Focus
**Ukraine**

Scope
**Debt markets**

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**Banks**

# Banking Sector Insight

# Leaking out

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# Contents

# Executive summary

**Our banking sector quarterly update focuses on the most recent financial data on banks – in this case, for 1Q14 – and discusses the latest developments in the sector as well as in the economy. In a nutshell, it contains the following viewpoints:**

*Panic among depositors has abated but their confidence is yet to be restored*

**Tackling the deposits outflow.** The Ukrainian banking system has suffered a severe shock in 2014: the total amount of deposits (net of currency devaluation effect) declined by 16.1% during the first six months of the year. In order to prevent the system from collapsing, the National Bank of Ukraine (NBU) has provided the market with significant refinancing. The total amount of NBU loans to commercial banks increased by UAH35.4bn during 1H14, while the outflow of deposits denominated in local currency totalled UAH49.1bn. We believe that panic among depositors has now abated: deposits grew, albeit marginally, in July and overall liquidity increased to an acceptable level.

Nevertheless, the ongoing military insurgency in eastern Ukraine remains a key threat to the banking sector: not least, a full-scale invasion or a major bank failure could trigger further instability.

**Assets deterioration.** The current political crisis will have a negative impact on the quality of the loan portfolio. Owing to unreliable reported data, it is clear that the real level of problematic assets is higher than official figures suggest. As previously estimated, the real share of NPLs (90+ days overdue) in the overall loan portfolio was around 17-19% before the current crisis. Since then, a quarter of the loan portfolio has been deeply restructured.

Ukrainian banks can expect a very low recoverability rate for their Crimean loan portfolios; indeed, we estimate that losses could amount to UAH20bn or about 2% of the total loan portfolio. The most vulnerable, in our view, are loans issued to companies exposed to the region held by pro-Kremlin militants and FX-denominated loans. If such loans turn bad, the real share of NPLs could reach 46-52% by the end of the year.

**Capital injection needed.** The average capitalisation of Ukraine’s banks was 15.9% in June 2014. However, we believe that some banks have significantly overstated their reported level of capitalisation. According to our estimates, the Ukrainian banking system is undercapitalised and requires an additional capital inflow of at least UAH40-50bn. A major concern is whether banks with Ukrainian capital can provide such funds in the current economic conditions. We expect the NBU to encourage banks’ major shareholders to participate in their capitalisation, but the authorities may still consider providing capital for systemically important banks that cannot rely on private capital. We expect the largest recapitalisation efforts to focus on the top 35 banks, which combined account for 84.4% of the sector’s total assets.

*The number of failed banks is expected to increase*

**Potential problems paying out deposits.** Fourteen banks were recognised as insolvent in 2014, including two banks from among the top 20. Combined, those failed financial institutions account for 3.6% of the sector’s total assets. At the time of being declared insolvent, the 14 banks had insured accounts exceeding the assets of the Deposit Guarantee Fund (DGF) alone (UAH13.2bn and UAH8.1bn, respectively). We expect the number of failed banks to increase in 2014, in which case the authorities will have to provide loans to the fund in order to ensure it can meet its liabilities.

We believe that the authorities may take the following measures to help banks meet depositor demands:

- Introduce legislation increasing major shareholders' responsibility, including financial, as regards problematic banks. The regulator is likely to tighten supervision of the banks in order to root out inappropriate and felonious management.
- Provide the DGF with credit resources and help it obtain funds from international financial institutions. Recently, the World Bank announced it will issue a US$0.5bn loan to support the Ukrainian banking sector, including the fund.
- Improve the effectiveness of the fund's operations, including by providing it with a broader set of instruments to impose temporary administration of insolvent banks.

**Changes at the NBU.** The new management team recently installed at the NBU has reaffirmed its aim to introduce inflation-targeting and a flexible USD/UAH exchange rate. We expect the regulator to strive to increase operational efficiency by optimising its organisational structure and improving compliance enforcement.

The regulator has introduced a more transparent refinancing mechanism based on market terms. This will strengthen its position within the overall system and boost the role of the official interest rate.

Meanwhile, the parliament has passed a bill increasing the minimum amount of regulatory share capital for a new bank from UAH120m to UAH500m and for existing banks by UAH0.5bn over 10 years. We expect sector consolidation in the medium term, as a result of which the number of potentially shaky financial institutions will decline.

# Overview of the banking sector

**The Ukrainian banking system is seeking to balance the need to regain depositors' confidence and the urgent necessity for fundamental reforms.**

## Factors shaping the banking sector in 1Q14

*The current challenges have significantly increased the role of the NBU and other official agencies in the banking system*

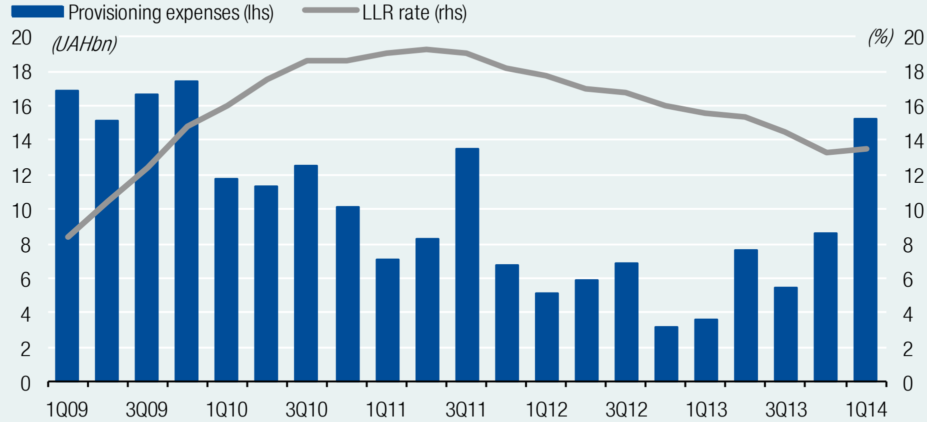
**Increased state control over the banks.** Owing to the armed conflict in the eastern part of the country and turbulence on the local market, Ukraine's commercial banks have become increasingly dependent on the NBU and legislators. Key issues for the banking sector in 1H14 were the regulation of FX transactions, the refinancing of loans, the implementation of withdrawal limits and new taxes on bank operations. In addition, financial institutions face unprecedented problems in the Crimean Republic, which has been forcibly transferred to another jurisdiction: political decisions are now a major factor in deciding whether to continue economic relations with the annexed territory. All these developments have increased the regulator's de facto influence over the banking sector.

**Loan portfolio quality set to deteriorate further.** According to the NBU, the share of NPLs in the overall loan portfolio increased from 12.9% in 4Q13 to 13.3% in 1Q14 to total UAH175.7bn. We believe that owing to the large share of related-party transactions, the real amount of bad debt is even higher – since some loans that cannot be repaid are simply rolled over from one quarter to the next. The following factors are expected to lead to a further deterioration in the loan portfolio quality:

- Very low recoverability rate of Crimea loans: Although official statistics put the total amount of loans to registered companies and individuals in Crimea at UAH10bn, we estimate this figure at UAH20bn as some companies have assets on the peninsula but are registered elsewhere (mostly in Kyiv).
- Payment discipline negatively impacted by the disruption of economic activity in the Donetsk and Luhansk regions owing to the anti-terrorist operation: Most banks have closed their branches in these regions and are allowing clients to skip regular payments without incurring any fees or penalties. We expect most borrowers to find it difficult to repay loans as the armed conflict has disrupted or physically destroyed many businesses. The NBU estimates the total amount of the banks' exposure to the two regions at UAH42.0bn or 4.2% of total loans.
- Increased debt in local currency owing to sharp UAH devaluation: Although the negative impact of the devaluation shock will be exacerbated by the overall slowdown in the economy, we do not expect that impact to be as drastic as was the case in 2008-09 because: 1) regulatory limitations on FX-lending have significantly reduced the share of FX loans, especially in the retail segment; 2) many retail mortgage loans were already overdue; and 3) restructuring and conversion is planned for performing retail loans.

In general, we expect the share of NPLs reported by the NBU to increase further – from 13.3% at present to 15-16% by the end of the year. This will lead to large loan loss reserves (LLR) provisioning expenses in the coming quarters, comparable to UAH15.5bn in 1Q14 (see Chart 1).

**Chart 1. Quarterly provisioning expenses and LLR ratio**




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

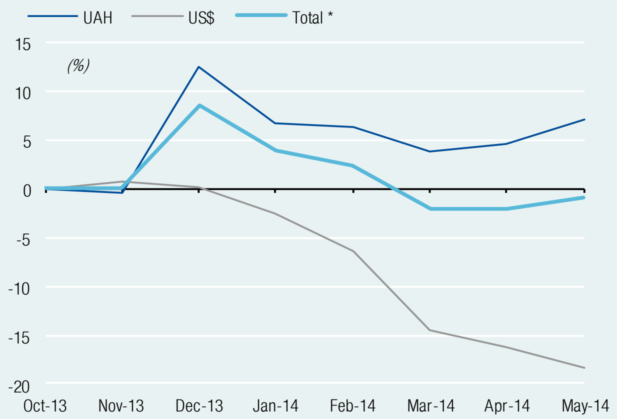
## Run on deposits

***The banks lost 16.1% of total deposits during the first six months of 2014***

**Turbulence scares off depositors.** The Ukrainian banking system has been hit by a huge crisis of confidence among depositors, which is abating only now. In November and December 2013, many depositors withdrew their UAH term deposits ahead of schedule in order to convert those funds into hard currency and thereby profit from UAH devaluation.

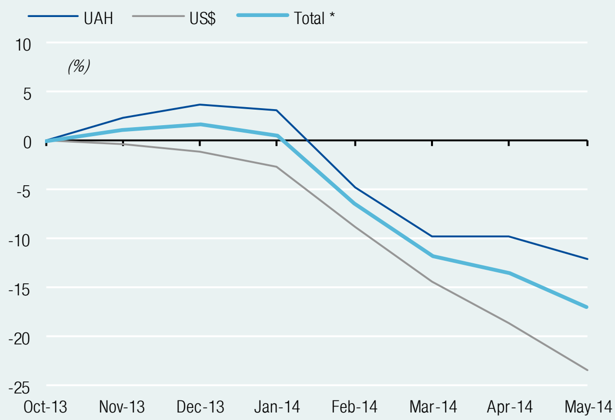
The intensification of the standoff between the Ukrainian armed forces and pro-Russian separatists in eastern Ukraine in 1Q14 led to increased panic among bank clients, many of whom lined up outside bank premises demanding their deposits back. Almost every bank has experienced the urgent need for liquidity, including cash to satisfy depositor demands, especially after Brokbusinessbank collapsed in February 2014. Against this background, the new management of the NBU decided to let several other banks fail, including Forum Bank, which is one of the biggest financial institutions in Ukraine. That decision prompted the mass withdrawal of deposits and the holding of those funds outside the banking system.

**Chart 2.Dynamic of corporate deposits (October 2013=0%)**




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

**Chart 3. Dynamic of retail deposits (October 2013=0%)**




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

As a result, the sector witnessed a 12.1% decline in UAH-denominated household deposits during the first five months of 2014 and a 23.5% decline in FX-denominated accounts over the same period. In absolute terms, retail customers withdrew from the banking system a total of UAH39.3bn and hard currency equivalent to US$5.2bn. Total deposits decreased by 16.1% (net of revaluation effect) during the first six months of 2014.

**Reshuffle of the corporate deposits.** Some banks, including the First Ukrainian Investment Bank (FUIB), Alfa Bank and Credit Agricole, have been able to compensate for the outflow of retail deposits by increasing the amount of corporate accounts. As can been seen from Table 1 below, business clients have increased their UAH deposits in recent months. In our view, there are two reasons for this development: 1) corporate clients rushed to exit unstable banks and transfer funds to more stable ones; 2) entities belonging to large financial groups poured their resources into related banks in order to make up for the loss of retail accounts. In general, corporate clients decreased UAH deposits by 6.4% QoQ and FX deposits by 11.2% QoQ in 1Q14.

**Table 1. Outflow of deposits in 1Q14, selected banks**

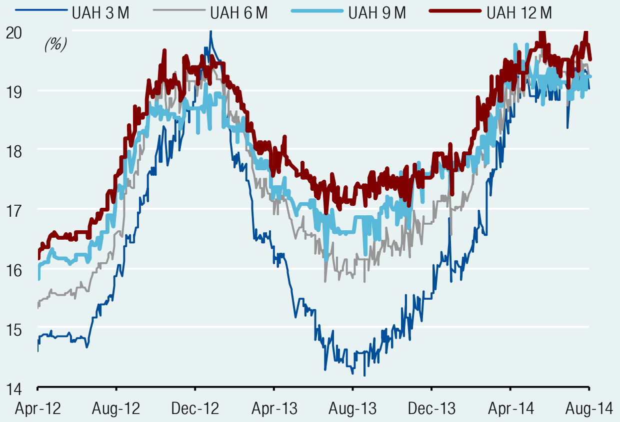
| | Corporate clients | | | | | Retail clients | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Volume (UAHm) | Change (%) | Volume (US$m, eq) | Change (%) | Total change (%) | Volume (UAHm) | Change (%) | Volume (US$m, eq) | Change (%) | Total change (%) |
| **Privatbank** | -2,981 | -19.3 | 153 | 10.8 | -6.6% | -7,869 | -12.9 | -641 | -11.2 | -12.2% |
| **Oschadbank** | -2,878 | -31.6 | 79 | 48.1 | -21.6% | -3,743 | -13.0 | -132 | -14.7 | -13.4% |
| **Ukreximbank** | -2,624 | -24.1 | 18 | 1.0 | -9.6% | -719 | -9.2 | -157 | -13.4 | -11.5% |
| **Delta Bank** | -1,346 | -18.1 | 89 | 28.0 | -6.3% | -1,552 | -10.2 | -186 | -13.6 | -11.6% |
| **Prominvestbank** | -219 | -7.7 | -61 | -16.5 | -12.1% | -888 | -18.1 | -43 | -10.7 | -15.2% |
| **Ukrsotsbank** | -1,214 | -17.5 | -199 | -58.5 | -29.1% | -1,071 | -16.0 | -134 | -20.4 | -17.9% |
| **Aval** | -659 | -7.8 | -184 | -43.6 | -18.1% | -1,595 | -15.8 | -111 | -19.7 | -17.0% |
| **Sberbank** | -167 | -6.6 | -61 | -20.1 | -13.2% | -786 | -22.0 | -218 | -16.8 | -18.1% |
| **FUIB** | 1,467 | 23.7 | 79 | 20.5 | 22.6% | -755 | -14.4 | -91 | -12.4 | -13.3% |
| **Alfa Bank** | 1,632 | 60.8 | -71 | -14.6 | 16.2% | -518 | -11.5 | -112 | -18.9 | -15.3% |
| **Nadra Bank** | 986 | 19.1 | 19 | 11.1 | 17.4% | -528 | -20.6 | -75 | -15.2 | -17.3% |
| **VTB Bank** | -262 | -11.5 | -78 | -34.5 | -21.6% | -1,263 | -34.2 | -126 | -30.0 | -32.2% |
| **Finance and Credit** | 53 | 1.9 | -20 | -9.9 | -2.5% | -632 | -9.3 | -18 | -2.8 | -6.5% |
| **UkrSibbank** | 643 | 14.2 | -151 | -41.3 | -7.6% | -935 | -19.4 | -147 | -27.1 | -23.1% |
| **Ukrgazbank** | 345 | 12.9 | 11 | 29.7 | 14.6% | -377 | -13.6 | -59 | -16.1 | -14.9% |
| **VAB Bank** | 2,185 | 108.1 | -1 | -7.6 | 101.9% | -122 | -1.7 | -21 | -4.9 | -2.8% |
| **OTP Bank** | -5 | -0.2 | -16 | -10.8 | -3.3% | -106 | -4.9 | -48 | -11.9 | -9.1% |
| **Credit Agricole** | 1,266 | 27.4 | -9 | -2.9 | 17.1% | -233 | -8.9 | -2 | -1.3 | -6.5% |
| **Brokbusinessbank** | 283 | 7.2 | -37 | -20.5 | -0.2% | -679 | -21.6 | -132 | -44.5 | -31.4% |
| **Finance Initiative** | -489 | -20.0 | 7 | 85.6 | -17.2% | -241 | -7.1 | 23 | 15.6 | -1.3% |
| **Pivdennyi** | 153 | 11.5 | -2 | -2.8 | 7.3% | -219 | -12.7 | -46 | -14.7 | -13.8% |
| **Fidobank** | 186 | 6.9 | -12 | -8.0 | 2.3% | -222 | -25.1 | 4 | 3.3 | -9.4% |
| **Forum** | -370 | -18.6 | -13 | -26.6 | -19.9% | -202 | -10.4 | -35 | -9.4 | -9.8% |
| **VBR Bank** | -1,019 | -50.6 | -23 | -15.4 | -37.7% | -274 | -42.5 | 39 | 33.7 | 2.3% |

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

***Current market conditions do not permit lower interest rates***

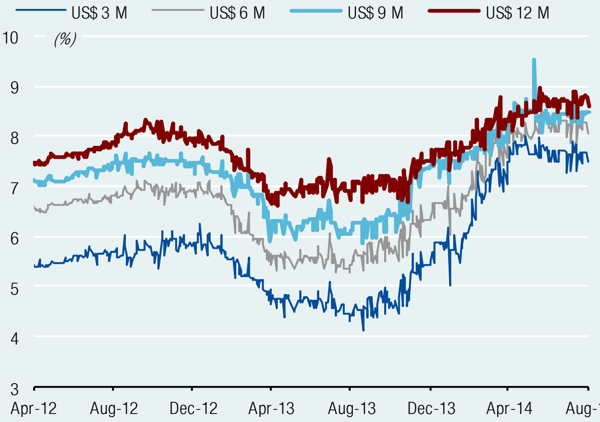
**Interest rate spike.** Interest rates on deposits are almost at record highs amid the large deposit outflows witnessed earlier this year. As was the case during the previous period of turbulence – namely, during the parliamentary elections of autumn 2012 – there is little difference between the absolute interest rates on short-term deposits and longer-term (nine to 12 months) ones. Since the current crisis is of a much greater magnitude and has been exacerbated by the substantial outflow of liquidity, we do not expect the cost of funding to decrease.

**Chart 4. Average interest rates on UAH household deposits**




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

**Chart 5. Average interest rates on US$ household deposits**




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

## NBU support for banks during the crisis

***To compensate for the outflow of deposits, the NBU has provided loans to commercial banks***

In response to the outflow of deposits and the liquidity crisis, the NBU has launched a massive refinancing programme. The total amount of loans issued by the regulator to commercial banks rose from UHA78.9bn in January to UAH113.6bn in June – an increase of UAH34.5bn or 44.0%. This sharp spike in NBU lending has raised various questions. While the regulator has provided banks with some of the liquidity they desperately needed to satisfy depositor demands, it has been unable to provide them with the FX funding they also urgently needed since it does not issue loans in hard currency. As a result, despite significant support from the regulator, many commercial banks failed to meet their obligations on FX accounts owing to the inadequate supply of hard currency. Meanwhile, increased local currency liquidity and higher demand for FX have put additional pressure on the hryvnia.

**Chart 6. Net changes in UAH retail deposits vs. NBU loans (MoM)**


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

**Doing away with unfair advantages**. NBU loans issued since March 2014 have interest rates comparable to those observed on the market. However, we believe that a large number of banks currently have outstanding loans with single-digit interest rates, which give them a strong competitive advantage in terms of cost of funding. In our view, the regulator will be unable to alter existing refinancing agreements legally, but a higher interest rate will apply if the financial institution requests a debt rollover. This may pose a threat for banks that are barely profitable (e.g., Nadra Bank).

**Recapitalisation issue.** In our view, the stress tests undergone by Ukraine's largest 35 banks will reveal that a large number of those banks require capital inflows. Given Ukraine's overall economic performance and the ongoing armed insurgency, we expect the total amount required to be around UAH40-50bn. In our view, the strategy to resolve capitalisation problems will vary from bank to bank:

- We believe the largest state-owned banks are currently among the best capitalised. If losses from the insurgency in eastern Ukraine bring down capitalisation to a critical level, the government would provide the necessary capital. The authorities have already lowered the dividends payout ratio from 50% to 30% to prevent a material fall in capital.
- Despite ongoing Ukraine-Russia tensions, we do not expect Russian banks to experience difficulties providing additional capital to subsidiaries. While some state-owned banks may want to keep their exposure to Ukraine low, private banks (including Alfa Bank) have issued growth plans for 2014.
- While most European banks appear to have the most solid capitalisation levels owing to, in our view, adequate loan reserves formed, we expect losses from assets deterioration in 2014. At the same time, the parent companies of those banks have clearly demonstrated their desire to exit the Ukrainian market. Therefore we believe that banks with European capital will decrease their assets in the country by limiting the issuance of new loans and selling loan portfolios.
- Banks that belong to large business groups are likely to need additional capital inflows as historically they have low levels of capitalisation. In our view, the advantages of being part of such a group will outweigh the disadvantage of the cost of additional capital inflows for most of the bank shareholders.
- We believe that large banks that cannot rely on the support of business groups are likely to find it difficult to replenish capital. In our view, the government would be forced to provide financial assistance to a number of banks in order to keep the banking system stable.
- The NBU may consider allowing small banks to fail as these do not impact on the stability of the banking sector. However, in the coming years it will remove insolvent banks only gradually in order to avoid causing panic.

**No rush by shareholders to support banks.** In 1Q14 the share capital of solvent banks increased by just UAH2.8bn. Three banks – VAB Bank, Finance and Credit Bank and Delta Bank – accounted for 76.9% of the total; all were in desperate need of capital. For this reason, we consider the capital increase to have been an obligation rather than a voluntary effort to support the banks.

***It is questionable whether the UAH118.2bn that banks owe the regulator can be recovered***

**NBU loans to banks are impaired.** Government bonds are the most commonly accepted form of collateral for an NBU loan. The total amount of such securities on the banks' balance sheets is around UAH85bn. However, this is not enough to cover the total amount of outstanding debt to the NBU – UAH118.2bn. We believe that a significant portion of loans from the regulator may be impaired. The most vulnerable types of loan are the blank loans issued to banks that heavily rely on such funds and loans collaterised by low-liquid assets such as non-transparent commercial loans and office premises.

# Bank failures

**Number of banks to decrease further.** The NBU recognised 14 banks as insolvent during the first six months of 2014 and introduced temporary administration at all of them. This was one of the worst waves of bank failures in Ukraine as it included two large financial institutions as well as one medium-sized bank. Most of the small banks recognised as insolvent so far this year had experienced difficulties paying out deposits even before the recent crisis. By driving them out of the market, the regulator has eliminated the “zombie banks”, which is a very positive sign indeed.

In all likelihood, the failed banks were not the only de facto insolvent financial institutions in Ukraine. NBU supervision and the political will of the regulator to remove problematic banks from the market should lead to a decrease in the total number of banks. However, given the current low level of confidence among depositors, the failure of several more banks is unlikely to calm the market.

***The total amount of insured deposits is larger than the total assets of the DGF***

**DGF running low.** The potential for further panic among bank customers is not the only obstacle to cleaning up the banking sector – nor is it the biggest. The total value of insured deposits in the failed banks alone (UAH11.0bn) exceeds the total amount of the DGF’s assets – UAH6.8bn as of June 2014. It is true that depositors have already received around UAH1.5bn from the DGF, but the remaining funding gap is still around UAH2.7bn.

According to the law on the deposit guarantee system, the total assets of the fund should be in excess of 2.5% of the total amount of insured deposits. Since the latter is estimated at UAH257bn, under the law the fund’s assets should exceed UAH6.4bn. The NBU has provided the fund with a UAH4.2bn loan to ensure its assets remain above the minimum required level. In addition, compulsory monthly participation fees are expected to generate up to UAH1.7bn in revenues during the period June-December 2014.

**Table 2. Selected financials of the banks recognised as insolvent in 2014 (in UAH million)**

| | Forum Bank | Brokbusiness-bank | Pivdenkom-bank | Mercury | Real Bank | Promeconom-bank | Autokraz-bank | Daniel Bank | Zakhidinkom-bank | Interbank | Starokyivskiy Bank | Finrostbank | Eurogazbank | Zoloti Vorota |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total household deposits** | 5,282 | 5,745 | 2,929 | 1,002 | 765 | 668 | 649 | 559 | 340 | 116 | 299 | 822 | 1,700 | 564 |
| **Insured deposits** | 3,042 | 2,681 | 1,827 | 925 | 555 | 594 | 413 | 399 | 269 | 79 | 258 | 524 | 1,266 | 400 |
| **NBU loans** | 216 | 980* | 180 | 0 | 800 | 0 | 53 | up to 80 | 0 | 0 | 0 | 0 | 307 | 0 |
| **Refinancing in 2014** | No | **Yes*** | **Yes** | No | No | No | **Yes** | No | No | No | No | No | **Yes** | No |

* The bank is believed to have received indirect funding through other banks; however, the amount is unclear and not included in this table.

Sources: Company data, Investment Capital Ukraine LLC.

**Decisive moves required.** We expect the process of cleaning up the bank system to be gradual and lengthy since it is clear that under the current deposit guarantee system, banks cannot meet their obligations. At the same time, the holders of uninsured bank debt are likely to form a critical mass and demand better protection of their rights. Recent estimates of the banks’ real balance sheets suggest there are very large gaps between liabilities and assets, meaning that few claims will be satisfied in the event of liquidation.

We also expect the authorities to implement a number of changes, including some that will be unpopular among voters but necessary to stabilize the system and prevent large-scale crises in the future.

***In order to protect deposits, unpopular moves are required***

In our view, the DGF may exercise its right to claim assets belonging to the management of a failed bank and/or its key beneficiary. According to statements made by the NBU, the regulator suspects unnamed financial institutions to be involved in money laundering, unlawful cash-ins and other financial crimes. Hence the fund may request the courts to seize the property of such banks and to sell it in order to meet creditors' demands.

Of course, such measures will be extremely hard to implement, not least since this will require a strong political will and because of the complex ownership structure of the banks and the shareholders' assets. Investigations are currently under way into the two largest insolvent banks – Forum and Brokbusinessbank. If the outcome of those investigations is positive for the authorities, existing shareholders of banks may be encouraged to abstain from risky operations that could lead to insolvency.

The NBU is keen to abolish the current practice whereby term deposits can be withdrawn early at any time. While such a move would in all likelihood improve banks' liquidity management, it is unlikely to occur before the parliamentary elections planned in Fall 2014.

## Legislative initiatives

It is well understood that the Ukrainian banking sector requires major reforms. But while changes are already under way, there is no general agreement about just what exactly should be done.

***The government is seeking UAH6bn in tax revenues from deposit interest***

**Tax on household deposits.** The Ukrainian parliament has introduced a tax on the interest income on household deposits. The original plan was to tax such income at 5% from 2015 onwards. But in the current economic conditions, alternative sources of state budget revenues are urgently required. Under a revised version of the tax code, the banks are to act as tax agents, withholding a fixed 15% income tax from all interest paid on deposits, regardless of the total annual interest income; there will be no exclusions or waivers for individuals earning small amounts of interest income. Such an approach will significantly simplify tax administration. And from the fiscal perspective, it will help the government collect additional tax revenues exceeding UAH6bn annually.

The introduction of a single tax rate for deposit interest income and fixed securities income will undoubtedly have a positive influence on the securities market. But in the short term it will have a negative impact on the mood of bank clients as this will be the first time that such a tax has been implemented in Ukraine.

***The somewhat populist move to convert FX loans may be the lesser of two evils …***

**Restructuring FX loans to households.** The total outstanding amount of gross FX loans to households was equivalent to US$7.8bn as of May 2014. If the very large share of bad debt and the significant reserves formed to cover those loans are subtracted from the total, the net outstanding amount is equivalent to US$4.8bn. The sharp devaluation of the local currency (up to 50%) has increased the amount of debt calculated in UAH. In order to appease customers whose salaries are mainly in UAH and to gain some political capital, there have been several legislative initiatives to convert FX loans into local currency.

The main idea is to set a fixed exchange rate for loan currency conversions that would be favourable for the client and to eliminate all fees and penalties. Just what the fixed exchange rate would be is subject to debate, but in all likelihood the current market rate would be used. However, another proposal is to use the rate that existed at the time of the signing of the loan agreement, which for the majority of customers would be around 5.05 UAH/USD. There is a strong temptation for the parliament to make such populist moves ahead of the 2014 parliamentary elections.

***… but will be strongly criticized by bankers and clients with UAH-denominated loans***

Commercial banks strongly oppose the move as it would immediately lead to a loss of around UAH17bn or around 9.2% of the system's regulatory capital (in the event that rates more favourable for banks were used). Moreover, such a move would be unfair to those clients who have borrowed in local currency and paid higher interest rates to avoid the exchange rate risk.

In our view, loan currency conversion is probably preferable to having customers carry the entire burden. It would have the same impact as the further impairment of what are already poorly serviced debts and the subsequent increase in the LLR ratio from the current 42% of FX loans to households to 62%. However, it could be deferred or legislators may impose some limitations on conversion eligibility in order to target various social groups. It has been estimated that only UAH10bn of mortgage loans would be included in the conversion programme.

**More transparency expected.** In order to stabilise the banking sector, the government may exercise its right to claim damages from a bank's management and/or shareholders for losses caused by their activities. However, it is our understanding that exercising that right will be extremely hard in the current conditions.

We believe that both the strict enforcement of heavy financial penalties and the requirement – recently announced – that ultimate shareholders be disclosed will raise the level of responsibility of bank owners. In addition, the IMF is likely to push for the improved disclosure of related-party operations, which in Ukraine means large loans to a group of entities that have the same owners as the bank. We expect a number of banks, including some of the largest, to be unable to comply with the NBU requirement on related-party loans.

| Balance sheet figures (UAHm) | Privat-bank | Oschad-bank | Ukrexim-bank | Delta Bank | Aval | Ukrsots-bank | PIB | SBRF | FUIB | Nadra | Alfa-Bank | VTB-Bank | Ukrsibbank | OTP Bank | Platinum Bank | RSB |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets | 202,551 | 92,320 | 91,098 | 54,041 | 44,804 | 40,237 | 37,329 | 34,959 | 33,572 | 29,346 | 29,089 | 28,496 | 26,415 | 18,580 | 5,035 | 3,538 |
| Net loans | 129,183 | 52,143 | 39,632 | 33,701 | 26,348 | 28,074 | 24,396 | 18,613 | 23,841 | 24,115 | 20,615 | 19,095 | 14,691 | 9,962 | 3,869 | 2,795 |
| Deposits | 123,995 | 44,120 | 43,114 | 33,834 | 28,735 | 14,012 | 19,117 | 22,528 | 18,482 | 10,763 | 12,277 | 14,365 | 18,121 | 11,091 | 4,145 | 1,860 |
| Total equity | 20,109 | 18,566 | 18,003 | 3,256 | 7,216 | 5,322 | 7,732 | 4,531 | 3,557 | 4,031 | 3,779 | 4,184 | 2,612 | 1,901 | 406 | 312 |
| **Quarterly P&L (UAHm)** | | | | | | | | | | | | | | | | |
| Net interest income | 1,985 | 1,402 | 976 | -22 | 1,047 | 327 | 553 | 530 | 483 | 27 | 450 | 412 | 284 | 82 | 265 | 196 |
| Net commission income | 722 | 292 | 136 | 746 | 402 | 120 | 188 | 131 | 75 | 66 | 131 | 126 | 168 | 38 | -3 | 31 |
| Operating income (before LLP) | 2,931 | 2,033 | 995 | 900 | 1,614 | 525 | 760 | 681 | 636 | 161 | 624 | 525 | 483 | 135 | 378 | 252 |
| Operating expenses | -1,772 | -861 | -315 | -405 | -807 | -365 | -497 | -242 | -306 | -267 | -263 | -354 | -451 | -99 | -204 | -139 |
| Loan loss provisions (LLP) | -684 | -1,017 | -605 | -425 | -521 | -130 | -251 | -260 | -142 | 111 | -221 | -161 | -64 | -35 | -160 | -84 |
| Net income | 349 | 187 | 52 | 71 | 216 | 30 | 2 | 143 | 167 | 1 | 139 | 2 | -33 | 0 | 4 | 23 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | | | | | | | | |
| Net interest income | 8,070 | 5,370 | 3,776 | -382 | 3,834 | 1,234 | 1,989 | 1,684 | 1,641 | 197 | 1,800 | 1,600 | 1,226 | 137 | 884 | 736 |
| Net commission income | 2,464 | 1,127 | 518 | 2,569 | 1,488 | 355 | 683 | 446 | 291 | 229 | 457 | 499 | 603 | 185 | 8 | 80 |
| Operating income (before LLP) | 10,830 | 6,188 | 4,485 | 2,520 | 5,805 | 2,158 | 2,708 | 2,465 | 2,288 | 777 | 2,432 | 2,317 | 2,128 | 448 | 1,293 | 864 |
| Operating expenses | -6,260 | -3,408 | -1,273 | -1,196 | -3,468 | -1,420 | -1,823 | -994 | -1,132 | -951 | -1,403 | -1,401 | -2,002 | -395 | -809 | -500 |
| Loan loss provisions (LLP) | -1,969 | -2,012 | -2,789 | -1,033 | -1,362 | -3,550 | -810 | -952 | -479 | 191 | -393 | -852 | -169 | 167 | -450 | -302 |
| Net income | 2,274 | 636 | 227 | 243 | 703 | -2,395 | 10 | 379 | 559 | 2 | 636 | 16 | -9 | 147 | 24 | 45 |
| **Growth rates (%YoY)** | | | | | | | | | | | | | | | | |
| Assets | 23.1 | 6.8 | 15.8 | 70.9 | -5.5 | -3.8 | -7.5 | 10.7 | 47.9 | 16.0 | -15.7 | 3.8 | -9.2 | 45.6 | 47.1 | 71.1 |
| Gross loans | 13.3 | 6.6 | -1.2 | 87.4 | -5.1 | -0.6 | -13.9 | 10.9 | 33.9 | 17.1 | -18.4 | 0.5 | -11.4 | 15.3 | 70.8 | 73.9 |
| Deposits | 20.2 | 18.8 | 26.5 | 125.2 | 4.0 | 1.4 | 11.0 | 28.0 | 60.7 | 59.3 | 7.0 | -0.5 | -3.5 | 42.5 | 60.9 | 193.0 |
| Total equity | 13.3 | 3.9 | 1.4 | 10.7 | 14.0 | 5.5 | 18.9 | 9.3 | 19.5 | 0.0 | -0.3 | 2.5 | -0.3 | 80.4 | 6.9 | 88.1 |
| **Key ratios (%)** | | | | | | | | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 13.0 | 28.8 | 29.6 | 10.7 | 20.6 | 13.2 | 14.7 | 15.0 | 11.5 | 13.5 | 12.5 | 17.9 | 20.8 | 11.5 | 12.7 | 15.3 |
| Equity/assets | 9.9 | 20.1 | 19.8 | 6.0 | 16.1 | 13.2 | 20.7 | 13.0 | 10.6 | 13.7 | 13.0 | 14.7 | 9.9 | 10.2 | 8.1 | 8.8 |
| Cash & cash equivalents/liabilities | 18.6 | 8.9 | 9.4 | 18.2 | 19.3 | 8.1 | 12.6 | 25.2 | 11.5 | 5.2 | 10.9 | 18.6 | 25.1 | 14.8 | 5.3 | 15.1 |
| Net loans/deposits | 104.2 | 118.2 | 91.9 | 99.6 | 91.7 | 200.4 | 127.6 | 82.6 | 129.0 | 224.1 | 167.9 | 132.9 | 81.1 | 89.8 | 93.3 | 150.3 |
| Cost-to-income ratio | 57.8 | 55.1 | 28.4 | 47.5 | 59.7 | 65.8 | 67.3 | 40.3 | 49.5 | 122.3 | 57.7 | 60.5 | 94.1 | 88.1 | 62.6 | 57.9 |
| Net interest margin | 6.3 | 7.2 | 5.3 | -1.3 | 11.0 | 3.8 | 7.1 | 7.3 | 6.3 | 0.8 | 7.3 | 7.4 | 7.5 | 1.4 | 23.7 | 27.5 |
| ROAA | 1.2 | 0.7 | 0.3 | 0.6 | 1.5 | -6.0 | 0.0 | 1.2 | 1.8 | 0.0 | 2.0 | 0.1 | -0.0 | 0.9 | 0.6 | 1.4 |
| ROAE | 11.8 | 3.5 | 1.3 | 7.7 | 10.3 | -45.9 | 0.1 | 8.7 | 16.9 | 0.0 | 17.0 | 0.4 | -0.3 | 9.2 | 6.1 | 16.9 |
| NII/operating income | 74.5 | 86.8 | 84.2 | -15.1 | 66.0 | 57.2 | 73.4 | 68.3 | 71.7 | 25.4 | 74.0 | 69.1 | 57.6 | 30.5 | 68.4 | 85.2 |
| Core income/operating expenses | 168.3 | 190.6 | 337.4 | 183.0 | 153.5 | 111.9 | 146.5 | 214.2 | 170.6 | 44.9 | 160.9 | 149.8 | 91.4 | 81.4 | 110.3 | 163.0 |

# 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 1Q14.**

Country
**Ukraine**

# Privatbank

Sector
**Banks: Commercial banking**

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

Ticker(s) in Bloomberg
**PRBANK**

**Owing to the active involvement of Mr Ihor Kolomoyskyy, one of the bank's key shareholders, in the anti-terrorist operations, Privatbank has become a symbol of the Ukrainian authorities in the eye of the public. For this reason, branches of the bank, together with its cash collectors, were targets of armed robberies by separatist gangs in Donbass region. While the aggregate financial impact of these attacks is low compared with the overall damage resulting from the operations, a slowdown in business activities in the regions of the insurgency is inevitable.**

**Cautious depositors drive down liquidity.** Privatbank lost around 12.2% of total deposits during the turbulent first quarter of this year. As a result, the cash to liabilities ratio sank from 17.4% in 4Q13 to just 10.1% in 1Q14.

