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Mykhaylo Demkiv
Kiev, +38 044 2200120
mykhaylo.demkiv@icu.ua

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Executive summary

Our banking sector quarterly update focuses on the most recent financial data for banks, which are for 4Q13, and on the latest developments in the sector as well as in the economy. In a nutshell, it contains the following viewpoints.

Macroeconomic correction puts pressure on public finances. According to our base-case scenario, the Ukrainian economy is in recession: it contracted 4.3%YoY, while the loss of control over Crimea means the loss of 3.7% of GDP and hence a total loss of 8% to the economy. In our view, the UAH exchange rate has undergone corrective devaluation; it is forecast to reach 11.30 by the end of this year. Recession and devaluation are having a combined effect on the banking sector as a whole, forcing individual banks to recapitalise. The central government deficit is currently running at 6% of GDP, which means that the level of public debt is heading from 40% as of end-2013 towards 56% by the end of this year. However, this is still short of the 60% threshold that is deemed critical for Ukraine's public finances and constitutes a covenant for the outstanding Russian US\$3bn Eurobond, which is due in December 2015. The sizable (16ppt) increase in the public debt level over 2014 will accommodate the budget deficit, FX adjustment and financing of quasi-sovereign funding gaps, which includes the recapitalisation of Naftogaz and the state banks (for details, see the *ICU Quarterly Report* of 17 April 2014 titled "Ukraine: Global war by other means".)

Banks will require UAH30-40bn to keep the same level of capitalisation in 2014

Share capital increase is needed. The National Bank of Ukraine (NBU) has announced its plans to run stress tests of more than 35 banks in cooperation with international institutions. As we have argued in previous research reports, Ukrainian financial institutions are under-capitalised owing to a very high but not yet fully reported level of bad debt and further losses.

We expect the gradual recapitalisation of individual banks in 2014-15. According to our estimates, Ukraine's banks will need a total of UAH30-40bn in additional share capital or subordinated debt in order for the overall level of capitalisation to remain the same as in 3Q13. That figure includes direct losses from UAH devaluation totalling UAH20-25bn caused by the banks' short FX position. Moreover, we expect further impairment of the loan portfolio – especially of those loans denominated in FX – totalling UAH10-15bn. However, our estimate is a rather optimistic one since we believe that NBU limits on FX lending has significantly reduced the pool of potential borrowers to, above all, companies with FX revenues.

Crimea annexation. The Russian annexation of the Crimea Republic and city of Sevastopol is unlikely to have a very significant impact on the Ukrainian banking sector owing to its relatively small share of the total. Only 1.6% of total loans and 3.4% of total deposits were held by banks registered in the breakaway state. Local branches have been given permission by the occupying forces to operate under Ukrainian licences until 2015. We expect that most Ukrainian banks will choose to sell their Crimean assets to Russian banks owing to the marginal size of their business in Crimea and the additional cost of obtaining a new licence.

In line with our *Quarterly Report* (published on 17 April 2014), our base-case scenario for the banking sector considers the Kremlin military invasion stops at annexation of the

Crimea peninsula. However, our worst-case scenario envisages the additional escalation of the pro-Kremlin separatist movement in the mainland could lead to the additional loss (via annexation) of three eastern oblasts (Kharkiv, Luhansk and Donetsk). We believe that the combined amount of loans issued to the residents of three eastern oblasts and Crimea accounts for 12.2% of the banking sector total. However, if the loan exposure to businesses that are registered in other regions (e.g. in Kyiv) but operate in the potential breakaway regions is taken into account, the total loan exposure is close to UAH200bn or 22.5% of the total.

We believe that the base-case scenario will have a negative, albeit not that significant, impact on the financial results of the banking sector as a whole. At the same time, the potential succession of the eastern oblasts – which, combined, are much larger than Crimea – would constitute a very heavy shock owing to the large share of those oblasts in the country's GDP and the resulting loss of ties in both the banking and the non-financial sector.

Very modest lending volumes. Only those banks with a large share of loans issued to what are thought to be related parties were able to increase their corporate portfolios significantly. While the exodus of European banks ground to a halt owing to technical issues and the limited pool of potential buyers, it was the “Big Guys” group of banks that once again demonstrated portfolio growth. However, given that the authorities suspect that various banks that issued loans on a large scale were involved in a scam, net corporate portfolio growth of UAH33.6bn in 4Q13 does not seem that impressive.

The banks are expected to significantly increase their assets in 1Q14, but this growth will be driven by the revaluation of FX-denominated loans. In fact, high interest rates and liquidity problems caused by depositor runs had already had a significant negative impact on lending during the first few months of 2014.

For their part, Russian banks have made clear, albeit discretely, that they intend to remain in the Ukrainian market, despite the deterioration of bilateral relations. Sberbank and Alfa Bank demonstrated the largest loan portfolio growth among the banks with Russian capital. Moreover, the Alfa Group increased its exposure to Ukraine by purchasing Bank of Cyprus (Ukraine) and announced plans to acquire other assets.

Cooperation with international institutions can replace some European capital

International institutions are the new lenders. Following the announcement that political and economic transformations are to get under way, international lending organisations stated their intention to provide loans in Ukraine. The European Investment Bank announced a EUR220m credit line for Oschadbank to facilitate lending to SMEs, while the EBRD said it plans for direct lending totalling EUR5bn until 2020. While that amount is not significant compared with the overall size of the Ukrainian banking sector, such plans are likely to reverse the outflow of Western capital from the market, which will have a strong positive impact on the availability of credit resources and help drive down the currently high interest rates.

Ukrainian-style QE continues. State-owned Oschadbank continued to take part in the monetary expansion conducted by the NBU. In 4Q13 it increased its indebtedness to the NBU by UAH5.8bn while growing its investment in securities by UAH11.7bn. As the overwhelming majority (84.4%) of securities held by Ukrainian banks were issued by government institutions or state-controlled corporations, we believe such activity can be seen as indirect financial support for the government. In early 2014 the regulator had to change its strategy and provide large loans to the commercial banks to help them deal with the loss of deposits. The total debt of Ukraine's banks increased by at least UAH30bn in 1Q14.

Having made clear it will not tolerate “zombie” banks, the new NBU management allowed four to fail during its first days in office

Four banks fail. Since 4Q13 four Ukrainian banks have been declared insolvent by the newly appointed management of the NBU. We believe that the difficulties encountered by Forum Bank, Brokbusinessbank, Real Bank and Mercury Bank began long before 2014 but were not revealed by management until recently. While the temporary administrations introduced at these banks are looking for potential buyers, the failure of the banks will exert significant pressure on the state Deposit Guarantee Fund and may trigger further negative expectations. The total assets of the fund (UAH8.2bn) marginally exceed the total amount of household deposits in institutions covered by the fund’s reimbursement scheme (UAH7.2bn).

Short FX position will have a strong negative impact on banks’ profitability in 2014

FX revaluation losses expected. Inappropriate methodology adopted by the NBU to estimate the net FX position was intended to reduce demand for the foreign currency and prevent hryvnia devaluation. That approach significantly deteriorated the balance sheets of the banks and artificially created a significant short FX position for some banks. Among the most vulnerable are financial institutions with a large share of impaired USD loans on their balance sheets as the NBU does not allow reserves deduction for the purpose of calculating the net FX position.

The 40% drop in the official UAH/USD rate in 1Q14 is expected to generate UAH12-14bn in revaluation losses, which will wipe out around 6.7-7.8% of total equity. We believe that VTB, Piraeus Bank, Fido Bank, OTP Bank and Delta Bank are among the most vulnerable banks.

Overview of the banking sector

The stagnation of the economy that continued in 4Q13 together with the “dormant” lending market turned out to be a calm before the storm due to acute political crisis that engulfed Ukraine in December 2013. The prospects of economic recession, currency devaluation, loss of control over the Russia-annexed Crimea Republic and the failure of several banks has hit the already fragile banking sector hard. Cooperation with international institutes and making good on promises of reforms will be a major challenge for the new management of the NBU. The banking sector itself is facing stress-testing and recapitalisation before normalising.

Factors shaping the banking sector in 4Q13

UAH devaluation and the outflow of deposits have exacerbated existing problems

Little reason for optimism. The Ukrainian banking system had barely resolved any of its already existing problems when the escalation of tensions between Ukraine and Russia created new challenges, including the outflow of deposits, banks operating in the breakaway Crimea region and losses caused by the hryvnia devaluation. The newly appointed top management of NBU must now take adequate measures to deal with these new challenges.

Lending to the real sector was very limited in 4Q13, while demand for consumer loans was lower than expected

Unanticipated slowdown in overall activity. A chain of events of late 2013—from tense Ukraine-Russia trade relations, the Yanukovich rejection to sign an association agreement with the EU in favour of Russia bail-out and the subsequent mass protests of Euromaidan—all contributed to a slowdown in overall banking sector activity over 4Q13. The constant flow of bad news discouraged both business and households from taking major decisions. Net retail loans grew by a very modest 2.2% QoQ, despite the pre-holiday period. Meanwhile, deposits grew more rapidly – by 3.6% QoQ – largely owing to the corporate segment.

Further violence and separatist movements in 2014 have triggered the withdrawal of a significant number of deposits, amounting to 12-13% of the total or UAH85bn-90bn, according to our estimates.

Real volume of bad debt is still ‘covered up’. Poor asset quality remains a major issue that prevents most banks from turning a significant profit. Some banks (including Privatbank and Raiffeisenbank Aval) have “cleaned up” their portfolios; the total write-off amounted to UAH13.2bn. However, a significant number have yet to recognise fully the real volume of bad debt on their balance sheets. Dubious reporting is among the main problems of Ukraine’s banks, especially since the failure of Forum Bank. After Forum Bank had revealed correct information about the quality of its assets, the bank’s equity turned from positive UAH1.3bn into negative UAH1.2bn.

Ratings downgrade. In early 1Q14 major rating agencies reduced Ukraine’s sovereign ratings to the level of pre-default. Ukraine very quickly passed through two stages – first from B to B- and then to CCC. The ratings of all banks were subsequently lowered in line with the sovereign rating. Thus nearly all financial institutions in Ukraine now have the same rating.

European banks stumble on exiting Ukraine

European banks have halted their exit ...

... but it is most likely a temporary halt only – for technical reasons

Temporary halt or point of return? The exodus of European banks due to unfavourable market conditions has temporarily ground to a halt. The recent turmoil in Ukraine has driven down the prices of banks like Raiffeisenbank Aval and Ukrsofsbank. The latter has completed its merger with Unicreditbank (Ukraine), which makes a potential sale easier from a technical perspective. Meanwhile, the parent bank recognised its Ukrainian subsidiary as an asset held for sale; this suggests there is a high probability that the deal will be announced in 2014.

The repayment of a government loan is the main reason why the Raiffeisen Group is ready to part with its Ukrainian business. However, the authorities have not yet approved refunding the participation capital – a decision that was originally expected on 15 March 2014. Therefore the group can now wait for more favourable conditions for the sale.

This temporary delay may, in fact, continue long enough for the European banks to reconsider their decision to leave Ukraine in the event of an improvement in market conditions.

Table 1. Key financials of Ukraine's 'Big Guy' banks

Ukraine's private business groups	Bank	Assets		Total loans ¹		Business loans ²		Total deposits		Household depts ³		Total equity	
		Volume (UAHm)	Chg (%YoY)	Volume (UAHm)	Chg (%YoY)	Volume (UAHm)	Chg (%YoY)	Volume (UAHm)	Chg (%YoY)	Volume (UAHm)	Chg (%YoY)	Volume (UAHm)	Chg (%YoY)
Privat Group	Privatbank	214,491	24.4	166,259	19.6	135,993	22.0	133,551	25.6	106,712	24.3	20,312	11.0
Mr Lagun	Total ⁴	57,109	25.9	43,502	19.4	21,723	-1.4	36,589	57.3	26,196	44.5	3,562	-33.1
	Delta Bank	55,298	85.3	43,220	103.2	21,446	114.1	36,126	110.1	26,135	95.7	3,325	10.5
	Kredytprombank	1,085	-91.1	282	-97.7	276	-97.1	454	-92.5	59	-98.8	129	-93.7
	Omega Bank	726	-78.0	1	-100.0	1	-100.0	8	-81.9	2	-49.8	108	-56.3
SCM Group	Total ⁴	34,541	19.3	24,181	14.1	17,981	16.7	20,570	17.4	11,285	10.8	4,927	10.7
	FUIB	33,207	17.6	23,196	11.7	17,981	16.7	20,444	17.1	11,164	10.1	4,652	10.4
	RenCap	1,333	84.4	985	132.3	0	0.0	127	125.7	121	175.9	275	17.4
DF Group	Nadra	31,116	12.4	29,160	13.1	16,541	31.8	13,052	49.3	6,540	111.2	4,032	0.1
Mr Bakhmatyuk	Total ⁴	34,086	46.2	25,595	35.5	24,642	42.0	19,678	63.2	15,030	84.6	4,162	33.9
	VAB	21,061	58.6	12,281	35.8	11,398	50.5	12,579	56.5	10,443	62.9	2,102	75.2
	Financial Initiative	13,025	29.8	13,314	35.2	13,244	0.0	7,099	76.6	4,587	164.9	2,060	7.9
F&C Group	Finance & Credit	25,722	14.1	22,016	9.1	18,138	9.7	16,342	33.4	11,932	34.6	2,109	12.0
Vetek Group	Brokbusinessbank	28,914	70.8	26,820	86.3	23,974	107.2	10,864	-12.0	5,522	-30.2	14,478	396.0
Smart Holding	Total ⁴	12,305	65.9	11,565	49.4	9,031	62.3	8,813	90.3	5,833	89.9	1,657	-10.6
	Unex Bank	1,901	45.9	1,450	42.9	1,380	39.9	1,452	62.2	861	70.7	344	0.4
	Forum Bank	10,404	20.0	10,115	6.5	7,651	22.4	7,361	28.1	4,972	19.2	1,313	-11.0
Interpipe	Credit Dnepr	5,892	-29.6	4,280	-24.8	3,944	-25.5	4,904	-21.0	3,241	-20.0	576	-3.3

Notes: Based on UAS quarterly financials. [1] the total amount of 4Q13 gross loans; [2] the total amount of 2Q13 gross business loans; [3] the total amount of household deposits; [4] the aggregate value for all banks included in the group – does not take consolidation into account.

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

Buyers' expectations may not be met. The completion of the recently announced purchase of Pravex Bank by the DF Group may be under threat following the arrest in Austria of Dmitry Firtash, the group's key shareholder. Intesa expects to receive EUR74m for its Ukrainian subsidiary; however, if the deal is declared void, the bank may be sold to other investors.

Russian banks are likely to remain in Ukraine, despite tensions between the two countries

Presence of Russian banks will increase. The political escalation in Ukraine leaves a question mark over the fate of Russian banks in that country. The Central Bank of Russia introduced temporary administration at Moscomprivatbank, a subsidiary of Privatbank – most likely for political reasons. However, the banks' official position is that they are determined to stay in Ukraine and even expand their presence.

Alfa Group increased its exposure to the Ukrainian market by acquiring 97.77% of the Ukrainian subsidiary of Bank of Cyprus (total of 44 branches). In addition, the Ukrainian bank was granted a credit line in March 2014 totalling US\$300m; we expect the acquisition of loan portfolios in the near future. Vnesheconombank opened a similar credit line for US\$100m, which is most likely to be used for loan origination in both the corporate and the retail segments.

At the same time, Alfa Group has changed the ownership structure of Alfa Bank in such a way that the Cyprus-based entity now controls 100% of shares, replacing the Russian bank's stake. Therefore, technically the bank will no longer be seen as Russian.

Sberbank has denied it will scale back its operations in Ukraine. It has estimated that owing to the immateriality of its Ukrainian subsidiary, the group would lose at most 0.8% of its consolidated assets in the worst-case scenario.

The total number of banks will fall if licences are revoked

Number of banks set to shrink. The newly appointed head of NBU has announced plans to remove another 10 banks from the market. While the names of the targeted financial institutions have not been revealed, they are reported to have been engaged in money-laundering activities. We believe that these financial institutions were connected with the ousted president and his business partners. As such, the volume of household deposits held by these institutions is very modest.

As of 1 January 2014, there were 180 banks on Ukraine's highly concentrated market – the top 18 banks control 64.3% of total assets. We believe the regulator may decide to investigate the activities of some banks and revoke their licences if those institutions are found to have been engaged in dubious operations.

Table 2. Key financials of the bank at which temporary administration was introduced in 2014 (UAHm)

	Brokbusiness	Forum Bank	Real Bank	Mercury Bank
Assets ¹	28,914	10,404	4,469	1,973
Cash and cash equivalents ¹	778	830	186	38
Gross business loans ¹	23,974	7,651	4,328	990
Gross households loan ¹ s	2,846	2,464	11	220
Business deposits ¹	5,342	2,390	204	517
Households deposits ¹	5,522	4,972	777	970
Deposits insured ²	2,681	3,042	554	925
Key ratios (%)				
Cash/Liabilities ¹	5.4	9.1	7.4	7.3
Loan-to-deposit ¹	241.7	99.0	426.7	78.8
LLR, % of gross loans ¹	2.1	28.0	3.5	3.2
Number of branches ¹	308	107	32	25

Notes: 1- data as of 4Q13; 2 – as of 1 February 2014.

Sources: NBU, the Independent Association of the Banks of Ukraine, the Deposit Guarantee Fund.

Such measures have been taken in Russia, where from July 2013 to March 2014 the Central Bank withdrew the licences of 45 banks (not including voluntary liquidations and mergers). The total amount of assets of those banks was US\$11.6bn (0.3% of the sector total) while household deposits amounted US\$7.9bn (1.7%).

Given recent calls by the head of the NBU for the licences of banks engaged in money laundering to be revoked, we believe that the regulator may well follow Russia's example.

Bank failures will hit the Deposit Guarantee Fund. The NBU has introduced temporary administration at four banks: Brokbusinessbank, Forum Bank, Mercury Bank and Real Bank. So far the Deposit Guarantee Fund has begun reimbursing only clients of the last-named bank for funds held in deposit accounts; it expects to find buyers for the assets of the other three banks.

It has been announced that there are two potential buyers for the Forum Bank; however its negative equity of approximately UAH1.2bn is a very large obstacle to closing a deal. Meanwhile, Russia's Alfa Bank has announced its interest in buying parts of the loan portfolio; this suggests that the decision to liquidate the banks is far from being final.

We believe that the authorities will be very reluctant to liquidate all the banks, since this would have a huge negative impact on the assets of the Deposit Guarantee Fund. As of 1 March 2014, the fund's available resources totalled UAH8.2bn and insured household deposits UAH7.2bn.

Possible recapitalisation. The 2014 state budget allocated UAH5.2bn to increasing the share capital of the banks. Under the previous version of the budget law, the State Land Bank and the Ukrainian Bank of Reconstruction and Development were the beneficiaries of those funds; however, they no longer have that status under the current version of the law. It is possible that the government will use the funds to recapitalise the banks; however, experience in Europe during the current crisis suggests this would not be the best-case scenario. Government assistance to banks would inevitably imply the issuance of new government bonds, which would be transferred to the balance sheets of the banks, and a subsequent increase in the state debt. Shifting the financial burden of saving the banks onto the taxpayer is not compatible with the austerity measures proposed by the government.

The most radical approach would be to follow the "Cyprus scenario" by converting large deposits into shares. This would have the biggest impact on Brokbusinessbank, where the share of insured deposits is just under 50% of the total. However, the Deposit Guarantee Fund would still have to bear the burden.

Crimea annexation

The annexation of the Republic of Crimea threatens the local banking system. The recent aggression by the Russian Federation in the Autonomous Republic of Crimea has threatened the existence and operating activities of Ukrainian banks that have a presence in the region. Following the *de facto* annexation of the peninsula and imposition of Russian law, the banks no longer have a legal basis to operate there, according to the Russian occupying authorities. However, it has been announced that the licences of Ukrainian banks will remain valid until the end of 2014.

The Chornomorskiy Bank of Development and Reconstruction is expected to start functioning as the new Treasury of the breakaway state, while the authorities have announced the creation of a Crimean Central Bank.

It will be a major challenge to return the deposits of four insolvent banks

The breakaway region is not very material for the overall banking system

Cash shortage. The military standoff limited the supply of cash to the peninsula. At the same time, some banks scaled back their operations owing to the lack of a legal basis for their activities. As a result, strict limits on cash withdrawals have been introduced in the region.

The Russian rouble has been introduced as a second currency in the region and is due to replace Ukrainian hryvnia by the end of 2015.

... but some institutions are expecting losses owing to the impairment of loans issued in Crimea

Bank assets jeopardised in Crimea. Banks are now facing a situation where their licences will cease to be valid in the breakaway state at the end of next year. We assume that most banks that have a presence in the region will choose not to obtain a local licence; this is because they have only a small fraction of assets concentrated in the region and could face sanctions from the central government, which is considering limiting Ukraine's economic activities with the breakaway region. The law on the occupied territories will prohibit transfers to and from the region, except those expressly allowed by the government.

Several banks, including Platinum Bank, have put up their local portfolios for sale – since the consumer loans have no collateral, fewer legal procedures will have to be followed to enforce honouring the contract.

Branches of Russian banks with a presence in Ukraine, including Sberbank, VTB and BM Bank, have been transferred to the Russian National Commerce Bank. We believe that Privatbank and the two largest Ukrainian state-owned banks – Ukreximbank and Oschadbank – have the largest amount of assets in Crimea. The sectors that have the largest exposure to the corporate sector are power generation and distribution (UAH5.0bn or 48.6% of total exposure), trade (UAH1.3bn or 13.2%) and manufacturing (UAH1.2bn or 11.3%).

Among the largest borrowers are:

- DF Group (Crimea Titan, Crimea Soda Plant);
- Active Solar Group (some of whose solar plants are located on the peninsula);
- Chornomornaftogaz (recently nationalised by the separatist subsidiary of NAK Naftogaz of Ukraine);
- Zaliv Shipyard;
- Konsol group of companies (engaged in real estate construction);
- MHP (which operates several agricultural enterprises in Crimea).

Further development. We consider the succession of Crimea as a base case scenario and expect losses from the discontinuation of operations in that region. However, the development of the separatist movement in three other regions of Ukraine is worrying and their potential succession could lead to a significant reduction in the size of the Ukrainian banking sector. In our view, this potential loss of territory is the worst-case scenario.

Table 3. Total gross loan exposure to Crimea and eastern oblasts, UAHm

	Ukraine	Crimea	Donetsk	Luhansk	Kharkiv
Corporate	704,994	10,186	41,738	3,543	21,250
Households	192,604	6,415	14,335	4,151	9,011
Government	5,860	0	29	1	1
Total Loans	903,458	16,601	56,103	7,695	30,262
Share of loans		1.8%	6.2%	0.9%	3.3%
Gross regional product		3.8%	11.7%	4.0%	4.5%
Estimated loan exposure	903,458	33,205	96,849	32,352	40,737

Note: Based on January 2014 UAS data.

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

The total loan exposure of the Ukrainian banks in the breakaway region of Crimea is reported at UAH16.6bn, while three eastern oblasts account for UAH94.1bn or 10.4% of the total loan exposure. However, various companies that operate in the regions tend to borrow in the capital city of Kyiv, where the management is located. Such borrowers are technically considered as Kyiv-based; however, their operating facilities and pledges are to be found in other oblasts. We have accounted for this by adjusting the oblast exposure by its share of Ukraine's GDP; such an adjustment obviously does not affect retail customers. Thus, according to our estimate, the gross loan exposure to Crimea and the three eastern oblasts is 22.5% of the total.

Property in Crimea is pledged as collateral for NBU loans provided to particular banks, including the Privatbank. Those financial institutions will most likely have to sell their assets in the breakaway region which will then rise the call for collateral increase.

Table 4. Total customer deposits of Ukrainian banks in Crimea and eastern oblasts (UAHm)

	Ukraine	Crimea	Donetsk	Luhansk	Kharkiv
Corporate	211,429	2,743	16,963	2,974	7,270
Households	441,445	19,268	43,230	12,613	23,170
Government	3,038	53	21	6	95
Total Deposits	655,912	22,064	60,214	15,594	30,535
Share of deposits		3.4%	9.2%	2.4%	4.7%

Note: Based on January 2014 UAS data.

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

A total of 20 banks are registered in the three eastern oblasts and just two on the Crimean peninsula. While the majority are small regional institutions, two are major banks – FUIB (which is registered in Donetsk and is the ninth-largest, according to UAS unconsolidated data) and UkrSibbank (registered in Kharkiv and ranked 14th in terms of size). The forced partition of the country has raised the (as yet) unanswered question of the recoverability of deposits. While the operational activities of Ukrainian banks in Crimea is questionable from a legal perspective, clients who live on the occupied territories will find it difficult to get back their deposits, given that the supply of cash from continental Ukraine has dried up. The Russian authorities have estimated compensation for depositors in Crimea at RUB30-35bn, according to the Russian Depositor Protection Fund. However, such compensation is unlikely to be forthcoming as it would free existing and solvent Ukrainian banks from having to meet their liabilities.

Corporate lending limited to small group of clients while retail loans continue to soar

Lending to pals. Total net corporate loans increased significantly in 4Q13 – by UAH48.0bn or 7.9% QoQ. All types of bank, including the European ones, increased their total exposure; and, as usual, those owned by large corporate groups registered the largest increase (UAH33.6bn or 15.9% QoQ). We believe that the biggest loans went to companies related to the banks' shareholders (Privatbank, Brokbusinessbank, VAB Bank, Bank Financial Initiative). The growth of Delta Bank, Fido Bank and Ukrsotsbank has been largely driven by assets consolidation. The last two completed their mergers with Fidocombank and Unicredit Bank (Ukraine), respectively, in 4Q13.

On average, the loan loss reserves (LLR) ratio for the corporate segment fell from 11.7% in 3Q13 to 10.7% 4Q14. We believe that this decrease resulted from bad debt write-offs totalling UAH13.2bn (corporate and retail portfolios combined). At the same time, loan provisioning expenses grew by 58.3% QoQ in 4Q13, suggesting that banks are adopting a more realistic approach to the credit-quality assessment of their loan portfolios.

State-owned banks are not expected to grow significantly. The two largest government banks – Oschadbank and Ukreximbank – fulfil their role as government agents by providing loans to the state sector and, in particular, to power generation and distribution companies. The 2014 state budget earmarked UAH5.0bn for increasing the share capital of the currently insignificant Ukrainian Bank for Reconstruction and Development, which is owned by the government. Since then the law has been amended in such a way that these funds are to be used for the recapitalisation of unspecified banks. For this reason we believe that the programme for government initiated lending may be halted in favour of saving existing banks.

While external markets are still closed to Ukrainian banks, the European Investment Bank has opened a EUR220m credit line to Oschadbank to facilitate lending to SMEs.

While the external markets are still closed for Ukrainian banks, the European Investment Bank has opened a EUR220m credit line for Oschadbank to facilitate lending to small and medium enterprises.

Table 5. Banks with the largest gains in net retail portfolios in 4Q13 (UAHm)

Bank	Corporate portfolio growth		Bank	Retail portfolio growth	
	UAH	QoQ		UAH	QoQ
Privatbank	12,368	11.6%	Delta Bank	3,336	20.7%
Brokbusinessbank	12,254	108.0%	Fido Bank	1,263	307.5%
Ukrsotsbank	3,128	24.3%	Privatbank	998	4.4%
Delta Bank	3,073	17.5%	Platinum Bank	437	11.3%
Ukreximbank	2,619	6.7%	Renaissance Capital	300	52.7%
Fido Bank	1,947	138.1%	Sberbank	254	25.4%
Sberbank	1,817	8.0%	Idea Bank	239	12.4%
VAB Bank	1,656	17.9%	Russian Standard Bank	211	7.7%
Bank Financial Initiative	1,614	16.9%	Alfa Bank	204	4.4%

Note: Based on 4Q13 UAS financial statements.

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

Retail loans falter. Consumer lending yielded rather disappointing results in 4Q13: the net retail portfolio increased by just 2.2% QoQ (or UAH3.1bn), despite the seasonality factor of the pre-holiday period. At the same time, 2013 was the first year since the 2008 crisis in which the retail segment grew. Banks that belong to large corporate groups saw the biggest growth in net loans – UAH3.0bn (4.7% QoQ).

The increase in consumer loans has been lower than expected – banks are anticipating “delayed” demand

Banks that have a large retail lending segment continue to hold the strongest position on the market: Delta Bank and Privatbank, which were joined by Russia’s Sberbank in 4Q13. Some banks that focus only on consumer lending achieved very good growth results – for example, Renaissance Capital grew its retail portfolio by 52.7% QoQ and Idea Bank by 12.4%. The rapid growth of the retail portfolios of Delta Bank and Fido Bank is explained, above all, by their acquisitions of Astra Bank and Fidocombank, respectively.

Loan quality deteriorates. The average LLR ratio of retail loans decreased from 24.8% in 3Q13 to 23.2% in 4Q13 owing to the significant write-offs of problematic assets. At the same time, the bad credit exposure of consumer lending-oriented banks increased (Russian Standard Bank by 22.0% and Platinum Bank by 9.6%).

We believe that banks will try to grow the average amount of loan and increase their focus on longer-term consumer lending products, such as credit cards, in order to reduce operating costs.

Chart 1. Net loan portfolio growth by bank types, QoQ



Chart 2. Deposits growth by bank types, QoQ

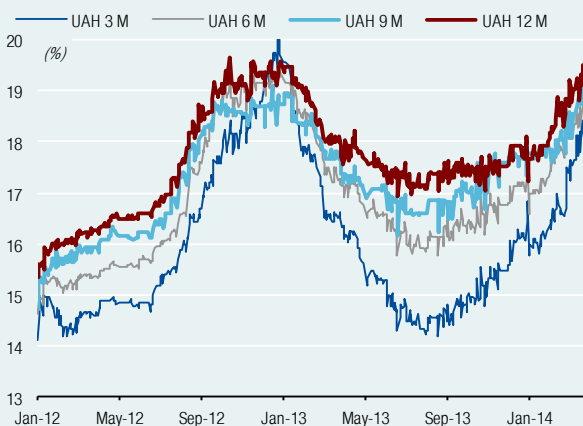


Growth of interest rates exceeds that of deposits

Corporate customers become more conservative. The total amount of business deposits grew by UAH12.2bn or 4.9% QoQ following an increase in the total amount of loans provided to the corporate sector. At the same time, the largest financial institutions saw the biggest inflow of corporate deposits: Privatbank (UAH3.8bn or 16.7% growth QoQ), Ukrspotsbank (USH2.7bn or 38.7% QoQ) and Oschadbank (UAH2.4bn or 10.0% QoQ)). We believe that large financial institutions have a competitive advantage as they are seen by clients as more stable or simply too big to fail.

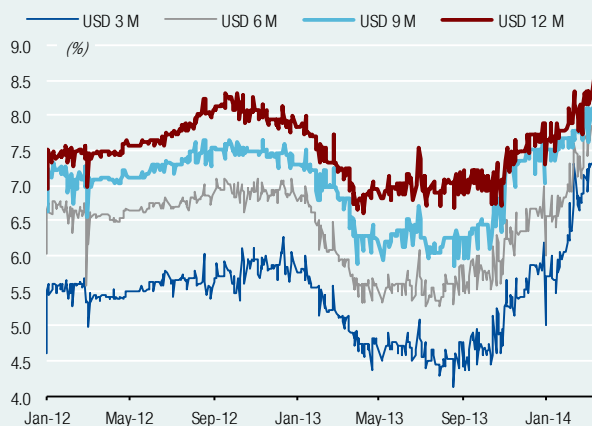
Sluggish retail deposit growth, despite the interest-rate rise. Household deposits increased by only UAH12.2bn or just 2.8% QoQ, which is the smallest increase in the last five quarters. The “Big Guys” group of banks has traditionally dominated the market owing to high interest rates and aggressive marketing. Among the leaders were Privatbank (UAH5.7bn or 5.7% QoQ), Delta Bank (UAH2.3bn or 9.9% QoQ) and Nadra Bank (UAH1.0bn or 18.8% QoQ).

Chart 3. Average interest rates on UAH household deposits



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

Chart 4. Average interest rates on USD household deposits



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

In 4Q13 the average interest rate rose as the EU-Customs Union debate intensified. The NBU decreased market liquidity in order to avoid pressure on the USD/UAH exchange rate. At the same time, households decreased the total amount of FX deposits by 1.5% QoQ, to the equivalent of UAH188.8bn.

Decline in the share of current accounts may be reversed. The share of household term deposits continues to increase, rising from 79.8% of total retail deposits in 3Q13 to 81.3% in 4Q13. However, we expect the attractiveness of current accounts to increase owing to the ban on early deposit withdrawals that can be enforced if deposit outflows intensify. Some banks, including UkrSibbank, have already reduced the share of term deposits from 41.4% in 3Q14 to 39.5% in 4Q13. That move exerted positive pressure on the net interest margin; however, the large difference between interest rates on current and term accounts give the client a strong incentive to opt for the latter.

