



INVESTMENT CAPITAL UKRAINE
INVESTMENT BANKING

Focus
Ukraine

Scope
Debt markets

Sector
Banks

Banking sector primer From lending to landing



Alexander Valchyshen
alexander.valchyshen@icu.ua

Andriy Kyrushko
andriy.kyrushko@icu.ua

Taras Kotovych
taras.kotovych@icu.ua

**January
2012**

READ FIRST THE DISCLOSURES SECTION FOR IMPORTANT DISCLOSURES
AND ANALYST CERTIFICATION

Contents

Executive summary	5
On the banking sector.....	5
On the banks' bond market.....	6
Banking sector view	8
Shape of the sector over the next three-year period.....	8
Yearly forecast.....	14
Quarterly forecast.....	15
Monetary policy	16
Current policy stance.....	16
Policy normalisation issue.....	18
Domestic fractions, Eurozone shadow, and the Russian hand	20
Breakdown of the domestically owned banks.....	20
Internationalisation.....	24
Russia: Own agenda.....	26
EU: Kicking the can down the road.....	27
Spotting the names likely to pull out.....	29
Assessing the chances of EU banks to pull out.....	37
Balance sheet and profitability	41
Liquidity.....	41
Lending activity.....	44
Assets quality and reserves.....	47
Funding.....	49
Capitalisation.....	53
Foreign-currency position.....	55
Fixed-income markets: Banks' bonds	57
Local-currency bond market.....	57
Eurobond market.....	62
Banks' credit analysis pages	69
A comparable view of the banks.....	70
<i>Ukreximbank</i>	74
<i>Privatbank</i>	81
<i>Oschadbank</i>	88
<i>UkrSibbank</i>	95
<i>Alfa-Bank (Ukraine)</i>	102
<i>First Ukrainian International Bank</i>	109
<i>Prominvestbank</i>	116
<i>Nadra Bank</i>	122
<i>VAB Bank</i>	127
<i>VTB Bank (Ukraine)</i>	134
<i>Finance and Credit Bank</i>	140

RESEARCH TEAM

Alexander Valchyshen
Head of research
alexander.valchyshen@icu.ua
Kiev, +38 044 2200120 ext. 242

Taras Kotovych
Fixed-income analyst
taras.kotovych@icu.ua
Kiev, +38 044 2200120 ext. 244

Andriy Kyrushko
Fixed-income analyst (Banks)
andriy.kyrushko@icu.ua
Kiev, +38 044 2200120 ext. 243

PUBLICATION DATE

31 January 2012 22:01

<i>Sberbank of Russian Federation (Ukraine)</i>	145
<i>Delta Bank</i>	151
<i>ProCredit Bank Ukraine</i>	154
<i>Bank Credit Dnepr</i>	160
<i>Russian Standard Bank (Ukraine)</i>	166
<i>Megabank</i>	172
<i>Ukreximbank</i>	178

Appendix	179
Payback schedule of Eurobond debt by banks.....	179
<i>Yearly schedule of payments in 2012-31</i>	179
<i>Daily schedule of payments 2012-16</i>	180

Executive summary

With this report on Ukraine's banking sector and banks' fixed-income securities traded in the Eurobond and domestic capital markets, we initiate our regular research publications on this subject and our views on the sector's mid-term prospects, i.e., for the next three-year horizon, and provide a credit analysis of the Ukrainian banks that have bonds outstanding on the debt markets.

On the banking sector

The banking sector: Leaner, but still a diverse sector. In 2012-14, the standard, three-year period of our forecast view, Ukraine banks as a whole are facing these prospects. First, lending growth most likely to remain anaemic. Meanwhile, as the second point goes, banks are set to continue their recent routine of turning back to their core funding source, which is attracting deposits. As a result, this should gradually bring down the quite high level of the loans-to-deposits ratio of 1.7x as of year-end 2011 towards 1.2x as early as the first quarter of 2014.

Indeed, rebalancing the balance sheet of the banking sector is one of key themes of our forecast. This process of rebalancing will be a result of improved credit risk policies, maintaining larger liquidity buffers on the books, and writing off bad loans, with a prime focus, as mentioned above, on deposits as a key source of funding for the sector.

Our view on the sector in 2012-14 stipulates a decrease in the loans-to-GDP ratio during the forecast period. This is mainly to the fact that the economy became overexposed during the recent credit boom of 2005-08 to asset bubbles like real-estate and overconsumption of imported durable goods. Hence, a slower pace of banks' credit portfolio growth than nominal growth of the economy would result in the banking sector's shrinkage if measured by the size of loan portfolio to GDP. To be more precise, we forecast that Ukraine's current loans-to-GDP ratio of 60% will decrease gradually to 48% at the end of 2014.

This said, we knowingly refrain from the discussion of what kind of target in term of loans-to-GDP ratio Ukraine will be striving to achieve during our period of forecast, i.e., 2012-14. Our thinking is aligned to the idea that quantitative parameters for bank lending in the economy are not appropriate, but it is rather qualitative parameters that are. Among these (latter) parameters are accessibility of credit to businesses and households at affordable interest rates, as well as general financial stability, which aids sustainable economic growth.

Eventually, the banking sector will naturally preserve its current diversity in terms of the number of players, ownership (state, foreign, and private capital bases), risk appetite, and business profile (see "Banking sector view" on page 8).

Monetary policy impact. As of today, we see several key factors that shape the NBU's monetary policy: among them, the currency peg and the central bank's balance sheet are of top priority now, thanks to low inflation. The second-tier factors are the reserve requirements policy, which is more about fighting dollarisation, and the anti-inflationary stance of the NBU. In some areas of monetary policy, the NBU has gone beyond its conventional boundaries: there have been no reserve requirements on local-currency deposits for the last three years, and sizable expansion of the central bank's balance sheet has been in play since the 2008 crisis. So far, inflation dynamics have not been a concern; however, in the long term, those unconventional elements of the NBU's monetary policy

may backfire with inflation ticking up. Hence, the NBU at some point in the future will be forced to normalise its policy tools. Such a backward shift to 'normality' may coincide with unpleasant upward pressure on interest rates, lower liquidity, lower bank credit growth, and eventually, weaker economic growth (see "Monetary policy" on page 16).

On the banks' bond market

Dimensions of the market for bonds issued by banks. Over the first half of 2011, there was a kind of renaissance in bond issuance by local banks on the domestic bond market, when nearly UAH4bn of new bonds were brought to market. Then, early in the second half of the year, the local-currency bond market largely suspended its vigorous pace of the previous six-month period. Due to the domestic liquidity squeeze, banks' bond placements on the market stopped, while only so-called technical placements (representing intra-group funding) dominated. In total, new bonds by banks amounted to UAH5.5bn (see Table 15 on page 60). On the Eurobond market, nearly the same pattern was observed, with only state-owned banks Oschadbank and Ukreximbank managing to raise US\$1bn in total, resulting in a US\$4bn Eurobond market for bonds issued by Ukraine's banks (see Table 17 on page 65). In 2012, clouded by politics and a challenging macro environment, we do not expect sizable new offerings coming to the Eurobond market; rather, Ukraine's banks as a whole will continue their deleveraging, and the market is set to contract by US\$0.7-0.8bn, to nearly US\$3bn¹. On the domestic bond market, banks' issuance will be derivative of a handful of variables, of which: 1) a possible sovereign downgrade; and 2) authorities' rigid economic policies (for the sake of winning parliamentary elections this fall) are likely to drag market activity down.

Investing in Ukraine banks' bonds: 2011 was a challenging year. It was a challenging year for the investors in Ukraine's bonds in general, and in the banks' bonds in particular. Judging from the price performance of Oschadbank's and Ukreximbank's benchmark bonds, the OSCHAD 8.25% '16 and EXIMUK 8.375% '15, investors lost 22 and 13 percentage points of the bond prices, respectively, over the course of 2011. In relative terms, the spreads of these bonds over the sovereign bond widened by 130bp and 120bp, respectively². In 2012, especially in the first half of the year, there will still be downward pressure on the banks' bond prices, as the Eurozone debt crisis and negative sentiments towards Ukraine's macro picture will do factor in. On the local bond market, the banks' bonds represent an opportunistic investment play in names with investment-grade parents, while providing double-digit coupon rates attached to their UAH bonds. For instance, Prominvestbank, which is owned by Russia's VEB (Baa1/BBB/BBB³), provides a 16% coupon for its bondholders⁴.

The names we like from a credit perspective. From the list of banks covered in this report, the bonds of which are available on the markets (Eurobond and domestic), we

¹ Here we assume that Ukreximbank will manage to refinance its US\$250m bond due in October, while Privatbank and Alfa-Bank (Ukraine) are redeeming their Eurobonds, all due in the period of February-July, in the total of US\$815m.

² These spread figures are measured over the course of last half a year, between June and December 2011.

³ Credit ratings by Moody's, S&P, and Fitch, respectively.

⁴ On 23 December 2011, it was reported that the bank increased the coupon rate on its UAH bond (A series UAH500m bond) from 13% to 16%, which will be paid during quarterly in 2012. The bank has the option to reset its coupon rate annually to reflect changing interest rate conditions on the local market.

would like to distinguish just a few banks. The analysis of the financials⁵ of these banks led us to believe that in relative terms, they have lower credit risk, in particular, higher liquidity and solvency characteristics (see “Banks’ credit analysis pages” on page 69). This list starts with state-owned Ukreximbank and Oschadbank, which have been enjoying support from the authorities. We realise that these two banks have been instrumental in the hands of the authorities to carry out their policies (including the support of Naftogaz). Hence, the quality of their assets is a proxy of sovereign credit risk. At the same time, in times of continued troubles facing the local banking sector and the real economy, these banks will be the prime beneficiaries of the NBU's balance sheet expansion (resulting in increased capitalisation and liquidity).

Of the domestic, private-sector banks, this list includes First Ukrainian International Bank (FIUB) as the most attractive from the credit metrics point of view. While FIUB not only enjoys backing from the largest private business group in Ukraine, SCM, which itself is close to the authorities, the bank also exhibits moderate risk policies, with a notable margin of safety, so we do not see any material issues for the bank in the nearest future. Further, we place on this list three banks with support from large Russian sovereign capital, Prominvestbank, VTB Bank (Ukraine) and Subsidiary Bank Sberbank of Russia (Ukraine). While we cannot state that their books are without any problematic areas, we nevertheless strongly believe they will enjoy parent support (on the matter of parent bank support, we cannot be quite sure about local banks that have EU parents). In closing the list, we mention ProCredit Bank as one that is relatively small, however, without material issues on its balance sheet that would worsen its credit metrics.

⁵ The analyzed financials are quarterly financials compiled by Ukrainian accounting standards (UAS) and if available the IFRS financials.

Banking sector view

Below, we provide our views on the key factors that will most likely shape Ukraine's banking sector over the upcoming 12-month period and subsequent two years. Effectively, this report provides a three-year forecast of the main indicators of the banking sector. Alongside a yearly forecast for the period of 2012 till 2014 (see Table 1 on page 14), there is a more detailed forecast of the same indicators in a quarterly breakdown of the same period, i.e., from the first quarter of 2012 to the fourth quarter of 2014 (see Table 2 on page 15).

Shape of the sector over the next three-year period

The state of Ukraine banks' operations over the next three years, we believe, will depend on the ability of the domestic economy to: 1) escape a second wave of recession on domestic soil and abroad if a recession materialises; 2) weather a possible tightening of the monetary policy by the NBU; 3) see a resolution to the Eurozone debt crisis; and 4) have general access to domestic (official and private) and external liquidity by the banks. In more detail, our view on the sector consists of the following considerations.

An economic slowdown in 2012, according to our macro view, does not endanger the banking sector; ...

Economic growth and local currency. First, Ukraine's economy fared relatively well in 2012, with real GDP growth at about 5% YoY, beating our own forecast of 4.2% YoY. There is still reasonable concern among the private sector forecasters, including ourselves, that in the environment of a continued downward revision of the growth projection for 2012⁶, Ukraine's economy is at a downside risk as for growth in 2012.

Ukraine's economy could face demand by the markets to drop its rigid foreign-exchange policy of keeping the nominal exchange rate of the local currency stable as foreign investors in local-currency sovereign debt are walking away, and the currency futures market, albeit in offshore trading on the NDF market, is pricing a weaker currency one year from now. As mentioned above, we do share concerns over the near-term future of Ukraine's economy, as we do not yet see a reason to review our own 2012 growth forecast of 3.5% YoY, which was published in early November in our *Quarterly Report* "Big Bazooka' game"⁷. This is due to a somewhat resilient performance by the global economy in the 4Q11 and likely spells a growing economy in Ukraine in the current year.

... however, possible exchange-rate fluctuations do matter

As for the exchange rate, we also stay inclined to our previous forecast of the UAH exchange rate, which we see at 8.33/USD on average this year, implying a managed weakness of the currency to soften recent global swings in financial market sentiment. In our view, there are two factors that do not support broader devaluation of the hryvnia. First, Ukraine's economy, from the 2009 recession to date, has accumulated imbalances (a twin deficit in the fiscal and foreign trade sides) that are mostly in the hands of authorities, namely, Naftogaz and its rigid natural gas tariff policy.

For authorities to allow the hryvnia to weaken would mean to expose themselves to the wider fiscal deficit, which would need additional financing. Second, our calculation of the

⁶ For instance, on 24 January 2012 EBRD lowered its forecast of Ukraine real GDP growth by 1ppt, from 3.5% YoY to 2.5% YoY (<http://www.ebrd.com/pages/news/press/2012/120124.shtml>).

⁷ In fact, this forecast made in early November was a downward revision of the forecast of 5.2% growth in 2012 made by us in the *Quarterly Report* "Walking a tight rope" published in June 2011.

hryvnia's real trade-weighted index (see Chart 1, pp.9) shows there is still room for the currency to catch up with its long-term average, further supporting an upward path of the index through inflation or nominal appreciation, or a combination of both.

The authorities' view on nominal exchange-rate stability (after several episodes of deep devaluations of the local currency in the last 15 years) is that it is the main anchor for predictable economic and fiscal performance that would, as they hope, eventually lead to greater social coherence. The prime victim of this stance by authorities over the recent past has been the banks' liquidity, which has been a tool in the hands of the NBU for preventing unwanted adjustments in the nominal exchange rate, USD/UAH. This was the case in 2H11 for monetary policy, and may be utilised as well in 2012, if pressure on the hryvnia mounts. This policy, which stalls economic activity and at times may limit exchange-rate adjustment (sought by the manufacturing sector to regain its external competitiveness), may nevertheless result in two possible outcomes.

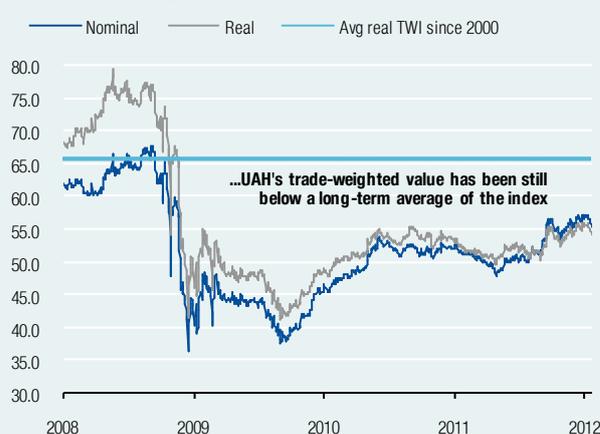
Chart 1. Depiction of change in UAH trade-weighted value over the last (a) 12-month period and (b) four years of 2008-11

Daily ICU's trade-weighted indices of UAH over last 12 months



Source: Investment Capital Ukraine LLC.

Daily ICU's trade-weighted indices since January 2008 till nowadays



Source: Investment Capital Ukraine LLC.

The first scenario for the USD/UAH rate, a mild one, would erase just 0.2ppt from the sector's capitalisation

The first (successful) scenario would be when the NBU withstands market stress and hence pressure on the UAH to adjust until fall 2012, when parliamentary elections will be held. The central bank may allow a managed devaluation of the local currency of up to 8.33/USD as the year average, according to our base macro scenario (which was described in more detail in last November's *Quarterly Report*), which is based on the assumption that some kind of new agreement will be struck between Ukraine and Russia in the current (burdensome) agreement on natural gas imports by the former from the latter. And, this new agreement would fix Ukraine's current external imbalance via the current account (lower trade deficit) and capital account (participation of Russian capital in the privatisation of Ukraine state-owned assets). In the end, such an outcome would leave Ukraine better positioned for possible, adverse developments in the financial markets (domestically and abroad) and allow it withstand these market pressures with a managed weakening of the exchange rate, and not allowing a steep devaluation.

Later on, starting from 2013, in our view, the NBU would shift its monetary policy from targeting the exchange-rate peg to targeting low inflation instead, thus preventing asset bubbles in the future. Under this scenario, according to our assessment, the banking sector could experience a mild/considerable capital erosion of UAH2.1bn size (impact of sector wide

capitalisation would be a mere decline of 0.2ppt in R2⁸), if we assume that its open currency positions fully un-hedged⁹.

The second scenario, a stressful one, would hit the sector with a heavy impact

The second scenario (unsuccessful) may end with uncontrolled devaluation of the local currency (down to 11.00/USD implying the historic lows, in trade-weighted terms, when the external competitiveness of Ukraine's manufacturing sector is restored, on par with the last such adjustment, of 4Q08) and a far poorer shape of the banking sector as for assets quality, capitalisation, and profitability. In this extreme case, the banking sector as a whole would be hit by a UAH51.4bn capital erosion (R2 would drop by 5.6ppt to 13.3%) due to currency devaluation (UAH22.6bn) and an increase in non-performing loans, as such a devaluation would automatically mean a recession in the economy (UAH28.8bn).

The first outcome, in fact, is a part of our base-case scenario for Ukraine's economy¹⁰ and its banking sector, while the second is our worst-case scenario.

World financial tendencies play a significant role in the Ukrainian banking sector's development

Eurozone debt crisis. Second, as the crisis is still unfolding, those banks with roots in EU countries are likely as a whole to continue shrinking their balance sheets, in addition to effecting structural optimisations (e.g., Swedbank's exit from retail¹¹); some banks that are considering a total pullout from the country may succeed (e.g., SEB selling its local arm to Ukrainian private investors¹²); while many will probably find it difficult to dispose of assets in the currently highly stressful market conditions for banks¹³. For more on this, please refer to the "Spotting the names likely to pull out" section on pp .29.

Russian banks' growth will likely decline during 2012, ...

Russian factor. Third, local banks whose ultimate owners are in Russia, however, will likely not see material growth next year, such as what has been observed during the past two years (when gross credit portfolios increased by 19.1%, to UAH19.1bn, and total assets increased by 15.2%, to UAH123.7bn as of 3Q11). However, they should maintain the current levels of their balance sheets, the result of Russian domestic elections and the current unattractiveness of the Ukrainian banking sector, with its recently decreased profit due to increased risk.

... while the Ukrainian "Big Guys" will be the key players

"Big Guys" banks. Fourth, amid the above-mentioned factors, a static, key driver of growth in the banking sector still will be the so-called "Big Guys," banks which are owned by the largest private business groups of Ukraine. These include Privatbank and Finance and Credit Bank, to name just a few. The operations of this group are likely to extend their practice of lending to affiliated structures (as well as taking on deposits), further heightening the related party transactions risk, along with particular consequences that might possibly develop, such as a spike in non-performing loans, or abnormal deposits withdrawal, to name just few.

⁸ According to our calculations, NBU's regulatory capital adequacy ratio of the banking sector would decline from 18.9% as of end 3Q11, by 0.2ppt to 16.4%.

⁹ As for the issue of hedging of open currency position by commercial banks please refer to section "Foreign-currency position" on pp.55.

¹⁰ For this view, please, refer to our *Quarterly Report* "Big bazooka' game" published on 2 November, 2011.

¹¹ According to Swedbank's official press release, Swedbank Group decided to forgo the retail sector in Ukraine, with a clear focus on large and medium-sized businesses. The plan is expected to be fully completed within two years.

¹² In November 2011, SEB Bank announced its exit from the retail business in Ukraine with the sale of its retail structures to the Eurobank Group (currently controlled by Alexander Adarich, who was UkrSibbank's chairman of the board during 2002-08). The Swedish group will further focus on the corporate segment, operating through the recently created bank Akzept Bank, which actually holds a banking license without a network branch and clients.

¹³ For instance, ING moved back its previously announced plan to sell its insurance operations in Belgium, citing the difficulties the financial companies may encounter while selling some of its assets in the current, very unfavourable market conditions. See *Wall Street Journal*, "ING Axes Sale Plan for Belgian Insurance," 28 December, 2011.

State-owned banks will enjoy liquidity through government support, ...

State-owned banks. Fifth, state-owned banks will preserve their privileged status of being close to the official liquidity window, i.e., to the central bank, as they will continue to be instrumental in assisting the authorities to realise government policies. For instance, the official support of Naftogaz is one such government policy aimed at maintaining social “stability” and ultimately, keeping the ruling parties’ seats warm.

... and 1H12 will be quite tough for the overall Ukrainian banking system

Downside risk to banks’ profitability. Sixth, along with the above-described points, we foresee quite a tough period for the Ukrainian banking sector during 1H12. Banks’ interest expenses should materially increase, along with an increased cost of borrowings, with pressure on banks’ profitability. Considering the credit portfolios that have still not completely cleared up in many of the Ukrainian banks, pressure on net income might also come from the loan-loss provisions perspective, and will also significantly increase in the event of UAH devaluation.

Although banks are better prepared for economic worsening, still, there are some weak players for which, in a worst-case scenario, we do not preclude a recurrence of 2009’s situation of the entrance of the Provisional Administration from the NBU on the scene, along with an increase in clients’ funds outflows on a wave of panic. This condition is also worsened by the absence of reliable support from the EU parents’ side; thus, such pessimistic scenarios are not excluded even for banks with EU roots, which played a material supportive role to the Ukrainian banking system during the years 2008-09.

Still, we currently expect further improvements at end-2012, with continuing structural optimisations and cuts in costs

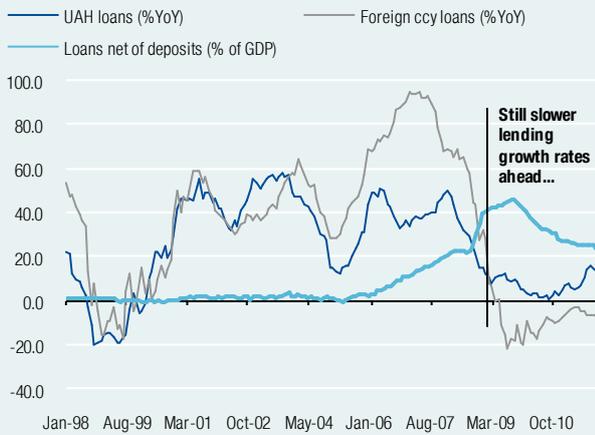
Slower lending growth. Seventh, our key scenario currently assumes a rather tough 1H11, but with further improvements at year-end 2012. This scenario supposes a decrease in the loans-to-GDP ratio during this period, considering the slower pace of banks’ credit portfolio growth, if not even their shrinkage. This said, we knowingly refrain from the discussion of what kind of target in terms of loans-to-GDP ratio Ukraine will have during the period under our forecast, i.e., 2012-14.

Our thinking is aligned to the idea that quantitative parameters for bank lending in the economy are not appropriate, but it is rather qualitative parameters that are. Among these parameters are accessibility of credit to businesses and households at affordable interest rates, as well as general financial stability that aids sustainable economic growth.

The recent “boom” years of 2005 till early 2008, when real growth of the banking sector loan portfolio, e.g., in foreign currencies, was near a 100% year-on-year mark, are indeed in the past. The future, in our view, is about banks rebalancing their balance sheets by different ways (see our next viewpoint next page), but the direction is without question downward (Chart 2, pp.12).

Chart 2. Why banks are doomed to shift their focus from lending to deposit taking

Banking sector's loan portfolio real growth rates (in local and foreign currencies) at constant prices of December 1997 versus the size of mismatch between loans and deposits as share of GDP. History from January 1998 till December 2011



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

Banking sector-wide loan-to-deposit ratios (total, in local and foreign currencies). History from January 1997 till December 2011



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

Banks will tend to improve their balance structure via improved risk-policies and active deposit taking, ...

Rebalancing. Eighth, as far as banks' books are concerned, the most bold developments of all the above-mentioned will be the rebalancing of the banks and the entire sector from operations that feature an unsustainably high loan-to-deposit ratio towards the old norm of loan-to-deposit ratios of 1.0-1.2x. Currently, the sector-wide ratio of loans to deposits is at 1.7x as of the end of 3Q11, and we base our forecast for the banking sector on the premise that the loans-to-deposits ratio will further decrease (gradually down to 1.4x at year-end 2012, and further down to 1.2x in early 2014). This will be a result of improved credit risk policies, the maintaining of larger liquidity buffers on the books, writing off of bad loans, and a prime focus on deposits as a key source of funding for the sector. Inevitably, there is currently great attention to deposit-taking activity. Indeed, our base-case macro scenario assumes a growing economy in the forecast period of 2012-14, and this factor will be a key one on feeding the banks' liabilities side with deposits. However, another factor that would support the flow of funds into the banks is banks' competition for funds among themselves, as well as with a part of the "shadow economy" by (but not exclusively) attractive interest rates.

Chart 3. Why banks in Ukraine has the potential to tap the pool of funds that are out of banks

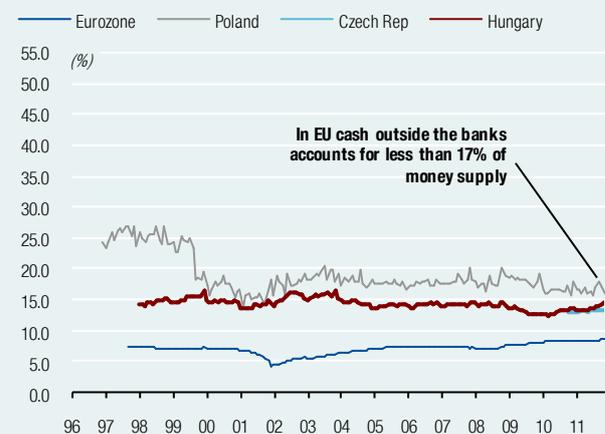
Share of M0, monetary aggregate, in money supply, or in M3 in percentage points. History from January 1996 till November 2011

In major CIS countries and Turkey



Sources: National central banks' data, ECB, Investment Capital Ukraine LLC.

In the EU member states

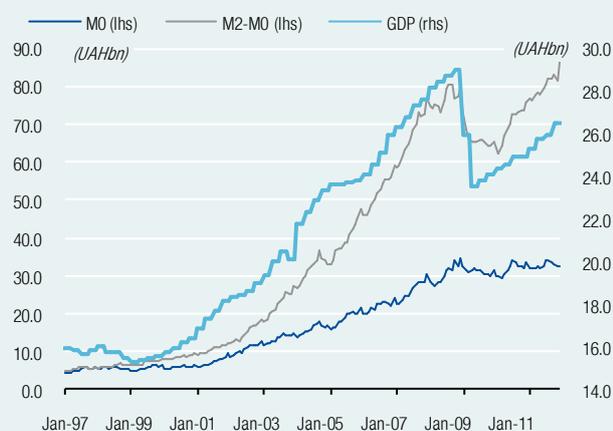


Sources: National central banks' data, ECB, Investment Capital Ukraine LLC.

Chart 4. Banks have been “eating a slice of the pie” since recovery: Banks’ core liabilities (as M2 minus M0) have indeed restored a bit above the pre-crisis level, while size of the economy in terms of GDP is still below its pre-crisis peak

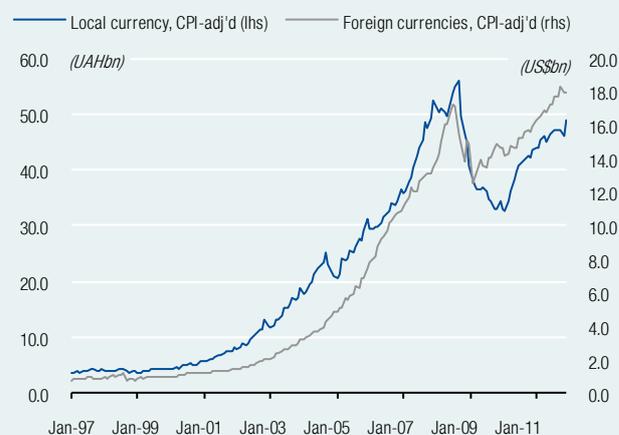
All indicators at constant prices of December 1996, i.e. adjusted for inflation by UAH CPI for local currency deposits of Ukrainian banking sector and by USD CPI for the foreign-currency deposits. History from January 1997 till December 2011

Monetary aggregates M0 (money outside banks) and M2 net of M0 (deposits in banks) versus the quarterly price and seasonally adjusted size of GDP



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

Banks’ deposits in local and foreign currencies



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

... but this time, without material capital inflows from parent companies, which was seen during 2008-09

On capitalisation. Ninth, we do not expect material capital inflows in the short term because of the intricacies in their attraction, with their mere but gradual and steady decreasing from the current 18.5% regulatory capital adequacy ratio¹⁴ (RCAR) further to 18% until 2014 (while the NBU’s required floor for this indicator is 10%). This process could be also boosted by another loop of credit portfolio impairments with increased loan-loss provisions, but even in that case, we do not expect a repeat of the 2008-09 years, when the overall banking sector’s LLR increased by more than 437%, according to the NBU’s data.

Profitability. With more reliance on commission income (as the less risky type) and cost optimisation, the overall banking system should present stable profitability no earlier than end-2012, though with the yearly net profit outlook still questionable. Assuming a gradual stabilisation of world economies during the second half of 2012 (along with Ukraine’s), we forecast that during 2013-14, the Ukrainian banking system will present material profitability growth, along with the return of the EU capital. Still, this scenario needs to be reviewed during 1H12, considering the upcoming parliamentary elections and the overall economic situation in Ukraine, factors which will play a most crucial role in the Ukrainian banking system in the short term.

¹⁴ In terms of Ukraine’s central bank regulatory requirements.