Substantial support from the regulator has compensated for the depositor drain. Total UAH-denominated debt to other banks increased from UAH4.8bn in 4Q13 to UAH12.9bn in 1Q14. We believe that NBU short-term loans account for most of the balance due.

**Capitalisation shrinks.** The regulatory capital adequacy ratio (CAR) declined by 1.5ppt, to 10.7% in 1Q14 owing to an increase in risk-weighted assets (RWA) by 8.8% QoQ and a decline in eligible Tier 2 subordinated debt.

**Loan reserves surprisingly decrease.** The loan loss reserve (LLR) ratio of the corporate portfolio declined from 12.7% in 4Q13 to just 10.9% in 1Q14. This was unexpected in the current geopolitical situation and given the relatively high share of FX-denominated loans (28.4% in 1Q14). At the same time, the LLR ratio of the consumer portfolio grew by 4.6ppt in 1Q14, to 26.1%.

Privatbank recognised provisioning expenses of just UAH334m in 1Q14, which is 28.2% lower than in the much less turbulent first quarter of 2013.

**FX trading preserves profitability.** FX operations generated a gigantic UAH1.1bn in income in 1Q14, according to the Ukrainian accounting standards (UAS) report. However, the significant short FX position resulted in recognised losses totalling UAH2.4bn during the same period.

**New tax impact on assets volume.** We believe that Privatbank stopped all or most of its FX swap activity in 1Q14 in response to the new additional tax imposed on such transactions. As a result, other financial assets decreased by 78.0% QoQ to just UAH6.6bn.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q13** UAS | **1Q14** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 148,841 | 187,919 | 214,491 | 196,129 |
| Loans | 113,759 | 142,548 | 142,548 | 148,729 |
| Deposits | 106,324 | 133,551 | 133,551 | 138,578 |
| Equity | 18,301 | 20,312 | 20,312 | 20,791 |
| Net % income | 8,049 | 8,444 | 8,444 | 9,520 |
| Net com income | 3,274 | 2,557 | 2,557 | 2,560 |
| Operating income | 12,290 | 11,491 | 11,489 | 11,579 |
| PPI | 6,704 | 4,823 | 4,820 | 4,357 |
| LLP | -4,909 | -2,671 | -2,669 | -2,537 |
| Net income | 1,533 | 1,873 | 1,873 | 1,543 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 10.7 | 9.8 | N/a | N/a |
| CAR | 11.7 | 12.9 | 12.2 | 10.7 |
| Equity-to-assets | 12.3 | 10.8 | 9.5 | 10.6 |
| Net loan-to-deposit | 107.0 | 106.7 | 106.7 | 107.3 |
| Cash-to-liabilities | 20.4 | 20.1 | 17.4 | 10.1 |
| ROAA | 2.1 | 1.1 | 1.0 | 0.8 |
| ROAE | 16.8 | 9.7 | 9.5 | 7.6 |
| Net % margin | 13.7 | 6.4 | 6.2 | 6.6 |
| NII-to-op income | 65.5 | 73.5 | 73.5 | 82.2 |
| Cost-to-income | 45.5 | 58.0 | 58.0 | 62.4 |
| LLR | 18.1 | 14.3 | 14.3 | 13.7 |
| NPLs | 9.6 | 6.8 | N/a | N/a |
| NPL coverage | 189.6 | 208.6 | N/a | N/a |

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

# Privatbank: Key quarterly UAS financials and ratios

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

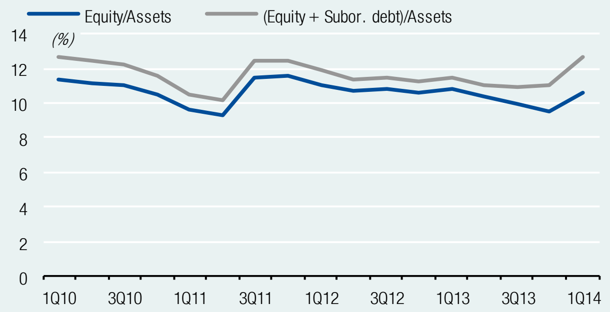
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 153,655 | 161,740 | 164,563 | 172,429 | 174,930 | 190,924 | 202,551 | 214,491 | 196,129 |
| Cash and cash equivalents | 22,189 | 28,028 | 26,024 | 28,196 | 22,500 | 32,194 | 33,970 | 33,723 | 17,676 |
| Gross loans | 128,162 | 131,761 | 136,195 | 138,961 | 146,054 | 150,537 | 154,249 | 166,259 | 172,408 |
| Gross business loans | 102,045 | 105,359 | 109,125 | 111,446 | 117,581 | 120,810 | 123,025 | 135,993 | 139,946 |
| Gross household loans | 26,117 | 26,402 | 27,070 | 27,514 | 28,473 | 29,726 | 31,224 | 30,266 | 32,462 |
| Loan loss reserves (LLR) | -22,226 | -23,366 | -24,595 | -25,235 | -25,032 | -24,775 | -25,066 | -23,711 | -23,679 |
| Deposits | 99,832 | 102,413 | 103,150 | 106,342 | 108,495 | 120,750 | 123,995 | 133,551 | 138,578 |
| Business deposits | 23,730 | 24,065 | 20,641 | 20,477 | 21,173 | 25,387 | 22,991 | 26,839 | 29,745 |
| Household deposits | 76,102 | 78,348 | 82,508 | 85,865 | 87,322 | 95,363 | 101,004 | 106,712 | 108,833 |
| Total equity | 17,006 | 17,260 | 17,754 | 18,301 | 18,959 | 19,734 | 20,109 | 20,312 | 20,791 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,828 | 1,789 | 2,613 | 1,819 | 1,893 | 2,373 | 1,985 | 2,194 | 2,969 |
| Net commission income | 953 | 1,059 | 522 | 739 | 663 | 339 | 722 | 832 | 667 |
| Operating income (before LLP) | 3,306 | 3,011 | 3,269 | 2,704 | 2,482 | 2,712 | 2,931 | 3,364 | 2,572 |
| Operating expenses | -1,204 | -1,312 | -1,535 | -1,536 | -1,330 | -1,622 | -1,772 | -1,944 | -1,883 |
| Loan loss provisions (LLP) | -1,772 | -1,321 | -1,259 | -557 | -465 | -263 | -684 | -1,257 | -334 |
| Net income | 267 | 323 | 401 | 542 | 624 | 758 | 349 | 141 | 294 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 8,541 | 8,529 | 8,889 | 8,049 | 8,114 | 8,698 | 8,070 | 8,444 | 9,520 |
| Net commission income | 4,013 | 4,086 | 3,553 | 3,273 | 2,983 | 2,263 | 2,464 | 2,557 | 2,560 |
| Operating income (before LLP) | 13,963 | 13,970 | 13,573 | 12,290 | 11,466 | 11,167 | 10,830 | 11,489 | 11,579 |
| Operating expenses | -5,202 | -5,345 | -5,563 | -5,587 | -5,713 | -6,023 | -6,260 | -6,669 | -7,222 |
| Loan loss provisions (LLP) | -7,258 | -7,143 | -6,274 | -4,909 | -3,602 | -2,544 | -1,969 | -2,669 | -2,537 |
| Net income | 1,258 | 1,233 | 1,437 | 1,533 | 1,890 | 2,325 | 2,274 | 1,873 | 1,543 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 19.7 | 19.2 | 16.4 | 18.8 | 13.8 | 18.0 | 23.1 | 24.4 | 12.1 |
| Gross loans | 15.0 | 11.7 | 10.1 | 13.0 | 14.0 | 14.3 | 13.3 | 19.6 | 18.0 |
| Deposits (by businesses) | 16.8 | 7.9 | -11.2 | -5.2 | -10.8 | 5.5 | 11.4 | 31.1 | 40.5 |
| Deposits (by households) | 24.3 | 16.6 | 19.8 | 22.2 | 14.7 | 21.7 | 22.4 | 24.3 | 24.6 |
| Deposits (total) | 22.4 | 14.4 | 12.0 | 15.8 | 8.7 | 17.9 | 20.2 | 25.6 | 27.7 |
| Total equity | 38.0 | 36.1 | 9.0 | 9.3 | 11.5 | 14.3 | 13.3 | 11.0 | 9.7 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 11.3 | 11.4 | 11.0 | 10.9 | 11.7 | 12.0 | 13.0 | 12.2 | 10.7 |
| Equity/assets | 11.1 | 10.7 | 10.8 | 10.6 | 10.8 | 10.3 | 9.9 | 9.5 | 10.6 |
| (Equity + sub-debt)/assets | 11.9 | 11.4 | 11.5 | 11.3 | 11.5 | 11.0 | 10.9 | 11.0 | 12.7 |
| Cash & cash equivalents/liabilities | 16.2 | 19.4 | 17.7 | 18.3 | 14.4 | 18.8 | 18.6 | 17.4 | 10.1 |
| Current liquidity (R5 by NBU) | 58.9 | 58.4 | 60.8 | 54.7 | 76.7 | 74.4 | 97.2 | 90.1 | 84.6 |
| Gross loans/deposits | 128 | 129 | 132 | 131 | 135 | 125 | 124.4 | 124.5 | 124.4 |
| Net loans/deposits | 106.1 | 105.8 | 108.2 | 106.9 | 111.5 | 104.2 | 104.2 | 106.7 | 107.3 |
| Cost-to-income ratio | 37.3 | 38.3 | 41.0 | 45.5 | 49.8 | 53.9 | 57.8 | 58.0 | 62.4 |
| Net interest margin | 8.2 | 8.0 | 8.2 | 7.2 | 6.9 | 7.1 | 6.3 | 6.2 | 6.6 |
| ROAA | 0.9 | 0.8 | 0.9 | 0.9 | 1.1 | 1.3 | 1.2 | 1.0 | 0.8 |
| ROAE | 8.0 | 7.3 | 8.4 | 8.7 | 10.5 | 12.4 | 11.8 | 9.5 | 7.6 |
| NII/operating income | 61.2 | 61.1 | 65.5 | 65.5 | 70.8 | 77.9 | 74.5 | 73.5 | 82.2 |
| Core income/operating expenses | 241.3 | 236.0 | 223.7 | 202.6 | 194.2 | 182.0 | 168.3 | 165.0 | 167.3 |

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

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

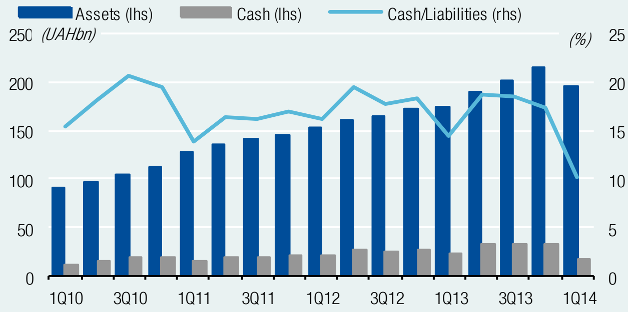
# Privatbank: Key credit metrics

### Chart 7. Capitalisation



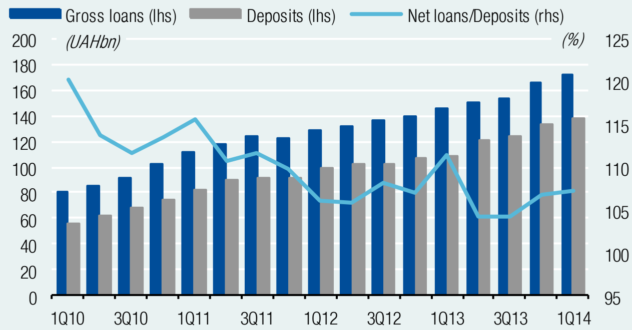

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 8. Liquidity



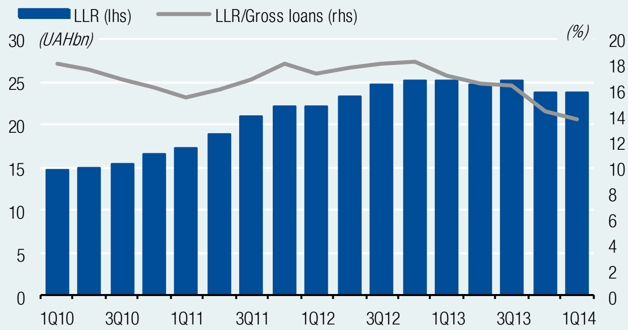

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 9. Loans and deposits



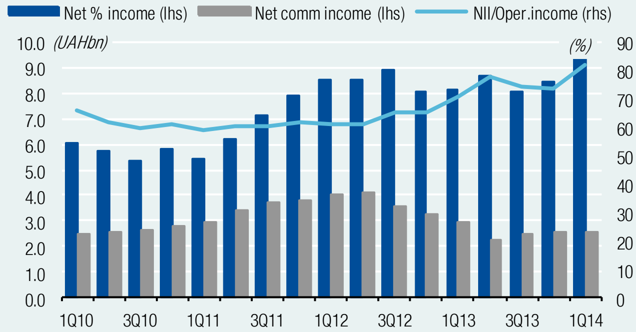

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 10. Loan loss reserves history



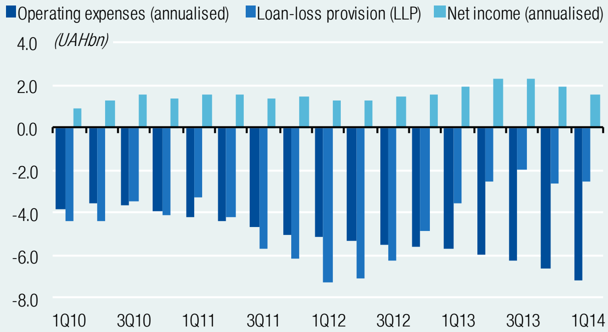

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 11. Income structure (annualised basis)



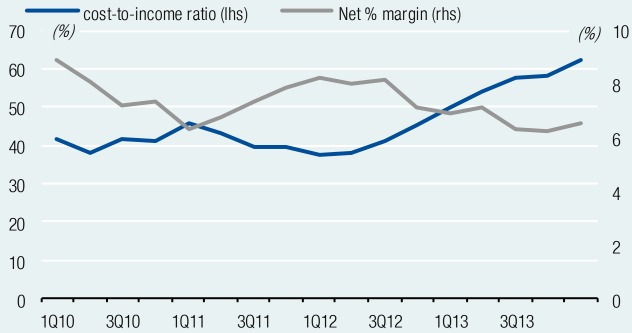

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 12. Expense and net income (annualised basis)



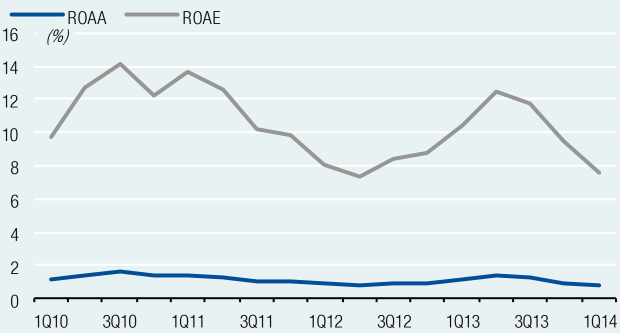

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 13. Financial performance ratios




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

### Chart 14. 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**

Ticker(s) in Bloomberg
**OSCHAD**

**Despite having the special status of a bank whose household deposit liabilities are 100% guaranteed by the government, Oschadbank saw its total deposits shrink by 15.2% QoQ in 1Q14.**

**Depositors are very worried.** Unlike some of its peer banks, where the business segment compensated partly for the outflow of household deposits, Oschadbank saw a decline in the volume of business deposits. Households decreased their exposure by 13.4% QoQ and corporate customers by 21.6% QoQ.

**Other banks provide alternative funding.** The total debt to banks increased by 30.2% QoQ; no less than 87.3% of the total amount was in local currency. The NBU continues to play a significant role in Oschadbank, having provided it with UAH20.6bn in loans in 2013.

**Naftogaz loan is due in less than a year.** The share of Naftogaz in the total corporate portfolio fell by 2.8ppt to 22.8% in 1Q14, while the absolute amount of exposure remains the same. The loan repayment schedule was recently modified so that the principal debt is due to be paid in full on 31 March 2015. We remain sceptical about the ability of the bank's largest borrower to repay the loan in time and expect the government to announce plans to restructure the debt (or the company).

**Loan portfolio deteriorates.** The total amount of bad debt increased by 20.7% QoQ in absolute terms and now constitutes 9.4% of the total debt exposure. The loan portfolio of the bank on the breakaway Crimea peninsula amounted to UAH7.5bn, of which 93% is due from the solar plants in the region, all of which belong to a single holding entity. As the operations of those plants heavily depend on government subsidies, it is very questionable whether that debt, which currently is not performing, can be recovered.

**Low FX exposure helps avoid losses.** Thanks to the bank's conservative strategy, the pre-2014 share of FX-denominated loans and deposits was relatively low (25.9% and 18.4%, respectively, in 4Q13), which allowed it to avoid significant revaluation losses. However, the bank posted a record UAH610m loss from FX trading operations in 1Q14, which is surprising, given the high level of demand and the large spreads on the market at that time.

Oschadbank is expected to increase the scale of its operations as it will be servicing the accounts of the state rail monopoly Ukrzaliznytsia.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q13 UAS | 1Q14 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 83,421 | 101,699 | 103,568 | 110,757 |
| Loans | 51,338 | 52,180 | 51,546 | 58,267 |
| Deposits | 38,877 | 46,409 | 46,341 | 42,292 |
| Equity | 17,767 | 19,204 | 20,456 | 20,450 |
| Net % income | 5,293 | 5,511 | 5,528 | 5,744 |
| Net com income | 1,040 | 1,231 | 1,231 | 1,264 |
| Operating income | 6,644 | 6,999 | 7,174 | 7,330 |
| PPI | 3,472 | 3,511 | 3,693 | 3,741 |
| LLP | -2,738) | (2,586) | -2,736 | -2,782 |
| Net income | 663 | 711 | 679 | 697 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 25.1 | 23.2 | N/a | N/a |
| CAR | 27.9 | 24.7 | 25.4 | 25.6 |
| Equity-to-assets | 21.3 | 18.9 | 19.8 | 18.5 |
| Net loan-to-deposit | 132.1 | 112.4 | 111.2 | 137.8 |
| Cash-to-liabilities | 5.9 | 5.8 | 9.0 | 7.9 |
| ROAA | 0.8 | 0.7 | 0.7 | 0.7 |
| ROAE | 3.8 | 7.6 | 3.6 | 3.6 |
| Net % margin | 7.3 | 12.6 | 6.8 | 6.5 |
| NII-to-op income | 79.7 | 78.7 | 77.1 | 78.4 |
| Cost-to-income | 47.7 | 49.8 | 48.5 | 49.0 |
| LLR | 16.3 | 18.8 | 19.8 | 18.9 |
| NPLs | 7.3 | 10.8 | N/a | N/a |
| NPL coverage | 224.5 | 173.5 | N/a | N/a |

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

# Oschadbank: Key quarterly UAS financials and ratios

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

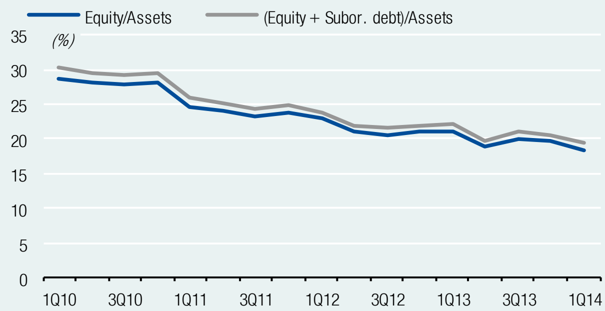
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 78,418 | 84,733 | 86,474 | 85,996 | 86,226 | 95,624 | 92,320 | 103,568 | 110,757 |
| Cash and cash equivalents | 7,962 | 6,995 | 7,605 | 15,489 | 9,587 | 7,394 | 6,539 | 7,470 | 7,113 |
| Gross loans | 57,678 | 59,957 | 60,382 | 61,348 | 60,520 | 61,871 | 64,356 | 64,281 | 71,812 |
| Gross business loans | 53,260 | 55,557 | 55,859 | 56,783 | 56,023 | 57,406 | 59,537 | 59,722 | 67,045 |
| Gross household loans | 4,418 | 4,399 | 4,524 | 4,565 | 4,497 | 4,465 | 4,819 | 4,559 | 4,766 |
| Loan loss reserves (LLR) | -8,642 | -9,333 | -9,985 | -10,161 | -10,849 | -11,194 | -12,213 | -12,735 | -13,545 |
| Deposits | 35,120 | 37,061 | 37,143 | 39,399 | 40,021 | 43,040 | 44,120 | 46,341 | 42,292 |
| Business deposits | 8,081 | 8,052 | 8,017 | 9,545 | 7,435 | 8,115 | 8,010 | 10,414 | 8,891 |
| Household deposits | 27,039 | 29,009 | 29,127 | 29,854 | 32,587 | 34,926 | 36,110 | 35,927 | 33,401 |
| Total equity | 17,951 | 17,796 | 17,874 | 18,118 | 18,276 | 18,069 | 18,566 | 20,456 | 20,450 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,205 | 1,172 | 1,277 | 1,275 | 1,348 | 1,344 | 1,402 | 1,434 | 1,564 |
| Net commission income | 262 | 245 | 252 | 281 | 281 | 274 | 292 | 385 | 314 |
| Operating income (before LLP) | 1,564 | 1,560 | 1,733 | 894 | 1,839 | 1,421 | 2,033 | 1,880 | 1,995 |
| Operating expenses | -696 | -778 | -786 | -943 | -805 | -799 | -861 | -1,016 | -912 |
| Loan loss provisions (LLP) | -664 | -705 | -765 | 166 | -847 | -314 | -1,017 | -558 | -892 |
| Net income | 178 | 50 | 183 | 155 | 137 | 157 | 187 | 198 | 156 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 4,713 | 4,843 | 4,935 | 4,928 | 5,072 | 5,245 | 5,370 | 5,528 | 5,744 |
| Net commission income | 958 | 976 | 998 | 1,040 | 1,059 | 1,087 | 1,127 | 1,231 | 1,264 |
| Operating income (before LLP) | 6,095 | 6,257 | 6,477 | 5,752 | 6,027 | 5,888 | 6,188 | 7,174 | 7,330 |
| Operating expenses | -2,712 | -2,876 | -3,029 | -3,203 | -3,312 | -3,332 | -3,408 | -3,481 | -3,588 |
| Loan loss provisions (LLP) | -2,829 | -2,913 | -2,935 | -1,969 | -2,152 | -1,761 | -2,012 | -2,736 | -2,782 |
| Net income | 583 | 512 | 557 | 566 | 525 | 631 | 636 | 679 | 697 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 15.2 | 17.0 | 14.8 | 16.3 | 10.0 | 12.9 | 6.8 | 20.4 | 28.4 |
| Gross loans | 28.1 | 21.2 | 5.2 | 4.3 | 4.9 | 3.2 | 6.6 | 4.8 | 18.7 |
| Deposits (by businesses) | -34.9 | -37.4 | -41.6 | -28.5 | -8.0 | 0.8 | -0.1 | 9.1 | 19.6 |
| Deposits (by households) | 30.5 | 22.3 | 18.8 | 18.3 | 20.5 | 20.4 | 24.0 | 20.3 | 2.5 |
| Deposits (total) | 6.0 | 1.3 | -2.9 | 2.1 | 14.0 | 16.1 | 18.8 | 17.6 | 5.7 |
| Total equity | 6.6 | 2.3 | 1.9 | 2.7 | 1.8 | 1.5 | 3.9 | 12.9 | 11.9 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 28.6 | 25.6 | 24.6 | 25.4 | 32.8 | 29.4 | 28.8 | 25.4 | 25.6 |
| Equity/assets | 22.9 | 21.0 | 20.7 | 21.1 | 21.2 | 18.9 | 20.1 | 19.8 | 18.5 |
| (Equity + sub-debt)/assets | 23.9 | 22.0 | 21.6 | 22.0 | 22.1 | 19.7 | 21.0 | 20.6 | 19.5 |
| Cash & cash equivalents/liabilities | 13.2 | 10.4 | 11.1 | 22.8 | 14.1 | 9.5 | 8.9 | 9.0 | 7.9 |
| Current liquidity (R5 by NBU) | 83.7 | 66.0 | 70.1 | 60.2 | 124.5 | 132.9 | 109.3 | 77.7 | 49.0 |
| Gross loans/deposits | 164.2 | 161.8 | 162.6 | 155.7 | 151.2 | 143.8 | 145.9 | 138.7 | 169.8 |
| Net loans/deposits | 139.6 | 136.6 | 135.7 | 129.9 | 124.1 | 117.7 | 118.2 | 111.2 | 137.8 |
| Cost-to-income ratio | 44.5 | 46.0 | 46.8 | 55.7 | 54.9 | 56.6 | 55.1 | 48.5 | 49.0 |
| Net interest margin | 7.4 | 7.3 | 7.2 | 7.2 | 7.2 | 7.3 | 7.2 | 6.8 | 6.5 |
| ROAA | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 |
| ROAE | 3.3 | 2.9 | 3.1 | 3.2 | 2.9 | 3.5 | 3.5 | 3.6 | 3.6 |
| NII/operating income | 77.3 | 77.4 | 76.2 | 85.7 | 84.2 | 89.1 | 86.8 | 77.1 | 78.4 |
| Core income/operating expenses | 209.1 | 202.3 | 195.9 | 186.4 | 185.1 | 190.0 | 190.6 | 194.2 | 195.3 |

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

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

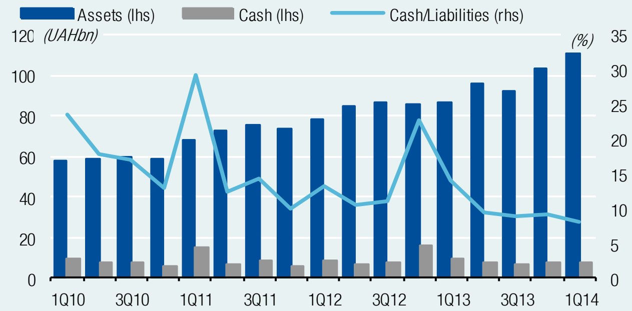
# Oschadbank: Key credit metrics

### Chart 15. Capitalisation



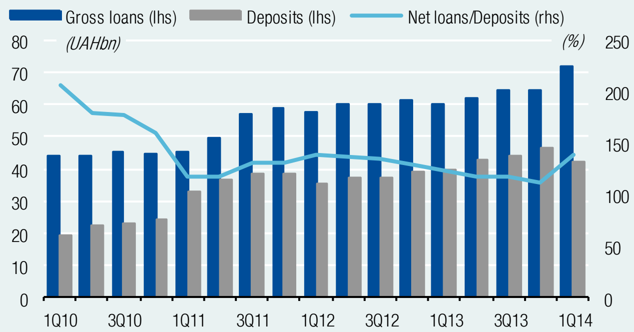

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 16. Liquidity




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

### Chart 17. Loans and deposits

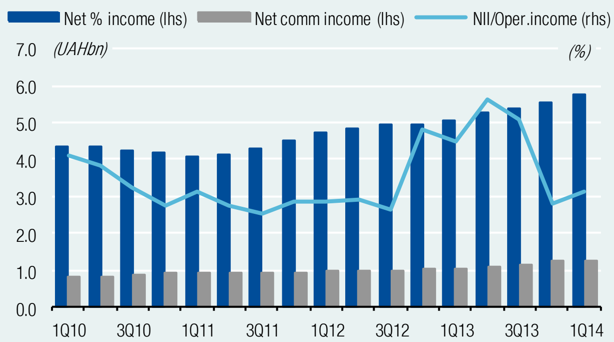



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 18. Loan loss reserves history

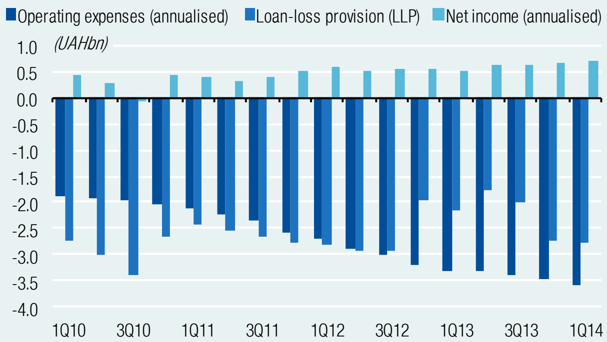

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 19. Income structure (annualised basis)



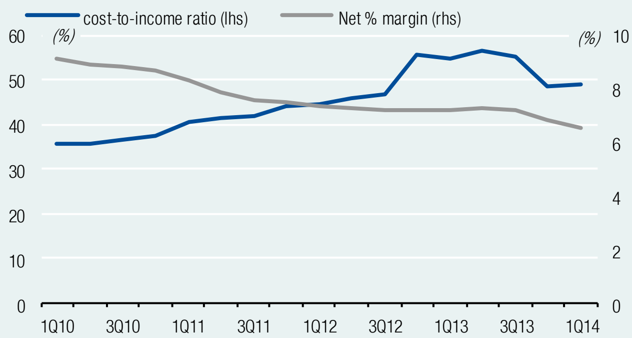

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 20. Expense and net income(annualised basis)



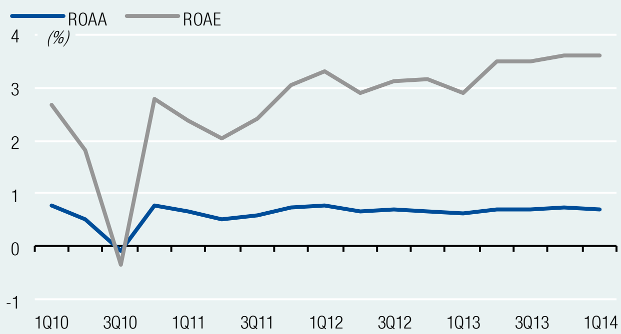

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 21. Financial performance ratios




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

### Chart 22. 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**

Ticker(s) in Bloomberg
**EXIMUK**

**The loan portfolio of state-owned Ukreximbank continued to deteriorate in 1Q14 as a result of the insurgency in Donbass and the Crimea annexation. The bank posted a record UAH2.7bn in loan provision expenses in 1Q14. At the same time, it reported a net profit of UAH64m owing to unexpected income totalling UAH1.7bn from the trading of securities.**

**Decrease in deposits impacts on liquidity.** In 1Q14 the total amount of household deposits (net of devaluation effect) declined by 11.5% QoQ while those of corporate customers decreased by 9.6% QoQ. The NBU has provided only marginal support for the bank; however, the cash to liabilities ratio remained at the same level as in 4Q13 – at 10.4%.

The USD deposit of the bank's largest depositor – the State Food-Grain Corporation of Ukraine – remained at the same level in 1Q14 as in 4Q13: US$1.5bn, which accounts for 80.1% of total FX corporate deposits.

**Capitalisation is strong but declining.** The regulatory CAR decreased by just 0.7ppt in 1Q14 owing to the UAh1.3bn increase in regulatory capital. However, the level of capitalisation (28.5%) remains significantly higher than the sector average of 14.8%.

**Large spike in loan reserves.** The bank recognised loan provision expenses of UAH2.7bn in 1Q14 (compared with UAH0.7bn in 4Q13) owing to the devaluation effect and potential losses from loans issued to entities operating in the occupied territories. Because of the lack of bad debt write-offs, the LLR ratio rose to 19.1%.

**Net income increases against all expectations.** The net interest margin (NIM) continued to decline in 1Q14 – by 0.2ppt to 4.9% -- as a result of the deteriorating loan portfolio. Pre-provision operating income increased by UAH1.9bn or 169.9% QoQ in 1Q14 owing to income from one-off trades in securities. We are sceptical about this reported improvement in the bank's financials as no trading result was recognised in previous quarters; in fact, it looks more like a technical operation aimed at covering up provision losses.