Banks rather indifferent to securities

Oschadbank is a key player in securities. Total investment in securities increased by UAH10.4bn or 8.1% QoQ in 4Q13, compared with the 5.4% QoQ decline the previous quarter. Nonetheless, we believe the local market was rather dormant as banks accumulated predominantly government and state-related bonds onto their balance sheets. Moreover, in terms of securities it was state-owned Oschadbank that dominated in 4Q13: it increased its position by UAH11.7bn, which means that other banks in fact decreased theirs. According to our estimates, the UAH5.8bn increase in the NBU loan outstanding was part of so-called local quantitative easing, while the rest of the growth came from its own resources.

The share of securities issued by the government, municipal authorities and state-owned companies and held by Ukrainian banks remains very high – 84.4% in 4Q13.

Table 6. Ukrainian banks that placed bonds on the local market in 4Q13

Bank	Amount, UAHm	Maturity	Coupon rate
Platinum Bank	200	2016	19%
Russian Standard	100	2016	20%
Idea Bank	100	2016	20%

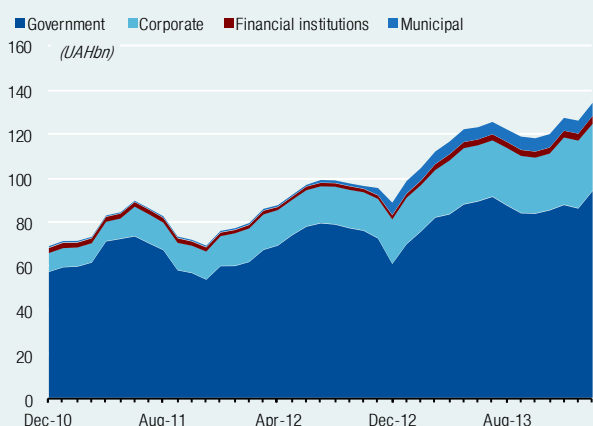
Sources: Company data, Investment Capital Ukraine LLC.

The Ukrainian banking sector has increased its exposure to private corporate bonds by UAH508m and to other banks' bonds by UAH370m. Three banks placed bonds on the local market in 4Q13; all have a strong position in the retail lending business or have a strong focus on that segment (see Table 6 above)

Finance and Credit Bank refinanced its Eurobonds for another five years

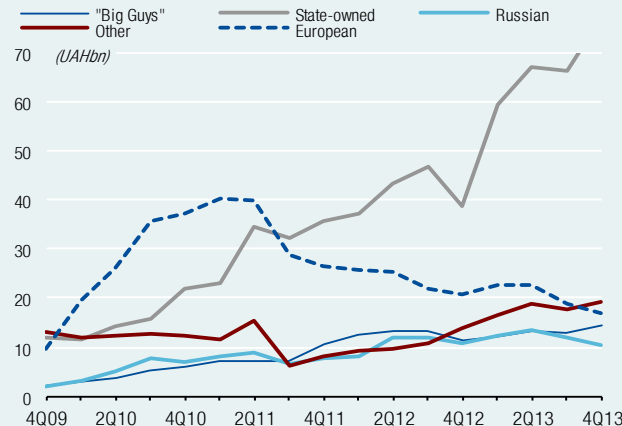
Refinancing of Eurobond issue. Finance and Credit Bank refinanced its outstanding Eurobond due in January 2014 and worth US\$95m by issuing new bonds due in 2019. The maturity of the former securities was first prolonged back in 2009. The bank lowered the interest rate on the new issue to 9.25% (from 10.5%) and increased the volume to US\$100m.

Chart 5. Dynamics of investment in securities – bonds (UAHbn)



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

Chart 6. Dynamics of investment in securities (UAHbn)



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

First Ukrainian International Bank (FUIB) is the only Ukrainian bank with Eurobonds maturing in 2014. The US\$250m bond is due to be repaid on 31 December 2014, and we expect this to happen.

Table 7. Key financial figures and ratios of selected Ukrainian banks

Balance sheet figures (UAHm)	Privat-bank	Oschad-bank	Ukrexim-bank	Delta Bank	Aval	PIB	Ukrsots-bank	FUIB	SBRF	Nadra	Alfa-Bank	VTB-bank	Ukrsib-bank	OTP-bank	Platinum Bank	RSB
Assets	214,491	103,568	94,349	55,298	43,460	39,737	43,057	33,207	35,095	31,116	29,293	25,286	24,112	18,722	5,795	3,652
Net loans	142,548	51,546	42,274	40,110	27,047	28,400	27,375	19,898	25,912	25,032	20,228	18,688	14,602	14,124	4,786	2,986
Deposits	133,551	46,341	42,970	36,126	26,419	13,898	21,611	20,444	18,910	13,052	15,831	11,148	16,632	9,537	4,824	1,835
Total equity	20,312	20,456	18,083	3,325	7,237	5,384	8,668	4,652	3,667	4,032	4,199	3,207	2,650	3,359	419	335
Quarterly P&L (UAHm)																
Net interest income	2,194	1,434	995	-85	1,064	313	770	534	484	92	422	386	357	517	289	42
Net commission income	832	385	139	861	408	88	222	137	75	82	160	148	174	94	-2	201
Operating income (before LLP)	3,364	1,880	1,127	1,200	1,549	471	1,085	722	645	394	713	383	613	762	421	269
Operating expenses	-1,944	-1,016	-353	-769	-882	-457	-724	-306	-393	-462	-381	-297	-528	-452	-241	-147
Loan loss provisions (LLP)	-1,257	-558	-670	-575	-595	40	-345	-266	-97	99	-316	-625	-12	-201	-161	-92
Net income	141	198	59	96	-8	55	3	143	140	1	2	-572	39	21	13	24
Last 12-month period P&L (UAHm)																
Net interest income	8,444	5,528	3,889	-304	3,910	1,233	2,268	1,895	1,759	227	1,604	1,771	1,341	1,912	998	574
Net commission income	2,557	1,231	519	2,923	1,501	373	719	488	271	261	508	468	638	367	-9	302
Operating income (before LLP)	11,489	7,174	4,378	3,334	5,918	1,877	3,101	2,566	2,328	931	2,446	2,252	2,300	2,632	1,416	957
Operating expenses	-6,669	-3,481	-1,268	-1,965	-3,269	-1,419	-2,083	-1,013	-1,262	-1,189	-1,410	-1,133	-1,968	-1,467	-797	-527
Loan loss provisions (LLP)	-2,669	-2,736	-2,783	-1,304	-1,674	-3,036	-936	-1,021	-428	297	-989	-1,280	-258	-959	-570	-358
Net income	1,873	679	199	303	730	-2,575	11	445	573	2	13	-194	25	117	34	56
Growth rates (%YoY)																
Assets	24.4	20.4	7.3	85.3	-8.9	-3.8	10.9	17.6	29.9	12.4	14.5	-26.1	-6.9	-7.8	56.7	33.8
Gross loans	19.6	4.8	3.0	103.2	-0.3	-2.1	9.9	11.7	27.8	13.1	10.5	-21.1	-10.2	-5.7	80.5	41.7
Deposits	25.6	17.6	-4.2	110.1	-5.0	-0.6	17.6	17.1	42.4	49.3	10.1	-8.0	-3.9	6.4	62.5	99.9
Total equity	11.0	12.9	1.3	10.5	14.0	2.1	13.2	10.4	18.3	0.1	2.4	-20.8	0.8	-3.7	9.5	88.5
Key ratios (%)																
Capital adequacy ratio (R2 by NBU)	12.2	25.4	29.2	10.1	20.6	13.7	15.9	11.8	12.4	13.1	19.0	14.7	23.0	20.6	11.1	14.1
Equity/assets	9.5	19.8	19.2	6.0	16.7	13.5	20.1	14.0	10.4	13.0	14.3	12.7	11.0	17.9	7.2	9.2
Cash & cash equivalents/liabilities	17.4	9.0	10.4	10.3	16.1	7.7	15.7	17.2	12.7	6.4	24.2	14.5	20.2	15.4	12.1	11.5
Net loans/deposits	106.7	111.2	98.4	111.0	102.4	204.3	126.7	97.3	137.0	191.8	127.8	167.6	87.8	148.1	99.2	162.7
Cost-to-income ratio	58.0	48.5	29.0	59.0	55.2	75.6	67.2	39.5	54.2	127.6	57.7	50.3	85.6	55.7	56.3	55.1
Net interest margin	6.2	6.8	5.1	-0.8	11.3	3.8	7.7	7.9	6.3	0.9	7.1	7.7	8.2	11.8	24.1	20.0
ROAA	1.0	0.7	0.2	0.6	1.6	-6.5	0.0	1.4	1.8	0.0	0.0	-0.7	0.1	0.6	0.7	1.6
ROAE	9.5	3.6	1.1	9.4	10.3	-49.0	0.1	10.0	16.6	0.1	0.3	-5.5	0.9	3.6	8.4	18.5
NII/operating income	73.5	77.1	88.8	-9.1	66.1	65.7	73.1	73.9	75.6	24.4	65.6	78.7	58.3	72.6	70.5	59.9
Core income/operating expenses	165.0	194.2	347.8	133.3	165.5	113.2	143.4	235.4	160.9	41.1	149.8	197.7	100.5	155.3	124.0	166.1

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

Bank pages

This part of the report provides credit analysis of selected banks. We provide a snapshot summary of our view on each bank and a historical perspective of its key financial data and ratios as of 4Q13.

Country

Ukraine

Privatbank

Sector

Banks: Commercial banking

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

Ca/ CCC /CCC PRBANK

Ticker(s) in Bloomberg

Privatbank continues to grow its assets, despite the slowdown in the economy. Net income sank to just UAH141m in 4Q13 owing to loan loss provision (LLP) expenses totalling UAH1.3bn.

Liquidity is large but not bullet-proof. Liquidity remained at a high level, despite decreasing over the quarter by 1.2ppt, to 17.4%. At the same time, household current deposits amounted to UAH18.3bn, most of which are bank card accounts easily accessed and therefore very susceptible to mass withdrawals. The bank faced temporary problems with liquidity during the February 2014 unrest and had to limit ATM withdrawal operations and halt credit transactions. However, that situation lasted only for a very short period.

Loan portfolio grows amid the unrest. The net loan portfolio grew by UAH13.4bn or 10.3% QoQ in 4Q13; most of this increase (92.5%) was observed in the corporate sector. Privatbank's share of the total gross loan portfolio rose from 16.8% in 4Q12 to 18.0% in 4Q13. This is the largest QoQ growth during the last three years and is not what would be expected in a poorly performing and turbulent economy.

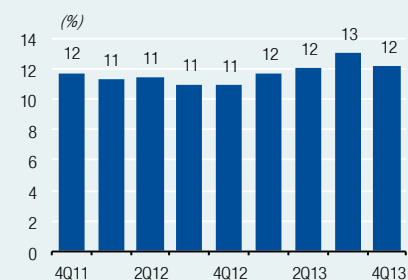
The household net portfolio has demonstrated weak growth, increasing by 4.4%QoQ in 4Q13 compared with 6.6%QoQ in the previous quarter. This reflects the uncertainty and negative expectations on the consumer market.

The loan loss reserve (LLR) ratio dropped from 16.3% in 3Q14 to 14.3% in 4Q13, primarily owing to the UAH2.6bn write-off of bad loans .

Growing domination of the household deposit market. Privatbank's share of total household deposits increased from 15.9% in 4Q11 to 24.1% in 4Q13 – the reason for this increase is that many people regard it as simply too big to fail. We believe that such a large concentration is potentially dangerous for the Ukrainian banking sector.

Nonetheless, the bank is not recognised as a specialised savings institution (SSI) – a status that is given to entities whose household deposits account for at least 50% of total liabilities and equity. We believe that the bank reports a very large amount of derivatives on its balance sheet (up to UAH29bn) in order to increase the volume of liabilities and keep the ratio below the 50% threshold (it is currently at 49.8%). By avoiding SSI status, Privatbank remains exempt from the stricter regulatory norms as regards liquidity and maximum credit exposure per single borrower.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	140,931	166,237	202,551	214,491
Loans	107,430	119,417	129,183	142,548
Deposits	104,209	124,574	123,995	133,551
Equity	19,185	21,405	20,109	20,312
Net % income	10,079	8,938	8,070	8,444
Net com income	2,729	3,274	2,464	2,557
Operating income	13,500	13,819	10,830	11,489
PPI	7,180	6,961	4,570	4,820
LLP	-5,641	-5,429	-1,969	-2,669
Net income	1,493	1,439	2,274	1,873

Ratios (%)

Tier 1 ratio	14.7	13.8	N/a	N/a
CAR	16.1	15.0	13.0	12.2
Equity-to-assets	13.6	12.9	9.9	9.5
Net loan-to-deposit	103.1	95.9	104.2	107
Cash-to-liabilities	17.5	20.1	18.6	17.4
ROAA	1.1	0.9	1.2	1.0
ROAE	9.0	7.1	11.8	9.5
Net % margin	9.6	7.4	6.3	6.2
NII-to-op income	74.7	64.7	74.5	73.5
Cost-to-income	46.8	49.6	57.8	58.0
LLR	12.9	14.2	16.3	14.3
NPLs	4.3	6.1	N/a	N/a
NPL coverage	301.4	231.9	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.

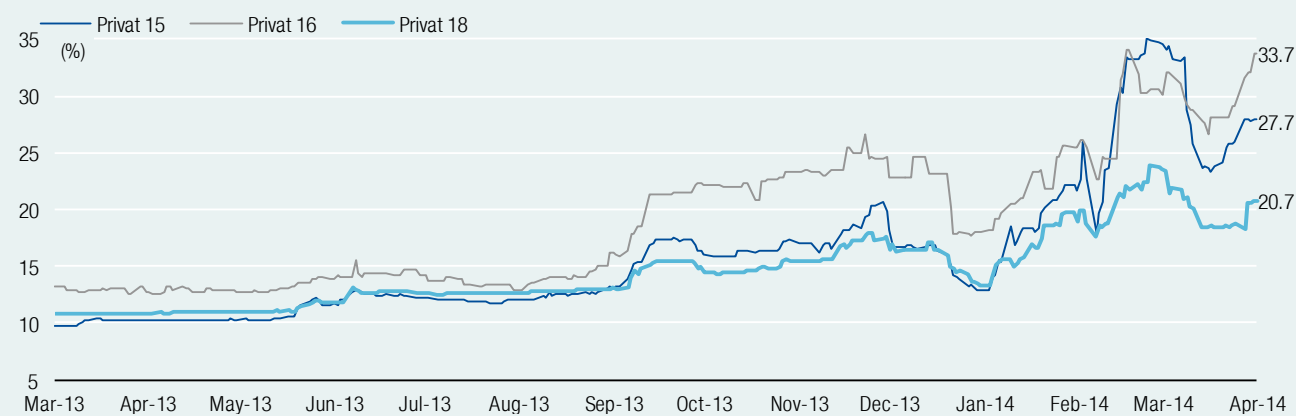
Investment in subsidiaries might be impaired. Moscomprivatbank, which is a subsidiary of Privatbank, operates in Russia and specialises in the retail segment – particularly credit cards (it accounts for one-tenth of the local market in terms of the size of the loan portfolio). The Russian Central Bank announced temporary administration in March 2014. While it remains unclear whether Privatbank will come under pressure to sell Moscomprivatbank, it is most likely that an investigation into the subsidiary’s activities will have a negative impact on its equity, which amounted to nearly US\$80m at the end of 2012.

Net income rises. Privatbank reported net earnings of UAH1.9bn in 2013, up 22.3% from the previous year, despite the 1.0 ppt YoY decline in the net interest margin – to 6.2% in 4Q13. Net income was a disappointing UAH141m in 4Q13 as LLP expenses grew 83.7% QoQ to UAH1.3bn in 4Q13. Net interest income increased by just 4.9% YoY, while other income – primarily agent fees – rose by 19.4% YoY to UAH6.7bn. We believe this reflects the increased role of consumer lending in the overall profitability of the bank.

Eurobond prices are at an all-time low. Two Eurobonds maturing in 2015 and 2016 are currently trading at 22.7.6% and 33.7%, respectively. Such high yields reflect uncertainty about the bank’s ability to fulfil its obligations in foreign currency. At the same time, a five-year Eurobond issued in 2013 has been trading with a relatively low yield.

Chart 7. Yields of the Privatbank’s Eurobonds

As of April 18, 2014



Privatbank: Key quarterly UAS financials and ratios

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

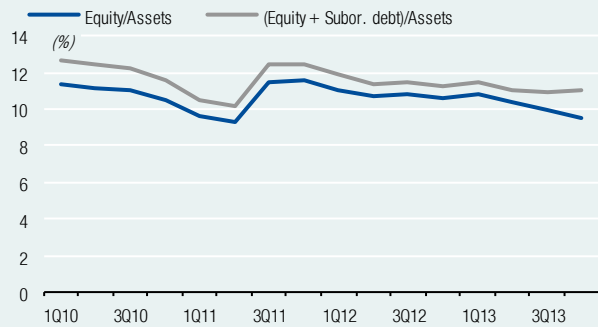
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	145,118	153,655	161,740	164,563	172,429	174,930	190,924	202,551	214,491
Cash and cash equivalents	21,771	22,189	28,028	26,024	28,196	22,500	32,194	33,970	33,723
Gross loans	122,922	128,162	131,761	136,195	138,961	146,054	150,537	154,249	166,259
Gross business loans	96,702	102,045	105,359	109,125	111,446	117,581	120,810	123,025	135,993
Gross household loans	26,221	26,117	26,402	27,070	27,514	28,473	29,726	31,224	30,266
Loan loss reserves (LLR)	-22,130	-22,226	-23,366	-24,595	-25,235	-25,032	-24,775	-25,066	-23,711
Deposits	91,842	99,832	102,413	103,150	106,342	108,495	120,750	123,995	133,551
Business deposits	21,593	23,730	24,065	20,641	20,477	21,173	25,387	22,991	26,839
Household deposits	70,249	76,102	78,348	82,508	85,865	87,322	95,363	101,004	106,712
Total equity	16,747	17,006	17,260	17,754	18,301	18,959	19,734	20,109	20,312
Quarterly P&L (UAHm)									
Net interest income	2,659	1,828	1,789	2,613	1,819	1,893	2,373	1,985	2,194
Net commission income	1,019	953	1,059	522	739	663	339	722	832
Operating income (before LLP)	3,987	3,306	3,011	3,269	2,704	2,482	2,712	2,931	3,364
Operating expenses	-1,512	-1,204	-1,312	-1,535	-1,536	-1,330	-1,622	-1,772	-1,944
Loan loss provisions (LLP)	-1,922	-1,772	-1,321	-1,259	-557	-465	-263	-684	-1,257
Net income	446	267	323	401	542	624	758	349	141
Last 12-month period P&L (UAHm)									
Net interest income	7,941	8,541	8,529	8,889	8,049	8,114	8,698	8,070	8,444
Net commission income	3,840	4,013	4,086	3,553	3,273	2,983	2,263	2,464	2,557
Operating income (before LLP)	12,840	13,963	13,970	13,573	12,290	11,466	11,167	10,830	11,489
Operating expenses	-5,081	-5,202	-5,345	-5,563	-5,587	-5,713	-6,023	-6,260	-6,669
Loan loss provisions (LLP)	-6,185	-7,258	-7,143	-6,274	-4,909	-3,602	-2,544	-1,969	-2,669
Net income	1,426	1,258	1,233	1,437	1,533	1,890	2,325	2,274	1,873
Growth rates (%YoY)									
Assets	27.9	19.7	19.2	16.4	18.8	13.8	18.0	23.1	24.4
Gross loans	20.7	15.0	11.7	10.1	13.0	14.0	14.3	13.3	19.6
Deposits (by businesses)	5.8	16.8	7.9	-11.2	-5.2	-10.8	5.5	11.4	31.1
Deposits (by households)	28.3	24.3	16.6	19.8	22.2	14.7	21.7	22.4	24.3
Deposits (total)	22.2	22.4	14.4	12.0	15.8	8.7	17.9	20.2	25.6
Total equity	41.0	38.0	36.1	9.0	9.3	11.5	14.3	13.3	11.0
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.7	11.3	11.4	11.0	10.9	11.7	12.0	13.0	12.2
Equity/assets	11.5	11.1	10.7	10.8	10.6	10.8	10.3	9.9	9.5
(Equity + sub-debt)/assets	12.4	11.9	11.4	11.5	11.3	11.5	11.0	10.9	11.0
Cash & cash equivalents/liabilities	17.0	16.2	19.4	17.7	18.3	14.4	18.8	18.6	17.4
Current liquidity (R5 by NBU)	77.1	58.9	58.4	60.8	54.7	76.7	74.4	97.2	90.1
Gross loans/deposits	134	128	129	132	131	135	125	124.4	125
Net loans/deposits	109.7	106.1	105.8	108.2	106.9	111.5	104.2	104.2	106.7
Cost-to-income ratio	39.6	37.3	38.3	41.0	45.5	49.8	53.9	57.8	58.0
Net interest margin	7.9	8.2	8.0	8.2	7.2	6.9	7.1	6.3	6.2
ROAA	1.0	0.9	0.8	0.9	0.9	1.1	1.3	1.2	1.0
ROAE	9.8	8.0	7.3	8.4	8.7	10.5	12.4	11.8	9.5
NII/operating income	61.8	61.2	61.1	65.5	65.5	70.8	77.9	74.5	73.5
Core income/operating expenses	231.9	241.3	236.0	223.7	202.6	194.2	182.0	168.3	165.0

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

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

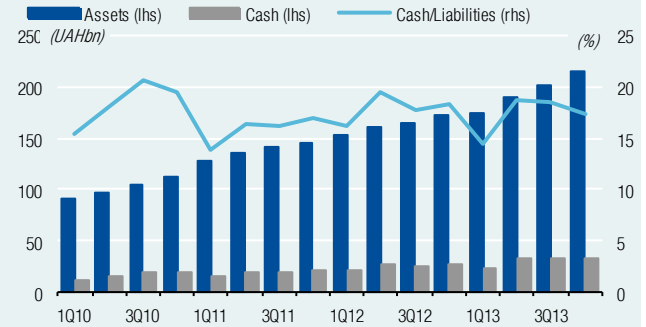
Privatbank: Key credit metrics

Chart 8. Capitalisation



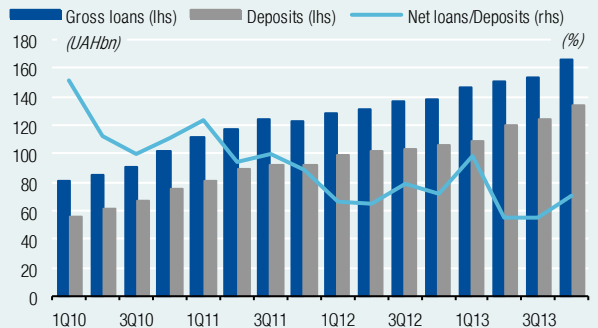
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 9. Liquidity



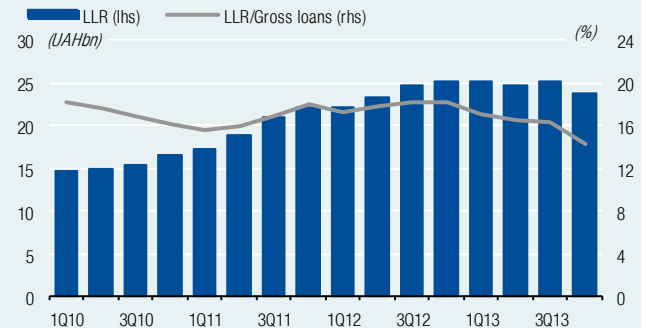
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 10. Loans and deposits



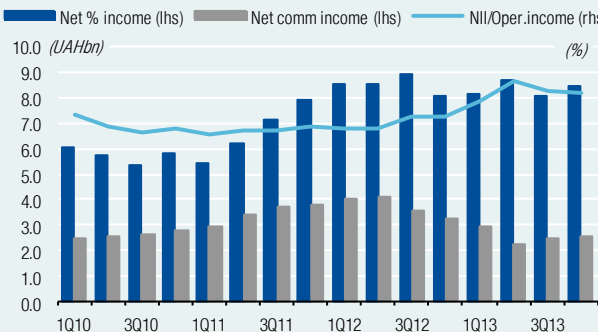
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 11. Loan loss reserves history



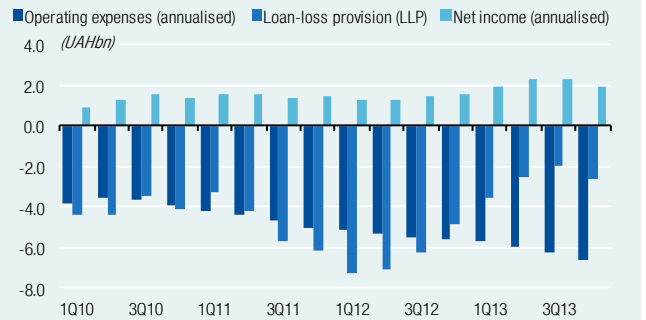
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 12. Income structure (annualised basis)



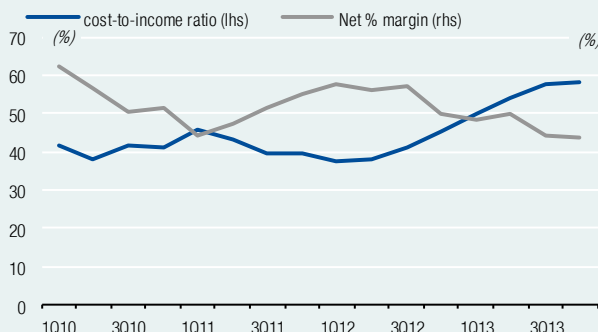
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 13. Expense and net income (annualised basis)



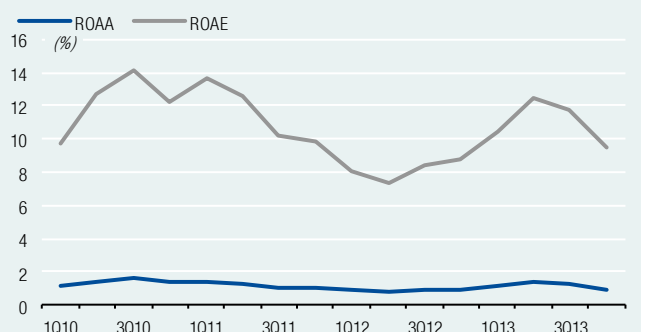
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 14. Financial performance ratios



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

Chart 15. 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 /CCC OSCHAD

Ticker(s) in Bloomberg

The government has increased the share capital of Oschadbank by UAH1.4bn, while the NBU has increased its loan exposure by UAH5.8bn. At the same time, the amount of securities held by Oschadbank grew by UAH11.7bn while the net loan portfolio decreased 1.1% QoQ.

Increase in equity. The government increased the share capital of Oschadbank by another UAH1.4bn in 4Q13, as had been previously planned. The regulatory capital adequacy ratio (CAR) nevertheless declined from 28.8% in 3Q13 to 25.4% in 4Q14 owing to a 20.5% QoQ increase in risk-weighted assets.

The cash to liabilities ratio increased by just 0.1% to 9.0%. This remains at around the lowest level for the past few years.

Further growth in securities. The total amount of securities increased by UAH11.7bn or 49.4% QoQ. We believe that bank has boosted its holdings of government and state-owned enterprises, while part of the newly acquired securities might have been obtained through the additional capitalisation of the bank. Securities amounted to 34.2% of total assets in 4Q13, up from just 15.3% in 4Q12. Hence there is a risk that the bank's exposure to the state sector will continue to increase.

Loan portfolio declines as bad debt rises. The bank has not been very active in issuing new loans, as evidenced by the 0.1% decrease QoQ in the amount of gross loans. While it has not made any significant write-off, the LLR ratio increased by 0.8ppt in 4Q13 to 19.8%. At the same time, the total amount of bad credit rose by 16.4% to UAH16.4%.

New loans from the central bank. The NBU has provided the bank with another UAH5.8bn in loans, increasing its total exposure to UAH20.6bn in 4Q13. As Oschadbank is unlikely to experience any significant problems with liquidity, we consider such loans to be part of the local quantitative easing programme that is de facto under way. On the other hand, the ratio between exposure to the largest borrower (Naftogaz) and the amount of loans from the regulator is nearly 100%. This may be seen as a risk mitigation factor for the bank, which has a large (UAH20bn) exposure.

Corporate deposits up, household deposits down. Household deposits declined 0.5% YoY in 4Q13 – the first decline in this part of Oschadbank's liabilities in years. At the same time, the bank has managed to attract an additional UAH2.4bn in corporate deposits (a 30% increase QoQ), which constitute less than a quarter of total deposits.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	1H13	3Q13	4Q13
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	83,421	89,712	92,320	103,568
Loans	51,338	50,875	52,143	51,546
Deposits	38,877	43,198	44,120	46,341
Equity	17,767	17,939	18,566	20,456
Net % income	5,293	2,661	5,370	5,528
Net com income	1,040	555	1,127	1,231
Operating income	6,644	3,351	6,188	7,174
PPI	3,472	1,744	2,780	3,693
LLP	(-2,738)	(-1,106)	(-2,012)	(-2,736)
Net income	663	481	636	679

Ratios (%)

Tier 1 ratio	25.1	24.1	N/a	N/a
CAR	27.9	26.6	28.8	25.4
Equity-to-assets	21.3	20.0	20.1	19.8
Net loan-to-deposit	132.1	117.8	118.2	111.2
Cash-to-liabilities	5.9	6.0	8.9	9.0
ROAA	0.8	0.6	0.7	0.7
ROAE	3.8	5.4	3.5	3.6
Net % margin	7.3	6.8	7.2	6.8
NII-to-op income	79.7	79.4	86.8	77.1
Cost-to-income	47.7	48.0	55.1	48.5
LLR	16.3	17.8	19.0	19.8
NPLs	7.3	7.3	N/a	N/a
NPL coverage	224.5	244.4	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.

Positive income dynamics. Bank's total earnings has increased by 20.0% YoY to UAH679m. Net interest income of the bank rose by 12.2% YoY in 4Q13 while the operating expense increased by only 8.7% YoY.

Net interest margin has declined by 0.4ppt to 6.8% in 4Q13 due to the growth of the both: the amount non-performing asset and the rise of investments in securities, which tend to have lower interest rates than corporate loans.

Chart 16. Yields of the Oschadbank's Eurobonds

As of April 18, 2014



Source: Bloomberg, Investment Capital Ukraine LLC.

Oschadbank Eurobonds are viewed by investors as somewhat less risky than those issued by peer banks, including Ukreximbank, as evidenced by their lower yields during the recent turbulent period.

