	334
Net commission income	107	126	160	134	153	207	273	325	170
Operating income (before LLP)	621	525	713	1,144	1,548	1,575	669	2,049	326
Operating expenses	-375	-354	-381	-385	-440	-407	-476	-382	-467
Loan loss provisions (LLP)	-235	-161	-316	-749	-1,102	-1,171	-1,092	-2,489	227
Net income	4	2	2	2	2	-3	-745	-622	-8
Last 12-month period P&L (UAHm)									
Net interest income	1,726	1,600	1,604	1,697	1,671	1,681	1,718	1,755	1,683
Net commission income	454	499	508	527	573	654	767	958	975
Operating income (before LLP)	2,431	2,317	2,446	3,003	3,929	4,979	4,935	5,841	4,619
Operating expenses	-1,339	-1,401	-1,410	-1,495	-1,560	-1,613	-1,708	-1,705	-1,732
Loan loss provisions (LLP)	-1,032	-852	-989	-1,461	-2,328	-3,337	-4,114	-5,853	-4,525
Net income	20	16	13	11	8	3	-744	-1,368	-1,378
Growth rates (%YoY)									
Assets	6.1	3.8	14.5	28.0	19.0	31.2	25.3	20.6	14.2
Gross loans	-4.4	0.5	10.5	13.4	20.0	25.4	34.1	48.1	28.5
Deposits (by businesses)	18.5	-7.1	17.1	43.6	8.4	12.8	14.8	-2.5	37.5
Deposits (by households)	25.5	3.9	5.6	-4.9	5.9	5.6	13.6	32.7	15.5
Deposits (total)	22.6	-0.5	10.1	13.9	6.9	8.2	14.1	15.5	24.3
Total equity	0.9	2.5	2.4	1.9	0.4	0.3	-16.4	-46.4	-46.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	18.0	17.9	19.0	18.4	17.4	15.8	16.6	6.9	6.1
Equity/assets	14.1	14.7	14.3	11.8	11.9	11.2	9.6	5.2	5.6
(Equity + sub-debt)/assets	17.7	18.4	17.9	15.9	16.5	17.7	17.4	15.2	15.3
Cash & cash equivalents/liabilities	19.4	18.6	24.2	30.2	22.4	20.2	13.9	14.8	11.6
Current liquidity (R5 by NBU)	174.0	135.8	148.7	180.0	164.1	125.0	89.0	67.8	66.9
Gross loans/deposits	136.9	146.8	139.0	135.4	153.8	170.1	163.4	173.6	159.0
Net loans/deposits	120.6	132.9	127.8	122.1	136.0	151.0	141.8	142.1	128.5
Cost-to-income ratio	55.1	60.5	57.7	49.8	39.7	32.4	34.6	29.2	37.5
Net interest margin	8.2	7.4	7.1	7.2	6.8	6.4	6.2	5.8	5.2
ROAA	0.1	0.1	0.0	0.0	0.0	0.0	-2.1	-3.6	-3.5
ROAE	0.5	0.4	0.3	0.3	0.2	0.1	-18.5	-38.6	-45.1
NII/operating income	71.0	69.1	65.6	56.5	42.5	33.8	34.8	30.1	36.4
Core income/operating expenses	162.9	149.8	149.8	148.7	143.8	144.8	145.5	159.2	153.5

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

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

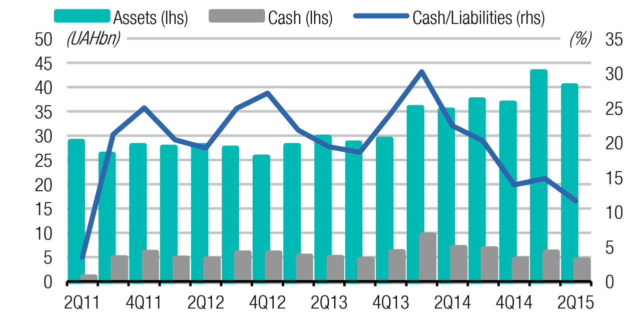
Alfa Bank: Key credit metrics

Chart 78. Capitalisation



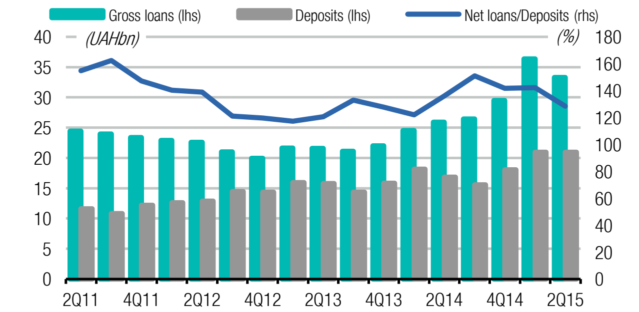
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 79. Liquidity