Yearly forecast

Table 1. Ukraine's banking sector: key indicators and 3-year forecast

	Historical data by National Bank of Ukraine, 2000-11												Forecast by ICU		
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012F	2013F	2014F
Quantity of banks															
Total number ¹	153	152	157	157	160	163	169	173	182	182	176	177	173	173	173
Ownership															
State-owned	2	2	2	2	2	2	2	2	2	5	5	5	5	4	3
Private	151	150	155	155	158	161	167	171	180	177	171	172	168	169	170
Domestic	122	131	137	138	141	140	134	126	129	131	121	122	124	124	124
Foreign (ttl)	31	21	20	19	19	23	35	47	53	51	55	56	54	54	54
Foreign (100%)	7	6	7	7	9	9	13	17	17	18	20	21	19	19	19
Concentration (% of total assets)															
Top 5 banks	N/A	N/A	39.4	38.1	37.2	36.2	35.3	33.1	33.3	34.8	36.8	37.6	38.4	39.2	40.0
Top 10 banks	N/A	N/A	54.1	53.7	53.1	53.8	52.4	49.7	52.0	53.2	53.9	54.1	56.1	58.0	60.0
Absolute dimensions (UAHbn)															
Assets	37.1	47.6	64.0	100.4	134.5	213.9	340.4	598.3	927.2	890.7	945.5	1,121.4	1,136.1	1,188.0	1,267.6
Capital	N/A	N/A	N/A	N/A	17.3	25.7	43.3	69.9	121.4	126.2	141.7	157.0	162.9	174.4	190.6
Loans	19.1	28.4	42.0	67.8	88.6	143.4	245.2	426.9	734.0	723.3	732.8	809.1	819.8	857.2	914.7
Deposits	18.6	25.7	37.7	62.5	84.6	134.8	185.9	283.9	359.7	335.0	416.6	497.8	565.0	658.3	762.2
Relative dimensions (% of GDP)															
Assets	21.8	23.3	28.3	37.5	38.9	51.1	63.5	83.9	97.8	97.5	86.4	84.1	76.8	70.6	66.5
Capital	N/A	N/A	N/A	N/A	5.0	6.1	8.1	9.8	12.8	13.8	12.9	11.8	11.0	10.4	10.0
Loans	11.2	13.9	18.6	25.4	25.6	34.3	45.8	59.9	77.4	79.2	66.9	60.7	55.5	50.9	48.0
Deposits	10.9	12.6	16.7	23.4	24.5	32.2	34.7	39.8	37.9	36.7	38.1	37.3	38.2	39.1	40.0
Growth rates (%YoY)															
Assets	N/A	28.2	34.5	56.8	34.0	59.0	59.1	75.8	55.0	-3.9	6.2	18.6	1.3	4.6	6.7
Capital	N/A	N/A	N/A	N/A	N/A	48.3	68.6	61.4	73.7	4.0	12.3	10.8	3.7	7.1	9.3
Loans	62.3	48.4	48.2	61.4	30.6	61.9	71.0	74.1	72.0	-1.5	1.3	10.4	1.3	4.6	6.7
Deposits	52.9	38.1	46.9	65.7	35.4	59.3	38.0	52.7	26.7	-6.9	24.4	19.5	13.5	16.5	15.8
Nominal GDP	33.8	20.1	10.6	18.4	29.4	21.0	28.0	33.0	33.0	-3.7	19.8	21.8	10.9	13.9	13.2
Ratios³															
Regulatory capital (%)	N/A	N/A	N/A	N/A	N/A	15.0	14.2	13.9	15.1	19.8	23.4	21.1	20.0	19.0	18.0
Regulatory Tier 1 (%)	N/A	N/A	N/A	N/A	N/A	11.5	10.8	10.1	12.1	15.6	16.9	15.7	14.7	13.6	12.6
Capital-to-Assets (%)	N/A	N/A	N/A	N/A	N/A	11.9	12.5	11.6	12.9	13.1	14.6	14.0	14.3	14.7	15.0
Liquid assets (%)	N/A	N/A	N/A	N/A	N/A	18.0	14.3	11.6	9.4	11.5	10.2	9.6	11.5	13.1	14.0
LA to ST liabilities (%)	N/A	N/A	N/A	N/A	N/A	31.0	26.9	23.5	21.9	25.8	20.8	19.9	22.3	24.6	26.9
NPLs (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.9	13.7	15.3	14.5	11.3	8.2	5.0
Loan-to-deposit ² (x)	1.0	1.1	1.1	1.1	1.0	1.1	1.3	1.5	2.0	2.2	1.8	1.6	1.5	1.3	1.2
LD (x, local currency)	0.9	0.9	1.0	0.9	1.0	0.9	1.1	1.1	1.5	2.1	1.7	1.8	1.6	1.4	1.2
LD (x, foreign ccy)	1.3	1.5	1.5	1.4	1.2	1.3	1.7	2.3	2.7	2.3	1.9	1.5	1.3	1.2	1.2
FC loans (% of total)	46.5	44.2	41.8	41.7	42.2	43.3	49.5	49.9	59.1	50.8	46.0	40.6	36.5	32.8	30.0
FC deposits (% of ttl)	38.5	32.3	32.0	32.0	37.1	34.9	38.1	32.3	43.9	48.3	42.6	45.1	41.9	36.4	30.0
National Bank of Ukraine															
Base money (UAHbn)	N/A	N/A	30.8	40.1	53.8	82.8	97.2	141.9	186.7	195.0	225.7	246.2	272.9	310.8	351.8
Base money (%YoY)	N/A	N/A	N/A	30.1	34.1	53.9	17.5	46.0	31.6	4.4	15.8	9.1	10.9	13.9	13.2
Bal. sheet (UAHbn)	N/A	N/A	58.6	73.6	90.0	125.0	141.2	198.3	356.1	388.3	456.7	468.4	469.4	477.6	476.4
Balance sheet (%YoY)	N/A	N/A	N/A	25.6	22.3	38.9	13.0	40.4	79.6	9.0	17.6	2.6	0.2	1.8	-0.3
Bal. sheet (% of GDP)	N/A	N/A	25.9	27.5	26.0	29.9	26.4	27.8	37.6	42.5	41.7	35.1	31.8	28.4	25.0
Monetary aggregates															
M3 (UAHbn)	32.3	45.8	64.9	95.0	125.8	194.1	261.1	396.2	515.7	487.3	597.9	662.7	734.7	836.5	947.0
M3 (%YoY)	46.1	41.9	41.8	46.5	32.4	54.3	34.5	51.7	30.2	-5.5	22.7	10.8	10.9	13.9	13.2

Notes: [1] licensed banks; [2] LD—loan-to-deposit ratio (in gross terms); [3] Ratios as reported in accordance with IMF's Financial Stability Indicators guidelines
ttl—total; LA—liquid assets; ST—short-term; FC—foreign currency; bal—balance; ccy—currency. Sources: NBU, ICU.

Quarterly forecast

Table 2. Ukraine's banking sector: key indicators and 3-year forecast

	2011 data by NBU			Quarterly forecast by ICU											
	2011	3Q11	4Q11E	1Q12F	2Q12F	3Q12F	4Q12F	1Q13F	2Q13F	3Q13F	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F
Quantity of banks															
Total number ¹	178	177	177	176	176	175	173	173	173	173	173	173	173	173	173
Ownership															
State-owned	5	5	5	5	5	5	5	4	4	4	4	3	3	3	3
Private	173	172	172	171	171	170	168	169	169	169	169	170	170	170	170
Domestic	122	122	122	123	123	124	124	124	124	124	124	124	124	124	124
Foreign (ttl)	56	56	56	55	55	54	54	54	54	54	54	54	54	54	54
Foreign (100%)	21	21	21	20	20	19	19	19	19	19	19	19	19	19	19
Concentration (% of total assets)															
Top 5 banks	38.2	37.4	37.6	37.8	38.0	38.2	38.4	38.6	38.8	39.0	39.2	39.4	39.6	39.8	40.0
Top 10 banks	54.2	53.7	54.1	54.6	55.1	55.6	56.1	56.6	57.1	57.6	58.0	58.5	59.0	59.5	60.0
Absolute dimensions (UAHbn)															
Assets	1,021.6	1,031.7	1,121.4	1,124.7	1,122.0	1,127.2	1,136.1	1,143.4	1,154.6	1,174.3	1,188.0	1,191.1	1,206.8	1,248.0	1,267.6
Capital	149.8	155.2	157.0	156.9	157.3	159.9	162.9	164.8	167.4	171.3	174.4	175.9	178.4	181.9	190.6
Loans	773.7	801.6	809.1	811.6	809.6	813.4	819.8	825.1	833.1	847.4	857.2	859.5	870.8	900.5	914.7
Deposits	466.0	474.4	497.8	511.8	523.6	543.3	565.0	583.9	605.6	633.0	658.3	678.9	703.5	733.6	762.2
Relative dimensions (% of GDP)															
Assets	85.5	80.7	84.1	82.5	81.0	78.8	76.8	75.3	73.7	72.1	70.6	69.0	67.9	67.7	66.5
Capital	12.5	12.1	11.8	11.5	11.3	11.2	11.0	10.9	10.7	10.5	10.4	10.2	10.0	9.9	10.0
Loans	64.7	62.7	60.7	59.5	58.4	56.9	55.5	54.3	53.2	52.1	50.9	49.8	49.0	48.8	48.0
Deposits	39.0	37.1	37.3	37.6	37.8	38.0	38.2	38.4	38.7	38.9	39.1	39.3	39.6	39.8	40.0
Growth rates (%YoY)															
Assets	14.9	12.0	18.6	12.7	9.8	9.3	1.3	1.7	2.9	4.2	4.6	4.2	4.5	6.3	6.7
Capital	14.7	14.0	10.8	10.6	5.0	3.0	3.7	5.1	6.4	7.1	7.1	6.7	6.5	6.2	9.3
Loans	10.0	10.0	10.4	7.9	4.6	1.5	1.3	1.7	2.9	4.2	4.6	4.2	4.5	6.3	6.7
Deposits	27.3	19.3	19.5	15.5	12.3	14.5	13.5	14.1	15.7	16.5	16.5	16.3	16.2	15.9	15.8
Nominal GDP	20.7	22.4	21.8	19.7	16.0	11.9	10.9	11.4	13.0	13.8	13.9	13.6	13.5	13.3	13.2
Ratios³															
Regulatory capital (%)	21.7	21.3	21.1	20.8	20.5	20.3	20.0	19.8	19.5	19.3	19.0	18.8	18.5	18.3	18.0
Regulatory Tier 1 (%)	16.2	15.9	15.7	15.4	15.2	14.9	14.7	14.4	14.1	13.9	13.6	13.4	13.1	12.9	12.6
Capital-to-Assets (%)	14.5	14.8	14.0	13.9	14.0	14.2	14.3	14.4	14.5	14.6	14.7	14.8	14.8	14.6	15.0
Liquid assets (%)	10.3	9.8	9.6	9.9	10.3	10.9	11.5	12.2	12.5	12.8	13.1	13.5	13.8	14.1	14.0
LA to ST liabilities (%)	19.9	19.3	19.9	20.5	21.1	21.7	22.3	22.8	23.4	24.0	24.6	25.2	25.8	26.4	26.9
NPLs (%)	15.4	15.3	14.5	13.7	12.9	12.1	11.3	10.5	9.8	9.0	8.2	7.4	6.6	5.8	5.0
Loan-to-deposit ² (x)	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.2
LD (x, local currency)	1.6	1.7	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.3	1.2
LD (x, foreign ccy)	1.8	1.7	1.5	1.4	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.1	1.2	1.2
FC loans (% of total)	44.4	42.1	40.6	39.3	38.4	37.5	36.5	35.6	34.7	33.7	32.8	31.9	31.0	30.0	30.0
FC deposits (% of ttl)	41.8	43.1	45.1	45.0	43.9	42.9	41.9	40.9	39.4	37.9	36.4	34.9	33.4	31.9	30.0
National Bank of Ukraine															
Base money (UAHbn)	228.1	234.4	246.2	251.6	255.9	264.0	272.9	280.4	289.2	300.5	310.8	318.7	328.4	340.5	351.8
Base money (%YoY)	3.9	8.1	9.1	12.6	12.2	12.7	10.9	11.4	13.0	13.8	13.9	13.6	13.5	13.3	13.2
Bal. sheet (UAHbn)	472.3	459.8	468.4	467.2	463.5	466.1	469.4	469.4	470.9	475.6	477.6	475.2	474.6	476.6	476.4
Balance sheet (%YoY)	12.9	0.2	2.6	2.9	-1.9	1.4	0.2	0.5	1.6	2.0	1.8	1.2	0.8	0.2	-0.3
Bal. sheet (% of GDP)	39.5	36.0	35.1	34.3	33.4	32.6	31.8	30.9	30.1	29.2	28.4	27.5	26.7	25.8	25.0
Monetary aggregates															
M3 (UAHbn)	652.4	662.3	662.7	677.3	688.8	710.6	734.7	754.8	778.4	808.9	836.5	857.7	883.8	916.5	947.0
M3 (%YoY)	22.3	16.4	10.8	9.0	5.6	7.3	10.9	11.4	13.0	13.8	13.9	13.6	13.5	13.3	13.2

Notes: [1] licensed banks; [2] LD—loan-to-deposit ratio (in gross terms); [3] Ratios as reported in accordance with IMF's Financial Stability Indicators guidelines
ttl—total; LA—liquid assets; ST—short-term; FC—foreign currency; bal—balance; ccy—currency. Sources: NBU, ICU.

Monetary policy

As of today, we see several key factors that are shaping the NBU's monetary policy; among them, the currency peg and the central bank's balance sheet are of top priority now, thanks to low inflation. The second-tier factors are the reserve requirements policy, which is more about fighting dollarisation, and the anti-inflationary stance of the NBU. In some areas of monetary policy, the NBU has gone beyond its conventional boundaries: there have been no reserve requirements on local-currency deposits for the last three years, and sizable expansion of the central bank's balance sheet has been in play since the 2008 crisis. So far, inflation dynamics have not been a concern; however, in the long term, those unconventional elements of the NBU monetary policy may backfire with inflation ticking up. Hence, the NBU at some point in the future will be forced to normalise its policy tools. Such a backward shift to "normality" may coincide with unpleasant upward pressure on interest rates, lower liquidity, and bank credit growth, and eventually, with weaker economic growth.

Current policy stance

Today's monetary policy stance by the NBU, in our view, is about archiving the following four targets.

The NBU is to maintain its FX policy bias towards pegging the UAH to USD till year-end 2012, ...

The first target has been **safeguarding financial stability**, meant by local authorities (the government and the central bank) as anchoring the hryvnia's exchange rate to the US dollar (currently at a hair off 8/USD). It was evidenced in 2011 that this approach is set to top the monetary policy stance agenda in 1H12 and up until parliamentary elections in the fall of this year. However, this will be tested, too, by the individual behaviour of the local financial market participants, businesses, and households that tend to have little faith in the authorities' promises and capabilities. This includes the promise and capability to withstand current global stresses when investments run from risky markets to the refuge of the US dollar as the global reserve currency. This test will likely examine the NBU in 1H12, as EU debt crisis is still yet to unfold (some pan-European banks and sovereigns will test their ability to refinance sizable debt amounts that fall due in this period of time). Later on, however, in 2013, the NBU, as we expect, will shift its policy focus from targeting the UAH exchange rate towards targeting low inflation.

... while keeping a close eye on consumer price dynamics, which may turn north in 2H12

The second one is **to keep a lid on inflation**. While realising this policy aspect, the NBU follows core CPI (as its first priority indicator) and the headline CPI (as the second one). Apparently, however, it pays little attention to the PPI dynamics, which proved to be highly volatile, and have been running at 20% for the last year (see Chart 5 below). In 2011, inflation dynamics (in terms of core and headline CPI) were benign for the authorities, as headline inflation nosedived to 5%, and core CPI remained tamed, running in the 6-7% range in the 2H11. We attribute the occurrence of slowing consumer inflation to, firstly, the NBU's tight monetary policy of 2H11; secondly, a good harvest of grains in 2011; and thirdly, to the slowing of food commodities prices globally¹⁵. Going forward, these three factors will be on display in 1H12 as they continue to unfold. In early 2H12, however, things may change, as the next grain harvest has fairly good chances to be less disappointing than the previous one and the patronising, pre-election approach by the Ukrainian ruling

¹⁵ FAO's food price index as of end of November 2011 stood at 189.16 points, down 8.4% from the peak of 2011 seen in April. Then, the FAO food price index was at 206.60 points. See www.fao.org.

politicians towards voters may ease monetary and fiscal policies. We also do not exclude the risk of spillover of high producer prices onto consumer prices after some lag. And, Ukraine's authorities are pressed by the need (from the IMF, private sector, and own fiscal position) to increase regulated tariffs (on utilities ranging from water to electric power to natural gas). Such a revision of the utilities' tariff policy should keep upward pressure on the CPI over the next three years of our forecast.

While fighting against dollarisation, the NBU's RRRs on UAH deposits are set to remain at the zero level this year

Third, there is an ongoing and lengthy fight by the NBU on the **dollarisation** of the domestic economy. In 2012 and onwards, the monetary policy will keep a wary eye on this issue and how the banks operate in this regard. While the path of de-dollarisation of the economy is quite a lengthy one, the NBU has made several steps with regard to its monetary policy tools. From 2008, it started to provide privilege to the banks using local currency by sizably differentiating the reserve requirement ratios (RRRs) applied as to local-currency liabilities and to foreign-currency ones. In particular, it lowered down to a zero level the RRRs on the banks' liabilities in hryvnia (see Chart 8 and Table 3 on page 19).

The NBU's balance sheet could once again be used to support liquidity in banks and the solvency of Naftogaz

Fourth, the **NBU's balance sheet is a tool to support the economy**, and particularly the state-owned banks, as well as state-owned Naftogaz. Available historical data on the NBU's balance sheet size, from December 2002, says that historically, the NBU has kept it in quite stable condition. Up to end of 3Q08, its balance sheet had been expanding alongside the size of nominal GDP, so that in relative terms, the level was at 27% on average. However, later on, this changed dramatically. One the eve of the financial crisis and deep economic recession that hit Ukraine in September 2008, the central bank's balance sheet stood at 23.6% of GDP, but it rose nearly twofold in relative terms, to 44.8% of GDP in August 2009. Over 2011, the balance sheet size in relation to GDP declined to 35.3% of GDP (see Chart 7 below). Going forward, the NBU's balance sheet could once again come to the rescue efforts of the economy, particularly to support the local-currency government bond market (where the NBU is the largest holder of the stock of outstanding bonds) and to keep Naftogaz afloat. The central bank's policymakers could be fine with extending the size of the bank's balance sheet back up to 40%-plus, as inflation dynamics remain at a very comfortable level (less than 10% YoY).

**Chart 5. Consumer and producer price indices (%YoY)
History from December 2003 to December 2011**



**Chart 6. Base money (%YoY)
History from December 2003 to November 2011**

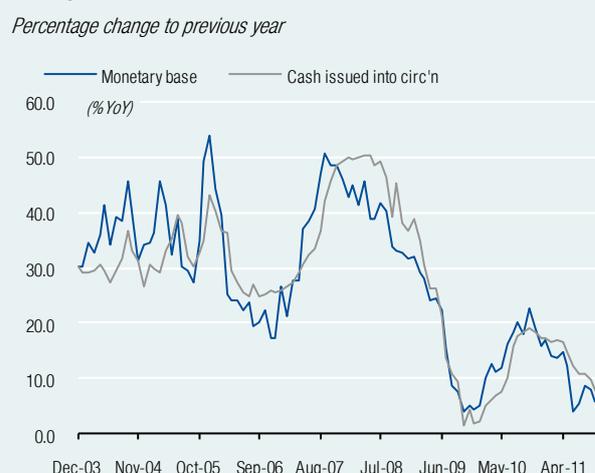
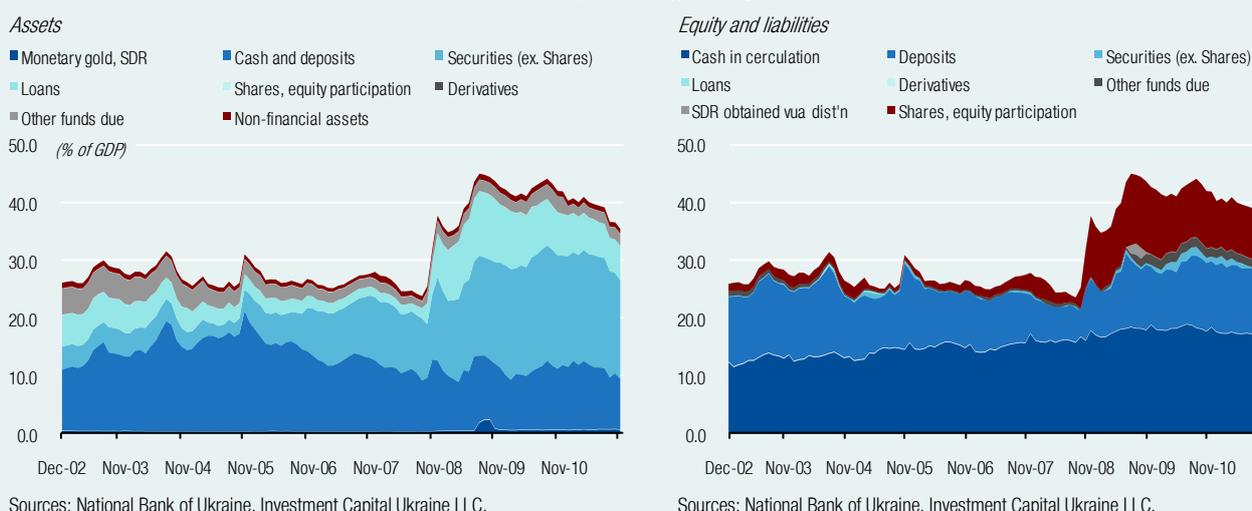


Chart 7. The balance sheet of the National Bank of Ukraine (% of GDP), history from December 2002 to November 2011


Policy normalisation issue

In our view, the NBU will face the issue of normalisation of some aspects of its monetary policy, ...

... which are increasing RRRs on UAH deposits and reducing its balance sheet size

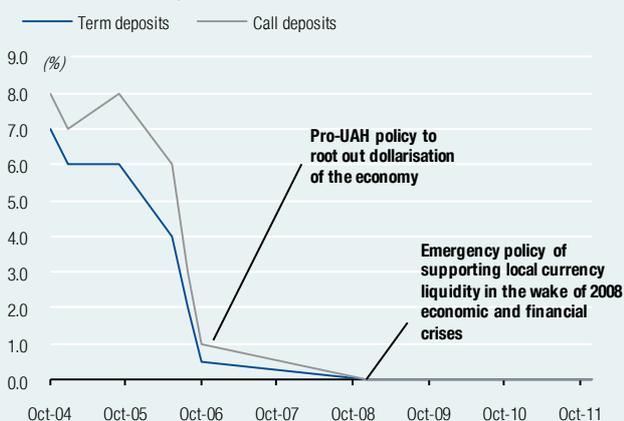
However, such normalisation poses risks of higher interest rates, lower liquidity, lower bank lending growth, and hence weaker economic growth

Above, we pointed out several NBU's policies that on one hand support the economy, while on the other hand, they are indeed a kind of deviation from the norm seen in the pre-crisis past. These are, firstly, zero RRRs on the hryvnia's liabilities, which could survive for some time going forward; as well as, secondly, the NBU's balance sheet could expand to up to 45% of GDP, or even larger than that. In both cases, the key factor that has to be in play is the supply-side factors providing low consumer inflation (of less than 10%).

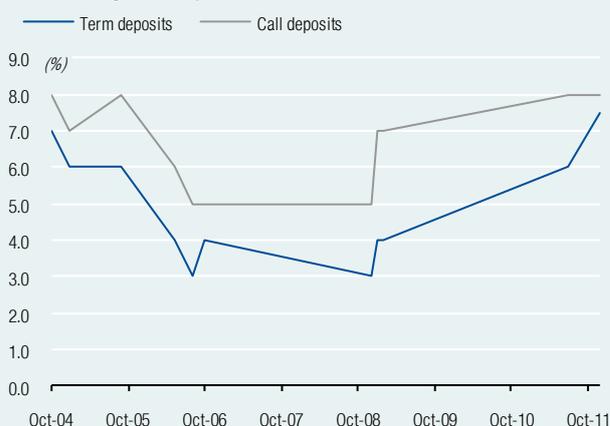
However, inflationary pressures both from the supply side (for instance, a more scant harvest than in the previous year) and demand side (as a result of monetary and fiscal policymaking) have fairly good chances of springing back to life in the year to come, or, more surely, in the next couple of years. Then, the NBU could be forced to reverse some of its monetary policy tools which were over-exploited in the wake of the 2008 financial and economic crisis.

Hence, RRRs on the hryvnia deposits should rise up to the 4-8% range, and the NBU's balance sheet as a percentage of GDP should decline back to the range of 25-27%. The former will become one of the factors that pushes up the local-currency interest rates, or at least keeps them at a somewhat elevated level. The latter will be the result of either, firstly, sustainable growth of nominal GDP (e.g., real GDP rising in the range of 3-6%, while inflation in the economy would keep the GDP deflator above 10%); or secondly, a gradual withdrawal of the central bank's liquidity from the banking sector (for instance, via redemption of the emergency, long-term loans provided to the commercial banks in the crisis and redemptions of government bonds in the NBU's portfolio).

These first and second options that could lie behind the reduction of the NBU's balance sheet size have equal chances of unfolding going forward. At the same time, if Ukraine's economy growth tumbles due to, for example, weak external demand or a still-poor investment environment, then the process of the NBU's balance sheet reduction (due to inflationary pressures) would produce higher interest rates, a slowdown of bank lending to business and households, and as a result, impetus for an economic slowdown (if not a recession).

Chart 8. Reserve requirement ratios (%) by the National Bank of Ukraine, history from October 2004 till present*RRRs on local-currency liabilities*

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

RRRs on foreign-currency liabilities

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

Table 3. Reserve requirement ratios (%) by National Bank of Ukraine, history from October 2004 till present

Start	End	Length (days)	Non-financial corporations and households				Non-resident financial corporations
			Term deposits		Call deposits		
			In local currency	In foreign currency	In local currency	In foreign currency	
1-Oct-04	24-Dec-04	84	7	7	8	8	-
25-Dec-04	31-Aug-05	249	6	6	7	7	-
1-Sep-05	9-May-06	250	6	6	8	8	-
10-May-06	31-Jul-06	82	4	4	6	6	-
1-Aug-06	30-Sep-06	60	2	3	3	5	-
1-Oct-06	4-Dec-08	795	0.5	4	1	5	-
5-Dec-08	4-Jan-09	30	0	3	0	5	-
5-Jan-09	31-Jan-09	26	0	4	0	7	-
1-Feb-09	19-Jun-11	868	0	4	0	7	2
1-Jul-11	29-Nov-11	151	0	6/2*	0	8	0/2**
30-Nov-11	Till now	32	0	7.5/2*	0	8	0/2**

Notes: * Short-term and long-term rates, respectively; ** Local currency and foreign currency, respectively.

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

Domestic fractions, Eurozone shadow, and the Russian hand

Massive internationalisation of Ukraine's banking business, in which foreign banks entered the space and bought Ukrainian banks—a development which has dramatically escalated in the years of 2005-08, thanks to EU banks' foray into the country, followed by support by the Russian public sector's banks¹⁶ in 2008-10—has assumed a formidable identity in the current environment. In short, our understanding of the process of the sector's internationalisation (past, present, and in future) has allowed us to draw the following conclusions. First, a pull-out by EU banks will be a lengthy process; however, there will be not a stampede for the exits; some will leave, but some will stay. Second, Russian banks (public and private) are set to extend their presence, as official backing will there for them. Domestic banks (public and private) are the most risky story of the previous two (more on this follows in further sections of the report).

While EU banks' balances shrank, local banks showed a significant increase in market share

Breakdown of the domestically owned banks

The charts below (pp. 21) provide insight into the structural ownership of the banks operating in the country. From the presented figures, not surprisingly, is a notable increase in the market share of state-owned banks, while market share of banks from all the presented EU countries decreased.

Privatbank's outstanding jump, by 4.6ppt to 13.7% of total assets during 3Q09-3Q11, should be examined with particular scrutiny, which we will describe further in the "Banks' credit analysis" section (pp. 57). Small local banks and the "Big guys" described further in the research also increased their market share, to 16.5% and 13.9% (or by 1.3ppt and 1.7ppt, respectively), respectively, and we believe that in a short-term period, such a trend of local banks' share increasing will continue.

The "Big Guys" banks

Ukrainian business groups play a significant role in banking sector development, ...

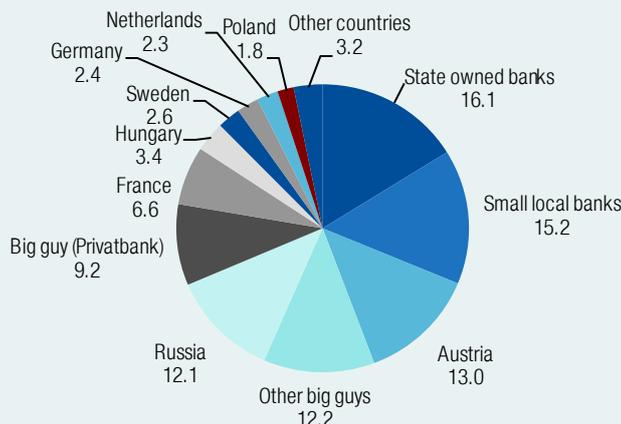
In Ukraine's banking sector, there are nine large, domestic private business groups which control 11 banks (see table at the end of this section). While as of 3Q09, these banks' market share by total assets was at about 22.1%, as of end-3Q11, it increased to about 28.5%, according to our calculations, which are based on the NBU's quarterly UAS financials. With sufficiently high probability, these banks have material amounts of related parties' transactions because of their supportive role to groups' businesses.

During the above-described period, they presented a significant 64.2% growth in gross business loans, to UAH177.8bn, while the overall Ukrainian banking system presented only 22.2%, to UAH606.5bn as of 3Q11. World history has enough examples of similar cases, when related-party issues drove banks to their collapse, with significantly inflated credit portfolios and inefficient credit risk policies imposed on banks' managements by shareholders. We believe that these banks should be under particular scrutiny from the regulator's side, along with constant monitoring of their credit portfolios (including limitation of loans granted to related businesses) and capitalisation levels.

¹⁶ By public sector banks, we mean the banks that have majority ownership in the hands of government or ultimately owned by the state. With regard to Russia, we refer to the troika of financial institutions Sberbank of the Russian Federation (SBER), VTB and Vnesheconombank (VEB).

Chart 9. Breakdown of the Ukraine's banking sector assets as of end-3Q09 by ultimate ownership (%)

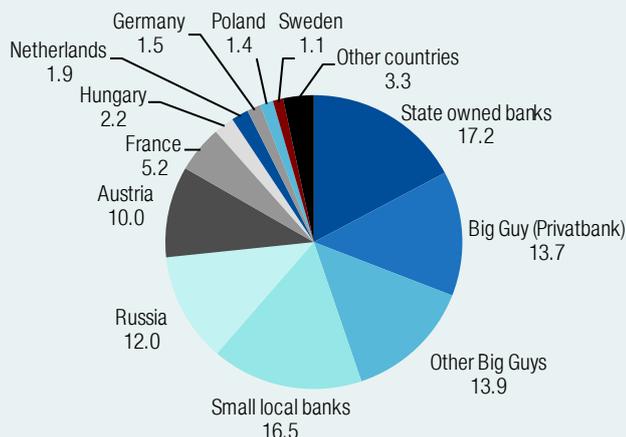
100% = UAH890bn



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

Chart 10. Breakdown of the Ukraine's banking sector assets as of end-3Q11 by ultimate ownership (%)

100% = UAH1,029bn



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

... with Privatbank at the head of the groups, as the biggest bank in Ukraine, with a 14% market share

Privat Group, currently one of the biggest, and also one of the fragmented, groups in Ukraine, is controlled by Ihor Kolomoyskyi, Henadiy Boholyubov, and Oleksiy Martynov. While Privatbank is the group's financial core, it is also into almost all key industries, including metallurgy, energy, media, and many others. We believe that there are material amounts of related party transactions between the bank and Privat Group, which we will explain further in the bank pages section, and that it currently handles the biggest risk for the bank.