Oschadbank: Key quarterly UAS financials and ratios

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

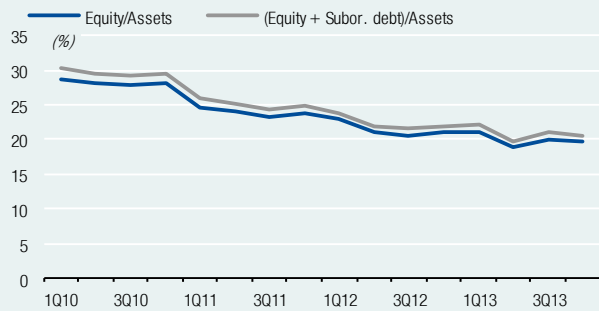
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	73,968	78,418	84,733	86,474	85,996	86,226	95,624	92,320	103,568
Cash and cash equivalents	5,554	7,962	6,995	7,605	15,489	9,587	7,394	6,539	7,470
Gross loans	58,838	57,678	59,957	60,382	61,348	60,520	61,871	64,356	64,281
Gross business loans	54,369	53,260	55,557	55,859	56,783	56,023	57,406	59,537	59,722
Gross household loans	4,469	4,418	4,399	4,524	4,565	4,497	4,465	4,819	4,559
Loan loss reserves (LLR)	-8,354	-8,642	-9,333	-9,985	-10,161	-10,849	-11,194	-12,213	-12,735
Deposits	38,585	35,120	37,061	37,143	39,399	40,021	43,040	44,120	46,341
Business deposits	13,357	8,081	8,052	8,017	9,545	7,435	8,115	8,010	10,414
Household deposits	25,229	27,039	29,009	29,127	29,854	32,587	34,926	36,110	35,927
Total equity	17,647	17,951	17,796	17,874	18,118	18,276	18,069	18,566	20,456
Quarterly P&L (UAHm)									
Net interest income	1,282	1,205	1,172	1,277	1,275	1,348	1,344	1,402	1,434
Net commission income	239	262	245	252	281	281	274	292	385
Operating income (before LLP)	1,619	1,564	1,560	1,733	894	1,839	1,421	2,033	1,880
Operating expenses	-769	-696	-778	-786	-943	-805	-799	-861	-1,016
Loan loss provisions (LLP)	-801	-664	-705	-765	166	-847	-314	-1,017	-558
Net income	146	178	50	183	155	137	157	187	198
Last 12-month period P&L (UAHm)									
Net interest income	4,522	4,713	4,843	4,935	4,928	5,072	5,245	5,370	5,528
Net commission income	936	958	976	998	1,040	1,059	1,087	1,127	1,231
Operating income (before LLP)	5,861	6,095	6,257	6,477	5,752	6,027	5,888	6,188	7,174
Operating expenses	-2,579	-2,712	-2,876	-3,029	-3,203	-3,312	-3,332	-3,408	-3,481
Loan loss provisions (LLP)	-2,794	-2,829	-2,913	-2,935	-1,969	-2,152	-1,761	-2,012	-2,736
Net income	531	583	512	557	566	525	631	636	679
Growth rates (%YoY)									
Assets	25.3	15.2	17.0	14.8	16.3	10.0	12.9	6.8	20.4
Gross loans	31.4	28.1	21.2	5.2	4.3	4.9	3.2	6.6	4.8
Deposits (by businesses)	170.4	-34.9	-37.4	-41.6	-28.5	-8.0	0.8	-0.1	9.1
Deposits (by households)	29.5	30.5	22.3	18.8	18.3	20.5	20.4	24.0	20.3
Deposits (total)	58.0	6.0	1.3	-2.9	2.1	14.0	16.1	18.8	17.6
Total equity	6.1	6.6	2.3	1.9	2.7	1.8	1.5	3.9	12.9
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	30.5	28.6	25.6	24.6	25.4	32.8	29.4	28.8	25.4
Equity/assets	23.9	22.9	21.0	20.7	21.1	21.2	18.9	20.1	19.8
(Equity + sub-debt)/assets	25.0	23.9	22.0	21.6	22.0	22.1	19.7	21.0	20.6
Cash & cash equivalents/liabilities	9.9	13.2	10.4	11.1	22.8	14.1	9.5	8.9	9.0
Current liquidity (R5 by NBU)	73.3	83.7	66.0	70.1	60.2	124.5	132.9	109.3	77.7
Gross loans/deposits	152.5	164.2	161.8	162.6	155.7	151.2	143.8	145.9	138.7
Net loans/deposits	130.8	139.6	136.6	135.7	129.9	124.1	117.7	118.2	111.2
Cost-to-income ratio	44.0	44.5	46.0	46.8	55.7	54.9	56.6	55.1	48.5
Net interest margin	7.5	7.4	7.3	7.2	7.2	7.2	7.3	7.2	6.8
ROAA	0.7	0.8	0.7	0.7	0.7	0.6	0.7	0.7	0.7
ROAE	3.1	3.3	2.9	3.1	3.2	2.9	3.5	3.5	3.6
NII/operating income	77.2	77.3	77.4	76.2	85.7	84.2	89.1	86.8	77.1
Core income/operating expenses	211.6	209.1	202.3	195.9	186.4	185.1	190.0	190.6	194.2

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

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

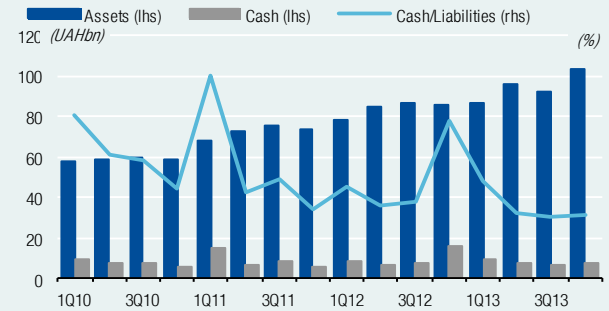
Oschadbank: Key credit metrics

Chart 17. Capitalisation



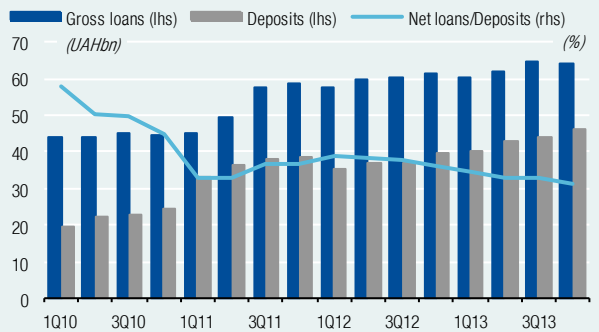
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 18. Liquidity



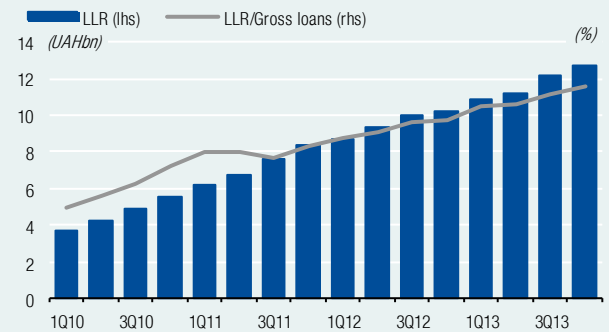
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 19. Loans and deposits



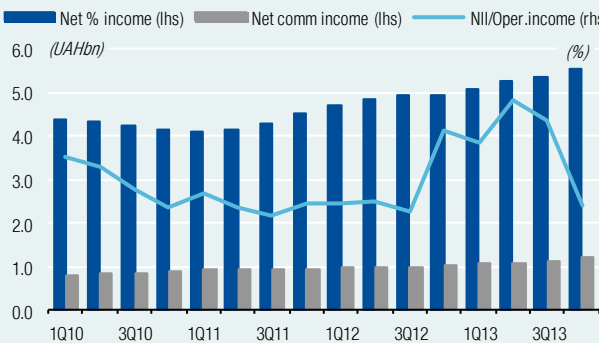
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 20. Loan loss reserves history



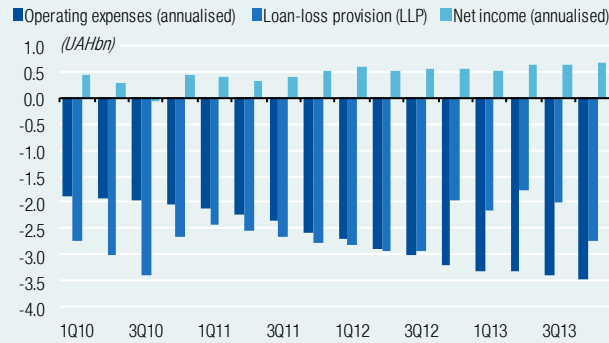
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 21. Income structure (annualised basis)



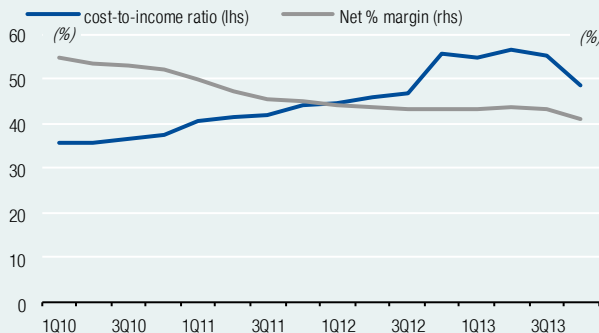
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 22. Expense and net income(annualised basis)



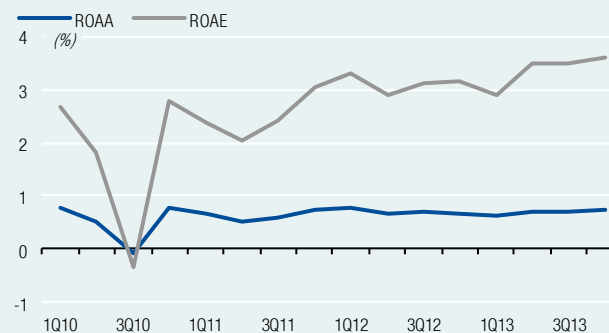
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 23. Financial performance ratios



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

Chart 24. Financial performance ratios



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

Country

Ukraine

Ukreximbank

Sector

Banks: Commercial banking

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

Ca/ NR /CCC EXIMUK

Ticker(s) in Bloomberg

Ukreximbank witnessed moderate growth in its loan portfolio in 4Q13 while the deposit base remained flat.

Capitalisation remains strong. The regulatory CAP declined from 29.6% in 3Q13 to 29.2% in 4Q13 owing to the fact that the regulatory capital increased by 1.2% QoQ while risk-weighted assets grew by 2.3% QoQ over the same period. The bank has not increased its share capital over the past year while total dividends paid in 2013 amounted to UAH52m.

Mild problems with liquidity. Overall liquidity increased as the cash-to-liabilities ratio grew by 1.0ppt to 10.4% in 4Q13. However, current liquidity calculated as short-term assets to short-term liabilities (R5 NBU ratio) fell from 109.2% in 3Q13 to 54.7% in 4Q13, which is just 14.7ppt above the minimum required level.

The bank is susceptible to the risk of concentration of large liabilities. The largest corporate depositor of the bank, the State Food-Grain Corporation of Ukraine, maintained its USD deposit at the same level in 4Q13 as in 3Q13 – UAH9.9bn.

Deposits decline by 0.3% QoQ. The 2.9% QoQ decline in corporate deposits to UAH25.7bn. was almost compensated for by the UAH611m or 3.7% QoQ increase in household deposits. The latter now account for 40.2% of total deposits. This share has been increasing, despite the relatively modest network of branches.

Expansion of the loan portfolio. The gross corporate loan portfolio increased by UAH2.6bn or 5.3% QoQ, while the retail portfolio remains a marginal segment.

Total bad credit exposure rose by 13.1% QoQ in 4Q13 to UAH14.0bn. The LLR rate dropped by 1.1ppt to 17.6%, partly owing to the write-off of bad assets totalling UAH0.7bn. LLR coverage of bad loans declined from 71.4% in 3Q13 to 61.3%.

Ukreximbank's exposure to the breakaway state of Crimea is significant – well over UAH1bn. We believe that recoverability of those loans is highly questionable, given current relations between Ukraine and Russia, and may in any case be a lengthy process.

Increased profitability. Earnings grew 24.3% YoY to UAH199m in 2013 compared with UAH160m in 2012. Total dividends paid during the year amounted to UAH52m.

Net operating expenses grew by 3.3% YoY in 4Q13, while the cost-to-income ratio remained at the very low level of 29.0%.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	74,525	87,206	91,098	94,349
Loans	41,855	39,366	39,632	42,274
Deposits	29,678	42,834	43,114	42,970
Equity	17,258	17,380	18,003	18,083
Net % income	3,155	3,558	3,776	3,889
Net com income	367	384	518	519
Operating income	4,069	4,567	4,485	4,378
PPI	3,068	3,352	3,212	3,110
LLP	-2,878	-3,091	-2,789	-2,783
Net income	131	137	227	199
Ratios (%)				
Tier 1 ratio	25.2	23.1	N/a	N/a
CAR	31.0	28.0	29.6	29.2
Equity-to-assets	23.2	19.9	19.8	19.2
Net loan-to-deposit	141.0	91.9	91.9	98.4
Cash-to-liabilities	18.6	28.3	9.4	10.4
ROAA	0.2	0.2	0.3	0.2
ROAE	0.8	0.8	1.3	1.1
Net % margin	5.5	6.0	5.3	5.1
NII-to-op income	77.5	77.9	84.2	88.8
Cost-to-income	24.6	26.6	28.4	29.0
LLR	18.5	18.8	18.7	17.6
NPLs	30.2	23.6	N/a	N/a
NPL coverage	61.1	79.9	N/a	N/a

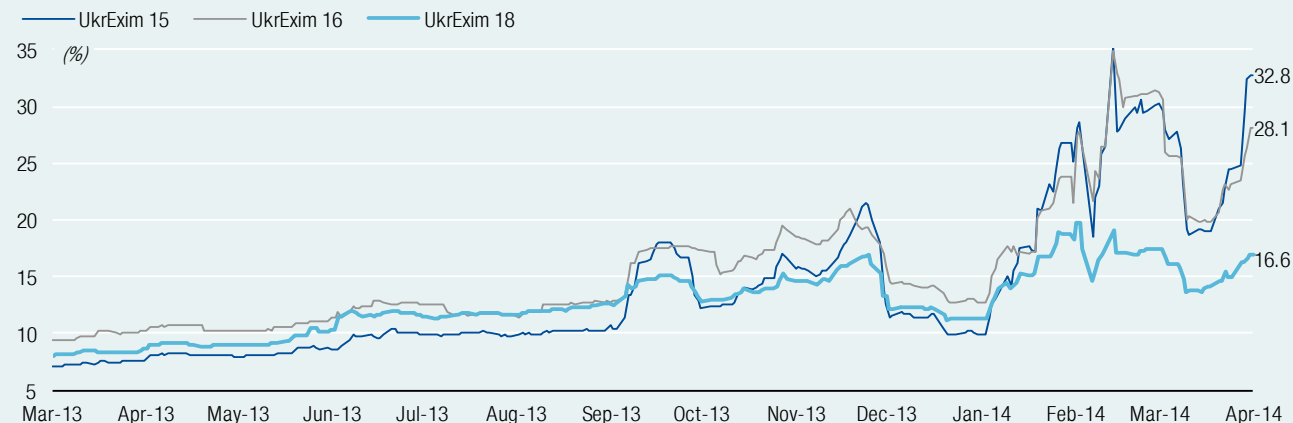
Notes: P&L figures and ratios are on a 12-month annualised basis; CAR – capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); PPI - pre-provision income LLP – loan loss provision; ROAA and ROAE - return on average assets and equity, respectively; NII – net interest income; LLR – loan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

The net interest margin decreased by 0.2ppt to 5.1% in 4Q13 owing to the increase in the volume of non-performing assets.

Ukreximbank's Eurobonds are seen by the market as a riskier investment compared with its peer Oschadbank. This is because it has received less NBU funding and has a larger share of non-performing loans (NPLs) on its balance sheet.

Chart 25. Yields of Ukreximbank's Eurobonds

As of April 18, 2014



Source: Bloomberg, Investment Capital Ukraine LLC.

Ukreximbank: Key quarterly UAS financials and ratios

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

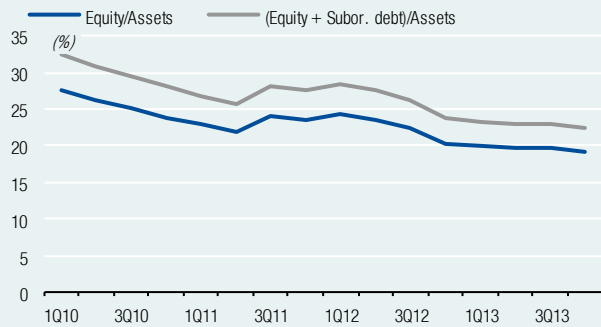
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	75,103	72,851	75,543	78,674	87,949	89,672	91,627	91,098	94,349
Cash and cash equivalents	8,632	7,454	6,842	8,155	19,078	11,895	8,274	6,863	7,964
Gross loans	52,753	52,914	51,148	49,308	49,806	47,000	48,637	48,725	51,307
Gross business loans	51,756	51,956	50,250	48,417	48,897	46,155	47,851	47,929	50,487
Gross household loans	996	958	898	892	909	845	786	796	820
Loan loss reserves (LLR)	-9,834	-10,680	-8,750	-8,815	-9,384	-9,488	-10,044	-9,093	-9,033
Deposits	31,682	31,672	31,909	34,069	44,841	44,062	43,677	43,114	42,970
Business deposits	18,158	17,714	17,721	18,905	29,038	28,055	27,480	26,458	25,704
Household deposits	13,523	13,958	14,188	15,164	15,803	16,007	16,197	16,656	17,266
Total equity	17,729	17,742	17,728	17,746	17,856	17,928	17,984	18,003	18,083
Quarterly P&L (UAHm)									
Net interest income	977	881	843	883	882	913	1,005	976	995
Net commission income	146	116	124	132	138	115	130	136	139
Operating income (before LLP)	1,457	1,098	1,110	1,137	1,234	1,078	1,179	995	1,127
Operating expenses	-314	-264	-312	-292	-358	-265	-335	-315	-353
Loan loss provisions (LLP)	-1,083	-805	-763	-816	-676	-733	-776	-605	-670
Net income	29	20	24	27	88	41	47	52	59
Last 12-month period P&L (UAHm)									
Net interest income	3,463	3,492	3,581	3,584	3,489	3,521	3,683	3,776	3,889
Net commission income	517	520	517	518	510	509	515	518	519
Operating income (before LLP)	4,397	4,421	4,565	4,802	4,579	4,559	4,628	4,485	4,378
Operating expenses	-1,020	-1,083	-1,142	-1,182	-1,226	-1,227	-1,250	-1,273	-1,268
Loan loss provisions (LLP)	-3,231	-3,189	-3,268	-3,467	-3,060	-2,988	-3,001	-2,789	-2,783
Net income	88	91	95	100	159	180	203	227	199
Growth rates (%YoY)									
Assets	2.6	-4.5	-5.6	7.7	17.1	23.1	21.3	15.8	7.3
Gross loans	1.3	1.1	-3.3	-8.9	-5.6	-11.2	-4.9	-1.2	3.0
Deposits (by businesses)	21.4	-2.5	-18.0	-0.7	59.9	58.4	55.1	40.0	-11.5
Deposits (by households)	9.3	5.0	4.4	14.5	16.9	14.7	14.2	9.8	9.3
Deposits (total)	15.9	0.7	-9.4	5.5	41.5	39.1	36.9	26.5	-4.2
Total equity	1.6	0.8	0.6	0.6	0.7	1.0	1.4	1.4	1.3
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	31.2	32.2	31.9	31.9	29.2	30.2	29.5	29.6	29.2
Equity/assets	23.6	24.4	23.5	22.6	20.3	20.0	19.6	19.8	19.2
(Equity + sub-debt)/assets	27.6	28.4	27.5	26.3	23.8	23.3	23.0	23.0	22.4
Cash & cash equivalents/liabilities	15.0	13.5	11.8	13.4	27.2	16.6	11.2	9.4	10.4
Current liquidity (R5 by NBU)	49.0	53.6	83.6	131.6	90.7	132.3	106.6	109.2	54.7
Gross loans/deposits	166.5	167.1	160.3	144.7	111.1	106.7	111.4	113.0	119.4
Net loans/deposits	135.5	133.3	132.9	118.9	90.1	85.1	88.4	91.9	98.4
Cost-to-income ratio	23.2	24.5	25.0	24.6	26.8	26.9	27.0	28.4	29.0
Net interest margin	5.8	5.8	5.9	5.9	5.7	5.5	5.4	5.3	5.1
ROAA	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.2
ROAE	0.5	0.5	0.5	0.6	0.9	1.0	1.1	1.3	1.1
NII/operating income	78.8	79.0	78.4	74.6	76.2	77.2	79.6	84.2	88.8
Core income/operating expenses	390.2	370.5	358.8	347.0	326.2	328.4	335.8	337.4	347.8

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

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

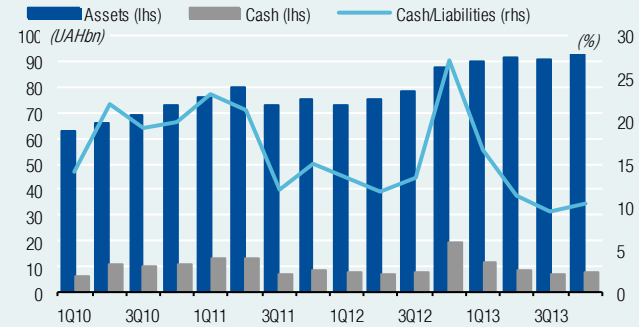
Ukreximbank: Key credit metrics

Chart 26. Capitalisation



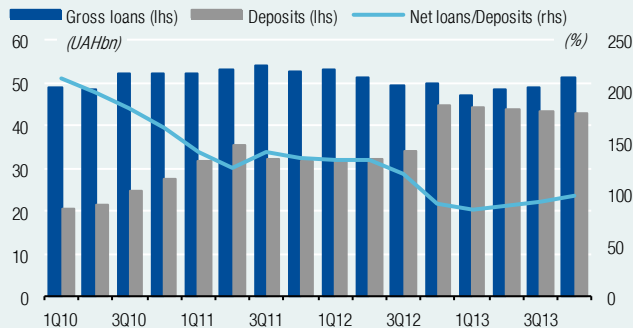
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 27. Liquidity



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

Chart 28. Loans and deposits



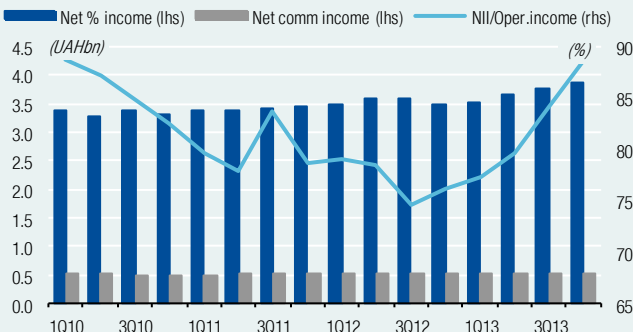
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 29. Loan loss reserves history



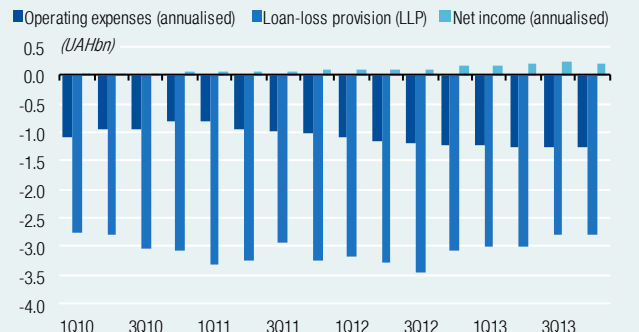
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 30. Income structure (annualised basis)



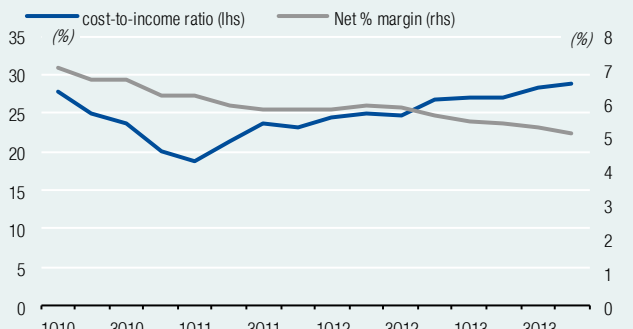
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 31. Expense and net income (annualised basis)



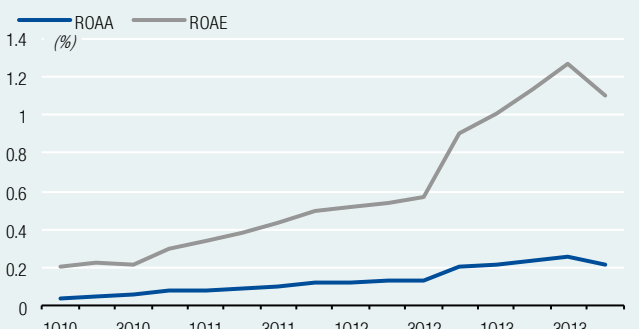
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 32. Financial performance ratios



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

Chart 33. Financial performance ratios



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

Country

Ukraine

Delta Bank

Sector

Banks: Commercial banking

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

NR/NR/NR

Ticker(s) in Bloomberg

DELBK

Delta Bank has increased the volume of its assets through the acquisition of other banks' assets. Its very aggressive growth strategy has reduced liquidity and brought its capitalisation to the brink of profitability.

Very low capitalisation. The 85.3% YoY increase in assets in 4Q13, achieved through the acquisition of other banks' assets and organic growth, severely diluted the bank's capital, which did not rise as quickly. The regulatory capital dropped to 10.05% -- only just above the minimum required level of 10%. Had the bank incurred an additional expense of UAH27,000 in 4Q14, it would have fallen into non-compliance with NBU standards. In 1Q14 the bank announced plans to boost its capital by another UAH1.4bn. This inflow is urgently needed as the bank has a significant short FX position and will inevitably face revaluation losses in 2014 unless it manages to reduce that position.

Liquidity declines significantly. Loan portfolio growth led to a significant outflow of highly liquid assets. The cash-to liabilities ratio dropped from 18.2% in 3Q13 to 10.3% in 4Q13. For this reason we believe the bank may experience problems with liquidity in the event of significant depositor outflows.

Loan portfolio soars. Over the past year, the bank has doubled the total amount of loans, with the overall portfolio increasing to UAH43.2bn, up 103.2% YoY. Corporate and retail loans are largely equal, accounting for 49.6% and 50.4%, respectively, of the overall portfolio. LLR dropped from 8.2% in 3Q13 to just 7.2% in 4Q13. The LLR coverage of bad and doubtful debt declined 3.9ppt in 4Q13 to 38.5%. Because of the current low level of capitalisation, we have serious doubts about the accuracy of reported figures.

The bank has a strong position in the consumer lending segment: its gross retail loan portfolio amounted to UAH21.8bn.

Aggressive growth of household deposits. The net loan-to-deposits ratio jumped from 99.6% in 3Q13 to 111.0% in 4Q13 owing to the bank's acquisition of existing loan portfolios and the continued increase in the deposit base. Household deposits increased 9.9% QoQ in 4Q13 and now account for 72.3% of total deposits. Meanwhile, corporate deposits declined 0.6% QoQ in 4Q13 while registering annual YoY growth of 159.8% in 2013.

Operating expenses increase. The bank ended 4Q13 with losses before tax totalling UAH144m and a tax benefit of UAH240m, which yielded positive net income. Operating expenses rose by 89.7% QoQ in 4Q13. We believe that such a large increase reflects losses from loan portfolio sales, which are included in "other expenses" in accordance with Ukrainian accounting standards.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	21,760	29,647	54,041	55,298
Loans	13,661	18,695	33,701	40,110
Deposits	10,425	17,329	33,834	36,126
Equity	4,460	5,920	3,256	3,325
Net % income	2,635	571	-382	-304
Net com income	696	1,646	2,569	2,923
Operating income	4,964	2,366	2,520	3,334
PPI	1,825	1,347	1,324	1,368
LLP	-1,255	-1,238	-1,033	-1,304
Net income	348	92	243	303
Ratios (%)				
Tier 1 ratio	11.4	11.5	N/a	N/a
CAR	11.4	11.5	10.7	10.1
Equity-to-assets	20.5	20.0	6.0	6.0
Net loan-to-deposit	131.0	107.9	99.6	111.0
Cash-to-liabilities	14.9	21.5	18.2	10.3
ROAA	2.0	0.4	0.6	0.6
ROAE	10.8	1.8	7.7	9.4
Net % margin	20.1	2.9	-1.3	-0.8
Nil-to-op income	53.1	24.1	-15.1	-9.1
Cost-to-income	63.2	43.1	47.5	59.0
LLR	23.2	15.0	8.2	7.2
NPLs	22.8	14.3	N/a	N/a
NPL coverage	101.6	105.1	N/a	N/a

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

Delta Bank: Key quarterly UAS financials and ratios

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

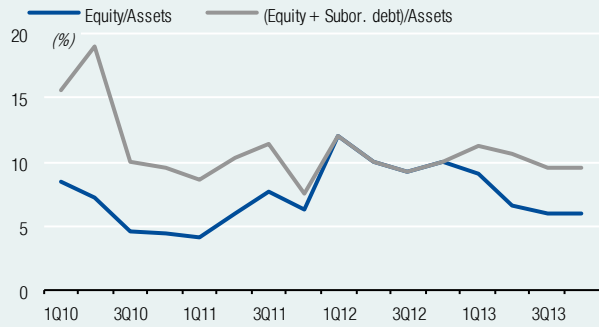
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	23,216	24,528	29,044	31,612	29,842	34,746	47,616	54,041	55,298
Cash and cash equivalents	2,167	2,960	3,892	3,832	4,906	7,711	10,725	9,267	5,361
Gross loans	18,052	18,804	20,426	19,599	21,265	24,744	30,751	36,720	43,220
Gross business loans	10,110	9,988	10,897	9,432	10,016	11,262	14,645	18,478	21,446
Gross household loans	7,942	8,816	9,530	10,167	11,250	13,482	16,105	18,242	21,774
Loan loss reserves (LLR)	-4,229	-4,373	-4,510	-2,746	-3,244	-3,395	-2,655	-3,019	-3,110
Deposits	10,353	11,909	13,375	15,026	17,198	22,628	29,892	33,834	36,126
Business deposits	2,193	2,790	3,029	3,574	3,846	6,518	8,475	10,048	9,991
Household deposits	8,160	9,119	10,346	11,452	13,352	16,110	21,417	23,786	26,135
Total equity	1,450	2,939	2,924	2,940	3,010	3,160	3,175	3,256	3,325
Quarterly P&L (UAHm)									
Net interest income	803	108	449	178	-163	-23	-173	-22	-85
Net commission income	110	347	358	433	507	649	668	746	861
Operating income (before LLP)	1,239	490	820	668	386	593	641	900	1,200
Operating expenses	-204	-182	-530	-307	1	-377	-414	-405	-769
Loan loss provisions (LLP)	-854	-296	-263	-366	-305	-118	-186	-425	-575
Net income	-50	12	26	24	36	98	38	71	96
Last 12-month period P&L (UAHm)									
Net interest income	2,635	1,037	1,367	1,537	571	440	-182	-382	-304
Net commission income	696	882	1,027	1,249	1,646	1,948	2,257	2,569	2,923
Operating income (before LLP)	4,963	3,568	3,651	3,217	2,364	2,466	2,287	2,520	3,334
Operating expenses	-3,148	-692	-1,080	-1,223	-1,019	-1,214	-1,098	-1,196	-1,965
Loan loss provisions (LLP)	-1,122	-2,038	-1,738	-1,780	-1,230	-1,052	-975	-1,033	-1,304
Net income	468	472	468	12	98	184	196	243	303
Growth rates (%YoY)									
Assets	68.3	60.0	77.4	67.7	28.5	41.7	63.9	70.9	85.3
Gross loans	46.6	64.7	50.1	32.6	17.8	31.6	50.5	87.4	103.2
Deposits (by businesses)	93.2	118.4	98.5	78.7	75.4	133.6	179.8	181.1	159.8
Deposits (by households)	45.9	39.2	43.3	53.5	63.6	76.7	107.0	107.7	95.7
Deposits (total)	53.9	52.2	52.9	58.8	66.1	90.0	123.5	125.2	110.1
Total equity	138.9	373.4	199.4	103.9	107.7	7.5	8.6	10.7	10.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.5	11.3	10.3	11.4	11.4	10.4	11.0	10.7	10.1
Equity/assets	6.2	12.0	10.1	9.3	10.1	9.1	6.7	6.0	6.0
(Equity + sub-debt)/assets	7.5	12.0	10.1	9.3	10.1	11.3	10.7	9.6	9.5
Cash & cash equivalents/liabilities	10.0	13.7	14.9	13.4	18.3	24.4	24.1	18.2	10.3
Current liquidity (R5 by NBU)	61.6	53.9	63.6	72.2	66.3	79.5	81.6	52.1	40.3
Gross loans/deposits	174.4	157.9	152.7	130.4	123.6	109.4	102.9	108.5	119.6
Net loans/deposits	133.5	121.2	119.0	112.2	104.8	94.4	94.0	99.6	111.0
Cost-to-income ratio	63.4	19.4	29.6	38.0	43.1	49.2	48.0	47.5	59.0
Net interest margin	18.6	6.4	7.4	7.4	2.7	1.9	-0.7	-1.3	-0.8
ROAA	2.5	2.3	2.0	0.0	0.3	0.6	0.5	0.6	0.6
ROAE	41.7	27.7	21.4	0.5	3.3	6.1	6.4	7.7	9.4
Nil/operating income	53.1	29.1	37.4	47.8	24.2	17.9	-7.9	-15.1	-9.1
Core income/operating expenses	105.8	277.2	221.6	227.8	217.6	196.8	189.1	183.0	133.3

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

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

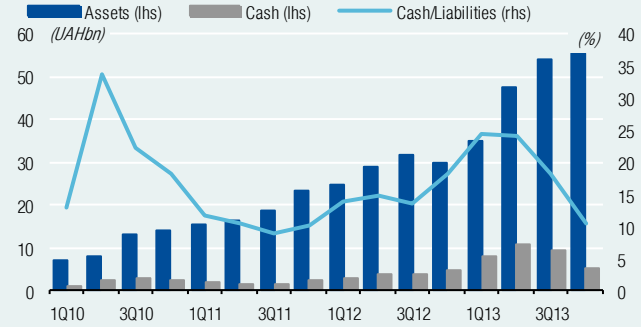
Delta Bank: Key credit metrics

Chart 34. Capitalisation



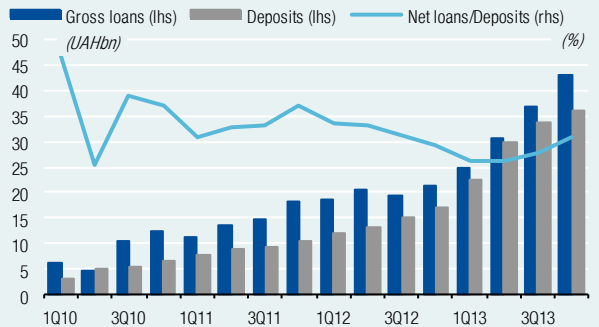
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 35. Liquidity



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

Chart 36. Loans and deposits



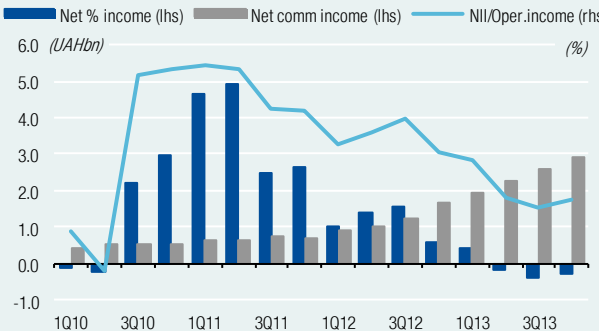
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 37. Loan loss reserves history



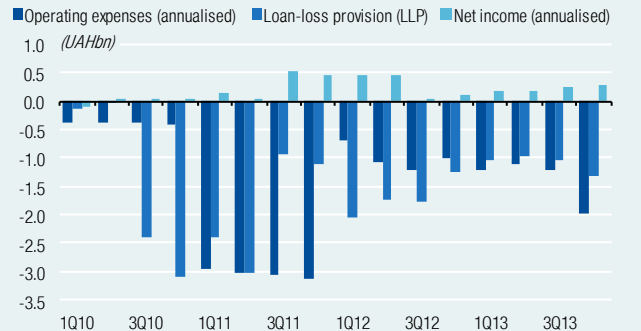
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 38. Income structure (annualised basis)



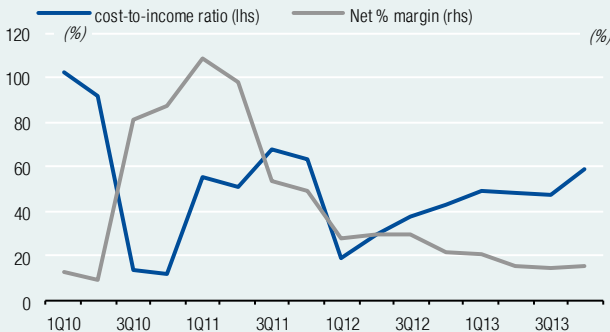
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 39. Expense and net income (annualised basis)



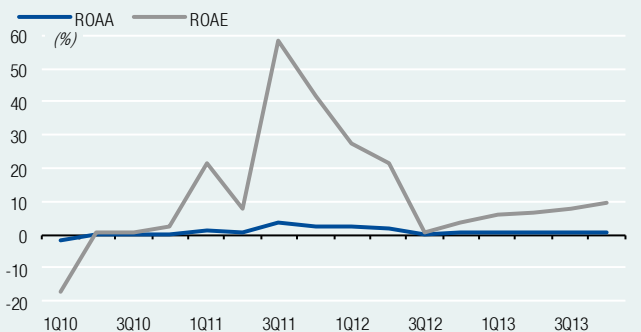
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 40. Financial performance ratios



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

Chart 41. 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 AVAL

Ticker(s) in Bloomberg

Raiffeisen Group has halted the sale of its Ukrainian subsidiary Aval owing to the unfavourable market conditions, which would likely have exerted strong downward pressure on the sale price. The Austrian regulatory authority did not approve the repayment of participation capital, which had been expected in 1Q14 and is considered one of the main reasons for the Group's decision to leave the market. While the sale was still in progress, the bank decreased the volume of its assets by 3.0% QoQ.