**Regulatory capital adequacy ratio (UAS)**

Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q13 UAS | 1Q14 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 87,206 | 93,275 | 94,349 | 105,739 |
| Loans | 39,366 | 41,625 | 42,274 | 49,657 |
| Deposits | 42,834 | 41,461 | 42,970 | 47,083 |
| Equity | 17,380 | 17,611 | 18,083 | 18,159 |
| Net % income | 3,558 | 3,945 | 3,889 | 3,944 |
| Net com income | 384 | 370 | 519 | 521 |
| Operating income | 4,567 | 4,471 | 4,378 | 6,342 |
| PPI | 3,352 | 3,120 | 3,110 | 5,035 |
| LLP | -3,091 | (2,786) | -2,783 | -4,707 |
| Net income | 137 | 201 | 199 | 222 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 23.1 | 23.7 | N/a | N/a |
| CAR | 28.0 | 28.9 | 29.2 | 28.5 |
| Equity-to-assets | 19.9 | 18.9 | 19.2 | 17.2 |
| Net loan-to-deposit | 91.9 | 100.4 | 98.4 | 105.5 |
| Cash-to-liabilities | 28.3 | 12.0 | 10.4 | 10.4 |
| ROAA | 0.2 | 0.2 | 0.2 | 0.2 |
| ROAE | 0.8 | 1.1 | 1.1 | 1.2 |
| Net % margin | 6.0 | 5.7 | 5.1 | 4.9 |
| NII-to-op income | 77.9 | 88.2 | 88.8 | 62.2 |
| Cost-to-income | 26.6 | 30.2 | 29.0 | 20.6 |
| LLR | 18.8 | 17.4 | 17.6 | 19.1 |
| NPLs | 23.6 | 31.1 | N/a | N/a |
| NPL coverage | 79.9 | 55.9 | 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.

# Ukreximbank: Key quarterly UAS financials and ratios

**Table 5. Key financials and ratios derived from the bank's UAS financials**

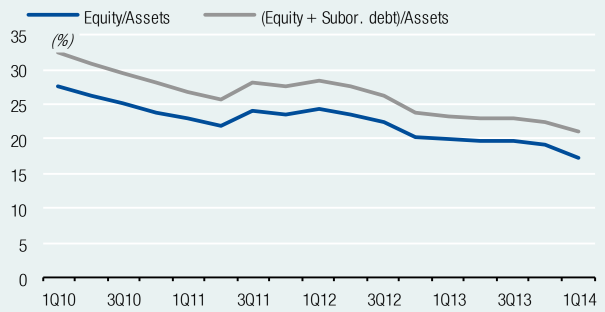
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 72,851 | 75,543 | 78,674 | 87,949 | 89,672 | 91,627 | 91,098 | 94,349 | 105,739 |
| Cash and cash equivalents | 7,454 | 6,842 | 8,155 | 19,078 | 11,895 | 8,274 | 6,863 | 7,964 | 9,070 |
| Gross loans | 52,914 | 51,148 | 49,308 | 49,806 | 47,000 | 48,637 | 48,725 | 51,307 | 61,410 |
| Gross business loans | 51,956 | 50,250 | 48,417 | 48,897 | 46,155 | 47,851 | 47,929 | 50,487 | 60,464 |
| Gross household loans | 958 | 898 | 892 | 909 | 845 | 786 | 796 | 820 | 946 |
| Loan loss reserves (LLR) | -10,680 | -8,750 | -8,815 | -9,384 | -9,488 | -10,044 | -9,093 | -9,033 | -11,753 |
| Deposits | 31,672 | 31,909 | 34,069 | 44,841 | 44,062 | 43,677 | 43,114 | 42,970 | 47,083 |
| Business deposits | 17,714 | 17,721 | 18,905 | 29,038 | 28,055 | 27,480 | 26,458 | 25,704 | 28,772 |
| Household deposits | 13,958 | 14,188 | 15,164 | 15,803 | 16,007 | 16,197 | 16,656 | 17,266 | 18,311 |
| Total equity | 17,742 | 17,728 | 17,746 | 17,856 | 17,928 | 17,984 | 18,003 | 18,083 | 18,159 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 881 | 843 | 883 | 882 | 913 | 1,005 | 976 | 995 | 969 |
| Net commission income | 116 | 124 | 132 | 138 | 115 | 130 | 136 | 139 | 117 |
| Operating income (before LLP) | 1,098 | 1,110 | 1,137 | 1,234 | 1,078 | 1,179 | 995 | 1,127 | 3,041 |
| Operating expenses | -264 | -312 | -292 | -358 | -265 | -335 | -315 | -353 | -303 |
| Loan loss provisions (LLP) | -805 | -763 | -816 | -676 | -733 | -776 | -605 | -670 | -2,656 |
| Net income | 20 | 24 | 27 | 88 | 41 | 47 | 52 | 59 | 64 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 3,492 | 3,581 | 3,584 | 3,489 | 3,521 | 3,683 | 3,776 | 3,889 | 3,944 |
| Net commission income | 520 | 517 | 518 | 510 | 509 | 515 | 518 | 519 | 521 |
| Operating income (before LLP) | 4,421 | 4,565 | 4,802 | 4,579 | 4,559 | 4,628 | 4,485 | 4,378 | 6,342 |
| Operating expenses | -1,083 | -1,142 | -1,182 | -1,226 | -1,227 | -1,250 | -1,273 | -1,268 | -1,306 |
| Loan loss provisions (LLP) | -3,189 | -3,268 | -3,467 | -3,060 | -2,988 | -3,001 | -2,789 | -2,783 | -4,707 |
| Net income | 91 | 95 | 100 | 159 | 180 | 203 | 227 | 199 | 222 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -4.5 | -5.6 | 7.7 | 17.1 | 23.1 | 21.3 | 15.8 | 7.3 | 17.9 |
| Gross loans | 1.1 | -3.3 | -8.9 | -5.6 | -11.2 | -4.9 | -1.2 | 3.0 | 30.7 |
| Deposits (by businesses) | -2.5 | -18.0 | -0.7 | 59.9 | 58.4 | 55.1 | 40.0 | -11.5 | 2.6 |
| Deposits (by households) | 5.0 | 4.4 | 14.5 | 16.9 | 14.7 | 14.2 | 9.8 | 9.3 | 14.4 |
| Deposits (total) | 0.7 | -9.4 | 5.5 | 41.5 | 39.1 | 36.9 | 26.5 | -4.2 | 6.9 |
| Total equity | 0.8 | 0.6 | 0.6 | 0.7 | 1.0 | 1.4 | 1.4 | 1.3 | 1.3 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 32.2 | 31.9 | 31.9 | 29.2 | 30.2 | 29.5 | 29.6 | 29.2 | 28.5 |
| Equity/assets | 24.4 | 23.5 | 22.6 | 20.3 | 20.0 | 19.6 | 19.8 | 19.2 | 17.2 |
| (Equity + sub-debt)/assets | 28.4 | 27.5 | 26.3 | 23.8 | 23.3 | 23.0 | 23.0 | 22.4 | 21.0 |
| Cash & cash equivalents/liabilities | 13.5 | 11.8 | 13.4 | 27.2 | 16.6 | 11.2 | 9.4 | 10.4 | 10.4 |
| Current liquidity (R5 by NBU) | 53.6 | 83.6 | 131.6 | 90.7 | 132.3 | 106.6 | 109.2 | 54.7 | 115.9 |
| Gross loans/deposits | 167.1 | 160.3 | 144.7 | 111.1 | 106.7 | 111.4 | 113.0 | 119.4 | 130.4 |
| Net loans/deposits | 133.3 | 132.9 | 118.9 | 90.1 | 85.1 | 88.4 | 91.9 | 98.4 | 105.5 |
| Cost-to-income ratio | 24.5 | 25.0 | 24.6 | 26.8 | 26.9 | 27.0 | 28.4 | 29.0 | 20.6 |
| Net interest margin | 5.8 | 5.9 | 5.9 | 5.7 | 5.5 | 5.4 | 5.3 | 5.1 | 4.9 |
| ROAA | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| ROAE | 0.5 | 0.5 | 0.6 | 0.9 | 1.0 | 1.1 | 1.3 | 1.1 | 1.2 |
| NII/operating income | 79.0 | 78.4 | 74.6 | 76.2 | 77.2 | 79.6 | 84.2 | 88.8 | 62.2 |
| Core income/operating expenses | 370.5 | 358.8 | 347.0 | 326.2 | 328.4 | 335.8 | 337.4 | 347.8 | 341.8 |

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

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

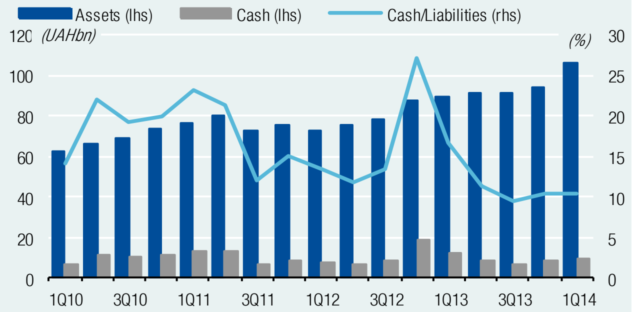
# Ukreximbank: Key credit metrics

### Chart 23. Capitalisation



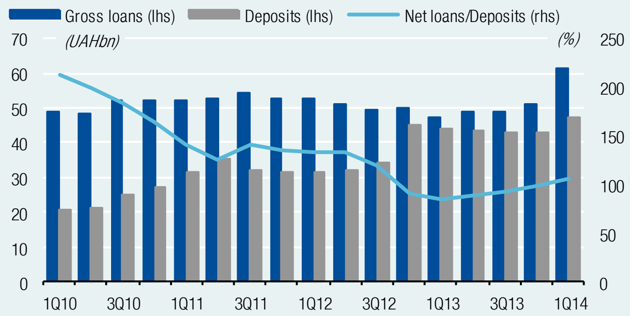

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 24. Liquidity



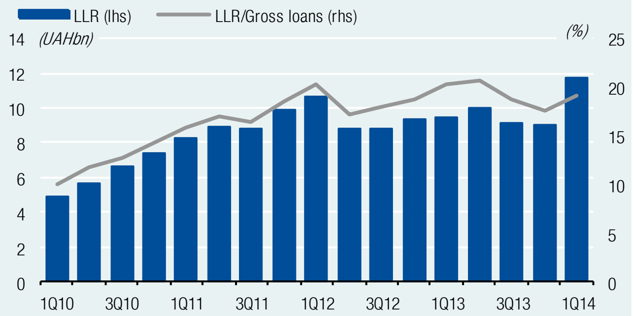

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 25. Loans and deposits



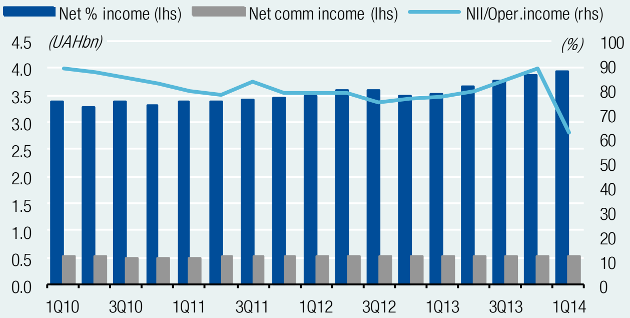

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 26. Loan loss reserves history



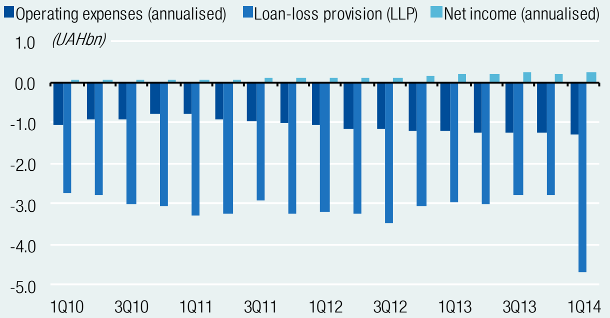

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 27. Income structure (annualised basis)



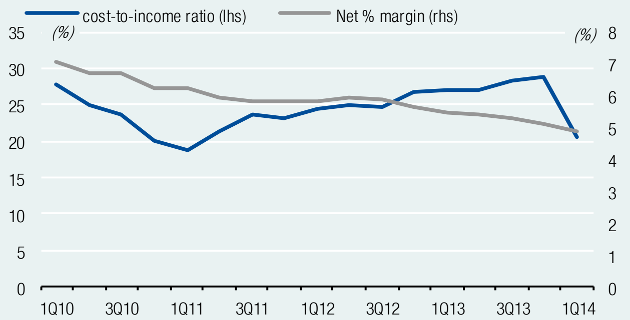

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 28. Expense and net income (annualised basis)



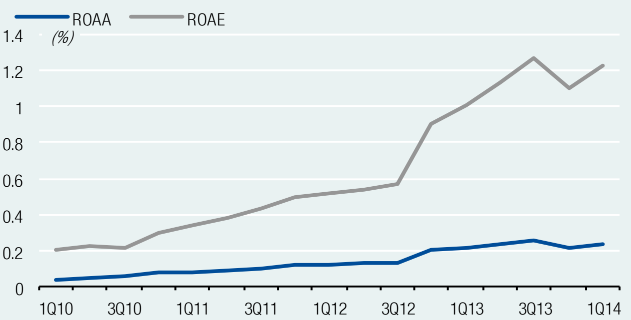

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 29. Financial performance ratios




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

### Chart 30. 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
**DELBNK**

**Delta Bank's regulatory capital is critically low – at just 0.01ppt above the required minimum of 10%. This limits the bank's ability to assess the quality of its assets properly.**

**Deposits decline amid panic.** Households decreased their exposure by 11.6% QoQ and corporate by 6.3% QoQ. Delta Bank is currently among the largest recipients of NBU short-term funding, which has helped marginally increase the bank's cash-to-liabilities ratio – from 10.3% in 4Q13 to 11.0% in 1Q14 – and meet demand for deposit withdrawals.

**Loan portfolio deteriorates.** The share of bad debt in the overall loan portfolio continued to increase – by 1.1ppt in 1Q14 to 13.7%. At the same time, the LLR ratio increased from 7.2% in 4Q13 to just 7.3% in 1Q14. Reserves cover just 32.3% of the total amount of bad debt.

Loan provision expenses decreased by 31.0% QoQ in 1Q14, despite the clear signs of loan portfolio deterioration. We believe that the bank may not have been honest about LLR formation as it is very close to minimum capitalisation restraints that it would certainly have to breach if a more adequate level of reserves were to be recognised.

**Consumer loans generate income.** Despite a decline in payment discipline, high-margin consumer loans continue to generate decent income for the bank. Owing to the specific nature of its loan products, the bank has negative net interest income; however, most earnings come in the form of commissions. Combined income from consumer loans and commissions grew by UAH187m or 24.2% QoQ in 1Q14.

**Capital inflow.** Shareholders provided additional share capital totalling UAH988m in 1Q14 – significantly less than the previously announced UAH1.4bn. Unlike share capital, subordinated debt is denominated in USD; thus devaluation had a positive impact on the bank's Tier 2 capital.

Nevertheless, Delta Bank urgently needs more capital. We believe that the stress tests run by the regulator will establish the real amount of capital required to keep the bank above the minimum level. However, this may mean that the bank's shareholders will be set difficult tasks.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q13 UAS | 1Q14 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 29,647 | 54,670 | 55,298 | 62,118 |
| Loans | 18,695 | 40,126 | 40,110 | 45,012 |
| Deposits | 17,329 | 36,429 | 36,126 | 37,168 |
| Equity | 5,920 | 3,112 | 3,325 | 4,463 |
| Net % income | 571 | 2,021 | -304 | -388 |
| Net com income | 1,646 | 688 | 2,923 | 3,343 |
| Operating income | 2,366 | 3,423 | 3,334 | 3,807 |
| PPI | 1,347 | 1,458 | 1,368 | 1,614 |
| LLP | -1,238 | (1,564) | -1,304 | -1,583 |
| Net income | 92 | 140 | 303 | 277 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 11.5 | 10.1 | N/a | N/a |
| CAR | 11.5 | 10.1 | 10.1 | 10.0 |
| Equity-to-assets | 20.0 | 5.7 | 6.0 | 7.2 |
| Net loan-to-deposit | 107.9 | 110.2 | 111.0 | 121.1 |
| Cash-to-liabilities | 21.5 | 10.5 | 10.3 | 11.0 |
| ROAA | 0.4 | 0.3 | 0.6 | 0.5 |
| ROAE | 1.8 | 4.6 | 9.4 | 7.8 |
| Net % margin | 2.9 | 5.9 | -0.8 | -0.9 |
| NII-to-op income | 24.1 | 59.0 | -9.1 | -10.2 |
| Cost-to-income | 43.1 | 57.4 | 59.0 | 57.6 |
| LLR | 15.0 | 8.6 | 7.2 | 7.3 |
| NPLs | 14.3 | 16.3 | N/a | N/a |
| NPL coverage | 105.1 | 52.6 | N/a | N/a |

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

# Delta Bank: Key quarterly UAS financials and ratios

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

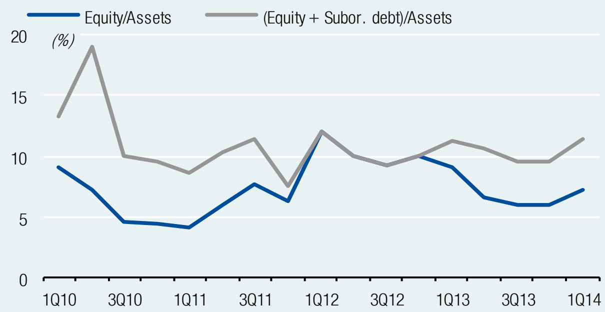
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 24,528 | 29,044 | 31,612 | 29,842 | 34,746 | 47,616 | 54,041 | 55,298 | 62,118 |
| Cash and cash equivalents | 2,960 | 3,892 | 3,832 | 4,906 | 7,711 | 10,725 | 9,267 | 5,361 | 6,341 |
| Gross loans | 18,804 | 20,426 | 19,599 | 21,265 | 24,744 | 30,751 | 36,720 | 43,220 | 48,562 |
| Gross business loans | 9,988 | 10,897 | 9,432 | 10,016 | 11,262 | 14,645 | 18,478 | 21,446 | 24,711 |
| Gross household loans | 8,816 | 9,530 | 10,167 | 11,250 | 13,482 | 16,105 | 18,242 | 21,774 | 23,851 |
| Loan loss reserves (LLR) | -4,373 | -4,510 | -2,746 | -3,244 | -3,395 | -2,655 | -3,019 | -3,110 | -3,550 |
| Deposits | 11,909 | 13,375 | 15,026 | 17,198 | 22,628 | 29,892 | 33,834 | 36,126 | 37,168 |
| Business deposits | 2,790 | 3,029 | 3,574 | 3,846 | 6,518 | 8,475 | 10,048 | 9,991 | 10,571 |
| Household deposits | 9,119 | 10,346 | 11,452 | 13,352 | 16,110 | 21,417 | 23,786 | 26,135 | 26,597 |
| Total equity | 2,939 | 2,924 | 2,940 | 3,010 | 3,160 | 3,175 | 3,256 | 3,325 | 4,463 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 314 | 662 | 436 | 140 | 362 | 229 | -22 | -85 | -107 |
| Net commission income | 347 | 358 | 433 | 507 | 649 | 668 | 746 | 861 | 1,069 |
| Operating income (before LLP) | 490 | 820 | 668 | 386 | 593 | 641 | 900 | 1,200 | 1,067 |
| Operating expenses | -182 | -530 | -307 | 1 | -377 | -414 | -405 | -769 | -605 |
| Loan loss provisions (LLP) | -296 | -263 | -366 | -305 | -118 | -186 | -425 | -575 | -397 |
| Net income | 12 | 26 | 24 | 36 | 98 | 38 | 71 | 96 | 73 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,243 | 1,786 | 2,215 | 1,552 | 1,600 | 1,167 | -382 | -304 | -388 |
| Net commission income | 882 | 1,026 | 1,248 | 1,645 | 1,947 | 2,257 | 2,569 | 2,923 | 3,343 |
| Operating income (before LLP) | 3,567 | 3,651 | 3,217 | 2,364 | 2,467 | 2,288 | 2,520 | 3,334 | 3,807 |
| Operating expenses | -692 | -1,080 | -1,223 | -1,018 | -1,213 | -1,097 | -1,196 | -1,965 | -2,193 |
| Loan loss provisions (LLP) | -2,038 | -1,738 | -1,779 | -1,230 | -1,052 | -975 | -1,033 | -1,304 | -1,583 |
| Net income | 471 | 467 | 12 | 98 | 184 | 196 | 243 | 303 | 277 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 60.0 | 77.4 | 67.6 | 28.5 | 41.7 | 63.9 | 70.9 | 85.3 | 78.8 |
| Gross loans | 64.7 | 50.1 | 32.6 | 17.8 | 31.6 | 50.5 | 87.4 | 103.2 | 96.3 |
| Deposits (by businesses) | 118.3 | 98.5 | 78.7 | 75.4 | 133.6 | 179.8 | 181.1 | 159.8 | 62.2 |
| Deposits (by households) | 39.2 | 43.3 | 53.5 | 63.6 | 76.7 | 107.0 | 107.7 | 95.7 | 65.1 |
| Deposits (total) | 52.2 | 52.9 | 58.8 | 66.1 | 90.0 | 123.5 | 125.2 | 110.1 | 64.3 |
| Total equity | 373.3 | 199.3 | 103.9 | 107.6 | 7.5 | 8.6 | 10.7 | 10.5 | 41.3 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 11.3 | 10.3 | 11.4 | 11.4 | 10.4 | 11.0 | 10.7 | 10.1 | 10.0 |
| Equity/assets | 12.0 | 10.1 | 9.3 | 10.1 | 9.1 | 6.7 | 6.0 | 6.0 | 7.2 |
| (Equity + sub-debt)/assets | 12.0 | 10.1 | 9.3 | 10.1 | 11.3 | 10.7 | 9.6 | 9.5 | 11.5 |
| Cash & cash equivalents/liabilities | 13.7 | 14.9 | 13.4 | 18.3 | 24.4 | 24.1 | 18.2 | 10.3 | 11.0 |
| Current liquidity (R5 by NBU) | 53.9 | 63.6 | 72.2 | 66.3 | 79.5 | 81.6 | 52.1 | 40.3 | 50.0 |
| Gross loans/deposits | 157.9 | 152.7 | 130.4 | 123.6 | 109.4 | 102.9 | 108.5 | 119.6 | 130.7 |
| Net loans/deposits | 121.2 | 119.0 | 112.2 | 104.8 | 94.4 | 94.0 | 99.6 | 111.0 | 121.1 |
| Cost-to-income ratio | 19.4 | 29.6 | 38.0 | 43.1 | 49.2 | 47.9 | 47.5 | 59.0 | 57.6 |
| Net interest margin | 7.7 | 9.6 | 10.7 | 7.2 | 7.0 | 4.5 | -1.3 | -0.8 | -0.9 |
| ROAA | 2.3 | 2.0 | 0.0 | 0.3 | 0.6 | 0.5 | 0.6 | 0.6 | 0.5 |
| ROAE | 27.7 | 21.3 | 0.5 | 3.3 | 6.1 | 6.4 | 7.7 | 9.4 | 7.8 |
| NII/operating income | 29.1 | 37.4 | 47.8 | 24.2 | 17.9 | -7.9) | -15.1 | -9.1 | -10.2 |
| Core income/operating expenses | 277.2 | 221.6 | 227.8 | 217.6 | 196.8 | 189.1 | 183.0 | 133.3 | 134.7 |

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

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

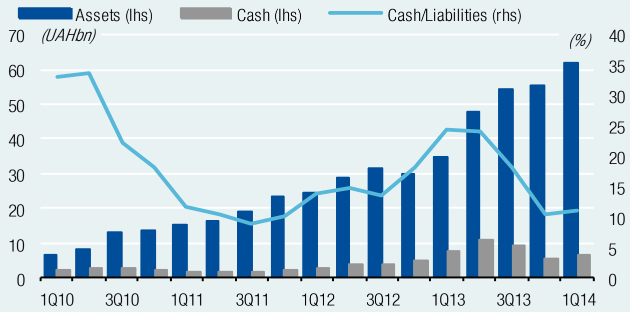
# Delta Bank: Key credit metrics

### Chart 31. Capitalisation



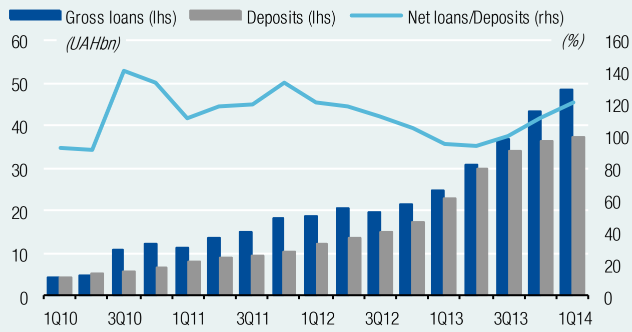

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 32. Liquidity




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

### Chart 33. Loans and deposits

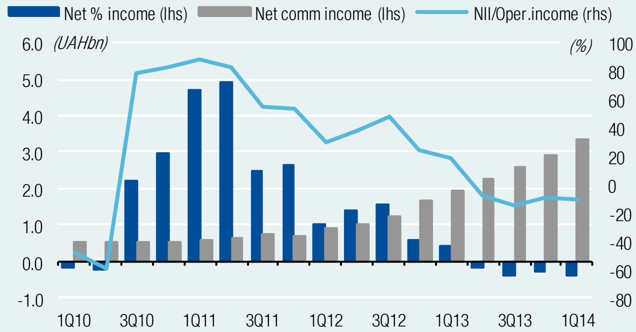



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 34. Loan loss reserves history

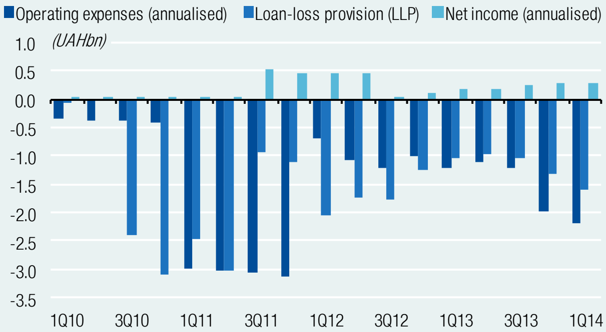

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 35. Income structure (annualised basis)



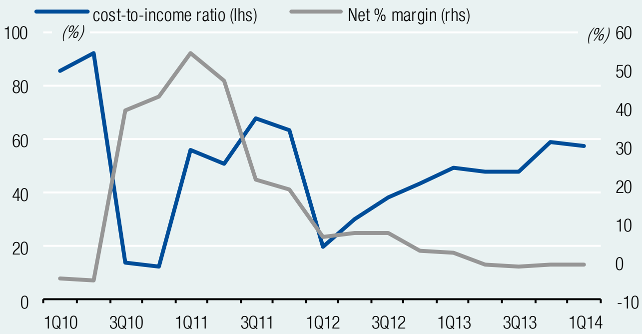

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 36. Expense and net income (annualised basis)



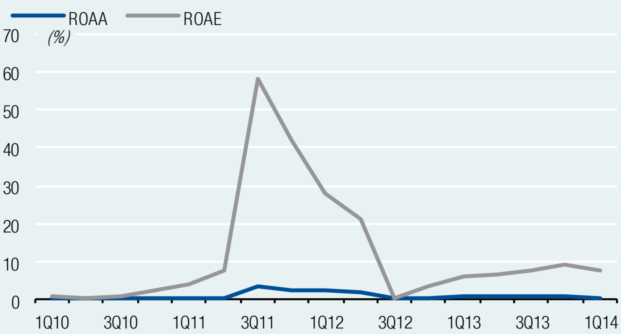

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 37. Financial performance ratios




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

### Chart 38. 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
**Caa/ NR /NR**

Ticker(s) in Bloomberg
**AVAL**

**The sale of its Ukrainian subsidiary has become a fading goal for Raiffeisen Bank International in the current economic and geopolitical situation. The group is among the most vulnerable to the Ukrainian-Russian stand-off since it has an estimated exposure of EUR19.7bn in Russia and EUR3.8bn in Ukraine.**

In the absence of any acceptable offers, the group's shareholders allocated UAH0.9bn to be paid out in dividends. In our view, this is a quick and relatively cheap way to decrease the group's total exposure to the Ukrainian banking sector.

**Devaluation hits hard.** Aval has a significant short FX position owing to USD funding from the parent company and the decrease in the amount of FX loans. It has recognised UAH1.1bn in revaluation losses. The FX risk remains high; however, the bank's FX position may have improved as a result of the most recent regulations issued by the NBU.

**Loan portfolio quality deteriorates somewhat.** The total amount of bad debt increased by 30.5% QoQ or UAH3.0bn in 1Q14. This was due mainly to the revaluation effect, while the share of bad debt rose from 21.3% in 4Q13 to 24.9% in 1Q14.

At the same time, loan provision expenses grew by 46.2% QoQ to UAH870m, which resulted in a quarterly net loss of UAH943m. The LLR ratio increased from 24.7% in 4Q13 to 27.9% in 1Q14. As regards reserves recognition, the bank continues to adopt a conservative approach, maintaining its coverage of bad debt above 83%.

**Capitalisation remains strong.** Despite large losses, the regulatory CAR is well above the minimum required level – at 18.6% in 1Q14. However, this is down 2.0 ppt on the previous quarter.

**Depositors flee.** The total amount of deposits declined by 17.5% QoQ in 1Q14 (net of revaluation). We believe that the low interest rates offered by the bank – which were the main reason for the decline in deposits in 2013 – has contributed to the general panic among depositors this year and thus to the decline in the deposit base, which has been worse than the sector average.

We believe that the NBU provided Aval with short-term refinance loans in 1Q14. In which case, the scheduled distribution of dividends will most likely be postponed until the bank has paid off those loans. The total amount of the parent bank loan remained unchanged in 1Q14.