SCM, along with FUIB, are also among the top players, enjoying close relations with the current Ukrainian government

System Capital Management (SCM) is led by the officially richest man in Ukraine, Rinat Axmetov, with wealth of about UAH16bn as of 2011, according to *Forbes*. As presented in the group's official website, as of end-2011, its assets totaled US\$22.8bn, along with US\$1.3bn in profit before tax. As in Privat Group, SCM is also present in almost all key business sectors, with FUIB's (First Ukrainian International Bank) participant in banking. The close relationship of Mr Axmetov with the current government gives certain advantages to SCM, and we do not expect material issues for the group in the short-term period.

Dmitri Firtash acquired Nadra bank not so long ago, so the bank had no real possibilities for growth during 2009-10

Group DF is owned by Dmitrii Firtash, who is currently close to one of the most influential people in the Ukrainian government, Valerii Hhoroshkovskii. The DF Group is focused on the gas and chemicals businesses, along with ownership of key Ukrainian TV channels. Mr. Firtash's entry into Nadra bank was quite unique in Ukrainian history, and resulted in a UAH3.5bn capital injection during 2Q11. We believe that it is Group DF which will provide crucial support for Nadra bank in the medium term, along with the group's current accounts in the bank's balance structure.

Distance from authorities does not give an advantage to Mr Zhevago's group

Finance and Credit Group is controlled by Konstantin Zhevago, the Ukrainian deputy from the current opposition BYUT faction. We cannot say that during past several years, the group was actively expanding; conversely, some pressure from the authorities side has been mentioned, including inspections of the Finance and Credit Bank. While as of today, we do not feel the group's material driving force for the bank, but the situation could be reversed in case of changes in the Ukrainian government.

The Buryak Brothers have quite a large "shadow" business, ...

The Buryak Brothers are known for their movements in ruling governments. The press has also linked the Buryak brothers to agro group Svarog Vest Group, but we believe that Brockbusinessbank is their key business. As of today, they are representatives of one of Ukraine's "shadow" businesses, along with an absence of any relevant detailed information about their bank by official sources.

... as does Kreditprombank, which we cannot currently relegate to a certain group

Donetskstal Group (unofficial name) is controlled by Ukrainian businessman Viktor Nusenkis (who switched to Russian citizenship in the wake of the Orange Revolution), with its key focus on the metallurgical sector, and in the recent past, also controlling Kreditprombank. While according to the press, the bank is currently indirectly controlled by Papunidis Konstantinos, during the past several years, Kreditprombank went through questionable restructuring, and is far from clear and transparent.

With Delta Bank, Nikolay Lagun is targeted mostly on the financial services direction

Nikolai Lagun had his key career experience during 1998-06 in Ukrsootsbank, one of the biggest players in the Ukrainian banking market, reaching the position of Deputy Chairman of the Board. In 2006, Mr Lagun left Ukrsootsbank to create his own, specialising in consumer lending, at Delta Bank. Mr Lagun targets mostly financial services, and Delta Bank currently represents his core business.

Oleg Bakhmatyuk's group should support VAB Bank further

Oleg Bakhmatyuk, with his key business agro holding Avangard, should gain complete control in the near future of VAB Bank (and is currently also controlling Finance Initiative Bank). We believe that Avangard will continue to be Mr Bakhmatyuk's key business, along with a further supportive role of VAB Bank.

Viktor Pinchuk's bank enjoys the support of Interpipe Group, as well as its risks

Interpipe Group is controlled by Viktor Pinchuk (the son-in-law of the first Ukrainian president, Leonid Kuchma), mostly operating in the metallurgy sector and media. Mr Pinchuk is also well known for his charity, with material donations from his Viktor Pinchuk Foundation. The group's bank, Credit Dnepr, presents quite transparent operations, which is a quite positive sign, and it has quite good chances for future stability (still not without related party risks, as in the case of all banks described in this section).

Table 4. List of “Big Guys,” their banks, wealth and market capitalisation of the listed non-bank entities, data as of 31 January, 2012

Group	“Big Guys” names	Banks they own	Assets		Net loans		Business loans		Households loans		Deposits		Equity		Wealth ¹ (UAHbn)	Public listing ²	Mkt cap (US\$m)	Free float (%)	Free float ³ (US\$m)	Equity to owner ⁴ (US\$m)
			(UAHbn)	Chg (% 2yr)	(UAHbn)	Chg (% 2yr)	(UAHbn)	Chg (% 2yr)	(UAHbn)	Chg (% 2yr)	(UAHbn)	Chg (% 2yr)	(UAHbn)	Chg (% 2yr)						
Privat Group	Igor Kolomoyskiy	Privatbank	141.4	73.4	102.8	66.4	97.5	91.3	26.2	16.1	92.1	93.2	16.3	87.5	2.50					
	Genadiy Bogolubov														2.50					
SCM	Rinat Axmetov	FUIB	29.3	63.9	14.6	26.3	14.1	42.7	4.5	12.4	16.2	214.2	3.1	5.1	16.00					
		Renaissance Capital Bnk	1.0	-14.4	0.7	82.8	0.0	NR	0.7	75.7	0.2	2510.1	0.2	4.5						
Group DF	Dmytro Firtash	NADRA	24.6	-5.1	18.3	-18.0	10.0	12.4	14.4	-12.7	7.4	-22.4	4.0	695.1	1.00					
F&C Group	Konstantin Zhevago	Finance and Credit	21.7	17.6	17.6	19.0	15.4	41.6	3.9	-22.2	9.7	62.8	1.9	-17.6	2.40	FXPO LN	3,155.9	47.1	1,487.9	1,668.1
Buryak Brothers	Sergiy Buryak	Brockbusinessbank	19.4	37.1	12.1	14.8	10.1	19.0	2.9	6.3	11.3	55.3	2.4	3.0						
	Alexander Buryak																			
Group Energo	Viktor Nusenkis	Kreditprombank	13.2	-4.9	9.7	-9.7	9.4	10.7	2.7	-21.7	7.5	85.5	1.1	-25.3						
Lagun	Nikolay Lagun	Delta Bank	18.9	208.4	11.3	191.1	8.3	403.9	6.5	157.5	9.5	163.3	1.4	146.1						
Bakhmatyuk	Oleg Bakhmatyuk	VAB Bank	8.7	16.9	5.2	-10.6	4.7	5.2	2.0	3.9	5.4	91.3	0.5	-29.5	1.00	AVGR LI	463.1	21.7	100.5	362.6
		Finance Initiative	7.8	44.9	7.1	72.4	8.3	80.6	0.0	172.0	2.1	111.5	1.9	52.0						
Interpipe	Viktor Pinchuk	Kredit Dnepr	7.2	55.2	4.6	50.1	3.5	44.4	0.6	0.2	4.5	87.9	0.6	7.8	3.30					

Notes: [1] wealth reported by Ukrainian edition of Forbes magazine in its debut ranking of Top wealthy Ukrainians published in 2011; [2] listing of the public company that is a part of the business group, Bloomberg ticker of the listed company; [3] market capitalization of free float; [4] market capitalization of the equity stake in the hands of controlling shareholders.

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

Internationalisation

A bit of history

Foreign capital has played a large role in the banking sector since 2005, ...

... with Russians nearly eclipsing the Europeans' role since 2009

Until early 2005, Ukraine's banking sector had been off the radar of the Western European banks. This was due to a number of factors, not least of which, the political risks of that time, as well as less of the appeal of the Ukraine economy to foreign direct and portfolio investors, and defensive stance to external capital from regulators (who were wary of risks attached to foreign investments).

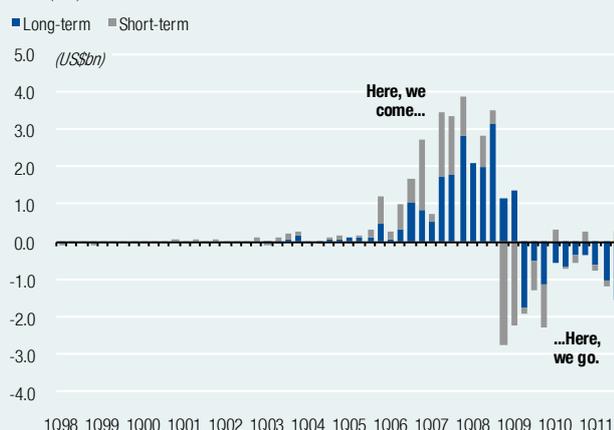
After the presidential elections of 2004, which ended up with the promise of pro-market economic policymaking by the newly elected team of politicians, the banking sector was the first one out of the other sectors of Ukraine's economy that opened up—widely and dramatically—to foreign capital. Economic growth, as well as real estate prices, got a boost from banks in the run-up to the deep recession Ukraine experienced in late 2008 and early 2009. Later on, the notion that the arrival of Western European (WE) banks brought a kind of general good to the economy, has turned upside-down. While the ongoing debt crisis in the EU continues to dog its banks, which have been immersed in a messy chain of stress tests, recapitalisation talks, and credit ratings revisions, this spawned widespread talks that Western banks were pulling out of Ukraine (see Chart 11 on pp.24). The Vienna Initiative (VI) has been one of the major factors of Ukraine's banking sector's functioning in 2009-10, as it prevented a much faster capital withdrawal by WE banks in that time. Since 2011, however, there has been an implicit, second version of VI in place, as the first one has lost its allure in the WE capitals.

Meanwhile, Russian banks were late in jumping on the bandwagon of Ukraine's banking sector's internationalisation (in late 2008), but they turned out to be one of the key post-recession lenders to the economy of Ukraine, and are prepared to take local credit risks as long as there is official backing from home.

Chart 11. Ukraine's banking sector external debt evolution – history from 1Q98 till 3Q11 (US\$bn)

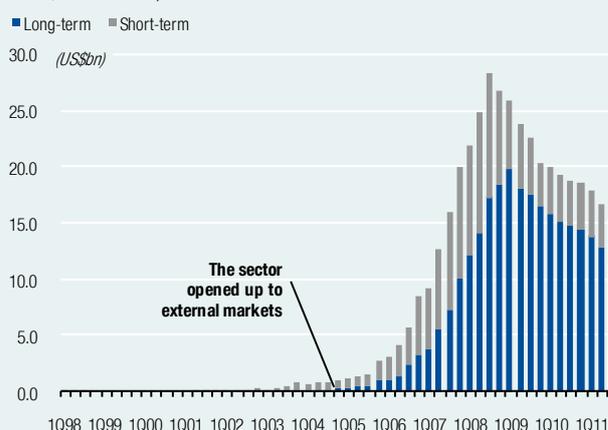
The charts depict the quarterly data derived from NBU on balance of payments

Flow (net)



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

Stock, as of end of period



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

Present

Currently, EU banks account for just a 26% share of banking sector assets in Ukraine, ...

The current global and slowly unfolding financial and economic crisis, with the Eurozone as the epicentre, has raised huge risk factors for the well-being of the Eastern European economies, which have been sizably dependent on the flow of credit through the WE banks. To a broad extent, Ukraine’s economy had also become dependent on the credit risks they were challenged by. However, as we put it in our *Quarterly Report: “Big bazooka”* game,” published on 2 November, 2011, in our view, Ukraine’s banking sector, and hence the economy, are less dependent on credit flow from the WE banks to their daughter banks than to WE banks’ counterparts in Central and Eastern Europe (CEE) countries like Poland, Hungary, Romania, to name just a few.

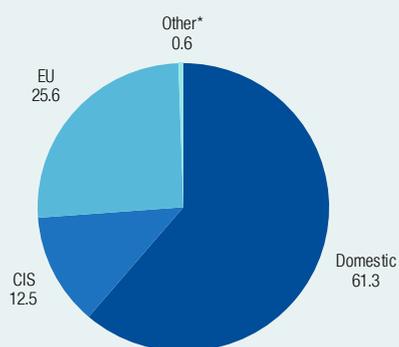
... much less than over 50% in the CEE countries

The latest central bank’s sector-wide statistics show that WE banks account for a 19.2% share of the assets, while the share of all banks from the EU was at 25.6% as of end-3Q11 (see Chart 12). This is a much lower rate of participation in the national banking sector than these very banks have in the above-mentioned countries of Central and Eastern Europe (CEE). Hence, a lower rate of participation in the lending to the economy is a kind of guarantee that the EU debt crisis will have a less severe impact on Ukraine in relative terms than, for instance, on Poland, of which, by different accounts, more than half of the banking sector (in terms of assets) is in foreign banks’ hands.

By a single country of residence of the parent bank, it is Russia that is a more significant investor in the local banking sector than any single other country from the increasingly diverging EU. Moreover, EU banks present in Ukraine are all publicly listed banks, and subject first of all to their shareholders’ scrutiny over performance, and as of recently, to their country regulators. Being nearly obsessed with recapitalisation, which with its extremely weak equity markets turned out to be a much more effective process in cutting risky assets than on raising more capital from shareholders. On the contrary, the Russian banks’ story in Ukraine nowadays is quite different. More on this follows in our next sub-section, “Russia: Own agenda,” on pp.26.

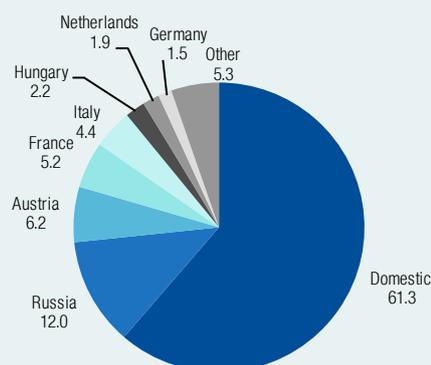
Chart 12. Breakdown of Ukraine’s banking sector assets by bank ownership (%) as of end-3Q11 100% = UAH1,029.2bn

By region of incorporation of ultimate owner



Notes: Domestic ownership means public and private sector banks; Other means USA and Turkey. Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

By country of foreign ownership



Note: foreign ownership comprises countries from the rest of the EU, CIS and US and Turkey. Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Russia: Own agenda

The ongoing EU debt crisis has not changed the key sense of Russian banks towards Ukraine's market; ...

Russian banks, as we noted above, managed to differentiate themselves from WE banks by arriving late to the bank lending spree in Ukraine of 2005-07. They, in fact, have their own agenda, contrary to the agenda of WE banks, which is about finding a proper exit strategy from the Ukrainian banking sector soon. And this agenda for all types of Russian banks present in Ukraine, whether public or private in terms of ownership, could be summed up in one term: risk tolerance. Indeed, in terms of local business mentality, past history of consolidation from satellite entities to being under the same roof of one country, current close trade relations and lack of language barrier with Ukraine, Russian banks are ready to work in Ukraine's risky business environment. The caveat is that they are prepared to work unless there is a debt crisis in Russia herself, which is by and large a hypothetical and extremely unlikely scenario and one that could be easily dismissed by the strength of the Russian sovereign debt prices (see Chart 22 on pp.30), which characterise the country rather as a creditworthy borrower than one the bond markets have lost their faith in.

... they appear ready to withstand the EU debt crisis in Ukraine's banking market, ...

While public or private ownership leaves its footprint on a bank's strategy, Russian banks of all types present in Ukraine have the following characteristics. As far as public banks are concerned, public, not private, interest has the largest representation in Ukraine. There are 10 banks operating in Ukraine that have Russian controlling shareholders. A 76% share of these banks' total assets is represented by the operations of the three banks ultimately owned by the Russian government. The latter would like to see its financial arms (Sberbank, VTB, and Vnesheconombank) operating profitably at every corner of their ownership (domestic and foreign); however, another priority mandated by banking officials is to spread the strategic business interest of the Russian economy. Our view on this regard is backed by, for instance, the nearly simultaneous push for wider usage of the Russian currency, ruble (RUB), as a means of borrowing and payments in trade. This has been a key topic for Russian authorities in their ongoing official talks with Ukrainian authorities (on natural gas), and for Russian public banks that have propagated, admittedly with poor luck, RUB-denominated loans.

... focusing on their main business agenda, which may correlate with the official Russian viewpoint of greater involvement of Ukraine's economy with Kremlin-led, pan-Eurasia unions

Among the Russian private banks, there have been both successes and failures in their endeavours into Ukraine's banking market, as some arrived and simply failed, while some met with relative success in replicating their models from the Russian banking market onto Ukraine's.¹⁷ Still, this successful group of Russian private sector banks has prospered in Ukraine's market, even in the current deteriorating environment in which banks have been operating.¹⁸

¹⁷ The most successful private-sector bank from Russia in Ukraine has been Alfa-Bank (Ukraine).

¹⁸ One vivid example is BM Bank (Ukraine), which was put up for sale after acquisition of its Russian parent by VTB Group. According to the last mentions of this in the press, BM Bank (Ukraine) might be sold to Russian businessman Vadim Novinskiy, who controls Smart Group and Smart Holding.

EU: Kicking the can down the road

Lack of resolution of the core issues of the EU debt crisis ...

European countries,¹⁹ as many other nations on the continent, including Ukraine, which “eroded credit²⁰” in the years before the financial crisis struck in the fall of 2008, have been “kicking the can down the road” since then²¹. Such an euphemism perhaps illustrates the current static situation in which all the efforts the EU leaders are making to resolve the debt crisis translate neither into a reduction of the debt burden nor restoration of fiscal credibility from private investors into the EU sovereigns.

... spells a likely lengthy path for the EU economies to fix the problems themselves

Likely, a simple chart like Chart 14, depicting a spike in the CDS risk premium for the peripheral EU countries, along with volatile and rising premia for larger countries from the EU core, has become an almost tabloid theme. The regular meetings between EU leaders on stopping the debt crisis from escalating have become a kind of sad ritual, reminiscent of Ukraine’s economy as a slow-motion train wreck in the early 1990s after the disintegration of former Soviet bloc (at which point, Ukraine went into a kind of a depression for a decade).

Chart 13. Weekly volume of bond purchase by ECB (€bn)

History from 14 May 2010 to current

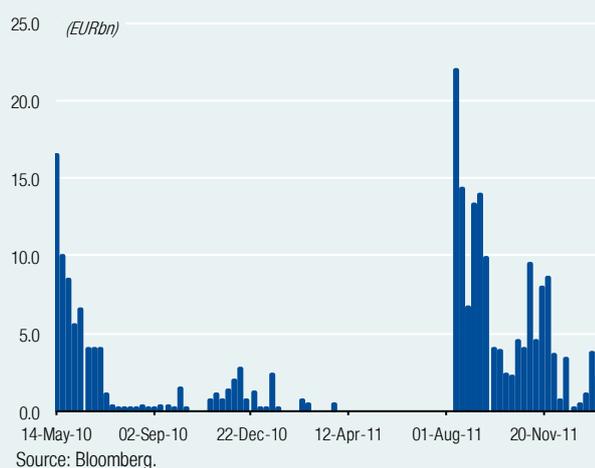


Chart 14. Selected EU countries' risk premia

Difference in benchmark 10-year sovereign bond yield over German bond of the same tenor. History from January 2008 to nowadays. Greece is plotted on the right-hand axis



The pull-out of EU banks from the CEE is finally underway, ...

In making such a reference, however, we do not include in our base-case scenario view on Ukraine’s macro and its banking sector story the development that the Eurozone will ultimately transform itself via disintegration of its monetary union and away from its current, free movement of goods, capital, and labour.

At the same time, we think that the dimensions of the debt crisis in the Eurozone are quite sizable, so that the impact on EU banks at home and in foreign markets is going to be profound. On the home markets, there will be not only the recapitalisation issue topping the agenda (via either shrinkage of the balance sheet, or capital injections from existing

¹⁹ By Europeans we mean the nations of the Eurozone countries and non-euro members of the EU.

²⁰ A famous reference to overconsumption by households and overspending by governments made by Raghuram G. Rajan, author of *Fault Lines: How Hidden Fractures Still Threaten the World Economy*.

²¹ This euphemism was masterfully put into plane English by Nouriel Roubini on his op-ed article in the *Financial Times* on 20 December, 2011, which in essence relates to the sovereigns that lost access to capital markets for financing (or risk losing it in the future), meaning “avoiding the tough decisions that are required to address their fundamental economic, financial and fiscal problems.”

shareholders or new ones), but also restructuring issues and tighter regulatory issues on top of risk-taking.

... making Ukraine's economy and banks vulnerable

Hence, there is most likely no return to business as usual. In the foreign markets of CEE countries, there will also be profound changes, ranging from pulling out from household lending, limiting new risk-taking to corporate business, without aggressive loan portfolio expansion, to a total pulling out from the target country in the extreme. Despite the fact that we mentioned above that Ukraine is less exposed to EU debt crisis and WE banks' risks, the risk exists for Ukraine's economy from the fact the EU's capacity to support lending via its banks in CEE countries has melted over the course of 2011 down to the bottom.

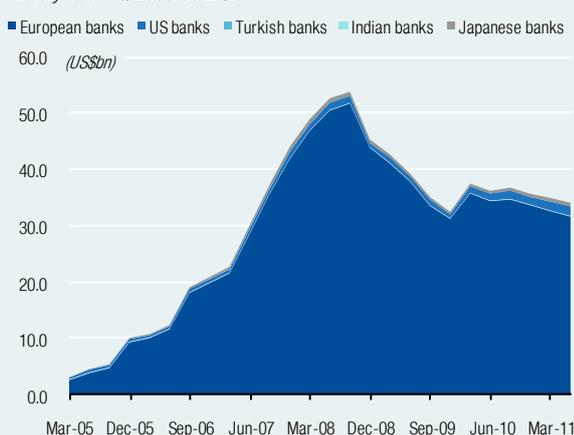
According to the data published by Bank for International Settlements (BIS), Ukraine's economy had foreign liabilities amounting to US\$32bn as of end-2Q11, and out of all BIS reporting banks, the European banks have the largest share of all foreign claims on Ukraine's economy (see Chart 15), although these claims have been shrinking from the peak of 2Q08, by total volume as well as by the volume of each country (Chart 16 on pp.29).

While banks from Austria and Italy have been reducing their exposure to foreign liability at a moderate pace in 1H11, the French and Swedish banks have been the most active, as they reduced their consolidated foreign claims by 31.3% and 27.4%, respectively, on a year-on-year basis as of end-2Q11. The Dutch and the Swiss banks were reported increasing their claims by 0.8% and 37.9% YoY, respectively, in the same period. However, all these growth rates represent the past, while the short-term future is likely to be about further reduction in the claims.

Our further discussion in the following sub-section will centre on which countries and particular banks of these countries may decide to pull out from Ukraine altogether, and which would probably stay, and under which conditions.

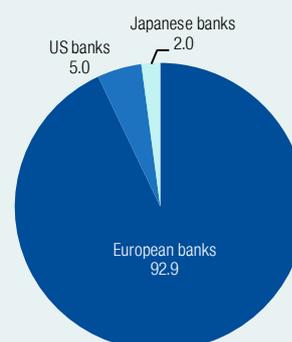
Chart 15. REGIONAL BREAKDOWN: Consolidated foreign claims of BIS reporting banks – ultimate risk basis as of end-2Q11

History from 1Q 2005 to 2Q11



Source: Bank for International Settlements.

As of end 2Q11. 100% = US\$34.0bn

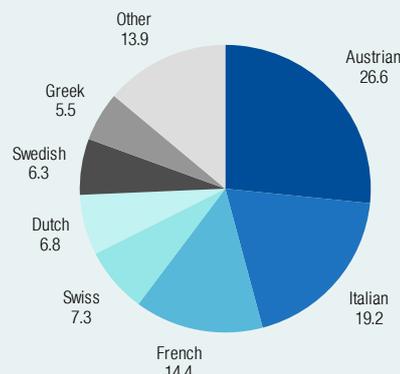
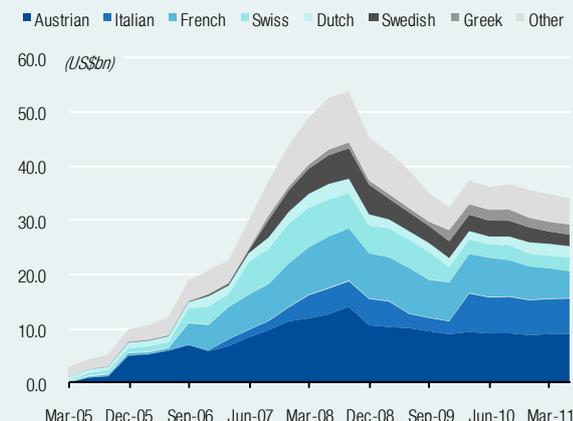


Source: Bank for International Settlements.

Chart 16. EU country breakdown: Consolidated foreign claims of BIS reporting banks – ultimate risk basis as of end-2Q11

History from 1Q 2005 to 2Q11

As of end 2Q11. 100% = US\$34.0bn



Source: Bank for International Settlements.

Source: Bank for International Settlements.

Spotting the names likely to pull out

The countries

There are two groups of countries that have banks in Ukraine; ...

Above, we mentioned the term “down the road” from the above-mentioned euphemism. If translated into the language of the bond markets for European sovereign debt (see charts below on pp. 30-31), it underscores the irony of the current macro situation in Europe. Prices for sovereign debt of the weakest EU countries have been going down, indicating that fewer and fewer buyers for this debt are in the market, except for the ECB itself (see Chart 13 on pp.27).

... one represents the sovereigns that are incapable of supporting national banks;...

Chart 28 on page 31 provides the current shapes and standings of the sovereign yield curves of the countries, the banks of which are present in Ukraine’s banking sector (Greece is in *de facto* default condition, and hence its yield curve was hard to depict alongside other sovereigns).

... while the other is countries with the capacity to support their banks

We grouped these countries into two camps: first, sovereigns that have had their creditworthiness marginally weakened to such an extent that their risk premium across all maturities of sovereign bonds tradable on the secondary market have become too high for these sovereigns to sustain their fiscal creditability. Second, the countries that still have the privilege of market access to private creditors, and which are most likely to have the capacity for fiscal support of the domestic banks, if needed.

The first group, comprising Greece, Italy, and Hungary, has one feature in common (which is easily observable in the charts below): prices on their sovereign debt have been under massive downside pressure. The second one is a group of sovereigns whose bond prices are quite resilient to the ongoing EU debt crisis. However, this second group has diverging stories behind its sovereigns: Germany and Sweden are viewed by the sovereign debt markets as highly creditworthy sovereigns, kinds of safe havens; Netherlands’ sovereign debt, too, is highly valued (however, in our view, the high level of private sector debt, mainly households, may be a kind of concern going forward); Austria is following Germany’s suit, and France is in dire economic conditions, faced with the prospect of losing its triple-A credit rating. Russia, as we discussed above, has its own agenda as for Ukraine’s economy and banking sector, and hence will not consider pulling out altogether, among our scenarios on the future shape of the economy and banking sector in Ukraine.

Chart 17. Greece: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 18. Portugal: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 19. Spain: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 20. Italy: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 21. Hungary: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 22. Russia: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 23. France: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 24. Germany: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 25. Netherlands: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 26. Austria: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

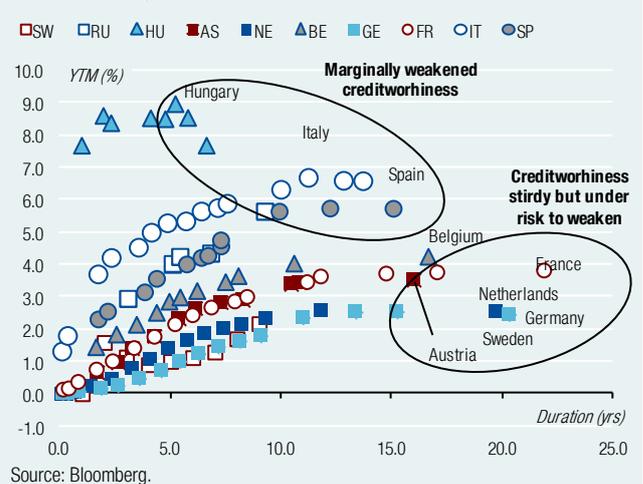
Chart 27. Sweden: Sovereign benchmark bond prices

Relative performance since 1 November, 2010. Rebased at 100 points



Source: Bloomberg.

Chart 28. Sovereign yield curves of selected EU countries and Russia, banks of which have operations in Ukraine as of 31 January 2012



Source: Bloomberg.

The banks

A simple assessment of European banks consists of ...

For the foreign banks, which as of the writing this report are present with full-fledged operations (from corporate to retail banking) in Ukraine's banking sector, we applied the following scheme of screening their shape to determine whether the bank in question has the wiliness to withdraw:

... credit-rating decisions over the past month, ...

- First, if the bank has had its credit rating downgraded over past month with negative outlook, in our view, it appears to be under pressure from credit rating firms as well as its shareholders to address its weaknesses, consisting of (but not limited to) exposure to assets that are not performing currently, or are most likely to deteriorate in terms of future performance. This raises the chance for the bank to consider a pull-out from Ukraine. This consideration brings French banks into the camp of those that would seek an exit out from emerging markets that have lost investor appeal (Ukraine among them).

... public disclosure of sizable capital shortfall, ...

- Second, if a bank has a sizable capital shortfall—this fact could be publicly disclosed, as was the case with the recent stress-testing results made by the European Banking Authority (EBA), see Table 5 on pp.33—and this shortfall cannot be easily eliminated by raising share capital from private investors, or the bank would seek to meet its capitulation targets by disposing the assets; hence, such a bank would likely be among those actively considering a pull-out from the debt ridden EM region (including Ukraine). This consideration, for instance, makes Commerzbank of Germany the most likely candidate for a measured walk-out, as a recent EBA publication of stress-testing procedures revealed a higher capital shortfall than previously thought (€5.3bn versus €2.9bn earlier), and there is market talk that such a shortfall would turn the bank to the government for assistance.

... share-price performance over the past six-month period, ...

- Third, if a bank's stock's performance has over past six-month period been in deep red territory, of a share price decline of more than 40%, then most likely, such a bank would be at pains to raise capital from private shareholders because of the deeply depressed share price level, and there would be at best extremely thin demand for bank shares under present market conditions, when entire banking stocks in EU are considered as an underperforming asset class. These banks are under huge pressure from shareholders to rectify their problems and restore their share price value, whatever it takes. Business restructuring by these banks is most likely to feature, as well, a pull-out from the markets whose business appeal has vanished.

... a change in the CDS risk premium over the last six-month period, ...