Liquidity decreases but remains high. The cash-to-liabilities ratio declined by 3.2ppt to 16.1% in 4Q13, which is still high by Ukrainian standards.

Modest growth in the loan portfolio. The total gross corporate loan portfolio increased by UAH 1.3bn or 6.2% QoQ in 4Q13 while the retail portfolio decreased by UAH0.7bn or 4.6% QoQ. We believe that the bank has no intention of significantly expanding its consumer lending segment, despite its large network of branches and good brand recognition.

Total bad credit exposure declined by UAH527m to UAH9.8bn in 4Q13, partly as a result of the UAH0.6bn write-off during the same period.

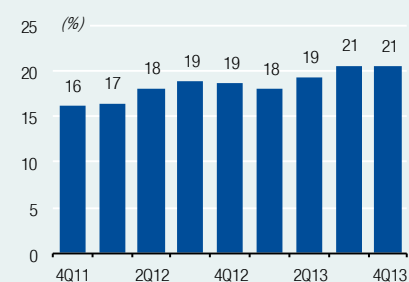
Deposits fall along with interest rates. The bank continues offering interest rates on deposit accounts that are significantly below the market average. As a result, the total amount of household deposits fell by UAH1.0bn or 6.5% QoQ. The net loans-to-deposit ratio rose by 10.7ppt to 102.4% in 4Q13 as the bank is increasingly relying on interbank funding.

The net interest margin (NIM) increased by 0.3ppt to 11.3% in 4Q13 as a result of the low interest rates on deposit accounts. This is currently one of the highest NIMs in the Ukrainian banking sector.

Significant annual net income. While annual net profit grew from just UAH34m in 2012 to UAH730m in 2013, the bank reported net losses of UAH8m in 4Q13. It recognised the profit from the revaluation of securities in 2Q13 and 3Q13 as totalling UAH217m; one-off operations accounted for that total. LLP expenses increased by 110.1% to UAH595m in 4Q13.

Impact of FX revaluation. As a foreign-owned bank with significant FX funding from the parent bank, Aval is highly susceptible to the risk of UAH depreciation. Owing to the current approach of the NBU, the true FX position of the bank is deteriorating; according to our estimations, this position accounts for up to 45% of the bank's total equity.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	52,740	49,808	44,804	43,460
Loans	32,185	28,359	26,348	27,047
Deposits	28,241	28,554	28,735	26,419
Equity	7,925	8,221	7,216	7,237
Net % income	3,804	3,516	3,834	3,910
Net com income	1,218	1,322	1,488	1,501
Operating income	5,002	4,790	5,805	5,918
PPI	1,978	1,650	2,337	2,649
LLP	-1,178	-1,103	-1,362	-1,674
Net income	583	319	703	730
Ratios (%)				
Tier 1 ratio	16.7	21.3	N/a	N/a
CAR	22.9	30.9	20.6	20.6
Equity-to-assets	15.0	16.5	16.1	16.7
Net loan-to-deposit	114.0	99.3	91.7	102.4
Cash-to-liabilities	17.0	24.8	19.3	16.1
ROAA	1.1	0.6	1.5	1.6
ROAE	7.6	4.0	10.3	10.3
Net % margin	9.0	9.2	11.0	11.3
NII-to-op income	76.1	73.4	66.0	66.1
Cost-to-income	60.5	65.6	59.7	55.2
LLR	23.1	23.9	25.3	24.7
NPLs	34.6	34.3	N/a	N/a
NPL coverage	66.7	69.7	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 12. Key financials and ratios derived from the bank's UAS financials

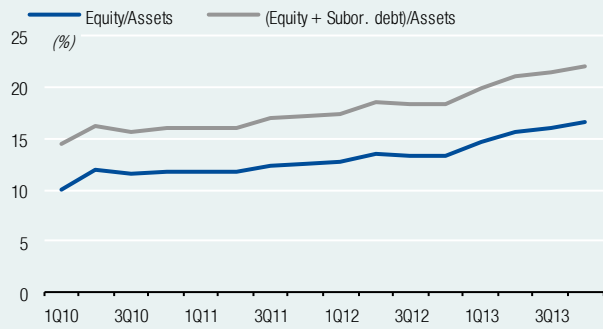
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	51,347	50,803	47,478	47,434	47,694	45,977	44,929	44,804	43,460
Cash and cash equivalents	7,165	8,288	6,804	8,364	9,797	6,184	5,559	7,243	5,844
Gross loans	42,725	39,249	37,566	37,145	35,987	36,059	36,054	35,263	35,896
Gross business loans	23,131	22,568	21,202	21,043	20,374	20,573	21,312	20,913	22,207
Gross household loans	19,594	16,681	16,364	16,102	15,613	15,486	14,742	14,349	13,688
Loan loss reserves (LLR)	-12,289	-10,068	-10,093	-10,444	-9,916	-10,193	-9,436	-8,914	-8,849
Deposits	27,635	28,286	27,513	27,624	27,804	28,973	28,761	28,735	26,419
Business deposits	12,609	12,865	11,751	12,394	12,369	12,574	11,992	13,083	11,787
Household deposits	15,026	15,422	15,762	15,229	15,436	16,399	16,768	15,653	14,633
Total equity	6,472	6,421	6,378	6,330	6,346	6,747	7,038	7,216	7,237
Quarterly P&L (UAHm)									
Net interest income	1,186	1,079	976	1,003	988	857	942	1,047	1,064
Net commission income	362	311	341	384	395	330	362	402	408
Operating income (before LLP)	1,539	1,445	1,339	1,435	1,436	1,240	1,514	1,614	1,549
Operating expenses	-880	-766	-882	-829	-1,081	-813	-766	-807	-882
Loan loss provisions (LLP)	-591	-657	-416	-498	-283	-310	-247	-521	-595
Net income	6	11	5	53	-35	84	438	216	-8
Last 12-month period P&L (UAHm)									
Net interest income	4,541	4,574	4,460	4,244	4,046	3,824	3,790	3,834	3,910
Net commission income	1,295	1,335	1,365	1,398	1,431	1,450	1,471	1,488	1,501
Operating income (before LLP)	5,996	6,063	5,957	5,758	5,655	5,450	5,625	5,805	5,918
Operating expenses	-3,270	-3,325	-3,372	-3,357	-3,558	-3,605	-3,489	-3,468	-3,269
Loan loss provisions (LLP)	-2,554	-2,553	-2,411	-2,162	-1,854	-1,507	-1,338	-1,362	-1,674
Net income	30	39	31	75	34	107	540	703	730
Growth rates (%YoY)									
Assets	-6.8	-7.4	-13.8	-10.8	-7.1	-9.5	-5.4	-5.5	-8.9
Gross loans	-2.6	-10.3	-15.0	-17.7	-15.8	-8.1	-4.0	-5.1	-0.3
Deposits (by businesses)	12.6	9.6	-12.0	-4.0	-1.9	-2.3	2.1	5.6	-4.7
Deposits (by households)	-12.4	-6.0	-3.9	-0.2	2.7	6.3	6.4	2.8	-5.2
Deposits (total)	-2.5	0.5	-7.5	-2.0	0.6	2.4	4.5	4.0	-5.0
Total equity	0.5	-0.5	-1.0	-4.1	-1.9	5.1	10.3	14.0	14.0
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	16.2	16.5	18.1	19.0	18.8	18.1	19.3	20.6	20.6
Equity/assets	12.6	12.6	13.4	13.3	13.3	14.7	15.7	16.1	16.7
(Equity + sub-debt)/assets	17.2	17.4	18.5	18.4	18.3	19.9	21.0	21.4	22.1
Cash & cash equivalents/liabilities	16.0	18.7	16.6	20.3	23.7	15.8	14.7	19.3	16.1
Current liquidity (R5 by NBU)	45.3	60.9	58.8	77.7	80.0	77.0	93.2	94.7	73.8
Gross loans/deposits	154.6	138.8	136.5	134.5	129.4	124.5	125.4	122.7	135.9
Net loans/deposits	110.1	103.2	99.9	96.7	93.8	89.3	92.5	91.7	102.4
Cost-to-income ratio	54.5	54.8	56.6	58.3	62.9	66.1	62.0	59.7	55.2
Net interest margin	10.9	11.3	11.5	11.4	11.3	10.8	10.8	11.0	11.3
ROAA	0.1	0.1	0.1	0.2	0.1	0.2	1.2	1.5	1.6
ROAE	0.5	0.6	0.5	1.2	0.5	1.7	8.2	10.3	10.3
NII/operating income	75.7	75.4	74.9	73.7	71.5	70.2	67.4	66.0	66.1
Core income/operating expenses	178.5	177.7	172.7	168.1	153.9	146.3	150.8	153.5	165.5

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

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

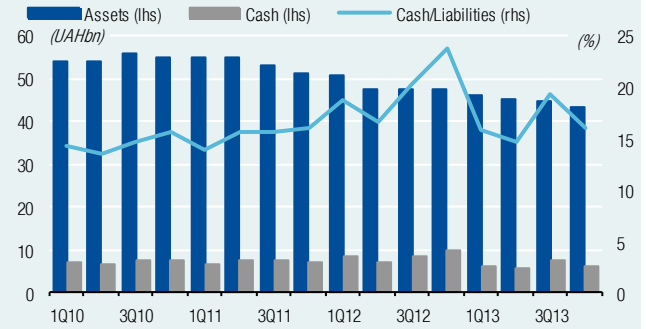
Raiffeisen Bank Aval: Key credit metrics

Chart 42. Capitalisation



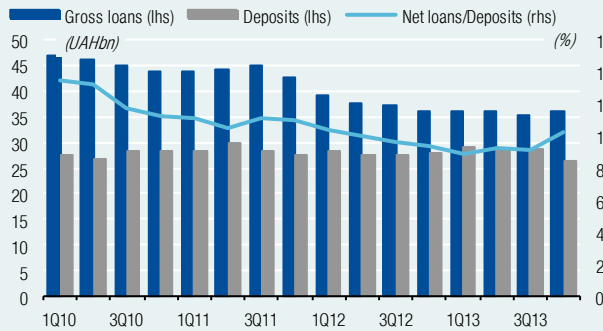
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 43. Liquidity



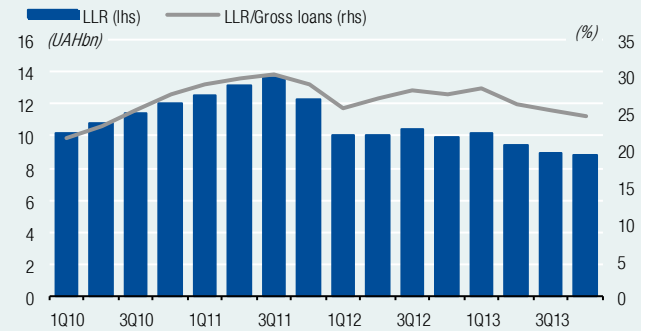
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 44. Loans and deposits



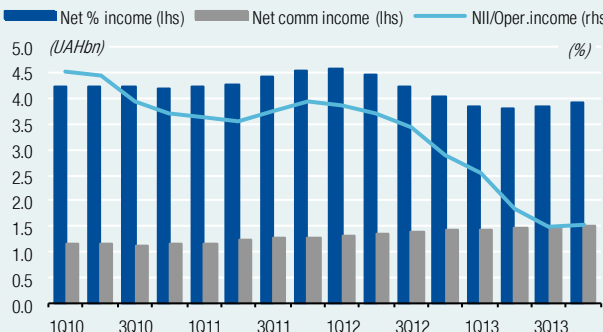
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 45. Loan loss reserves history



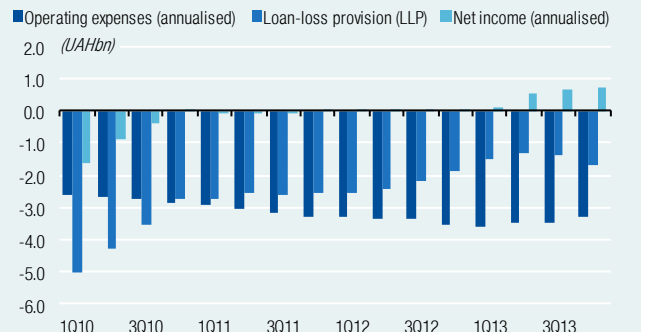
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 46. Income structure (annualised basis)



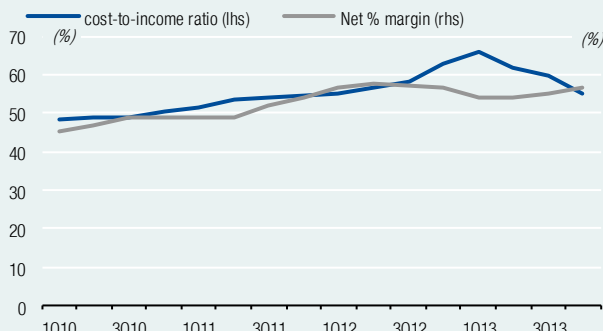
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 47. Expense and net income (annualised basis)



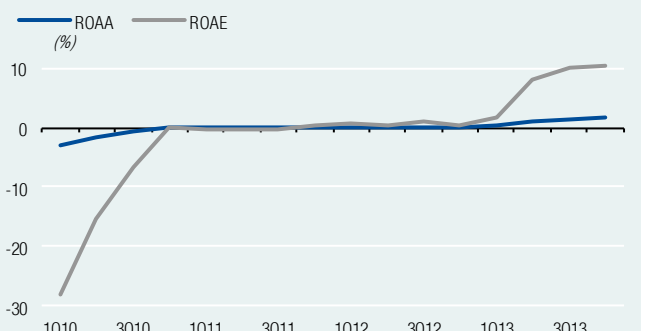
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 48. Financial performance ratios



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

Chart 49. 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 **VEBBNK**

Ticker(s) in Bloomberg

Prominvestbank's parent, Vnesheconombank (VEB), has the largest exposure to Ukraine (25.5%) relative to the equity. Given the current tension between Russia and Ukraine and the fact that the bank has strong political influence over its course of operations in the country future plans of the bank are not very clear at this point.

Capitalisation remains flat despite losses. VEB increased the share capital of its subsidiary by UAH2.9bn in order to accommodate losses from the deterioration in loan quality. The current regulatory CAR of 13.7% is significantly above the required minimum.

Zero growth of the loan portfolio. The gross loan portfolio declined by 7.3% QoQ to UAH30.6bn in 4Q13 following the massive UAH2.7bn write-off of bad credit exposure.

Despite its strong concentration on the corporate segment, the bank increased its retail gross loan portfolio by 59.2% QoQ in 4Q13 to UAH212m, which is still just a very small fraction of the total portfolio. We believe that the bank has started actively issuing short-term consumer loans, including (but not exclusively) credit cards.

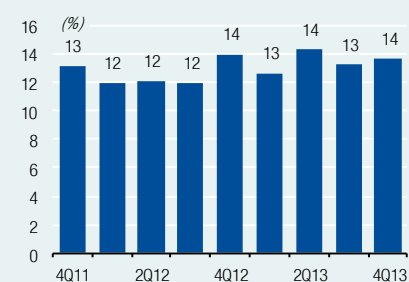
Following the unrest in early 2014, the bank temporarily halted issuing new loans. We expect that bank to recognise further losses from the provision as the loan loss reserve (LLR) ratio for bad debt was just 39.2% in 4Q13 compared with 66.2% in 3Q13. The bank is likely to leave those loans with the most reliable collateral on its balance sheet in order to continue collecting those debts rather than selling off the portfolio.

Deposit base remains stable. Household deposits grew by UAH91m or 1.1% QoQ in 4Q13, while the corporate segment declined by 3.4% QoQ; as a result, they that nearly netted each other out. The bank witnessed significant depositor outflows in early 2014, which resulted in a limit being imposed on ATM withdrawals and the postponement of some transactions.

Poor earnings. Total net losses in 2013 amounted to UAH2.6bn as a result of the one-off recognition of loan portfolio impairment that occurred long before 2013. Otherwise, the bank has demonstrated weak profitability; pre-LLP operating income in 4Q13 exceeded operating expenses by just UAH15m.

The bank has a relatively low NIM, which, at 3.8%, remained stable during the quarter.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	36,636	38,181	40,237	39,737
Loans	26,316	26,646	28,074	28,400
Deposits	16,663	14,505	14,012	13,898
Equity	3,725	5,070	5,322	5,384
Net % income	1,532	1,273	1,234	1,233
Net com income	227	213	355	373
Operating income	2,037	1,611	2,158	1,877
PPI	455	293	738	458
LLP	-1,611	-2,061	-3,550	-3,036
Net income	-1,000	-1,806	-2,395	-2,575
Ratios (%)				
Tier 1 ratio	5.9	8.9	N/a	N/a
CAR	11.8	17.4	13.2	13.7
Equity-to-assets	10.2	13.3	13.2	13.5
Net loan-to-deposit	157.9	183.7	200.4	204.3
Cash-to-liabilities	13.0	13.8	8.1	7.7
ROAA	-2.9	-4.8	-6.0	-6.5
ROAE	-24.4	-41.1	-45.9	-49.0
Net % margin	5.8	4.4	3.8	3.8
NII-to-op income	75.2	79.0	57.2	65.7
Cost-to-income	77.7	81.8	65.8	75.6
LLR	12.4	14.2	15.0	7.3
NPLs	15.6	12.3	N/a	N/a
NPL coverage	79.0	115.4	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.

Prominvestbank: Key quarterly UAS financials and ratios

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

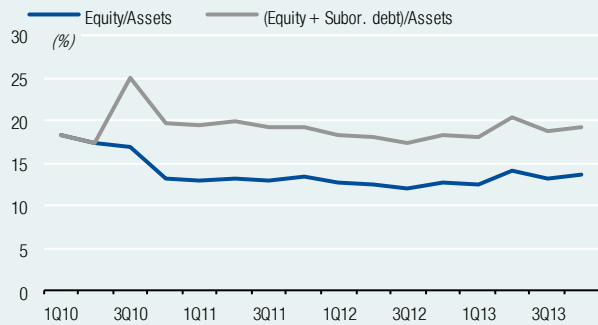
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	38,161	40,463	40,998	41,824	41,318	40,796	37,337	40,237	39,737
Cash and cash equivalents	3,438	2,224	2,719	1,631	3,111	2,608	2,131	2,834	2,633
Gross loans	29,227	32,014	32,646	33,245	31,300	31,436	30,982	33,037	30,628
Gross business loans	28,428	31,264	31,963	32,613	31,173	31,306	30,847	32,904	30,416
Gross household loans	799	750	683	632	127	130	135	133	212
Loan loss reserves (LLR)	-2,191	-2,388	-2,059	-2,175	-1,813	-1,975	-4,850	-4,963	-2,227
Deposits	16,507	15,454	14,865	13,814	13,986	13,272	13,032	14,012	13,898
Business deposits	7,513	6,789	6,345	5,891	5,937	5,405	5,080	5,997	5,792
Household deposits	8,994	8,665	8,520	7,923	8,049	7,867	7,951	8,015	8,106
Total equity	5,082	5,132	5,086	5,045	5,273	5,061	5,238	5,322	5,384
Quarterly P&L (UAHm)									
Net interest income	344	273	387	340	314	280	313	327	313
Net commission income	61	56	70	72	69	76	89	120	88
Operating income (before LLP)	795	458	394	406	752	409	471	525	471
Operating expenses	-713	-285	-314	-328	-458	-276	-321	-365	-457
Loan loss provisions (LLP)	-57	-169	-93	-79	-474	-121	-2,826	-130	40
Net income	25	4	-13	-1	236	14	-2,675	30	55
Last 12-month period P&L (UAHm)									
Net interest income	1,491	1,410	1,402	1,344	1,314	1,320	1,247	1,234	1,233
Net commission income	317	290	282	259	268	288	307	355	373
Operating income (before LLP)	2,303	2,255	2,225	2,052	2,010	1,961	2,039	2,158	1,877
Operating expenses	-1,538	-1,550	-1,642	-1,640	-1,385	-1,376	-1,382	-1,420	-1,419
Loan loss provisions (LLP)	-734	-622	-565	-398	-815	-767	-3,500	-3,550	-3,036
Net income	31	83	18	14	225	235	-2,427	-2,395	-2,575
Growth rates (%YoY)									
Assets	10.3	15.8	18.5	18.6	8.3	0.8	-8.9	-3.8	-3.8
Gross loans	13.7	16.9	20.2	14.7	7.1	-1.8	-5.1	-0.6	-2.1
Deposits (by businesses)	-10.3	-14.6	-21.3	-9.7	-21.0	-20.4	-19.9	1.8	-2.4
Deposits (by households)	-19.0	-19.8	-18.2	-17.6	-10.5	-9.2	-6.7	1.2	0.7
Deposits (total)	-15.3	-17.6	-19.6	-14.4	-15.3	-14.1	-12.3	1.4	-0.6
Total equity	10.7	13.1	10.7	10.4	3.8	-1.4	3.0	5.5	2.1
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	13.2	12.0	12.1	11.9	14.0	12.7	14.3	13.2	13.7
Equity/assets	13.3	12.7	12.4	12.1	12.8	12.4	14.0	13.2	13.5
(Equity + sub-debt)/assets	19.2	18.3	18.1	17.4	18.2	18.0	20.3	18.8	19.3
Cash & cash equivalents/liabilities	10.4	6.3	7.6	4.4	8.6	7.3	6.6	8.1	7.7
Current liquidity (R5 by NBU)	55.0	50.1	61.1	76.1	88.0	99.8	77.6	71.9	67.5
Gross loans/deposits	177.1	207.2	219.6	240.7	223.8	236.9	237.7	236	220.4
Net loans/deposits	163.8	191.7	205.8	224.9	210.8	222.0	200.5	200.4	204.3
Cost-to-income ratio	66.8	68.7	73.8	79.9	68.9	70.1	67.8	65.8	75.6
Net interest margin	5.2	4.6	4.3	3.9	3.8	3.8	3.7	3.8	3.8
ROAA	0.1	0.2	0.0	0.0	0.5	0.6	-6.0	-6.0	-6.5
ROAE	0.7	1.7	0.4	0.3	4.4	4.6	-47.1	-45.9	-49.0
NII/operating income	64.7	62.5	63.0	65.5	65.4	67.3	61.2	57.2	65.7
Core income/operating expenses	117.6	109.7	102.6	97.8	114.2	116.9	112.4	111.9	113.2

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

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

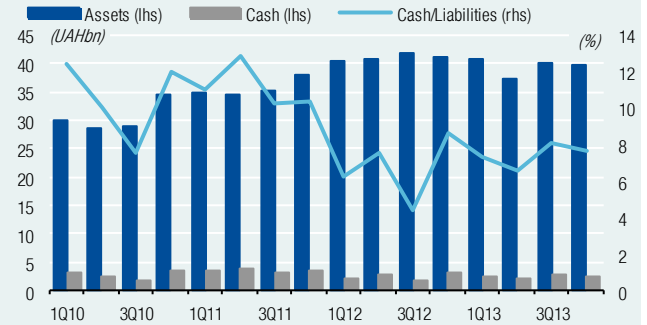
Prominvestbank: Key credit metrics

Chart 50. Capitalisation



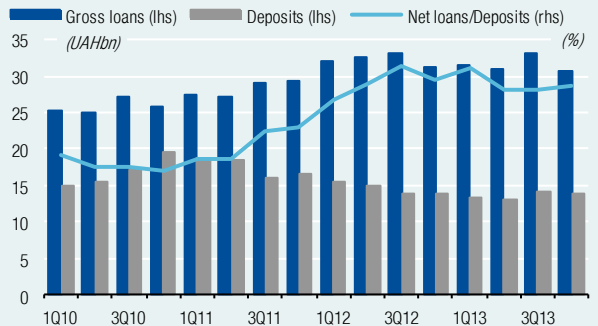
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 51. Liquidity



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

Chart 52. Loans and deposits



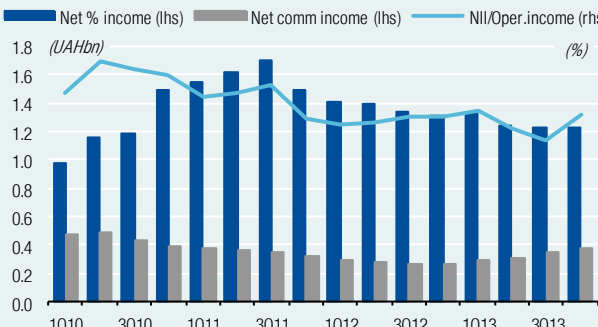
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 53. Loan loss reserves history



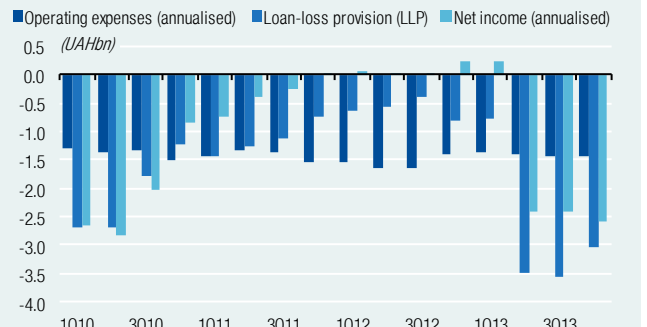
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 54. Income structure (annualised basis)



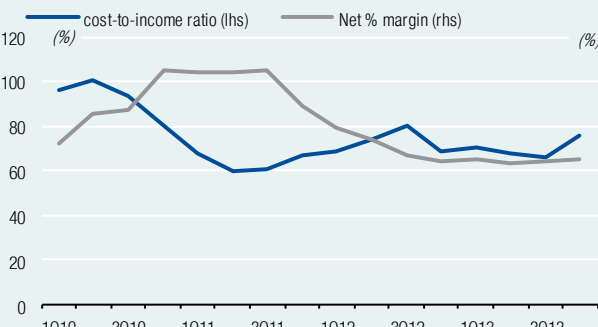
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 55. Expense and net income (annualised basis)



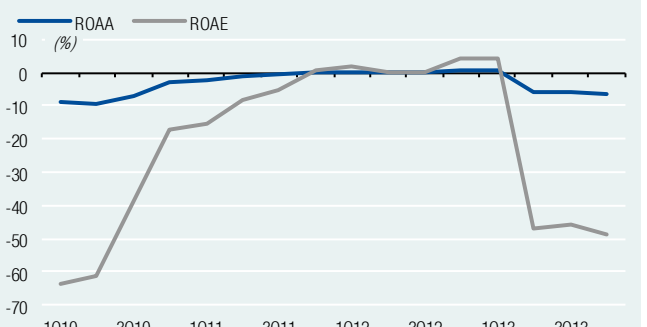
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 56. Financial performance ratios



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

Chart 57. 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 Ticker(s) in Bloomberg

NR/NR/CCC USCB

Unicredit Group has finished consolidating its banking assets in Ukraine following the merger of Unicredit Bank (Ukraine) and Ukrsotsbank. The group has confirmed its plans to exit the local market: its Ukrainian assets have been disclosed in recent financial statements as held for sale.

The merger of the two banks has taken place as consolidation on the basis of Ukrsotsbank, which will regain its brand once the sale takes place.

Consolidation improves equity and liquidity. The equity of the joint bank exceeds that of Ukrsotsbank alone; thus the regulatory CAP grew by 1.2ppt to 15.9% -- well above the minimum level. Ukrsotsbank has not recognised any impairment of its peer bank at the time of acquisition.

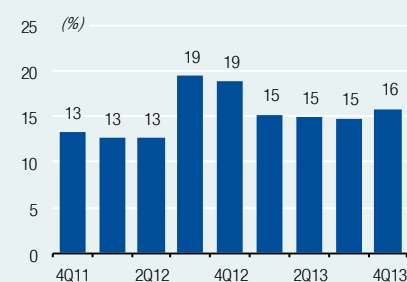
Meanwhile, the liquidity of the bank has improved: the cash-to-liabilities ratio increased from 12.6% in 3Q13 to 15.9% in 4Q13.

Increased corporate lending. The net loan portfolio of the bank increased 12.2% QoQ following the merger. At the same time, its FX composition has changed: the new portfolio has a smaller share of UAH loans (56.4% in 4Q13 compared with 58.2% in 3Q13). Unicredit Bank (Ukraine) concentrated more on the corporate segment; as a result, the share of business loans increased by 4.6% QoQ to 51.1%.

Depositors accept the changes. Following the merger of the two banks, clients of Unicredit Bank (Ukraine) have been given the option to transfer their accounts to Ukrsotsbank. While some customers chose other banks, the majority seems to have remained loyal to the brand: total deposits rose by UAH2.5bn or 13.0% QoQ. However, retail deposits declined by UAH0.2bn or 1.7% QoQ. We believe that this points to a continuation of the declining trend that has been evident for the last three quarters and was caused by the bank offering below-average interest rates.

