

Country

Ukraine

First Ukrainian International Bank

Sector

Banks: Commercial banking

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

Ca/ NR/ NR PUMBUZ

Ticker(s) in Bloomberg

FUIB announces recapitalization plan. A recent stress test has revealed a need for an additional UAH1.2bn in capital (35% share capital increase) that FUIB's shareholder agreed to provide through September 2016. Considering the overall acceptable UAH liquidity, no net cash inflow appears to be necessary for this recapitalization. The balance of related party deposits comprise 17.8% of the bank's customer accounts (UAH5.2bn) of which approximately 70% are considered to be stable.

Although the bank has not disclosed its regulatory capital adequacy ratio (RCAR) for 1Q16, we believe it to be above the minimum required level of 5% but below the final recapitalization target of 10%, primarily because of related party credit exposure. As excessive net exposure is deducted from regulatory capital, the bank must either reduce it or seek a capital injection. Please note that the NBU's related party identification methodology is more conservative than normal international measures. As such, credit exposure to entities owned by close business partners of FUIB's shareholder Mr. Akhmetov are considered to be insider exposure.

Liquidity remains sufficient. FUIB meets the regulatory requirements for liquidity. According to our estimates, at any time the bank holds UAH2.5bn to UAH3.0bn of spare UAH liquidity in government bonds and NBU certificates of deposit.

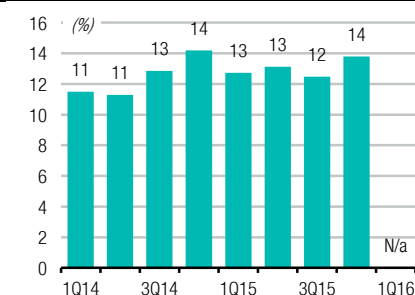
We expect the bank to be able to repay the partial principal amortization and coupon payment due on June 30.

NPL collections. NPL growth has significantly declined to 25.8%. The bank has collected approximately UAH1bn of NPLs in cash during 2015 and plans to resolve the remaining UAH9.5bn of 90+ days overdue gross exposure over the next three years.

Bank plans to increase its high margin retail consumer loans that currently account for 37% of the bank's gross retail portfolio (see Chart 2). However, the total outstanding has declined by quarter over the last year as the volume of newly issued loans is continually lower than their repayment.

Deposits show signs of growth. Customer deposit have increased by 0.5% QoQ in 1Q16, net of the FX revaluation effect. Corporate customers demonstrated 2.8% QoQ growth while retail deposits contracted by 1.7% QoQ due to the outflow in the FX segment. The bank recently has introduced certificates of deposits for retail customers that allow them to legally avoid NBU constraints on FX withdrawals. Such instruments enable the bank to keep customers with significantly above average FX deposits outstanding who would be unable to withdraw that amount of money during

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

	2014	2015	1Q15	1Q16
	IFRS	IFRS	UAS	IFRS

Financials (UAHm)

Assets	37 431	37 644	40 163	39 393
Loans	28 356	26 288	30 143	26 489
Deposits	26 273	27 585	27 628	29 038
Equity	5 532	3 667	4 428	3 404
Net % income	2 345	2 146	2 401	1 892
Net com income	834	909	1 640	183
Operating inc.	4 340	4 311	4 626	3 422
PPI	2 690	2 665	3 257	1 797
LLP	-2 863	-4 821	-3 967	-3 845
Net income	-136	-1 752	-408	-1 690

Ratios (%)

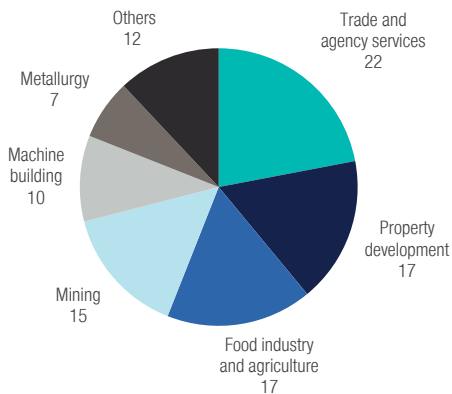
Tier 1 ratio	14.1	9.9	N/a	N/a
CAR	17.4	13.2	13.8	N/a
Equity-to-assets	14.8	9.7	9.7	8.6
Net loan-to-deposit	107.9	95.3	95.3	91.2
Cash-to-liability	14.0	15.2	6.3	7.7
ROAA	-0.4	-4.7	-4.7	-4.6
ROAE	-2.5	-38.1	-43.7	-45.1
Net % margin	6.8	6.3	7.0	6.1
NII-to-op income	54.0	49.8	49.4	55.3
Cost-to-income	38.0	38.2	37.5	47.5
LLR	15.2	28.6	28.7	28.4
NPLs	18.2	25.9	26.5	25.8
NPL coverage	83.7	110.6	96.1	99.5