- Fourth, if the capital markets trade the credit default swap agreements on the bank's 5-year debt, and the contract sees a rise in default protection of more than 200bp²² over the last six-month period to date, then the debt investors become wary and likely suspicious of the bank's creditworthiness and its ability to refinance the ongoing stream of wholesale debt scheduled for near-term future, and particularly in 2012.

... and sovereign creditworthiness

- Our fifth and last viewpoint is about the sovereign and its ability to support its domestic bank operations by providing capital and becoming a shareholder, albeit temporary, of the bank. Here we look at the 10-year sovereign benchmark bond yield change in year-to-date terms, i.e., since 1 January, 2011 and effectively over the span of nearly the full year of 2011. If this indicator is in the black, meaning the yield rose and hence the bond price declined, then we conclude that such a sovereign would be extremely at odds to assist its banks by taking over the bank in question. Hence, a bank with such a feature—whose sovereign creditworthiness deteriorated over 2011—would most likely

²² Such an increase in the CDS risk premium is taken as a benchmark due to the fact that a 200bp increase in the CDS protection means doubling for the most of European banks that are present in Ukraine.

pull out from Ukraine, and *vice versa*, if this indicator is in the red, meaning the yield decreased, and hence sovereign creditworthiness strengthened; then such a sovereign has the capacity to use its fiscal position to recapitalise the bank, if needed.

Table 5. List of EU banks, which have business in Ukraine, and their capital shortfall determined by EBA stress-testing as of December 2011

	Capital shortfall (EURbn)			Presence in Ukraine, bank name	% of assets (NBU's 3Q11 UAS figures)
	Before	After	Increase (%)		
Germany	5.2	13.1	151.9		
Commerzbank	2.9	5.3	82.8	Forum	1.2
Deutsche Bank	3.2	3.2	0.0	Deutsche Bank DBU	0.03
France	8.8	7.3	-17.0		
Societe Generale	2.9	2.1	-36.0	ProFin Bank	0.03
BNP Paribas	1.9	1.5	-29.0	UkrSibbank	4.1
Credit Agricole	0.0	0.0		Credit Agricole, CIB Credit Agricole	1.1
Italy	N/A	15.4			
UniCredit	7.4	8.0	8.1	Ukrsotsbank, UniCredit Bank	4.7
Intesa Sanpaolo	N/A	0.0		Pravex Bank	0.6
Austria	2.9	3.9	34.5		
Volksbank	N/A	1.1		Volksbank Ukraine	0.03
Erste Group	N/A	0.7		Erste Bank Ukraine	1.0
Raiffeisen Bank Int'l	N/A	2.1		Raiffeisen Bank Aval	5.2
Greece¹					
Alpha Bank	N/A	not disclosed		Astra Bank	0.2
Eurobank EFG	N/A	not disclosed		Universal Bank	0.6

Notes: [1] not disclosed, the six banks' capital position has since deteriorated sharply.

Sources: European Banking Authority (EBA), Investment Capital Ukraine LLC.

Chart 29. CDS MARKET VIEW: CDS on 5-year debt as cost of protection from default for foreign banks that have full-fledged operations in Ukraine History from 1 January 2008 to nowadays

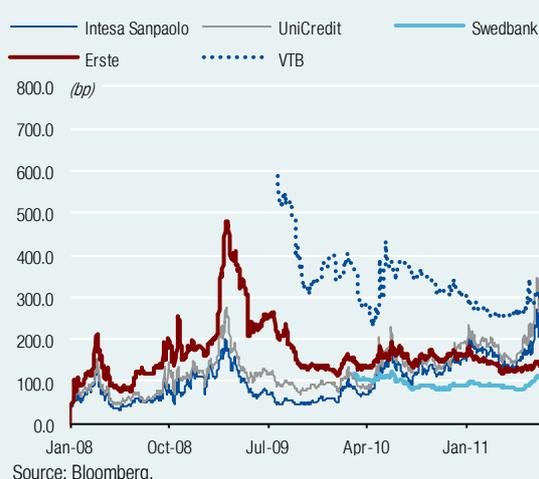
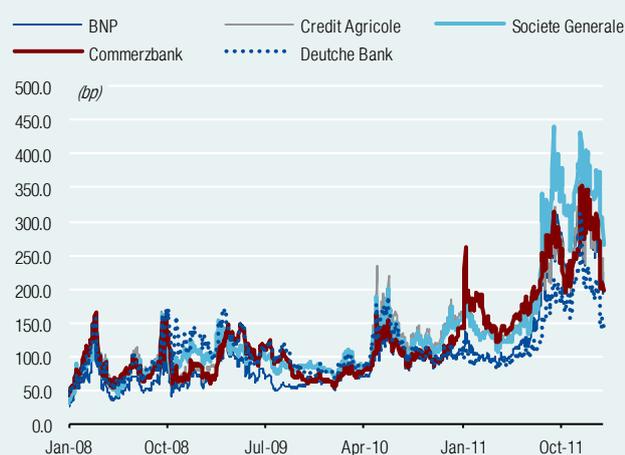


Chart 30. Stock market view over last 4 years: Relative share price performance of the foreign banks that have full-fledged operations in Ukraine History from 1 December 2007 to nowadays

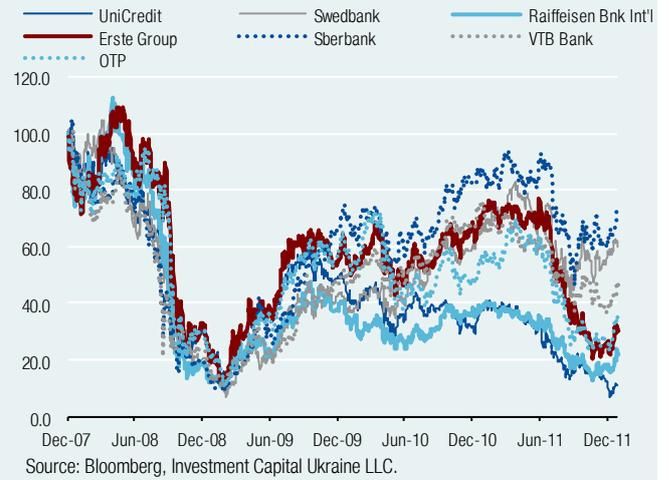
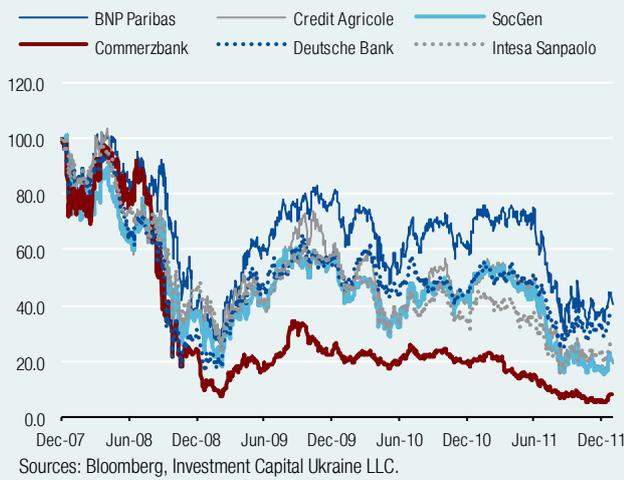


Chart 31. Stock market view over last 2 years: Relative share price performance of the foreign banks that have full-fledged operations in Ukraine History from 1 December 2009 to nowadays

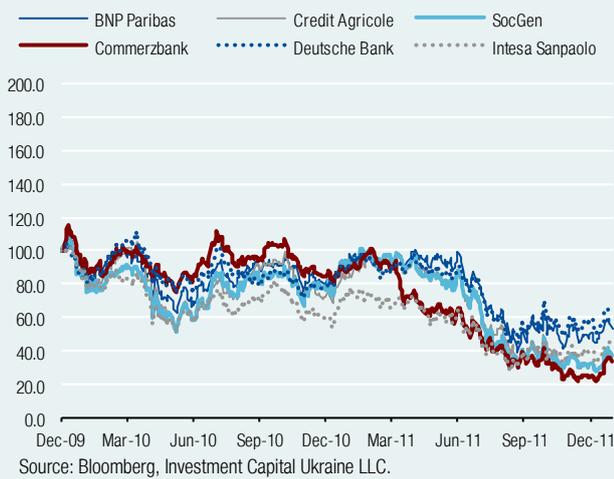


Chart 32. Stock market view over last 6 months: Relative share price performance of the foreign banks that have full-fledged operations in Ukraine History from 1 June 2011 to nowadays

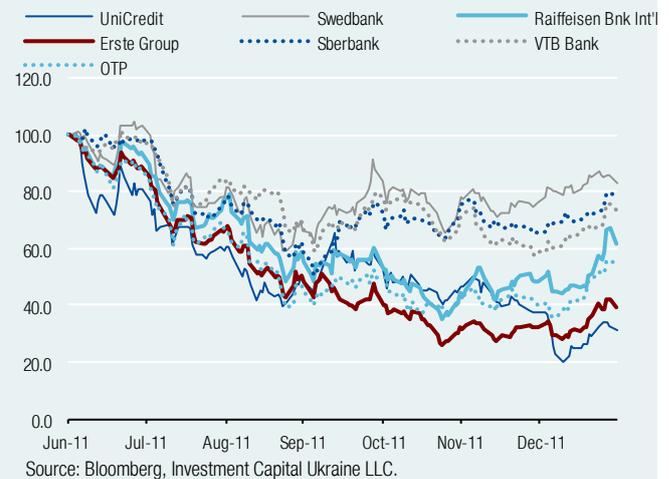
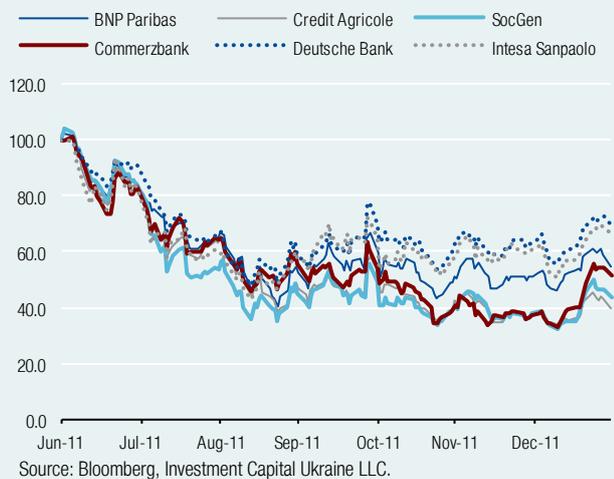


Table 6. European banks that have presence in Ukraine's banking sector

Key financials and ratios as of end 3Q11, exposure to PIIGS, last 6-month performance at CDS and stock markets and quantitative gauge of chances to pull out

	Moody's		S&P		FITCH		Financials (US\$bn) as of end 3Q11				Loan- to- deposit (%)	Equity- to- Assets (%)	Secs- to- Assets (%)	ROE (%)	Tier 1 ratio (%)	Capital ratio (%)	PIIGS exposure (US\$bn)					5yr CDS (bp)			6M share price ² chg (%)	Sovgn yield chg ³ (bp)	Most likely to pull out ⁴ ?				
	Rating	Outlk	Rating	Outlk	Rating	Outlk	Assets	Secu- rities	Loans	Dep- osits							Equity	Total	Greece	Spain	Ireland	Italy	Port- ugal	Share assets (%)				Curr- ent	6M ago	Chg ¹	
RAIFFEISEN BANK	A1	Stable	A *		A	Stable	199	42	109	92	14	117.97	6.97	21.05	10.00	10.90	12.10	3.73	0.11	1.16	0.08	2.20	0.18	5.17	328	242	86	-33.1	54		
UNICREDIT SPA	A2 *		A *		A *		1,272	342	753	525	70	143.29	5.50	26.89	-15.40	9.68	12.80	54.90	0.00	2.89	0.00	52.00	0.00	4.68	356	315	40	-67.3	217	Yes	
BNP PARIBAS	Aa3	Neg	AA *		A+	Stable	350	88	163	130	13	125.38	3.71	25.14	10.20	11.90	14.60	16.00	1.60	0.50	0.30	12.20	1.40	4.10	195	156	39	-40.9	77	Yes	
VTB BANK OJSC	Baa1	Neg	BBB	Stable	BBB	Stable	147	20	93	82	18	113.74	12.18	13.36	18.1	12.00	14.10	N/A	N/A	N/A	N/A	N/A	N/A	3.56	418	293	125	-24.7	38		
OTP BANK PLC	Ba2	Neg	BB+	Neg			31	10	12	16	5	78.42	16.74	31.62	12.30	14.10	17.50	N/A	N/A	N/A	N/A	N/A	N/A	2.22	N/A	N/A	N/A	-44.0	196	Yes	
SBERBANK	Baa1	Stable			BBB	Stable	282	46	188	217	35	86.67	12.44	16.25	32.3	13.3	17.9	N/A	N/A	N/A	N/A	N/A	N/A	1.75	330	163	167	-20.0	38		
COMMERZBANK	A2	Stable	A *		A+	Stable	988	381	419	351	33	119.37	3.37	38.50	1.40	11.00	15.30	50.07	2.81	20.62	2.54	19.14	4.95	1.21	197	197	0	-45.7	N/M		
CREDIT AGRICOLE	Aa3	Neg	A+ *		A+	Stable	2,329	361	1,069	859	99	124.37	4.24	15.48	2.71	10.20	11.50	12.44	0.24	2.04	0.23	9.03	0.90	1.06	214	179	35	-56.8	77	Yes	
ERSTE GROUP BANK	A1 *		A *		A	Stable	289	61	181	163	21	111.20	7.15	21.18	-9.70	11.30	13.50	4.81	0.18	1.25	0.51	2.66	0.21	1.01	314	146	168	-58.0	54	Yes	
SWEDBANK AB-A	A2	Stable	A+	Stable	A	Stable	274	35	173	81	14	213.77	5.16	12.77	11.30	14.70	18.10	0.16	0.01	0.04	0.01	0.11	0.00	0.83	169	124	46	-20.0	-41		
EFG EUROBANK ERG	Caa2	Neg	CCC	Neg	B *		109	21	66	45	7	145.67	6.57	19.46	0.15	10.00	10.40	N/A	13.66	N/A	N/A	N/A	N/A	0.65	2,056	2,174	-118	-97.2	1,987	Yes	
INTESA SANPAOLO	A2	Neg	A *		A *		893	240	510	529	77	96.45	8.62	26.82	4.5	11.6	14.7	86.83	0.60	0.97	0.34	84.87	0.06	0.57	346	257	89	-31.3	217	Yes	
DEUTSCHE BANK-RG	Aa3	Stable	A+ *		A+	Stable	3,056	56	552	787	69	70.12	2.27	1.83	10.6	13.8	15.3	126.26	3.84	39.28	27.12	48.89	7.13	0.03	143	115	28	-27.2	0		
SOC GENERALE	A1	Neg	A+ *		A+	Neg	876	98	549	439	64	125.00	7.35	11.16	5.4	11.6	N/A	4.58	0.88	0.91	0.40	2.10	0.28	0.03	265	190	75	-53.3	77	Yes	
ING GROEP NV-CVA	A1	Stable	A	Stable	A	Stable	2,277	553	1,342	1,098	81	122.15	3.54	24.29	11.4	12.22	14.8	10.90	0.65	2.46	0.47	5.85	1.46	1.05	146	136	10	-25.3	0		
VEB	Baa1	Stable	BBB	Stable	BBB	Stable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.43	268	197	71	N/A	38		
ALFA BANK	Ba1	Stable	BB	Stable	BB+	Stable	31	5	20	19	3	106.56	11.06	15.60	16.8	12.4	17.60	N/A	N/A	N/A	N/A	N/A	N/A	2.54	705	551	153	N/A	38		
PKO BP	A2	Stable					57	5	42	44	7	97.04	11.74	9.27	17.1	11.3	12.29	N/A	N/A	N/A	N/A	N/A	N/A	0.40	461	313	148	-29.4	144	Yes	

Notes: Outlk – outlook; PIIGS stands for Portugal, Ireland, Italy, Greece, Spain; [1] change of CDS between current level and that of 6 months ago; [2] change in share price for the last 6 month period (this data correspond to the Chart 32 on pp. 34);

[3] change in sovereign borrowing cost, derived from benchmark 10-year sovereign bond spread to German bund as a difference between current level and as of 1 January 2011;

[4] this column provides an "Yes" answer if the bank is, first, from the EU, second, its credit rating saw downward revision in last 30-day period, third, share price declined in the last 6 month period by more than 40%, fourth, 5-year CDS spread rose by more than 200bp in the last 6-month period, fifth, sovereign bond yield of the country, where the bank incorporated, increased since 1 January 2011 and today.

Sources: Bloomberg, Investment Capital Ukraine LLC.

The above-mentioned approach depicted in the charts and summarised in the table above yields us the following conclusion, that out of European banking groups that are present with full-fledged operations in the Ukrainian banking sector, the following names stand out: the Italian banking groups of UniCredit and Intesa Sanpaolo; French banks names as BNP Paribas; Crédit Agricole; and Société Générale; German Commerzbank; and Austrian Erste Group; and Greek names like EFG Eurobank. These are the banks that most likely to pursue a quite conservative business model going forward, including an option for a total pull-out from the market. Those European banks that are set to approach a different angle of their business model than the above-mentioned bank names are: Swedbank of Sweden; DeutscheBank; and ING, which may pursue the ‘business-as-usual’ model. The Russian banking groups of Sberbank, VTB, and VEB will pursue the most aggressive business model out of all foreign names.

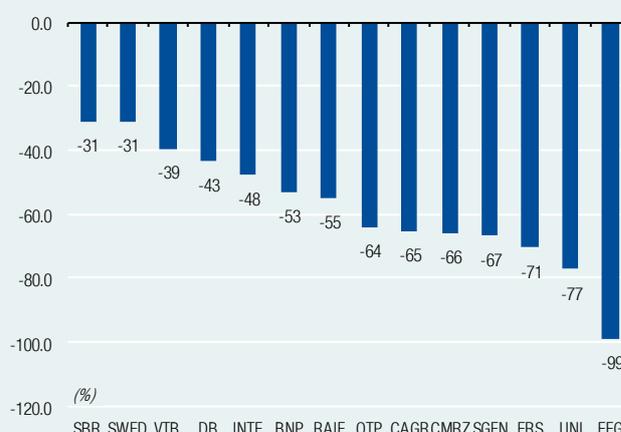
Chart 33. European banks with operations in Ukraine
by share of assets (%)



Notes: RAIF – Raiffeisen Bank; UNI – Unicredit Bank; BNP - BNP Paribas; VTB -VTB Bank; OTP - OTP Bank; SBR – Sberbank; CMRZ – Commerzabnk; CAGR – Credit Agricole; ERS – Erste Group; SWED –Swedbank AB; EFG - EFG Eurobank; INTE – Intesa Sanpaolo; DB – Deutsche Bank; SGEN – Soc Generale.

Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 34. European banks with operations in Ukraine
by decline in share price in last 6 month period as of 11 January 2012



Notes: RAIF – Raiffeisen Bank; UNI – Unicredit Bank; BNP - BNP Paribas; VTB -VTB Bank; OTP - OTP Bank; SBR – Sberbank; CMRZ – Commerzabnk; CAGR – Credit Agricole; ERS – Erste Group; SWED –Swedbank AB; EFG - EFG Eurobank; INTE – Intesa Sanpaolo; DB – Deutsche Bank; SGEN – Soc Generale.

Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 35. European banks with operations in Ukraine
by 5-year CDS spread as of 11 January 2012



Notes: RAIF – Raiffeisen Bank; UNI – Unicredit Bank; BNP - BNP Paribas; VTB -VTB Bank; OTP - OTP Bank; SBR – Sberbank; CMRZ – Commerzabnk; CAGR – Credit Agricole; ERS – Erste Group; SWED –Swedbank AB; EFG - EFG Eurobank; INTE – Intesa Sanpaolo; DB – Deutsche Bank; SGEN – Soc Generale.

Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 36. European banks with operations in Ukraine
by increase in 5-year CDS spread over last 6 month period as of 11 January 2012



Notes: RAIF – Raiffeisen Bank; UNI – Unicredit Bank; BNP - BNP Paribas; VTB -VTB Bank; OTP - OTP Bank; SBR – Sberbank; CMRZ – Commerzabnk; CAGR – Credit Agricole; ERS – Erste Group; SWED –Swedbank AB; EFG - EFG Eurobank; INTE – Intesa Sanpaolo; DB – Deutsche Bank; SGEN – Soc Generale.

Sources: Bloomberg, Investment Capital Ukraine LLC.

Assessing the chances of EU banks to pull out

Here we provide our viewpoints on why EU banks will find it difficult to pull out in snap fashion

In the above, we made an assumption supported by a quantitative set of factors that there are nine foreign banking groups that operate in the country which are considering a total pullout from the local market as an option. By doing this, they will most likely face a challenge, in our view.

The following are the factors that could be difficult to shrug off while selling local operations by the foreign banks to some strategic investor. These factors are the following:

- Judicial system.** Ukraine's judicial system has long been the subject of criticism by the private sector for failing to provide a level playing field for businesses in legal proceedings. The local courts proved to fail the test for having "independent and incorruptible" qualities, as Kiev-based English language weekly *Kyiv Post* put it. Ukraine's authorities, too, have since long ago talked up judicial reform; however, it is understood that it is a distant target. The banks' had ignored this fact during their lending spree of 2005-08; after the financial crisis of late 2008 and deep recession of the domestic economy in 2009, the banks awakened to the reality of complicated legal proceedings in their claims on defaulted borrowers.
- Red tape and corruption.** According to the Doing Business²³ organization, Ukraine scores low in these rankings. The most recent survey, made in late 2011, placed Ukraine at No.152, down 3 places from No.149 the previous year. Corruption as an element of public life has been a long-lasting factor for businesses operating in Ukraine and for the ordinary public. This factor has also been gaining international recognition as well as quantitative assessment by the global corruption watchdog, Transparency International²⁴. In its newly published report, the "Corruption Perception Index" (issued on 1 December, 2011), Ukraine is ranked at 152nd place out of 182, an extremely low level (meant to indicate a high level of corruption).
- Risk premium,** which is attached to Ukraine's sovereign debt, denominated in USD, and derived from the CDS market, now stands at around 850bp, the highest level among the EM economies in this region (CEE, CIS, and Turkey). This has been the case since the 2008 financial and economic crisis, and it means that the economy continues to be in the epicentre of the crisis, which is likely to see its second leg in 2012 alongside weakest economies of Europe.

Rampant corruption and notorious red tape are the key elements of the risky business environment, ...

... which would limit the circle of bidders for EU banks in Ukraine to a small group of local bottom fishers, ...

As the charts on pp.39 and Table 7 on pp.40 show, Ukraine shares some similarities with the nearly insolvent periphery countries of the EU. There are three illustrative factors. First, a persistent current account deficit reflects dependence on external financing (Chart 38). Second, a high level of NPLs in the banks' books (which, in Ukraine's case, is considered to be lower than the true level of bad assets) points to the banks' weakness and threatens to be a drag on the economy precisely at a time when it is facing weak external demand and needs internal sources of growth (Chart 39). And third, a sizable increase in public debt since late 2008, if viewed through the prism of the above-mentioned factors, also indicates a risk that the public debt level may increase (even double) once again, as private demand may contract, leaving the government to step in and support demand in the economy via inflationary fiscal and monetary policy tools (Chart 37).

²³ Visit <http://www.doingbusiness.org/> for more details on this subject.

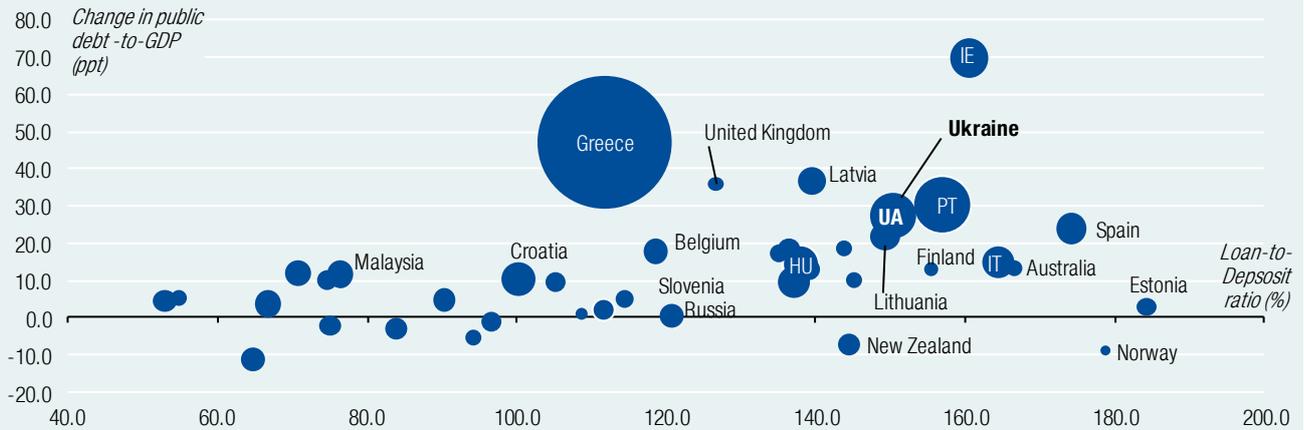
²⁴ Visit <http://www.transparency.org/> for more details on this subject.

***... eventually locking
some EU banks into
Ukraine's market for a
lengthy journey***

In relative terms, all three factors put Ukraine's economy in a very poor light compared to other economies in the region. Ukraine's economic as well as business conditions are not perfect, to phrase it politely, and are likely to impact the price tag of any business brought to sale by their owners. And, in the case of a commercial bank, such an impact could be even direr, because banks' operations depend, to a large extent, on other businesses' operations. Hence, our main conclusion here is that in addition to determining the EU bank names that are most likely to pull out from operations in Ukraine's (risky) market, the above-mentioned factors would be a drag on these banks, forcing them either to struggle to find a foreign buyer wishing to enter Ukraine's banking sector (difficult to imagine now) or else parley with local investors, who in bottom fishing, would low-ball the price tag as much as possible, likely discouraging a EU bank from entering a deal.

Chart 37. The risky names #1: Bond investors dump sovereigns from the economies that over-leveraged in the run-up 2008.

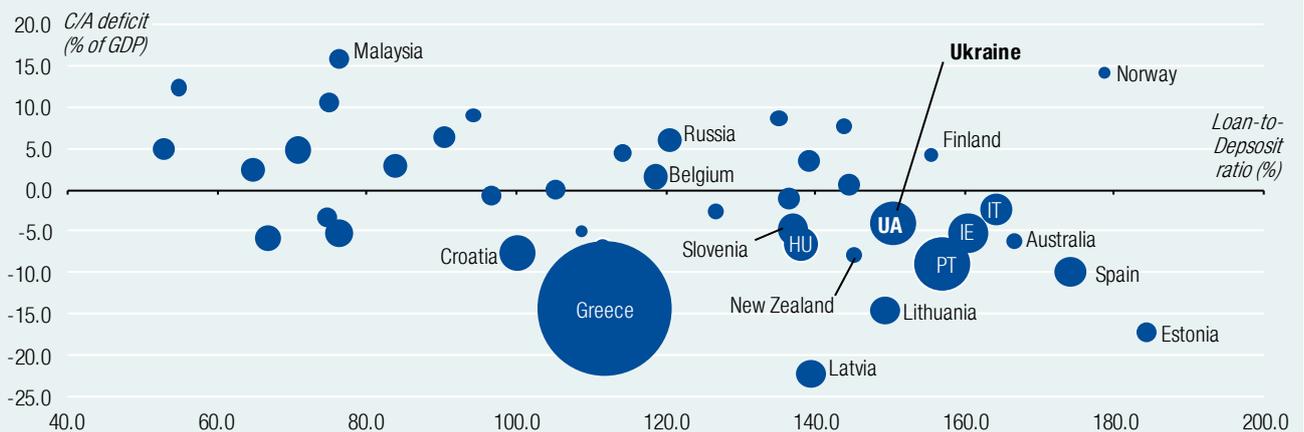
Selected countries are plotted by their public debt change in the period of 2008-10 vs. their banking sector wide loan-to-deposit ratio as of end 2010



Notes: Size of the bubble equals to CDS on 5-year sovereign debt as of 8 January 2012. Data for the chart is from Table 7 on pp.40.
Sources: Bank for International Settlements, Bloomberg, Investment Capital Ukraine LLC.

Chart 38. The risky names #2: Bond investors dump sovereigns from the economies that leveraged themselves with external debt inflows.

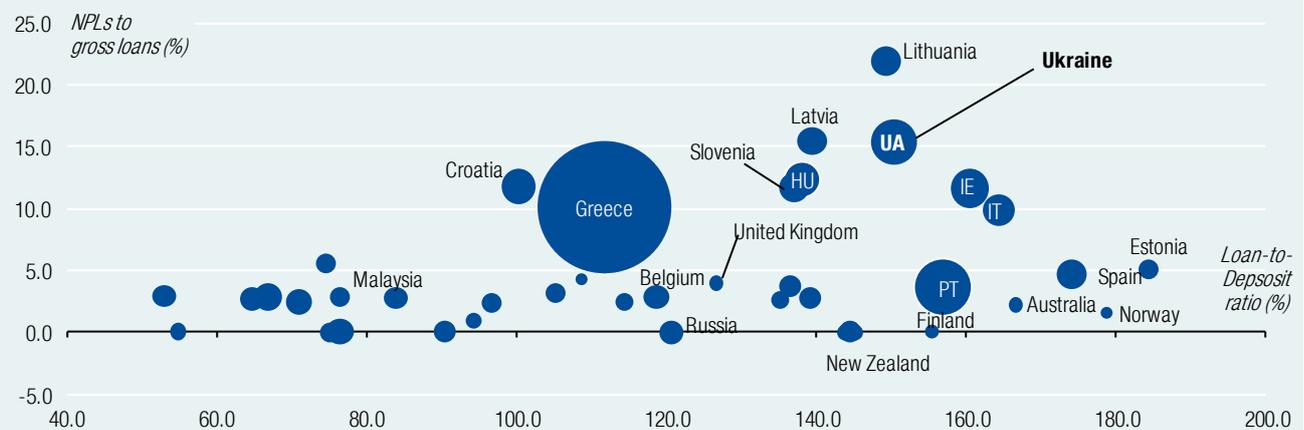
Selected countries are plotted by their C/A deficit vs. Their banking sector wide loan-to-deposit ratio as of end 2010



Notes: Size of the bubble equals to CDS on 5-year sovereign debt as of 8 January 2012. Data for the chart is from Table 7 on pp.40.
Sources: Bank for International Settlements, Bloomberg, Investment Capital Ukraine LLC.

Chart 39. The risky names #3: Bond investors dump sovereigns from the economies that have banking sector struggling under the weight of high NPLs.

Selected countries are plotted by their C/A deficit vs. Their banking sector wide loan-to-deposit ratio as of end 2010



Notes: Size of the bubble equals to CDS on 5-year sovereign debt as of 8 January 2012. Data for the chart is from Table 7 on pp.40.
Sources: Bank for International Settlements, Bloomberg, Investment Capital Ukraine LLC.