Lower interest rates on deposit accounts have had a very positive effect on the NIM as the cost of funding has steadily declined over the last year and a half.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q13** UAS | **1Q14** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 49,808 | 45,367 | 43,460 | 44,987 |
| Loans | 28,359 | 29,306 | 27,047 | 29,667 |
| Deposits | 28,554 | 27,185 | 26,419 | 23,851 |
| Equity | 8,221 | 9,118 | 7,237 | 6,789 |
| Net % income | 3,516 | 3,395 | 3,910 | 4,206 |
| Net com income | 1,322 | 1,360 | 1,501 | 1,516 |
| Operating income | 4,790 | 5,466 | 5,918 | 5,379 |
| PPI | 1,650 | 2,541 | 2,649 | 2,188 |
| LLP | -1,103 | (1,307) | -1,674 | -2,234 |
| Net income | 319 | 985 | 730 | -297 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 21.3 | 23.7 | N/a | N/a |
| CAR | 30.9 | 32.3 | 20.6 | 18.6 |
| Equity-to-assets | 16.5 | 20.1 | 16.7 | 15.1 |
| Net loan-to-deposit | 99.3 | 107.8 | 102.4 | 124.4 |
| Cash-to-liabilities | 24.8 | 17.4 | 16.1 | 13.7 |
| ROAA | 0.6 | 2.1 | 1.6 | -0.7 |
| ROAE | 4.0 | 11.4 | 10.3 | -4.2 |
| Net % margin | 9.2 | 9.6 | 11.3 | 12.2 |
| NII-to-op income | 73.4 | 62.1 | 66.1 | 78.2 |
| Cost-to-income | 65.6 | 53.5 | 55.2 | 59.3 |
| LLR | 23.9 | 22.0 | 24.7 | 27.9 |
| NPLs | 34.3 | 29.5 | N/a | N/a |
| NPL coverage | 69.7 | 74.7 | N/a | N/a |

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

# Raiffeisen Bank Aval: Key quarterly UAS financials and ratios

**Table 7. Key financials and ratios derived from the bank's UAS financials**

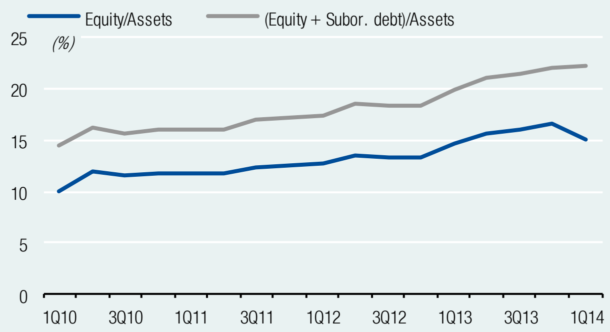
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 50,803 | 47,478 | 47,434 | 47,694 | 45,977 | 44,929 | 44,804 | 43,460 | 44,987 |
| Cash and cash equivalents | 8,288 | 6,804 | 8,364 | 9,797 | 6,184 | 5,559 | 7,243 | 5,844 | 5,236 |
| Gross loans | 39,249 | 37,566 | 37,145 | 35,987 | 36,059 | 36,054 | 35,263 | 35,896 | 41,175 |
| Gross business loans | 22,568 | 21,202 | 21,043 | 20,374 | 20,573 | 21,312 | 20,913 | 22,207 | 24,715 |
| Gross household loans | 16,681 | 16,364 | 16,102 | 15,613 | 15,486 | 14,742 | 14,349 | 13,688 | 16,460 |
| Loan loss reserves (LLR) | -10,068 | -10,093 | -10,444 | -9,916 | -10,193 | -9,436 | -8,914 | -8,849 | -11,508 |
| Deposits | 28,286 | 27,513 | 27,624 | 27,804 | 28,973 | 28,761 | 28,735 | 26,419 | 23,851 |
| Business deposits | 12,865 | 11,751 | 12,394 | 12,369 | 12,574 | 11,992 | 13,083 | 11,787 | 10,361 |
| Household deposits | 15,422 | 15,762 | 15,229 | 15,436 | 16,399 | 16,768 | 15,653 | 14,633 | 13,490 |
| Total equity | 6,421 | 6,378 | 6,330 | 6,346 | 6,747 | 7,038 | 7,216 | 7,237 | 6,789 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,079 | 976 | 1,003 | 988 | 857 | 942 | 1,047 | 1,064 | 1,154 |
| Net commission income | 311 | 341 | 384 | 395 | 330 | 362 | 402 | 408 | 345 |
| Operating income (before LLP) | 1,445 | 1,339 | 1,435 | 1,436 | 1,240 | 1,514 | 1,614 | 1,549 | 702 |
| Operating expenses | -766 | -882 | -829 | -1,081 | -813 | -766 | -807 | -882 | -736 |
| Loan loss provisions (LLP) | -657 | -416 | -498 | -283 | -310 | -247 | -521 | -595 | -870 |
| Net income | 11 | 5 | 53 | -35 | 84 | 438 | 216 | -8 | -943 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 4,574 | 4,460 | 4,244 | 4,046 | 3,824 | 3,790 | 3,834 | 3,910 | 4,206 |
| Net commission income | 1,335 | 1,365 | 1,398 | 1,431 | 1,450 | 1,471 | 1,488 | 1,501 | 1,516 |
| Operating income (before LLP) | 6,063 | 5,957 | 5,758 | 5,655 | 5,450 | 5,625 | 5,805 | 5,918 | 5,379 |
| Operating expenses | -3,325 | -3,372 | -3,357 | -3,558 | -3,605 | -3,489 | -3,468 | -3,269 | -3,192 |
| Loan loss provisions (LLP) | -2,553 | -2,411 | -2,162 | -1,854 | -1,507 | -1,338 | -1,362 | -1,674 | -2,234 |
| Net income | 39 | 31 | 75 | 34 | 107 | 540 | 703 | 730 | -297 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -7.4 | -13.8 | -10.8 | -7.1 | -9.5 | -5.4 | -5.5 | -8.9 | -2.2 |
| Gross loans | -10.3 | -15.0 | -17.7 | -15.8 | -8.1 | -4.0 | -5.1 | -0.3 | 14.2 |
| Deposits (by businesses) | 9.6 | -12.0 | -4.0 | -1.9 | -2.3 | 2.1 | 5.6 | -4.7 | -17.6 |
| Deposits (by households) | -6.0 | -3.9 | -0.2 | 2.7 | 6.3 | 6.4 | 2.8 | -5.2 | -17.7 |
| Deposits (total) | 0.5 | -7.5 | -2.0 | 0.6 | 2.4 | 4.5 | 4.0 | -5.0 | -17.7 |
| Total equity | -0.5 | -1.0 | -4.1 | -1.9 | 5.1 | 10.3 | 14.0 | 14.0 | 0.6 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 16.5 | 18.1 | 19.0 | 18.8 | 18.1 | 19.3 | 20.6 | 20.6 | 18.6 |
| Equity/assets | 12.6 | 13.4 | 13.3 | 13.3 | 14.7 | 15.7 | 16.1 | 16.7 | 15.1 |
| (Equity + sub-debt)/assets | 17.4 | 18.5 | 18.4 | 18.3 | 19.9 | 21.0 | 21.4 | 22.1 | 22.3 |
| Cash & cash equivalents/liabilities | 18.7 | 16.6 | 20.3 | 23.7 | 15.8 | 14.7 | 19.3 | 16.1 | 13.7 |
| Current liquidity (R5 by NBU) | 60.9 | 58.8 | 77.7 | 80.0 | 77.0 | 93.2 | 94.7 | 73.8 | 81.9 |
| Gross loans/deposits | 138.8 | 136.5 | 134.5 | 129.4 | 124.5 | 125.4 | 122.7 | 135.9 | 172.6 |
| Net loans/deposits | 103.2 | 99.9 | 96.7 | 93.8 | 89.3 | 92.5 | 91.7 | 102.4 | 124.4 |
| Cost-to-income ratio | 54.8 | 56.6 | 58.3 | 62.9 | 66.1 | 62.0 | 59.7 | 55.2 | 59.3 |
| Net interest margin | 11.3 | 11.5 | 11.4 | 11.3 | 10.8 | 10.8 | 11.0 | 11.3 | 12.2 |
| ROAA | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 | 1.2 | 1.5 | 1.6 | -0.7 |
| ROAE | 0.6 | 0.5 | 1.2 | 0.5 | 1.7 | 8.2 | 10.3 | 10.3 | -4.2 |
| NII/operating income | 75.4 | 74.9 | 73.7 | 71.5 | 70.2 | 67.4 | 66.0 | 66.1 | 78.2 |
| Core income/operating expenses | 177.7 | 172.7 | 168.1 | 153.9 | 146.3 | 150.8 | 153.5 | 165.5 | 179.3 |

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

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

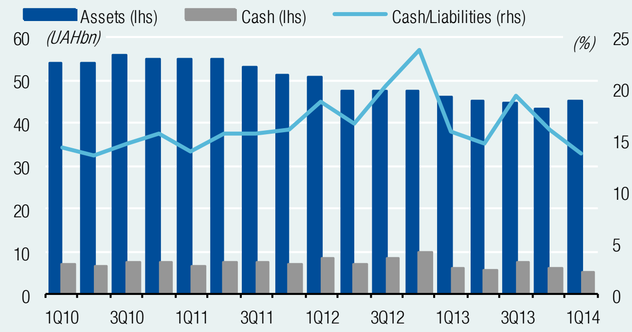
# Raiffeisen Bank Aval: Key credit metrics

### Chart 39. Capitalisation



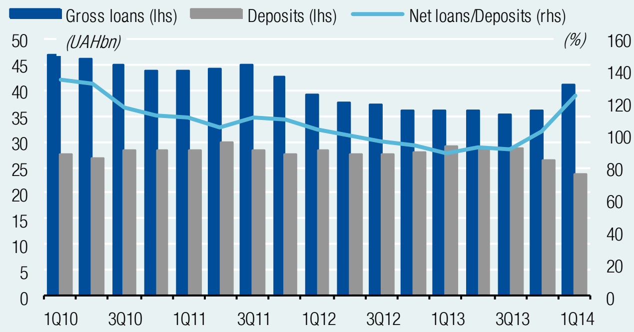

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 40. Liquidity



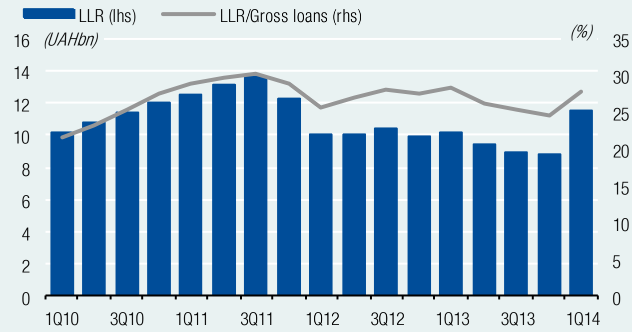

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 41. Loans and deposits



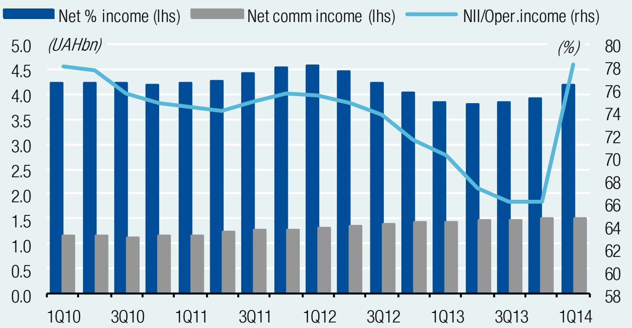

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 42. Loan loss reserves history



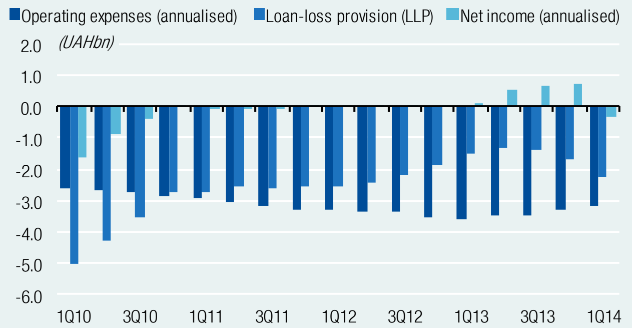

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 43. Income structure (annualised basis)



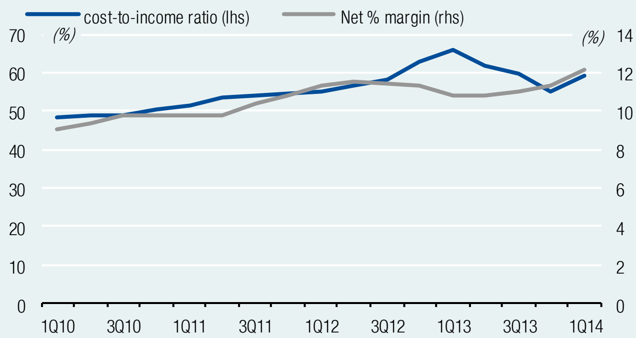

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 44. Expense and net income (annualised basis)



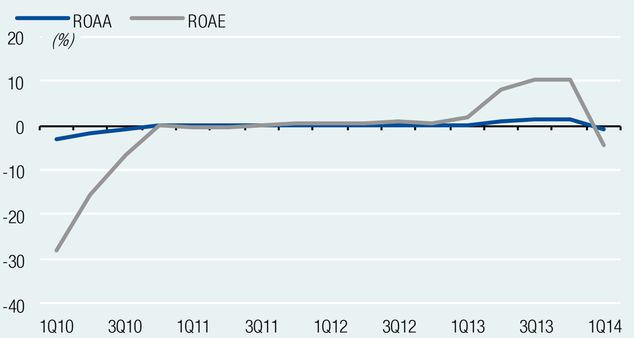

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 45. Financial performance ratios




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

### Chart 46. Financial performance ratios




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

Country
**Ukraine**

# Prominvestbank

Sector
**Banks: Commercial banking**

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

Ticker(s) in Bloomberg
**VEBBNK**

**Of the banks operating in Ukraine, Russia's Prominvestbank (PIB) is among the most vulnerable to the risks posed by the current conflict. It has a large credit exposure in the Donetsk and Luhansk regions, which is likely to deteriorate.**

**Deposits fell 13.9% QoQ.** The 1Q14 decrease in deposits net of the revaluation effect was 12.1% QoQ in the corporate segment and 15.2% QoQ in the retail segment. We believe that the regulator has not provided the bank with any new loans; currently, PIB has an outstanding UAH1.5bn debt to the NBU.

The parent Vnesheconombank has provided a US$100m loan as part of its support to help deal with liquidity issues. As a result, the share of deposits in the overall funding of the bank has fallen to 32.7% of total liabilities.

**Local bonds redeemed.** PIB repaid UAH bonds with a 13% coupon totalling UAH0.5bn in 1Q14.

**Devaluation has not yet had any material impact.** Unlike most of the large Ukrainian banks, PIB is not susceptible to the UAH exchange-rate risk owing to its balanced net FX position. It reported a moderate UAH81m loss from FX revaluation in 1Q14, while FX trading income amounted to UAH177m.

**Profitability improves.** Net earnings increased by UAH494m in 1Q14 to UAH550m. That result can be attributed in part to the significant reduction in operating expenses – by UAH173m or 37.9% QoQ. However, there may be a seasonal factor at work here since the 1Q13 result was nearly identical to that for 1Q14 (2.6% YoY growth). For this reason, we believe operating expenses may grow in the remaining quarters owing to higher payroll expenses, which will have a negative impact on profitability.

**Loan quality improves against all expectations.** PIB reported that the share of bad debt in total credit exposure fell from 14.0% in 4Q13 to 12.9% in 1Q14. The bank simultaneously decreased the level of bad debt reserves by 9.6 ppt to 29.6%. As a result, it generated income of UAH296m and decreased the LLR ratio to just 5.3% in 1Q14.

In our view, the bank is overoptimistic about its credit risks in the current political and economic situation.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q13 UAS | 1Q14 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 38,181 | 39,381 | 39,737 | 48,945 |
| Loans | 26,646 | 28,055 | 28,400 | 35,405 |
| Deposits | 14,505 | 14,513 | 13,898 | 13,935 |
| Equity | 5,070 | 5,008 | 5,384 | 6,300 |
| Net % income | 1,273 | 1,338 | 1,233 | 1,305 |
| Net com income | 213 | 293 | 373 | 378 |
| Operating income | 1,611 | 1,917 | 1,877 | 2,005 |
| PPI | 293 | 567 | 458 | 579 |
| LLP | -2,061 | (606) | -3,036 | -2,619 |
| Net income | -1,806 | (2) | -2,575 | -2,039 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 8.9 | 8.7 | N/a | N/a |
| CAR | 17.4 | 16.9 | 13.7 | 13.4 |
| Equity-to-assets | 13.3 | 12.7 | 13.5 | 12.9 |
| Net loan-to-deposit | 183.7 | 193.3 | 204.3 | 254.1 |
| Cash-to-liabilities | 13.8 | 12.0 | 7.7 | 7.7 |
| ROAA | -4.8 | - | -6.5 | -4.9 |
| ROAE | -41.1 | - | -49.0 | -36.7 |
| Net % margin | 4.4 | 4.4 | 3.8 | 3.8 |
| NII-to-op income | 79.0 | 69.8 | 65.7 | 65.1 |
| Cost-to-income | 81.8 | 70.4 | 75.6 | 71.1 |
| LLR | 14.2 | 7.8 | 7.3 | 5.3 |
| NPLs | 12.3 | 20.3 | N/a | N/a |
| NPL coverage | 115.4 | 38.1 | N/a | N/a |

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

# Prominvestbank: Key quarterly UAS financials and ratios

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

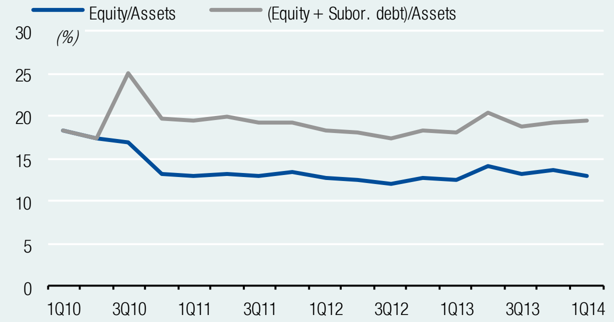
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 40,463 | 40,998 | 41,824 | 41,318 | 40,796 | 37,337 | 40,237 | 39,737 | 48,945 |
| Cash and cash equivalents | 2,224 | 2,719 | 1,631 | 3,111 | 2,608 | 2,131 | 2,834 | 2,633 | 3,276 |
| Gross loans | 32,014 | 32,646 | 33,245 | 31,300 | 31,436 | 30,982 | 33,037 | 30,628 | 37,402 |
| Gross business loans | 31,264 | 31,963 | 32,613 | 31,173 | 31,306 | 30,847 | 32,904 | 30,416 | 37,276 |
| Gross household loans | 750 | 683 | 632 | 127 | 130 | 135 | 133 | 212 | 126 |
| Loan loss reserves (LLR) | -2,388 | -2,059 | -2,175 | -1,813 | -1,975 | -4,850 | -4,963 | -2,227 | -1,997 |
| Deposits | 15,454 | 14,865 | 13,814 | 13,986 | 13,272 | 13,032 | 14,012 | 13,898 | 13,935 |
| Business deposits | 6,789 | 6,345 | 5,891 | 5,937 | 5,405 | 5,080 | 5,997 | 5,792 | 5,999 |
| Household deposits | 8,665 | 8,520 | 7,923 | 8,049 | 7,867 | 7,951 | 8,015 | 8,106 | 7,936 |
| Total equity | 5,132 | 5,086 | 5,045 | 5,273 | 5,061 | 5,238 | 5,322 | 5,384 | 6,300 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 273 | 387 | 340 | 314 | 280 | 313 | 327 | 313 | 352 |
| Net commission income | 56 | 70 | 72 | 69 | 76 | 89 | 120 | 88 | 81 |
| Operating income (before LLP) | 458 | 394 | 406 | 752 | 409 | 471 | 525 | 471 | 537 |
| Operating expenses | -285 | -314 | -328 | -458 | -276 | -321 | -365 | -457 | -283 |
| Loan loss provisions (LLP) | -169 | -93 | -79 | -474 | -121 | -2,826 | -130 | 40 | 296 |
| Net income | 4 | -13 | -1 | 236 | 14 | -2,675 | 30 | 55 | 550 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,410 | 1,402 | 1,344 | 1,314 | 1,320 | 1,247 | 1,234 | 1,233 | 1,305 |
| Net commission income | 290 | 282 | 259 | 268 | 288 | 307 | 355 | 373 | 378 |
| Operating income (before LLP) | 2,255 | 2,225 | 2,052 | 2,010 | 1,961 | 2,039 | 2,158 | 1,877 | 2,005 |
| Operating expenses | -1,550 | -1,642 | -1,640 | -1,385 | -1,376 | -1,382 | -1,420 | -1,419 | -1,426 |
| Loan loss provisions (LLP) | -622 | -565 | -398 | -815 | -767 | -3,500 | -3,550 | -3,036 | -2,619 |
| Net income | 83 | 18 | 14 | 225 | 235 | -2,427 | -2,395 | -2,575 | -2,039 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 15.8 | 18.5 | 18.6 | 8.3 | 0.8 | -8.9 | -3.8 | -3.8 | 20.0 |
| Gross loans | 16.9 | 20.2 | 14.7 | 7.1 | -1.8 | -5.1 | -0.6 | -2.1 | 19.0 |
| Deposits (by businesses) | -14.6 | -21.3 | -9.7 | -21.0 | -20.4 | -19.9 | 1.8 | -2.4 | 11.0 |
| Deposits (by households) | -19.8 | -18.2 | -17.6 | -10.5 | -9.2 | -6.7 | 1.2 | 0.7 | 0.9 |
| Deposits (total) | -17.6 | -19.6 | -14.4 | -15.3 | -14.1 | -12.3 | 1.4 | -0.6 | 5.0 |
| Total equity | 13.1 | 10.7 | 10.4 | 3.8 | -1.4 | 3.0 | 5.5 | 2.1 | 24.5 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 12.0 | 12.1 | 11.9 | 14.0 | 12.7 | 14.3 | 13.2 | 13.7 | 13.4 |
| Equity/assets | 12.7 | 12.4 | 12.1 | 12.8 | 12.4 | 14.0 | 13.2 | 13.5 | 12.9 |
| (Equity + sub-debt)/assets | 18.3 | 18.1 | 17.4 | 18.2 | 18.0 | 20.3 | 18.8 | 19.3 | 19.4 |
| Cash & cash equivalents/liabilities | 6.3 | 7.6 | 4.4 | 8.6 | 7.3 | 6.6 | 8.1 | 7.7 | 7.7 |
| Current liquidity (R5 by NBU) | 50.1 | 61.1 | 76.1 | 88.0 | 99.8 | 77.6 | 71.9 | 67.5 | 140.3 |
| Gross loans/deposits | 207.2 | 219.6 | 240.7 | 223.8 | 236.9 | 237.7 | 236 | 220.4 | 268.4 |
| Net loans/deposits | 191.7 | 205.8 | 224.9 | 210.8 | 222.0 | 200.5 | 200.4 | 204.3 | 254.1 |
| Cost-to-income ratio | 68.7 | 73.8 | 79.9 | 68.9 | 70.1 | 67.8 | 65.8 | 75.6 | 71.1 |
| Net interest margin | 4.6 | 4.3 | 3.9 | 3.8 | 3.8 | 3.7 | 3.8 | 3.8 | 3.8 |
| ROAA | 0.2 | 0.0 | 0.0 | 0.5 | 0.6 | -6.0 | -6.0 | -6.5 | -4.9 |
| ROAE | 1.7 | 0.4 | 0.3 | 4.4 | 4.6 | -47.1 | -45.9 | -49.0 | -36.7 |
| NII/operating income | 62.5 | 63.0 | 65.5 | 65.4 | 67.3 | 61.2 | 57.2 | 65.7 | 65.1 |
| Core income/operating expenses | 109.7 | 102.6 | 97.8 | 114.2 | 116.9 | 112.4 | 111.9 | 113.2 | 118.0 |

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

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

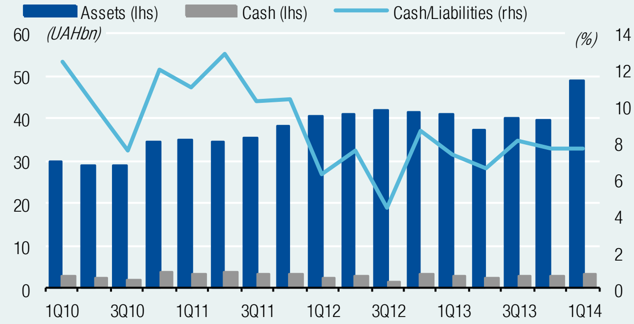
# Prominvestbank: Key credit metrics

**Chart 47. Capitalisation**



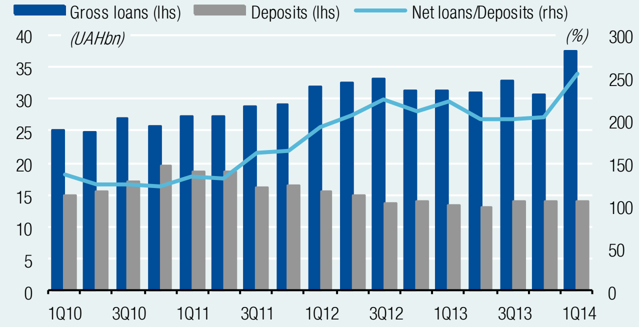

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 48. Liquidity**



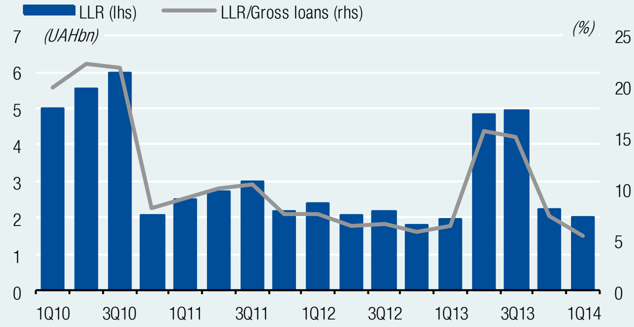

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 49. Loans and deposits**



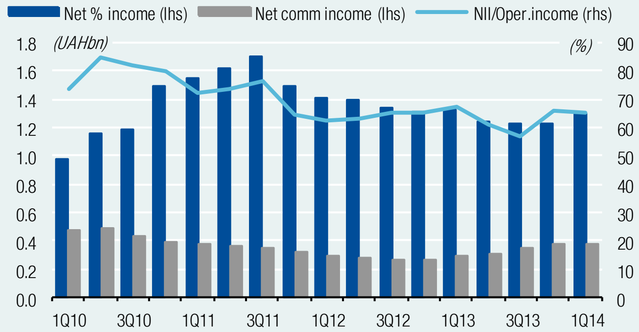

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 50. Loan loss reserves history**



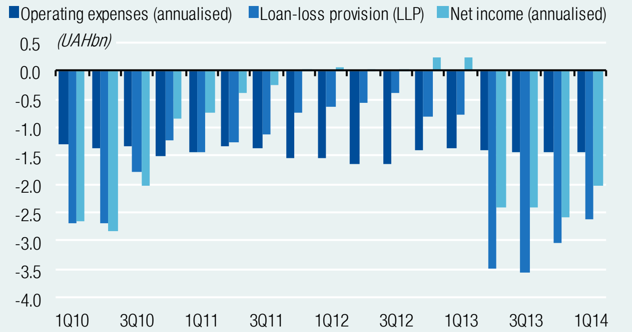

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 51. Income structure (annualised basis)**



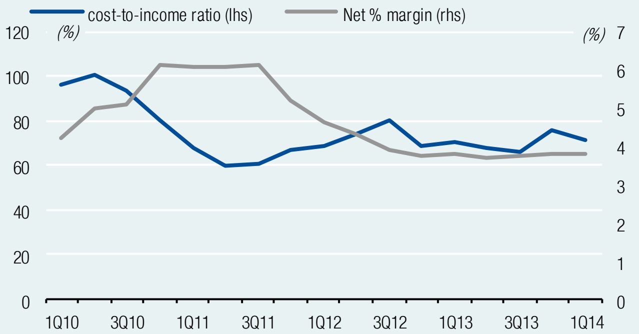

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 52. Expense and net income (annualised basis)**



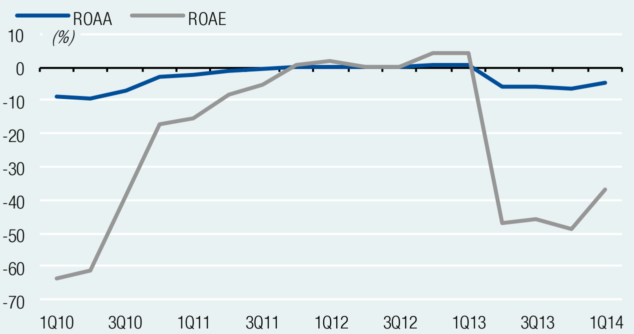

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 53. Financial performance ratios**




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

**Chart 54. Financial performance ratios**




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

Country
**Ukraine**

# Ukrsotsbank

Sector
**Banks: Commercial banking**

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

Ticker(s) in Bloomberg
**USCB**

**Under the recent legislative changes, Ukrsotsbank could be classified as a "problematic" bank by the regulator. This is because the share of bad debt in its total loan portfolio is 35.9%.**

**Depositors flee.** The total amount of deposits net of revaluation decreased by 22.9% QoQ in 1Q14 – significantly more than the sector average of 11.0%. We believe that the below-average interest rates offered by the bank contributed to that decline, alongside the impact of the political crisis.

**External support.** The NBU has extended short-term loans to Ukrsotsbank totalling UAH540m, which is due in June 2014 and February 2015. In addition, the bank received a US$53m loan from the parent group, while existing loans totalling US$0.2bn were prolonged.

Nevertheless, Ukrsotsbank has significantly decreased its liquidity position: the cash-to-liabilities ratio dropped from 15.7% in 4Q13 to just 9.5% in 1Q14.

**Capitalisation declines sharply.** The steep decrease in the regulatory CAR from 15.9% in 4Q13 to just 11.8% in 1Q14 can be explained by the revaluation of FX risk-weighted assets. However, it has significantly reduced the bank's ability to accommodate any further losses.

**Crimea exposure.** The bank puts the balance sheet value of loans provided to corporate entities and individual clients in the Crimean Autonomous Republic at UAH1.1bn, while it estimates the value of the property it owns in the region at UAH0.3bn. Combined, these assets account for 28.5% of the bank's regulatory capital, which represents a significant threat to capitalisation.

**Profits still not forthcoming.** The NIM remained unchanged from the previous quarter – at 7.7% – indicating that the merger of Ukrsotsbank with Unicredit Bank (Ukraine) has had no negative impact on that ratio. Nevertheless, large provision expenses of UAH307m in 1Q14 – up 115.1% YoY – prevented the bank from reporting significant profits.

We do not expect the bank to be sold anytime soon, despite the desire of the parent group to leave the Ukrainian market.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q13 UAS | 1Q14 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 45,043 | 43,527 | 43,057 | 46,124 |
| Loans | 28,592 | 28,061 | 27,375 | 32,506 |
| Deposits | 20,324 | 21,775 | 21,611 | 18,627 |
| Equity | 10,278 | 9,145 | 8,668 | 8,544 |
| Net % income | 2,416 | 2,059 | 2,268 | 2,448 |
| Net com income | 672 | 713 | 719 | 722 |
| Operating income | 3,305 | 2,827 | 3,101 | 3,369 |
| PPI | 1,600 | 1,013 | 1,018 | 1,158 |
| LLP | (1,542) | (2,333) | -936 | -1,100 |
| Net income | 95 | (1,169) | 11 | 30 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 25 | 20 | N/a | N/a |
| CAR | 27 | 22 | 15.9 | 11.8 |
| Equity-to-assets | 22.8 | 21.0 | 20.1 | 18.5 |
| Net loan-to-deposit | 140.7 | 128.9 | 126.7 | 174.5 |
| Cash-to-liabilities | 21.4 | 17.9 | 15.7 | 9.5 |
| ROAA | 0.2 | (2.6) | 0.0 | 0.1 |
| ROAE | 1.1 | (12.0) | 0.1 | 0.4 |
| Net % margin | 7.7 | 6.7 | 7.7 | 7.7 |
| NII-to-op income | 73.1 | 72.8 | 73.1 | 72.7 |
| Cost-to-income | 51.6 | 64.1 | 67.2 | 65.6 |
| LLR | 17.9 | 21.4 | 22.4 | 21.4 |
| NPLs | 42.7 | 40.8 | N/a | N/a |
| NPL coverage | 41.9 | 52.4 | N/a | N/a |

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

# Ukrsotsbank: Key quarterly UAS financials and ratios

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

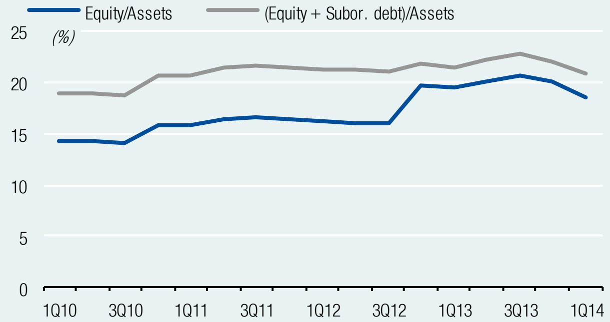
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q13 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 40,393 | 39,994 | 40,349 | 38,830 | 39,420 | 38,345 | 37,329 | 43,057 | 46,124 |
| Cash and cash equivalents | 4,184 | 3,877 | 4,134 | 5,949 | 5,269 | 3,933 | 3,735 | 5,402 | 3,556 |
| Gross loans | 37,542 | 37,125 | 36,866 | 32,094 | 31,919 | 32,146 | 31,724 | 35,273 | 41,375 |
| Gross business loans | 19,288 | 18,889 | 18,648 | 14,185 | 14,250 | 14,489 | 14,724 | 18,010 | 20,736 |
| Gross household loans | 18,254 | 18,236 | 18,218 | 17,909 | 17,669 | 17,658 | 17,000 | 17,263 | 20,640 |
| Loan loss reserves (LLR) | -8,330 | -8,574 | -9,025 | -8,405 | -7,939 | -8,116 | -7,328 | -7,899 | -8,869 |
| Deposits | 17,442 | 16,921 | 17,219 | 18,370 | 18,560 | 18,746 | 19,117 | 21,611 | 18,627 |
| Business deposits | 6,345 | 5,905 | 6,189 | 6,726 | 6,229 | 6,513 | 6,963 | 9,661 | 7,273 |
| Household deposits | 11,096 | 11,015 | 11,030 | 11,645 | 12,331 | 12,234 | 12,154 | 11,950 | 11,355 |
| Total equity | 6,586 | 6,430 | 6,502 | 7,657 | 7,683 | 7,698 | 7,732 | 8,668 | 8,544 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 658 | 650 | 610 | 491 | 427 | 517 | 553 | 770 | 607 |
| Net commission income | 133 | 159 | 168 | 187 | 149 | 159 | 188 | 222 | 153 |
| Operating income (before LLP) | 832 | 844 | 876 | 692 | 576 | 680 | 760 | 1,085 | 844 |
| Operating expenses | -344 | -532 | -357 | -465 | -418 | -444 | -497 | -724 | -545 |
| Loan loss provisions (LLP) | -477 | -297 | -503 | -219 | -143 | -197 | -251 | -345 | -307 |
| Net income | 3 | 2 | 2 | 2 | 4 | 2 | 2 | 3 | 23 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 2,824 | 2,756 | 2,647 | 2,409 | 2,178 | 2,045 | 1,989 | 2,268 | 2,448 |
| Net commission income | 566 | 606 | 627 | 647 | 663 | 663 | 683 | 719 | 722 |
| Operating income (before LLP) | 3,505 | 3,459 | 3,476 | 3,245 | 2,988 | 2,824 | 2,708 | 3,101 | 3,369 |
| Operating expenses | -1,452 | -1,658 | -1,701 | -1,698 | -1,772 | -1,683 | -1,823 | -2,083 | -2,210 |
| Loan loss provisions (LLP) | -1,997 | -1,763 | -1,721 | -1,496 | -1,161 | -1,061 | -810 | -936 | -1,100 |
| Net income | 16 | 14 | 15 | 8 | 10 | 10 | 10 | 11 | 30 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -3.2 | 0.1 | 1.8 | -3.4 | -2.4 | -4.1 | -7.5 | 10.9 | 17.0 |
| Gross loans | 1.0 | -1.5 | -1.4 | -13.8 | -15.0 | -13.4 | -13.9 | 9.9 | 29.6 |
| Deposits (by businesses) | 29.5 | 9.5 | -22.1 | -4.3 | -1.8 | 10.3 | 12.5 | 43.6 | 16.8 |
| Deposits (by households) | 10.9 | 6.6 | 7.5 | 9.0 | 11.1 | 11.1 | 10.2 | 2.6 | -7.9 |
| Deposits (total) | 17.0 | 7.6 | -5.4 | 3.7 | 6.4 | 10.8 | 11.0 | 17.6 | 0.4 |
| Total equity | -0.1 | -2.3 | -1.0 | 15.9 | 16.7 | 19.7 | 18.9 | 13.2 | 11.2 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 12.6 | 12.6 | 19.4 | 18.8 | 15.2 | 14.9 | 14.7 | 15.9 | 11.8 |
| Equity/assets | 16.3 | 16.1 | 16.1 | 19.7 | 19.5 | 20.1 | 20.7 | 20.1 | 18.5 |
| (Equity + sub-debt)/assets | 21.3 | 21.2 | 21.1 | 21.9 | 21.5 | 22.2 | 22.9 | 22.0 | 20.9 |
| Cash & cash equivalents/liabilities | 12.4 | 11.6 | 12.2 | 19.1 | 16.6 | 12.8 | 12.6 | 15.7 | 9.5 |
| Current liquidity (R5 by NBU) | 68.3 | 68.6 | 70.8 | 85.8 | 84.4 | 77.4 | 73.1 | 89.3 | 53.0 |
| Gross loans/deposits | 215.2 | 219.4 | 214.1 | 174.7 | 172.0 | 171.5 | 165.9 | 163.2 | 222.1 |
| Net loans/deposits | 167.5 | 168.7 | 161.7 | 129.0 | 129.2 | 128.2 | 127.6 | 126.7 | 174.5 |
| Cost-to-income ratio | 41.4 | 47.9 | 48.9 | 52.3 | 59.3 | 59.6 | 67.3 | 67.2 | 65.6 |
| Net interest margin | 8.8 | 8.7 | 8.4 | 7.9 | 7.3 | 7.1 | 7.1 | 7.7 | 7.7 |
| ROAA | 0.04 | 0.04 | 0.04 | 0.02 | 0.02 | 0.03 | 0.0 | 0.0 | 0.1 |
| ROAE | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| NII/operating income | 80.6 | 79.7 | 76.2 | 74.2 | 72.9 | 72.4 | 73.4 | 73.1 | 72.7 |
| Core income/operating expenses | 233.4 | 202.8 | 192.4 | 180.0 | 160.4 | 160.9 | 146.5 | 143.4 | 143.4 |

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

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

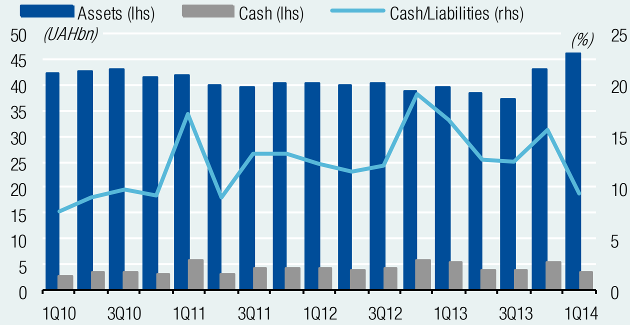
# Ukrsotsbank: Key credit metrics

**Chart 55. Capitalisation**



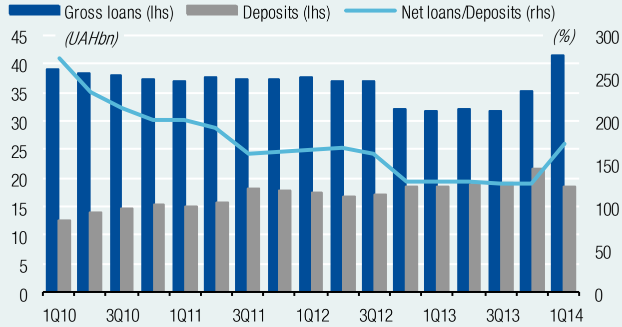

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 56. Liquidity**



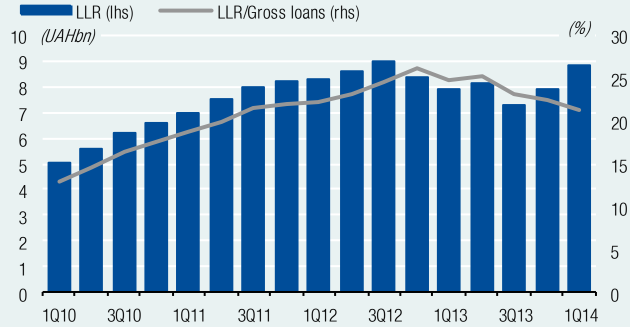

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 57. Loans and deposits**



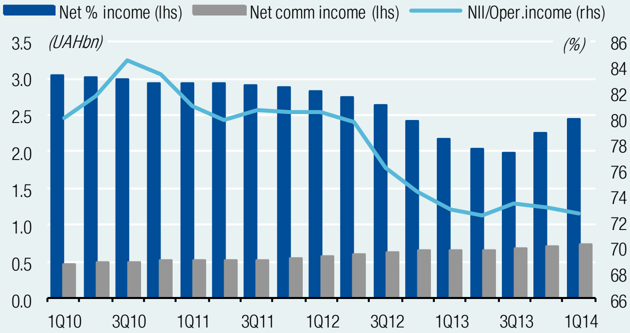

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 58. Loan loss reserves history**



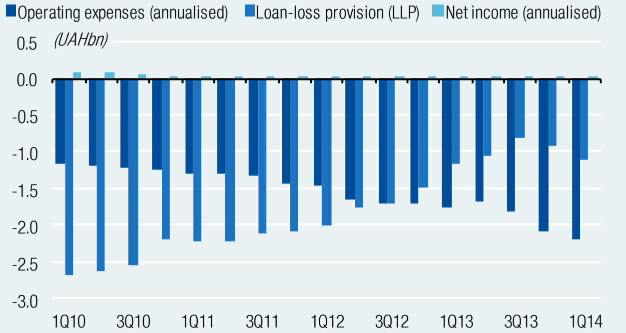

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 59. Income structure (annualised basis)**



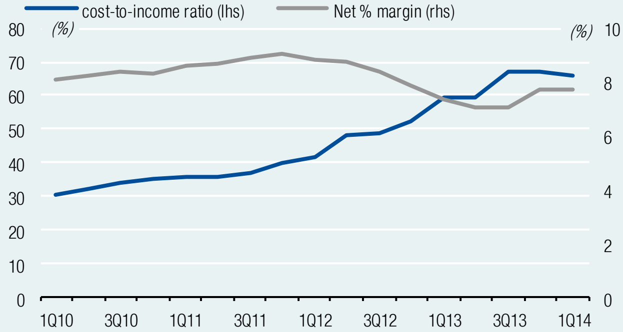

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 60. Expense and net income (annualised basis)**



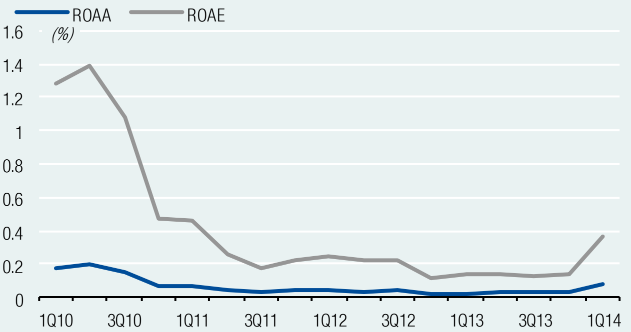

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 61. Financial performance ratios**




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

**Chart 62. 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**

**Donetsk-based First Ukrainian International Bank (FUIB) is among the banks in Ukraine that are most vulnerable to the current crisis. This is because of its large exposure to the turbulent regions. The parent group is currently providing sufficient support to the bank to ensure its continued operations.**

**Corporate segment compensates for retail deposit outflow.** FUIB is one of the few large banks that has been able to avoid losing deposit accounts. On the contrary, its total deposits grew by 3.0% QoQ (net of revaluation effect) in 1Q14. While household deposits decreased by 13.3% QoQ – in line with the overall trend in the Ukrainian banking sector – corporate customers, including those belonging to the parent SCM Group, increased their exposure by 22.6% QoQ.