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

one visit to the bank due to the regulatory limits on withdrawals. With yesterday's increase of the maximum withdrawal amount from UAH50,000 to UAH100,000, along with expected further FX liberalization, we see little advantage for this instrument.

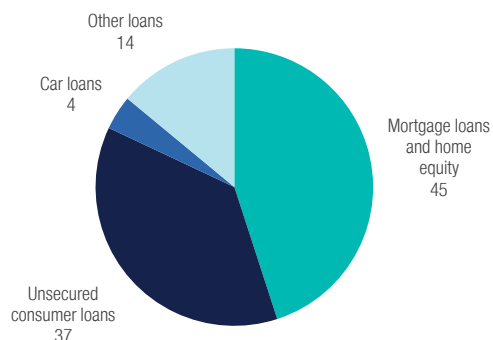
No profits yet. The bank has recognized a net loss of UAH265m in 1Q16, 77.8% below results in 4Q15, because of high provisioning expenses (UAH615m). We estimate the cost of risk to be 12.3% and a net interest margin of 6.1% in 1Q16.

Chart 1. Corporate Gross Loans Breakdown by Industry, %



Source: Bank's data.

Chart 2. Retail Gross Loans Breakdown by Type, %



Source: Bank's data.

FUIB: Key quarterly UAS financials and ratios

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

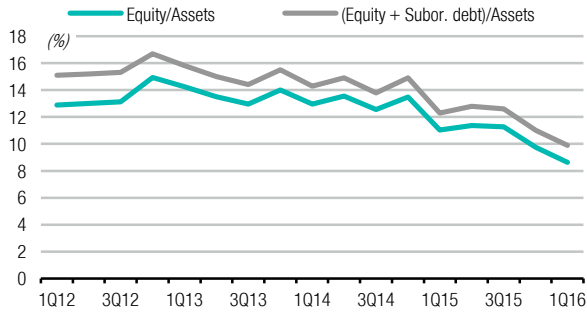
	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15IFRS	1Q16IFRS
Balance sheet figures (UAHm)									
Assets	36,677	35,798	37,946	35,439	40,163	34,184	35 865	37 644	39 393
Cash and cash equivalents	6,646	4,690	6,860	4,642	5,037	3,755	5 035	2 142	2 754
Gross loans	27,005	27,462	28,322	29,748	36,283	33,241	33 054	36 848	36 988
Gross business loans	21,255	21,714	22,711	24,351	29,633	27,149	27 213	29 058	30 154
Gross household loans	5,750	5,748	5,611	5,396	6,651	6,092	5 841	7 790	6 834
Loan loss reserves (LLR)	-3,330	-3,188	-3,903	-3,914	-6,141	-6,684	-7 132	-10 561	-10 500
Deposits	24,351	23,801	24,446	24,516	27,628	23,652	24 176	27 585	29 038
Business deposits	12,753	12,085	13,258	12,138	13,315	10,795	11 601	13 585	14 543
Household deposits	11,598	11,716	11,188	12,378	14,313	12,857	12 575	14 000	14 495
Total equity	4,756	4,853	4,765	4,777	4,428	3,888	4 041	3 667	3 404
Quarterly P&L (UAHm)									
Net interest income	573	614	573	578	636	600	709	202	381
Net commission income	122	91	174	435	941	182	239	-453	215
Operating income (before LLP)	821	874	959	1,144	1,648	1,078	1 181	434	730
Operating expenses	-263	-290	-284	-384	-411	-510	-476	-233	-407
Loan loss provisions (LLP)	-388	-483	-854	-994	-1,636	-1,035	-538	-1 658	-614
Net income	134	79	-145	-14	-328	-382	154	-1 197	-265
Last 12-month period P&L (UAHm)									