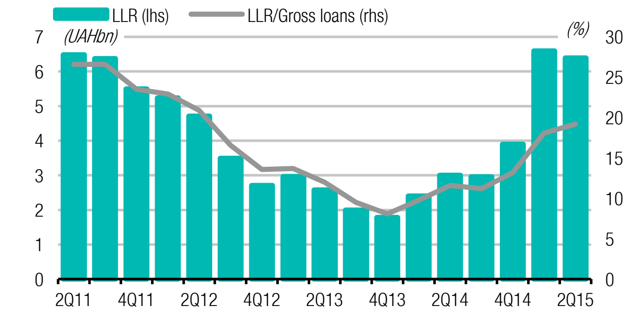
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 80. Loans and deposits



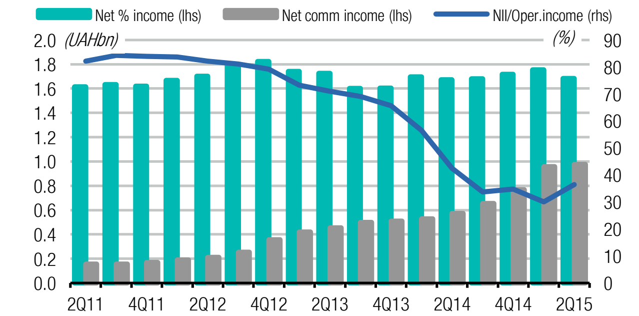
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 81. Loan loss reserves history



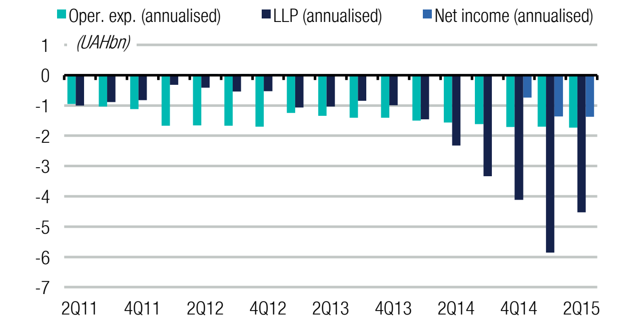
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 82. Income structure (annualised basis)



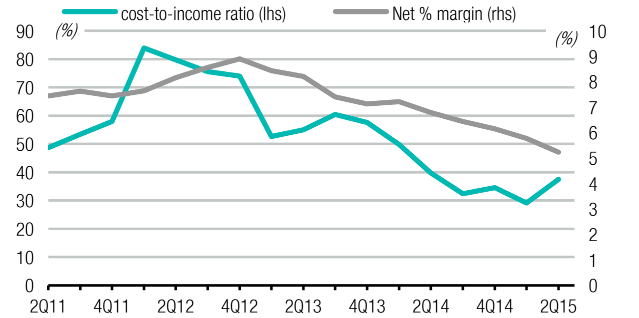
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 83. Expense and net income (annualised basis)



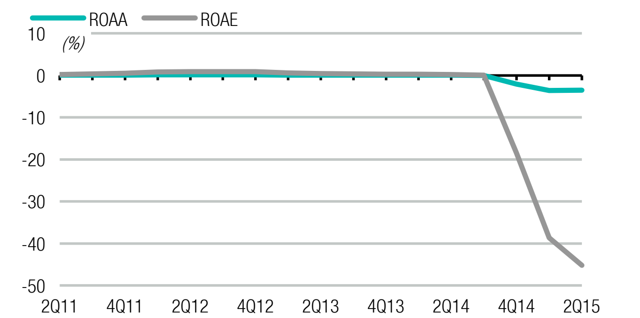
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 84. Financial performance ratios



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

Chart 85. Financial performance ratios



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

Country
Ukraine

VTB Bank

Sector
Banks: Commercial banking

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

Ticker(s) in Bloomberg
VTB

The VTB Group is experiencing enormous difficulties in Ukraine, where its subsidiary has set the record for negative equity – UAH13.4bn – of an officially solvent bank, according to the 2014 IFRS report. VTB will have to convert its debt into equity and restructure its loan portfolio if it is to continue its activities in Ukraine.

Saving the bank. VTB increased its share capital by UAH4.2bn or 63.5% in 1H15 and plans additional capital injections of UAH14.5bn. According to our estimates, the parent group has lent its Ukrainian subsidiary a total of UAH20.7bn as well as issuing it subordinated debt worth US$214m. As a result, the bank has been able to convert debt into equity and save approximately UAH1.1bn in interest expenses, owing to the relatively high interest rates on those loans (7.5-10%) compared with the rates for other foreign banks.