Still no profit. Neither bank reported any material net earnings in 2013: the total profit for the year amounted to just UAH11m. While the NIM is healthy (7.7% in 4Q13), the large provision expenses (UAH936m) and operating expenses (cost-to-income ratio of 67.2%) prevent the bank from turning a profit.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	40,359	40,335	37,329	43,057
Loans	29,471	25,440	24,396	27,375
Deposits	17,969	18,265	19,117	21,611
Equity	6,878	9,164	7,732	8,668
Net % income	2,404	2,100	1,989	2,268
Net com income	519	607	683	719
Operating income	3,000	2,877	2,708	3,101
PPI	1,592	1,413	885	1,018
LLP	-1,102	-1,459	-810	-936
Net income	347	15	10	11

Ratios (%)

Tier 1 ratio	N/a	N/a	N/a	N/a
CAR	N/a	N/a	14.7	15.9
Equity-to-assets	17.0	22.7	20.7	20.1
Net loan-to-deposit	164.0	139.3	127.6	126.7
Cash-to-liabilities	13.0	19.1	12.6	15.7
ROAA	0.8	-	0.0	0.0
ROAE	5.2	0.2	0.1	0.1
Net % margin	7.5	7.0	7.1	7.7
NII-to-op income	80.1	73.0	73.4	73.1
Cost-to-income	46.9	50.9	67.3	67.2
LLR	18.2	18.4	23.1	22.4
NPLs	45.0	45.3	N/a	N/a
NPL coverage	40.5	40.7	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.

Ukrsotsbank: Key quarterly UAS financials and ratios

Table 14. Key financials and ratios derived from the bank's UAS financials

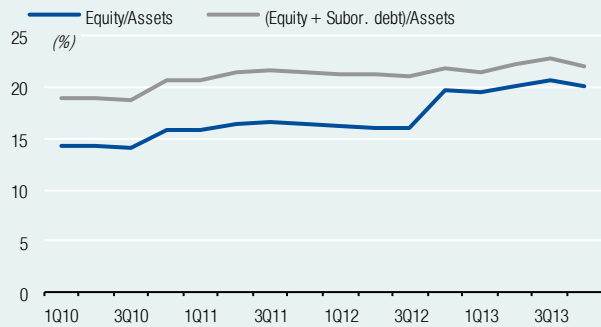
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	40,207	40,393	39,994	40,349	38,830	39,420	38,345	37,329	43,057
Cash and cash equivalents	4,439	4,184	3,877	4,134	5,949	5,269	3,933	3,735	5,402
Gross loans	37,251	37,542	37,125	36,866	32,094	31,919	32,146	31,724	35,273
Gross business loans	18,744	19,288	18,889	18,648	14,185	14,250	14,489	14,724	18,010
Gross household loans	18,507	18,254	18,236	18,218	17,909	17,669	17,658	17,000	17,263
Loan loss reserves (LLR)	-8,186	-8,330	-8,574	-9,025	-8,405	-7,939	-8,116	-7,328	-7,899
Deposits	17,708	17,442	16,921	17,219	18,370	18,560	18,746	19,117	21,611
Business deposits	7,025	6,345	5,905	6,189	6,726	6,229	6,513	6,963	9,661
Household deposits	10,683	11,096	11,015	11,030	11,645	12,331	12,234	12,154	11,950
Total equity	6,608	6,586	6,430	6,502	7,657	7,683	7,698	7,732	8,668
Quarterly P&L (UAHm)									
Net interest income	729	658	650	610	491	427	517	553	770
Net commission income	167	133	159	168	187	149	159	188	222
Operating income (before LLP)	923	832	844	876	692	576	680	760	1,085
Operating expenses	-468	-344	-532	-357	-465	-418	-444	-497	-724
Loan loss provisions (LLP)	-444	-477	-297	-503	-219	-143	-197	-251	-345
Net income	9	3	2	2	2	4	2	2	3
Last 12-month period P&L (UAHm)									
Net interest income	2,886	2,824	2,756	2,647	2,409	2,178	2,045	1,989	2,268
Net commission income	547	566	606	627	647	663	663	683	719
Operating income (before LLP)	3,587	3,505	3,459	3,476	3,245	2,988	2,824	2,708	3,101
Operating expenses	-1,433	-1,452	-1,658	-1,701	-1,698	-1,772	-1,683	-1,823	-2,083
Loan loss provisions (LLP)	-2,084	-1,997	-1,763	-1,721	-1,496	-1,161	-1,061	-810	-936
Net income	15	16	14	15	8	10	10	10	11
Growth rates (%YoY)									
Assets	-3.4	-3.2	0.1	1.8	-3.4	-2.4	-4.1	-7.5	10.9
Gross loans	-0.6	1.0	-1.5	-1.4	-13.8	-15.0	-13.4	-13.9	9.9
Deposits (by businesses)	29.1	29.5	9.5	-22.1	-4.3	-1.8	10.3	12.5	43.6
Deposits (by households)	8.0	10.9	6.6	7.5	9.0	11.1	11.1	10.2	2.6
Deposits (total)	15.5	17.0	7.6	-5.4	3.7	6.4	10.8	11.0	17.6
Total equity	0.6	-0.1	-2.3	-1.0	15.9	16.7	19.7	18.9	13.2
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	13.3	12.6	12.6	19.4	18.8	15.2	14.9	14.7	15.9
Equity/assets	16.4	16.3	16.1	16.1	19.7	19.5	20.1	20.7	20.1
(Equity + sub-debt)/assets	21.5	21.3	21.2	21.1	21.9	21.5	22.2	22.9	22.0
Cash & cash equivalents/liabilities	13.2	12.4	11.6	12.2	19.1	16.6	12.8	12.6	15.7
Current liquidity (R5 by NBU)	61.5	68.3	68.6	70.8	85.8	84.4	77.4	73.1	89.3
Gross loans/deposits	210.4	215.2	219.4	214.1	174.7	172.0	171.5	165.9	163.2
Net loans/deposits	164.1	167.5	168.7	161.7	129.0	129.2	128.2	127.6	126.7
Cost-to-income ratio	39.9	41.4	47.9	48.9	52.3	59.3	59.6	67.3	67.2
Net interest margin	9.0	8.8	8.7	8.4	7.9	7.3	7.1	7.1	7.7
ROAA	0.04	0.04	0.04	0.04	0.02	0.02	0.03	0.0	0.0
ROAE	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
NII/operating income	80.4	80.6	79.7	76.2	74.2	72.9	72.4	73.4	73.1
Core income/operating expenses	239.5	233.4	202.8	192.4	180.0	160.4	160.9	146.5	143.4

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

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

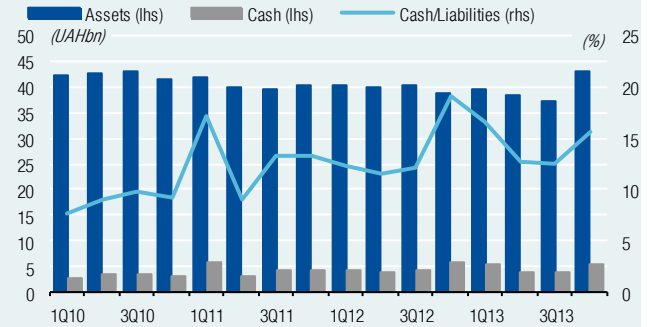
Ukrsotsbank: Key credit metrics

Chart 58. Capitalisation



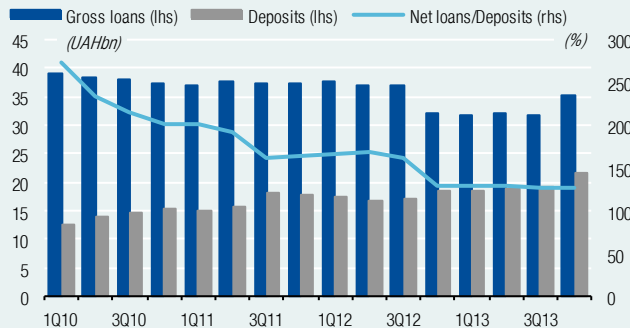
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 59. Liquidity



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

Chart 60. Loans and deposits



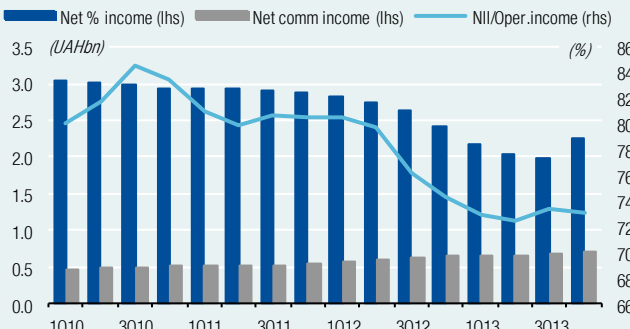
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 61. Loan loss reserves history



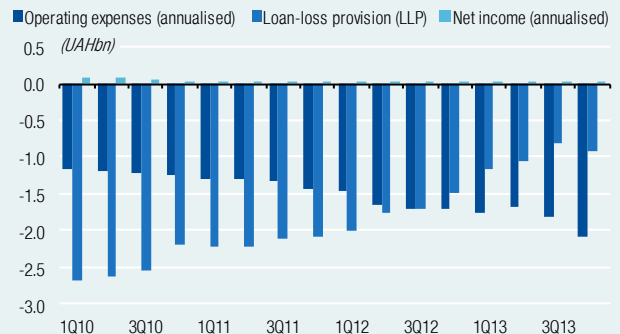
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 62. Income structure (annualised basis)



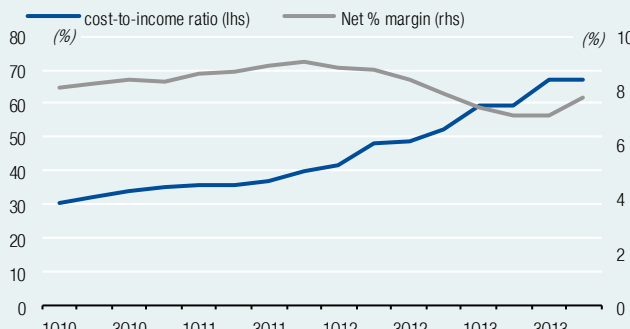
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 63. Expense and net income (annualised basis)



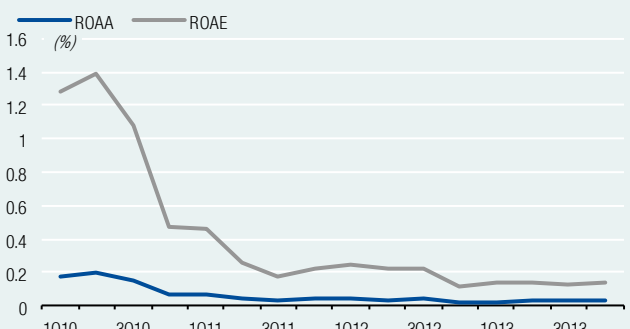
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 64. Financial performance ratios



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

Chart 65. 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

First Ukrainian International Bank (FUIB) saw its liquidity decrease from high to moderate in 4Q13 but grew its corporate loan portfolio. However, assets growth has been restricted by the outflow of corporate deposits.

Capitalisation declines but remains sufficient. The regulatory capital declined by 17.1% QoQ to UAH3.8bn and now includes only a small fraction of the subordinated debt due to mature in 2014 and 2015. At the same time, risk-weighted assets grew by 5.3% QoQ while total assets shrank by 5.0% QoQ. The bank did not undertake any additional share issues during the past year as the current level of profitability allows it to maintain a sufficient level of capitalisation.

Corporate portfolio is growing. The total net loan portfolio grew by 6.9% QoQ to UAH19.9bn in 4Q13. The corporate portfolio grew by 9.9% QoQ while the net retail portfolio declined by 4.4%. FUIB has decreased its mortgage portfolio to approximately UAH0.6bn and is now concentrating more on consumer loans. Above all, it is generating such loans itself rather than acquiring portfolios from its subsidiary Renaissance Capital Bank.

The LLR dropped significantly – from 17.3% in 3Q13 to 14.2% in 4Q13 – following the write-off of bad loans totalling UAH0.9bn during the same period.

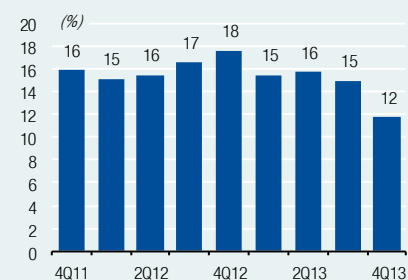
Total deposits decline. The total amount of deposits declined by UAH1.7bn or 9.3% QoQ as the funds of corporate customers at the bank sank by 15.7% QoQ and those of households by 3.1%. We believe that the decrease in retail deposits was caused by the below average interest rates on offer. At the same time, corporate deposits have been a very volatile source of funding since the total amount depends on the current business activities of existing customers rather than losing old and finding new clients.

During the first two months of 2013, total retail deposits declined by 0.8bn or 15%, while FX deposits decreased by 3.4%. Those funds have been compensated for by an increase in corporate deposits, of which SCM Group-related entities account for a significant share.

Earnings grow along with the scale of business. The net income for 2013 increased 64.1% YoY to UAH445m, while the net interest income continued to increase (65.6% YoY) owing to the lower cost of funding.

Operating expenses continued to decline in 4Q13 while the cost-to-income ratio was the lowest in the last four years – 39.5%.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	29,729	27,555	34,959	33,207
Loans	16,425	17,884	18,613	19,898
Deposits	20,224	17,611	22,528	20,444
Equity	4,833	5,060	4,531	4,652
Net % income	974	1,151	1,684	1,895
Net com income	259	308	446	488
Operating income	1,384	1,636	2,465	2,566
PPI	611	690	1,471	1,554
LLP	-71	-290	-952	-1,021
Net income	444	279	379	445
Ratios -%				
Tier 1 ratio	20.3	19.8	N/a	N/a
CAR	25.3	23.5	15.0	11.8
Equity-to-assets	16.3	18.4	13.0	14.0
Net loan-to-deposit	81.2	101.5	83	97.3
Cash-to-liabilities	11.0	9.7	25.2	17.2
ROAA	3.0	1.0	1.2	1.4
ROAE	18.4	5.6	8.7	10.0
Net % margin	7.7	4.7	7.3	7.9
NII-to-op income	70.4	70.4	68.3	73.9
Cost-to-income	55.8	57.8	40.3	39.5
LLR	15.1	14.8	17.3	14.2
NPLs	19.5	18.5	N/a	N/a
NPL coverage	77.5	80.1	N/a	N/a

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

Investors are very cautious about the FUIB's Eurobond due on 31 December 2014. The total amount of the emission is US\$275m.

Chart 66. Yields of FUIB's Eurobond

As of 18 April 2014



Source: Bloomberg, Investment Capital Ukraine LLC.

According to our estimates, banks own UAH2.5bn of the government bond, 80% of which is US\$-denominated. This liquidity can be used by the FUIB to repay its Eurobond debt in full by the end of the year. Therefore the main risks are the ability of the government to repay its debt and the geopolitical threat, as the bank is registered in the turbulent Donetsk oblast.

FUIB: Key quarterly UAS financials and ratios

Table 15. Key financials and ratios derived from the bank's UAS financials

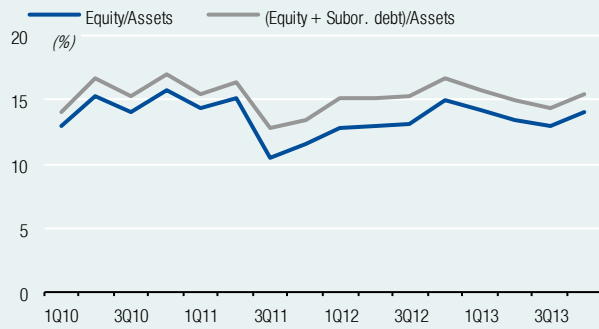
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	34,866	31,639	31,459	31,592	28,230	30,330	32,442	34,959	33,207
Cash and cash equivalents	7,029	3,197	3,946	5,008	4,402	4,526	4,400	7,654	4,910
Gross loans	19,695	19,889	19,641	20,306	20,767	20,886	21,221	22,511	23,196
Gross business loans	14,543	14,516	14,777	15,132	15,410	15,450	15,730	16,874	17,981
Gross household loans	5,152	5,373	4,865	5,174	5,357	5,435	5,491	5,637	5,215
Loan loss reserves (LLR)	-4,121	-4,220	-3,489	-3,535	-3,767	-3,975	-3,857	-3,898	-3,298
Deposits	20,094	16,070	16,650	17,604	17,465	19,108	19,678	22,528	20,444
Business deposits	11,464	7,019	7,113	7,827	7,324	8,266	8,116	11,010	9,279
Household deposits	8,629	9,052	9,537	9,777	10,141	10,842	11,562	11,518	11,164
Total equity	4,030	4,076	4,094	4,144	4,215	4,316	4,385	4,531	4,652
Quarterly P&L (UAHm)									
Net interest income	393	376	398	416	323	388	443	530	534
Net commission income	84	78	88	104	95	106	114	131	137
Operating income (before LLP)	468	489	482	472	621	528	636	681	722
Operating expenses	-260	-347	-235	-235	-287	-225	-240	-242	-306
Loan loss provisions (LLP)	-85	-91	-131	-148	-197	-188	-308	-260	-266
Net income	107	39	89	67	76	89	70	143	143
Last 12-month period P&L (UAHm)									
Net interest income	1,476	1,612	1,756	1,583	1,513	1,525	1,570	1,684	1,895
Net commission income	313	339	368	354	365	393	419	446	488
Operating income (before LLP)	1,869	2,039	2,186	1,911	2,064	2,103	2,257	2,465	2,566
Operating expenses	-824	-1,028	-1,098	-1,077	-1,104	-982	-987	-994	-1,013
Loan loss provisions (LLP)	-712	-638	-723	-455	-567	-664	-841	-952	-1,021
Net income	267	298	295	302	271	321	302	379	445
Growth rates (%YoY)									
Assets	92.7	58.2	61.3	7.9	-19.0	-4.1	3.1	10.7	17.6
Gross loans	44.6	41.0	35.7	8.8	5.4	5.0	8.0	10.9	11.7
Deposits (by businesses)	295.9	168.6	105.4	-0.5	-36.1	17.8	14.1	40.7	26.7
Deposits (by households)	69.0	64.5	68.4	16.9	17.5	19.8	21.2	17.8	10.1
Deposits (total)	151.1	98.0	82.4	8.4	-13.1	18.9	18.2	28.0	17.1
Total equity	41.4	41.5	37.9	35.6	4.6	5.9	7.1	9.3	10.4
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	15.9	15.1	15.5	16.6	17.6	15.5	15.7	15.0	11.8
Equity/assets	11.6	12.9	13.0	13.1	14.9	14.2	13.5	13.0	14.0
(Equity + sub-debt)/assets	13.5	15.1	15.2	15.3	16.7	15.8	15.0	14.4	15.5
Cash & cash equivalents/liabilities	22.8	11.6	14.4	18.2	18.3	17.4	15.7	25.2	17.2
Current liquidity (R5 by NBU)	68.3	47.9	53.5	79.7	70.2	82.7	78.1	76.8	64.3
Gross loans/deposits	98	124	118	115	119	109	108	99.9	113.5
Net loans/deposits	77.5	97.5	97.0	95.3	97.3	88.5	88.2	82.6	97.3
Cost-to-income ratio	44.1	50.4	50.2	56.4	53.5	46.7	43.7	40.3	39.5
Net interest margin	7.9	7.6	7.5	6.5	6.5	6.6	6.8	7.3	7.9
ROAA	1.0	1.0	0.9	0.9	0.9	1.1	1.0	1.2	1.4
ROAE	8.3	8.4	7.7	7.4	6.6	7.7	7.1	8.7	10.0
NII/operating income	79.0	79.1	80.3	82.8	73.3	72.5	69.6	68.3	73.9
Core income/operating expenses	217.1	189.8	193.4	179.9	170.1	195.3	201.5	214.2	235.4

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

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

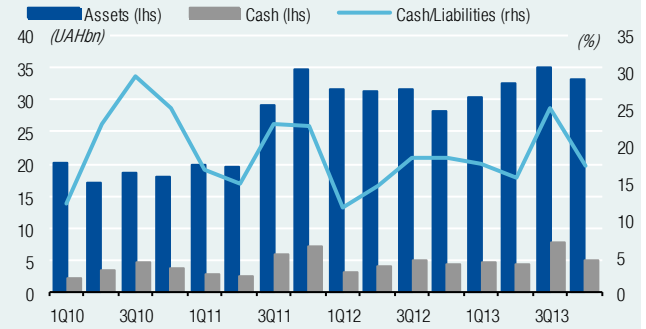
FUIB: Key credit metrics

Chart 67. Capitalisation



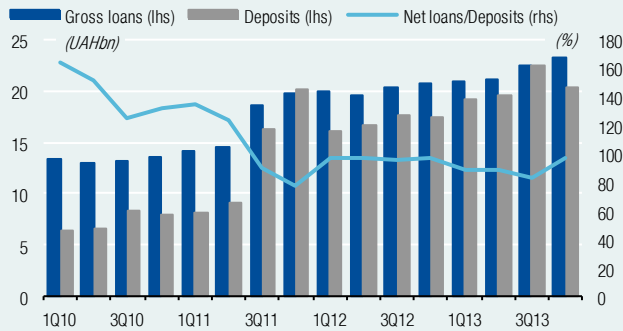
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 68. Liquidity



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

Chart 69. Loans and deposits



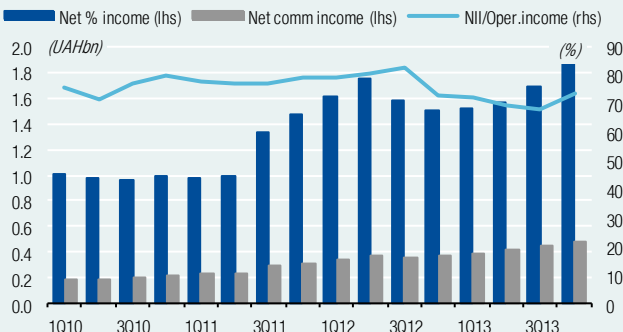
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 70. Loan loss reserves history



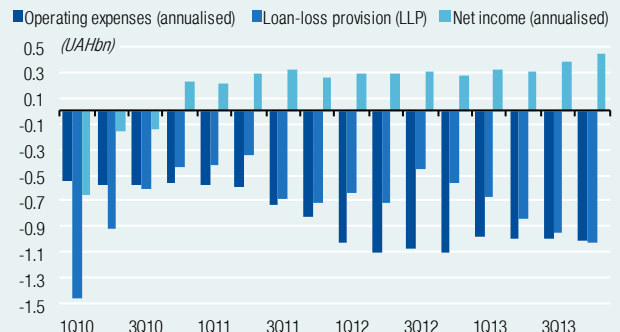
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 71. Income structure (annualised basis)



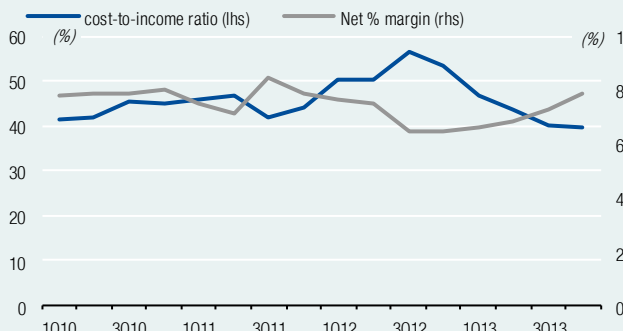
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 72. Expense and net income (annualised basis)



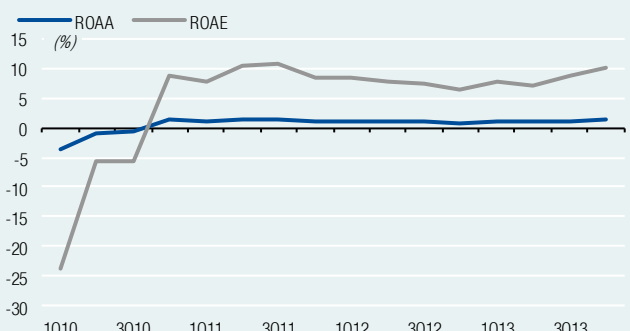
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 73. Financial performance ratios



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

Chart 74. 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 Ticker(s) in Bloomberg

Ca/ NR /NR SBUA

Sberbank grew its loan portfolio by UAH2.0bn in 4Q13 but its deposit base grew by just UAH0.4bn. For this reason the bank had to reduce its securities position and decrease liquidity.

Liquidity rises. The cash-to-liabilities ratio increased by 1.2ppt to 12.7% in 4Q13, which is relatively high by Ukrainian standards. The bank faced temporary problems during the early 2014 unrest and had to limit deposit withdrawals as well as the generation of new loans. We do not expect the bank to seek new corporate borrowers in the short term, given the level of tensions between Ukraine and Russia.

The total amount of funding from the parent company was unchanged in 4Q13 – at more than UAH7.0bn in short- and long-term debt.

Expansion of the loan portfolio. The total gross portfolio of corporate customers increased by UAH1.8bn or 7.5% QoQ. The bank continues to actively develop its consumer loan segment, which currently is only a marginal business for the bank (5% of the total portfolio). It increased this portfolio by UAH230m in 4Q13 or 20.1% QoQ.

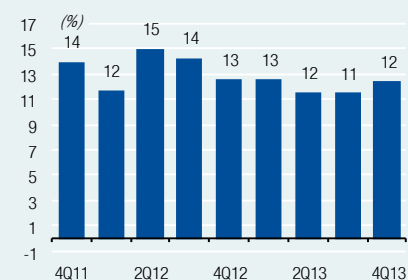
Corporate deposits decrease. Households increased their deposits with Sberbank by 4.7% QoQ to UAH14.0bn. Corporate deposits, however, declined by 3.8% QoQ reaching UAH5.0bn. Nevertheless, the volume of outflows was not material, given the size of Sberbank. The bank increased interest rates at year's end to boost deposits.

Securities position decreased. The bank has reduced its exposure to securities by UAH646m or 15.7% QoQ – not least by selling its entire trading portfolio, which totalled UAH415m and consisted of government bonds.

Profits grow along with the scale of operations. Total 2013 earnings increased by 39.7% YoY to UAH573m – primarily owing to increased interest income, which was driven by the loan portfolio expansion. The NIM was unchanged at 6.3% as the relative share of high-interest consumer loans remains low while the increase in deposit rates has not yet had a full impact on profitability.

Operating expenses increased by UAH368m, with the cost-to-income ratio growing by 2.7ppt to 54.2% in 4Q13. We believe that relatively high depreciation and property maintenance costs may prevent the bank from significantly reducing operating expenses. Meanwhile, the number of Sberbank branches increased from 161 in 4Q12 to 211 in 4Q13.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	17,345	26,365	33,572	35,095
Loans	13,186	20,618	23,841	25,912
Deposits	7,572	13,219	18,482	18,910
Equity	2,659	3,548	3,557	3,667
Net % income	792	1,230	1,641	1,759
Net com income	120	203	291	271
Operating income	1,048	1,794	2,288	2,328
PPI	398	906	1,156	1,066
LLP	-71	-391	-479	-428
Net income	364	410	559	573
Ratios (%)				
Tier 1 ratio	13.2	14.5	N/a	N/a
CAR	16.2	16.0	11.5	12.4
Equity-to-assets	15.3	13.5	10.6	10.4
Net loan-to-deposit	174.1	156.0	129.0	137.0
Cash-to-liabilities	12.3	11.1	11.5	12.7
ROAA	2.6	1.9	1.8	1.8
ROAE	16.5	13.2	16.9	16.6
Net % margin	6.9	6.5	6.3	6.3
NII-to-op income	75.6	68.5	71.7	75.6
Cost-to-income	62.0	49.5	49.5	54.2
LLR	12.8	9.8	5.8	5.3
NPLs	13.3	9.0	N/a	N/a
NPL coverage	96.4	109.7	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.

Sberbank: Key credit metrics

Table 16. Key financials and ratios derived from the bank's UAS financials

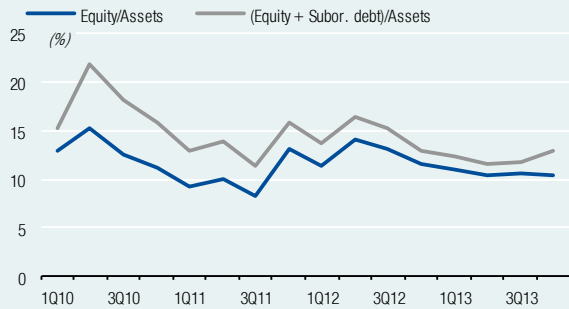
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	16,933	20,206	20,253	22,705	27,026	29,520	32,722	33,572	35,095
Cash and cash equivalents	1,687	1,334	1,456	1,894	2,304	2,383	2,516	3,455	4,005
Gross loans	15,360	17,360	16,505	18,904	21,408	21,574	24,423	25,319	27,364
Gross business loans	13,973	15,953	15,751	18,106	20,628	20,650	23,509	24,178	25,994
Gross household loans	1,387	1,407	754	798	781	924	915	1,141	1,371
Loan loss reserves (LLR)	-2,708	-2,796	-1,484	-1,618	-1,273	-1,431	-1,452	-1,478	-1,452
Deposits	7,593	8,745	9,112	11,497	13,280	15,862	17,197	18,482	18,910
Business deposits	3,236	3,540	2,953	3,903	4,230	5,042	5,142	5,146	4,953
Household deposits	4,356	5,205	6,160	7,595	9,050	10,820	12,055	13,336	13,958
Total equity	2,215	2,288	2,872	2,976	3,101	3,235	3,379	3,557	3,667
Quarterly P&L (UAHm)									
Net interest income	249	281	290	305	366	368	424	483	484
Net commission income	48	50	57	77	95	82	39	75	75
Operating income (before LLP)	351	352	361	490	606	495	553	636	645
Operating expenses	-208	-197	-211	-221	-264	-259	-303	-306	-393
Loan loss provisions (LLP)	-47	-77	-16	-144	-147	-93	-96	-142	-97
Net income	111	78	97	110	126	141	124	167	140
Last 12-month period P&L (UAHm)									
Net interest income	885	953	1,041	1,125	1,242	1,329	1,463	1,641	1,759
Net commission income	158	180	203	232	279	311	293	291	271
Operating income (before LLP)	1,130	1,224	1,346	1,554	1,809	1,952	2,144	2,288	2,328
Operating expenses	-650	-719	-781	-837	-893	-955	-1,047	-1,132	-1,262
Loan loss provisions (LLP)	-274	-278	-238	-284	-384	-400	-480	-479	-428
Net income	257	278	338	396	411	474	501	559	573
Growth rates (%YoY)									
Assets	70.6	61.9	71.1	50.2	59.6	46.1	61.6	47.9	29.9
Gross loans	71.2	78.1	65.3	48.2	39.4	24.3	48.0	33.9	27.8
Deposits (by businesses)	89.1	33.0	4.9	40.1	30.7	42.4	74.1	31.9	17.1
Deposits (by households)	69.6	63.3	72.8	91.2	107.8	107.9	95.7	75.6	54.2
Deposits (total)	77.4	49.5	42.8	70.1	74.9	81.4	88.7	60.7	42.4
Total equity	100.5	100.4	143.8	137.3	40.0	41.4	17.7	19.5	18.3
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	13.9	11.7	15.0	14.3	12.6	12.6	11.5	11.5	12.4
Equity/assets	13.1	11.3	14.2	13.1	11.5	11.0	10.3	10.6	10.4
(Equity + sub-debt)/assets	15.9	13.7	16.5	15.2	13.0	12.4	21.0	11.8	13.0
Cash & cash equivalents/liabilities	11.5	7.4	8.4	9.6	9.6	9.1	14.7	11.5	12.7
Current liquidity (R5 by NBU)	67.5	52.8	61.9	55.1	78.1	67.4	93.2	66.7	71.4
Gross loans/deposits	202.3	198.5	181.1	164.4	161.2	136.0	142.0	137.0	144.7
Net loans/deposits	166.6	166.5	164.8	150.3	151.6	127.0	133.6	129.0	137.0
Cost-to-income ratio	57.6	58.8	58.1	53.9	49.4	49.0	48.9	49.5	54.2
Net interest margin	7.4	6.9	6.7	6.5	6.4	6.3	6.2	6.3	6.3
ROAA	1.8	1.7	1.9	2.0	1.8	1.9	1.8	1.8	1.8
ROAE	17.8	16.0	15.6	15.3	14.6	15.6	15.8	16.9	16.6
NII/operating income	78.3	77.9	77.3	72.4	68.6	68.1	68.3	71.7	75.6
Core income/operating expenses	160.4	157.5	159.2	162.1	170.2	171.7	167.6	170.6	160.9