In February 2014 the NBU provided FUIB with a three-month UAH0.2bn repo loan at a rate of 6.5%. We believe that since then the bank may have received additional loans from the same source.

FUIB reported a very strong cash-to-liabilities ratio of 20.8% in 1Q14.

**Bad debt decreases owing to write-off.** The share of bad debt in the total loan portfolio declined by 1.9ppt to 9.5% in 1Q14. As a result, the LLR ratio fell from 14.2% in 4Q13 to 12.3% in 1Q14. However, this does not signify an improvement in the loan portfolio quality; rather, it is to be attributed to the write-off of irrecoverable debt.

Currently, the bank has reserves covering 79.0% of the total bad debt; and this share continues to increase.

**Provision expenses weigh on profitability.** The NIM rose from 7.9% in 4Q13 to 8.2% in 1Q14 as the bank continued to develop consumer loans with high interest rates. On the other hand, loan provision expenses rose by 45.8% QoQ in 1Q14 to UAH388m.

The bank's capitalisation declined by 0.3ppt to 11.5% as the result of the revaluation of risk-weighted assets.

**Crimea impact.** The Group has nine branches in Crimea (six belonging to the FUIB brand and three to Renaissance Credit), of which it owns the premises of only three (the rest being leased). The Crimean region accounts for 2.3% of the Group's total assets and 1.3% of its liabilities, while corporate loans account for approximately 60% of the overall loan portfolio. The Group's net assets in Crimea total UAH409m.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q13** UAS | **1Q14** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 27,555 | 31,896 | 33,207 | 36,677 |
| Loans | 17,884 | 20,942 | 19,898 | 23,675 |
| Deposits | 17,611 | 20,932 | 20,444 | 24,351 |
| Equity | 5,060 | 5,542 | 4,652 | 4,756 |
| Net % income | 1,151 | 1,534 | 1,895 | 2,080 |
| Net com income | 308 | 492 | 488 | 505 |
| Operating income | 1,636 | 2,148 | 2,566 | 2,860 |
| PPI | 690 | 1,155 | 1,554 | 1,810 |
| LLP | -290 | (514) | -1,021 | -1,220 |
| Net income | 279 | 510 | 445 | 490 |
| **Ratios -%** | | | | |
| Tier 1 ratio | 19.8 | 18.6 | N/a | N/a |
| CAR | 23.5 | 21.2 | 11.8 | 11.5 |
| Equity-to-assets | 18.4 | 17.4 | 14.0 | 13.0 |
| Net loan-to-deposit | 101.5 | 100.0 | 97.3 | 97.2 |
| Cash-to-liabilities | 9.7 | 10.5 | 17.2 | 20.8 |
| ROAA | 1.0 | 1.7 | 1.4 | 1.4 |
| ROAE | 5.6 | 9.6 | 10.0 | 10.7 |
| Net % margin | 4.7 | 6.1 | 7.9 | 8.2 |
| NII-to-op income | 70.4 | 71.4 | 73.9 | 72.7 |
| Cost-to-income | 57.8 | 46.2 | 39.5 | 36.7 |
| LLR | 14.8 | 11.4 | 14.2 | 12.3 |
| NPLs | 18.5 | 14.4 | N/a | N/a |
| NPL coverage | 80.1 | 78.9 | N/a | N/a |

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

# FUIB: Key quarterly UAS financials and ratios

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

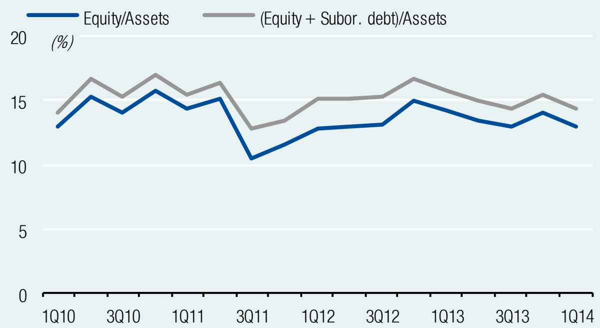
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 31,639 | 31,459 | 31,592 | 28,230 | 30,330 | 32,442 | 34,959 | 33,207 | 36,677 |
| Cash and cash equivalents | 3,197 | 3,946 | 5,008 | 4,402 | 4,526 | 4,400 | 7,654 | 4,910 | 6,646 |
| Gross loans | 19,889 | 19,641 | 20,306 | 20,767 | 20,886 | 21,221 | 22,511 | 23,196 | 27,005 |
| Gross business loans | 14,516 | 14,777 | 15,132 | 15,410 | 15,450 | 15,730 | 16,874 | 17,981 | 21,255 |
| Gross household loans | 5,373 | 4,865 | 5,174 | 5,357 | 5,435 | 5,491 | 5,637 | 5,215 | 5,750 |
| Loan loss reserves (LLR) | -4,220 | -3,489 | -3,535 | -3,767 | -3,975 | -3,857 | -3,898 | -3,298 | -3,330 |
| Deposits | 16,070 | 16,650 | 17,604 | 17,465 | 19,108 | 19,678 | 22,528 | 20,444 | 24,351 |
| Business deposits | 7,019 | 7,113 | 7,827 | 7,324 | 8,266 | 8,116 | 11,010 | 9,279 | 12,753 |
| Household deposits | 9,052 | 9,537 | 9,777 | 10,141 | 10,842 | 11,562 | 11,518 | 11,164 | 11,598 |
| Total equity | 4,076 | 4,094 | 4,144 | 4,215 | 4,316 | 4,385 | 4,531 | 4,652 | 4,756 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 376 | 398 | 416 | 323 | 388 | 443 | 530 | 534 | 573 |
| Net commission income | 78 | 88 | 104 | 95 | 106 | 114 | 131 | 137 | 122 |
| Operating income (before LLP) | 489 | 482 | 472 | 621 | 528 | 636 | 681 | 722 | 821 |
| Operating expenses | -347 | -235 | -235 | -287 | -225 | -240 | -242 | -306 | -263 |
| Loan loss provisions (LLP) | -91 | -131 | -148 | -197 | -188 | -308 | -260 | -266 | -388 |
| Net income | 39 | 89 | 67 | 76 | 89 | 70 | 143 | 143 | 134 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,612 | 1,756 | 1,583 | 1,513 | 1,525 | 1,570 | 1,684 | 1,895 | 2,080 |
| Net commission income | 339 | 368 | 354 | 365 | 393 | 419 | 446 | 488 | 505 |
| Operating income (before LLP) | 2,039 | 2,186 | 1,911 | 2,064 | 2,103 | 2,257 | 2,465 | 2,566 | 2,860 |
| Operating expenses | -1,028 | -1,098 | -1,077 | -1,104 | -982 | -987 | -994 | -1,013 | -1,050 |
| Loan loss provisions (LLP) | -638 | -723 | -455 | -567 | -664 | -841 | -952 | -1,021 | -1,220 |
| Net income | 298 | 295 | 302 | 271 | 321 | 302 | 379 | 445 | 490 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 58.2 | 61.3 | 7.9 | -19.0 | -4.1 | 3.1 | 10.7 | 17.6 | 20.9 |
| Gross loans | 41.0 | 35.7 | 8.8 | 5.4 | 5.0 | 8.0 | 10.9 | 11.7 | 29.3 |
| Deposits (by businesses) | 168.6 | 105.4 | -0.5 | -36.1 | 17.8 | 14.1 | 40.7 | 26.7 | 54.3 |
| Deposits (by households) | 64.5 | 68.4 | 16.9 | 17.5 | 19.8 | 21.2 | 17.8 | 10.1 | 7.0 |
| Deposits (total) | 98.0 | 82.4 | 8.4 | -13.1 | 18.9 | 18.2 | 28.0 | 17.1 | 27.4 |
| Total equity | 41.5 | 37.9 | 35.6 | 4.6 | 5.9 | 7.1 | 9.3 | 10.4 | 10.2 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 15.1 | 15.5 | 16.6 | 17.6 | 15.5 | 15.7 | 15.0 | 11.8 | 11.5 |
| Equity/assets | 12.9 | 13.0 | 13.1 | 14.9 | 14.2 | 13.5 | 13.0 | 14.0 | 13.0 |
| (Equity + sub-debt)/assets | 15.1 | 15.2 | 15.3 | 16.7 | 15.8 | 15.0 | 14.4 | 15.5 | 14.3 |
| Cash & cash equivalents/liabilities | 11.6 | 14.4 | 18.2 | 18.3 | 17.4 | 15.7 | 25.2 | 17.2 | 20.8 |
| Current liquidity (R5 by NBU) | 47.9 | 53.5 | 79.7 | 70.2 | 82.7 | 78.1 | 76.8 | 64.3 | 81.9 |
| Gross loans/deposits | 124 | 118 | 115 | 119 | 109 | 108 | 99.9 | 113.5 | 110.9 |
| Net loans/deposits | 97.5 | 97.0 | 95.3 | 97.3 | 88.5 | 88.2 | 82.6 | 97.3 | 97.2 |
| Cost-to-income ratio | 50.4 | 50.2 | 56.4 | 53.5 | 46.7 | 43.7 | 40.3 | 39.5 | 36.7 |
| Net interest margin | 7.6 | 7.5 | 6.5 | 6.5 | 6.6 | 6.8 | 7.3 | 7.9 | 8.2 |
| ROAA | 1.0 | 0.9 | 0.9 | 0.9 | 1.1 | 1.0 | 1.2 | 1.4 | 1.4 |
| ROAE | 8.4 | 7.7 | 7.4 | 6.6 | 7.7 | 7.1 | 8.7 | 10.0 | 10.7 |
| NII/operating income | 79.1 | 80.3 | 82.8 | 73.3 | 72.5 | 69.6 | 68.3 | 73.9 | 72.7 |
| Core income/operating expenses | 189.8 | 193.4 | 179.9 | 170.1 | 195.3 | 201.5 | 214.2 | 235.4 | 246.2 |

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

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

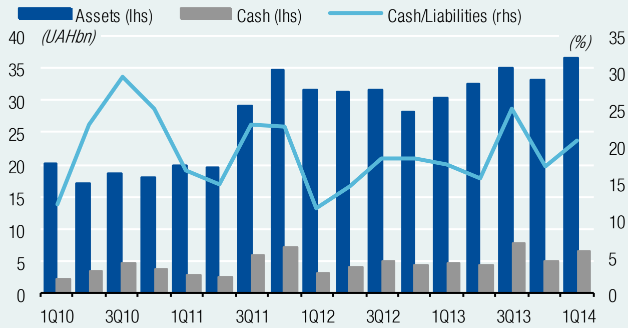
# FUIB: Key credit metrics

**Chart 63. Capitalisation**



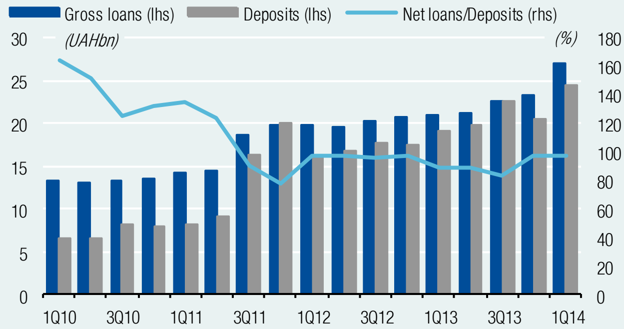

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 64. Liquidity**



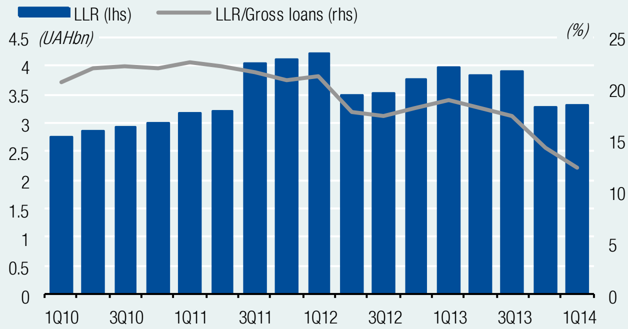

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 65. Loans and deposits**



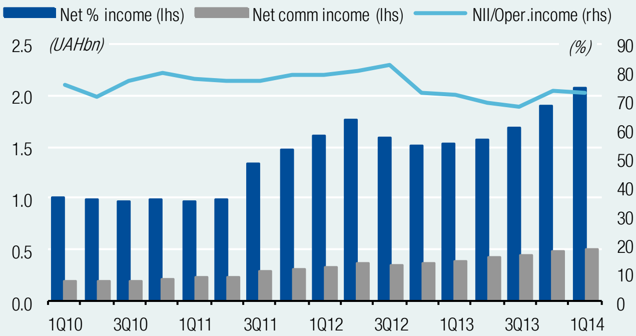

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 66. Loan loss reserves history**



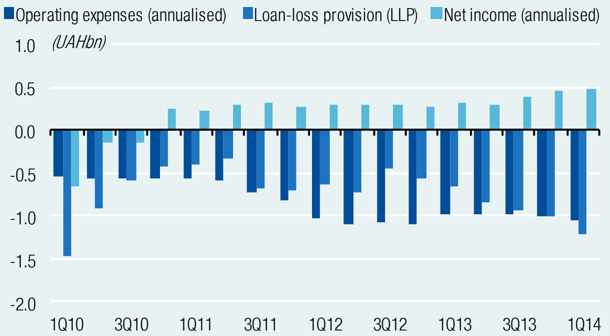

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 67. Income structure (annualised basis)**



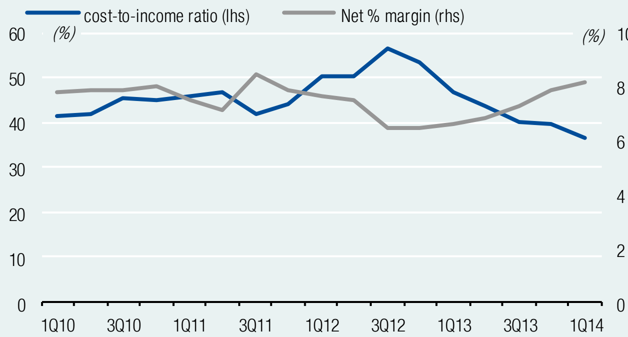

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 68. Expense and net income (annualised basis)**



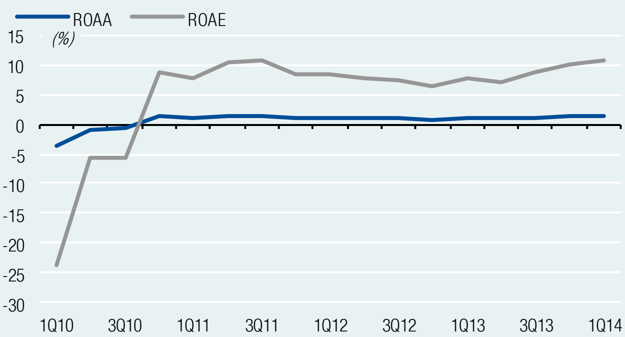

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 69. Financial performance ratios**




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

**Chart 70. Financial performance ratios**




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

Country
**Ukraine**

# Subsidiary Bank Sberbank of Russia

Sector
**Banks: Commercial banking**

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

Ticker(s) in Bloomberg
**SBUA**

**As a Russian-owned bank, Sberbank has been the target of numerous protests as well as investigations into terrorist funding. While it has managed to prove that it has not been involved in such funding, it has lost a significant number of customers: in 1Q14 total deposits fell 16.9 QoQ.**

**Capitalisation declines owing to revaluation.** Like other banks that have significant FX assets, Sberbank saw its regulatory CAR fall in 1Q14 – by 2.0ppt to just 10.4%. This can be attributed to the 30.1% increase QoQ in the amount of risk-weighted assets denominated in UAH. We believe that the bank may need additional capital inflows in 2014 in order to remain safely above the minimum required level of regulatory capital.

**Sanctions scare off depositors.** The total amount of household deposits declined by 18.1% QoQ in 1Q14Q, while corporate accounts fell by 13.2% QoQ (net of revaluation). We believe that the threat of sanctions against Sberbank by Western countries and the local authorities exacerbated the outflow of deposits prompted by the political instability in Ukraine.

We believe that the bank did not receive any loans from the regulator in 1Q14 and had to rely on funding from the parent bank. As the result, the cash-to-liabilities ratio declined by 3.3 ppt to 9.4%, which is far from being critical.

**USD/UAH movements are crucial for the bank's financials.** The share of FX loans in Sberbank's total loan portfolio is very large -- 79.6% in 1Q14 – which has a significant impact on the bank's financial results. In order to achieve an LLR ratio of 5.7% (0.4 ppt up from 4Q13), the bank had to increase its quarterly provision expenses by 484.1% QoQ to UAH566m.

At the same time, interest income has risen – by 12.2% QoQ – while operating expenses that are less dependent on the exchange rate declined 12.7% QoQ.

**Crimea exposure is moderate.** Sberbank puts its total amount of assets in the Crimea Autonomous Republic, including loans, at UAH1.7bn. While the recoverability of those funds is currently questionable, we believe that the occupying authorities' lack of hostility towards the Russian state bank will help it avoid substantial losses. However, at the moment we do not see any possibility of the bank's continuing to operate in Crimea under its own brand owing to the threat of sanctions.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q13** UAS | **1Q14** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 26,365 | 35,029 | 35,095 | 42,532 |
| Loans | 20,618 | 26,554 | 25,912 | 34,385 |
| Deposits | 13,219 | 18,863 | 18,910 | 19,637 |
| Equity | 3,548 | 4,091 | 3,667 | 3,832 |
| Net % income | 1,230 | 1,722 | 1,759 | 2,064 |
| Net com income | 203 | 271 | 271 | 261 |
| Operating income | 1,794 | 2,303 | 2,328 | 2,864 |
| PPI | 906 | 1,069 | 1,066 | 1,518 |
| LLP | -391 | (418) | -428 | -902 |
| Net income | 410 | 574 | 573 | 535 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 14.5 | 12.7 | N/a | N/a |
| CAR | 16.0 | 14.9 | 12.4 | 10.4 |
| Equity-to-assets | 13.5 | 11.7 | 10.4 | 9.0 |
| Net loan-to-deposit | 156.0 | 140.8 | 137.0 | 175.1 |
| Cash-to-liabilities | 11.1 | 12.7 | 12.7 | 9.4 |
| ROAA | 1.9 | 1.9 | 1.8 | 1.5 |
| ROAE | 13.2 | 15.0 | 16.6 | 14.8 |
| Net % margin | 6.5 | 7.3 | 6.3 | 6.6 |
| NII-to-op income | 68.5 | 74.8 | 75.6 | 72.1 |
| Cost-to-income | 49.5 | 53.6 | 54.2 | 47.0 |
| LLR | 9.8 | 8.7 | 5.3 | 5.7 |
| NPLs | 9.0 | 6.8 | N/a | N/a |
| NPL coverage | 109.7 | 127.3 | N/a | N/a |

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

# Sberbank: Key quarterly UAS financials and ratios

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

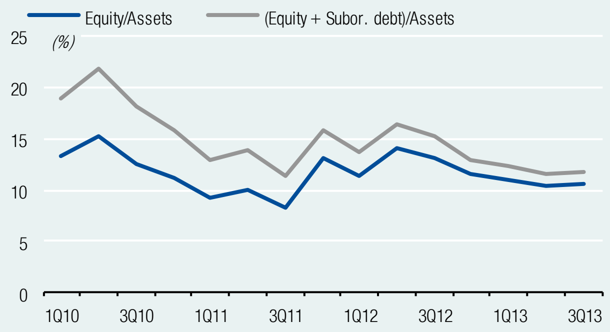
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 20,206 | 20,253 | 22,705 | 27,026 | 29,520 | 32,722 | 33,572 | 35,095 | 42,532 |
| Cash and cash equivalents | 1,334 | 1,456 | 1,894 | 2,304 | 2,383 | 2,516 | 3,455 | 4,005 | 3,631 |
| Gross loans | 17,360 | 16,505 | 18,904 | 21,408 | 21,574 | 24,423 | 25,319 | 27,364 | 36,466 |
| Gross business loans | 15,953 | 15,751 | 18,106 | 20,628 | 20,650 | 23,509 | 24,178 | 25,994 | 34,955 |
| Gross household loans | 1,407 | 754 | 798 | 781 | 924 | 915 | 1,141 | 1,371 | 1,511 |
| Loan loss reserves (LLR) | -2,796 | -1,484 | -1,618 | -1,273 | -1,431 | -1,452 | -1,478 | -1,452 | -2,081 |
| Deposits | 8,745 | 9,112 | 11,497 | 13,280 | 15,862 | 17,197 | 18,482 | 18,910 | 19,637 |
| Business deposits | 3,540 | 2,953 | 3,903 | 4,230 | 5,042 | 5,142 | 5,146 | 4,953 | 5,014 |
| Household deposits | 5,205 | 6,160 | 7,595 | 9,050 | 10,820 | 12,055 | 13,336 | 13,958 | 14,623 |
| Total equity | 2,288 | 2,872 | 2,976 | 3,101 | 3,235 | 3,379 | 3,557 | 3,667 | 3,832 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 281 | 290 | 305 | 366 | 368 | 424 | 483 | 484 | 674 |
| Net commission income | 50 | 57 | 77 | 95 | 82 | 39 | 75 | 75 | 71 |
| Operating income (before LLP) | 352 | 361 | 490 | 606 | 495 | 553 | 636 | 645 | 1,030 |
| Operating expenses | -197 | -211 | -221 | -264 | -259 | -303 | -306 | -393 | -343 |
| Loan loss provisions (LLP) | -77 | -16 | -144 | -147 | -93 | -96 | -142 | -97 | -566 |
| Net income | 78 | 97 | 110 | 126 | 141 | 124 | 167 | 140 | 104 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 953 | 1,041 | 1,125 | 1,242 | 1,329 | 1,463 | 1,641 | 1,759 | 2,064 |
| Net commission income | 180 | 203 | 232 | 279 | 311 | 293 | 291 | 271 | 261 |
| Operating income (before LLP) | 1,224 | 1,346 | 1,554 | 1,809 | 1,952 | 2,144 | 2,288 | 2,328 | 2,864 |
| Operating expenses | -719 | -781 | -837 | -893 | -955 | -1,047 | -1,132 | -1,262 | -1,346 |
| Loan loss provisions (LLP) | -278 | -238 | -284 | -384 | -400 | -480 | -479 | -428 | -902 |
| Net income | 278 | 338 | 396 | 411 | 474 | 501 | 559 | 573 | 535 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 61.9 | 71.1 | 50.2 | 59.6 | 46.1 | 61.6 | 47.9 | 29.9 | 44.1 |
| Gross loans | 78.1 | 65.3 | 48.2 | 39.4 | 24.3 | 48.0 | 33.9 | 27.8 | 69.0 |
| Deposits (by businesses) | 33.0 | 4.9 | 40.1 | 30.7 | 42.4 | 74.1 | 31.9 | 17.1 | -0.6 |
| Deposits (by households) | 63.3 | 72.8 | 91.2 | 107.8 | 107.9 | 95.7 | 75.6 | 54.2 | 35.1 |
| Deposits (total) | 49.5 | 42.8 | 70.1 | 74.9 | 81.4 | 88.7 | 60.7 | 42.4 | 23.8 |
| Total equity | 100.4 | 143.8 | 137.3 | 40.0 | 41.4 | 17.7 | 19.5 | 18.3 | 18.5 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 11.7 | 15.0 | 14.3 | 12.6 | 12.6 | 11.5 | 11.5 | 12.4 | 10.4 |
| Equity/assets | 11.3 | 14.2 | 13.1 | 11.5 | 11.0 | 10.3 | 10.6 | 10.4 | 9.0 |
| (Equity + sub-debt)/assets | 13.7 | 16.5 | 15.2 | 13.0 | 12.4 | 21.0 | 11.8 | 13.0 | 11.9 |
| Cash & cash equivalents/liabilities | 7.4 | 8.4 | 9.6 | 9.6 | 9.1 | 14.7 | 11.5 | 12.7 | 9.4 |
| Current liquidity (R5 by NBU) | 52.8 | 61.9 | 55.1 | 78.1 | 67.4 | 93.2 | 66.7 | 71.4 | 62.3 |
| Gross loans/deposits | 198.5 | 181.1 | 164.4 | 161.2 | 136.0 | 142.0 | 137.0 | 144.7 | 185.7 |
| Net loans/deposits | 166.5 | 164.8 | 150.3 | 151.6 | 127.0 | 133.6 | 129.0 | 137.0 | 175.1 |
| Cost-to-income ratio | 58.8 | 58.1 | 53.9 | 49.4 | 49.0 | 48.9 | 49.5 | 54.2 | 47.0 |
| Net interest margin | 6.9 | 6.7 | 6.5 | 6.4 | 6.3 | 6.2 | 6.3 | 6.3 | 6.6 |
| ROAA | 1.7 | 1.9 | 2.0 | 1.8 | 1.9 | 1.8 | 1.8 | 1.8 | 1.5 |
| ROAE | 16.0 | 15.6 | 15.3 | 14.6 | 15.6 | 15.8 | 16.9 | 16.6 | 14.8 |
| NII/operating income | 77.9 | 77.3 | 72.4 | 68.6 | 68.1 | 68.3 | 71.7 | 75.6 | 72.1 |
| Core income/operating expenses | 157.5 | 159.2 | 162.1 | 170.2 | 171.7 | 167.6 | 170.6 | 160.9 | 172.8 |

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

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

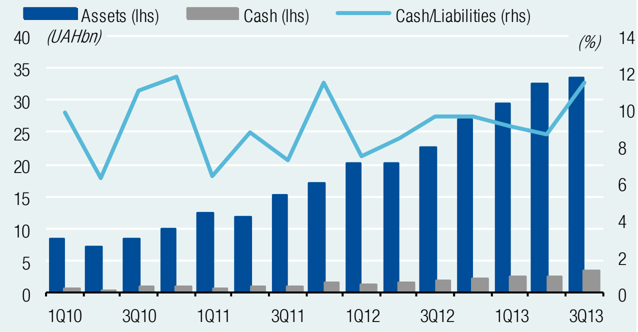
# Sberbank: Key credit metrics

**Chart 71. Capitalisation**



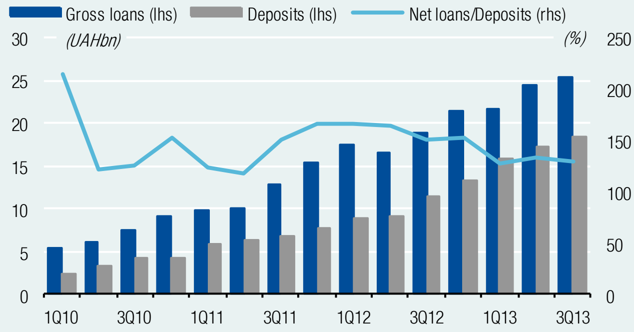

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 72. Liquidity**



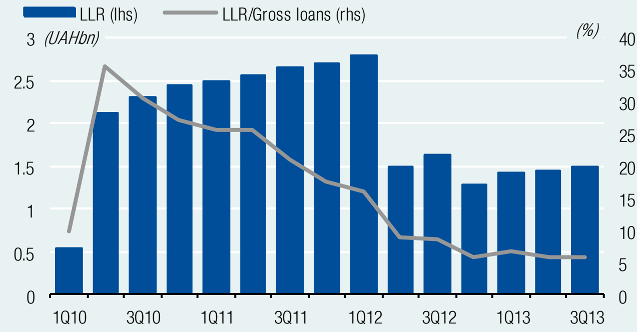

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 73. Loans and deposits**



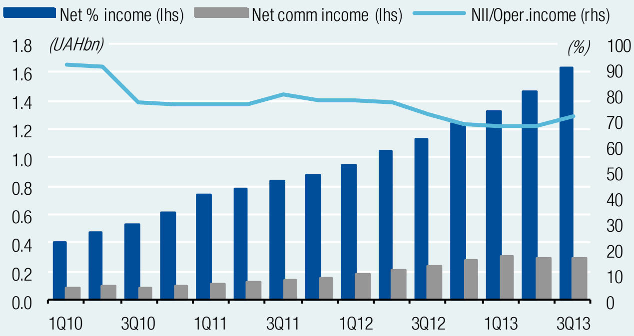

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 74. Loan loss reserves history**



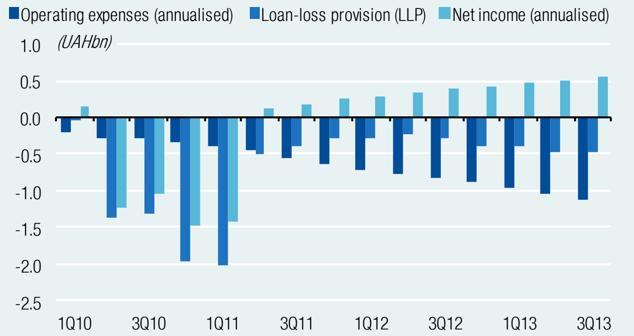

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 75. Income structure (annualised basis)**



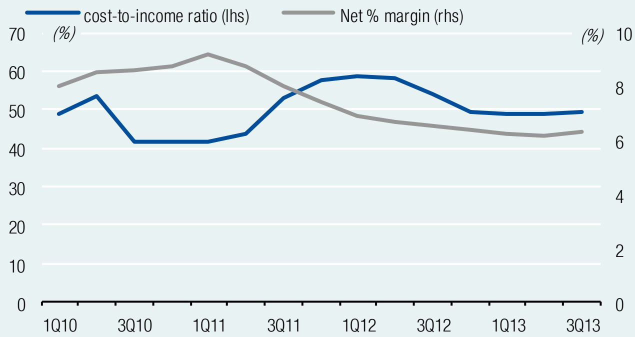

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 76. Expense and net income (annualised basis)**



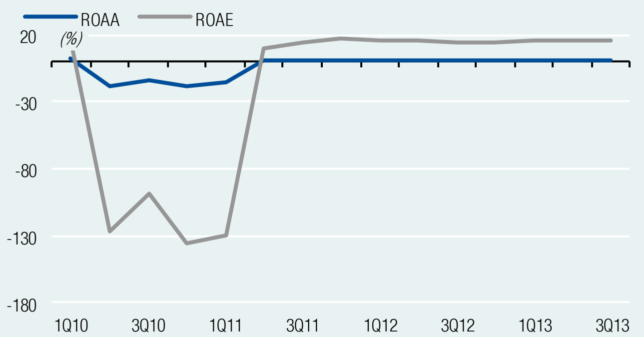

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 77. Financial performance ratios**




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

**Chart 78. 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**

Ticker(s) in Bloomberg
**NADRA**

**Nadra Bank has profited significantly from its substantial long FX position. However, because the bank is trying to establish an adequate LLR ratio, large loan provision expenses had a net negative impact on the bank's financial results.**

**One of the main risks is the suspected high concentration of Nadra Bank's related-party operations since the fate of its key shareholder remains unknown.**

**Benefits from devaluation.** Nadra Bank has routinely violated the NBU open FX position requirement by having a significantly larger amount of USD-denominated assets than USD-denominated liabilities. According to our estimates, the difference between the two was equal to nearly 100% of the bank's regulatory capital. For this reason, the sharp devaluation of the local currency (37.1% in 1Q14) yielded a huge UAH1.2bn in income from the revaluation of the FX position. The bank used those funds to increase its LLR ratio, which we believe was – and continues to be – underestimated.