VTB would be in a position to increase its capitalization by UAH2.4bn if it tackled its excessive lending concentration, for which it is penalised in the calculation of its regulatory CAR.

Poor liquidity. The bank's cash-to-liabilities ratio remains low, at just 3.4% in 2Q15 (down from 4.8% in 1Q15). Unlike other major banks with foreign capital, it has very few government bonds or other highly liquid assets.

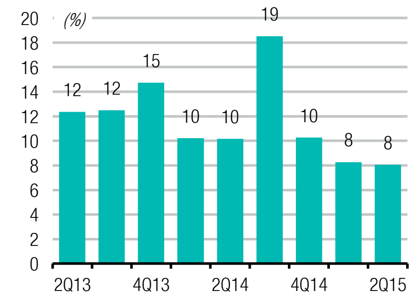
In 2Q15 VTB increased its corporate deposits by 1.2% QoQ, while its retail deposit declined by 1.3% QoQ. According to our estimates, that bank lost 64.7% of its retail deposits between January 2014 and June 2015, while corporate deposits fell by just 4.3%.

Loan loss reserves need to triple. VTB has formed reserves of only 20.4% against its UAH36.5bn gross corporate loan portfolio. Increasing that percentage to the IFRS level of 65% will mean additional provisioning expenses totalling UAH16.3bn. The total share of NPLs reached 53.8% of the gross loan portfolio in 2Q15 as a result of the bank's credit exposure in Donbas and the overall decline of Ukraine's economy.

We believe loan loss provisions in the retail portfolio are close to adequate. Yet they accounted for just 2.9% of VTB's total assets in 2Q15.

Restructuring is crucial. NII has reached UAH9m as a result of VTB's poor loan portfolio performance and the high cost of funding. In our opinion, the conversion of loans from the parent group into equity is as crucial for the bank's future as is the restructuring of its loan portfolio.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2013 IFRS	2014 IFRS	1Q15 UAS	2Q15 UAS
Financials (UAHm)				
Assets	24,247	18,388	42,887	39,221
Loans	17,923	12,093	35,684	30,219
Deposits	11,211	7,924	9,082	8,663
Equity	2,165	-13,443	3,258	2,929
Net % income	1,348	779	1,191	770
Net com income	265	215	615	703
Operating inc.	1,759	-2,655	2,108	1,466
PPI	528	-3,961	791	347
LLP	-2,184	-12,724	-2,248	-1,050
Net income	-1,717	-16,685	-1,653	-1,754
Ratios (%)				
Tier 1 ratio	9.5	< 0	N/a	N/a
CAR	14.9	< 0	8.3	8.1
Equity-to-assets	8.9	-73.1	7.6	7.5
Net loan-to-deposit	159.9	152.6	392.9	348.8
Cash-to-liabilit.	11.9	4.8	4.8	3.4
ROAA	-6.0	-78.3	-4.6	-4.7
ROAE	-56.8	N/a	-37.2	-42.6
Net % margin	6.8	4.6	4.0	2.5
NII-to-op income	76.6	-29.3	56.5	52.5
Cost-to-income	70.0	-49.2	62.5	76.3
LLR	24.9	64.4	20.1	22.6
NPLs	29.1	53.8	N/a	N/a
NPL coverage	85.7	119.8	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