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

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

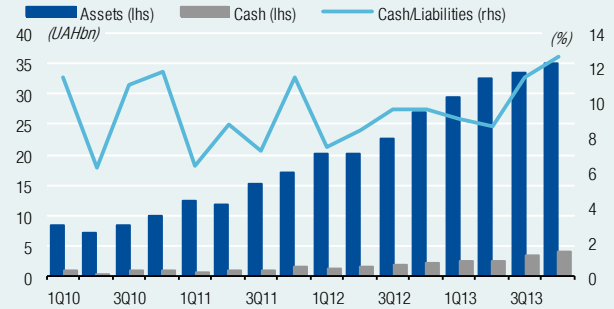
Sberbank: Key credit metrics

Chart 75. Capitalisation



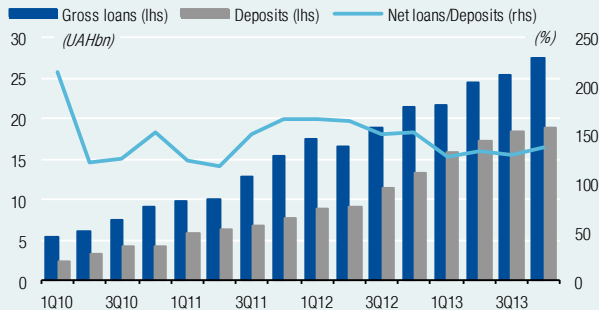
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 76. Liquidity



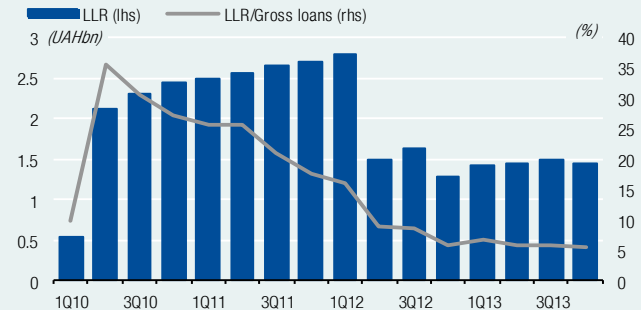
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 77. Loans and deposits



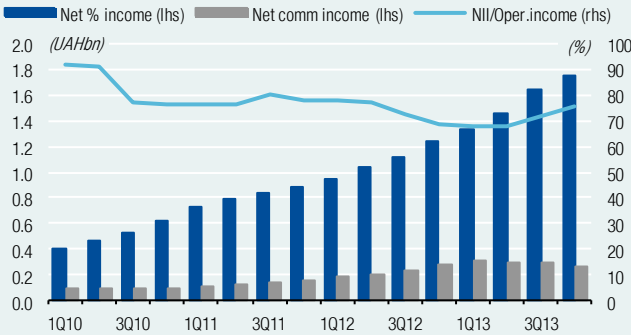
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 78. Loan loss reserves history



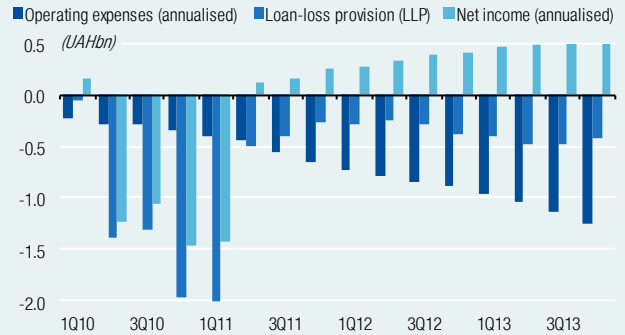
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 79. Income structure (annualised basis)



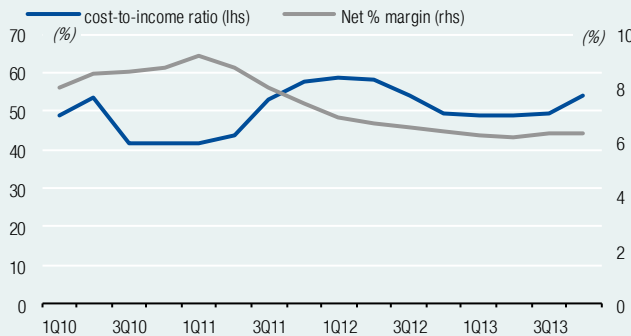
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 80. Expense and net income (annualised basis)



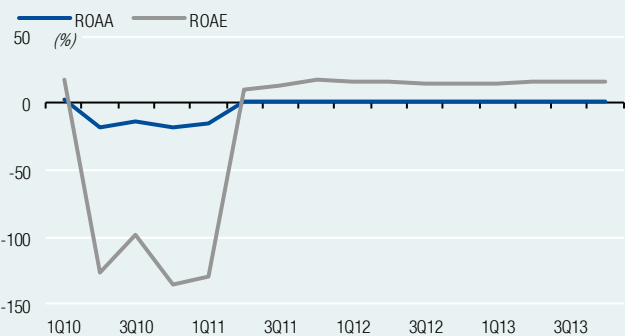
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 81. Financial performance ratios



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

Chart 82. Financial performance ratios



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

Country

Ukraine

Nadra Bank

Sector

Banks: Commercial banking

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

NR / NR /NR NADRA

Ticker(s) in Bloomberg

The still unprofitable Nadra Bank continued to grow its gross corporate loan portfolio. However, the recent arrest of the main shareholder of the bank may have a significant negative impact on his business, including the bank itself.

Profitability remains a major problem: operating income before LLP covered just 78.3% of operating expenses in 2013.

Liquidity remains low but slightly improved. The cash-to-liabilities ratio increased by 1.1ppt to 6.4% in 4Q13, which remains low even by Ukrainian standards. If loans to other banks are included as potentially highly liquid assets, the ratio is still only 10.0%. For this reason, we suggest the bank may experience difficulties fulfilling its obligations.

Focus on the corporate segment. Nadra Bank has been continuously reducing its retail portfolio, which declined 4.7% YoY in 4Q13. Meanwhile, the gross business loan portfolio grew 31.8% QoQ.

The bank did not sell a significant amount of its bad loan portfolio during the past year; however, the LLR ratio decreased from 17.2% in 4Q12 to just 14.2% in 4Q13 – and the decline was observed in both the corporate and the retail segment. We believe that the bank had a strong incentive to underestimate the real level of loan impairment and report a profit from the release of reserves totalling UAH297m in 2013. This allowed it to cover up operating expenses and remain just above the red zone in terms of net earnings.

Nadra Bank reported a decrease in the share of bad credit by 7.4ppt to 14.3% during the past year as a result of loan restructuring.

Households boost the deposit base. Deposits rose 21.3% QoQ in 4Q13 to UAH13.1bn. Corporate and retail deposits were split equally, but retail deposits are continuing to grow. The bank attracted UAH3.4bn (111.2% YoY) in retail deposits in 2013 but only UAH0.9bn (15.4%) in corporate deposits. It continues to pursue a very aggressive marketing policy and offers above average interest rates. Nevertheless, the average cost of funding declined as the share of FX grew from 35.3% in 4Q12 to 40.7% in 4Q13.

Still not earning a profit. Nadra Bank remained unprofitable in 4Q13: operating expenses totalling UAH1.2bn significantly was significantly larger than operating income before LLR of UAH0.9bn in 2013. The bank reported UAH2m in net income last year; however, the real level of profitability is highly questionable. The NIM remained critically low in 4Q13 – at a mere 0.9%.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	24,051	24,004	29,346	31,116
Loans	18,545	19,670	24,115	25,032
Deposits	8,000	8,092	10,763	13,052
Equity	1,969	2,127	4,031	4,032
Net % income	1,266	395	197	227
Net com income	99	133	229	261
Operating income	2,213	841	777	931
PPI	1,416	94	-173	-257
LLP	297	78	191	297
Net income	1,647	157	2	2
Ratios (%)				
Tier 1 ratio	7.1	8.1	N/a	N/a
CAR	8.1	10.2	13.5	13.1
Equity-to-assets	8.2	8.9	13.7	13.0
Net loan-to-deposit	231.8	243.1	224.1	191.8
Cash-to-liabilities	15.6	10.1	5.2	6.4
ROAA	13.7	0.7	0.0	0.0
ROAE	167.2	7.7	0.0	0.1
Net % margin	13.2	2.0	0.8	0.9
NII-to-op income	57.2	47.0	25.4	24.4
Cost-to-income	36.0	88.8	122.3	127.6
LLR	27.7	25.6	14.9	14.2
NPLs	N/a	N/a	N/a	N/a
NPL coverage	N/a	N/a	N/a	N/a

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

Nadra Bank: Key quarterly UAS financials and ratios

Table 17. Key financials and ratios derived from the bank's UAS financials

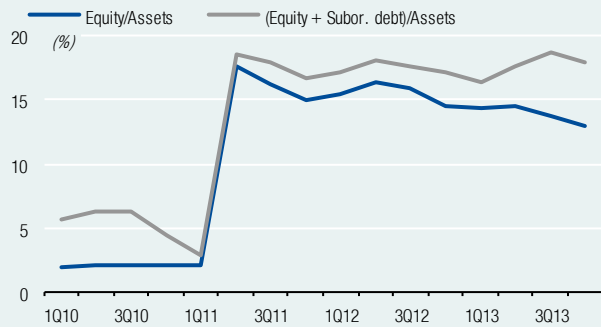
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	26,739	25,951	24,544	25,308	27,684	27,906	27,860	29,346	31,116
Cash and cash equivalents	3,169	1,710	1,395	1,152	2,079	1,453	1,200	1,320	1,729
Gross loans	25,184	24,867	23,960	24,205	25,790	27,528	27,274	28,347	29,160
Gross business loans	11,139	10,949	10,711	11,057	12,554	14,592	14,449	15,602	16,541
Gross household loans	14,045	13,918	13,249	13,148	13,235	12,936	12,824	12,745	12,619
Loan loss reserves (LLR)	-4,920	-4,947	-4,400	-4,371	-4,427	-4,375	-4,311	-4,232	-4,128
Deposits	8,667	7,764	6,595	6,755	8,741	10,463	9,942	10,763	13,052
Business deposits	6,078	5,125	4,006	4,154	5,645	6,730	5,421	5,258	6,512
Household deposits	2,589	2,639	2,589	2,601	3,096	3,733	4,520	5,505	6,540
Total equity	4,029	4,029	4,029	4,030	4,030	4,030	4,031	4,031	4,032
Quarterly P&L (UAHm)									
Net interest income	-961	175	120	-95	62	43	65	27	92
Net commission income	37	31	33	40	50	58	55	66	82
Operating income (before LLP)	-871	221	752	-9	240	165	211	161	394
Operating expenses	-256	-172	-1,251	-206	-224	-198	-262	-267	-462
Loan loss provisions (LLP)	1,126	-48	500	82	-8	34	54	111	99
Net income	1	0	0	0	0	0	0	1	1
Last 12-month period P&L (UAHm)									
Net interest income	-338	-256	-390	-762	262	130	75	197	227
Net commission income	82	137	141	140	153	180	203	229	261
Operating income (before LLP)	389	-77	369	92	1,203	1,148	607	777	931
Operating expenses	-759	-767	-1,868	-1,885	-1,854	-1,879	-889	-951	-1,189
Loan loss provisions (LLP)	372	845	1,500	1,660	526	608	162	191	297
Net income	2	2	2	2	1	1	1	2	2
Growth rates (%YoY)									
Assets	16.7	15.6	9.2	3.0	3.5	7.5	13.5	16.0	12.4
Gross loans	2.6	-0.5	-4.6	-0.5	2.4	10.7	13.8	17.1	13.1
Deposits (by businesses)	103.4	85.0	104.7	-2.9	-7.1	31.3	35.3	26.6	15.4
Deposits (by households)	-46.0	-37.8	-34.1	-18.0	19.6	41.4	74.6	111.6	111.2
Deposits (total)	11.4	10.7	12.0	-9.3	0.9	34.8	50.7	59.3	49.3
Total equity	740.3	740.2	1.2	1.2	0.0	0.0	0.0	0.0	0.1
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.2	10.3	11.1	10.9	11.7	10.9	11.8	13.5	13.1
Equity/assets	15.1	15.5	16.4	15.9	14.6	14.4	14.5	13.7	13.0
(Equity + sub-debt)/assets	16.7	17.2	18.1	17.6	17.2	16.4	17.6	18.7	17.9
Cash & cash equivalents/liabilities	14.0	7.8	6.8	5.4	8.8	6.1	5.0	5.2	6.4
Current liquidity (R5 by NBU)	72.5	50.2	42.7	57.9	83.6	57.9	72.1	65.4	72.0
Gross loans/deposits	291	320	363	358	295	263	274	263.4	223.4
Net loans/deposits	233.8	256.6	296.6	293.6	244.4	221.3	231.0	224.1	191.8
Cost-to-income ratio	195.4	-990.4	506.7	2,044.0	154.1	163.7	146.4	122.3	127.6
Net interest margin	-1.7	-1.2	-1.8	-3.6	1.2	0.6	0.3	0.8	0.9
ROAA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROAE	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1
NII/operating income	-87.1	330.3	-105.8	-826.0	21.7	11.3	12.4	25.4	24.4
Core income/operating expenses	-33.7	-15.5	-13.3	-33.0	22.4	16.5	31.2	44.9	41.1

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

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

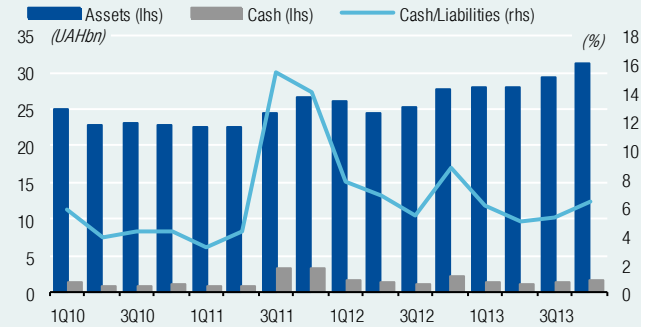
Nadra Bank: Key credit metrics

Chart 83. Capitalisation



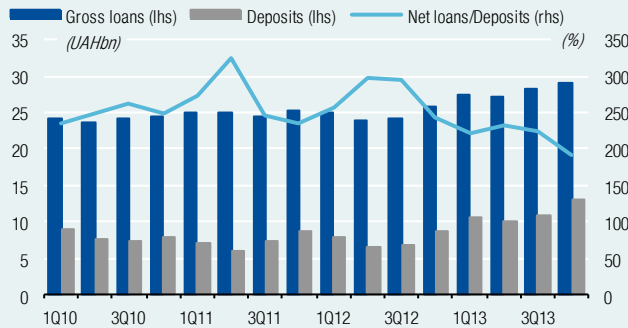
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 84. Liquidity



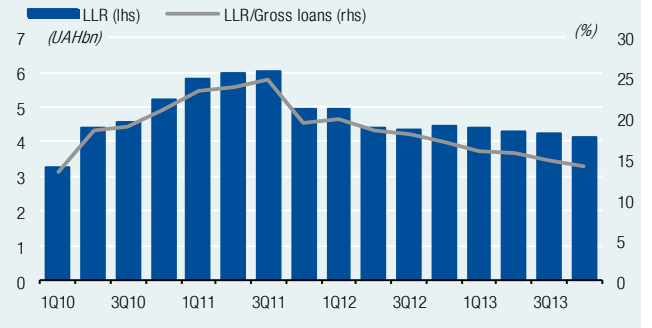
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 85. Loans and deposits



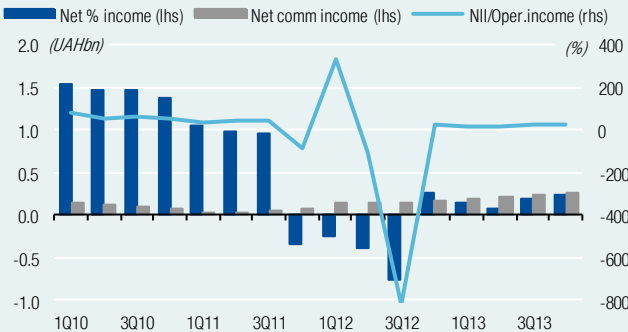
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 86. Loan loss reserves history



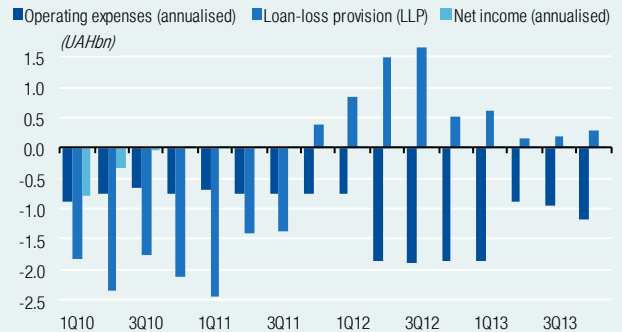
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 87. Income structure (annualised basis)



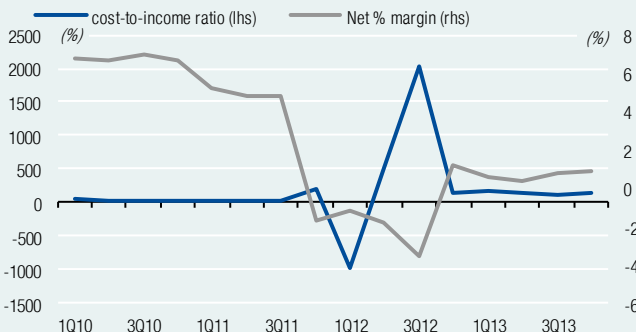
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 88. Expense and net income (annualised basis)



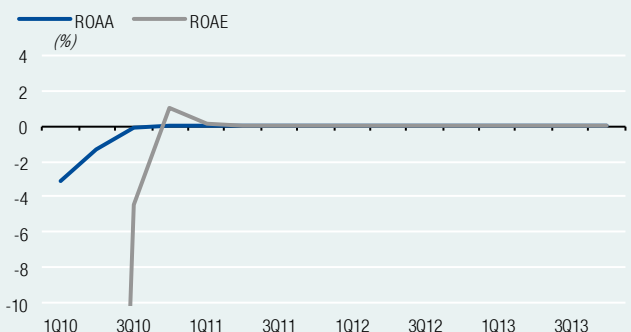
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 89. Financial performance ratios



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

Chart 90. 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 N/A

Ticker(s) in Bloomberg

Alfa Group increased its exposure to the Ukrainian market by acquiring 97.77% of the Ukrainian subsidiary of the Bank of Cyprus (44 branches). While it is expected that the bank will continue to operate as a separate institution, some assets may be transferred to Alfa Bank in Ukraine.

Liquidity rises. The cash-to-liabilities ratio rose from 18.6% in 3Q13 to the very comfortable level of 24.2% in 4Q13. Such spare capacity suggests the bank will be able to acquire other assets. By the same token, the regulatory CAP is well below the minimum required level. As a result, the bank is capable of increasing its risk-weighted assets to UAH24.2bn.

Significant growth of the corporate loan segment. The gross retail portfolio decreased by 2.7% QoQ to UAH6.1bn, while the corporate portfolio grew by UAH1.1bn or 7.3% QoQ.

Alfa Bank has a relatively low share of mortgage loans (less than 10%) as well as a significant amount of consumer loans with high interest rates.

Its bad credit exposure decreased by UAH1.2bn or 22.1% QoQ in 4Q13. We believe that as much as UAH0.5bn was written off, while the rest was sold to other institutions. The reserve coverage of bad loans remains relatively low – just 31.2% in 4Q13. We believe the bank has been purchasing large amounts of existing bad loans for a more or less fair market price. Thus additional reserves will be needed only if there is further deterioration of the quality of those assets.

Sharp rise in corporate deposits. Alfa Bank observed a 17.1% YoY increase in business deposits, while households increased their funds in the bank by just 5.6% YoY. The share of retail deposits in total liabilities remains relatively low (36.9% in 4Q13) owing to the large amount of funding from the parent bank.

Lack of profitability. Despite the large amount of consumer loans, the NIM continued to decline in 4Q13 – from 8.9% in 4Q12 to 7.1% – owing to lower average interest rates. In addition, large loan provisioning expenses (the equivalent of 44.3% of pre-LLP operating income) prevents the bank from turning a profit.

Moreover, the bank has relatively high depreciation and property maintenance costs. As a result, the cost-to-income ratio remained above the 50% level in 4Q13 – at 57.7%.

Regulatory capital adequacy ratio (UAS)



Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	25,980	25,578	28,496	29,293
Loans	17,943	17,199	19,095	20,228
Deposits	12,178	14,376	14,365	15,831
Equity	4,082	4,102	4,184	4,199
Net % income	1,228	1,649	1,600	1,604
Net com income	168	355	499	508
Operating income	1,553	2,068	2,317	2,446
PPI	580	863	916	1,035
LLP	-588	-800	-852	-989
Net income	24	34	16	13
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/a	N/a
CAR	N/A	N/A	17.9	19.0
Equity-to-assets	15.7	16.0	14.7	14.3
Net loan-to-deposit	147.3	119.6	132.9	127.8
Cash-to-liabilities	27.2	27.2	18.6	24.2
ROAA	0.1	0.1	0.1	0.0
ROAE	0.7	0.8	0.4	0.3
Net % margin	6.3	8.6	7.4	7.1
NII-to-op income	79.0	79.7	69.1	65.6
Cost-to-income	62.6	58.3	60.5	57.7
LLR	22.0	12.9	9.5	8.1
NPLs	14.9	15.7	N/A	N/a
NPL coverage	147.3	82.3	N/A	N/a

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

Alfa Bank: Key quarterly UAS financials and ratios

Table 18. Key financials and ratios derived from the bank's UAS financials

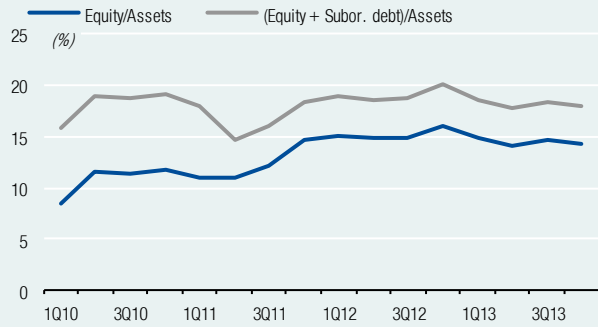
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	27,965	27,646	27,942	27,457	25,589	27,954	29,634	28,496	29,293
Cash and cash equivalents	5,968	4,793	4,576	5,827	5,833	5,184	4,941	4,523	6,066
Gross loans	23,399	22,904	22,575	20,984	19,923	21,650	21,584	21,091	22,012
Gross business loans	17,925	17,327	16,255	14,571	13,481	15,282	15,052	14,829	15,919
Gross household loans	5,474	5,578	6,321	6,413	6,443	6,368	6,532	6,261	6,094
Loan loss reserves (LLR)	-5,494	-5,235	-4,713	-3,491	-2,712	-2,964	-2,580	-1,996	-1,784
Deposits	12,174	12,588	12,852	14,435	14,376	15,927	15,761	14,365	15,831
Business deposits	5,628	5,398	5,257	5,739	5,612	6,174	6,231	5,334	6,573
Household deposits	6,546	7,190	7,595	8,697	8,765	9,753	9,530	9,032	9,258
Total equity	4,075	4,170	4,148	4,082	4,100	4,129	4,184	4,184	4,199
Quarterly P&L (UAHm)									
Net interest income	389	418	449	538	418	338	432	412	422
Net commission income	48	51	72	82	150	115	107	126	160
Operating income (before LLP)	495	511	568	639	584	587	621	525	713
Operating expenses	-342	-751	-287	-292	-372	-300	-375	-354	-381
Loan loss provisions (LLP)	-180	255	-270	-341	-178	-278	-235	-161	-316
Net income	5	15	10	5	5	5	4	2	2
Last 12-month period P&L (UAHm)									
Net interest income	1,621	1,667	1,703	1,794	1,823	1,743	1,726	1,600	1,604
Net commission income	169	190	211	253	355	419	454	499	508
Operating income (before LLP)	1,930	1,991	2,072	2,213	2,302	2,378	2,431	2,317	2,446
Operating expenses	-1,119	-1,672	-1,653	-1,672	-1,702	-1,251	-1,339	-1,401	-1,410
Loan loss provisions (LLP)	-827	-323	-416	-536	-534	-1,067	-1,032	-852	-989
Net income	17	30	35	35	35	25	19	16	13
Growth rates (%YoY)									
Assets	5.2	-2.9	-2.9	5.0	-8.5	1.1	6.1	3.8	14.5
Gross loans	2.1	-4.1	-7.6	-12.3	-14.9	-5.5	-4.4	0.5	10.5
Deposits (by businesses)	24.0	1.5	-10.5	13.7	-0.3	14.4	18.5	-7.1	17.1
Deposits (by households)	28.0	26.5	32.6	50.8	33.9	35.6	25.5	3.9	5.6
Deposits (total)	26.1	14.4	10.8	33.5	18.1	26.5	22.6	-0.5	10.1
Total equity	30.6	33.0	30.7	29.3	0.6	-1.0	0.9	2.5	2.4
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	18.2	17.6	17.0	17.9	18.5	18.0	18.0	17.9	19.0
Equity/assets	14.6	15.1	14.8	14.9	16.0	14.8	14.1	14.7	14.3
(Equity + sub-debt)/assets	18.3	18.9	18.6	18.7	20.1	18.5	17.7	18.4	17.9
Cash & cash equivalents/liabilities	25.0	20.4	19.2	24.9	27.1	21.8	19.4	18.6	24.2
Current liquidity (R5 by NBU)	108.8	100.6	96.0	110.0	105.9	126.2	174.0	135.8	148.7
Gross loans/deposits	192.2	182.0	175.7	145.4	138.6	135.9	136.9	146.8	139.0
Net loans/deposits	147.1	140.4	139.0	121.2	119.7	117.3	120.6	132.9	127.8
Cost-to-income ratio	58.0	84.0	79.8	75.6	73.9	52.6	55.1	60.5	57.7
Net interest margin	7.5	7.6	8.2	8.6	8.9	8.4	8.2	7.4	7.1
ROAA	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
ROAE	0.5	0.8	0.9	0.8	0.8	0.6	0.5	0.4	0.3
NII/operating income	84.0	83.7	82.2	81.1	79.2	73.3	71.0	69.1	65.6
Core income/operating expenses	160.0	111.1	115.8	122.4	128.0	172.8	162.8	149.8	149.8

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

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

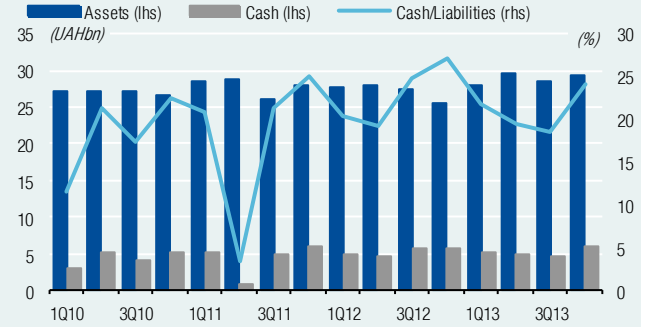
Alfa Bank: Key credit metrics

Chart 91. Capitalisation



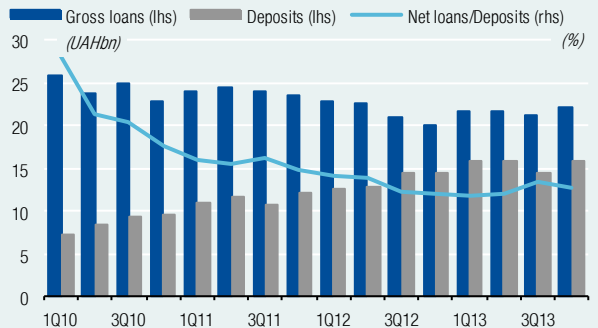
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 92. Liquidity



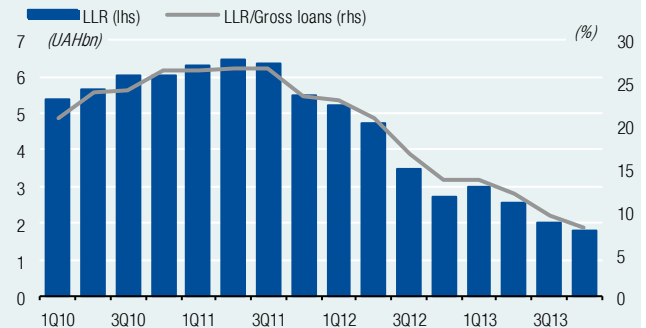
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 93. Loans and deposits



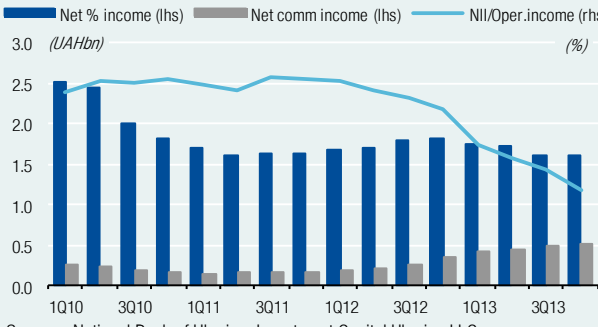
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 94. Loan loss reserves history



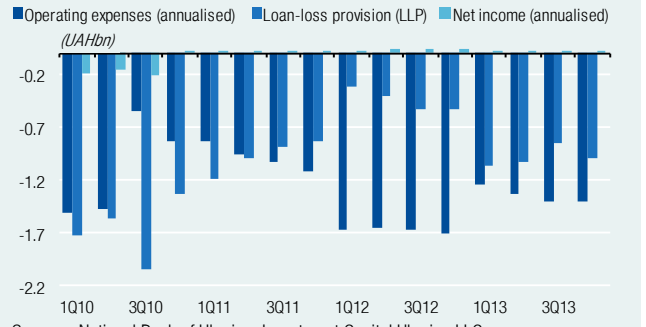
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 95. Income structure (annualised basis)



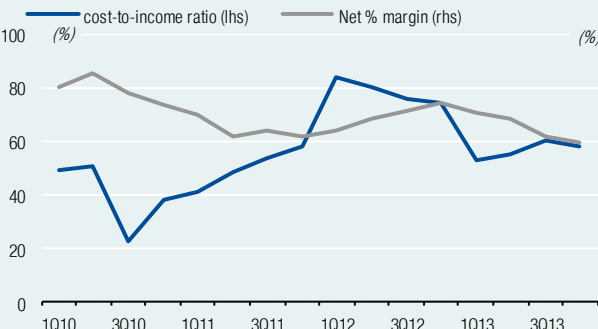
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 96. Expense and net income (annualised basis)



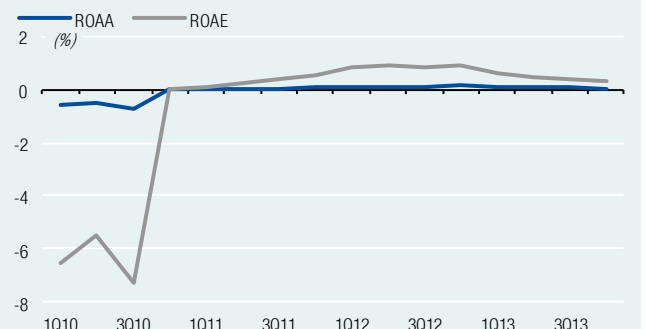
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 97. Financial performance ratios



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

Chart 98. Financial performance ratios



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

Country

Ukraine

VTB Bank

Sector

Banks: Commercial banking

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

Ticker(s) in Bloomberg

NR / NR / CCC VTB

VTB Bank ended 2013 with a loss of UAH0.2bn owing to the significant deterioration of the quality of its loan portfolio. The bank has scaled back its operations in Ukraine as it struggles to return to profitability.

Capitalisation improves. As a result of the decrease in the total amount of risk-weighted assets by UAH2.9bn or 9.7% QoQ, the regulatory CAP ratio increased from 12.5% in 3Q13 to 14.7% in 4Q13.

According to our estimates, VTB has a significant short FX position and may suffer substantial revaluation losses in 2014 owing to the US\$ funding from the parent company.

Loan portfolio grows, bad debt decreases. The total amount of net loans decreased by 9.3% QoQ, continuing the decline that began two years ago. Both the corporate and retail (predominantly mortgage) portfolios have been shrinking.

Total bad credit exposure rose to UAH7.5bn or 30.2% QoQ in 4Q13. The corporate loan portfolio was most vulnerable as the LLR ratio rose from 15.1% in 3Q13 to 17.3% in 4Q13. The bank wrote off approximately UAH0.5bn in bad loans in 4Q13; as a result, total gross loans declined to UAH1.8bn or 7.3%.

Bonds sold off. The bank has decreased its investment in securities by 59.1% YoY – mainly by selling off government bonds. Securities accounted for 5.4% of its total assets.