**Loan portfolio deterioration recognised.** The bank classified 16.5% of its total credit exposure as bad in 1Q14, up from 14.3% in 4Q13. It issued no loans during the last quarter: net UAH-denominated loans fell by UAH478m, while FX-denominated loans decreased by the equivalent of US$51m.

**Shareholder's prosecution scares off depositors.** Nadra Bank has witnessed significant outflows of deposit since the political crisis erupted in Ukraine. The FBI arrest of the bank's key shareholder, Mr Dmytro Firtash, was yet another blow to depositors' expectations. In 1Q14, UAH-denominated deposits declined UAH528m or 20.6% QoQ, while FX-denominated deposits fell 15.2% QoQ, or by the equivalent of US$75m. The loss of retail deposits was partly compensated for by corporate client funds, which increased by UAH986m, while FX-denominated deposits rose by the equivalent of US$19m. We believe that companies that are close to the parent DF Group were among those who significantly increased their funds at the bank.

Nadra Bank received an additional UAH0.5bn in short-term loans from the NBU. It is currently one of the largest debtors of the regulator.

That support notwithstanding, the bank's liquidity remains problematic: the cash-to-liabilities ratio dropped further from 6.4% in 4Q13 to just 4.8% in 1Q14. In a bid to tackle this problem, DF Group announced it was issuing a UAH0.7bn loan to the bank.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q13 UAS | 1Q14 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 24,004 | 27,537 | 31,116 | 35,578 |
| Loans | 19,670 | 22,418 | 25,032 | 28,433 |
| Deposits | 8,092 | 12,266 | 13,052 | 14,858 |
| Equity | 2,127 | 1,647 | 4,032 | 4,033 |
| Net % income | 395 | (275) | 227 | 199 |
| Net com income | 133 | 224 | 261 | 265 |
| Operating income | 841 | 714 | 931 | 2,060 |
| PPI | 94 | (348) | -257 | 634 |
| LLP | 78 | (437) | 297 | -562 |
| Net income | 157 | (420) | 2 | 3 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 8.1 | 6.2 | N/a | N/a |
| CAR | 10.2 | 9.3 | 13.1 | 12.7 |
| Equity-to-assets | 8.9 | 6.0 | 13.0 | 11.3 |
| Net loan-to-deposit | 243.1 | 182.8 | 191.8 | 191.4 |
| Cash-to-liabilities | 10.1 | 9.4 | 6.4 | 4.8 |
| ROAA | 0.7 | (1.6) | 0.0 | 0.0 |
| ROAE | 7.7 | (22.2) | 0.1 | 0.1 |
| Net % margin | 2.0 | (1.3) | 0.9 | 0.7 |
| NII-to-op income | 47.0 | (38.5) | 24.4 | 9.7 |
| Cost-to-income | 88.8 | 148.7 | 127.6 | 69.2 |
| LLR | 25.6 | 23.8 | 14.2 | 16.3 |
| 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 12. Key financials and ratios derived from the bank's UAS financials**

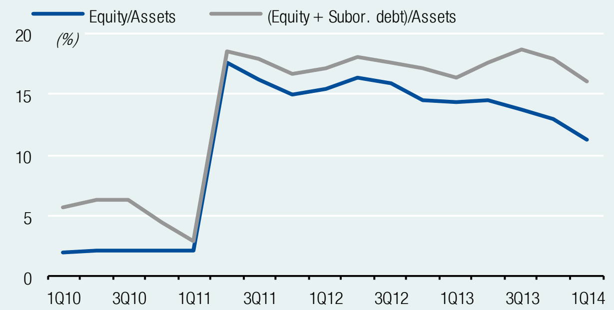
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 25,951 | 24,544 | 25,308 | 27,684 | 27,906 | 27,860 | 29,346 | 31,116 | 35,578 |
| Cash and cash equivalents | 1,710 | 1,395 | 1,152 | 2,079 | 1,453 | 1,200 | 1,320 | 1,729 | 1,511 |
| Gross loans | 24,867 | 23,960 | 24,205 | 25,790 | 27,528 | 27,274 | 28,347 | 29,160 | 33,980 |
| Gross business loans | 10,949 | 10,711 | 11,057 | 12,554 | 14,592 | 14,449 | 15,602 | 16,541 | 17,853 |
| Gross household loans | 13,918 | 13,249 | 13,148 | 13,235 | 12,936 | 12,824 | 12,745 | 12,619 | 16,127 |
| Loan loss reserves (LLR) | -4,947 | -4,400 | -4,371 | -4,427 | -4,375 | -4,311 | -4,232 | -4,128 | -5,548 |
| Deposits | 7,764 | 6,595 | 6,755 | 8,741 | 10,463 | 9,942 | 10,763 | 13,052 | 14,858 |
| Business deposits | 5,125 | 4,006 | 4,154 | 5,645 | 6,730 | 5,421 | 5,258 | 6,512 | 8,199 |
| Household deposits | 2,639 | 2,589 | 2,601 | 3,096 | 3,733 | 4,520 | 5,505 | 6,540 | 6,659 |
| Total equity | 4,029 | 4,029 | 4,030 | 4,030 | 4,030 | 4,031 | 4,031 | 4,032 | 4,033 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 175 | 120 | -95 | 62 | 43 | 65 | 27 | 92 | 16 |
| Net commission income | 31 | 33 | 40 | 50 | 58 | 55 | 66 | 82 | 61 |
| Operating income (before LLP) | 221 | 752 | -9 | 240 | 165 | 211 | 161 | 394 | 1,294 |
| Operating expenses | -172 | -1,251 | -206 | -224 | -198 | -262 | -267 | -462 | -435 |
| Loan loss provisions (LLP) | -48 | 500 | 82 | -8 | 34 | 54 | 111 | 99 | -825 |
| Net income | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | -256 | -390 | -762 | 262 | 130 | 75 | 197 | 227 | 199 |
| Net commission income | 137 | 141 | 140 | 153 | 180 | 203 | 229 | 261 | 265 |
| Operating income (before LLP) | -77 | 369 | 92 | 1,203 | 1,148 | 607 | 777 | 931 | 2,060 |
| Operating expenses | -767 | -1,868 | -1,885 | -1,854 | -1,879 | -889 | -951 | -1,189 | -1,426 |
| Loan loss provisions (LLP) | 845 | 1,500 | 1,660 | 526 | 608 | 162 | 191 | 297 | -562 |
| Net income | 2 | 2 | 2 | 1 | 1 | 1 | 2 | 2 | 3 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 15.6 | 9.2 | 3.0 | 3.5 | 7.5 | 13.5 | 16.0 | 12.4 | 27.5 |
| Gross loans | -0.5 | -4.6 | -0.5 | 2.4 | 10.7 | 13.8 | 17.1 | 13.1 | 23.4 |
| Deposits (by businesses) | 85.0 | 104.7 | -2.9 | -7.1 | 31.3 | 35.3 | 26.6 | 15.4 | 21.8 |
| Deposits (by households) | -37.8 | -34.1 | -18.0 | 19.6 | 41.4 | 74.6 | 111.6 | 111.2 | 78.4 |
| Deposits (total) | 10.7 | 12.0 | -9.3 | 0.9 | 34.8 | 50.7 | 59.3 | 49.3 | 42.0 |
| Total equity | 740.2 | 1.2 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 10.3 | 11.1 | 10.9 | 11.7 | 10.9 | 11.8 | 13.5 | 13.1 | 12.7 |
| Equity/assets | 15.5 | 16.4 | 15.9 | 14.6 | 14.4 | 14.5 | 13.7 | 13.0 | 11.3 |
| (Equity + sub-debt)/assets | 17.2 | 18.1 | 17.6 | 17.2 | 16.4 | 17.6 | 18.7 | 17.9 | 16.1 |
| Cash & cash equivalents/liabilities | 7.8 | 6.8 | 5.4 | 8.8 | 6.1 | 5.0 | 5.2 | 6.4 | 4.8 |
| Current liquidity (R5 by NBU) | 50.2 | 42.7 | 57.9 | 83.6 | 57.9 | 72.1 | 65.4 | 72.0 | 50.4 |
| Gross loans/deposits | 320 | 363 | 358 | 295 | 263 | 274 | 263.4 | 223.4 | 228.7 |
| Net loans/deposits | 256.6 | 296.6 | 293.6 | 244.4 | 221.3 | 231.0 | 224.1 | 191.8 | 191.4 |
| Cost-to-income ratio | -990.4 | 506.7 | 2,044.0 | 154.1 | 163.7 | 146.4 | 122.3 | 127.6 | 69.2 |
| Net interest margin | -1.2 | -1.8 | -3.6 | 1.2 | 0.6 | 0.3 | 0.8 | 0.9 | 0.7 |
| 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 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| NII/operating income | 330.3 | -105.8 | -826.0 | 21.7 | 11.3 | 12.4 | 25.4 | 24.4 | 9.7 |
| Core income/operating expenses | -15.5 | -13.3 | -33.0 | 22.4 | 16.5 | 31.2 | 44.9 | 41.1 | 32.5 |

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

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

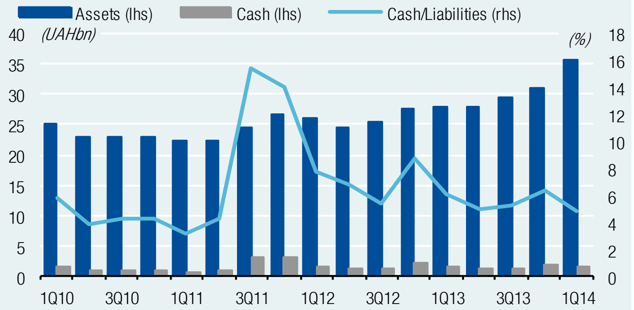
# Nadra Bank: Key credit metrics

### Chart 79. Capitalisation



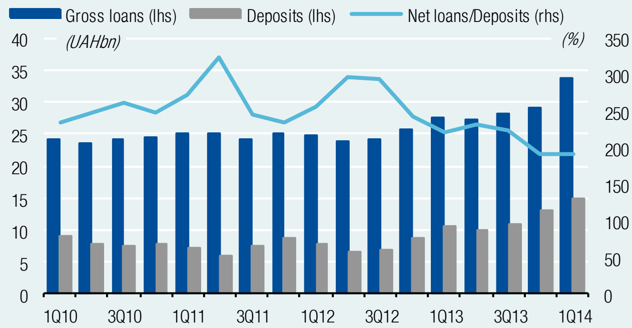

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 80. Liquidity




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

### Chart 81. Loans and deposits

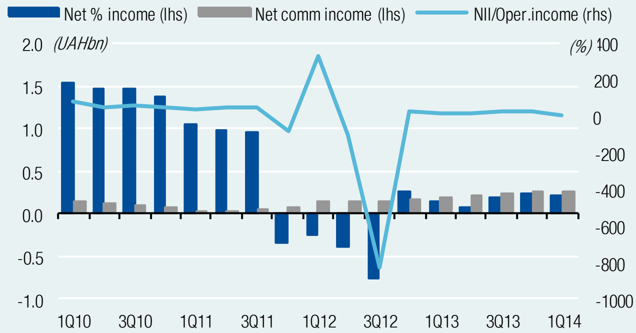



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 82. Loan loss reserves history

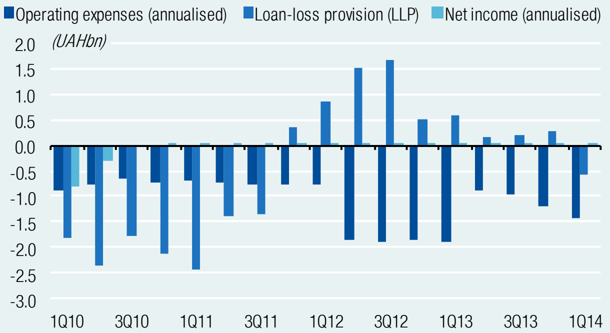

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 83. Income structure (annualised basis)



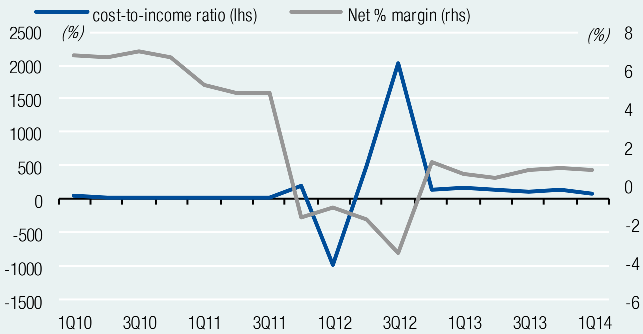

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 84. Expense and net income (annualised basis)



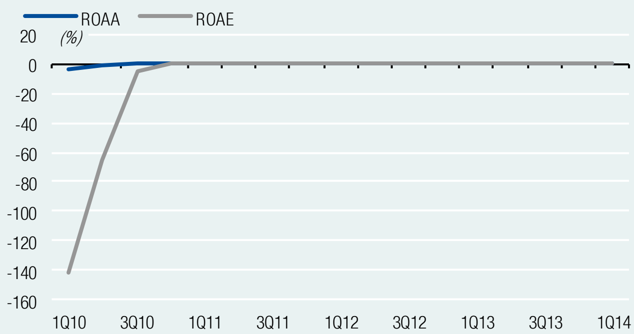

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 85. Financial performance ratios




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

### Chart 86. Financial performance ratios




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

Country
**Ukraine**

# VTB Bank

Sector
**Banks: Commercial banking**

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

Ticker(s) in Bloomberg
**VTB**

**VTB Bank reported a record net income of UAH1.3bn in 1Q14 on the strength of the reported improvement in the quality of its loan portfolio. However, there is a risk that management has overstated the bank's loan portfolio quality – not least since the Odesa Refinery is subject to litigation, which means the bank may lose its right to claim the collateral.**

**Dubious improvement of loan portfolio quality.** The share of bad credit exposure declined from 29.0% in 4Q13 to just 21.1% in 1Q14. The bank's recognition of its right to the assets of the Odesa Refinery, which is currently being challenged by the Ukrainian authorities, sent the LLR ratio plummeting from 17.3% in 4Q13 to 8.5% in 1Q14.

Such accounting practices allowed the bank to report income from reserves release totalling UAH0.8bn and helped it remain just above the minimum capitalisation level.

**Capitalisation is critically low.** UAH devaluation has had a major effect on risk-weighted assets, which grew 17.1% QoQ in 1Q14. The regulatory CAR dropped 4.5 ppt to just 10.2% in 1Q14, which is only marginally above the 10% minimum capitalisation level. In our view, the bank urgently needs the capital inflows that have been announced by the shareholders.

**Significant outflow of deposits.** Of the banks operating in Ukraine, VTB experienced one of the heaviest falls in the total amount of deposits in 1Q14 – 28.3% QoQ. Both the retail and corporate segments performed poorly (-32.2% and -21.6% QoQ, respectively) owing to the threat of sanctions.

The bank has lost much of its liquidity: the cash-to-liabilities ratio declined from 14.5% in 4Q13 to just 7.3% in 1Q14. At the same time, the R5 liquidity ratio, which is calculated by the NBU, sank to 46.2% in 1Q14 – the minimum required level is 40%.

The NBU has provided VTB with short-term loans exceeding UAH0.2bn, which have been repaid in full in 2Q14 ahead of schedule. Currently, the bank has no debt outstanding to the regulator.

**Operating income shrinks.** Net interest income dropped 8.3% QoQ in 1Q14 owing to the increased amount of non-performing loans (from which no interest is accrued) and the high interest rates on new deposits.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q13 UAS | 1Q14 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 32,848 | 24,247 | 25,286 | 29,460 |
| Loans | 23,756 | 17,923 | 18,688 | 24,388 |
| Deposits | 12,072 | 11,211 | 11,148 | 9,302 |
| Equity | 3,880 | 2,165 | 3,207 | 4,481 |
| Net % income | 1,723 | 1,348 | 1,771 | 1,758 |
| Net com income | 464 | 265 | 468 | 514 |
| Operating income | 2,356 | 1,773 | 2,252 | 2,405 |
| PPI | 993 | 528 | 1,119 | 1,290 |
| LLP | -1,884 | (2,184) | -1,280 | -274 |
| Net income | -695 | (1,717) | -194 | 982 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 7.2 | 9.5 | N/a | N/a |
| CAR | 24.3 | 14.9 | 14.7 | 10.2 |
| Equity-to-assets | 11.8 | 8.9 | 12.7 | 15.2 |
| Net loan-to-deposit | 196.8 | 159.9 | 167.6 | 262.2 |
| Cash-to-liabilities | 12.8 | 11.8 | 14.5 | 7.3 |
| ROAA | -2.0 | (6.0) | -0.7 | 3.5 |
| ROAE | -16.4 | (56.8) | -5.5 | 26.0 |
| Net % margin | 5.9 | 5.7 | 7.7 | 7.5 |
| NII-to-op income | 73.2 | 76.1 | 78.7 | 73.1 |
| Cost-to-income | 57.8 | 70.2 | 50.3 | 46.4 |
| LLR | 15.8 | 24.9 | 18.5 | 11.3 |
| 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 13. Key financials and ratios derived from the bank's UAS financials**

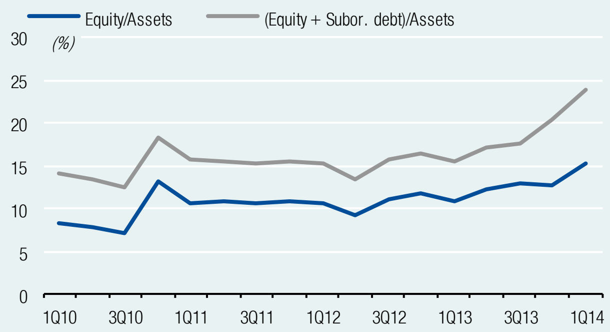
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 35 394 | 38 170 | 34 489 | 34 212 | 32 118 | 29,523 | 29,089 | 25,286 | 29,460 |
| Cash and cash equivalents | 3 025 | 3 619 | 2 161 | 3 987 | 4 156 | 2,504 | 2,751 | 3,195 | 1,817 |
| Gross loans | 32 967 | 31 052 | 30 307 | 29 048 | 27 295 | 25,355 | 24,738 | 22,923 | 27,483 |
| Gross business loans | 28 926 | 26 374 | 25 469 | 24 394 | 22 873 | 21,021 | 20,723 | 18,953 | 23,628 |
| Gross household loans | 4 041 | 4 678 | 4 838 | 4 654 | 4 421 | 4,334 | 4,015 | 3,970 | 3,855 |
| Loan loss reserves (LLR) | -6 305 | -6 065 | -5 773 | -5 516 | -5 173 | -4,312 | -4,123 | -4,234 | -3,095 |
| Deposits | 11 238 | 11 135 | 11 472 | 12 120 | 12 878 | 12,490 | 12,277 | 11,148 | 9,302 |
| Business deposits | 5 831 | 5 541 | 5 980 | 5 898 | 5 884 | 5,009 | 4,948 | 4,085 | 3,639 |
| Household deposits | 5 408 | 5 595 | 5 492 | 6 223 | 6 994 | 7,481 | 7,330 | 7,062 | 5,663 |
| Total equity | 3 717 | 3 493 | 3 790 | 4 051 | 3 481 | 3,641 | 3,779 | 3,207 | 4,481 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 453 | 501 | 487 | 415 | 368 | 567 | 450 | 386 | 354 |
| Net commission income | 106 | 158 | 161 | 137 | 89 | 100 | 131 | 148 | 135 |
| Operating income (before LLP) | 573 | 739 | 696 | 563 | 561 | 684 | 624 | 383 | 715 |
| Operating expenses | -288 | -296 | -390 | -567 | -277 | -295 | -263 | -297 | -260 |
| Loan loss provisions (LLP) | 300 | -645 | 15 | 262 | -205 | -228 | -221 | -625 | 801 |
| Net income | 585 | -202 | 311 | 258 | 79 | 160 | 139 | -572 | 1,255 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 2 116 | 2 036 | 1 931 | 1 856 | 1 771 | 1,837 | 1,800 | 1,771 | 1,758 |
| Net commission income | 417 | 491 | 556 | 562 | 545 | 487 | 457 | 468 | 514 |
| Operating income (before LLP) | 2 612 | 2 684 | 2 624 | 2 571 | 2 559 | 2,503 | 2,432 | 2,252 | 2,405 |
| Operating expenses | -1 365 | -1 362 | -1 417 | -1 541 | -1 530 | -1,530 | -1,403 | -1,133 | -1,116 |
| Loan loss provisions (LLP) | -197 | -730 | -321 | -68 | -573 | -157 | -393 | -1,280 | -274 |
| Net income | 1 050 | 592 | 876 | 952 | 446 | 808 | 636 | -194 | 982 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 5,4 | 6,4 | -5,9 | -7,7 | -9,3 | -22.7 | -15.7 | -26.1 | -8.3 |
| Gross loans | 7,8 | -3,8 | -8,7 | -12,3 | -17,2 | -18.3 | -18.4 | -21.1 | 0.7 |
| Deposits (by businesses) | 24,3 | -4,6 | 15,4 | -9,4 | 0,9 | -9.6 | -17.3 | -30.7 | -38.2 |
| Deposits (by households) | 26,0 | 22,3 | 14,3 | 14,6 | 29,3 | 33.7 | 33.5 | 13.5 | -19.0 |
| Deposits (total) | 25,1 | 7,2 | 14,9 | 1,5 | 14,6 | 12.2 | 7.0 | -8.0 | -27.8 |
| Total equity | 3,3 | -9,8 | -2,2 | -0,1 | -6,3 | 4.2 | -0.3 | -20.8 | 28.7 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 11,7 | 11,6 | 12,4 | 13,0 | 12,5 | 12.4 | 12.5 | 14.7 | 10.2 |
| Equity/assets | 10,5 | 9,2 | 11,0 | 11,8 | 10,8 | 12.3 | 13.0 | 12.7 | 15.2 |
| (Equity + sub-debt)/assets | 15,2 | 13,4 | 15,7 | 16,4 | 15,5 | 17.1 | 17.5 | 20.4 | 23.9 |
| Cash & cash equivalents/liabilities | 9,6 | 10,4 | 7,0 | 13,2 | 14,5 | 9.7 | 10.9 | 14.5 | 7.3 |
| Current liquidity (R5 by NBU) | 52,4 | 94,7 | 83,5 | 73,3 | 80,0 | 53.6 | 56.8 | 64.1 | 46.2 |
| Gross loans/deposits | 293 | 279 | 264 | 240 | 212 | 203 | 201.5 | 205.6 | 295.4 |
| Net loans/deposits | 237,2 | 224,4 | 213,9 | 194,2 | 171,8 | 168.5 | 167.9 | 167.6 | 262.2 |
| Cost-to-income ratio | 52,3 | 50,7 | 54,0 | 59,9 | 59,8 | 61.1 | 57.7 | 50.3 | 46.4 |
| Net interest margin | 7,1 | 6,7 | 6,4 | 6,3 | 6,3 | 7.0 | 7.3 | 7.7 | 7.5 |
| ROAA | 2,9 | 1,6 | 2,4 | 2,7 | 1,3 | 2.5 | 2.0 | -0.7 | 3.5 |
| ROAE | 27,1 | 15,6 | 23,3 | 25,3 | 12,0 | 21.6 | 17.0 | -5.5 | 26.0 |
| NII/operating income | 81,0 | 75,9 | 73,6 | 72,2 | 69,2 | 73.4 | 74.0 | 78.7 | 73.1 |
| Core income/operating expenses | 185,6 | 185,5 | 175,5 | 156,9 | 151,4 | 151.9 | 160.9 | 197.7 | 203.6 |

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

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

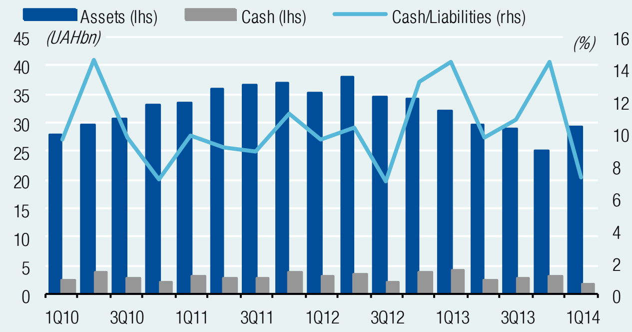
# VTB: Key credit metrics

### Chart 87. Capitalisation



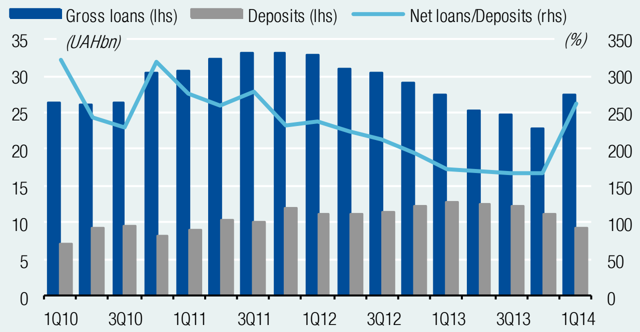

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 88. Liquidity



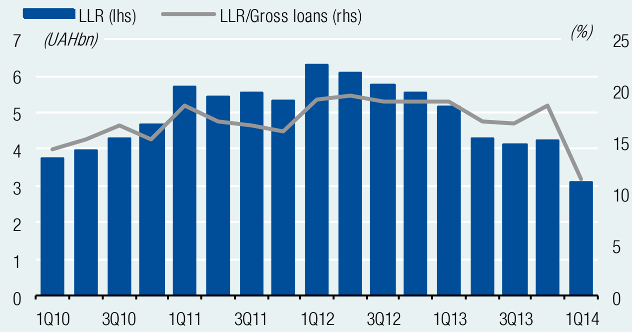

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 89. Loans and deposits



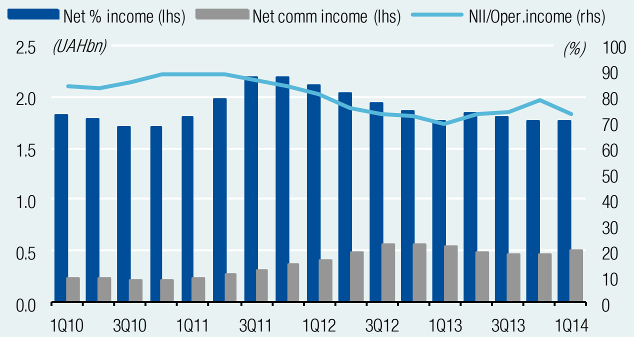

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 90. Loan loss reserves history



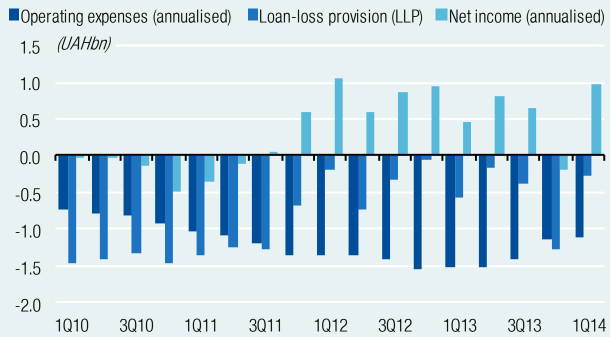

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 91. Income structure (annualised basis)



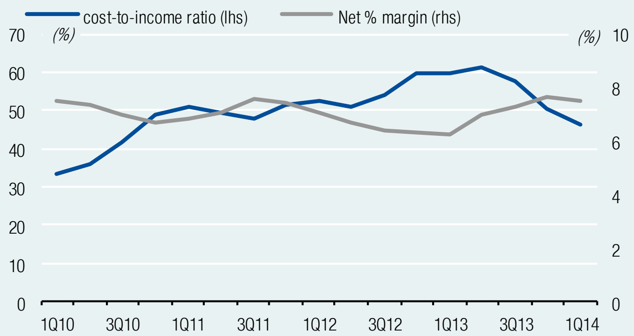

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 92. Expense and net income (annualised basis)



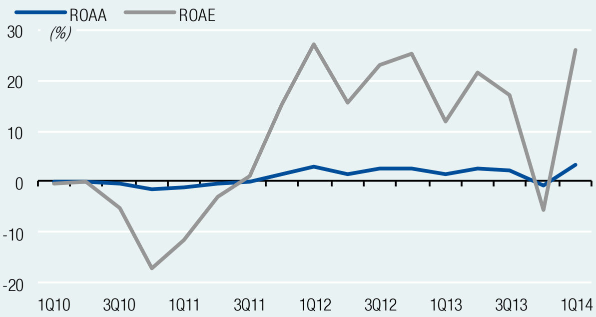

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 93. Financial performance ratios




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

### Chart 94. Financial performance ratios




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

Country
**Ukraine**

# Alfa Bank

Sector
**Banks: Commercial banking**

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

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

**Alfa Bank mitigates its exposure to Ukraine by positioning itself as a global rather than Russian bank. Its parent group is seeking to develop its business operations in Ukraine by providing financial resources for the purchase of new assets.**

**The bank has maintained a healthy level of capitalisation: the regulatory CAR is 18.4%. This allowed it to navigate the recent devaluation relatively smoothly.**

**Expansion plans.** Following the purchase of the Bank of Cyprus, Alfa Bank has announced plans to bid for the assets of Forum Bank – or at least part thereof – which is about to be liquidated. The parent Alfa Group provided it with a US$0.3bn loan in 1Q14. Given its current high liquidity ratio, the bank has the potential to increase its loan portfolio through acquisitions.

**Corporate depositors remain confident in the bank.** The total amount of household deposits decreased by 15.3% QoQ in 1Q14, while corporate deposits increased by 16.2% QoQ; as a result, total deposits fell just 2.2% QoQ.

Besides the long-term funding received from the parent group, Alfa Bank attracted a loan from the NBU in 1Q14.

**Counterintuitive improvement in loan quality.** Alfa Bank reported that the share of bad debt in the total loan portfolio fell from 10.9% in 4Q13 to 8.5% in 1Q14. At the same time, the LLR ratio rose by 1.7 ppt to 9.8% in 1Q14. Given the current economic situation in the country, we can see no reason why payment discipline would have improved in recent months.

**Negligible earnings.** The bank also reported net income of just UAH2m. This suggests it may have understated the adequate LLR level in a bid to keep the bank profitable – at least on paper.

Moreover, Alfa Bank reported one-off income totalling UAH420m from trading securities. In previous quarters, income from such operations had been negligible.

**Crimea exposure.** The bank estimates the net value of loans issued in the breakaway Crimea Autonomous Republic at UAH10.2m and puts the value of property it owns in the region at UAH47.7m.

**Local bonds to be issued.** UkrSibBank has announced plans to issue local bonds totalling UAH0.6bn that will mature in 2018. The coupon rate will change from quarter to quarter within the range of 16.5-20%.