Table 7. International perspective of economies and banking sectors between 2007 and 2010 and current risk premium attached by bond markets to sovereign debt

Country	Bank crisis 1990–2007	FX peg	Infl'n target	As of year-end 2007 (%)			As of year-end 2010 (%)			Change 2010/2007 (ppt)			CDS 5yr sovgn debt (bp)		NPLs (% IMF latest ²)			
				Avg bank capital ratio	Current acct/GDP	Debt/GDP	Credit/GDP	Loan/deposit ratio	Avg bank capital ratio	Debt/GDP	Loan/deposit ratio	Avg bank capital ratio	Debt/GDP	Loan/deposit ratio		Current ¹ YTD chg	3yr chg	
Australia	AU		x	9.9	-6.2	15.6	117.3	166.6	11.6	28.8	N/A	1.7	13.2	N/A	75.3	-7.9	-39.9	2.2
Austria	AT		x	11.1	3.5	59.2	114.6	139.1	15.8	72.3	219.3	4.7	13.1	80.2	167.3	-12.1	17.0	2.7
Belgium	BE		x	15.3	1.6	82.8	90.3	118.6	19.3	100.7	100.4	4.0	17.9	-18.2	240.5	-24.0	109.7	2.8
Brazil	BR	x	x	16.6	0.1	45.1	42.1	105.1	18.2	54.7	N/A	1.6	9.6	N/A	144.5	-10.6	-58.1	3.2
Chile	CL		x	10.7	4.5	4.1	73.9	114.3	N/A	9.2	152.8	N/A	5.1	38.5	115.4	-12.7	-49.6	2.5
China	CN	x	x	10.3	10.6	18.4	107.5	75.0	N/A	16.3	N/A	N/A	-2.1	N/A	146.7	3.3	-32.9	N/A
Croatia	HR	x	x	13.2	-7.6	47.8	63.1	100.2	18.9	58.2	130.9	5.7	10.4	30.7	486.6	-11.0	17.2	11.8
Czech Rep.	CZ	x	x	22.4	-3.3	29.0	48.0	74.6	15.7	38.9	78.3	-6.7	9.9	3.7	143.3	-17.5	-37.7	5.6
Denmark	DK		x	16.7	1.6	26.0	202.5	325.0	17.4	43.7	332.5	0.7	17.7	7.5	119.6	73.6	12.3	3.5
Estonia	EE	x	x	N/A	-17.2	3.7	92.7	184.3	21.0	6.6	147.2	N/A	2.9	-37.1	138.0	-17.0	-77.0	5.1
Finland	FI	x	x	15.3	4.3	35.2	79.6	155.5	N/A	48.4	N/A	N/A	13.2	N/A	65.6	32.0	12.1	N/A
France	FR		x	9.2	-1.0	63.8	103.6	136.4	12.7	82.4	130.3	3.5	18.6	-6.1	165.7	-25.5	144.8	3.8
Germany	DE		x	19.0	7.6	64.9	103.9	143.7	17.1	83.4	134.3	-1.9	18.5	-9.4	85.4	-17.6	48.0	N/A
Greece	GR		x	11.9	-14.4	95.6	90.9	111.7	12.4	142.7	102.1	0.5	47.1	-9.6	7,720.8	6,710.8	N/A	10.1
Hong Kong	HK		x	15.1	12.3	12.5	139.7	54.8	N/A	17.8	N/A	N/A	5.3	N/A	101.3	56.7	N/A	N/A
Hungary	HU	x	x	13.8	-6.5	65.8	61.8	138.0	14.5	80.2	N/A	0.7	14.4	N/A	577.2	-7.4	30.7	12.4
Indonesia	ID	x	x	12.9	2.4	36.9	25.5	64.7	17.0	25.7	86.5	4.1	-11.2	21.8	214.0	1.9	-60.3	2.7
Ireland	IE		x	11.6	-5.3	25.0	198.5	160.5	14.4	94.9	N/A	2.8	69.9	N/A	616.7	-15.1	130.2	11.6
Israel	IL		x	10.7	2.9	77.6	87.9	83.8	13.8	74.6	94.0	3.1	-3.0	10.2	192.6	-2.7	-5.2	2.8
Italy	IT		x	10.8	-2.4	103.5	100.2	164.3	12.0	118.4	157.7	1.2	14.9	-6.6	398.2	-20.9	140.8	9.9
Japan	JP	x		10.1	4.8	187.7	98.2	70.8	13.8	199.7	N/A	3.7	12.0	N/A	263.5	-15.8	333.1	2.4
Korea	KR	x	x	11.8	0.6	29.7	99.6	144.5	N/A	22.6	N/A	N/A	-7.1	N/A	164.7	0.8	-49.9	N/A
Latvia	LV	x	x	15.5	-22.3	7.8	88.7	139.4	14.5	44.7	124.4	-1.0	36.9	-15.0	315.9	-13.4	-60.8	15.4
Lithuania	LT	x	x	10.4	-14.6	16.9	60.0	149.3	14.1	38.7	122.8	3.7	21.8	-26.5	320.6	-12.6	-51.8	22.0
Malaysia	MY	x		18.6	15.9	42.7	105.3	76.4	16.6	53.1	N/A	-2.0	10.4	N/A	142.0	-3.5	-38.6	2.9
Mexico	MX	x	x	14.2	-0.8	38.2	17.2	96.6	16.2	36.9	120.2	2.0	-1.3	23.6	142.8	-7.0	-59.9	2.4
Netherlands	NL		x	10.9	8.6	45.5	184.2	135.1	13.7	62.7	N/A	2.8	17.2	N/A	102.0	-16.2	-0.3	2.6
New Zealand	NZ		x	10.1	-8.0	17.4	140.7	145.1	N/A	27.5	N/A	N/A	10.1	N/A	84.1	-11.0	N/A	N/A
Norway	NO	x	x	22.7	14.1	58.6	N/A	178.7	13.7	49.7	N/A	-9.0	-8.9	N/A	34.8	11.7	N/A	1.6
Philippines	PH	x	x	21.1	4.9	47.8	23.8	52.9	16.7	52.4	68.2	-4.4	4.6	15.3	180.8	-5.5	-52.4	2.9
Portugal	PT		x	9.6	-9.0	62.7	160.7	156.9	10.1	93.0	157.3	0.5	30.3	0.4	1,435.5	31.4	1,049.2	3.6
Russia	RU	x	x	N/A	5.9	8.5	38.2	120.6	N/A	9.0	N/A	N/A	0.5	N/A	219.4	-20.3	-69.7	N/A
Slovakia	SK	x	x	15.7	-5.3	29.3	N/A	76.3	N/A	41.0	N/A	N/A	11.7	N/A	271.7	-8.9	55.0	N/A
Slovenia	SI	x	x	9.6	-4.8	23.3	N/A	137.0	12.1	33.0	N/A	2.5	9.7	N/A	386.7	309.9	114.8	11.7
South Africa	ZA		x	12.2	-7.2	31.3	77.5	111.6	14.9	33.4	156.5	2.7	2.1	44.9	181.3	-10.3	-57.1	5.5
Spain	ES		x	10.9	-10.0	36.1	183.6	174.1	12.0	60.1	127.4	1.1	24.0	-46.7	354.5	-9.9	156.3	4.6
Sweden	SE	x	x	9.3	8.4	40.1	121.5	239.8	12.7	39.7	N/A	3.4	-0.4	N/A	61.1	27.0	-34.4	0.8
Switzerland	CH			16.8	9.0	43.6	173.6	94.2	17.3	38.4	102.8	0.5	-5.2	8.6	81.1	40.6	N/A	0.9
Thailand	TH	x	x	12.4	6.3	38.3	91.8	90.3	N/A	43.1	N/A	N/A	4.8	N/A	187.9	3.2	-22.5	N/A
Turkey	TR	x	x	15.9	-5.9	39.4	29.5	66.7	17.1	43.0	99.6	1.2	3.6	32.9	275.5	-4.0	-35.7	2.8
Ukraine	UA	x	x	13.9	-4.1	12.4	59.9	150.4	21.3	39.7	169.0	7.4	27.3	18.6	827.3	-2.5	-74.2	15.4
United King'm	GB		x	11.9	-2.6	43.9	187.3	126.6	15.9	79.9	94.1	4.0	36.0	-32.5	78.0	-20.0	-38.2	4.0
United States	US			10.9	-5.1	62.1	60.4	108.7	15.0	62.9	76.4	4.1	0.8	-32.3	43.7	-14.3	N/A	4.3

Notes: Avg – average; infl'n – inflation; ppt – percentage point; bp – basis point; chg – change; sovgn – sovereign; NPLs – non-performing loans; King'm – Kingdom;

[1] last price on CDS on 5-year sovereign debt as of 30 January 2012; [2] NPLs are IMF data (see Financial Soundness Indicators at www.imf.org).

Sources: International Monetary Fund, Bank for International Settlements, Bloomberg, Investment Capital Ukraine LLC.

Balance sheet and profitability

Investors are not as keen on the reliability of banks in Ukraine backed by European Union capital, as was the case in 2008-09. With the debt crisis not completely resolved, these banks should also be closely analysed as well as local ones, without expectations for further support from parent companies if necessary. Similarly, local banks will tend to increase their market share, especially the “Big Guys,” effectively decreasing the overall diversification of the Ukrainian banking system. Considering the decreased expectations for lending growth over the next year, banks will tend to increase their reliance on more stable fee and commission income, along with continuing the processes of structural optimisation and cutting expenses. With higher expectations for local-currency devaluation, the share of FX loans in banks’ credit portfolios will further decline, and will instead be mostly targeted toward exporters. During 1H12, we do not expect a material decrease in interest rates (both from the deposits’ side and loans to clients), although high-quality clients with good credit histories will still be desirable. Another feature from the loans perspective will be a further gain in momentum of consumer loans as the ones with the highest margins, and we can expect a continuation in the NBU’s movements regarding regulatory limitations of such banking products.

Liquidity

Cash and cash equivalents

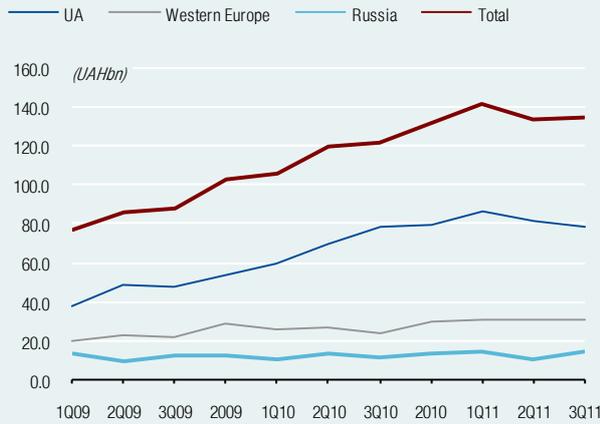
Banks with EU roots currently show higher liquidity than others

Until 1Q11, the overall banking system’s cash and cash equivalents showed a tendency to gradually increase, reaching a peak of about UAH142.0bn. Still, dividing Ukrainian banking sector into segments by countries, it can be clearly observed that cash and cash equivalents of banks with WE parents (which presented a significant 28.9% of total assets as of 1Q09) remained almost flat in UAH terms.

Nevertheless, considering this balance sheet account as a share of total assets (see Chart 41 further), banks from Western Europe increased their amounts of cash in line with the overall banking system, and in past quarters, even exceeded it, indicating their risk-aversion. Banks with parents from the Russian Federation, conversely, present their risk-targeted strategies with a lower percent of cash/assets during the 2011 year than the overall banking system had. Considering the NBU’s current liquidity squeeze, we expect a further decline of the liquid assets share on banks’ balance sheets, with fluctuations in the range of 11-13%.

Chart 40. Cash and cash equivalents

Based on banks' quarterly UAS balance sheets



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

Chart 41. Cash and cash equivalents (as % of total assets)

Based on banks' quarterly UAS balance sheets



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

Securities held by a bank

The Ukrainian banking system has invested significant amounts in government securities

During 1H09, the Ukrainian banking system presented significant structural changes in their assets. Considering a weak lending environment and the absence of other, relatively secure sources of revenues, a boost in banks' securities portfolios was partly justified. Still, this has its own risks, which were revealed during 3Q11, including the jump in bond yields. This led to a decrease in the fair value of accumulated portfolios and issues in transferring them into cash, in case of need.

From the following charts, we also can see that about 39% of the securities held by banks are held by state-owned banks (considering the three biggest state-owned banks, they possess about 38% of the total securities held by the Ukrainian banking system), with significant amounts of capital having been injected into them by the Ukrainian government during the financial crisis (about UAH43.5bn, according to our calculations). After that, according to different sources, a material share of these securities was repurchased by the NBU, thus putting fresh liquidity into the banks. As of 3Q11, an amount of about UAH72.4bn, or 7.0% of the total overall banks' assets were in trading and held-for-sale securities, the material share of which will possibly appear on the market in a short-term period with banks' seeking for cash.

Chart 42. Securities held by a bank (breakdown by type)

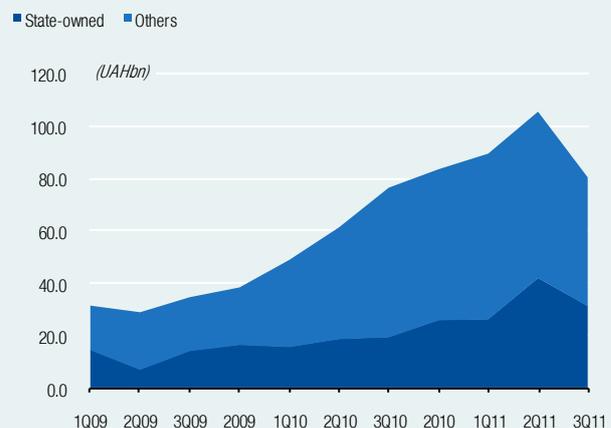
Based on banks' quarterly UAS balance sheets



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

Chart 43. Securities held by a bank

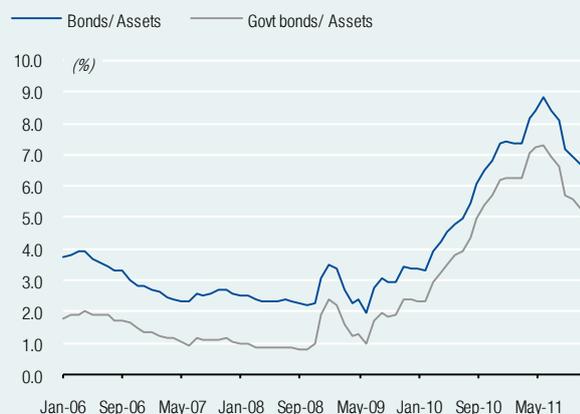
Based on banks' quarterly UAS balance sheets



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

Chart 44. Securities, held by a bank (as % of total assets)

According to NBU's Department of Statistics



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

Chart 45. Securities, held by a bank (breakdown by maturities, as % of total assets)

According to NBU's Department of Statistics



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

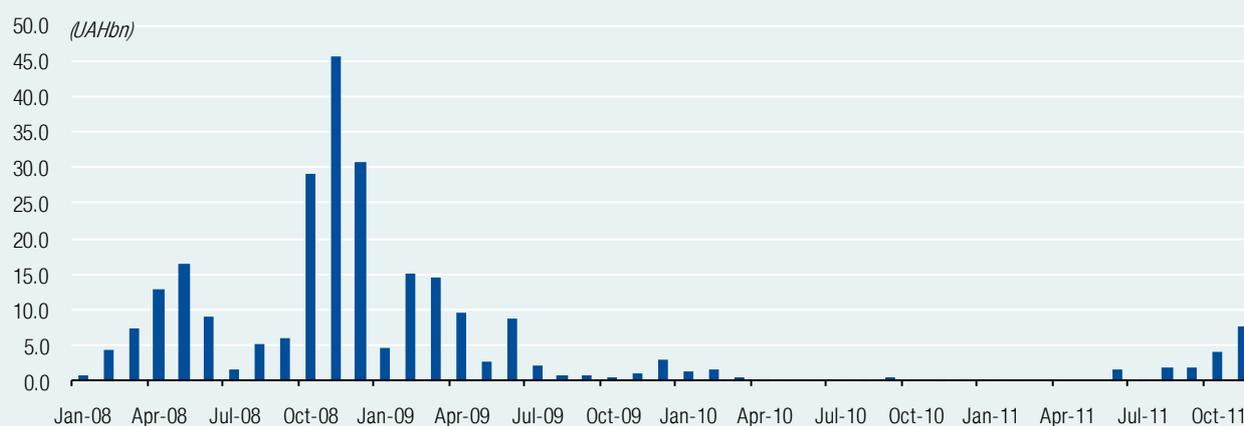
Refinancing

The NBU materially increased its refinancing at end-2011

During November 2011, the NBU directed about UAH 7.6bn of refinancing, which is 81% higher than during October. While this figure is materially lower than it was during 2008-09 (see further chart), considering the NBU's recent local-currency liquidity regulations due to support of the exchange-rate, this figure is significant. The banks' regulator has presented statistics on refinancing return in segments, with the latest data showing that during the first ten months of 2011, banks returned about UAH14.8bn of refinancing to the NBU, with a total outstanding amount of approximately UAH68bn as of October 2011, according to our calculations. The biggest debtors are Oschadbank, with UAH15bn; NADRA Bank, with UAH8bn; and Finance and Credit, at UAH6bn (data as of end-November 2011), according to market sources.

Chart 46. NBU's refinancing

UAH17.8bn total as of first eleven months of 2011



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

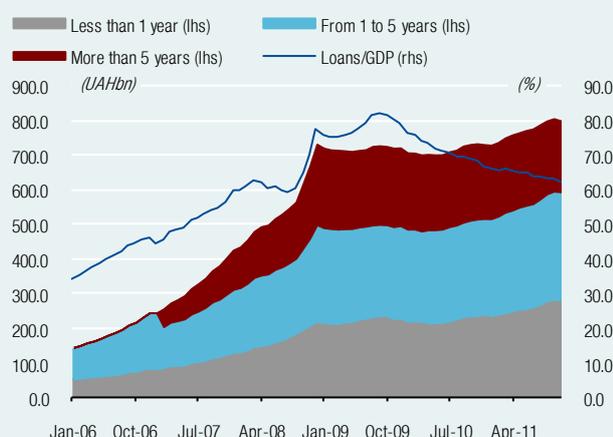
Lending activity

The Ukrainian economy experienced a hefty lending boom during 2005-08, but this was followed by a further decrease towards its normal level

The lending boom observed in 2006-08 definitely made a material impact on the Ukrainian economy. Considering the significant amount of loans relative to GDP (see Chart 47 and Chart 48 below) and the currently high loans-to-deposits ratio, which we will discuss further, we believe that the Ukrainian economy experienced rapid bank lending growth over too short a period of time, and will see further downside movement of this ratio to about 50%, without significant credit booms in the forecast period. With the earlier described dedolarisation processes by the NBU, we forecast a continued decrease in all term types of FX loans (Chart 50), while UAH loans in absolute amounts should continue their increase, although at a much slower pace, than during end-2011, where they presented about 20% YoY growth.

Chart 47. History of loans to residents

According to the NBU's Department of Statistics

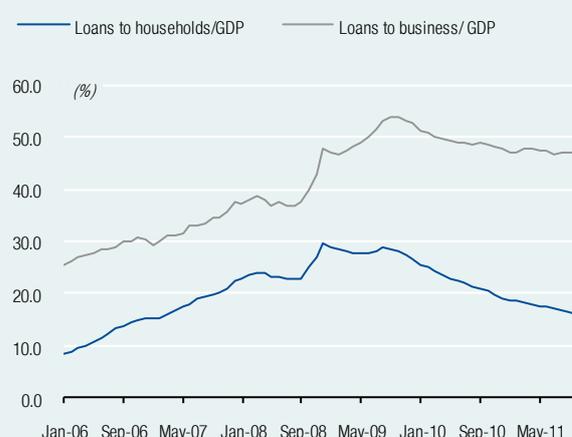


Note: Prior to Jan-07, loans with more than 5-year maturities, together with other loans of shorter maturities, were classified as loans with maturities of 1-5 years.

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

Chart 48. Business and households loans-to-GDP ratios

According to the NBU's Department of Statistics



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

Chart 49. UAH loans to residents

According to the NBU's Department of Statistics

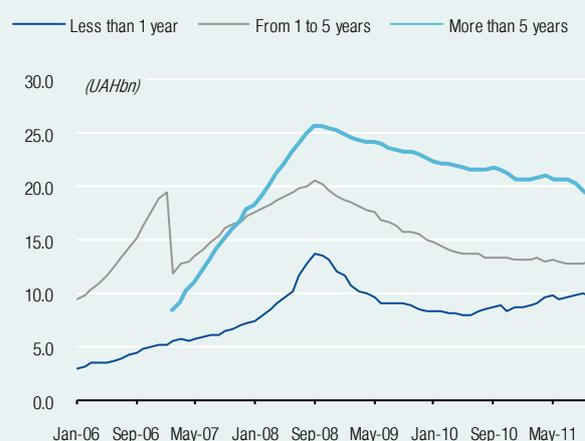


Note: Prior to Jan-07, loans with more than 5-year maturities, together with other loans of shorter maturities, were classified as loans with maturities of 1-5 years.

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

Chart 50. FX loans to residents (in US\$)

According to the NBU's Department of Statistics



Note: Amount of FX loans is calculated assuming that all FX loans are denominated in US\$, using official exchange rate. Prior to Jan-07, loans with more than 5-year maturities, together with other loans of shorter maturities, were classified as loans with maturities of 1-5 years.

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

We estimate a further decrease in the business loans/GDP ratio

While loans to businesses without FX earnings were banned by the NBU at end-2008, banks with roots in WE did not manage to redirect their resources to exporters, with the constant decline in total FX loans (leaving the option that they did not want to do so, but were just shrinking their balances). Most of the businesses' loans (both FX and UAH) were made by banks with Ukrainian owners, as can be seen in the following Chart 51 and Chart 52. Considering the above, we believe that the outflow of resources from foreign banks in the Ukrainian economy will not make a material impact on it, with recent filling of vacant seats by domestic banks.

Chart 51. FX loans to business

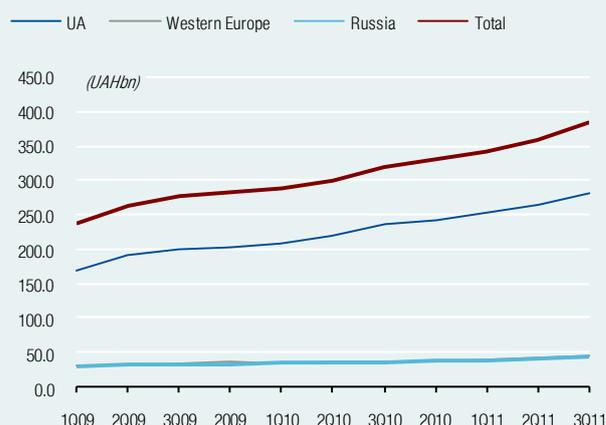
Based on banks' quarterly UAS balance sheets



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

Chart 52. UAH loans to business

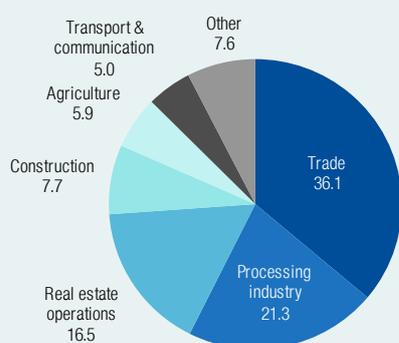
Based on banks' quarterly UAS balance sheets



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

Chart 53. Breakdown of non-financial business loans by sectors

According to NBU's Department of Statistics, data as of end-November 2011 (100%=UAH573.7bn)



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

Chart 54. Total loans to non-financial corporations (UAHbn)

According to NBU's Department of Statistics



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

Presented further in Table 8 is an illustration of the overall Ukrainian banking system credit portfolio breakdown, both from the economic segments and households' loans sides.

Considering the economic breakdown of loans to non-financial businesses, what stands out as of end-2011 are loans to trade, repair of motor vehicles, and household and personal goods, with a share of about 36.1%, or UAH207.3bn, followed by loans to the processing industry, at 21.3%, or UAH122.0bn. Loans to the construction industry presented growth of share till 2008 (to 9.2%), followed by a material fall to 7.7%, or UAH44.3bn, as of end-2011, and we do not see reasons for further upside movements in this segment's share. We expect a further increase in the share of loans to the agriculture sector, which was at about

5.9%, or UAH33.7bn as of end-2011, considering the recent banks' press releases and sector's growth. Nevertheless, despite the tough recurring 2010-11 years, in absolute dimensions, all key non-financial business sectors presented growth, and we expect a further increase in loans to businesses as key a source of banks' credit portfolio growth.

From the households' credit portfolio dynamics, definitely notable is a boom in mortgage loans during the pre-crisis period, where the share in total households loans grew from 7.5% as of end-2005 to 48.8% as of end-2008, indicating the entrance of large, long-term foreign capital in Ukraine, followed by a decrease by 2.6ppt, to 46.2%, or to UAH94.5bn. We do not expect for this trend to reverse, and in the short-term period, see no drivers for a boost in mortgage credit portfolios.

Table 8. Banking system credit portfolio breakdown by segments

	Total amount (UAHbn)							Share in a credit portfolio segment (%)						
	2005	2006	2007	2008	2009	2010	2011	2005	2006	2007	2008	2009	2010	2011
Loans to non-financial corporations														
Trade	43.8	63.6	102.3	147.8	165.7	174.5	207.3	40.5	38.2	38.5	36.7	35.8	34.8	36.1
Processing industry	30.6	44.5	64.8	100.9	105.0	121.5	122.0	28.3	26.7	24.4	25.0	22.7	24.3	21.3
Real estate operations	6.5	13.3	29.3	47.6	77.8	77.5	94.6	6.0	8.0	11.0	11.8	16.8	15.5	16.5
Construction	5.9	10.5	21.3	37.2	41.7	43.2	44.3	5.5	6.3	8.0	9.2	9.0	8.6	7.7
Agriculture	8.2	11.9	16.5	28.0	26.0	26.5	33.7	7.6	7.1	6.2	7.0	5.6	5.3	5.9
Transport & communication	4.4	7	10.9	14.6	16.0	20.9	28.5	4.1	4.4	4.1	3.6	3.5	4.2	5.0
Other	8.8	15.6	20.4	26.9	30.0	36.8	43.4	8.1	9.4	7.7	6.7	6.5	7.4	7.6
Total loans to non-financial corp.	108.2	166.7	265.5	403.0	462.2	501.0	573.7	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Households														
Consumer loans	33	58.5	115.0	180.4	137.1	122.9	125.4	87.3	71.3	71.7	69.4	56.8	58.7	61.3
Real estate	3	20.4	40.8	74.0	98.8	82.0	74.4	7.2	24.9	25.4	28.4	41.0	39.1	36.4
Other loans	2	3.1	4.6	5.7	5.3	4.6	4.8	5.5	3.8	2.9	2.2	2.2	2.2	2.3
Total loans to entities	38.2	82.0	160.4	260.1	241.2	209.5	204.6	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Mortgage loans*	3	20.5	73.1	126.8	132.8	110.7	94.5	7.5	25.0	45.6	48.8	55.0	52.8	46.2

Notes: * - from total amount of loans

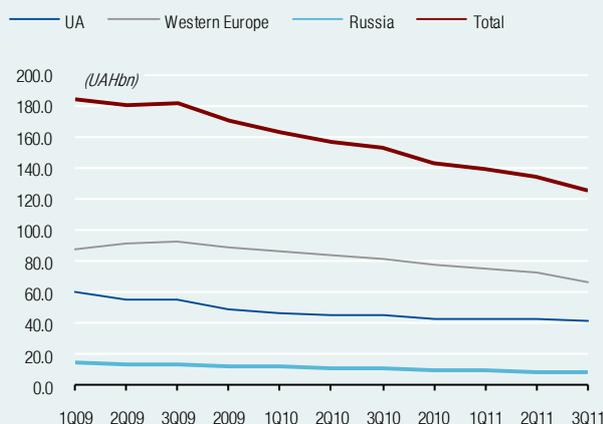
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

FX loans to households will continue to decrease

The total amount of loans to households as of end-November 2011 was just about at the pre-crisis level of UAH204.6bn (approximately the same level as of August 2008, UAH208bn, data from the NBU's Department of Statistics). The 2009-10 years presented a lack of borrowers with good credit histories, and with sufficient officially confirmed incomes. Banks' increased reliance on improved credit risk policies and the NBU's tough stance on FX loans resulted in a material increase during 2011 of local currency loans to households, as shown further in Chart 56 (UAH53.3bn, or 16.1% YTD growth in gross loans, to a total of UAH383.9bn as of end 3Q11), with growth in all banking groups. We expect that the Ukrainian banking system will further continue its increase in consumer loans, which are relatively risky, but their high margins and short-term structure compensates for such risks. Reviewing the overall amount of outstanding households' loans, in the short-term period, there will be further downward movement due to the increased cost of funding, decrease in mortgage loans (which are still a significant portion of overall loans), and ban on FX consumer loans.