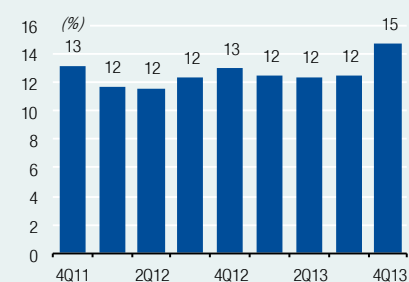
Drop in deposits. Total deposits decreased by UAH1.1bn or 9.2% QoQ following the decline of the loan portfolio. The net loan-to-deposits ratio remained stable, albeit high, throughout 2013, fluctuating between 167.6% and 171.8%. Nevertheless, the share of deposits in total liabilities increased by 10.3ppt during the past year to 50.5% in 4Q13 while the volume of interbank funding fell along with the decrease in the volume of operations.

Net loss. VTB Bank reported a UAH572m net loss in 4Q13, which drove down 2013 net earnings to negative UAH194m. The bank implemented a massive UAH625m LLP in the last quarter to compensate for the decline in asset quality.

VTB has recognised the loss of UAH165m resulting from the revaluation of investment property, which amounted to UAH744m in 4Q13.

Despite the deterioration in asset quality, the NIM grew by 1.4ppt owing to the decline in interest rates on deposit accounts and the increase in the share of retail loans in the overall portfolio.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	36,813	32,848	29,089	25,286
Loans	29,243	23,756	20,615	18,688
Deposits	12,009	12,072	12,277	11,148
Equity	4,610	3,880	3,779	3,207
Net % income	1,722	1,723	1,800	1,771
Net com income	299	464	457	468
Operating income	2,136	2,356	2,432	2,252
PPI	843	993	1,029	1,119
LLP	-487	-1,884	-393	-1,280
Net income	107	-695	636	-194
Ratios (%)				
Tier 1 ratio	5.8	7.2	N/a	N/a
CAR	24.0	24.3	12.5	14.7
Equity-to-assets	12.5	11.8	13.0	12.7
Net loan-to-deposit	243.5	196.8	167.9	167.6
Cash-to-liabilities	11.0	12.8	10.9	14.5
ROAA	0.6	-2.0	2.0	-0.7
ROAE	4.6	-16.4	17.0	-5.5
Net % margin	10.9	5.9	7.3	7.7
NII-to-op income	80.6	73.2	74.0	78.7
Cost-to-income	60.6	57.8	57.7	50.3
LLR	8.9	15.8	16.7	18.5
NPLs	N/a	N/a	N/a	N/a
NPL coverage	N/a	N/a	N/a	N/a

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

VTB: Key quarterly UAS financials and ratios

Table 19. Key financials and ratios derived from the bank's UAS financials

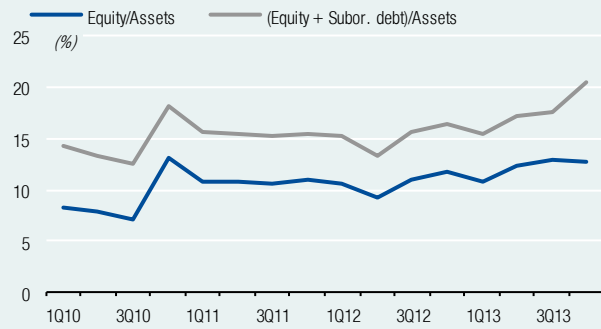
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	37 067	35 394	38 170	34 489	34 212	32 118	29,523	29,089	25,286
Cash and cash equivalents	3 691	3 025	3 619	2 161	3 987	4 156	2,504	2,751	3,195
Gross loans	33 140	32 967	31 052	30 307	29 048	27 295	25,355	24,738	22,923
Gross business loans	29 360	28 926	26 374	25 469	24 394	22 873	21,021	20,723	18,953
Gross household loans	3 781	4 041	4 678	4 838	4 654	4 421	4,334	4,015	3,970
Loan loss reserves (LLR)	-5 345	-6 305	-6 065	-5 773	-5 516	-5 173	-4,312	-4,123	-4,234
Deposits	11 936	11 238	11 135	11 472	12 120	12 878	12,490	12,277	11,148
Business deposits	6 507	5 831	5 541	5 980	5 898	5 884	5,009	4,948	4,085
Household deposits	5 429	5 408	5 595	5 492	6 223	6 994	7,481	7,330	7,062
Total equity	4 057	3 717	3 493	3 790	4 051	3 481	3,641	3,779	3,207
Quarterly P&L (UAHm)									
Net interest income	490	453	501	487	415	368	567	450	386
Net commission income	131	106	158	161	137	89	100	131	148
Operating income (before LLP)	616	573	739	696	563	561	684	624	383
Operating expenses	-443	-288	-296	-390	-567	-277	-295	-263	-297
Loan loss provisions (LLP)	9	300	-645	15	262	-205	-228	-221	-625
Net income	182	585	-202	311	258	79	160	139	-572
Last 12-month period P&L (UAHm)									
Net interest income	2 200	2 116	2 036	1 931	1 856	1 771	1,837	1,800	1,771
Net commission income	376	417	491	556	562	545	487	457	468
Operating income (before LLP)	2 625	2 612	2 684	2 624	2 571	2 559	2,503	2,432	2,252
Operating expenses	-1 349	-1 365	-1 362	-1 417	-1 541	-1 530	-1,530	-1,403	-1,133
Loan loss provisions (LLP)	-694	-197	-730	-321	-68	-573	-157	-393	-1,280
Net income	582	1 050	592	876	952	446	808	636	-194
Growth rates (%YoY)									
Assets	11,8	5,4	6,4	-5,9	-7,7	-9,3	-22,7	-15,7	-26,1
Gross loans	8,6	7,8	-3,8	-8,7	-12,3	-17,2	-18,3	-18,4	-21,1
Deposits (by businesses)	100,2	24,3	-4,6	15,4	-9,4	0,9	-9,6	-17,3	-30,7
Deposits (by households)	12,3	26,0	22,3	14,3	14,6	29,3	33,7	33,5	13,5
Deposits (total)	47,6	25,1	7,2	14,9	1,5	14,6	12,2	7,0	-8,0
Total equity	-6,6	3,3	-9,8	-2,2	-0,1	-6,3	4,2	-0,3	-20,8
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	13,2	11,7	11,6	12,4	13,0	12,5	12,4	12,5	14,7
Equity/assets	10,9	10,5	9,2	11,0	11,8	10,8	12,3	13,0	12,7
(Equity + sub-debt)/assets	15,4	15,2	13,4	15,7	16,4	15,5	17,1	17,5	20,4
Cash & cash equivalents/liabilities	11,2	9,6	10,4	7,0	13,2	14,5	9,7	10,9	14,5
Current liquidity (R5 by NBU)	57,1	52,4	94,7	83,5	73,3	80,0	53,6	56,8	64,1
Gross loans/deposits	278	293	279	264	240	212	203	201,5	205,6
Net loans/deposits	232,9	237,2	224,4	213,9	194,2	171,8	168,5	167,9	167,6
Cost-to-income ratio	51,4	52,3	50,7	54,0	59,9	59,8	61,1	57,7	50,3
Net interest margin	7,4	7,1	6,7	6,4	6,3	6,3	7,0	7,3	7,7
ROAA	1,6	2,9	1,6	2,4	2,7	1,3	2,5	2,0	-0,7
ROAE	15,1	27,1	15,6	23,3	25,3	12,0	21,6	17,0	-5,5
NII/operating income	83,8	81,0	75,9	73,6	72,2	69,2	73,4	74,0	78,7
Core income/operating expenses	191,0	185,6	185,5	175,5	156,9	151,4	151,9	160,9	197,7

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; LLP – loan loss provisions; LLR – loan loss reserves; core income includes net interest income and commission income.

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

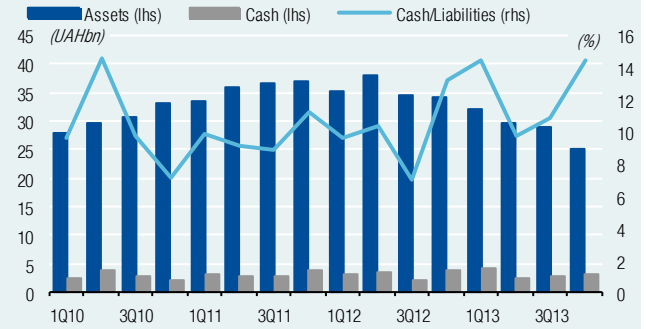
VTB: Key credit metrics

Chart 99. Capitalisation



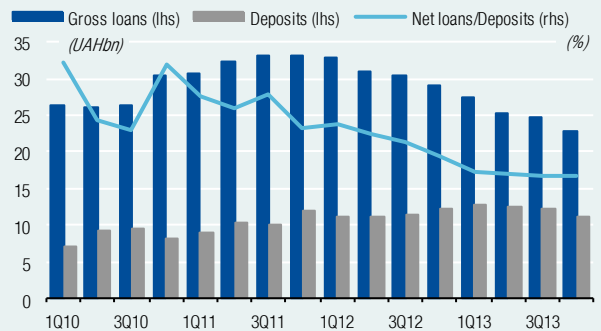
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 100. Liquidity



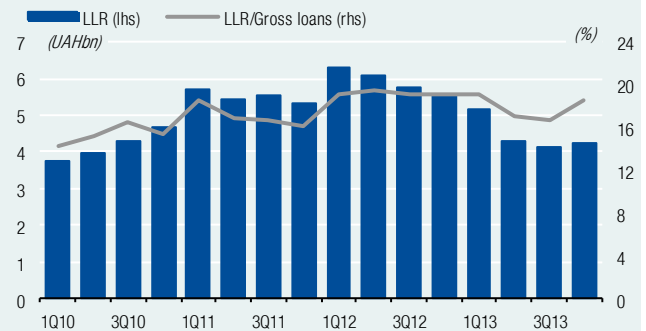
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 101. Loans and deposits



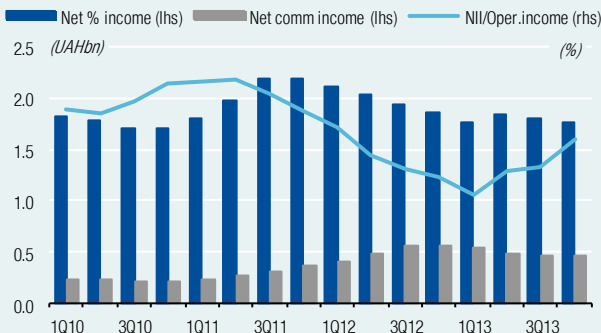
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 102. Loan loss reserves history



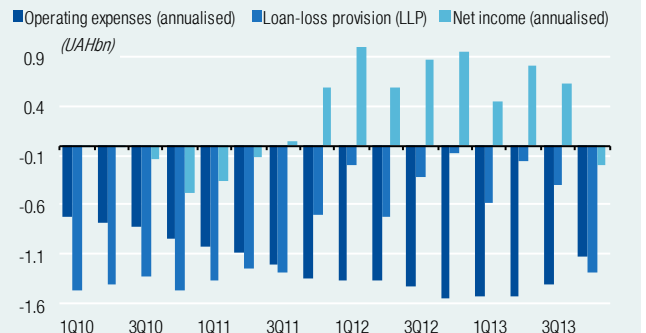
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 103. Income structure (annualised basis)



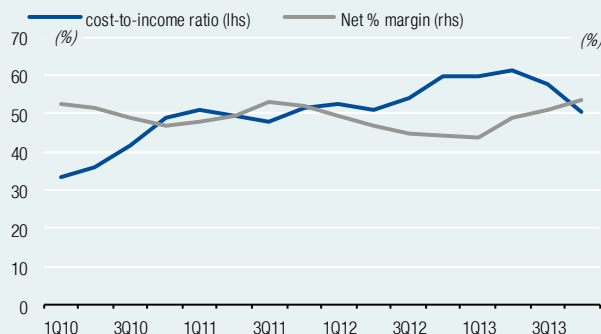
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 104. Expense and net income (annualised basis)



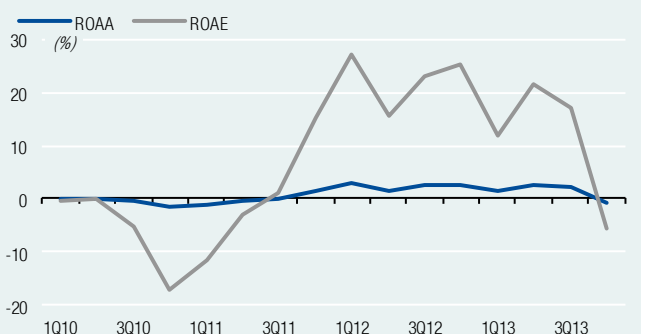
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 105. Financial performance ratios



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

Chart 106. Financial performance ratios



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

Country

Ukraine

UkrSibbank

Sector

Banks: Commercial banking

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

NR/NR/ NR UKRSIB

Ticker(s) in Bloomberg

UkrSibbank continues to scale back its operations, as evidenced by the 4.6% YoY decline in total net loans in 2013. At the same time, the bank has been losing depositors, whose funds decreased by 3.9% YoY. Huge operating expenses prevented the bank from making a significant profit in 2013.

The bank has announced plans to cut 1,600 out of a total of more than 10,000 employees by 2015.

Liquidity remains strong. The bank's cash and cash equivalents position decreased by 27.6% QoQ in 4Q13 to UAH4.3bn. Nevertheless, the cost-to-liabilities ratio was a very healthy 20.2% as total liabilities declined by 9.8% QoQ.

Lending still weak. The net loan portfolio decreased by 0.6% QoQ in 4Q13. The LLR ratio dropped from 6.9% in 3Q13 to 5.6% in 4Q13; the bank wrote off UAH0.2bn of predominantly retail loans. The total share of bad credit exposure amounted to 9.8% or UAH2.1bn.

The bank plans to concentrate its corporate portfolio on transnational companies and agricultural enterprises.

Low interest rates disappoint clients. UkrSibbank offers below average interest rates on deposits. This has led to a decline in the cost of funding and an increase in the NIM by 0.6ppt to an impressive 8.2% in 4Q13. At the same time, the total amount of deposits decreased by 8.2% QoQ to UAH16.6bn. Retail and corporate deposits declined at exactly the same rate. The share of current deposits is now at the very high level of 60.5%.

Earnings decline. Net interest income decreased by 13.5% YoY in 2013 owing to the overall decline in assets. Operating income is very high; the cost-to-income ratio was still 85.6% in 4Q13, despite being 8.5ppt down on the previous quarter. The bank maintains the fourth-largest network of branches in Ukraine (a total of 627).

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	31,231	25,346	26,415	24,112
Loans	18,546	15,369	14,691	14,602
Deposits	20,958	17,450	18,121	16,632
Equity	2,446	2,779	2,612	2,650
Net % income	1,416	1,239	1,226	1,341
Net com income	565	544	603	638
Operating income	2,189	2,123	2,128	2,300
PPI	181	261	126	332
LLP	-1,128	-34	-169	-258
Net income	-813	21	-9	25
Ratios (%)				
Tier 1 ratio	N/a	N/a	N/a	N/a
CAR	N/a	N/a	20.8	23.0
Equity-to-assets	7.8	11.0	9.9	11.0
Net loan-to-deposit	88.5	88.1	81	87.8
Cash-to-liabilities	25.9	22.5	25.1	20.2
ROAA	-5.2	0.1	-0.0	0.1
ROAE	-66.5	0.8	-0.3	0.9
Net % margin	13.9	6.7	7.5	8.2
NII-to-op income	64.7	58.3	57.6	58.3
Cost-to-income	91.7	87.7	94.1	85.6
LLR	26.2	11.0	6.9	5.6
NPLs	29.8	19.0	N/a	N/a
NPL coverage	87.7	58.0	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.

UkrSibbank: Key quarterly UAS financials and ratios

Table 20. Key financials and ratios derived from the bank's UAS financials

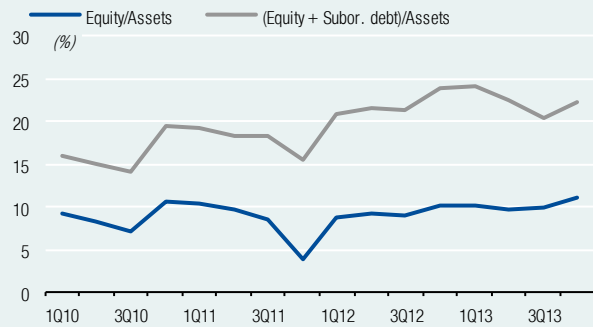
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	1,454	1,497	1,715	2,069	2,729	3,222	3,616	26,415	24,112
Cash and cash equivalents	201	260	163	203	315	418	572	5,976	4,327
Gross loans	1,123	1,242	1,514	1,857	2,477	2,817	3,095	15,784	15,460
Gross business loans	52	51	62	61	87	79	78	8,200	8,159
Gross household loans	1,071	1,191	1,452	1,796	2,390	2,738	3,017	7,584	7,301
Loan loss reserves (LLR)	-60	-80	-106	-151	-179	-253	-354	-1,093	-859
Deposits	223	483	551	635	918	1,511	1,859	18,121	16,632
Business deposits	37	30	71	86	182	63	68	8,134	7,470
Household deposits	186	454	480	549	736	1,448	1,791	9,987	9,163
Total equity	113	163	164	166	178	286	288	2,612	2,650
Quarterly P&L (UAHm)									
Net interest income	2	8	22	30	204	165	171	284	357
Net commission income	67	61	75	96	-22	29	41	168	174
Operating income (before LLP)	85	88	107	136	176	203	233	483	613
Operating expenses	-71	-69	-80	-89	-120	-115	-126	-451	-528
Loan loss provisions (LLP)	-14	-19	-26	-45	-37	-78	-103	-64	-12
Net income	-	-	1	2	12	7	2	-33	39
Last 12-month period P&L (UAHm)									
Net interest income	15	22	40	62	264	421	570	1,226	1,341
Net commission income	159	195	243	299	210	178	144	603	638
Operating income (before LLP)	251	311	385	416	507	622	748	2,128	2,300
Operating expenses	-205	-249	-300	-309	-358	-404	-450	-2,002	-1,968
Loan loss provisions (LLP)	-45	-61	-83	-104	-127	-186	-263	-169	-258
Net income	-	-	1	3	15	22	23	-9	25
Growth rates (%YoY)									
Assets	186.2	161.3	192.7	102.4	87.7	115.2	110.8	-9.2	-6.9
Gross loans	256.5	267.5	255.4	157.9	120.6	126.8	104.4	-11.4	-10.2
Deposits (by businesses)	76.2	42.9	208.7	186.7	391.9	110.0	-4.2	2.3	7.0
Deposits (by households)	878.9	1,127.0	772.7	433.0	295.7	218.9	273.1	-7.8	-11.3
Deposits (total)	457.5	732.8	606.4	377.4	311.7	212.8	237.4	-3.5	-3.9
Total equity	0.9	45.5	46.4	46.9	57.5	75.5	75.6	-0.3	0.8
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	15.9	20.0	15.6	13.3	11.8	17.1	15.0	20.8	23.0
Equity/assets	7.8	10.9	9.6	8.0	6.5	8.9	8.0	9.9	11.0
(Equity + sub-debt)/assets	10.8	17.2	15.2	12.8	14.5	15.8	14.2	20.3	22.2
Cash & cash equivalents/liabilities	15.0	19.5	10.5	10.7	12.4	14.2	17.2	25.1	20.2
Current liquidity (R5 by NBU)	162.1	172.5	101.2	69.1	69.1	224.9	238.0	75.5	70.7
Gross loans/deposits	503.6	257.1	274.8	292.4	269.8	186.4	166.5	87.1	93.0
Net loans/deposits	477.1	240.6	255.5	268.7	250.4	169.7	147.4	81.1	87.8
Cost-to-income ratio	81.7	80.1	77.9	74.3	70.6	65.0	60.2	94.1	85.6
Net interest margin	2.2	2.4	3.5	4.4	15.7	20.5	23.7	7.5	8.2
ROAA	-	-	0.1	0.2	0.7	0.9	0.8	-0.0	0.1
ROAE	-	-	0.7	2.0	8.9	11.1	10.0	-0.3	0.9
NII/operating income	6.0	7.1	10.4	14.9	52.1	67.7	76.2	57.6	58.3
Core income/operating expenses	84.9	87.1	94.3	116.8	132.4	148.3	158.7	91.4	100.5

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

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

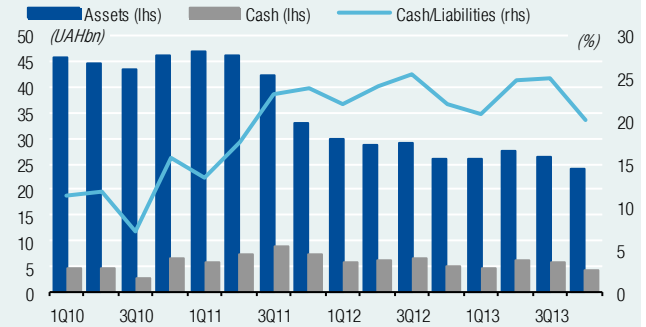
UkrSibbank: Key credit metrics

Chart 107. Capitalisation



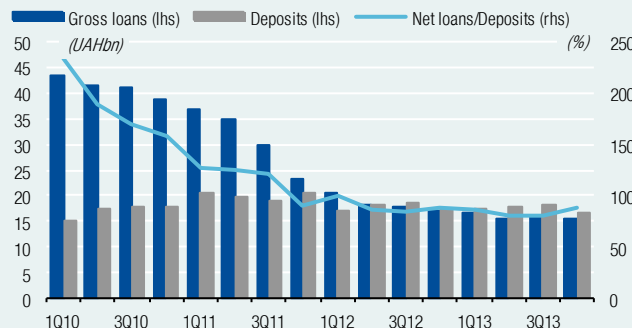
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 108. Liquidity



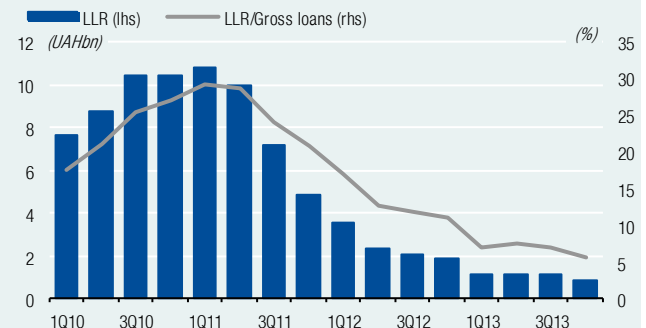
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 109. Loans and deposits



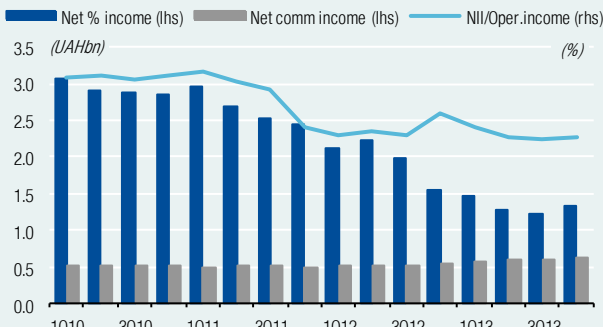
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 110. Loan loss reserves history



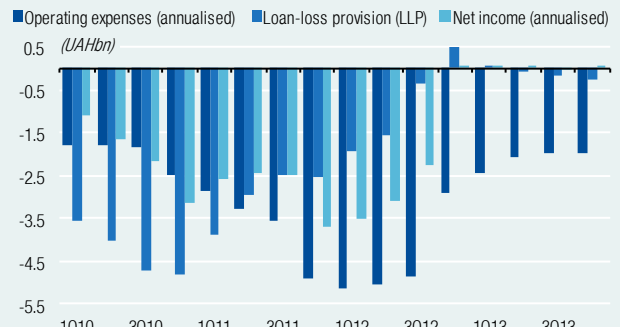
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 111. Income structure (annualised basis)



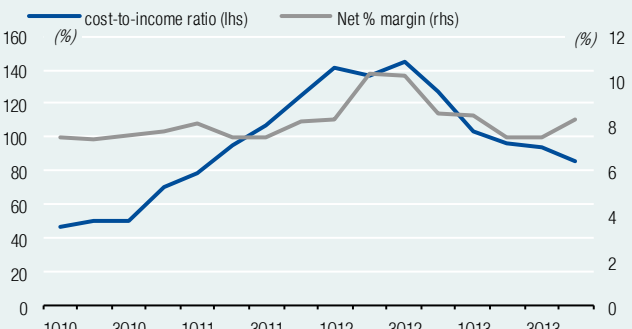
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 112. Expense and net income (annualised basis)



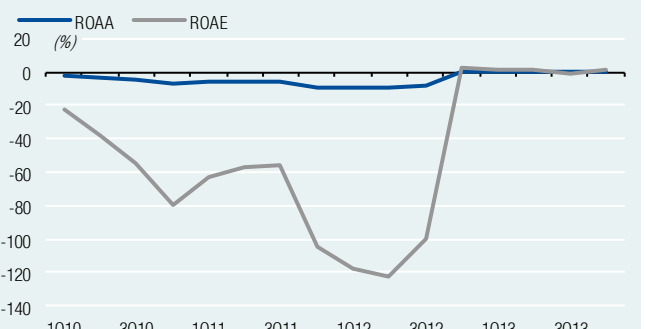
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 113. Financial performance ratios



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

Chart 114. Financial performance ratios



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

Country

Ukraine

OTP Bank

Sector

Banks: Commercial banking

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

Ca/ NR /NR N/A

Ticker(s) in Bloomberg

OTP Bank continued to develop its consumer lending business: loans to households increased by 10.5% YoY in 4Q13. Net earnings in 2013 decreased by 55.2% YoY to UAH117m according to local accounting standards. This was due to high provisioning expenses.

Net earnings in 2013 according to IFRS are expected to total around UAH0.5bn as the large write-offs took place and were reported in 2012.

Both liquidity and capitalisation remain stable. The cash-to-liabilities ratio remains high, having increased by 1.0ppt to 15.4% in 4Q13. The regulatory CAR is well above the minimum required level – at 20.6%.

US\$ funding from the parent company and the bank's short net FX position will have a negative impact on profitability owing to revaluation losses in 2014.

Focus on retail loans. The net corporate loan portfolio decreased by 13.8% YoY in 4Q13 to UAH8.2bn. The bank has focused on consumer loans, which, according to our estimates, grew by 80% YoY (gross). At the same time, its mortgage portfolio is rapidly shrinking: in 4Q13 it totalled UAH4.8bn primarily owing to customers' paying off their debt.

The LLR ratio dropped from 15.15% in 4Q12 to 13.4% in 4Q13 owing to large write-offs totalling UAH1.4bn in 2013. The total amount of bad credit exposure declined 15.8ppt QoQ in 4Q13 to UAH2.9bn.

Corporate deposits growing. OTP Bank is one of the few European banks that have increased the total amount of customer deposits: in 4Q13 the Ukrainian bank saw its total deposits grow by 6.4% YoY. While business deposits increased by 20.5% YoY to UAH4.1bn, retail deposits decreased by 2.3% YoY to UAH5.4bn. There is a clear trend of the "de-dollarisation" of deposits at OTP Bank: the share of FX funds declined from 59.9% in 4Q12 to 46.8% in 4Q13.

Funding by the parent bank declines. OTP Bank plc cut funding to its Ukrainian subsidiary by 43.5% in 4Q13 to just under UAH3.3bn. This has had a negative impact on the bank's profitability as the lost funds have had to be replaced with generally more expensive deposits.

Earnings grow as a result of structural changes. The focus on retail lending had a clearly positive impact on the NIM, which grew by 2.3ppt during the year to reach 11.8% in 4Q13. Operating income increased by 12.2% YoY to UAH1.5bn; the cost-to-income ratio was a healthy 55.7%.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	22,673	20,632	18,556	18,722
Loans	17,346	15,155	13,523	14,124
Deposits	8,686	9,054	9,233	9,537
Equity	3,620	3,862	3,365	3,359
Net % income	1,830	1,634	1,918	1,912
Net com income	348	449	364	367
Operating income	2,227	2,232	2,550	2,632
PPI	1,263	1,260	1,145	1,165
LLP	-697	-1,011	-782	-959
Net income	349	183	354	117
Ratios (%)				
Tier 1 ratio	13.5	18.4	N/a	N/a
CAR	25.6	31.2	19.5	20.6
Equity-to-assets	16.0	18.7	18.1	17.9
Net loan-to-deposit	199.7	167.4	146.5	148.1
Cash-to-liabilities	6.0	7.1	14.4	15.4
ROAA	1.5	0.8	1.8	0.6
ROAE	9.4	4.9	10.7	3.6
Net % margin	8.4	8.3	11.6	11.8
NII-to-op income	82.2	73.2	75.2	72.6
Cost-to-income	43.3	43.5	55.1	55.7
LLR	14.1	17.7	19.5	16.8
NPLs	N/a	N/a	N/a	N/a
NPL coverage	N/a	N/a	N/a	N/a

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

OTP Bank: Key quarterly UAS financials and ratios

Table 21. Key financials and ratios derived from the bank's UAS financials

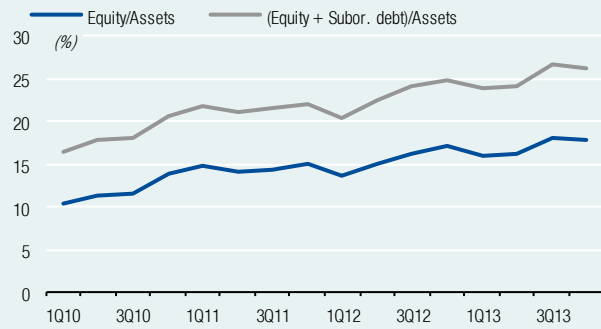
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	22,785	23,401	21,332	19,956	20,315	19,983	19,920	18,556	18,722
Cash and cash equivalents	1,852	3,148	2,274	2,638	2,670	1,832	1,865	2,189	2,373
Gross loans	20,139	19,739	18,708	17,602	17,996	17,577	17,379	16,803	16,978
Gross business loans	13,117	13,123	12,500	11,271	11,200	10,979	10,676	9,549	9,469
Gross household loans	7,023	6,616	6,207	6,332	6,796	6,598	6,704	7,254	7,510
Loan loss reserves (LLR)	-3,104	-3,512	-3,708	-3,554	-3,352	-3,485	-3,563	-3,280	-2,855
Deposits	8,700	9,826	9,210	8,813	8,966	9,181	9,185	9,233	9,537
Business deposits	4,170	4,813	3,731	3,366	3,426	3,486	3,504	3,699	4,127
Household deposits	4,530	5,013	5,479	5,446	5,540	5,695	5,682	5,533	5,411
Total equity	3,427	3,166	3,209	3,237	3,488	3,211	3,241	3,365	3,359
Quarterly P&L (UAHm)									
Net interest income	443	368	-26	812	523	470	449	477	517
Net commission income	86	73	6	162	91	75	87	111	94
Operating income (before LLP)	548	491	-16	1,068	680	609	601	660	762
Operating expenses	-394	-302	-32	-584	-389	-308	-366	-341	-452
Loan loss provisions (LLP)	10	-182	15	-451	-24	-295	-229	-234	-201
Net income	137	6	-45	42	258	6	6	85	21
Last 12-month period P&L (UAHm)									
Net interest income	1,830	1,665	1,217	1,597	1,677	1,778	2,253	1,918	1,912
Net commission income	313	321	252	326	331	333	415	364	367
Operating income (before LLP)	2,250	2,108	1,547	2,091	2,223	2,341	2,957	2,550	2,632
Operating expenses	-1,811	-1,540	-1,187	-1,313	-1,308	-1,313	-1,648	-1,405	-1,467
Loan loss provisions (LLP)	177	-217	-153	-608	-642	-755	-998	-782	-959
Net income	582	319	163	140	262	261	312	354	117
Growth rates (%YoY)									
Assets	-7.7	-5.0	-8.2	-12.6	-10.8	-14.6	-6.6	-7.0	-7.8
Gross loans	-6.2	-4.1	-4.1	-10.7	-10.6	-11.0	-7.1	-4.5	-5.7
Deposits (by businesses)	8.6	39.9	-4.3	-17.3	-17.8	-27.6	-6.1	9.9	20.5
Deposits (by households)	14.8	24.7	32.5	30.3	22.3	13.6	3.7	1.6	-2.3
Deposits (total)	11.7	31.7	14.7	6.8	3.1	-6.6	-0.3	4.8	6.4
Total equity	-0.3	-13.7	-2.0	-0.6	1.8	1.4	1.0	4.0	-3.7
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	21.3	19.3	19.1	20.3	13.8	20.4	20.6	19.5	20.6
Equity/assets	15.0	13.5	15.0	16.2	17.2	16.1	16.3	18.1	17.9
(Equity + sub-debt)/assets	22.1	20.4	22.4	24.1	24.9	24.0	24.2	26.6	26.3
Cash & cash equivalents/liabilities	9.6	15.6	12.5	15.8	15.9	10.9	11.2	14.4	15.4
Current liquidity (R5 by NBU)	48.1	80.3	55.0	97.8	53.7	66.0	73.3	66.7	64.0
Gross loans/deposits	231.5	200.9	203.1	199.7	200.7	191.5	189.2	182.0	178.0
Net loans/deposits	195.8	165.1	162.9	159.4	163.3	153.5	150.4	146.5	148.1
Cost-to-income ratio	80.5	73.0	76.7	62.8	58.8	56.1	55.7	55.1	55.7
Net interest margin	9.1	8.5	6.3	8.6	9.5	10.4	13.5	11.6	11.8
ROAA	2.5	1.4	0.7	0.6	1.2	1.3	1.6	1.8	0.6
ROAE	17.1	9.7	5.0	4.3	8.0	7.9	9.5	10.7	3.6
NII/operating income	81.4	79.0	78.6	76.4	75.4	76.0	76.2	75.2	72.6
Core income/operating expenses	118.3	129.0	123.8	146.5	153.5	160.7	161.9	162.5	155.3