Net interest income	2,080	2,251	2,294	2,338	2,401	2,387	2 523	2 146	1 892
Net commission income	505	482	524	822	1,640	1,731	1 797	909	183
Operating income (before LLP)	2,860	3,098	3,376	3,799	4,626	4,829	5 051	4 341	3 422
Operating expenses	-1,050	-1,100	-1,143	-1,221	-1,369	-1,589	-1 780	-1 630	-1 626
Loan loss provisions (LLP)	-1,220	-1,396	-1,990	-2,719	-3,967	-4,519	-4 203	-4 867	-3 845
Net income	490	499	211	54	-408	-869	-570	-1 752	-1 690
Growth rates (%YoY)									
Assets	20.9	10.3	8.5	6.7	9.5	-4.5	-5.5	6.2	-1.9
Gross loans	29.3	29.4	25.8	28.2	34.4	21.0	16.7	23.9	1.9
Deposits (by businesses)	54.3	48.9	20.4	30.8	4.4	-10.7	-12.5	11.9	9.2
Deposits (by households)	7.0	1.3	-2.9	10.9	23.4	9.7	12.4	13.1	1.3
Deposits (total)	27.4	20.9	8.5	19.9	13.5	-0.6	-1.1	12.5	5.1
Total equity	10.2	10.7	5.2	2.7	-6.9	-19.9	-15.2	-23.2	-23.1
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.5	11.3	12.9	14.2	12.7	13.1	12.5	13.8	n/a
Equity/assets	13.0	13.6	12.6	13.5	11.0	11.4	11.3	9.7	8.6
(Equity + sub-debt)/assets	14.3	14.9	13.8	14.9	12.3	12.8	12.6	11.0	9.9
Cash & cash equivalents/liabilities	20.8	15.2	20.7	15.1	14.1	12.4	15.8	6.3	7.7
Current liquidity (R5 by NBU)	81.9	60.1	72.1	54.2	62.3	50.4	61.2	72.4	n/a
Gross loans/deposits	110.9	115.4	115.9	121.3	131.3	140.5	136.7	133.6	127.4
Net loans/deposits	97.2	102.0	99.9	105.4	109.1	112.3	107.2	95.3	91.2
Cost-to-income ratio	36.7	35.5	33.8	32.1	29.6	32.9	35.3	37.5	47.5
Net interest margin	8.2	8.4	8.2	8.2	8.0	8.1	8.6	7.0	6.1
ROAA	1.4	1.4	0.6	0.1	-1.1	-2.4	-1.6	-4.7	-4.6
ROAE	10.7	10.6	4.4	1.1	-8.7	-19.5	-13.3	-43.7	-45.1
NI/operating income	72.7	72.7	67.9	61.6	51.9	49.4	49.9	49.4	55.3
Core income/operating expenses	246.2	248.4	246.7	258.9	295.3	259.3	242.6	187.5	127.6

Notes: UAS reporting was discontinued in 4Q15. IFRS figures are used for this and all subsequent quarters. P&L ratios are on a 12-month annualised basis; ROAE – Return on average assets; ROAE – Return on average equity; NI – 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.

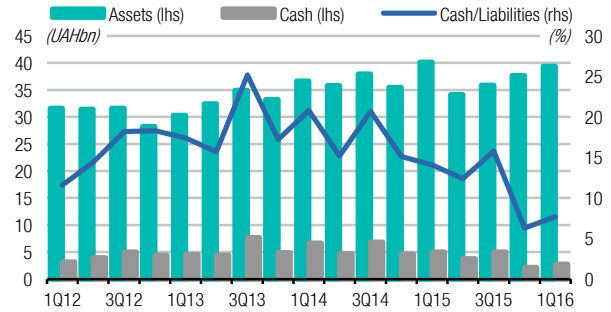
FUIB: Key credit metrics

Chart 3. Capitalisation



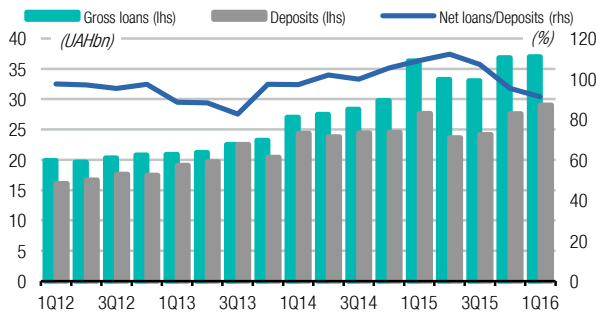
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 4. Liquidity