Chart 55. FX loans to households

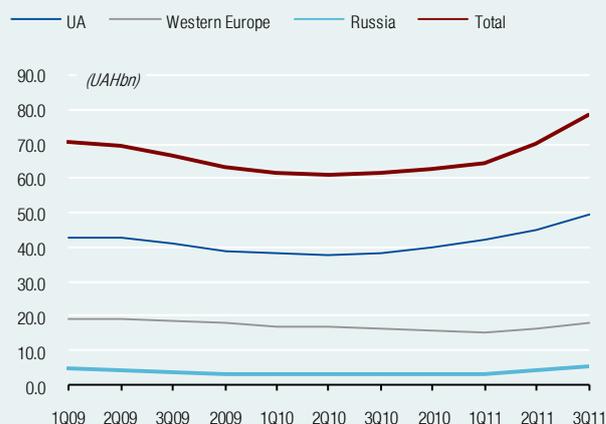
Based on banks' quarterly UAS balance sheets



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

Chart 56. UAH loans to households

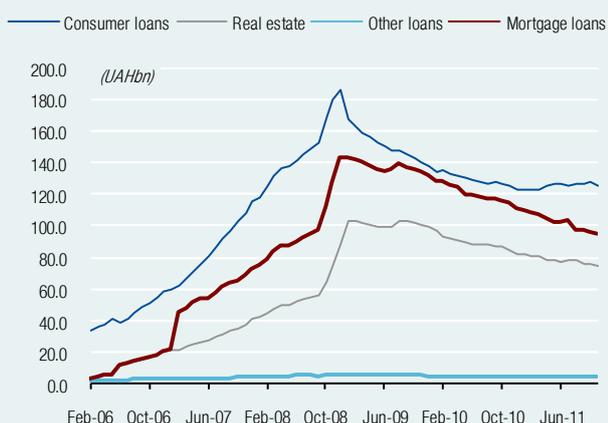
Based on banks' quarterly UAS balance sheets



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

Chart 57. Loans to households breakdown by type

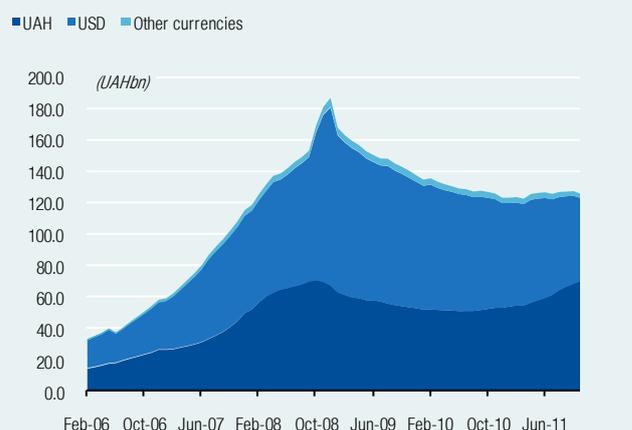
According to NBU's Department of Statistics



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

Chart 58. Consumer loans breakdown by maturity

According to NBU's Department of Statistics



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

Assets quality and reserves

FX loans were the worst affected after the UAH devaluation

Up until 3Q09, different groups of domestic and international banks were in sync with the Ukrainian banking system trends, constantly increasing their loan-loss reserves coverage. However, considering the significant amount of FX loans in the total credit portfolio of WE banks (see Chart 61) and increased pressure on banks' clients from UAH devaluation, not surprisingly, the credit portfolio of WE banks presented a materially worse condition. According to our rough estimates, customers with FX loans presented about 5-10% more cases of overdues than those with UAH loans. In this situation, we cannot take into account the improved risk policies and the banking experience of WE banks, because most of them were acquired with already distended credit portfolios just before the crisis, with insufficient time to prepare for the stress situation.

Chart 59. Total LLR

Based on banks' quarterly UAS balance sheets



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

Chart 60. LLR/loans ratio

Based on banks' quarterly UAS balance sheets



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

Chart 61. Share of FX loans

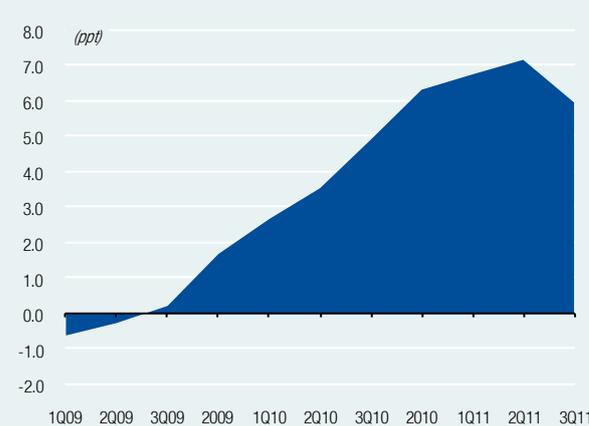
Based on banks' quarterly UAS balance sheets



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

Chart 62. LLR coverage gap between EU banks and Ukrainian banking system

Based on banks' quarterly UAS balance sheets



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

LLR coverage in WE banks is materially higher than in those in Ukraine

Since 3Q09, the gap between EU banks and the Ukrainian banking system has constantly increased, with its peak in 2Q11 of about 7.2ppt, or 26.5% LLR/gross loans in WE banks, versus 19.3% in the overall Ukrainian banking system. Such a gap also increased with insufficient reserves formation at some of the biggest Ukrainian banks (e.g., Ukrgazbank, Rodovid) and conservative LLR policies at WE banks. Nevertheless, the presented tendencies were reflected during 3Q11, when the gap widened to 6ppt. We believe that most of the WE banks in Ukraine have finished their LLR formation process, and assuming the cleaning-up of their active credit portfolios, they will further decrease their LLR/loans ratio.

Despite the active processes of LLR formation, there are still banks with a high possibility of showing inadequate levels

Reviewing the separate banks (see further table), the most active decrease in formed LLR is currently seen in UkrSibbank (BNP Paribas, France). According to different press releases, the bank is effectively cleaning its balance sheet by NPL disposal, both by writing off and selling off the NPLs. From the banks presented, Ukrgazbank definitely stands out, which formed a material amount of LLR during 3Q11, bringing LLR coverage to 55.1%; Kreditprombank, with 19.7% LLR/loans as of 3Q11; and Prominvestbank, one of the leaders in NPLs disposal, with 10.4% LLR/loans. More inconspicuous in this category is Raiffeisen Bank Aval, but its slight, though constant increase in reserves and possible

individual NBU license on LLR formation (according to our calculations, based on the bank balance sheet's UAS quarterly figures) leaves possibilities that there might be some amounts of toxic assets on the bank's balance sheet without formed reserves on them (though the bank is currently trying to overlap this by LLR formation, but is incapable of doing so fully at the moment). We leave the possibility that there are still enough banks on the first group of Ukrainian banks by NBU classification with inadequately formed LLR (of the biggest banks, these may include UkrSotsbank, NADRA, and Finance and Credit).

Table 9. The first group of Ukrainian banks, LLR and LLR/loans ratio

	LLR/loans					Change (ppt)		LLR (UAHbn)					Change (%)	
	3Q10	2010	1Q11	2Q11	3Q11	QoQ	YoQ	3Q10	2010	1Q11	2Q11	3Q11	QoQ	YoY
Privatbank	16.8	16.2	15.5	16.0	16.9	1.0	0.1	15.3	16.5	17.3	18.8	20.9	11.1	36.5
Oschadbank	10.8	12.4	13.7	13.7	13.2	-0.5	2.4	4.9	5.6	6.2	6.8	7.6	11.7	55.5
Ukreximbank	12.7	14.2	15.8	16.9	16.3	-0.6	3.6	6.6	7.4	8.3	8.9	8.8	-1.3	33.3
Raiffeisen Bank Aval	25.5	27.6	28.8	29.8	30.2	0.4	4.7	11.5	12.1	12.6	13.2	13.6	3.5	18.9
UkrSibbank	25.5	27.0	29.2	28.6	23.9	-4.7	-1.6	10.5	10.4	10.8	9.9	7.2	-27.8	-31.3
Ukrsotsbank	16.3	17.6	18.8	19.9	21.5	1.6	5.2	6.2	6.6	7.0	7.5	8.0	7.2	29.5
VTB Bank	16.5	15.3	18.6	16.9	16.6	-0.2	0.2	4.3	4.7	5.7	5.4	5.5	1.6	28.2
Prominvestbank	21.9	8.1	9.0	10.0	10.4	0.3	-11.6	6.0	2.1	2.5	2.7	3.0	10.0	-49.6
FUIB	22.2	22.1	22.5	22.2	21.6	-0.6	-0.6	2.9	3.0	3.2	3.2	4.0	25.3	37.5
Alfa Bank	24.2	26.4	26.4	26.6	26.6	0.1	2.4	6.0	6.0	6.3	6.5	6.4	-1.8	5.6
Nadra Bank	19.0	21.1	23.3	23.8	24.9	1.1	5.9	4.6	5.2	5.8	6.0	6.0	1.4	32.1
OTP Bank	14.4	15.6	15.3	16.4	16.1	-0.3	1.7	3.4	3.4	3.1	3.2	3.2	-0.7	-7.9
Finance and Credit	7.2	8.1	7.7	8.1	8.9	0.8	1.6	1.4	1.5	1.5	1.6	1.7	7.9	25.6
Brokbiznesbank	7.1	6.9	7.1	7.0	6.6	-0.4	-0.5	0.8	0.9	0.9	0.9	0.9	-3.3	0.5
Ukrgazbank	41.7	46.7	41.2	40.8	55.1	14.3	13.4	4.9	4.9	5.0	5.1	7.7	52.0	56.6
Kreditprombank	13.2	14.5	14.7	14.5	19.7	5.2	6.5	1.6	1.6	1.6	1.6	2.4	44.8	51.3
Bank Forum	22.0	30.5	32.8	34.2	31.9	-2.4	9.9	3.3	4.3	4.6	4.7	4.5	-4.8	35.5
I group	18.7	19.4	20.0	20.3	21.2	0.9	2.5	94.2	96.1	102.3	106.1	111.5	5.1	18.3
Total banking system	18.6	18.6	19.0	19.3	19.0	-0.3	0.5	138.1	139.6	146.1	152.7	155.2	1.6	12.4

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

Funding

Clients' deposits materially increased their role in Ukraine's banks' funding structure,...

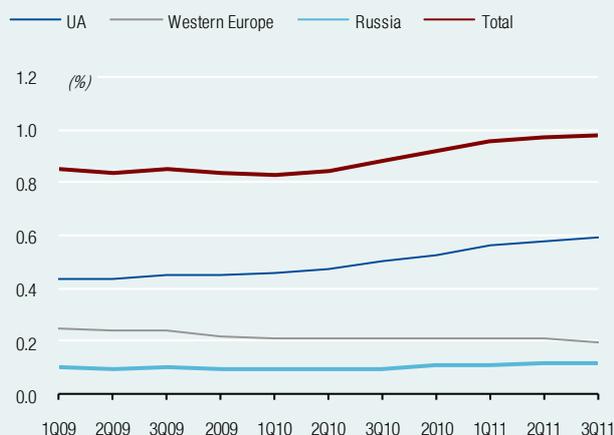
While the constant decrease in WE banks assets in Ukraine described in previous sections is clearly seen, it is crucial to look closely at the banks' funding structure, and any material changes.

Definitely, the biggest changes are observed in the funding bias towards clients' deposits, with a constant and material decrease in due-to banks. Slightly knocked out of the total are Russian banks, whose aggressive strategy assumes a lag in deposits base growth (see following Chart 63-Chart 64).

Another distinguishing feature of Ukrainian banks during the past two years was a constant decrease in parents' funding, with a total UAH39.3bn outflow from 2009 till 3Q11, and UAH35.2bn from this figure was made by Western European banks (or about US\$4.4bn, including US\$1.2bn in outflows made by UkrSibbank). We do not expect any material changes in such a trend, and further outflow of WE banks' parent's funding will likely continue, at least till the ending of the debt crisis and forthcoming of capital issues solutions.

Chart 63. Total funding dynamics

Based on banks' quarterly UAS balance sheets



Note: Funding base includes due to banks', clients' deposits, subordinated debt, securities issued, Equity, other borrowed funds

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

Chart 64. Due to banks (as % of total funding)

Based on banks' quarterly UAS balance sheets



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

Chart 65. Total clients' deposits (as % of total funding)

Based on banks' quarterly UAS balance sheets



Note: State-owned include Ukreximbank, Oschadbank and Ukrgazbank

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

Chart 66. Equity and subordinated debt share in total funding

Based on banks' quarterly UAS balance sheets



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

... showing movement towards a less risky loans/deposits balance

As of 3Q11, clients' deposits consisted of about 52.0% of total funding, and the increase in their constant reliance is consistent with the further described loans/deposits story, presenting structural changes in the Ukrainian banking sector towards a less risky pre-boom model, which was observed before 2005, with close to equality of these two figures (see Table 1 with banking sector key indicator, history of loan-to-deposit ratio since 2000-05).

In our opinion, Ukrainian banks should continue their deleveraging processes, while the targeted funding structure should contain about 18-20% of equity, plus long-term, subordinated debt.

Clients' deposits

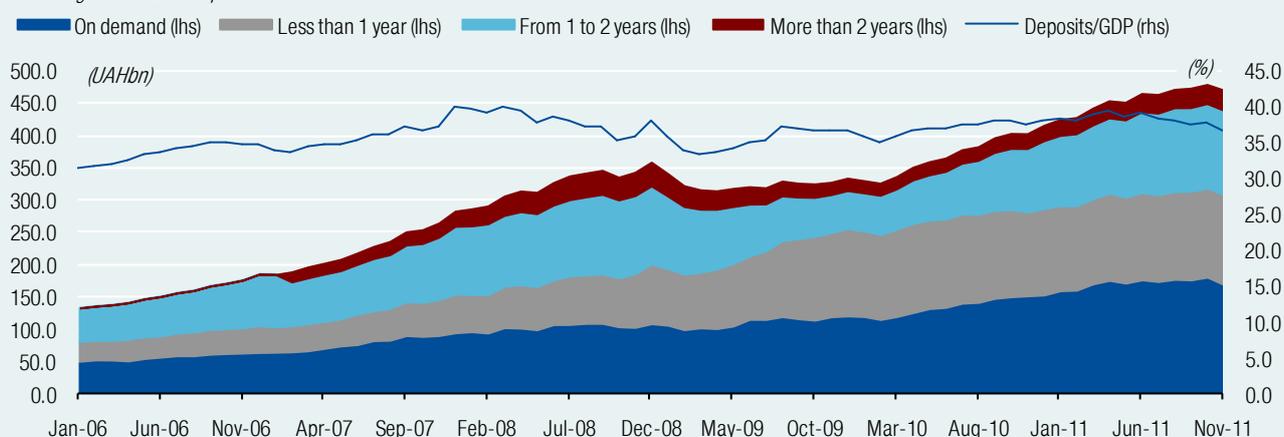
Demand deposits have presented a significant boost since the beginning of 2010

With a material outflow of resources, clients' deposits could present a significant risk for a bank, a situation which we observed during the 2008-09 years. Considering the deposits' term structure, the current legal environment allows for banks' clients to withdraw their funds at almost any time, regardless of whether they are term or on demand. In this case, demand deposits are even more preferable for many of the banks than term because of their lower cost.

According to the NBU's Department of Statistics, as of end-November 2011, total residents' deposits amounted to UAH471.6bn (with 64.9% of households' deposits among them), presenting 16.8% YoY growth (with 14.5% YoY growth of households' deposits), as can be seen in Chart 67.

Chart 67. History of residents' deposits

According to the NBU's Department of Statistics

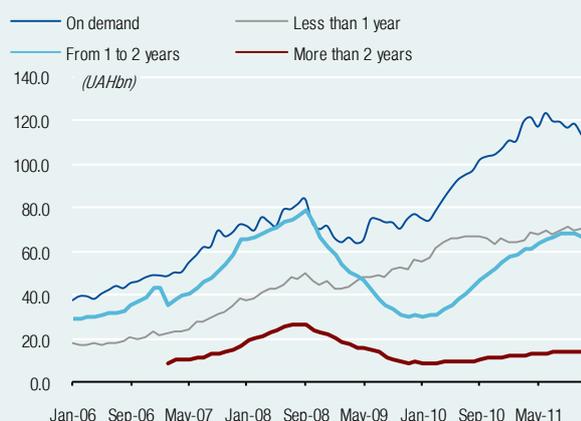


Note: Data before January 2007 include deposits with maturity more than 2 years in deposits with maturities from 1 year to 2 years

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

Chart 68. UAH deposits from residents

According to the NBU's Department of Statistics

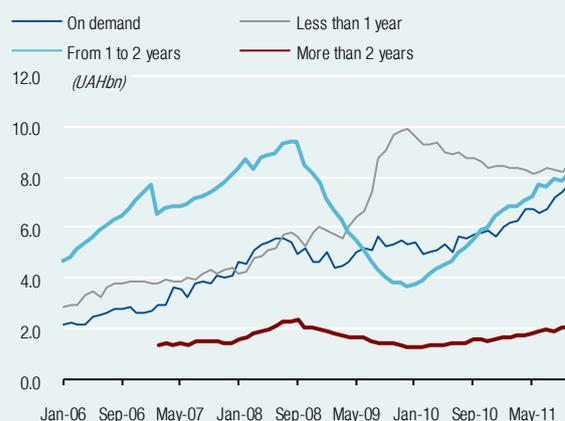


Note: Data before January 2007 include deposits with maturity more than 2 years in deposits with maturities from 1 year to 2 years

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

Chart 69. FX deposits from residents (in US\$)

According to the NBU's Department of Statistics



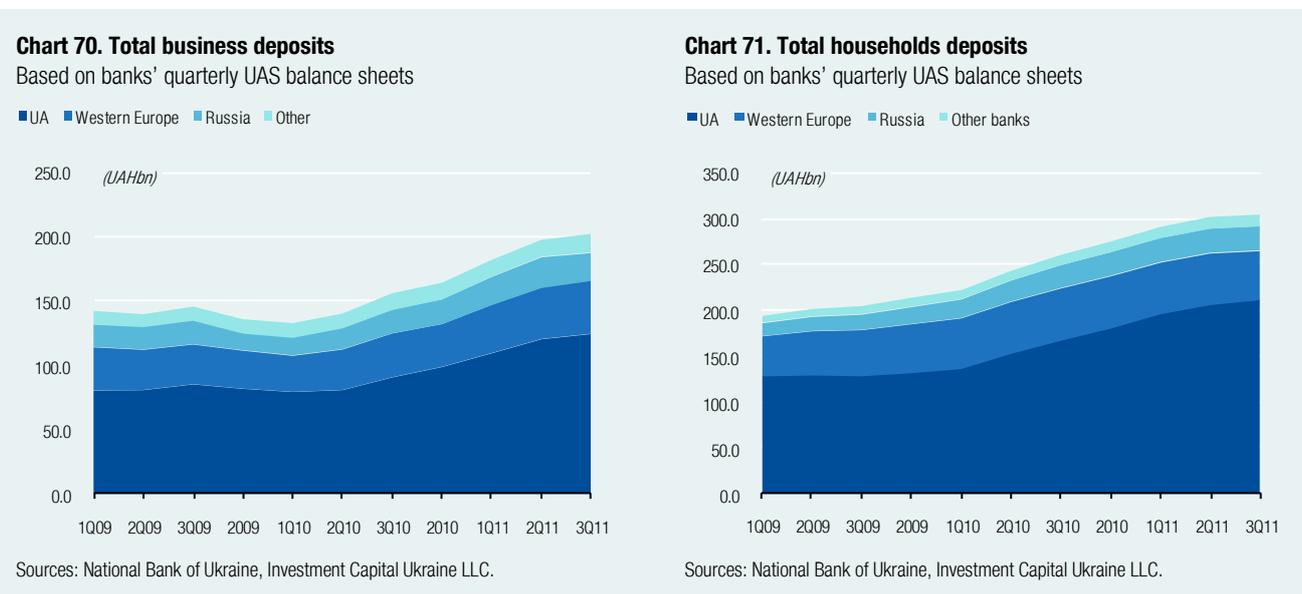
Note: Amount of FX deposits is calculated assuming that all FX deposits are denominated in US\$, using official exchange rate. Data before January 2007 include deposits with maturity more than 2 years in deposits with maturities from 1 to 2 years.

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

Medium-term deposits have presented the most volatility

Reviewing the breakdown of the deposits by their maturity in the charts above, it can be seen that, in a worst-case economic scenario, demand deposits are among the first to begin their outflow. Nevertheless, they change their trend relatively quickly, with further inflows into the banking system. Moreover, these charts clearly show that the Ukrainian banking system currently relies much more on demand and short-term deposits. Another feature of the Ukrainian banking system is the significant outflow in middle-term deposits with maturity of from one–to-two years. Such deposits showed a steep dive during the ends of the 2008-09 years, and are the most unstable types of deposits.

Considering the distribution of demand deposits among banks, their biggest share is allocated to local Ukrainian banks, versus banks with foreign capital, and the material increase in these banks during the last year should also be mentioned, both from households and businesses. This is likely the result of increased interest rates in local banks and passivity in this regard by foreign ones, with their reliance on parent and wholesale funding, where growth has been observed (e.g., in Russian banks).



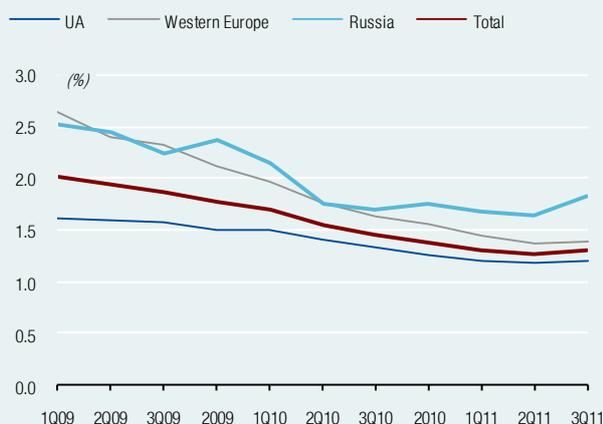
Loans-to-deposits story

Further movement of the loans-to-deposits ratio, to 1x, is expected

Increased risks in world markets have played their roles in the Ukrainian banks' loans-to-deposits ratio. Indeed, data from the table below clearly targets their movement to 1x, supported both by the absence of the lending boom and the material clients' deposits make-up observed recently. Not factored into the picture are the same Russian banks, but as the roots of their due-to bank sources are on their parents' side, we cannot speak to significantly increased risks. Also, EU banks present a quite interesting picture, with their loans/deposits ratio above that of the Ukrainian banking sector total, showing significant reliance on parent funding in the past. Considering the close to 1-1.1x loans-to-deposits targets of the banks in developed markets, we believe that Ukrainian banks should aim for the same balance in their loans/deposits structure.

Chart 72. Net loans/deposits ratio

Based on banks' quarterly UAS balance sheets



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

Chart 73. Gross residents loans/deposits ratio

According to NBU's Department of Statistics



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

Table 10. Net loans-to-deposits dynamics, the first group of Ukrainian banks' data

	1Q09	2Q09	3Q09	2009	1Q10	2Q10	3Q10	2010	1Q11	2Q11	3Q11
Privatbank	1.4	1.3	1.3	0.8	1.2	1.1	1.1	1.1	1.2	1.1	1.1
Oschadbank	2.2	2.2	1.7	1.6	2.1	1.8	1.8	1.6	1.2	1.2	1.3
Ukreximbank	2.8	2.2	2.4	2.3	2.1	2.0	1.8	1.6	1.4	1.2	1.4
Raiffeisen Bank Aval	1.9	1.7	1.5	1.4	1.3	1.3	1.2	1.1	1.1	1.0	1.1
UkrSibbank	3.6	3.1	3.0	2.5	2.3	1.9	1.7	1.6	1.3	1.2	1.2
Ukrsotsbank	3.3	3.1	3.3	1.6	2.7	2.3	2.2	2.0	2.0	1.9	1.6
VTB Bank	5.4	5.5	5.0	4.6	3.2	2.4	2.3	3.2	2.8	2.6	2.8
Prominvestbank	1.7	1.6	1.5	1.7	1.4	1.2	1.2	1.2	1.3	1.3	1.6
FUIB	2.7	2.5	2.2	1.9	1.6	1.5	1.2	1.3	1.3	1.2	0.9
Alfa Bank	2.5	2.5	2.0	2.8	2.8	2.1	2.0	1.7	1.6	1.5	1.6
Nadra Bank	2.2	2.2	2.3	1.8	2.4	2.5	2.6	2.5	2.7	3.3	2.5
OTP Bank	5.0	4.3	3.9	3.0	3.4	2.9	2.8	2.3	2.3	2.0	2.0
Finance and Credit	2.0	2.2	2.5	2.2	2.3	2.1	2.0	1.7	1.8	1.5	1.8
Brokbiznesbank	1.4	1.5	1.5	0.4	1.4	1.4	1.2	1.3	1.1	1.1	1.1
Ukrgazbank	1.4	1.5	1.8	2.6	1.2	1.1	1.2	1.1	1.3	1.3	1.1
Creditprombank	2.6	2.7	2.7	2.7	2.4	2.1	1.7	1.4	1.3	1.3	1.3
Bank Forum	2.7	2.3	2.2	1.5	1.8	1.5	1.5	1.3	1.2	1.1	1.2
Average I group	2.6	2.5	2.4	2.1	2.1	1.8	1.7	1.7	1.6	1.5	1.5
Total banking system*	2.4	2.3	2.3	2.2	2.0	1.8	1.7	1.6	1.5	1.4	1.4

Notes: Total banking system loans-to-deposits ratio is calculated using each bank's loans/deposits ratio weighted by bank's total assets share

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

Capitalisation

Banks' capitalisations present not-so-rosy tendencies towards a decrease

In reviewing banks' capitalisation, it should be mentioned that we consider 13% as a safe floor for the regulatory capital adequacy ratio (RCAR). Considering this, there are five banks from the group of Ukraine's largest which had 13% or less: Privatbank, Raiffeisen Bank Aval, VTB Bank, Nadra Bank, and Finance and Credit. These banks do not have sufficient capability to absorb losses through formation of reserves in case of need, and we believe that they should make attempts to increase their capital or else decrease their risk-weighted assets.

The biggest decrease in regulatory capital as of 3Q11 on a QoQ basis was seen in Raiffeisen Bank Aval, by 36.3%, to UAH5.2bn, and in Ukrgazbank, by 56.4%, to UAH2.7bn.

Only a minority of the biggest Ukrainian banks presents a sufficient margin for possible LLR formation

Reviewing the banks' capabilities to form reserves before reaching the threshold required by the NBU of a minimum of 10%, there are notable material differences among the biggest Ukrainian banks. From the following chart, we can see that only state-owned Oschadbank and Ukreximbank have the capability to increase their loan-loss reserves to more than twice as much. Considering the time aspect (assuming the worst-case scenario of increased loan-loss provisions), among the quite conservative banks we can add UkrSibbank and OTP Bank to these two. Other banks from the group of the biggest banks, according to the NBU's classification, might need to seek capital injections in a stress scenario, which will not be an easy task for some of them.

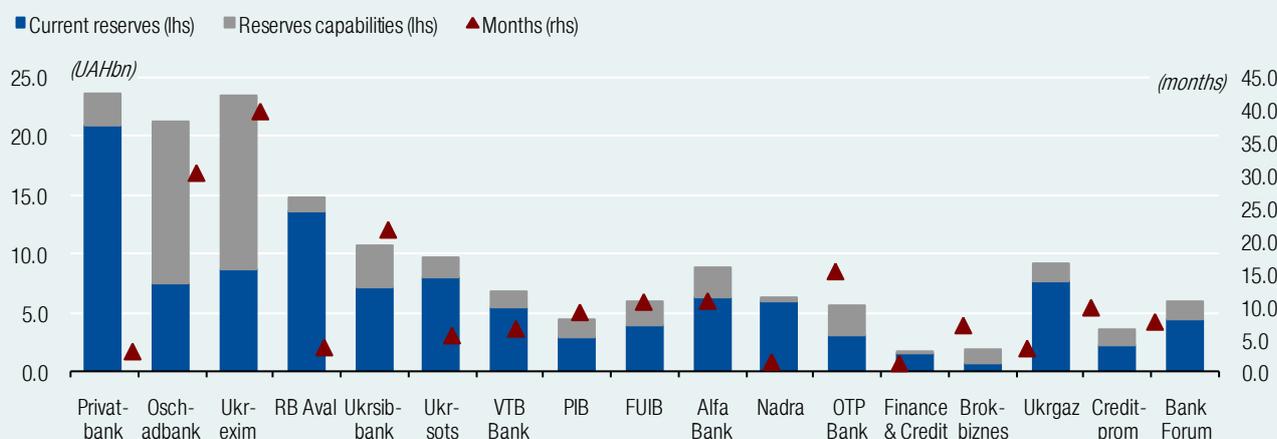
Table 11. Minimum value of regulatory capital and RCAR,* the first group of Ukrainian banks' data

	2Q11		3Q11		QoQ change	
	Capital ¹ (UAHbn)	R2 (%)	Capital ¹ (UAHbn)	R2 (%)	Capital ¹ (%)	R2 (ppt)
Privatbank	13.1	10.5	15.3	12.0	17.1	1.5
Oschadbank	18.2	34.7	18.3	30.7	0.5	-4.0
Ukreximbank	19.3	32.0	19.4	31.4	0.3	-0.5
Raiffeisen Bank Aval	8.1	16.3	5.2	13.0	-36.3	-3.3
UkrSibbank	7.8	17.8	7.1	18.5	-9.2	0.7
Ukrsotsbank	5.6	15.1	5.3	14.0	-4.8	-1.1
VTB Bank	4.9	13.1	5.2	13.0	5.3	-0.1
Prominvestbank	4.9	15.1	4.9	13.9	-0.1	-1.2
FUIB	3.1	16.7	4.4	16.6	42.2	-0.1
Alfa Bank	4.7	16.5	4.9	18.6	5.3	2.1
Nadra Bank	2.2	6.5	3.4	11.0	58.7	4.5
OTP Bank	4.4	19.7	4.5	20.3	2.3	0.6
Finance and Credit	2.3	10.5	2.2	10.3	-5.1	-0.2
Brokbiznesbank	2.8	17.8	2.8	16.1	0.5	-1.7
Ukrgazbank	6.3	49.4	2.7	21.6	-56.4	-27.9
Creditprombank	2.1	17.1	2.4	19.4	14.7	2.3
Bank Forum	2.6	20.3	2.7	20.1	1.4	-0.2
Total I group	112.5	19.4	110.8	17.7	-1.5	-1.7
Total banking system	171.2	19.2	174.2	18.9	1.8	-0.3

Notes: [1] regulatory capital; RCAR means Regulatory capital adequacy ratio/creditworthiness ratio.

Sources: Banks' data, National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 74. Banks' capabilities to form loan loss reserves, the first group of Ukrainian banks' data



Notes: Banks' capabilities to form loan loss reserves before breaching minimum required level of Regulatory capital adequacy ratio N2, assuming current level of regulatory capital and risk-weighted assets. Loan-loss provisions for calculating the time scenario take into account banks' history of loan-loss reserves formation and ICU's opinion on their increase, in a worst-case scenario.

Sources: Banks' data, National Bank of Ukraine, Investment Capital Ukraine LLC.

Foreign-currency position

Ukrainian banks currently have a significant short FX position, ...

Leaving aside the NBU's norm of an open-foreign exchange position (the calculation of which since the beginning of 2009 does not include the decrease formed by FX loans loss reserves) for now, we will focus our attention on the accounting FX position, i.e., the excess of future inflows of FX assets over the outflow of FX liabilities. In this regard, considering the NBU's regulatory changes, worsening of FX loans and increase in their loan-loss reserves, since 2Q09, the Ukrainian banking system has made a significant downside movement (see further table and charts). Not surprisingly, banks with foreign ownership increased their FX gap faster than any others, considering the capital replenishment from their parents (see Chart 76 below, with FX position in relative amount to total assets).

Chart 75. Accounting FX position

Based on banks' quarterly UAS balance sheets



Source: National Bank of Ukraine.

Chart 76. FX position / total assets ratio

Based on banks' quarterly UAS balance sheets



Source: National Bank of Ukraine.

In the event of local-currency stability, this issue will not influence banks' operations. But, in the event of local-currency depreciation, banks will face three problems at the same time. Firstly, they will instantly recognise losses due to currency revaluation, as their FX liabilities in UAH will increase to a greater extent than FX assets. Secondly, banks' capital adequacy ratio will be washed out due to the increase in the UAH amount of risk-weighted assets. And finally, given the 2009 year's history, some of banks' clients will delay their FX loan payments, due to their increased financial obligations in UAH denomination.