**Regulatory capital adequacy ratio (UAS)**

Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q13** UAS | **1Q14** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 25,578 | 29,288 | 29,293 | 35,773 |
| Loans | 17,199 | 20,214 | 20,228 | 22,149 |
| Deposits | 14,376 | 15,838 | 15,831 | 18,137 |
| Equity | 4,102 | 4,102 | 4,199 | 4,208 |
| Net % income | 1,649 | 1,565 | 1,604 | 1,697 |
| Net com income | 355 | 508 | 508 | 527 |
| Operating income | 2,068 | 2,354 | 2,446 | 3,003 |
| PPI | 863 | 998 | 1,035 | 1,507 |
| LLP | -800 | (949) | -989 | -1,461 |
| Net income | 34 | 15 | 13 | 11 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | N/A | N/A | N/A | N/a |
| CAR | N/A | N/A | 19.0 | 18.4 |
| Equity-to-assets | 16.0 | 14.0 | 14.3 | 11.8 |
| Net loan-to-deposit | 119.6 | 127.6 | 127.8 | 122.1 |
| Cash-to-liabilities | 27.2 | 24.2 | 24.2 | 30.2 |
| ROAA | 0.1 | 0.1 | 0.0 | 0.0 |
| ROAE | 0.8 | 0.4 | 0.3 | 0.3 |
| Net % margin | 8.6 | 7.5 | 7.1 | 7.2 |
| NII-to-op income | 79.7 | 66.5 | 65.6 | 56.5 |
| Cost-to-income | 58.3 | 57.6 | 57.7 | 49.8 |
| LLR | 12.9 | 9.1 | 8.1 | 9.8 |
| NPLs | 15.7 | 10.2 | N/A | N/A |
| NPL coverage | 82.3 | 88.6 | N/A | N/A |

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

# Alfa Bank: Key quarterly UAS financials and ratios

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

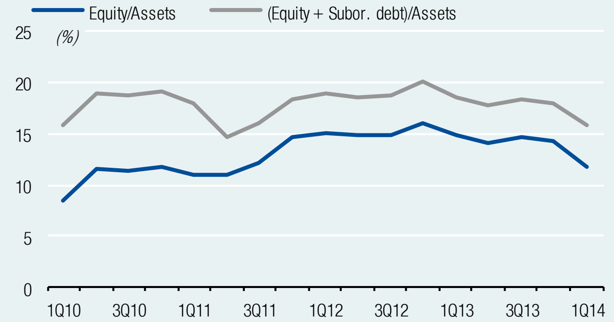
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 27,646 | 27,942 | 27,457 | 25,589 | 27,954 | 29,634 | 28,496 | 29,293 | 35,773 |
| Cash and cash equivalents | 4,793 | 4,576 | 5,827 | 5,833 | 5,184 | 4,941 | 4,523 | 6,066 | 9,521 |
| Gross loans | 22,904 | 22,575 | 20,984 | 19,923 | 21,650 | 21,584 | 21,091 | 22,012 | 24,551 |
| Gross business loans | 17,327 | 16,255 | 14,571 | 13,481 | 15,282 | 15,052 | 14,829 | 15,919 | 17,570 |
| Gross household loans | 5,578 | 6,321 | 6,413 | 6,443 | 6,368 | 6,532 | 6,261 | 6,094 | 6,981 |
| Loan loss reserves (LLR) | -5,235 | -4,713 | -3,491 | -2,712 | -2,964 | -2,580 | -1,996 | -1,784 | -2,402 |
| Deposits | 12,588 | 12,852 | 14,435 | 14,376 | 15,927 | 15,761 | 14,365 | 15,831 | 18,137 |
| Business deposits | 5,398 | 5,257 | 5,739 | 5,612 | 6,174 | 6,231 | 5,334 | 6,573 | 8,866 |
| Household deposits | 7,190 | 7,595 | 8,697 | 8,765 | 9,753 | 9,530 | 9,032 | 9,258 | 9,271 |
| Total equity | 4,170 | 4,148 | 4,082 | 4,100 | 4,129 | 4,184 | 4,184 | 4,199 | 4,208 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 418 | 449 | 538 | 418 | 338 | 432 | 412 | 422 | 431 |
| Net commission income | 51 | 72 | 82 | 150 | 115 | 107 | 126 | 160 | 134 |
| Operating income (before LLP) | 511 | 568 | 639 | 584 | 587 | 621 | 525 | 713 | 1,144 |
| Operating expenses | -751 | -287 | -292 | -372 | -300 | -375 | -354 | -381 | -385 |
| Loan loss provisions (LLP) | 255 | -270 | -341 | -178 | -278 | -235 | -161 | -316 | -749 |
| Net income | 15 | 10 | 5 | 5 | 5 | 4 | 2 | 2 | 2 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,667 | 1,703 | 1,794 | 1,823 | 1,743 | 1,726 | 1,600 | 1,604 | 1,697 |
| Net commission income | 190 | 211 | 253 | 355 | 419 | 454 | 499 | 508 | 527 |
| Operating income (before LLP) | 1,991 | 2,072 | 2,213 | 2,302 | 2,378 | 2,431 | 2,317 | 2,446 | 3,003 |
| Operating expenses | -1,672 | -1,653 | -1,672 | -1,702 | -1,251 | -1,339 | -1,401 | -1,410 | -1,495 |
| Loan loss provisions (LLP) | -323 | -416 | -536 | -534 | -1,067 | -1,032 | -852 | -989 | -1,461 |
| Net income | 30 | 35 | 35 | 35 | 25 | 19 | 16 | 13 | 11 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -2.9 | -2.9 | 5.0 | -8.5 | 1.1 | 6.1 | 3.8 | 14.5 | 28.0 |
| Gross loans | -4.1 | -7.6 | -12.3 | -14.9 | -5.5 | -4.4 | 0.5 | 10.5 | 13.4 |
| Deposits (by businesses) | 1.5 | -10.5 | 13.7 | -0.3 | 14.4 | 18.5 | -7.1 | 17.1 | 43.6 |
| Deposits (by households) | 26.5 | 32.6 | 50.8 | 33.9 | 35.6 | 25.5 | 3.9 | 5.6 | -4.9 |
| Deposits (total) | 14.4 | 10.8 | 33.5 | 18.1 | 26.5 | 22.6 | -0.5 | 10.1 | 13.9 |
| Total equity | 33.0 | 30.7 | 29.3 | 0.6 | -1.0 | 0.9 | 2.5 | 2.4 | 1.9 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 17.6 | 17.0 | 17.9 | 18.5 | 18.0 | 18.0 | 17.9 | 19.0 | 18.4 |
| Equity/assets | 15.1 | 14.8 | 14.9 | 16.0 | 14.8 | 14.1 | 14.7 | 14.3 | 11.8 |
| (Equity + sub-debt)/assets | 18.9 | 18.6 | 18.7 | 20.1 | 18.5 | 17.7 | 18.4 | 17.9 | 15.9 |
| Cash & cash equivalents/liabilities | 20.4 | 19.2 | 24.9 | 27.1 | 21.8 | 19.4 | 18.6 | 24.2 | 30.2 |
| Current liquidity (R5 by NBU) | 100.6 | 96.0 | 110.0 | 105.9 | 126.2 | 174.0 | 135.8 | 148.7 | 180.0 |
| Gross loans/deposits | 182.0 | 175.7 | 145.4 | 138.6 | 135.9 | 136.9 | 146.8 | 139.0 | 135.4 |
| Net loans/deposits | 140.4 | 139.0 | 121.2 | 119.7 | 117.3 | 120.6 | 132.9 | 127.8 | 122.1 |
| Cost-to-income ratio | 84.0 | 79.8 | 75.6 | 73.9 | 52.6 | 55.1 | 60.5 | 57.7 | 49.8 |
| Net interest margin | 7.6 | 8.2 | 8.6 | 8.9 | 8.4 | 8.2 | 7.4 | 7.1 | 7.2 |
| ROAA | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| ROAE | 0.8 | 0.9 | 0.8 | 0.8 | 0.6 | 0.5 | 0.4 | 0.3 | 0.3 |
| NII/operating income | 83.7 | 82.2 | 81.1 | 79.2 | 73.3 | 71.0 | 69.1 | 65.6 | 56.5 |
| Core income/operating expenses | 111.1 | 115.8 | 122.4 | 128.0 | 172.8 | 162.8 | 149.8 | 149.8 | 148.7 |

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

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

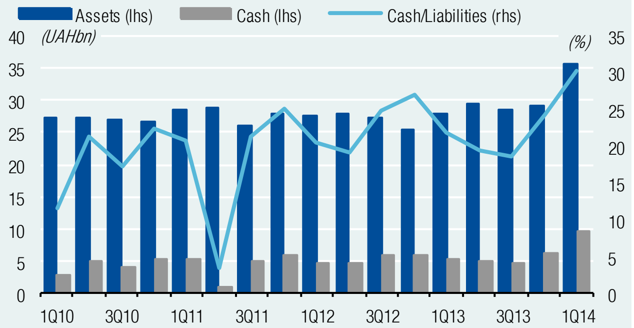
# Alfa Bank: Key credit metrics

### Chart 95. Capitalisation



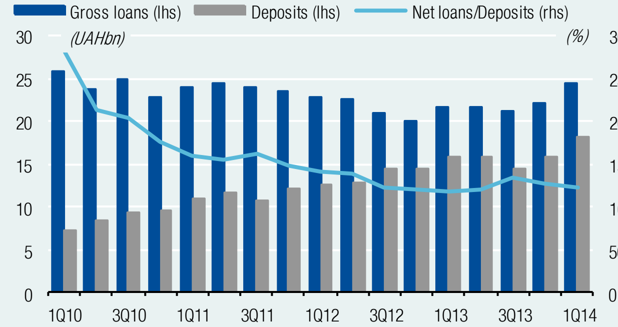

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 96. Liquidity



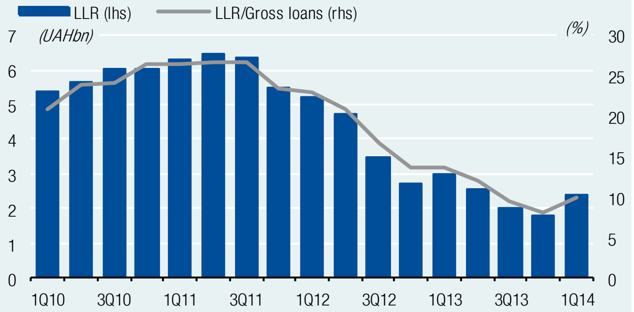

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 97. Loans and deposits



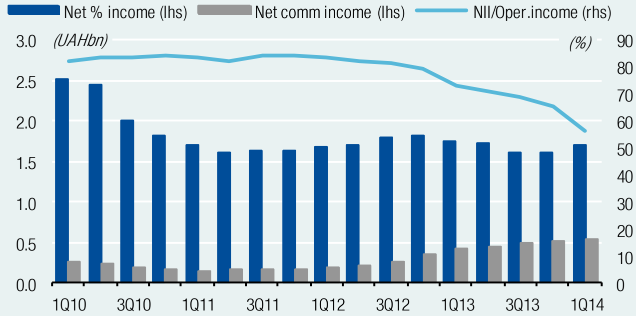

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 98. Loan loss reserves history



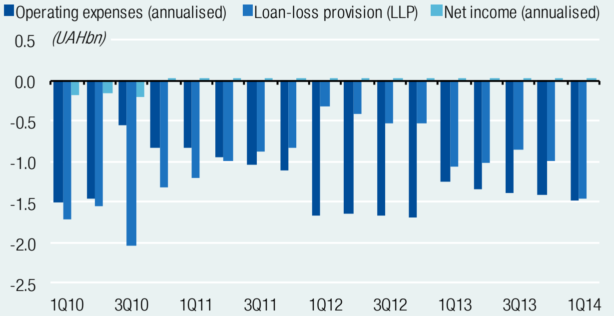

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 99. Income structure (annualised basis)



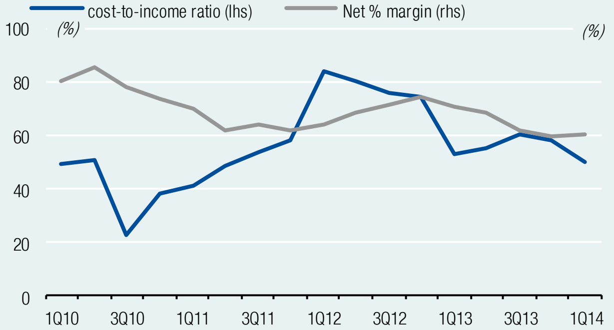

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 100. Expense and net income (annualised basis)



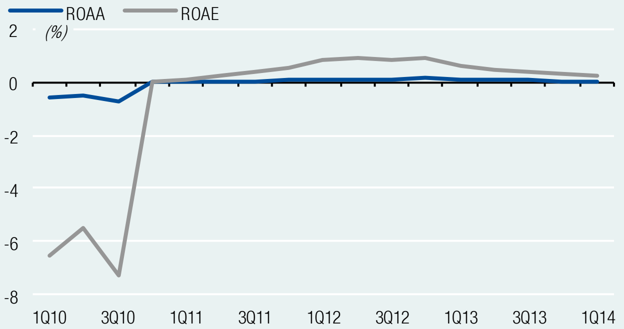

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 101. Financial performance ratios




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

### Chart 102. 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/ CCC**

Ticker(s) in Bloomberg
**UKRSIB**

**The deterioration of the loan portfolio and FX revaluation caused net losses totalling UAH273m in 1Q14. UkrSibbank is seeking improved protection of creditor rights as it continues with litigation to claim property held as collateral for a US$0.1bn loan issued by the bank.**

**Capitalisation remains sound.** Owing to the significant share of FX-denominated Tier 2 subordinated debt (US$0.3bn) in the overall loan portfolio, the level of capitalization remained strong, despite the effect of revaluation on risk-weighted assets. Currently, we do not see any problems related to the regulatory CAR; however, the gradual repayment of the subordinated debt will necessitate finding new sources of capital.

**Deposits fall sharply.** Despite the bank's European origins and its conservative strategy, total deposits decreased by 16.1% QoQ in 1Q14. The retail segment recorded the largest outflow (23.1% QoQ).

Owing to its liquidity cushion (cash-to-liabilities ratio of 20.2% in 4Q13), the bank had no need to urgently seek new sources of funding. However, the NBU provided it with a short-term loan in 1Q14, which has already been repaid. The current cost of refinancing is significantly higher than the interest rate on deposits at the bank – hence the short-period loan.

**Loan portfolio deteriorates.** The share of bad debt in the overall loan portfolio increased from 9.8% in 4Q13 to 10.4% in 1Q14. But at the same time the reserve coverage of such debt increased by 7.4 ppt, to 41.2% in 1Q14.

The bank is expecting long-running litigation against one of its largest borrowers – the car dealer AIS – to be revived. The latter has defaulted on a loan totalling US$100m issued by the bank. Confident that it will be successful in court, UkrSibbank expects to take control of, and receive the property rights to, the collateral pledged against the loan. Indeed, such success will mean a significant improvement in its financials.

**Local bonds redeemed.** UkrSibbank has lowered the interest rate on local bonds maturing in 2015 from 17% to just 12%. That move disappointed investors, many of whom exercised their put option. As a result, the total outstanding plummeted from UAH270m to just UAH2m.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | 2012 IFRS | 2013 IFRS | 4Q13 UAS | 1Q14 UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 25,346 | 23,330 | 24,112 | 23,373 |
| Loans | 15,369 | 14,602 | 14,602 | 14,580 |
| Deposits | 17,450 | 16,835 | 16,632 | 15,766 |
| Equity | 2,779 | 2,792 | 2,650 | 2,372 |
| Net % income | 1,239 | 1,070 | 1,341 | 1,293 |
| Net com income | 544 | 650 | 638 | 638 |
| Operating income | 2,123 | 1,891 | 2,300 | 2,213 |
| PPI | 261 | (54) | 332 | 288 |
| LLP | (34) | 156 | -258 | -499 |
| Net income | 21 | 41 | 25 | -255 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | N/a | N/a | N/a | N/a |
| CAR | N/a | N/a | 23.0 | 22.6 |
| Equity-to-assets | 11.0 | 12.0 | 11.0 | 10.1 |
| Net loan-to-deposit | 88.1 | 86.7 | 87.8 | 92.5 |
| Cash-to-liabilities | 22.5 | 21.4 | 20.2 | 16.0 |
| ROAA | 0.1 | 0.2 | 0.1 | -1.0 |
| ROAE | 0.8 | 1.5 | 0.9 | -9.9 |
| Net % margin | 6.7 | 6.6 | 8.2 | 7.9 |
| NII-to-op income | 58.3 | 56.6 | 58.3 | 58.4 |
| Cost-to-income | 87.7 | 102.9 | 85.6 | 87.0 |
| LLR | 11.0 | 5.6 | 5.6 | 8.2 |
| NPLs | 19.0 | 12.3 | N/a | N/a |
| NPL coverage | 58.0 | 45.1 | 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.

# UkrSibbank: Key quarterly UAS financials and ratios

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

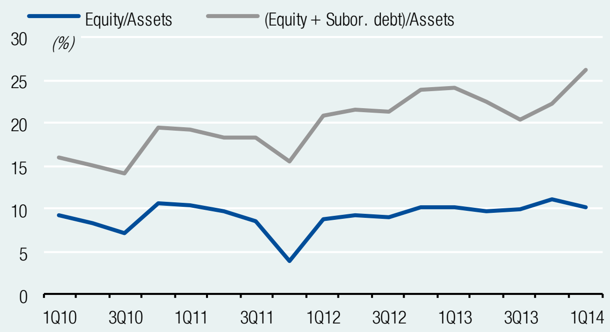
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 1,497 | 1,715 | 2,069 | 2,729 | 3,222 | 3,616 | 26,415 | 24,112 | 23,373 |
| Cash and cash equivalents | 260 | 163 | 203 | 315 | 418 | 572 | 5,976 | 4,327 | 3,356 |
| Gross loans | 1,242 | 1,514 | 1,857 | 2,477 | 2,817 | 3,095 | 15,784 | 15,460 | 15,879 |
| Gross business loans | 51 | 62 | 61 | 87 | 79 | 78 | 8,200 | 8,159 | 7,413 |
| Gross household loans | 1,191 | 1,452 | 1,796 | 2,390 | 2,738 | 3,017 | 7,584 | 7,301 | 8,466 |
| Loan loss reserves (LLR) | -80 | -106 | -151 | -179 | -253 | -354 | -1,093 | -859 | -1,299 |
| Deposits | 483 | 551 | 635 | 918 | 1,511 | 1,859 | 18,121 | 16,632 | 15,766 |
| Business deposits | 30 | 71 | 86 | 182 | 63 | 68 | 8,134 | 7,470 | 7,541 |
| Household deposits | 454 | 480 | 549 | 736 | 1,448 | 1,791 | 9,987 | 9,163 | 8,225 |
| Total equity | 163 | 164 | 166 | 178 | 286 | 288 | 2,612 | 2,650 | 2,372 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 8 | 22 | 30 | 204 | 165 | 171 | 284 | 357 | 363 |
| Net commission income | 61 | 75 | 96 | -22 | 29 | 41 | 168 | 174 | 151 |
| Operating income (before LLP) | 88 | 107 | 136 | 176 | 203 | 233 | 483 | 613 | 593 |
| Operating expenses | -69 | -80 | -89 | -120 | -115 | -126 | -451 | -528 | -478 |
| Loan loss provisions (LLP) | -19 | -26 | -45 | -37 | -78 | -103 | -64 | -12 | -388 |
| Net income | - | 1 | 2 | 12 | 7 | 2 | -33 | 39 | -273 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 22 | 40 | 62 | 264 | 421 | 570 | 1,226 | 1,341 | 1,293 |
| Net commission income | 195 | 243 | 299 | 210 | 178 | 144 | 603 | 638 | 638 |
| Operating income (before LLP) | 311 | 385 | 416 | 507 | 622 | 748 | 2,128 | 2,300 | 2,213 |
| Operating expenses | -249 | -300 | -309 | -358 | -404 | -450 | -2,002 | -1,968 | -1,925 |
| Loan loss provisions (LLP) | -61 | -83 | -104 | -127 | -186 | -263 | -169 | -258 | -499 |
| Net income | - | 1 | 3 | 15 | 22 | 23 | -9 | 25 | -255 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 161.3 | 192.7 | 102.4 | 87.7 | 115.2 | 110.8 | -9.2 | -6.9 | -9.7 |
| Gross loans | 267.5 | 255.4 | 157.9 | 120.6 | 126.8 | 104.4 | -11.4 | -10.2 | -4.1 |
| Deposits (by businesses) | 42.9 | 208.7 | 186.7 | 391.9 | 110.0 | -4.2 | 2.3 | 7.0 | 8.6 |
| Deposits (by households) | 1,127.0 | 772.7 | 433.0 | 295.7 | 218.9 | 273.1 | -7.8 | -11.3 | -23.1 |
| Deposits (total) | 732.8 | 606.4 | 377.4 | 311.7 | 212.8 | 237.4 | -3.5 | -3.9 | -10.6 |
| Total equity | 45.5 | 46.4 | 46.9 | 57.5 | 75.5 | 75.6 | -0.3 | 0.8 | -9.9 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 20.0 | 15.6 | 13.3 | 11.8 | 17.1 | 15.0 | 20.8 | 23.0 | 22.6 |
| Equity/assets | 10.9 | 9.6 | 8.0 | 6.5 | 8.9 | 8.0 | 9.9 | 11.0 | 10.1 |
| (Equity + sub-debt)/assets | 17.2 | 15.2 | 12.8 | 14.5 | 15.8 | 14.2 | 20.3 | 22.2 | 26.2 |
| Cash & cash equivalents/liabilities | 19.5 | 10.5 | 10.7 | 12.4 | 14.2 | 17.2 | 25.1 | 20.2 | 16.0 |
| Current liquidity (R5 by NBU) | 172.5 | 101.2 | 69.1 | 69.1 | 224.9 | 238.0 | 75.5 | 70.7 | 75.6 |
| Gross loans/deposits | 257.1 | 274.8 | 292.4 | 269.8 | 186.4 | 166.5 | 87.1 | 93.0 | 100.7 |
| Net loans/deposits | 240.6 | 255.5 | 268.7 | 250.4 | 169.7 | 147.4 | 81.1 | 87.8 | 92.5 |
| Cost-to-income ratio | 80.1 | 77.9 | 74.3 | 70.6 | 65.0 | 60.2 | 94.1 | 85.6 | 87.0 |
| Net interest margin | 2.4 | 3.5 | 4.4 | 15.7 | 20.5 | 23.7 | 7.5 | 8.2 | 7.9 |
| ROAA | - | 0.1 | 0.2 | 0.7 | 0.9 | 0.8 | -0.0 | 0.1 | -1.0 |
| ROAE | - | 0.7 | 2.0 | 8.9 | 11.1 | 10.0 | -0.3 | 0.9 | -9.9 |
| NII/operating income | 7.1 | 10.4 | 14.9 | 52.1 | 67.7 | 76.2 | 57.6 | 58.3 | 58.4 |
| Core income/operating expenses | 87.1 | 94.3 | 116.8 | 132.4 | 148.3 | 158.7 | 91.4 | 100.5 | 100.3 |

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

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

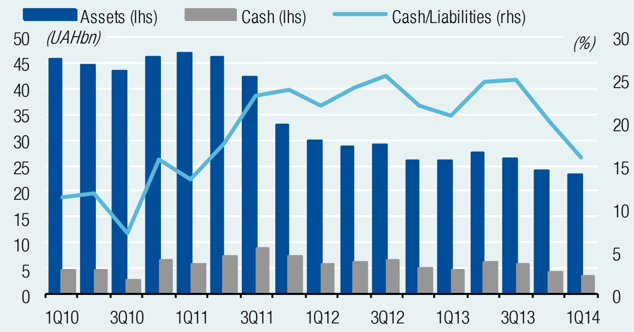
# UkrSibbank: Key credit metrics

### Chart 103. Capitalisation



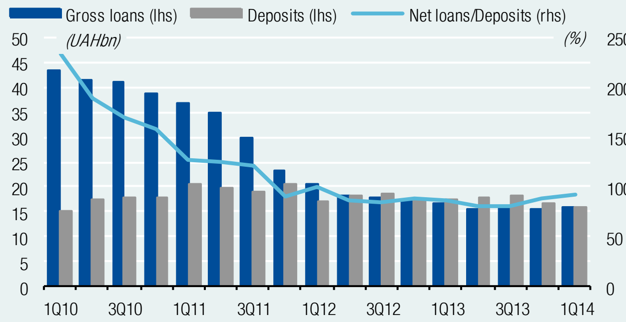

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 104. Liquidity



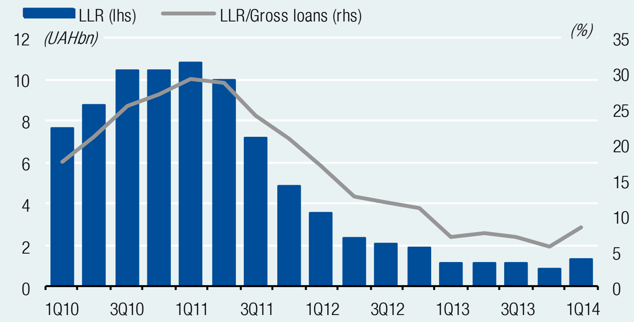

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 105. Loans and deposits



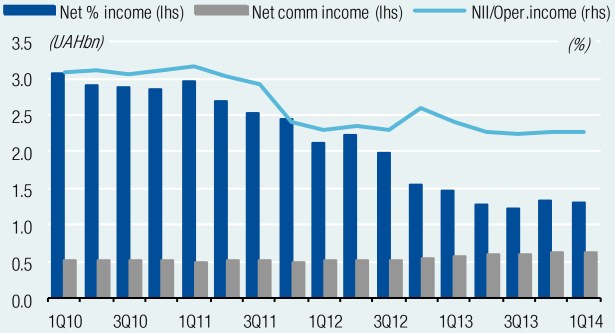

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 106. Loan loss reserves history



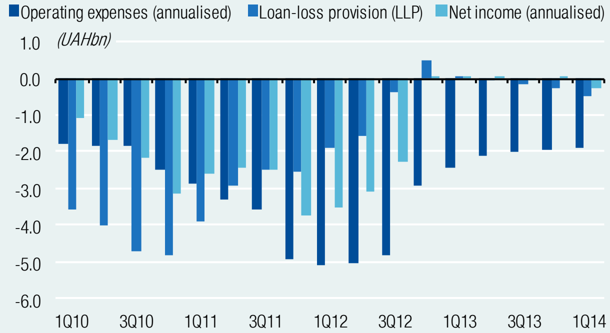

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 107. Income structure (annualised basis)



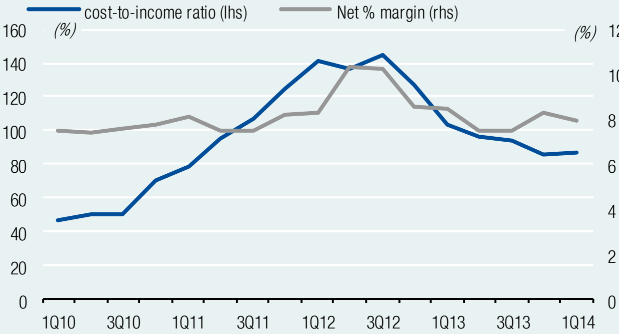

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 108. Expense and net income (annualised basis)



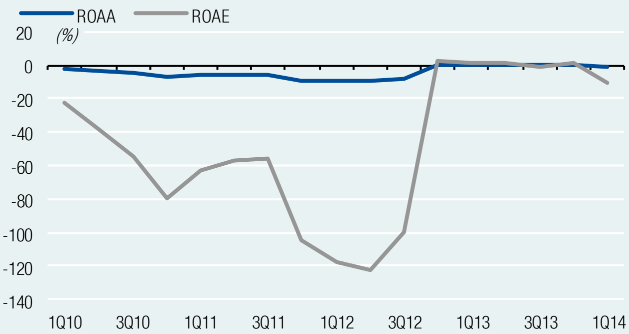

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 109. Financial performance ratios




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

### Chart 110. 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**

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

**After a relatively successful 2013, OTP Bank witnessed a significant deterioration in its loan portfolio in 1Q14, which resulted in a quarterly loss of UAH678m. Consumer lending remains a key component of the income-generating business during this period of very high deposit rates.**

**Capitalisation shrinks.** The bank's Tier 2 capital structure has been unfavourable in the current climate: UAH devaluation had a major negative impact on risk-weighted assets, which grew 14.3% QoQ in 1Q14. The regulatory CAR dropped 5.0 ppt to just 15.6% in 1Q14; however, this remains a strong ratio.

**Deposit outflows significant but not critical.** The total amount of household deposits fell by 9.1% QoQ, while corporate customers showed more confidence in the bank: business deposits decreased by just 3.3% QoQ (net of revaluation).

We believe that the parent group provided the bank with an additional US$35m in 1Q14 in order to support the latter's liquidity, which marginally decreased during the same period – by 0.7ppt to 14.1%.

**Loan portfolio deteriorates.** Loan provision expenses increased by 553.3% QoQ to UAH1.3bn in 1Q14 owing to UAH devaluation and the worsening of payment discipline. The LLR ratio rose from 16.8% in 4Q13 to 17.7% in 1Q14. At the same time, the share of bad debt in the overall loan portfolio decreased by 1.2ppt to 10.7% in 1Q14 as the bank continued to write off and/or sell problematic loans.

**Consumer loans pay off.** The NIM increased from 11.8% in 4Q13 to 12.5% in 1Q14 as the share of high-margin consumer loans continued to rise. Net interest income increased by 18.1% QoQ or UAH81m in 1Q14. We expect such income to continue to grow in 2Q14, despite an increase in the share of overdue debt.

**Slow exit from the Ukrainian market.** OTP Group has reduced its exposure to Ukraine by slashing the total amount lent to OTP Bank by US$75m in 1Q14. While it has denied any plans to exit the market, we expect a further reduction in its quasi-equity in Ukraine.

**Crimea exposure.** OTP Bank estimates that the total amount of net loans issued in Crimea was UAH423m. In our view, this is not a significant concentration.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q13** UAS | **1Q14** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 20,632 | 19,461 | 18,722 | 21,174 |
| Loans | 15,155 | 15,246 | 14,124 | 15,897 |
| Deposits | 9,054 | 9,577 | 9,537 | 10,371 |
| Equity | 3,862 | 4,179 | 3,359 | 2,706 |
| Net % income | 1,634 | 1,912 | 1,912 | 2,052 |
| Net com income | 449 | 616 | 367 | 363 |
| Operating income | 2,232 | 2,616 | 2,632 | 2,844 |
| PPI | 1,260 | 1,487 | 1,165 | 1,359 |
| LLP | -1,011 | -1,007 | -959 | -1,974 |
| Net income | 183 | 349 | 117 | -567 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 18.4 | 20.2 | N/a | N/a |
| CAR | 31.2 | 32.2 | 20.6 | 15.6 |
| Equity-to-assets | 18.7 | 21.5 | 17.9 | 12.8 |
| Net loan-to-deposit | 167.4 | 159.2 | 148.1 | 153.3 |
| Cash-to-liabilities | 7.1 | 13.0 | 15.4 | 14.1 |
| ROAA | 0.8 | 1.7 | 0.6 | -2.9 |
| ROAE | 4.9 | 8.7 | 3.6 | -17.9 |
| Net % margin | 8.3 | 10.8 | 11.8 | 12.5 |
| NII-to-op income | 73.2 | 73.1 | 72.6 | 72.2 |
| Cost-to-income | 43.5 | 43.2 | 55.7 | 52.2 |
| LLR | 17.7 | 17.5 | 16.8 | 17.7 |
| 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.

# OTP Bank: Key quarterly UAS financials and ratios

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

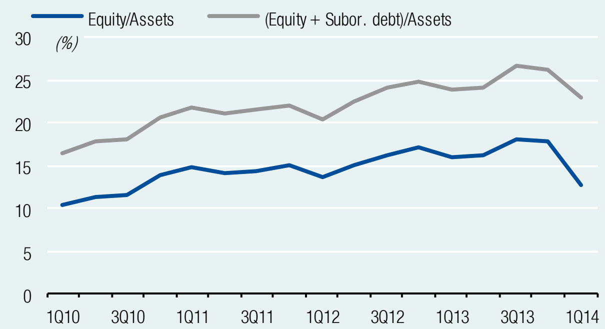
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 23,401 | 21,332 | 19,956 | 20,315 | 19,983 | 19,920 | 18,556 | 18,722 | 21,174 |
| Cash and cash equivalents | 3,148 | 2,274 | 2,638 | 2,670 | 1,832 | 1,865 | 2,189 | 2,373 | 2,606 |
| Gross loans | 19,739 | 18,708 | 17,602 | 17,996 | 17,577 | 17,379 | 16,803 | 16,978 | 19,307 |
| Gross business loans | 13,123 | 12,500 | 11,271 | 11,200 | 10,979 | 10,676 | 9,549 | 9,469 | 11,049 |
| Gross household loans | 6,616 | 6,207 | 6,332 | 6,796 | 6,598 | 6,704 | 7,254 | 7,510 | 8,258 |
| Loan loss reserves (LLR) | -3,512 | -3,708 | -3,554 | -3,352 | -3,485 | -3,563 | -3,280 | -2,855 | -3,410 |
| Deposits | 9,826 | 9,210 | 8,813 | 8,966 | 9,181 | 9,185 | 9,233 | 9,537 | 10,371 |
| Business deposits | 4,813 | 3,731 | 3,366 | 3,426 | 3,486 | 3,504 | 3,699 | 4,127 | 4,389 |
| Household deposits | 5,013 | 5,479 | 5,446 | 5,540 | 5,695 | 5,682 | 5,533 | 5,411 | 5,982 |
| Total equity | 3,166 | 3,209 | 3,237 | 3,488 | 3,211 | 3,241 | 3,365 | 3,359 | 2,706 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 368 | -26 | 812 | 523 | 470 | 449 | 477 | 517 | 610 |
| Net commission income | 73 | 6 | 162 | 91 | 75 | 87 | 111 | 94 | 70 |
| Operating income (before LLP) | 491 | -16 | 1,068 | 680 | 609 | 601 | 660 | 762 | 820 |
| Operating expenses | -302 | -32 | -584 | -389 | -308 | -366 | -341 | -452 | -325 |
| Loan loss provisions (LLP) | -182 | 15 | -451 | -24 | -295 | -229 | -234 | -201 | -1,311 |
| Net income | 6 | -45 | 42 | 258 | 6 | 6 | 85 | 21 | -678 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 1,665 | 1,217 | 1,597 | 1,677 | 1,778 | 2,253 | 1,918 | 1,912 | 2,052 |
| Net commission income | 321 | 252 | 326 | 331 | 333 | 415 | 364 | 367 | 363 |
| Operating income (before LLP) | 2,108 | 1,547 | 2,091 | 2,223 | 2,341 | 2,957 | 2,550 | 2,632 | 2,844 |
| Operating expenses | -1,540 | -1,187 | -1,313 | -1,308 | -1,313 | -1,648 | -1,405 | -1,467 | -1,484 |
| Loan loss provisions (LLP) | -217 | -153 | -608 | -642 | -755 | -998 | -782 | -959 | -1,974 |
| Net income | 319 | 163 | 140 | 262 | 261 | 312 | 354 | 117 | -567 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | -5.0 | -8.2 | -12.6 | -10.8 | -14.6 | -6.6 | -7.0 | -7.8 | 6.0 |
| Gross loans | -4.1 | -4.1 | -10.7 | -10.6 | -11.0 | -7.1 | -4.5 | -5.7 | 9.8 |
| Deposits (by businesses) | 39.9 | -4.3 | -17.3 | -17.8 | -27.6 | -6.1 | 9.9 | 20.5 | 25.9 |
| Deposits (by households) | 24.7 | 32.5 | 30.3 | 22.3 | 13.6 | 3.7 | 1.6 | -2.3 | 5.0 |
| Deposits (total) | 31.7 | 14.7 | 6.8 | 3.1 | -6.6 | -0.3 | 4.8 | 6.4 | 13.0 |
| Total equity | -13.7 | -2.0 | -0.6 | 1.8 | 1.4 | 1.0 | 4.0 | -3.7 | -15.7 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 19.3 | 19.1 | 20.3 | 13.8 | 20.4 | 20.6 | 19.5 | 20.6 | 15.6 |
| Equity/assets | 13.5 | 15.0 | 16.2 | 17.2 | 16.1 | 16.3 | 18.1 | 17.9 | 12.8 |
| (Equity + sub-debt)/assets | 20.4 | 22.4 | 24.1 | 24.9 | 24.0 | 24.2 | 26.6 | 26.3 | 23.0 |
| Cash & cash equivalents/liabilities | 15.6 | 12.5 | 15.8 | 15.9 | 10.9 | 11.2 | 14.4 | 15.4 | 14.1 |
| Current liquidity (R5 by NBU) | 80.3 | 55.0 | 97.8 | 53.7 | 66.0 | 73.3 | 66.7 | 64.0 | 82.8 |
| Gross loans/deposits | 200.9 | 203.1 | 199.7 | 200.7 | 191.5 | 189.2 | 182.0 | 178.0 | 186.2 |
| Net loans/deposits | 165.1 | 162.9 | 159.4 | 163.3 | 153.5 | 150.4 | 146.5 | 148.1 | 153.3 |
| Cost-to-income ratio | 73.0 | 76.7 | 62.8 | 58.8 | 56.1 | 55.7 | 55.1 | 55.7 | 52.2 |
| Net interest margin | 8.5 | 6.3 | 8.6 | 9.5 | 10.4 | 13.5 | 11.6 | 11.8 | 12.5 |
| ROAA | 1.4 | 0.7 | 0.6 | 1.2 | 1.3 | 1.6 | 1.8 | 0.6 | -2.9 |
| ROAE | 9.7 | 5.0 | 4.3 | 8.0 | 7.9 | 9.5 | 10.7 | 3.6 | -17.9 |
| NII/operating income | 79.0 | 78.6 | 76.4 | 75.4 | 76.0 | 76.2 | 75.2 | 72.6 | 72.2 |
| Core income/operating expenses | 129.0 | 123.8 | 146.5 | 153.5 | 160.7 | 161.9 | 162.5 | 155.3 | 162.7 |

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.