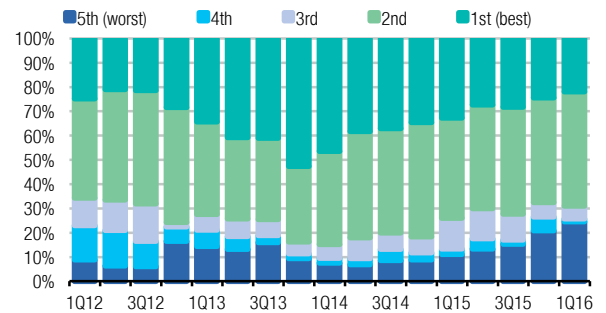
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 5. Loans and deposits



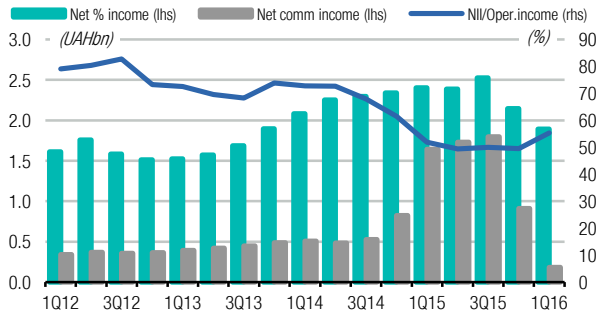
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 6. Total credit exposure quality



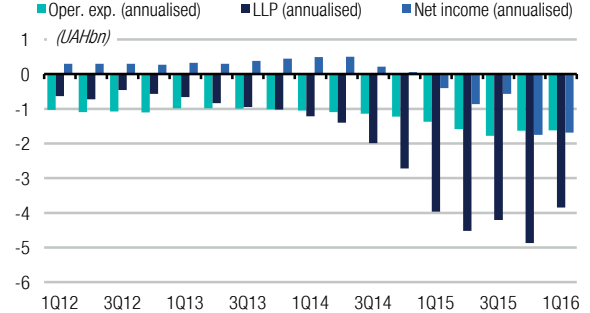
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 7. Income structure (annualised basis)



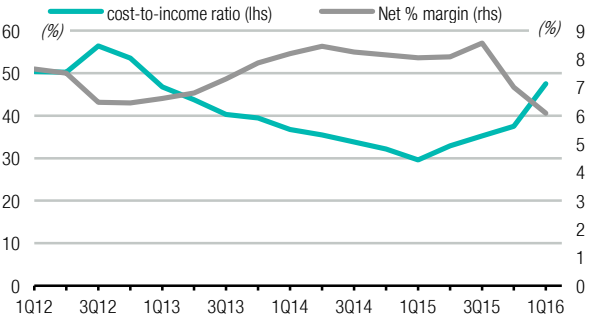
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Expense and net income (annualised basis)



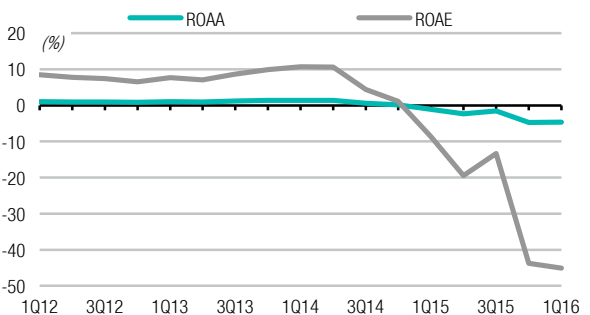
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 9. Financial performance ratios



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

Chart 10. Financial performance ratios



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

Disclosures

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

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

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

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

DEBT RATING DEFINITIONS

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

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

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



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