... and with possible UAH devaluation, they will be the ones who stand to lose materially

Considering the above, Ukrainian banks currently do not desire devaluation of the local currency, and we can understand their unwillingness to exchange available FX assets for local currency, targeting FX risk-hedging (and opposite, one of the NBU's priorities is to prevent FX currency outflow, decreasing the ability to buy it on the open market). There have also been attempts to hedge FX risks by purchasing local-currency bonds with principal indexed to the USD/UAH exchange rate, as well as USD-denominated bonds, but this was not widely practised by the banks. Still, some banks might have such assets on their balance sheets, presenting them as assets in local currency, thus decreasing their estimated currency risks (since the date when such bonds become available to the market, the banks and their clients bought about UAH8.1bn of indexed, and the equivalent of UAH3.3bn of USD-denominated bonds). With recent NBU's movements on launching FX swaps there should be more confusion in bank's FX risks calculations, as such operations are reflected in not generally available off-balance accounts

Table 12. Accounting FX position, the first group of Ukrainian banks' data

	1Q09	2Q09	3Q09	2009	1Q10	2Q10	3Q10	2010	1Q11	2Q11	3Q11
Privatbank	1.2	-3.6	-4.5	-35.9	-7.4	-7.7	-6.5	-9.0	-9.7	-13.6	-13.8
Oschadbank	0.3	0.2	-4.2	18.6	0.1	0.3	-0.2	0.6	0.9	-1.4	0.3
Ukreximbank	0.2	0.2	-0.1	-1.4	-1.6	-2.7	-3.0	-3.6	-3.9	-4.4	-5.3
Raiffeisen Bank Aval	-0.4	-2.0	-3.3	1.1	-3.8	-4.4	-5.1	-5.8	-6.3	-6.9	-7.1
UkrSibbank	-0.6	0.9	0.3	-4.5	-1.5	-3.4	-5.7	-7.0	-7.1	-7.6	-6.1
Ukrsotsbank	-0.2	-0.2	-0.1	-17.3	-0.3	-0.1	0.0	0.2	0.1	-0.8	-1.2
VTB Bank	0.0	0.0	-0.9	-1.0	-2.4	-2.6	-3.2	-3.1	-4.2	-4.1	-4.2
Prominvestbank	0.3	-0.2	-0.6	9.4	-1.1	-1.1	-0.9	-2.0	-0.3	-0.3	-1.5
FUIB	0.6	0.1	-0.5	-0.7	-1.0	-1.2	-1.1	-1.2	-1.2	-1.2	-1.5
Alfa Bank	0.8	-2.0	-2.6	-2.9	-3.6	-3.4	-3.3	-3.3	-3.3	-3.3	-3.0
Nadra Bank	3.1	3.7	3.9	-4.3	3.7	4.2	4.3	4.5	4.8	7.8	7.6
OTP Bank	-0.2	-0.6	-1.8	-8.9	-1.9	-2.1	-2.1	-2.0	-2.3	-2.3	-2.6
Finance and Credit	0.1	-0.4	-0.9	6.1	-0.7	-0.8	-0.6	-0.8	-0.8	-0.7	-0.8
Brokbiznesbank	-0.4	0.0	-0.1	-5.2	0.0	-0.1	-0.2	-0.4	-0.6	-0.5	-1.3
Ukrgazbank	0.1	0.4	0.3	2.9	-0.2	-0.4	-1.0	-1.2	-1.3	-1.3	-0.9
Creditprombank	0.4	0.2	-0.5	0.5	-0.7	-0.7	-0.8	-0.8	-0.8	-0.6	-1.0
Bank Forum	-0.2	-0.3	-0.6	-5.6	-1.0	-1.6	-2.0	-2.5	-2.4	-2.5	-2.6
Total I group	5.1	-3.7	-16.0	-49.0	-23.2	-27.7	-31.4	-37.3	-38.4	-43.8	-45.1
Total banking system*	1.2	-10.9	-26.8	-28.4	-32.2	-38.7	-42.8	-50.8	-53.3	-58.7	-61.8

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

Fixed-income markets: Banks' bonds

The year 2011, especially its first half, could be viewed as a year of recovery in Ukraine's corporate bond market, including the all-important bank bonds. Indeed, only the first half of the year was opportune for the issues on both the domestic and external bonds markets. Later on, in the second half of the year, some banks were forced to cancel their issues, but on the other hand, other banks registered new issues of local-currency bonds for this year. The debt crisis in the Eurozone and liquidity tightening in the domestic market, however, restricted debt markets for Ukrainian issuers to an extent this year, both corporate and government.

Local-currency bond market

Since 2007, local banks in Ukraine registered bonds amounting to UAH36.44bn

In only one of the years during the last five years in Ukraine, the local banks did not issue any bonds, which was in 2009. Likely, this was because of the financial crisis which took place at the end of 2008. The Securities and Stock Market Commission of Ukraine²⁵ (SSMSC) reported that during the period from the beginning of 2007 until the end of 1H11, banks' registered bonds issues amounted to UAH36.44bn. At the same time, as shown in the table below, in 2009, banks did not have any plans for bond issues, following their peak in 2007, when banks registered UAH18.87bn of local-currency bonds.

Table 13. Volumes of bonds issues registered by SSMSC

	2007	2008	2009	2010	1H11
Total volume of corporate bonds registered by SSMSC (UAHm)	44,480.51	31,346.28	10,107.35	9,493.86	16,580.98
incl. bonds issued by banks (UAHm)	18,869.37	7,115.94	0.00	3,150.00	7,300.00
Banks' share of total (%)	42.42	22.70	0.00	33.18	44.03

Sources: SSMSC, Investment Capital Ukraine LLC.

Some banks cancelled their plans to issue bonds

The market for bonds issued by banks slightly recovered in 2010, and continued a robust recovery in the first half of 2011, but data reported by the SSMSC were corrected in 2H11, as some banks cancelled their plans for bond issues altogether after market conditions for bond placements had deteriorated. For example, Privatbank cancelled its bond issue of a total volume of UAH2.0bn.

1H11 was the most convenient period for bond issues

At the beginning of 2011, when banks were making decisions on bond issues, market conditions were very amenable, with a high level of banking sector liquidity; a continued decreasing in interest rates on government bonds in the primary market; and the significant role of the non-residents in the Ukrainian capital markets.

The banking sector liquidity's peak was at UAH44.17bn in April 2011

Broader banking sector liquidity, which includes banks' correspondent accounts with the NBU and the expected inflows, comprised of the total volume of the NBU's CDs outstanding and debt repayments scheduled for the next 30 days, was steady, at above UAH30.0bn in 1H11, sometimes rising to UAH40-45bn for a short period of time. The peak was on 20 April, 2011, when liquidity jumped up to UAH44.17bn, but then began to decline, falling below UAH30.0bn at the end of May, then rising only a few times above this level (see left-hand chart below), and trying to recover at the end of 2011 to above UAH25.0bn.

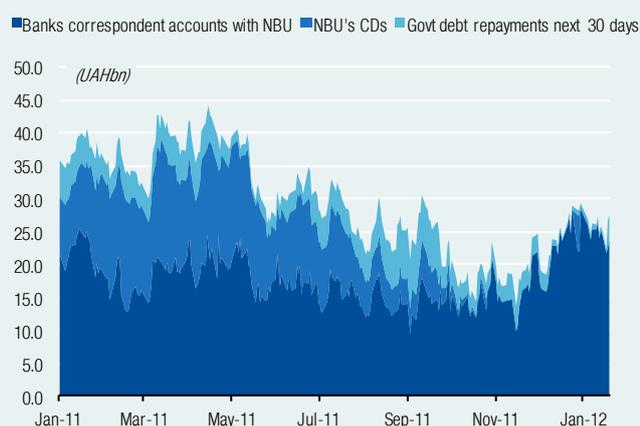
²⁵ <http://www.ssmc.gov.ua>

Banks' accounts with the NBU fell below UAH10.0bn twice in the fall of last year

Banks' correspondent accounts with the NBU during 1H11 were between UAH15.0bn and UAH25.0bn, but in September and November last year, fell twice below UAH10.0bn. This level was the lowest since the 2006, when the NBU began to publish this data (see right-hand chart below). At the same time, the total volume of the NBU's CDs outstanding fell close to zero, from UAH10-18bn at the beginning of the year (as of year-end 2011 the total volume of CDs outstanding has fallen to UAH0.05bn).

Chart 77. Broad banking sector liquidity

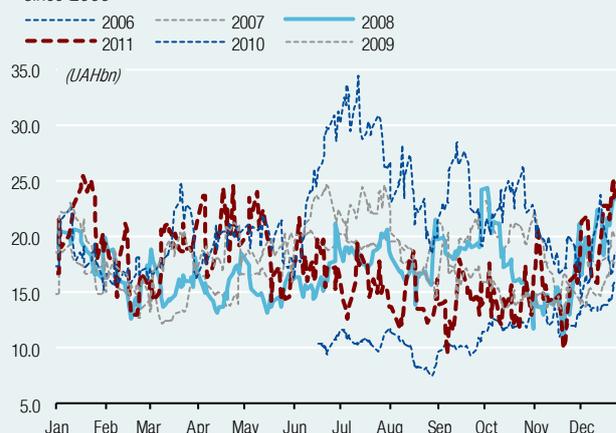
since the 2011 beginning



Source: MoF, NBU, Investment Capital Ukraine LLC.

Chart 78. Banks' correspondent accounts with the NBU

since 2006



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

The NBU and the MoF have been cutting liquidity since June

The main impetus for the decline in liquidity could be the tightening by the MoF and the NBU: 1) the MoF collected some funds in its treasury account (at the end of May, 2011, its balance was UAH17.18bn); and (2) the NBU tightened liquidity through reserve requirements and other levers to decrease pressure on the UAH/USD exchange rate.

The NBU will likely support new levels of liquidity

But at the end of last year, banking sector liquidity significantly rose to above UAH20.0bn, and during January, 2012, reached a new level of UAH22.2bn as of 26 January 2012, with little volatility. The NBU likely will support the new level of banking sector liquidity, especially if the market's speculation about the increase in tenors of REPO agreements with the NBU takes place.

Non-residents' participation in the local bonds market has declined

The other key factor in the decrease in liquidity and the market conditions' deterioration is the continuous decreasing of non-residents' participation in the local bond market. The most pertinent example may be the downward dynamic of the non-residents' portfolio of local-currency government bonds and their share in the total volume of outstanding bonds. Both charts below show that at the beginning of the year, non-residents held UAH11.26bn of government bonds, or 8.27% of the total volume of bonds outstanding. But, up until the end of last year, their portfolio fell to UAH4.45bn, with its share declining to 2.83%, and during January, non-residents decreased their portfolio further, by UAH0.44bn, to UAH4.0bn, with their share falling to 2.53%. Non-residents' withdrawing of funds from the local Ukrainian market has also been reflected not only in government bonds, but in corporate bonds as well.

Chart 79. Dynamic of non-residents' portfolio*local-currency bonds, during 2011*

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

Chart 80. Shares of main bondholders' groups

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

UAH3.2bn of bonds were sold last year from UAH9.3bn registered (excluding those cancelled)

According to the SMIDA database's²⁶ actual volume of issues in Ukraine, UAH3.2bn of bonds were registered in 1H11 and not cancelled, out of UAH10.24bn since the beginning of the year (see the table below). At the same time, the above-mentioned database does not include information about more than one-half of the registered issues' performance. Only UAH4.39bn of issues was already reported to the SSMSC, and UAH1.05bn of bonds will be issued this year (the dates of placements beginning will be scheduled after 1 January, 2012). The rest of bonds, at a total volume of UAH5.05bn, are in the process of being placed, or placement will begin very soon (e.g., ProcreditBank and Bank Soyuz will begin placement of their bonds in December, 2011).

Table 14. List of registered bonds issues in 2011 (UAHm)

Bank name	Total volume of registered in 2011 bonds issues	Volume of finalised and reported issues in 2011	Volumes of issues, which will begin in 2012
Prominvestbank	3,000.00	1,500.00	500.00
VTB Bank	2,000.00	800.00	200.00
Russian Sberbank	1,000.00	0.00	0.00
ProcreditBank	600.00	200.00	100.00
Bank Delta	1,443.50	1,143.50	0.00
Crédit Agricole bank	500.00	250.00	250.00
Pravex-bank	500.00	0.00	0.00
Bank Russian Standard	300.00	100.00	0.00
Bank Soyuz	300.00	0.00	0.00
Megabank	200.00	0.00	0.00
Bank Kredyt-Dnipro	100.00	100.00	0.00
Eurogasbank	100.00	100.00	0.00
Tascombank	100.00	100.00	0.00
UPB	100.00	100.00	0.00
Total volume	10,243.50	4,393.50	1,050.00

Notes: List does not include registered and cancelled issues, and issues placed in 2011, but registered before 1 January, 2011. Sberbank (Ukraine) is Subsidiary Bank Sberbank of Russia, a Ukrainian entity that is 100%-owned by Sberbank of Russia.

Sources: SMIDA, Investment Capital Ukraine LLC.

²⁶ SMIDA, a state institution ("Stock Market Infrastructure Development Agency of Ukraine"), is responsible for the official publishing of information on stocks and securities issues. <http://smida.gov.ua/>

Bonds were sold mostly with spreads ranging between 275bp and 355bp

Many of the bonds in 2011 were issued with a put option in one year, but with original maturity of two or three years, and sometimes four years. Most of the bonds were sold in 1H11, when the situation on the bond market was more stable, and yields were significantly lower than now. The table below shows that the lowest spread to government bonds was that of Sberbank (Ukraine), at 228bp, and the highest was that of Russian Standard Bank (Ukraine), at 497bp. Spreads were mostly at about 300bp, ranging between 275bp and 355bp.

Table 15. List of bonds, issued or sold in 2011

Bank name	Volume (UAHm)	Coupon rate (%)	Payment freq.	Issue date	Maturity/put date	YTW (%)	Sovereign bond YTM (%)	Spread (bp)
CIB Crédi Agricole (B)	100	10.00	Quarterly	18-Jan-11	14-Jan-12	...	...	...
Aktabank (B)	20	19.00	Semi-annually	21-Jan-11	13-Feb-12	...	...	...
Sberbank (Ukraine) (E)	750	12.75	Quarterly	21-Jan-11	18-Jan-13	13.22	10.94	228
Prominvestbank (A)	500	13.00	Quarterly	31-Jan-11	30-Jan-12	12.50	9.01	349
Megabank (G)	50	14.00	Quarterly	07-Feb-11	07-Feb-12	12.12	9.19	293
CIB Crédi Agricole (C)	100	10.00	Quarterly	15-Feb-11	14-Feb-12	...	...	...
Prominvestbank (B)	500	14.00	Quarterly	28-Feb-11	25-Feb-13	13.50	10.18	332
Russian Standard Bank (B)	100	15.00	Quarterly	01-Mar-11	28-Feb-12	14.00	9.03	497
VTB Bank (1-C)	300	12.00	Quarterly	02-Mar-11	28-Feb-12	12.00	9.25	275
CIB Crédi Agricole (D)	100	10.00	Quarterly	15-Mar-11	13-Mar-12	...	...	...
Tascombank (C)	100	18.00	Quarterly	24-Mar-11	22-Mar-12	...	...	...
Prominvestbank (C)	500	13.00	Quarterly	28-Mar-11	26-Mar-12	12.10	8.68	342
CIB Crédi Agricole (E)	100	10.00	Quarterly	15-Apr-11	13-Apr-12	...	...	...
ProCredit Bank (G)	100	13.50	Quarterly	01-May-11	13-May-13	13.00	9.45	355
VTB bank (1-D)	200	12.00	Quarterly	08-Jun-11	13-Jan-15	12.00	8.88	312
VTB bank (1-E)	300	12.00	Quarterly	15-Jun-11	05-Jan-15	12.00	9.38	262
UPB (E)	100	15.00	Quarterly	30-Jun-11	28-Jun-12	...	...	...
Bank Credit Dnipro (F)	100	15.00	Quarterly	11-Jul-11	26-Jan-12	...	...	...
Bank Delta (T)	200	15.50	Quarterly	27-Sep-11	19-Aug-13	...	...	...
ProCredit Bank (H)	100	13.50	Quarterly	14-Oct-11	13-Aug-13	...	...	...
Crédit Agricole bank (A)	250	14.00	Quarterly	29-Nov-11	12-Nov-13	...	...	...
Bank Delta (V)	244	10.75	Quarterly	19-Dec-11	26-Jan-15	...	...	...
Bank Delta (W)	100	10.75	Quarterly	19-Dec-11	24-Apr-15	...	...	...
Bank Delta (X)	100	10.75	Quarterly	19-Dec-11	31-Jul-15	...	...	...
Bank Delta (Y)	100	10.75	Quarterly	19-Dec-11	28-Oct-15	...	...	...
Bank Delta (Z)	100	10.75	Quarterly	19-Dec-11	27-Jan-16	...	...	...
Bank Delta (A1)	100	10.75	Quarterly	19-Dec-11	27-Apr-16	...	...	...
Bank Delta (B1)	100	10.75	Quarterly	19-Dec-11	28-Jul-16	...	...	...
Bank Delta (C1)	100	10.75	Quarterly	19-Dec-11	27-Oct-16	...	...	...
Total	5,514							

Notes: [...] means the placements of the bond was not transparent and the market did not receive public information about the bond placement details; excluding non-market issues or on which we do not have public information. Sberbank (Ukraine) is Subsidiary Bank Sberbank of Russia, a Ukrainian entity that is 100%-owned by Sberbank of Russia.

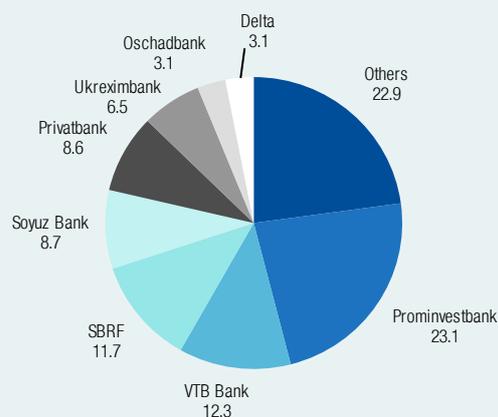
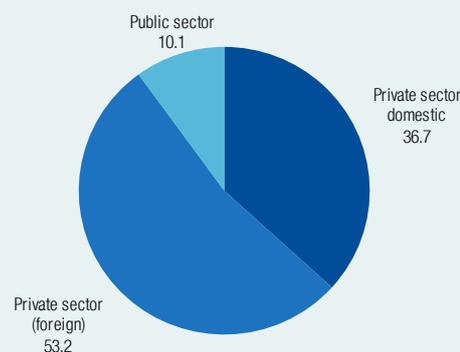
Sources: SMIDA, Company data, Investment Capital Ukraine LLC.

Table 16. List of outstanding local currency bonds issued by Ukrainian banks

Bank	Bond series	ISIN	Volume (UAHm)	Coupon rate (%)	Payment frequency	Issue date	Maturity	Bond ticker		
								PFTS	UX	UBP
Prominvestbank	B	UA4000107239	500	14	Quarterly	28-Feb-11	25-Feb-13	OPIBNB	OPIBNB	n/a
	A	UA4000107213	500	13	Quarterly	31-Jan-11	27-Jan-14	OPIBNA	n/a	n/a
	C	UA4000107247	500	13	Quarterly	28-Mar-11	24-Mar-14	OPIBNC	PIBN03	n/a
Total			1,500							
VTB bank	E	UA4000112106	300	12	Quarterly	15-Jun-11	06-Jan-15	OVTBE	OVTBE	n/a
	D	UA4000112072	200	12	Quarterly	08-Jun-11	13-Jan-15	OVTBD	OVTBD	n/a
	C	UA4000112056	300	12	Quarterly	01-Mar-11	20-Jan-15	OVTBC	OVTBC	n/a
Total			800							
Sberbank (Ukraine)	E	UA4000105852	750	12.75	Quarterly	21-Jan-11	18-Jan-13	OSBERE		SBER05
PrivatBank	R	n/a	300	13.75	Quarterly	n/a	15-May-12	n/a	n/a	n/a
	S	n/a	250	13.5	Quarterly	n/a	15-Nov-13	n/a	n/a	n/a
Total			550							
Oschadbank	B	UA4000029490	200	14	Quarterly	14-Feb-08	07-Feb-13	OSCHDB	n/a	OSHD02
Bank Delta	T	UA4000125850	200	15.5	Quarterly	22-Aug-11	19-Aug-13	ODELTT	n/a	n/a
	V	UA4000131239	243.5	10.75	Quarterly	19-Dec-11	26-Jan-15	ODELTV	n/a	OELBVB
	W	UA4000131221	100	10.75	Quarterly	19-Dec-11	24-Apr-15	ODELTW	n/a	OELBWB
	X	UA4000131213	100	10.75	Quarterly	19-Dec-11	31-Jul-15	ODELTX	n/a	OELBVB
	Y	UA4000131191	100	10.75	Quarterly	19-Dec-11	28-Oct-15	ODELTY	n/a	OELBVB
	Z	UA4000131247	100	10.75	Quarterly	19-Dec-11	27-Jan-16	ODELTZ	n/a	OELBVB
	A1	UA4000131270	100	10.75	Quarterly	19-Dec-11	27-Apr-16	ODELA1	n/a	OELBVB
	B1	UA4000131288	100	10.75	Quarterly	19-Dec-11	28-Jul-16	OELB1	n/a	OELBVB
C1	UA4000131296	100	10.75	Quarterly	19-Dec-11	27-Oct-16	OELC1	n/a	OELBVB	
Total			1143.5							
ProCredit Bank	H	UA4000118269	100	13.5	Quarterly	15-Sep-11	13-May-13	OPCBH	n/a	n/a
	G	UA4000118251	100	13.5	Quarterly	17-May-11	12-May-15	OPCBG	OPKGB	n/a
Total			200							
Bank Credit Dnipro	F	UA4000109425	100	15	SA	28-Jan-11	22-Jan-16	OCREDF	n/a	n/a
Russian Standard Bank	B	UA4000112288	100	15	Quarterly	01-Mar-11	28-Feb-12	OBRSTB	OBRST	n/a
Megabank	G	UA4000104053	50	14	Quarterly	07-Feb-11	08-Feb-16	OMGBG	n/a	MEGA07
	H	UA4000104038	50	14	Quarterly	15-Apr-11	15-Apr-16	OMGBH	OMGBH	MEGA08
Total			100							
Total			5,444							

Notes: PFTS is one of the key securities trading systems specializing on fixed-income securities trading (www.pfts.com); UX (Ukrainian Exchange) is one of the key securities trading systems specializing on equities trading (www.ux.com.ua); UBP is one of the key securities trading systems specializing on fixed-income securities trading (www.ubp.com.ua).

Sources: SMIDA, bank data, Investment Capital Ukraine LLC.

Chart 81. Breakdown of Ukrainian banks' UAH debt securities as of 1 October 2011 (%; 100% = UAH6,590.5m¹ or US\$823.8m)
Outstanding bond structure by issuer banks

Outstanding bond structure by type of issuer banks


Note: [1] as reported by NBU in its quarterly data on banks' financials, excluding US\$0.5bn Eurobond by UkrSibbank, which was reported in the same category as UAH bonds by other banks.

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

Eurobond market

The Eurobonds market saw issues of only two Ukrainian banks last year

The Eurobonds market saw fewer issues in terms of quantity than bonds issued in the domestic bond market; however, the former provides by far a larger volume of proceeds. In 2011, the only issues included: state-owned savings bank Oschadbank issued a debut, US\$500m, 5-year Eurobond yielding 8.25% in March, then re-opened it at US\$200m in July; and state-owned Ukreximbank issued its first Eurobond denominated in local-currency in February, at UAH2.39bn, with a 3-year maturity, yielding 11.00%.

Ukreximbank issued its first Eurobond denominated in local currency

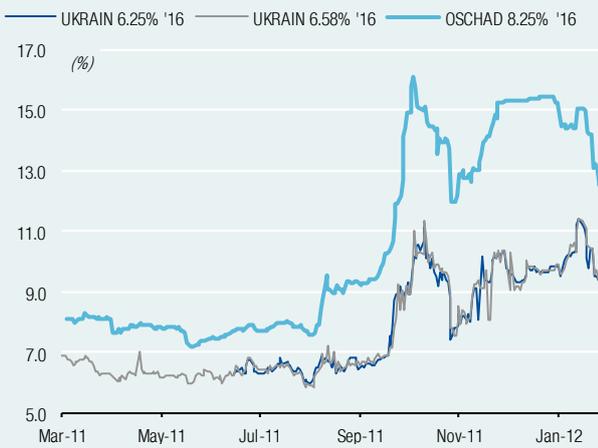
The most compelling issue is Ukreximbank's Eurobond, which was made by SPV Biz Finance PLC, UK at a coupon rate of 11.0% with a 3-year maturity. All payments have to be made in dollars, but because of the legal restraints in Ukraine, the transaction will be in local currency. Because non-residents cannot issue the loan for residents in local currency, and due to restrictions on cross-border FX transactions or free purchasing of foreign currency, non-residents can open local-currency deposits in local banks and have the right to exchange the currency and to withdraw it abroad.

As a result, Ukreximbank receives loans in local currency, but without the FX risks from external capital markets that confront investors. The bond is tradable abroad, with payments in USD.

Oschadbank issued two Eurobonds combined in one issue

At the same time, the closest peer to Ukreximbank, state-owned Oschadbank, issued bonds twice last year denominated in foreign currency (in US dollars), accepting FX risk on its balance sheet while securing a lower coupon rate attached to its USD Eurobonds. The debut issue was made in March, 2011, with a spread to the UKRAIN 6.58% '16 of 135bp, but over the last few months, spreads significantly widened, to above 400bp, and the YTM rose to above 14.0% (see charts below) as the debt crisis in Europe progressed. At the beginning of December, the spread widened to above 600bp, and the YTM jumped above 15.0%, but then the spread significantly tightened 2x, to about 300bp, and the YTM fell below 13.0%. The second Eurobond, likely reopening at the beginning of July, was made at the same rate, at a volume of US\$200m. The additionally issued bonds were combined into one issue along with the first one.

Chart 82. YTM of Oschadbank and Ukrainian Eurobonds



Source: Bloomberg, Investment Capital Ukraine LLC.

Chart 83. OSCHAD spreads



Source: Bloomberg, Investment Capital Ukraine LLC.

Many Ukrainian issues were made in 1H11, the most accommodative period of the year

These two banks picked the most opportune time for their bonds issuance. The 5-year Ukrainian CDS was slightly above 400bp during 1H11, the same situation as with sovereign Eurobonds (see left-hand chart below). This window was capitalised on by the above-mentioned banks, by the Ukrainian government last February and June, by the state enterprise “Financing of Infrastructural Projects” (UKRINF), in February, and by the City of Kyiv at the end of June. All these issues were made successfully under the very low rates, most with 5-10 years’ maturity.

Chart 84. Ukrainian Eurobonds spreads and 5-year CDS during 2011



Source: Bloomberg, Investment Capital Ukraine LLC.

Chart 85. YTM of some Ukrainian Eurobonds during 2011



Source: Bloomberg, Investment Capital Ukraine LLC.

Many external problems closed the window to the market for Ukrainian issuers

However, since June, 2011, Ukrainian sovereign risks have increased, firstly having an impact on the shortest bonds, which was reflected in their volatility increasing. But, in August and September, problems with the government deficit in the US, increasing worry of the European debt crisis, the unstable and yet-unsolved debt problems of Greece, and an unusual lack of demand in German debt auctions, all worked in tandem to close the window for Ukrainian issuers to the external debt markets. As a result, the Ukrainian government likely postponed the new issue of Eurobonds, and the UKRINF likely cancelled its bonds re-opening.

Banks began announcements of Eurobonds issues for the new year

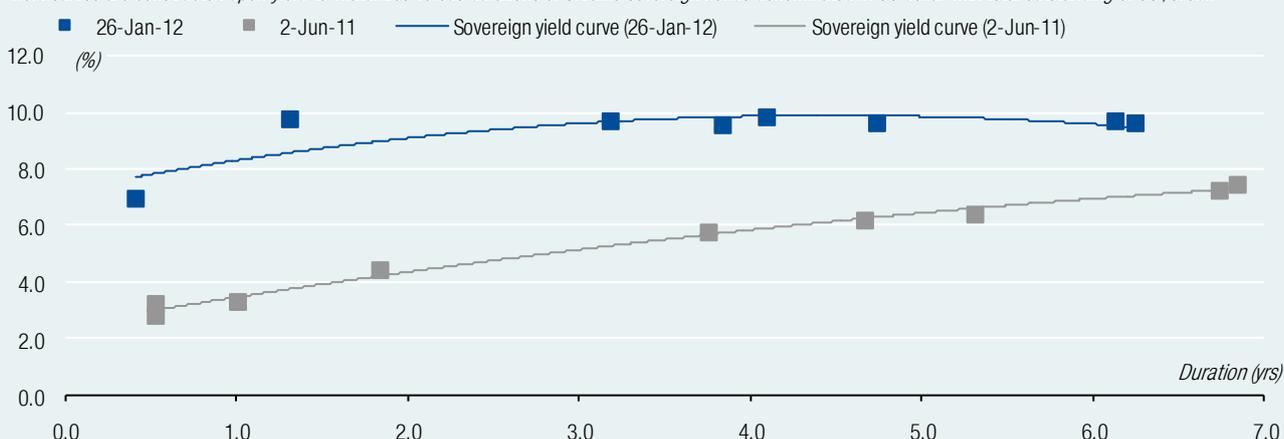
First Ukrainian International Bank (FUIB) also postponed its plans to issue its Eurobond this year, likely until 2012. According to the bank's deputy chairman, Dmitriy Yurgens, it plans to issue Eurobonds this year of about US\$300m. Last year, bank had plans to issue local-currency bonds or a Eurobond denominated in local currency, likely the Ukreximbank's Eurobond issued in February, 2011. At the end of last November, VAB Bank also announced new issues for this year, of US\$200-300m of subordinated loans of Eurobonds in 2012, according to the bank's chairman, Denis Maltsev.

Ukraine's Eurobonds' yield curve flattened and then rose significantly

The chart below shows that the sovereign yield-curve significantly rose from the beginning of last June until 11 January, 2012, to a level of about 10.0%, just before the UKRAIN 6.25% '16 issue, when YTMs were ranging between 3.5% and 7.5%. This could mean that despite the maturity, country risks are the same, and are being evaluated by investors in similar fashion. The sovereign yield-curve is an indicator of country risks, to which investors add issuer risks. A significant rise in Ukraine's risks pushed up all yields on Ukrainian issuers' bonds.

Chart 86. Ukraine's sovereign yield curve now (as of 26 January 2012) and then (as of 2 June 2011)

Yield curves are constructed upon yield-to-maturities versus durations of Ukraine sovereign bonds denominated in US dollar with total outstanding of US\$8.0bn



Sources: Bloomberg, Investment Capital Ukraine LLC.