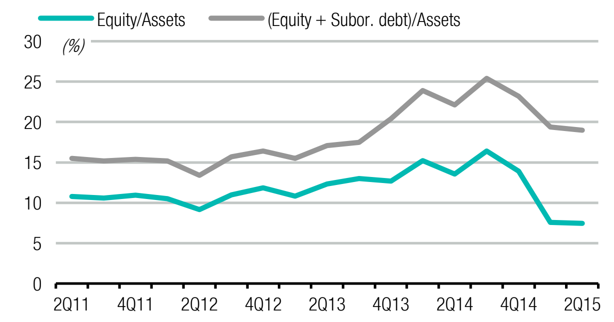
	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Balance sheet figures (UAHm)									
Assets	29,523	29,089	25,286	29,460	31,359	31,493	36,502	42,887	39,221
Cash and cash equivalents	2,504	2,751	3,195	1,817	2,750	1,971	2,011	1,915	1,237
Gross loans	25,355	24,738	22,923	27,483	28,787	28,664	32,602	44,678	39,062
Gross business loans	21,021	20,723	18,953	23,628	25,153	25,631	29,703	41,636	36,536
Gross household loans	4,334	4,015	3,970	3,855	3,634	3,033	2,899	3,042	2,526
Loan loss reserves (LLR)	-4,312	-4,123	-4,234	-3,095	-4,289	-3,628	-3,316	-8,994	-8,844
Deposits	12,490	12,277	11,148	9,302	8,234	6,709	7,900	9,082	8,663
Business deposits	5,009	4,948	4,085	3,639	3,299	2,690	3,991	4,684	4,611
Household deposits	7,481	7,330	7,062	5,663	4,935	4,019	3,910	4,398	4,052
Total equity	3,641	3,779	3,207	4,481	4,258	5,174	5,088	3,258	2,929
Quarterly P&L (UAHm)									
Net interest income	567	450	386	354	412	411	312	56	-9
Net commission income	100	131	148	135	130	136	113	236	217
Operating income (before LLP)	684	624	545	715	699	699	749	-39	57
Operating expenses	-295	-263	-297	-260	-490	-281	-303	-243	-292
Loan loss provisions (LLP)	-228	-221	-625	801	-1,293	-698	82	-338	-95
Net income	160	139	-572	1,255	-229	-281	-103	-1,041	-330
Last 12-month period P&L (UAHm)									
Net interest income	1,837	1,800	1,771	1,758	1,603	1,564	1,490	1,191	770
Net commission income	487	457	468	514	543	549	514	615	703
Operating income (before LLP)	2,503	2,432	2,252	2,405	2,421	2,497	2,862	2,108	1,466
Operating expenses	-1,530	-1,403	-1,133	-1,116	-1,311	-1,329	-1,335	-1,317	-1,119
Loan loss provisions (LLP)	-157	-393	-1,280	-274	-1,339	-1,816	-1,109	-2,248	-1,050
Net income	808	636	-194	982	593	174	643	-1,653	-1,754
Growth rates (%YoY)									
Assets	-22.7	-15.7	-26.1	-8.3	6.2	8.3	44.4	45.6	25.1
Gross loans	-18.3	-18.4	-21.1	0.7	13.5	15.9	42.2	62.6	35.7
Deposits (by businesses)	-9.6	-17.3	-30.7	-38.2	-34.1	-45.6	-2.3	28.7	39.8
Deposits (by households)	33.7	33.5	13.5	-19.0	-34.0	-45.2	-44.6	-22.3	-17.9
Deposits (total)	12.2	7.0	-8.0	-27.8	-34.1	-45.3	-29.1	-2.4	5.2
Total equity	4.2	-0.3	-20.8	28.7	17.0	36.9	58.6	-27.3	-31.2
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	12.4	12.5	14.7	10.2	10.2	18.5	10.3	8.3	8.1
Equity/assets	12.3	13.0	12.7	15.2	13.6	16.4	13.9	7.6	7.5
(Equity + sub-debt)/assets	17.1	17.5	20.4	23.9	22.1	25.4	23.2	19.4	19.0
Cash & cash equivalents/liabilities	9.7	10.9	14.5	7.3	10.1	7.5	6.4	4.8	3.4
Current liquidity (R5 by NBU)	53.6	56.8	64.1	46.2	60.9	64.1	61.0	42.4	53.9
Gross loans/deposits	203.0	201.5	205.6	295.4	349.6	427.2	412.7	492.0	450.9
Net loans/deposits	168.5	167.9	167.6	262.2	297.5	373.1	370.7	392.9	348.8
Cost-to-income ratio	61.1	57.7	50.3	46.4	54.1	53.2	46.6	62.5	76.3
Net interest margin	7.0	7.3	7.7	7.5	6.7	6.3	5.5	4.0	2.5
ROAA	2.5	2.0	-0.7	3.5	2.1	0.6	2.0	-4.6	-4.7
ROAE	21.6	17.0	-5.5	26.0	15.1	4.1	13.5	-37.2	-42.6
NII/operating income	73.4	74.0	78.7	73.1	66.2	62.6	52.0	56.5	52.5
Core income/operating expenses	151.9	160.9	197.7	203.6	163.7	159.0	150.1	137.1	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.