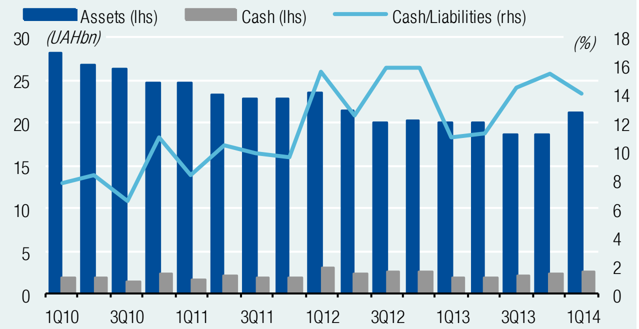
# OTP Bank: Key credit metrics

**Chart 111. Capitalisation**



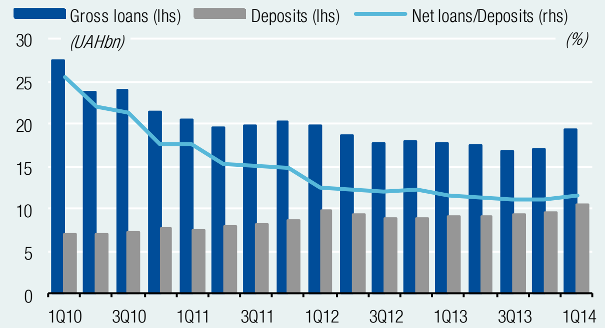

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 112. Liquidity**




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

**Chart 113. Loans and deposits**

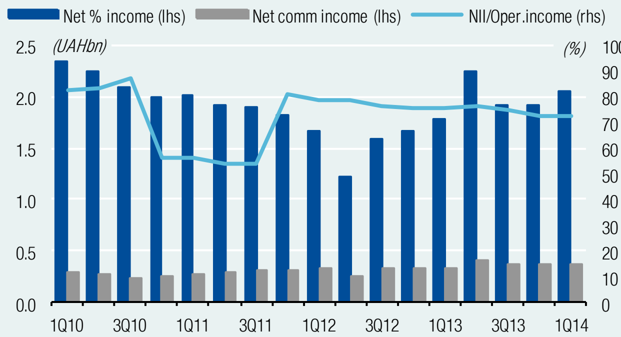



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 114. Loan loss reserves history**

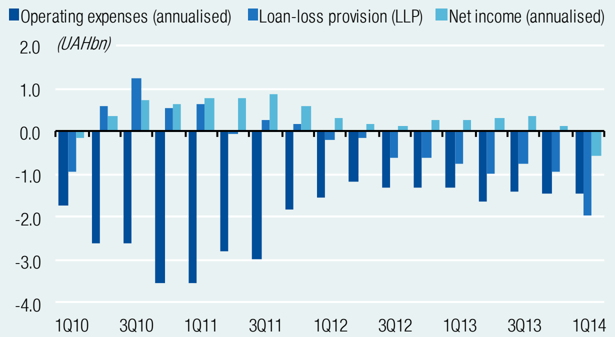

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 115. Income structure (annualised basis)**



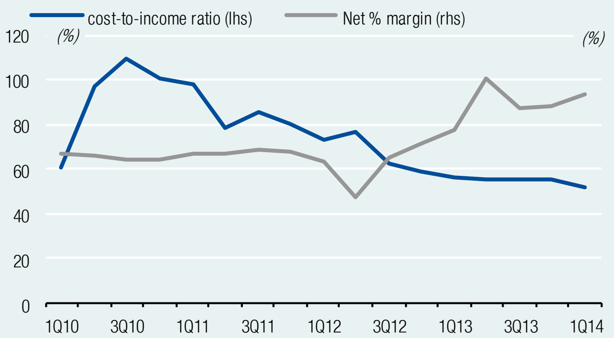

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 116. Expense and net income (annualised basis)**



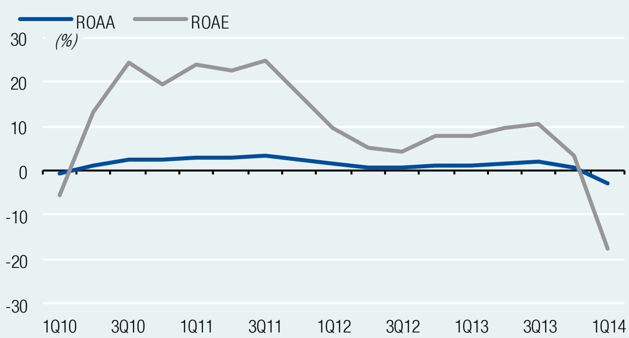

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 117. Financial performance ratios**




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

**Chart 118. 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**

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

**Platinum Bank reported losses totalling UAH69m in 1Q14 owing to the deterioration of its loan portfolio and the subsequent increase in loan provision expenses. But it was able to mitigate the consequences of UAH devaluation thanks to the relatively small share of its FX assets and liabilities.**

**Capitalisation falls.** Regulatory capital decreased by UAH22m or 3.1% QoQ in 1Q14, while risk-weighted assets increased by UAH252m or 3.9% QoQ. As a result, the regulatory CAR fell to 10.3% in 1Q14 – just 0.3 ppt above the minimum required level. Shareholders have announced plans to increase the share capital by 44.9% to UAH551m.

**Moderate deposit outflows.** Although it has traditionally had low levels of liquidity, Platinum Bank managed to get through 1Q14 with just a 3.5% decrease QoQ in customer deposits. We believe that high interest rates and aggressive marketing helped persuade customers to stay with the bank.

The cash-to-liabilities ratio dropped 7.7ppt to 4.7%, which is closer to the sector average. Nevertheless, the liquidity issue may continue to pose a problem as the bank only just meets the liquidity ratio (R5) requirement of 40% (44.8% in 1Q14).

**Limited funding options pose a risk.** Platinum Bank seems to have only limited funding options – having no strong banking group among its shareholders. While it received no refinancing loan from the NBU in 1Q14, it was able to secure UAH110m in short-term lending from other Ukrainian banks during the same period.

As of 4Q13, the bank had redeemed local bonds totalling UAH150m. It is currently planning to place a new issue.

**Share of overdue loans increases.** Platinum Bank reported that the share of bad debt in the total loan portfolio increased from 7.9% in 4Q13 to 9.4% in 1Q14. In absolute terms, this growth amounted to UAH171m. Meanwhile, the total outstanding debt of Crimean customers to be written off and/or sold is reported at UAH223m. In our view, the bank can expect to see a further deterioration of the loan portfolio in 2Q14.

The LLR ratio increased from 14.6% in 4Q13 to 17.2% in 1Q14. As a result, provision expenses grew by 83.3% QoQ to UAH296m.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q13** UAS | **1Q14** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 4,048 | 6,214 | 5,795 | 5,679 |
| Loans | 3,035 | 5,216 | 4,786 | 5,111 |
| Deposits | 3,049 | 4,968 | 4,824 | 4,809 |
| Equity | 668 | 760 | 419 | 349 |
| Net % income | 795 | 913 | 998 | 1,124 |
| Net com income | -4 | (9) | -9 | -29 |
| Operating income | 1,076 | 1,337 | 1,416 | 1,568 |
| PPI | 483 | 635 | 619 | 728 |
| LLP | -255 | (516) | -570 | -781 |
| Net income | 176 | 93 | 34 | -68 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 20.9 | 14.2 | N/a | N/a |
| CAR | 24.3 | 16.2 | 11.1 | 10.3 |
| Equity-to-assets | 16.5 | 12.2 | 7.2 | 6.1 |
| Net loan-to-deposit | 99.6 | 105.0 | 99.2 | 106.3 |
| Cash-to-liabilities | 3.8 | 7.3 | 12.1 | 4.7 |
| ROAA | 4.4 | 1.8 | 0.7 | -1.3 |
| ROAE | 30.3 | 13.0 | 8.4 | -17.2 |
| Net % margin | 22.3 | 19.9 | 24.1 | 24.2 |
| NII-to-op income | 73.9 | 68.3 | 70.5 | 71.7 |
| Cost-to-income | 55.1 | 52.5 | 56.3 | 53.6 |
| LLR | 4.1 | 8.3 | 14.6 | 17.2 |
| NPLs | 11.8 | 14.1 | N/a | N/a |
| NPL coverage | 35.1 | 58.9 | 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.

# Platinum Bank: Key quarterly UAS financials and ratios

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

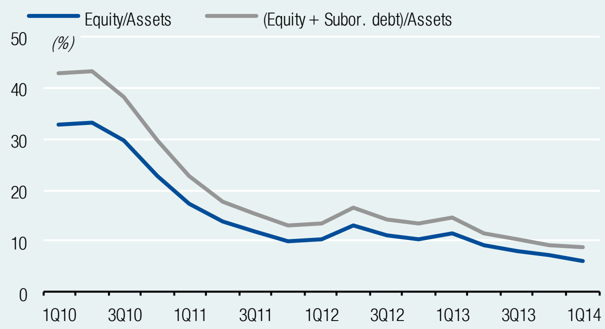
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 3,651 | 3,189 | 3,422 | 3,697 | 3,632 | 4,446 | 5,035 | 5,795 | 5,679 |
| Cash and cash equivalents | 169 | 161 | 137 | 165 | 187 | 191 | 244 | 652 | 250 |
| Gross loans | 2,812 | 2,647 | 2,698 | 3,106 | 3,344 | 3,971 | 4,609 | 5,606 | 6,169 |
| Gross business loans | 28 | 26 | 20 | 19 | 17 | 17 | 16 | 496 | 900 |
| Gross household loans | 2,784 | 2,620 | 2,678 | 3,087 | 3,327 | 3,954 | 4,592 | 5,110 | 5,269 |
| Loan loss reserves (LLR) | -424 | -334 | -338 | -378 | -493 | -573 | -740 | -820 | -1,058 |
| Deposits | 2,756 | 2,319 | 2,576 | 2,968 | 2,856 | 3,606 | 4,145 | 4,824 | 4,809 |
| Business deposits | 609 | 304 | 353 | 424 | 534 | 699 | 738 | 672 | 500 |
| Household deposits | 2,147 | 2,015 | 2,224 | 2,544 | 2,323 | 2,907 | 3,407 | 4,153 | 4,309 |
| Total equity | 378 | 411 | 380 | 383 | 418 | 402 | 406 | 419 | 349 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 207 | 235 | 214 | 176 | 190 | 253 | 265 | 289 | 316 |
| Net commission income | 3 | 3 | 7 | 15 | 19 | -23 | -3 | -2 | -1 |
| Operating income (before LLP) | 264 | 315 | 287 | 299 | 276 | 341 | 378 | 421 | 428 |
| Operating expenses | -182 | -343 | -261 | -253 | -159 | -193 | -204 | -241 | -201 |
| Loan loss provisions (LLP) | -81 | 64 | -45 | -42 | -84 | -164 | -160 | -161 | -296 |
| Net income | 1 | 33 | -31 | 3 | 33 | -16 | 4 | 13 | -69 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 652 | 778 | 848 | 832 | 815 | 833 | 884 | 998 | 1,124 |
| Net commission income | 6 | 10 | 17 | 28 | 44 | 18 | 8 | -9 | -29 |
| Operating income (before LLP) | 896 | 1,064 | 1,127 | 1,165 | 1,177 | 1,203 | 1,293 | 1,416 | 1,568 |
| Operating expenses | -654 | -900 | -985 | -1,039 | -1,016 | -866 | -809 | -797 | -840 |
| Loan loss provisions (LLP) | -227 | -111 | -115 | -104 | -107 | -335 | -450 | -570 | -781 |
| Net income | 2 | 37 | -1 | 6 | 38 | -11 | 24 | 34 | -68 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 69.8 | 16.7 | 6.4 | -1.5 | -0.5 | 39.4 | 47.1 | 56.7 | 56.4 |
| Gross loans | 104.5 | 59.7 | 23.4 | 23.4 | 18.9 | 50.0 | 70.8 | 80.5 | 84.5 |
| Deposits (by businesses) | 278.3 | 71.8 | 69.7 | -36.2 | -12.3 | 129.9 | 109.2 | 58.3 | -6.2 |
| Deposits (by households) | 216.7 | 68.8 | 65.5 | 16.9 | 8.2 | 44.3 | 53.2 | 63.3 | 85.5 |
| Deposits (total) | 228.5 | 69.1 | 66.0 | 4.5 | 3.6 | 55.5 | 60.9 | 62.5 | 68.4 |
| Total equity | 0.8 | 10.2 | 0.3 | 2.1 | 10.6 | -2.2 | 6.9 | 9.5 | -16.5 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 13.8 | 15.8 | 13.3 | 13.9 | 16.9 | 14.6 | 12.7 | 11.1 | 10.3 |
| Equity/assets | 10.4 | 12.9 | 11.1 | 10.4 | 11.5 | 9.0 | 8.1 | 7.2 | 6.1 |
| (Equity + sub-debt)/assets | 13.4 | 16.4 | 14.3 | 13.4 | 14.6 | 11.5 | 10.3 | 9.2 | 8.8 |
| Cash & cash equivalents/liabilities | 5.2 | 5.8 | 4.5 | 5.0 | 5.8 | 4.7 | 5.3 | 12.1 | 4.7 |
| Current liquidity (R5 by NBU) | 130.4 | 139.0 | 55.3 | 161.7 | 95.6 | 135.7 | 133.6 | 0.0 | 0.0 |
| Gross loans/deposits | 102.0 | 114.1 | 104.7 | 104.6 | 117.1 | 110.1 | 111 .2 | 116.2 | 128.3 |
| Net loans/deposits | 86.7 | 99.7 | 91.6 | 91.9 | 99.8 | 94.2 | 93.3 | 99.2 | 106.3 |
| Cost-to-income ratio | 73.0 | 84.6 | 87.4 | 89.2 | 86.3 | 72.0 | 62.6 | 56.3 | 53.6 |
| Net interest margin | 25.1 | 27.7 | 28.1 | 27.1 | 26.7 | 24.8 | 23.7 | 24.1 | 24.2 |
| ROAA | 0.1 | 1.1 | -0.0 | 0.2 | 1.1 | -0.3 | 0.6 | 0.7 | -1.3 |
| ROAE | 0.5 | 9.6 | -0.3 | 1.5 | 9.6 | -2.8 | 6.1 | 8.4 | -17.2 |
| NII/operating income | 72.8 | 73.1 | 75.2 | 71.4 | 69.2 | 69.2 | 68.4 | 70.5 | 71.7 |
| Core income/operating expenses | 100.6 | 87.6 | 87.8 | 82.8 | 84.5 | 98.3 | 110.3 | 124.0 | 130.3 |

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

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

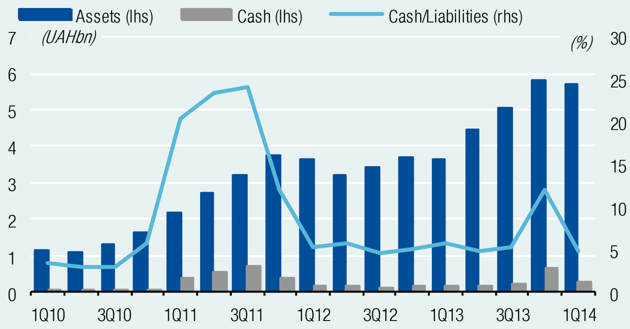
# Platinum Bank: Key credit metrics

### Chart 119. Capitalisation



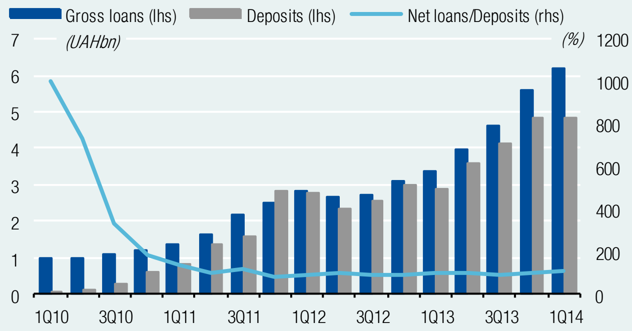

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 120. Liquidity




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

### Chart 121. Loans and deposits

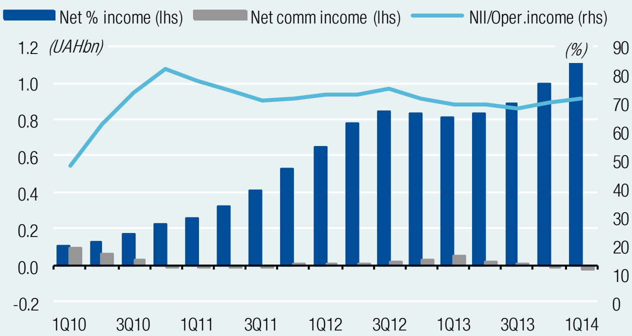



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 122. Loan loss reserves history

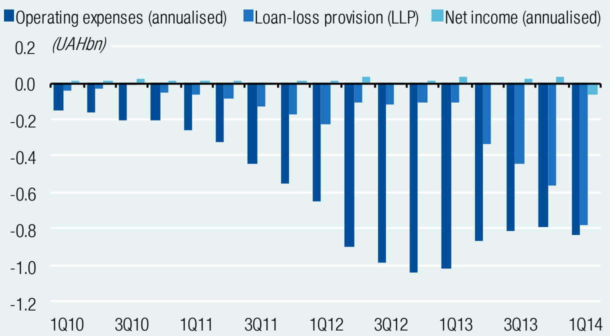

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 123. Income structure (annualised basis)



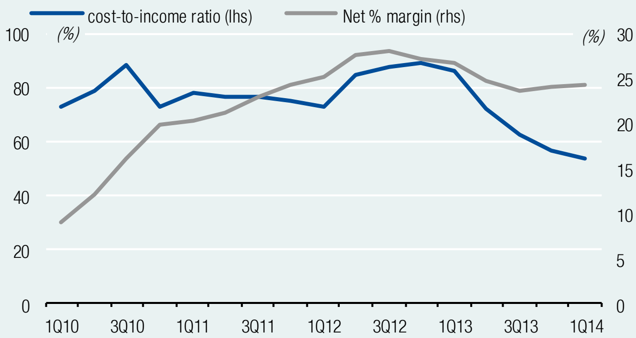

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 124. Expense and net income (annualised basis)



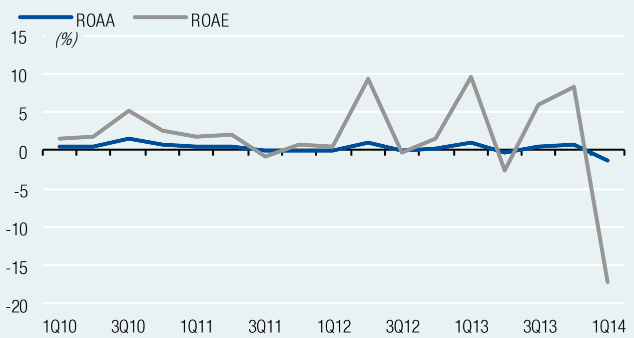

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 125. Financial performance ratios




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

### Chart 126. 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**

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

**Owing to its marginal FX exposure, Russian Standard Bank (BRS) remained immune to most of the risks posed by UAH devaluation. However, poor economic conditions resulted in some impairment of its consumer loan portfolio and the worsening of payment discipline.**

**Deposit outflow limits lending.** The total amount of deposits shrank by 29.5% QoQ in 1Q14. The inclusion of the word "Russian" in the bank's name doubtless contributed to the outflow of deposits: customers grew worried about possible sanctions, even though BRS is privately owned and has no operations in Crimea at the present time.

The bank reported very limited growth in 1Q14 – the gross retail portfolio was down by UAH340m or -9.8% QoQ. We believe that around UAH160m has been written off or sold, while the remainder was repaid. However, its limited funding base and the general political instability prevented the bank from actively lending in 1Q14.

**Support from the parent group.** We believe that BRS received no loans from the regulator in 1Q14. For its part, the parent group provided the bank with US$60m in short-term funding.

BRS was forced to increase the coupon rate on its local bonds maturing in 2016 from 20% to 22%. The absolute amount outstanding remained unchanged -- at UAH300m.

**Impairment of the loan portfolio.** The total share of bad debt in the overall loan portfolio decreased by UAH78m to 7.0% in 1Q14. However, given the amount of problematic assets being written off or sold during this period, we believe there has been an increase in the share of overdue loans due partly to lower than expected growth of new loans.

BRS has a conservative strategy on the recognition of LLR: in 1Q14 it formed reserves equivalent to 94.7% of bad debt.

**Earnings decrease.** The bank's net income fell 84.9% QoQ to just UAH4m in 1Q14 owing to the increase in the cost of funding and higher provision expenses (+38.8% QoQ). The share of net interest income grew from 20.0% in 4Q13 to 25.6% in 1Q14 owing to structural changes in how loans offered to customers are reported – more income is now classified as interest income rather than, as was previously the case, commission income.

**Regulatory capital adequacy ratio (UAS)**


Source: Bank data.

**Key financials and ratios**

| | **2012** IFRS | **2013** IFRS | **4Q13** UAS | **1Q14** UAS |
|---|---|---|---|---|
| **Financials (UAHm)** | | | | |
| Assets | 2,756 | 3,678 | 3,652 | 3,351 |
| Loans | 2,324 | 3,032 | 2,986 | 2,659 |
| Deposits | 923 | 1,849 | 1,835 | 1,335 |
| Equity | 205 | 372 | 335 | 285 |
| Net % income | 410 | 571 | 574 | 743 |
| Net com income | 65 | 134 | 302 | 354 |
| Operating income | 499 | 937 | 957 | 1,201 |
| PPI | 142 | 428 | 430 | 544 |
| LLP | -127 | (337) | -358 | -468 |
| Net income | 9 | 67 | 56 | 58 |
| **Ratios (%)** | | | | |
| Tier 1 ratio | 5.9 | 11.4 | N/a | N/a |
| CAR | 11.8 | 17.1 | 14.1 | 14.0 |
| Equity-to-assets | 7.4 | 10.1 | 9.2 | 8.5 |
| Net loan-to-deposit | 252.0 | 164.0 | 162.7 | 199.2 |
| Cash-to-liabilities | 12.0 | 10.9 | 11.5 | 11.1 |
| ROAA | 0.5 | 2.1 | 1.6 | 1.6 |
| ROAE | 4.8 | 23.4 | 18.5 | 19.1 |
| Net % margin | 24.0 | 21.0 | 20.0 | 25.6 |
| NII-to-op income | 82.1 | 61.0 | 59.9 | 61.9 |
| Cost-to-income | 71.6 | 54.3 | 55.1 | 54.7 |
| LLR | 6.2 | 3,678 | 14.9 | 15.4 |
| 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.

# Russian Standard Bank: Key quarterly UAS financials and ratios

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

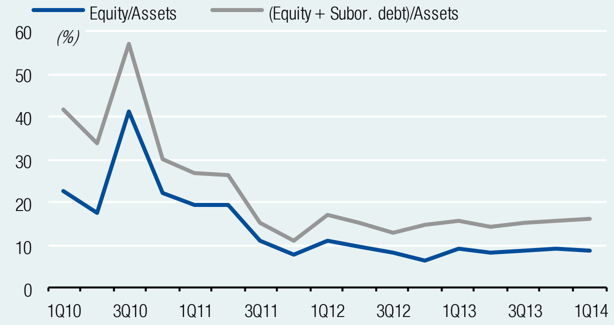
| | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet figures (UAHm)** | | | | | | | | | |
| Assets | 1,497 | 1,715 | 2,069 | 2,729 | 3,222 | 3,616 | 3,538 | 3,652 | 3,351 |
| Cash and cash equivalents | 260 | 163 | 203 | 315 | 418 | 572 | 488 | 381 | 341 |
| Gross loans | 1,242 | 1,514 | 1,857 | 2,477 | 2,817 | 3,095 | 3,230 | 3,509 | 3,144 |
| Gross business loans | 51 | 62 | 61 | 87 | 79 | 78 | 64 | 43 | 17 |
| Gross household loans | 1,191 | 1,452 | 1,796 | 2,390 | 2,738 | 3,017 | 3,166 | 3,466 | 3,126 |
| Loan loss reserves (LLR) | -80 | -106 | -151 | -179 | -253 | -354 | -435 | -524 | -485 |
| Deposits | 483 | 551 | 635 | 918 | 1,511 | 1,859 | 1,860 | 1,835 | 1,335 |
| Business deposits | 30 | 71 | 86 | 182 | 63 | 68 | 77 | 97 | 82 |
| Household deposits | 454 | 480 | 549 | 736 | 1,448 | 1,791 | 1,783 | 1,738 | 1,253 |
| Total equity | 163 | 164 | 166 | 178 | 286 | 288 | 312 | 335 | 285 |
| **Quarterly P&L (UAHm)** | | | | | | | | | |
| Net interest income | 8 | 22 | 30 | 204 | 165 | 171 | 196 | 42 | 191 |
| Net commission income | 61 | 75 | 96 | -22 | 29 | 41 | 31 | 201 | 57 |
| Operating income (before LLP) | 88 | 107 | 136 | 176 | 203 | 233 | 252 | 269 | 275 |
| Operating expenses | -69 | -80 | -89 | -120 | -115 | -126 | -139 | -147 | -140 |
| Loan loss provisions (LLP) | -19 | -26 | -45 | -37 | -78 | -103 | -84 | -92 | -128 |
| Net income | - | 1 | 2 | 12 | 7 | 2 | 23 | 24 | 4 |
| **Last 12-month period P&L (UAHm)** | | | | | | | | | |
| Net interest income | 22 | 40 | 62 | 264 | 421 | 570 | 736 | 574 | 743 |
| Net commission income | 195 | 243 | 299 | 210 | 178 | 144 | 80 | 302 | 354 |
| Operating income (before LLP) | 311 | 385 | 416 | 507 | 622 | 748 | 864 | 957 | 1,201 |
| Operating expenses | -249 | -300 | -309 | -358 | -404 | -450 | -500 | -527 | -657 |
| Loan loss provisions (LLP) | -61 | -83 | -104 | -127 | -186 | -263 | -302 | -358 | -468 |
| Net income | - | 1 | 3 | 15 | 22 | 23 | 45 | 56 | 58 |
| **Growth rates (%YoY)** | | | | | | | | | |
| Assets | 161.3 | 192.7 | 102.4 | 87.7 | 115.2 | 110.8 | 71.1 | 33.8 | 4.0 |
| Gross loans | 267.5 | 255.4 | 157.9 | 120.6 | 126.8 | 104.4 | 73.9 | 41.7 | 11.6 |
| Deposits (by businesses) | 42.9 | 208.7 | 186.7 | 391.9 | 110.0 | -4.2 | -10.1 | -46.9 | 31.5 |
| Deposits (by households) | 1,127.0 | 772.7 | 433.0 | 295.7 | 218.9 | 273.1 | 224.9 | 136.2 | -13.5 |
| Deposits (total) | 732.8 | 606.4 | 377.4 | 311.7 | 212.8 | 237.4 | 193.0 | 99.9 | -11.6 |
| Total equity | 45.5 | 46.4 | 46.9 | 57.5 | 75.5 | 75.6 | 88.1 | 88.5 | -0.3 |
| **Key ratios (%)** | | | | | | | | | |
| Capital adequacy ratio (R2 by NBU) | 20.0 | 15.6 | 13.3 | 11.8 | 17.1 | 15.0 | 15.3 | 14.1 | 14.0 |
| Equity/assets | 10.9 | 9.6 | 8.0 | 6.5 | 8.9 | 8.0 | 8.8 | 9.2 | 8.5 |
| (Equity + sub-debt)/assets | 17.2 | 15.2 | 12.8 | 14.5 | 15.8 | 14.2 | 15.3 | 15.5 | 16.1 |
| Cash & cash equivalents/liabilities | 19.5 | 10.5 | 10.7 | 12.4 | 14.2 | 17.2 | 15.1 | 11.5 | 11.1 |
| Current liquidity (R5 by NBU) | 172.5 | 101.2 | 69.1 | 69.1 | 224.9 | 238.0 | 120.8 | 0.0 | 0.0 |
| Gross loans/deposits | 257.1 | 274.8 | 292.4 | 269.8 | 186.4 | 166.5 | 174 | 191.3 | 235.5 |
| Net loans/deposits | 240.6 | 255.5 | 268.7 | 250.4 | 169.7 | 147.4 | 150.3 | 162.7 | 199.2 |
| Cost-to-income ratio | 80.1 | 77.9 | 74.3 | 70.6 | 65.0 | 60.2 | 57.9 | 55.1 | 54.7 |
| Net interest margin | 2.4 | 3.5 | 4.4 | 15.7 | 20.5 | 23.7 | 27.5 | 20.0 | 25.6 |
| ROAA | - | 0.1 | 0.2 | 0.7 | 0.9 | 0.8 | 1.4 | 1.6 | 1.6 |
| ROAE | - | 0.7 | 2.0 | 8.9 | 11.1 | 10.0 | 16.9 | 18.5 | 19.1 |
| NII/operating income | 7.1 | 10.4 | 14.9 | 52.1 | 67.7 | 76.2 | 85.2 | 59.9 | 61.9 |
| Core income/operating expenses | 87.1 | 94.3 | 116.8 | 132.4 | 148.3 | 158.7 | 163.0 | 166.1 | 167.0 |

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

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

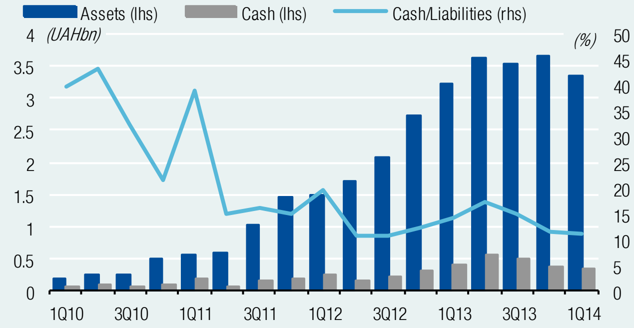
# Russian Standard Bank: Key credit metrics

### Chart 127. Capitalisation



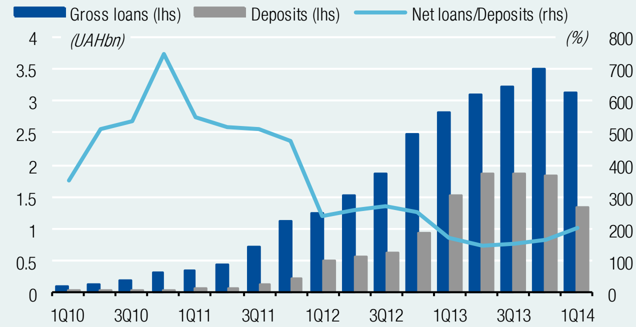

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 128. Liquidity



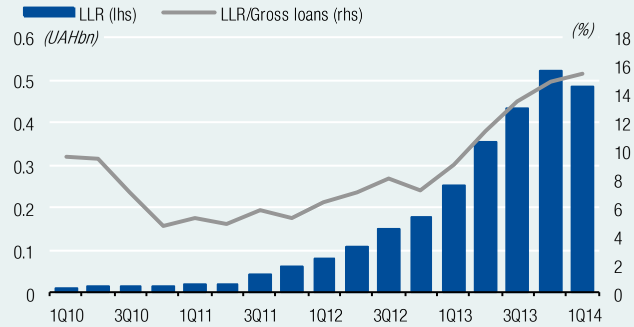

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 129. Loans and deposits



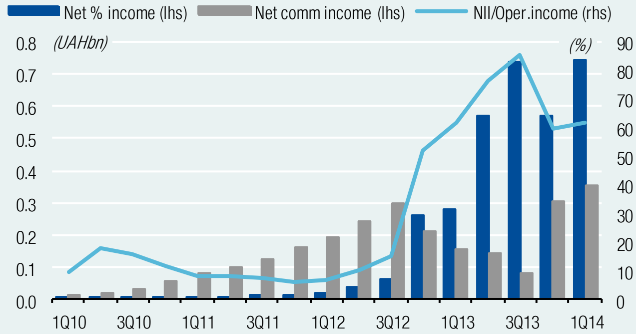

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 130. Loan loss reserves history



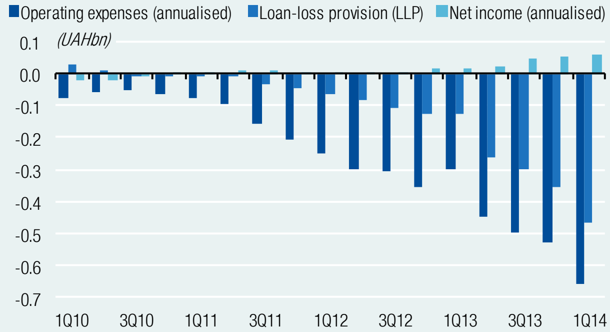

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 131. Income structure (annualised basis)



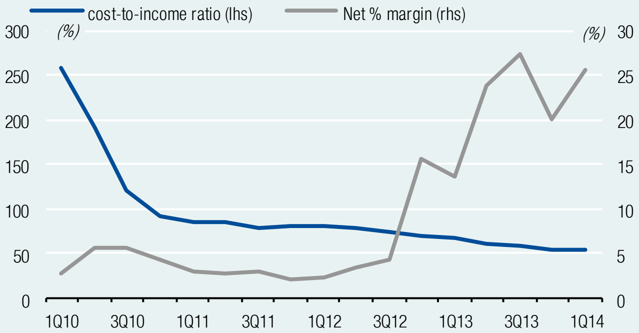

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 132. Expense and net income (annualised basis)



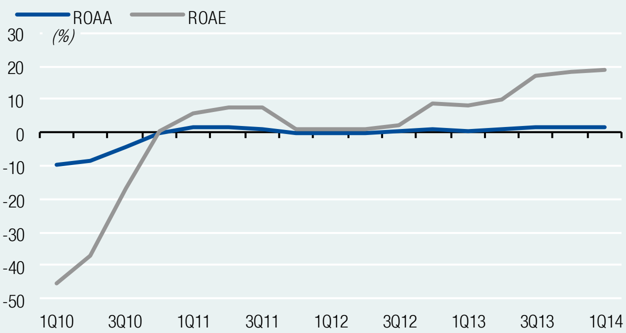

Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

### Chart 133. Financial performance ratios




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

### Chart 134. Financial performance ratios




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

# Disclosures

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