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

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

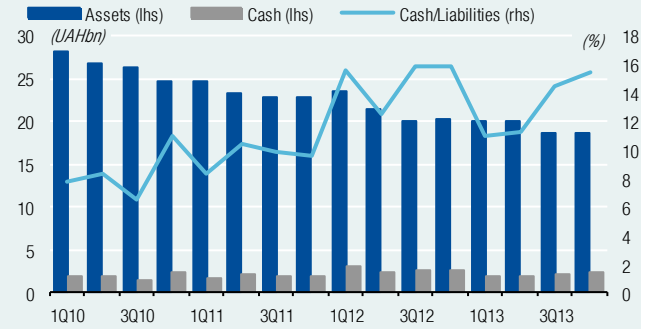
OTP Bank: Key credit metrics

Chart 115. Capitalisation



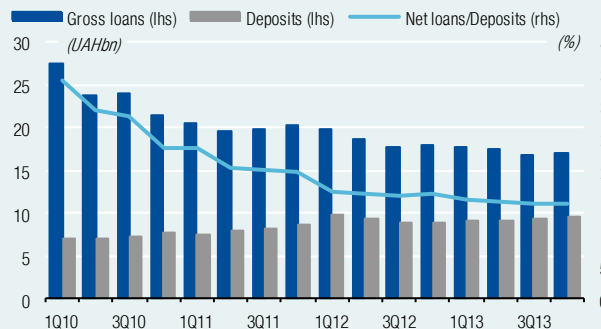
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 116. Liquidity



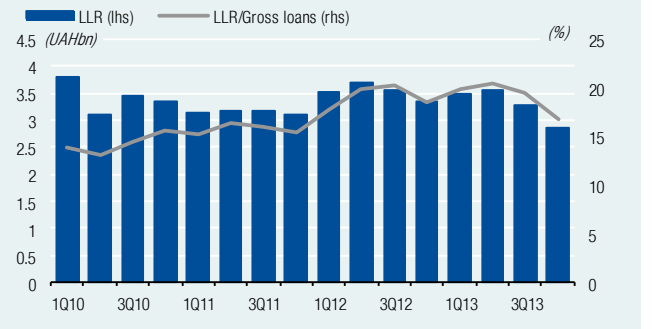
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 117. Loans and deposits



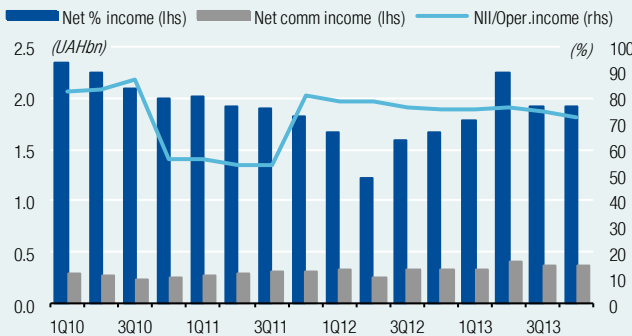
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 118. Loan loss reserves history



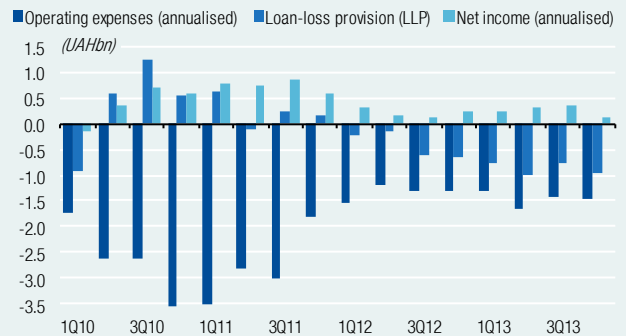
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 119. Income structure (annualised basis)



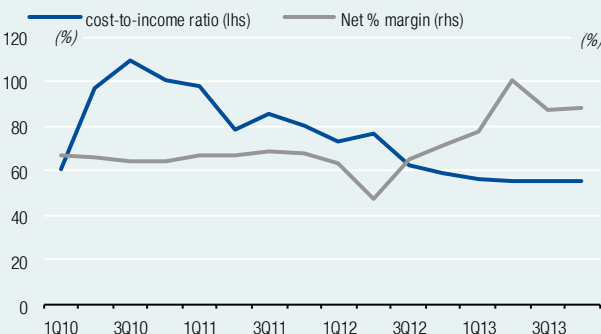
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 120. Expense and net income (annualised basis)



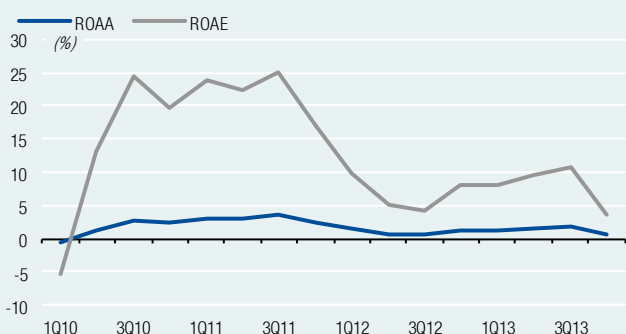
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 121. Financial performance ratios



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

Chart 122. Financial performance ratios



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

Country

Ukraine

Platinum Bank

Sector

Banks: Commercial banking

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

NR / NR /NR N/A

Ticker(s) in Bloomberg

Despite 4Q13 being weak for the overall banking sector, Platinum Bank managed increased its gross household portfolio by UAH0.5bn. At the same time, high provisioning and operating expenses prevented it from earning a significant profit.

Liquidity stable. The cash-to-liabilities ratio increased from 5.3% in 3Q13 to 12.1% in 4Q13. Previously, only a fraction of the bank's liquidity was in the form of cash or correspondent accounts; the remainder was short-term interbank loans. For this reason, we believe that liquidity remained at the same moderate level.

At the same time, rapid assets growth drove down the regulatory CAR from 13.9% in 4Q12 to 11.1% in 4Q13. It is most likely that the bank will require an additional inflow of capital in 2014 in order to remain at the required level and continue market expansion.

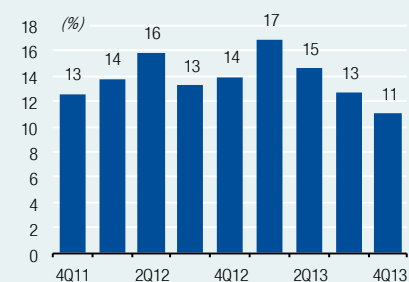
Focus on the corporate segment. The bank focused strongly on consumer lending through 4Q13, when it generated UAH0.5bn of corporate loans in foreign currency. We believe these loans were granted to retailers who provide Platinum Bank with the facilities to issue consumer loans. The bank has almost zero LLP for those assets.

The household loan portfolio increased by UAH0.5bn, while the LLR ratio remained unchanged at 16.0%. Total credit exposure rose by 9.6% to UAH478m with an LLR ratio of 87.4%.

Deposits soar. Owing to the bank's aggressive marketing strategy and high interest rates, household deposits grew 63.3% YoY and now account for 86.1% of total deposits. The share of FX deposits increased from 14.2% in 3Q14 to 18.6% in 4Q13 or by UAH0.3bn. This helped allow the bank to provide large FX loans to corporate customers.

Net profit growth slows down significantly. The already large NIM grew by 0.4ppt to 24.1% in 4Q13, while net interest income rose 9.0% QoQ. At the same time, operating income grew by UAH44m compared with the UAH37m increase in operating expenses. Since LLP expenses were unchanged, the bank earned net income of UAH13m in 4Q13.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	3,913	4,048	5,035	5,795
Loans	2,320	3,035	3,869	4,786
Deposits	2,886	3,049	4,145	4,824
Equity	492	668	406	419
Net % income	508	795	884	998
Net com income	3	-4	8	-9
Operating income	707	1,076	1,293	1,416
PPI	292	483	484	619
LLP	-244	-255	-450	-570
Net income	30	176	24	34
Ratios (%)				
Tier 1 ratio	19.6	20.9	N/a	N/a
CAR	24.0	24.3	12.7	11.1
Equity-to-assets	12.6	16.5	8.1	7.2
Net loan-to-deposit	80.4	99.6	93.3	99.2
Cash-to-liabilities	4.5	3.8	5.3	12.1
ROAA	1.6	4.4	0.6	0.7
ROAE	12.4	30.3	6.1	8.4
Net % margin	29.2	22.3	23.7	24.1
NII-to-op income	71.9	73.9	68.4	70.5
Cost-to-income	58.7	55.1	62.6	56.3
LLR	9.8	4.1	16.0	14.6
NPLs	16.8	11.8	N/a	N/a
NPL coverage	58.4	35.1	N/a	N/a

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

Platinum Bank: Key quarterly UAS financials and ratios

Table 22. Key financials and ratios derived from the bank's UAS financials

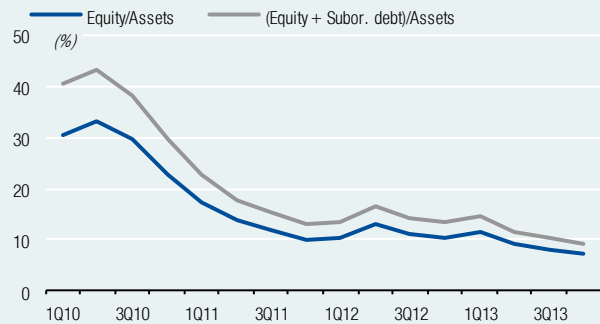
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	3,755	3,651	3,189	3,422	3,697	3,632	4,446	5,035	5,795
Cash and cash equivalents	402	169	161	137	165	187	191	244	652
Gross loans	2,516	2,812	2,647	2,698	3,106	3,344	3,971	4,609	5,606
Gross business loans	32	28	26	20	19	17	17	16	496
Gross household loans	2,484	2,784	2,620	2,678	3,087	3,327	3,954	4,592	5,110
Loan loss reserves (LLR)	-337	-424	-334	-338	-378	-493	-573	-740	-820
Deposits	2,841	2,756	2,319	2,576	2,968	2,856	3,606	4,145	4,824
Business deposits	665	609	304	353	424	534	699	738	672
Household deposits	2,176	2,147	2,015	2,224	2,544	2,323	2,907	3,407	4,153
Total equity	375	378	411	380	383	418	402	406	419
Quarterly P&L (UAHm)									
Net interest income	192	207	235	214	176	190	253	265	289
Net commission income	4	3	3	7	15	19	-23	-3	-2
Operating income (before LLP)	261	264	315	287	299	276	341	378	421
Operating expenses	-199	-182	-343	-261	-253	-159	-193	-204	-241
Loan loss provisions (LLP)	-53	-81	64	-45	-42	-84	-164	-160	-161
Net income	-4	1	33	-31	3	33	-16	4	13
Last 12-month period P&L (UAHm)									
Net interest income	527	652	778	848	832	815	833	884	998
Net commission income	3	6	10	17	28	44	18	8	-9
Operating income (before LLP)	738	896	1,064	1,127	1,165	1,177	1,203	1,293	1,416
Operating expenses	-552	-654	-900	-985	-1,039	-1,016	-866	-809	-797
Loan loss provisions (LLP)	-170	-227	-111	-115	-104	-107	-335	-450	-570
Net income	4	2	37	-1	6	38	-11	24	34
Growth rates (%YoY)									
Assets	130.2	69.8	16.7	6.4	-1.5	-0.5	39.4	47.1	56.7
Gross loans	106.9	104.5	59.7	23.4	23.4	18.9	50.0	70.8	80.5
Deposits (by businesses)	265.4	278.3	71.8	69.7	-36.2	-12.3	129.9	109.2	58.3
Deposits (by households)	455.1	216.7	68.8	65.5	16.9	8.2	44.3	53.2	63.3
Deposits (total)	394.9	228.5	69.1	66.0	4.5	3.6	55.5	60.9	62.5
Total equity	0.8	0.8	10.2	0.3	2.1	10.6	-2.2	6.9	9.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	12.6	13.8	15.8	13.3	13.9	16.9	14.6	12.7	11.1
Equity/assets	10.0	10.4	12.9	11.1	10.4	11.5	9.0	8.1	7.2
(Equity + sub-debt)/assets	13.0	13.4	16.4	14.3	13.4	14.6	11.5	10.3	9.2
Cash & cash equivalents/liabilities	11.9	5.2	5.8	4.5	5.0	5.8	4.7	5.3	12.1
Current liquidity (R5 by NBU)	176.9	130.4	139.0	55.3	161.7	95.6	135.7	133.6	0.0
Gross loans/deposits	88.6	102.0	114.1	104.7	104.6	117.1	110.1	111.2	116.2
Net loans/deposits	76.7	86.7	99.7	91.6	91.9	99.8	94.2	93.3	99.2
Cost-to-income ratio	74.8	73.0	84.6	87.4	89.2	86.3	72.0	62.6	56.3
Net interest margin	24.2	25.1	27.7	28.1	27.1	26.7	24.8	23.7	24.1
ROAA	0.1	0.1	1.1	-0.0	0.2	1.1	-0.3	0.6	0.7
ROAE	1.1	0.5	9.6	-0.3	1.5	9.6	-2.8	6.1	8.4
NII/operating income	71.4	72.8	73.1	75.2	71.4	69.2	69.2	68.4	70.5
Core income/operating expenses	96.0	100.6	87.6	87.8	82.8	84.5	98.3	110.3	124.0

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

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

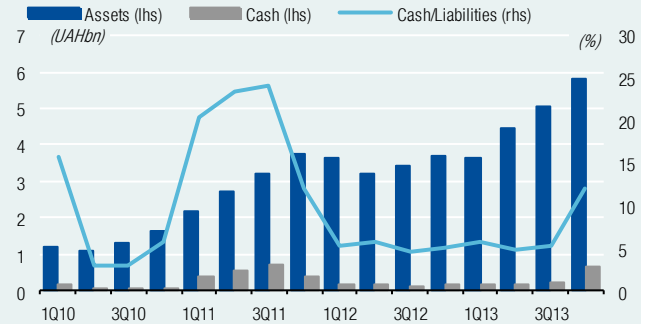
Platinum Bank: Key credit metrics

Chart 123. Capitalisation



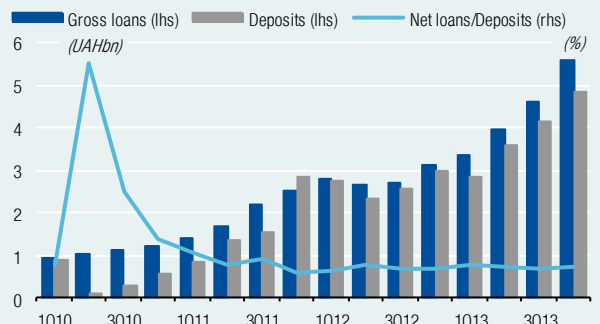
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 124. Liquidity



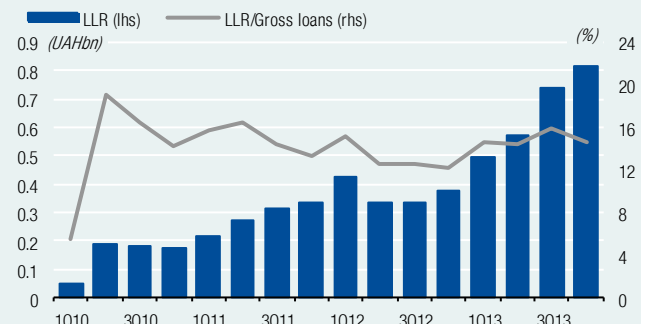
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 125. Loans and deposits



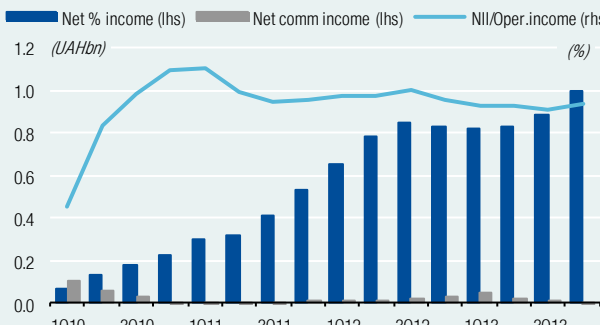
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 126. Loan loss reserves history



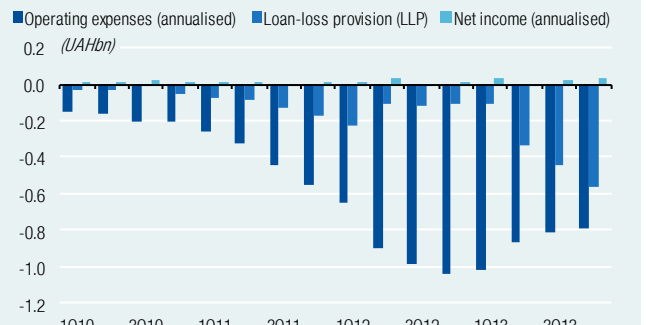
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 127. Income structure (annualised basis)



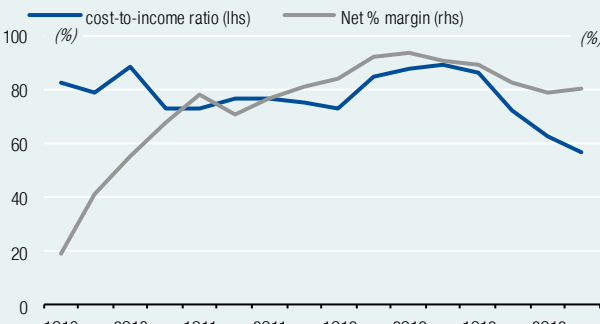
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 128. Expense and net income (annualised basis)



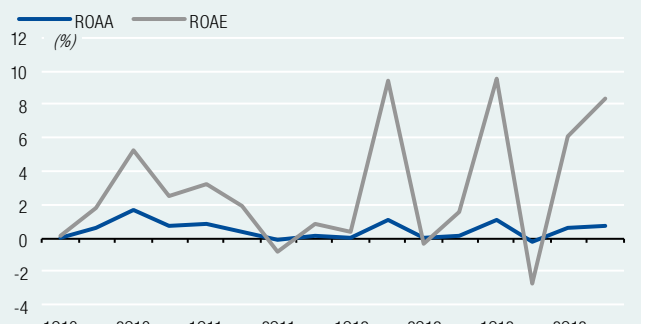
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 129. Financial performance ratios



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

Chart 130. Financial performance ratios



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

Country

Ukraine

Russian Standard Bank

Sector

Banks: Commercial banking

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

NR/ NR/NR N/A

Ticker(s) in Bloomberg

N/A

After relative inactivity in 3Q14, Russian Standard Bank (RSB) returned to active lending last quarter: its net loan portfolio expanded by 6.8% QoQ. The deterioration in the quality of assets exerted very strong negative pressure on the net interest margin and profitability.

The total number of branches increased by nine to 68 in 4Q13.

Loans increased but quality impaired. The total net loan portfolio grew by UAH191m to UAH3.0bn in 4Q13, with no significant write-offs. We suggest there has been a significant deterioration in the loan quality as the LLR ratio grew from 7.2% in 4Q12 to 14.9% in 4Q13. The bank has almost 100% provision for its bad credit exposure, while recognition of the asset quality depends primarily on the number of days past due.

Surprise fall in deposits. The total amount of deposits decreased by 1.4% QoQ to UAH1.8bn. The bank has revised its interest rates policy and substantially lowered interest rates on FX deposits, while rates for hryvnia accounts remain practically unchanged. As a result, those customers with US\$ deposits opted to transfer to another bank. Thus the share of FX deposits in the overall total declined from 16.3% in 3Q13 to just 9.7% in 4Q13. We believe that this is to the bank's advantage as it does not provide any FX loans.

Another securities issue. RSB made yet another UAH0.1bn securities issue in 4Q13 – the third such issue in 2013. The interest rate was set at 20% for the first two years out of the total three years of circulation. The bank plans to continue with this strategy in the foreseeable future: the next issue has already been announced for 1Q14.

Focus on commission income and agent fees. We believe that the bank may report a very small NIM and focus on non-interest income. Currently, net interest income makes up only a fraction, 15.5%, of total operating income.

Profitability achieved. Net earnings for 4Q13 rose by 0.9% QoQ to UAH24m – the bank's best-ever quarterly result. We believe that the bank is capable of maintaining this level of profitability in the near future owing to the adequate amount of reserves formed and the high effective interest rates on offer.

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2011	2012	3Q13	4Q13
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	1,362	2,756	3,538	3,652
Loans	1,088	2,324	2,795	2,986
Deposits	226	923	1,860	1,835
Equity	188	205	312	335
Net % income	180	410	736	574
Net com income	14	65	80	302
Operating income	189	499	864	957
PPI	-18	142	364	430
LLP	-25	-127	-302	-358
Net income	-42	9	45	56
Ratios (%)				
Tier 1 ratio	12.2	5.9	N/a	N/a
CAR	15.9	11.8	15.3	14.1
Equity-to-assets	13.8	7.4	8.8	9.2
Net loan-to-deposit	481.9	252.0	150	162.7
Cash-to-liabilities	16.3	12.0	15.1	11.5
ROAA	-6.2	0.5	1.4	1.6
ROAE	-44.8	4.8	16.9	18.5
Net % margin	33.1	24.0	27.5	20.0
NI-to-op income	95.4	82.1	85.2	59.9
Cost-to-income	109.3	71.6	57.9	55.1
LLR	2.9	6.2	13.5	14.9
NPLs	1.9	4.7	N/a	N/a
NPL coverage	151.9	130.3	N/a	N/a

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

Russian Standard Bank: Key quarterly UAS financials and ratios

Table 23. Key financials and ratios derived from the bank's UAS financials

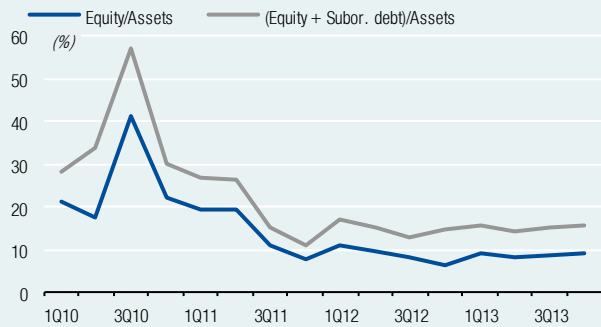
	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Balance sheet figures (UAHm)									
Assets	1,454	1,497	1,715	2,069	2,729	3,222	3,616	3,538	3,652
Cash and cash equivalents	201	260	163	203	315	418	572	488	381
Gross loans	1,123	1,242	1,514	1,857	2,477	2,817	3,095	3,230	3,509
Gross business loans	52	51	62	61	87	79	78	64	43
Gross household loans	1,071	1,191	1,452	1,796	2,390	2,738	3,017	3,166	3,466
Loan loss reserves (LLR)	-60	-80	-106	-151	-179	-253	-354	-435	-524
Deposits	223	483	551	635	918	1,511	1,859	1,860	1,835
Business deposits	37	30	71	86	182	63	68	77	97
Household deposits	186	454	480	549	736	1,448	1,791	1,783	1,738
Total equity	113	163	164	166	178	286	288	312	335
Quarterly P&L (UAHm)									
Net interest income	2	8	22	30	204	165	171	196	42
Net commission income	67	61	75	96	-22	29	41	31	201
Operating income (before LLP)	85	88	107	136	176	203	233	252	269
Operating expenses	-71	-69	-80	-89	-120	-115	-126	-139	-147
Loan loss provisions (LLP)	-14	-19	-26	-45	-37	-78	-103	-84	-92
Net income	-	-	1	2	12	7	2	23	24
Last 12-month period P&L (UAHm)									
Net interest income	15	22	40	62	264	421	570	736	574
Net commission income	159	195	243	299	210	178	144	80	302
Operating income (before LLP)	251	311	385	416	507	622	748	864	957
Operating expenses	-205	-249	-300	-309	-358	-404	-450	-500	-527
Loan loss provisions (LLP)	-45	-61	-83	-104	-127	-186	-263	-302	-358
Net income	-	-	1	3	15	22	23	45	56
Growth rates (%YoY)									
Assets	186.2	161.3	192.7	102.4	87.7	115.2	110.8	71.1	33.8
Gross loans	256.5	267.5	255.4	157.9	120.6	126.8	104.4	73.9	41.7
Deposits (by businesses)	76.2	42.9	208.7	186.7	391.9	110.0	-4.2	-10.1	-46.9
Deposits (by households)	878.9	1,127.0	772.7	433.0	295.7	218.9	273.1	224.9	136.2
Deposits (total)	457.5	732.8	606.4	377.4	311.7	212.8	237.4	193.0	99.9
Total equity	0.9	45.5	46.4	46.9	57.5	75.5	75.6	88.1	88.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	15.9	20.0	15.6	13.3	11.8	17.1	15.0	15.3	14.1
Equity/assets	7.8	10.9	9.6	8.0	6.5	8.9	8.0	8.8	9.2
(Equity + sub-debt)/assets	10.8	17.2	15.2	12.8	14.5	15.8	14.2	15.3	15.5
Cash & cash equivalents/liabilities	15.0	19.5	10.5	10.7	12.4	14.2	17.2	15.1	11.5
Current liquidity (R5 by NBU)	162.1	172.5	101.2	69.1	69.1	224.9	238.0	120.8	68.6
Gross loans/deposits	503.6	257.1	274.8	292.4	269.8	186.4	166.5	174	191.3
Net loans/deposits	477.1	240.6	255.5	268.7	250.4	169.7	147.4	150.3	162.7
Cost-to-income ratio	81.7	80.1	77.9	74.3	70.6	65.0	60.2	57.9	55.1
Net interest margin	2.2	2.4	3.5	4.4	15.7	20.5	23.7	27.5	20.0
ROAA	-	-	0.1	0.2	0.7	0.9	0.8	1.4	1.6
ROAE	-	-	0.7	2.0	8.9	11.1	10.0	16.9	18.5
NII/operating income	6.0	7.1	10.4	14.9	52.1	67.7	76.2	85.2	59.9
Core income/operating expenses	84.9	87.1	94.3	116.8	132.4	148.3	158.7	163.0	166.1

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

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

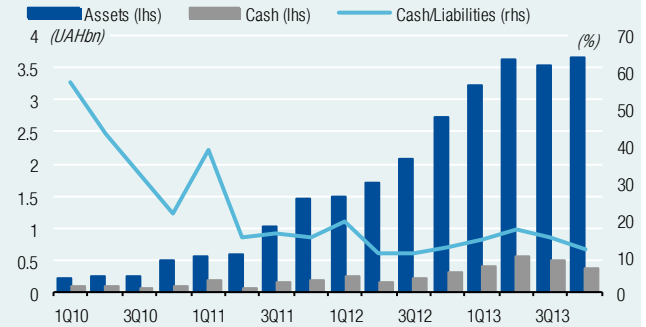
Russian Standard Bank: Key credit metrics

Chart 131. Capitalisation



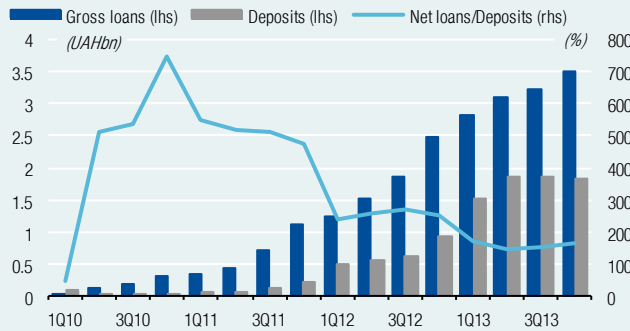
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 132. Liquidity



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

Chart 133. Loans and deposits



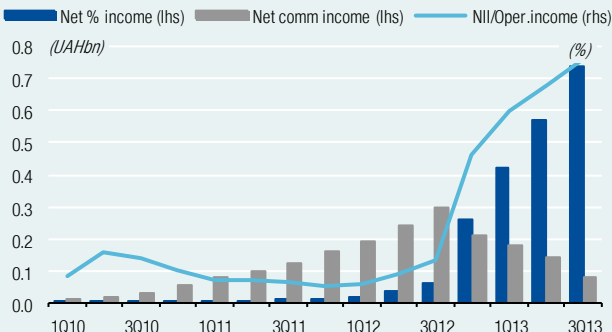
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 134. Loan loss reserves history



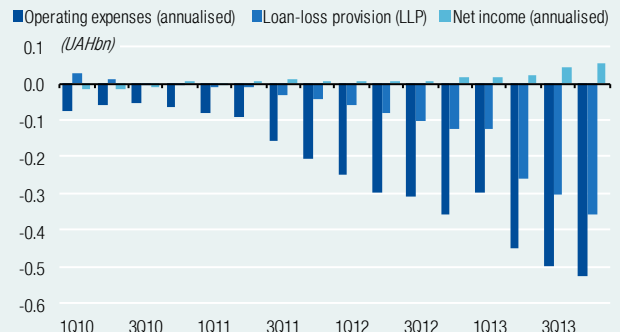
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 135. Income structure (annualised basis)



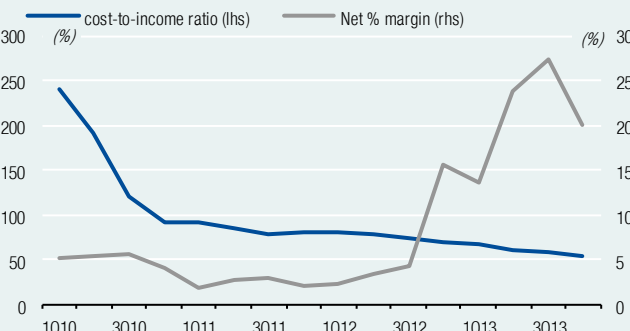
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 136. Expense and net income (annualised basis)



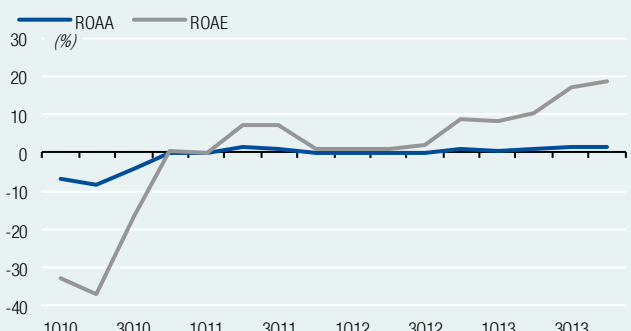
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 137. Financial performance ratios



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

Chart 138. Financial performance ratios



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

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



INVESTMENT CAPITAL UKRAINE
INVESTMENT BANKING

LEONARDO Business Centre
11th floor
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone +38 044 2200120, fax +38 044 2201625

CHAIRMAN OF THE BOARD OF DIRECTORS

Valeria Gontareva
valeria.gontareva@icu.ua

CORPORATE FINANCE TEL. +38 044 2200120

Makar Paseniuk, Managing Director
makar.paseniuk@icu.ua

Volodymyr Demchyshyn, Director
volodymyr.demchyshyn@icu.ua

Ruslan Kilmukhametov, Vice-president
ruslan.kilmukhametov@icu.ua

FIXED-INCOME SALES AND TRADING TEL. +38 044 2201621

Konstantin Stetsenko, Managing Director
konstantin.stetsenko@icu.ua

Sergiy Byelyayev, Fixed-Income Trading
sergiy.byelyayev@icu.ua

Vitaliy Sivach, Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

Vlad Sinani, Director,
Strategy and Corporate Development
vlad.sinani@icu.ua

Julia Pecheritsa,
Ukraine and CIS International Sales
julia.pecheritsa@icu.ua

RESEARCH DEPARTMENT TEL. +38 044 2200120

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Bogdan Vorotilin
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

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