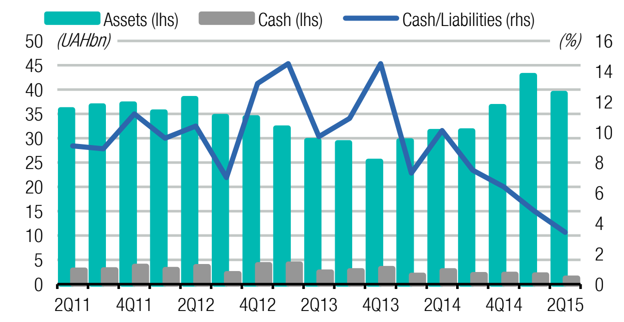
VTB Bank: Key credit metrics

Chart 86. Capitalisation



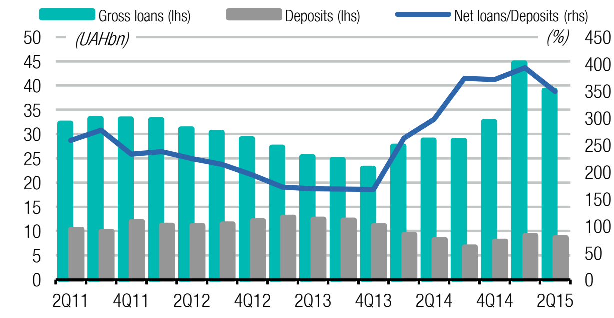
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 87. Liquidity



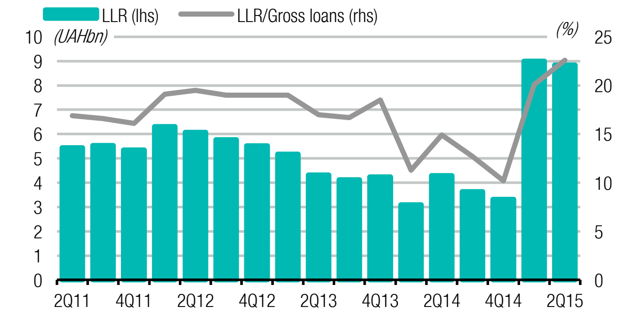
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 88. Loans and deposits



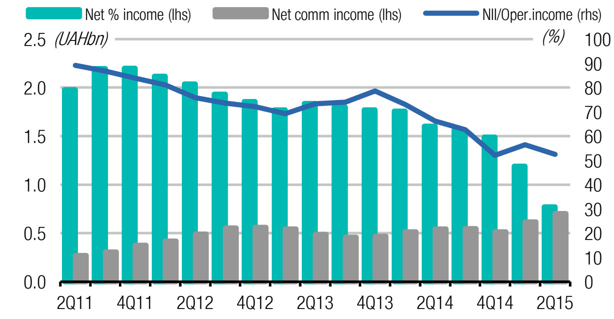
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 89. Loan loss reserves history



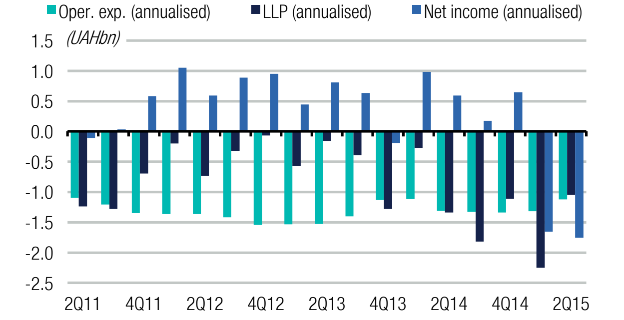
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 90. Income structure (annualised basis)



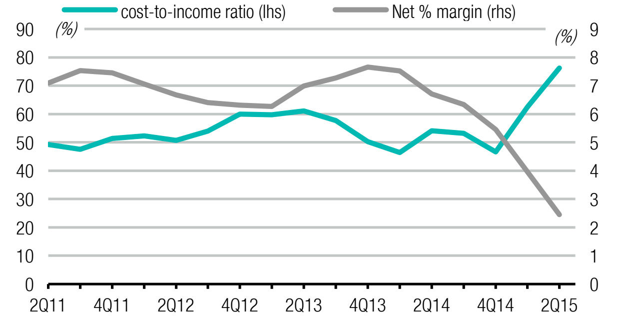
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 91. Expense and net income (annualised basis)



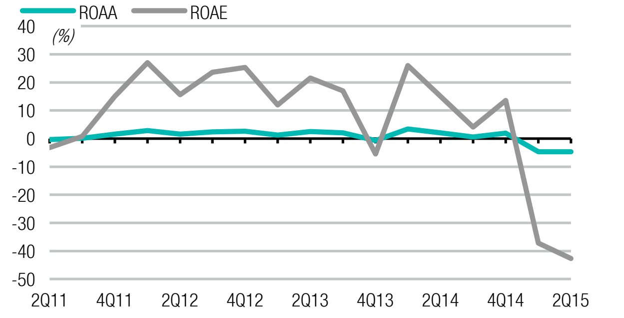
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 92. Financial performance ratios



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

Chart 93. Financial performance ratios



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

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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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