YTMs of banks' Eurobonds rose to 8.5-20.62%

With sovereign Eurobonds' rising risks on banks' bonds, the YTMs of banks' Eurobonds rose to 8.9-20.62% at the end of last year, from a level that was very close to that of sovereign bonds, of 3.2-9.36%. The highest levels of YTMs were on two bonds, the VABANK 10.25% '14, and FICBUA 10.5% '14, on which YTMs of rose from 13.76-15.42% to 34.03%, but these bonds are very illiquid.

In January, 2012, YTMs slightly declined and were mostly ranging between 8.0% and 16.0%. The YTMs' further decline likely depends on bank risks, because Eurobonds of the state-owned banks, with their low level of risks very close to that of the sovereign level, did not rise very significantly, and the EXIMUK 6.8% '12 is very close to the sovereign yield curve (see Chart 88, pp.66).

Table 17. List of outstanding Eurobonds denominated in UAH and USD issued by Ukrainian banks

The list of bonds is ordered by each bank's total volume of bonds in outstanding. Then, each bank that has more than one Eurobond in circulation has its bonds ordered by maturity date

Bank	Currency	ISIN	Maturity	Volume (m)	Rate (%)	Amortized	Floating rate bond	Base rate	Spread over base rate (bp)	
Ukreximbank	USD	XS0230955642	4-Oct-12	250.00	6.8					
	UAH	XS0588502335	3-Feb-14	2,385.05	11					
	USD	XS0503737461	27-Apr-15	750.00	8.375					
	USD	XS0243733127	9-Feb-16	125.00	8.4					
Total¹				1,421.28						
Privatbank	USD	XS0285182266	6-Feb-12	500.00	8					
	USD	XS0543744535	23-Sep-15	200.00	9.375					
	USD	XS0242939394	9-Feb-16	150.00	8.75					
	Note ³	USD	XS0364719640	29-Nov-18	85.80			Yes	3M Libor	550
	Note ³	USD	XS0364720143	29-Nov-18	18.70			Yes	3M Libor	750
	USD	XS0364721117	29-Nov-18	5.50	12					
	USD	XS0285820055	15-Dec-31	9.00	10					
	Note ³	USD	XS0285818075	15-Dec-31	134.10			Yes	1M Libor	210
	Note ³	USD	XS0285819123	15-Dec-31	45.90			Yes	1M Libor	375
Total				1,149.00						
Oshchadbank	USD	XS0649251054	10-Mar-16	200.00	8.25					
	USD	XS0594294695	10-Mar-16	500.00	8.25					
Total				700.00						
UkrSibbank²	USD	XS0278743710	21-Dec-11	500.00	7.75					
Alfa-Bank	USD	XS0441089926	30-Jul-12	315.24	13	Yes				
FUIB	USD	XS0287015787	31-Dec-14	252.49	11	Yes				
Nadra Bank	USD	XS0307202530	22-Jun-17	74.57	8		Yes			
	USD	XS0334534699	5-Dec-17	50.00	9.375					
Total				124.57						
VAB Bank	USD	XS0303241615	14-Jun-14	112.48	10.5					
Finance and Credit Bank	USD	XS0275465879	25-Jan-14	95.00	10.5					
Total USD Eurobonds				3,873.78						
Total UAH Eurobonds				2,385.05						
Total¹				4,170.06						

Notes: [1] totals include USD equivalent of the UAH-denominated Eurobond, excluding UkrSibbank's bond that was redeemed on due date;

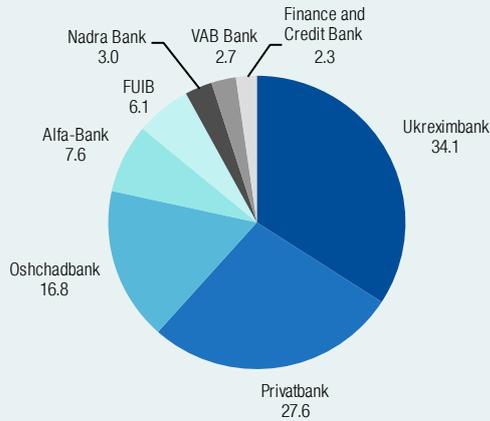
[2] this Eurobond was redeemed in due date by the bank; [3] securitisation bonds.

Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 87. Breakdown of Eurobond market of Ukrainian banks' debt securities as of 30 January, 2011 (% , 100% = US\$4,170.06m)

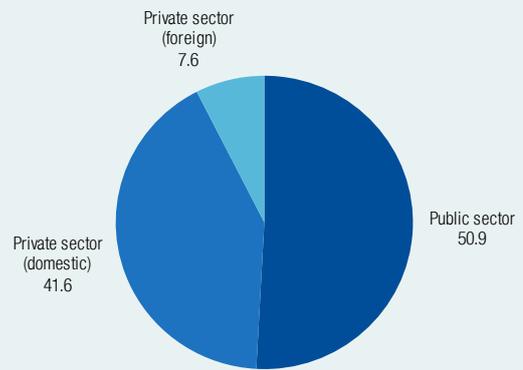
For more details see Table 17, pp.65.

Outstanding bond structure by issuer banks



Source: Bloomberg, Investment Capital Ukraine LLC.

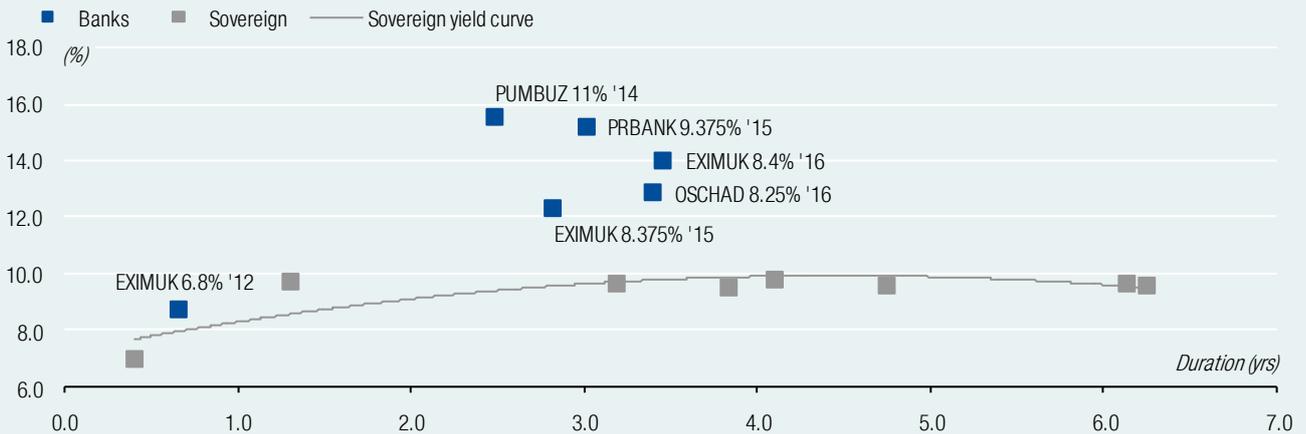
Outstanding bond structure by type of issuer banks



Source: Bloomberg, Investment Capital Ukraine LLC.

Chart 88. Ukrainian banks' Eurobonds as of 30 January, 2012

Yield-to-maturities versus durations of Ukraine banking bonds denominated in US dollar with total outstanding of US\$2.9bn¹



Note: [1] this chart include the most liquid bonds out of universe of all Ukraine banking bonds, it does not depict the securitisation securities issued by Privatbank (see Table 17, pp.65).

Sources: Bloomberg, Investment Capital Ukraine LLC.

Only the shortest Eurobonds' prices fell less than 500bp

The FICBUA 10.5% '14 price fell the most significantly during the last few months. The falling prices of banks' Eurobonds are depicted in the chart below, where we can see that only a few Eurobonds' prices fell by less than 500bp, of which there are bonds with maturity this year. As we mentioned above, the largest losses were in the FICBUA 10.5% '14, of 2,421bp. Mostly, prices fell more than 500bp on bonds with maturities in 2014-16.

Chart 89. Ukraine banks' outstanding Eurobonds: Price performance from June 2011 to January 2012 (basis points)

Price change is expressed in basis points between the bond's prices as of January 27th 2012 and June 2nd 2011



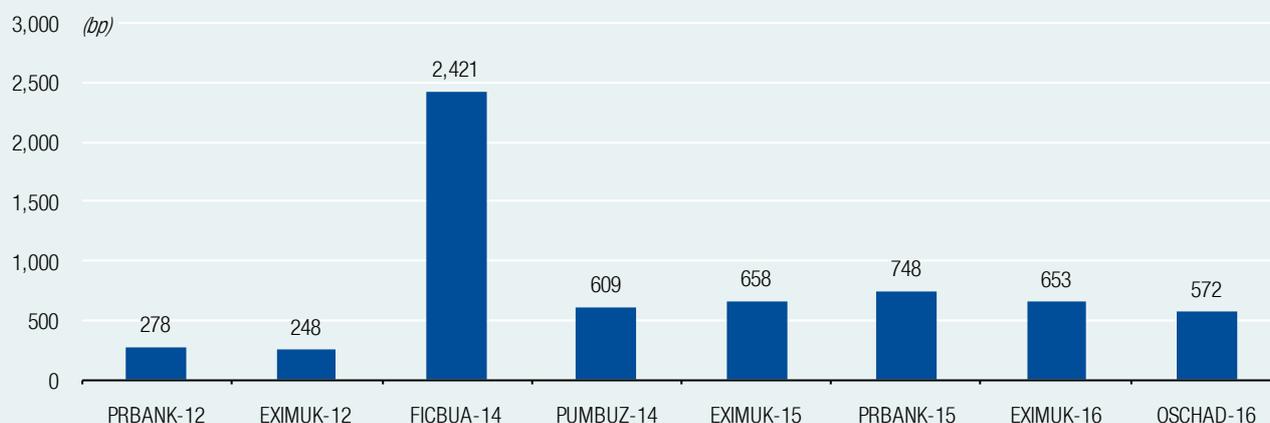
Sources: Bloomberg, Investment Capital Ukraine LLC.

The OSCHAD 8.25% '16 added 787bp in spread, or 66bp more than the EXIMUK 8.4% '16

Changes in spreads over benchmark, shown in the chart below, illustrate how the YTM's changes depend on the specific issuer, and its risks increasing, etc. The lowest level of risk was attributed to the EXIMUK 6.8% '12, likely because it is a state-owned bank, but the largest increase was once more seen in the FICBUA 10.5% '14, which added 2,411bp. Bonds issued by the state-owned banks mostly came in at mid-level, and added less than 700bp. The Eurobond issued this year by Oschadbank added 572bp in spread, or 81bp less than Ukreximbank's Eurobond, with the closest maturity.

Chart 90. Ukraine banks' outstanding Eurobonds: Spread performance from June 2011 to January 2012 (basis points)

Change in spread over benchmark bond is expressed in basis points between the bond's spreads as of January 27th 2012 and June 2nd 2011



Sources: Bloomberg, Investment Capital Ukraine LLC.

Table 18. List of outstanding bonds (ordered by maturity date) issued by Ukraine banks at the Eurobond market as of 27 January 2011

Ticker	Issuer	Ratings	Volume (US\$m)	Ccy	Coupon rate (%)	Maturity	Pricing as of 27 January 2012				Weekly change ¹ (bp)			Pricing as of 2 June 2011				Change to June 2nd, 2011 (bp)			
							Price (% of par)	YTM (%)	Spread ² (bp)	Duration (years)	Price	YTM	Spread ²	Price (% of par)	YTM (%)	Spread ² (bp)	Duration (years)	Price	YTM	Spread ²	
PRBANK-12	Pryvatbank	B1/NR/B	500	USD	8	6-Feb-12	99.5	51.25	779	0.01	56	3,173	-411	101.375	5.82	501	0.64	-188	4,543	278	
EXIMUK-12	Ukreximbank	B1/NR/B	250	USD	6.8	4-Oct-12	99.375	7.75	667	0.66	50	-60	-36	102.563	4.77	419	1.27	-319	298	248	
FICBUA-14	Finance & Credit Bank	Caa1/NR/NR	95	USD	10.5	25-Jan-14	60	42.26	3,672	1.79	N/A	N/A	N/A	92.989	13.75	1,251	2.26	-3,299	2,851	2,421	
PUMBUZ-14	FUIB	B2/NR/NR	252.5	USD	11	31-Dec-14	90.413	15.13	1,476	2.48	291	-127	-54	104.549	9.44	867	2.93	-1,414	569	609	
EXIMUK-15	Ukreximbank	B1/NR/B	750	USD	8.375	27-Apr-15	90.313	12.07	1,154	2.82	-69	35	127	105.813	6.65	496	3.38	-1,550	542	658	
PRBANK-15	Pryvatbank	B1/NR/B	200	USD	9.375	23-Sep-15	85	14.84	1,419	3.01	744	-303	-213	103.438	8.40	671	3.58	-1,844	644	748	
EXIMUK-16	Ukreximbank	B1/NR/CCC	125	USD	8.4	9-Feb-16	76.563	13.54	1,235	3.45	981	-395	-405	93.072	7.58	582	4.05	-1,651	596	653	
OSCHAD-16	Oshchadbank	B2/NR/B	700	USD	8.25	10-Mar-16	86.5	12.55	1,151	3.39	819	-292	-264	103.063	7.47	579	3.96	-1,656	508	572	
Total			2,873																		

Notes: bp – basis point; ccy – currency;

[1] change to December 29th, 2011;

[2] spread over US Treasury note of similar maturity;

[3] FUIB bond pricing is taking for 5 July 2011 and 6 January 2012 respectively to assess half-year and weekly performance of the bond.

Sources: Bloomberg.

Banks' credit analysis pages

The following part of the report provides credit analysis of the banks that have tradable bonds outstanding. For each bank, we provide a snapshot summary of our view on the name, historical perspective of the bank's key financial figures, and ratios up to end-3Q11.

A comparable view of the banks

The banks' data presented in the following tables significantly vary from one another in their size, business segments, and shareholders' structure. Still, in our comparison of the banks, we can identify some key points, which are the following:

Profitability is not the strongest side of most of the banks presented, ...

Still quite weak profitability, with only five of the presented banks showing ROAE above 1%, and four banks with a net loss. From this standpoint, we can distinguish SBRF, with ROAE of 1.4%, and FUIB, with 1.3%. As described earlier, Delta Bank's ROAE of 3.3% seems quite questionable, so it shouldn't be used as a valid point of comparison. From the banks' ability to generate profits should also be added ProCredit Bank, whose high 12.5% net interest margin is highly desirable.

... while most of them have no material issues with capitalisation

Capitalisation of the described banks is quite adequate, considering RCAR by the NBU, with only Finance and Credit Bank's and Nadra Bank's close to 9% threshold, at 10.3% and 11.0%, respectively. With the recent news of Privatbank's capital withdrawal, the bank should be also watched closely from the capitalisation side, but we do not see any issues as of end-3Q11 in other banks from this standpoint.

Liquidity is especially important nowadays, and should be traced carefully

From the liquidity perspective, we see worrisome figures in Finance and Credit Bank and Sberbank of the Russian Federation, with 5.6% and 6.6% of cash-to-assets ratio as of 3Q11, according to UAS. These banks also have below-average current liquidity ratio (R5 by the NBU), and in the current period of increased possibilities of unforeseen cash outflow, they should be monitored with scrutiny. While SBRF has about UAH1bn of near-cash, held-for-sale securities issued by the Ministry of Finance of Ukraine, Finance and Credit bank had only UAH0.6bn of trading securities, and their details are unknown to us.

Some of the banks leave us with a yet-unrevealed quality of assets

Considering assets quality, the most reliable are the IFRS NPL figures, which not all listed banks reveal in their open sources. With those who are (see following table with IFRS comparison), the weakest position is shown by VAB Bank, which presented an individually impaired loans ratio of 58.3% as of 2Q11, with 42.8% LLR coverage. VAB is followed by UkrSibbank, which presented 38.0% of 90-plus days of overdues, with 77.9% LLR coverage (it should also be taken into account that this data is as of end-2010, and slightly out of date).

Too rapid growth in assets can sometimes result in an inflated bubble

From a growth perspective, SBRF stands out, with its targeted expansion plans and 80.1% YoY in assets growth, as well as Delta Bank, with 44.3% growth, and Privatbank, with 35.4% YoY growth. Finally, and RSBU's significant 303.5% boost in assets is explained by the bank's still-small size, with only UAH1.0bn of total assets as of 3Q11 UAS figures.

Table 19. Key financial figures and ratios of the Ukrainian banks that have Eurobonds and local currency bonds outstanding. Data is based on UAS financials as of end 3Q11.

	Ukrexim- bank	Privat- bank	Oschad- bank	UkrSib- bank	Alfa-Bank (Ukraine)	FUIB	Promin- vestbank	Nadra Bank	VAB	VTB Bank (Ukraine)	Finance and Credit Bank	Sberbank of Russian Federation (Ukraine)	Delta Bank	ProCredit	Credit Dnepr	Russian Standard Bank (Ukraine)	Megabank
Balance sheet figures (UAHm)																	
Assets	73,072.1	141,362.9	75,348.9	42,234.6	26,157.1	29,278.5	35,278.8	24,566.4	8,698.4	36,661.3	21,698.1	15,118.3	18,855.6	2,572.7	7,186.6	1,021.9	4,206.6
Net loans	45,343.6	102,769.6	49,822.7	22,884.5	17,558.8	14,628.7	25,971.3	18,280.1	5,224.9	27,668.3	17,622.9	10,094.0	11,347.8	1,821.6	4,588.1	677.8	2,825.2
Equity	17,643.5	16,288.3	17,534.2	3,628.5	3,158.1	3,056.4	4,569.2	3,980.3	527.9	3,876.9	1,860.6	1,254.2	1,441.6	261.7	600.9	112.6	649.4
Deposits	32,278.6	92,095.7	38,255.3	18,930.5	10,815.1	16,234.7	16,140.0	7,449.1	5,441.9	9,987.2	9,706.6	6,757.9	9,461.6	1,509.7	4,480.2	132.6	2,275.2
Quarterly P&L																	
Net interest income	879.6	2,253.1	1,184.2	566.6	446.6	589.2	398.0	276.6	24.5	592.4	173.8	221.4	6.9	62.9	51.9	8.2	29.7
Net commission income	130.9	1,055.5	230.5	139.5	40.0	118.1	95.6	40.5	57.8	96.3	100.9	48.3	211.1	18.9	15.4	40.5	25.5
Operating income (before LLP)	899.8	3,665.6	1,514.0	863.3	498.4	746.8	578.2	267.2	93.1	755.7	305.6	282.3	1,102.2	87.9	80.7	104.6	59.6
Operating expense	(251.6)	(1,316.9)	(633.2)	(748.2)	(272.8)	(255.5)	(329.2)	(188.9)	(157.4)	(334.5)	(182.1)	(165.5)	(164.1)	(58.1)	(64.1)	(79.9)	(49.7)
Loan-loss provisions (LLP)	(629.2)	(2,118.1)	(742.4)	(1,201.8)	(220.9)	(416.1)	(246.9)	(77.6)	(98.8)	(408.6)	(123.2)	(90.1)	(325.0)	(22.6)	(6.4)	(23.0)	(8.7)
Net income	22.4	197.4	137.5	(839.7)	5.1	60.2	2.2	0.4	(143.6)	27.1	0.3	52.3	479.4	5.7	0.6	0.3	1.0
Last 12-month period P&L																	
Net interesting income	3,417.6	7,155.2	4,297.1	2,515.9	1,633.3	1,340.6	1,702.9	954.5	111.2	2,195.9	453.1	837.5	2,499.1	249.8	231.1	15.1	115.9
Net commission income	507.9	3,705.6	946.1	508.4	156.1	291.0	345.4	57.3	155.2	305.8	322.5	137.9	719.6	67.5	53.8	122.2	109.6
Operating income (before LLP)	4,083.6	11,900.3	5,662.1	3,350.3	1,938.3	1,734.5	2,220.2	2,129.1	325.2	2,531.1	941.1	1,040.1	4,541.1	335.6	329.9	198.2	247.6
Loan-loss provisions (LLP)	(2,926.3)	(5,757.6)	(2,644.4)	(2,495.2)	(875.5)	(689.0)	(1,247.6)	(1,483.1)	(428.6)	(1,267.9)	(358.7)	(370.2)	(941.8)	(86.7)	(59.4)	(31.6)	(57.0)
Net income	75.7	1,356.8	414.2	(2,486.9)	12.6	320.8	(245.6)	0.9	(623.7)	47.1	(131.4)	164.4	530.5	13.5	1.5	8.3	3.0
Growth rates (%YoY)																	
Assets	5.9	35.4	26.6	-2.5	-3.6	56.2	22.0	6.4	28.2	18.9	0.0	80.1	44.3	3.1	38.9	303.5	19.4
Gross loans	4.2	36.0	27.4	-26.6	-4.1	41.0	6.7	1.0	12.4	26.7	2.5	70.0	39.5	-6.9	38.1	309.0	8.6
Deposits (total)	29.8	35.9	68.1	5.2	17.1	96.4	-5.0	-0.3	41.9	4.9	10.6	61.8	68.2	6.8	54.4	335.9	31.0
Equity	1.2	41.6	5.5	18.8	1.8	15.5	-5.9	730.3	-11.3	77.6	-5.7	19.0	142.1	14.4	5.1	8.0	2.1
Key ratios (%)																	
Capital adequacy ratio (% R2 by NBU)	31.4	12.0	30.7	18.5	18.6	16.6	13.9	11.0	16.0	13.0	10.3	14.3	12.1	15.7	12.1	12.6	22.9
Equity/Assets	24.1	11.5	23.3	8.6	12.1	10.4	13.0	16.2	6.1	10.6	8.6	8.3	7.6	10.2	8.4	11.0	15.4
(Equity + Subor. debt)/Assets	28.1	12.4	24.3	18.2	16.1	12.8	19.2	17.9	10.1	15.2	13.4	11.4	11.5	14.9	11.0	15.2	20.5
Liquid assets/Assets	9.2	14.4	11.0	21.1	18.6	20.5	8.9	13.0	13.0	7.9	5.6	6.6	8.1	14.4	7.7	14.4	14.7
Current liquidity (% R5 by NBU)	61.9	52.7	70.7	79.3	81.8	58.2	49.5	98.2	64.7	72.0	60.3	59.2	52.1	51.3	85.6	56.9	94.1
Net loans/Deposits	140.5	111.6	130.2	120.9	162.4	90.1	160.9	245.4	96.0	277.0	181.6	149.4	119.9	120.7	102.4	511.3	124.2
Cost-to-income ratio	23.8	39.5	41.7	107.1	53.5	41.9	61.1	35.8	198.8	47.6	78.4	53.2	67.7	69.0	72.9	78.8	75.4
Net % margin	5.8	7.3	7.6	7.5	7.6	8.5	6.1	4.8	2.0	7.5	2.4	8.0	21.1	12.5	4.4	3.1	3.9
ROAA	0.1	1.1	0.6	-5.8	0.0	1.3	-0.8	0.0	-8.1	0.1	-0.6	1.4	3.3	0.5	0.0	1.3	0.1
ROAE	0.4	9.8	2.4	-74.4	0.4	11.2	-5.2	0.0	-111.1	1.6	-6.9	14.2	52.1	5.5	0.3	7.7	0.5
NII/operating income	83.7	60.1	75.9	75.1	84.3	77.3	76.7	44.8	34.2	86.8	48.1	80.5	55.0	74.4	70.0	7.6	46.8
LLR/Gross loans	16.3	16.9	13.2	23.9	26.6	21.6	10.4	24.9	21.5	16.6	8.9	20.9	23.2	9.3	9.3	5.8	5.7

Sources: Company data.

Table 20. Key financial figures and ratios of the Ukrainian banks that have Eurobonds and local currency bonds outstanding.

Data is based on the latest IFRS financials reported by the bank.

Name of the bank	Ukreximbank	Privatbank	Oschadbank	UkrSibbank	Alfa-Bank (Ukraine)	FUIB	Prominvestbank	VAB	VTB Bank (Ukraine)	Sberbank of Russian Federation (Ukraine)	ProCredit	Credit Dnepr	Megabank
Latest reported IFRS period	2Q11	2010	2Q11	2010	2Q11	3Q11	2Q11	2Q11	2010	2Q11	2010	2010	2010
Balance sheet figures (UAHm)													
Cash & balances with central bank	15,189.0	19,266.0	3,902.3	6,494.2	1,746.5	598.1	3,678.6	716.4	1,796.1	1,543.7	202.4	1,807.8	165.4
Loans to customers	42,850.6	89,694.0	46,007.3	25,570.3	17,977.8	15,570.1	23,340.6	4,878.1	26,595.7	7,979.1	1,856.1	3,915.6	2,558.1
Investment securities	11,178.5	1,161.0	12,004.5	6,543.7	2,088.3	2,135.6	1,197.5	630.4	2,659.4	1,504.6	25.5	68.5	138.9
Total assets	78,982.7	121,916.0	70,474.8	42,501.6	23,581.4	25,748.7	32,092.6	6,829.6	32,792.2	12,149.6	2,290.1	6,148.3	3,478.0
Customer accounts	33,244.1	86,521.0	32,885.1	18,018.9	11,924.5	16,267.9	18,701.2	5,008.7	8,054.7	6,372.8	1,384.1	3,738.1	1,822.0
Wholesale borrowings	14,703.5	6,161.0	4,259.4	6,076.0	4,346.4	2,439.0	1,521.9	736.3	87.6	838.0	565.2	0.0	172.9
Subordinated debt	3,299.7	1,379.0	824.5	4,141.0	906.4	686.7	2,301.3	349.0	1,676.9	470.1	111.7	64.2	314.2
Share capital	17,126.7	8,860.0	14,496.0	8,328.5	6,743.3	2,653.0	6,231.5	1,310.3	5,474.0	2,310.2	298.1	338.7	550.1
Total equity	17,276.8	14,169.0	17,147.2	2,035.0	2,442.2	3,911.6	4,297.8	310.0	4,781.3	1,965.7	218.3	752.2	613.3
Income statement figures (annualised, UAHm)													
Net interest income	1,389.5	6,189.0	2,137.0	1,137.9	404.9	887.1	759.5	103.7	1,114.8	355.0	207.9	154.2	103.3
Net fee & commission income	174.6	2,734.0	469.0	515.5	45.9	189.1	112.2	39.5	154.2	64.7	52.7	41.2	101.8
Operating expenses	(435.3)	(5,616.0)	(1,175.4)	(2,059.9)	(514.7)	(532.1)	(589.7)	(253.0)	(933.8)	(276.9)	(256.5)	(158.2)	(162.6)
Loan-loss provisions (LLP)	(1,210.7)	(3,408.0)	(713.9)	(2,910.3)	(47.2)	(158.6)	(434.7)	(58.4)	(283.6)	(8.2)	(67.5)	(31.8)	(42.0)
Net income (NI)	54.1	1,440.0	677.4	(5,211.0)	31.9	381.8	(174.7)	(135.0)	79.4	190.2	(48.2)	24.1	1.7
Growth rates (%YoY)													
Assets	21.4	35.9	N/A	-1.9	N/A	44.3	N/A	2.1	19.8	72.0	-16.9	24.6	10.8
Loans	3.1	34.7	N/A	-27.1	N/A	41.8	N/A	0.9	17.6	95.0	-8.6	29.4	12.0
Deposits	50.9	51.4	N/A	27.1	N/A	95.0	N/A	38.6	56.5	101.5	15.9	43.5	29.7
Equity	2.5	17.6	N/A	-4.2	N/A	18.8	N/A	-29.1	118.3	10.2	12.5	7.4	1.1
Net % income	-0.03	-14.7	N/A	-50.6	N/A	15.6	N/A	166.3	-35.9	1.5	-9.4	22.5	23.4
Net commission income	7.1	44.9	N/A	5.2	N/A	72.8	N/A	59.6	-0.1	55.8	42.5	-11.5	20.9
Balance sheet ratios													
Liquid assets/Assets (%)	19.2	15.8	5.5	15.3	7.4	2.3	11.5	10.5	5.5	12.7	8.8	29.4	4.8
Due from banks/Due to banks (x)	0.3	0.5	0.4	0.05	0.0005	3.8	0.04	0.1	0.02	0.1	N/R	0.1	0.7
Current ratio (x)	1.6	1.0	1.3	0.7	0.9	15.8	0.4	0.6	0.2	0.7	0.4	0.9	0.6
Wholesale borrowings/Liabilities (%)	23.8	5.7	8.0	15.0	20.6	11.2	5.5	11.3	0.3	8.2	27.3	N/A	6.0
Profitability & Earning quality (%)													
ROAA	0.2	1.4	N/A	-12.1	N/A	0.6	N/A	-9.4	0.3	1.3	-1.9	0.4	0.1
ROAE	0.9	11.0	N/A	-250.6	N/A	3.6	N/A	-169.2	2.3	6.4	-23.3	3.3	0.3
Net % income/Operating income	70.1	58.7	N/A	63.9	N/A	53.6	N/A	42.6	81.0	69.6	76.0	70.0	49.3
Net commission income/Operating income	10.0	26.0	N/A	29.0	N/A	22.7	N/A	18.1	11.2	15.8	19.2	18.7	48.5
Net % margin	4.9	7.4	N/A	3.3	N/A	1.5	N/A	3.3	4.2	6.9	9.8	4.3	3.5

Table 20. Key financial figures and ratios of the Ukrainian banks that have Eurobonds and local currency bonds outstanding.

Data is based on the latest IFRS financials reported by the bank.

Name of the bank	Ukreximbank	Privatbank	Oschadbank	UkrSibbank	Alfa-Bank (Ukraine)	FUIB	Promin- vestbank	VAB	VTB Bank (Ukraine)	Sberbank of Russian Federation (Ukraine)	ProCredit	Credit Dnepr	Megabank
Latest reported IFRS period	2Q11	2010	2Q11	2010	2Q11	3Q11	2Q11	2Q11	2010	2Q11	2010	2010	2010
Cost-to-income ratio	22.0	53.3	N/A	115.7	N/A	48.9	N/A	128.6	67.9	62.5	93.8	71.8	77.5
LLP/Operating income	69.4	32.3	N/A	163.5	N/A	25.1	N/A	163.5	20.6	-6.4	24.7	14.4	20.0
Assets quality (%)													
NPLs/Gross loans	N/A	7.3 [^]	7.2 [^]	38.0 [^]	N/A	N/A	30.8	58.3	24.1	20.9 [^]	10.4 [^]	10.1	3.7 [^]
NPL coverage	N/A	180.2 [^]	188.3 [^]	77.9 [^]	N/A	N/A	43.9	42.8	45.6	91.1 [^]	80.9 [^]	49.2	147.1 [^]
LLR/Gross loans	16.8	13.2	13.6	29.6	14.5	N/A	13.5	24.9	11.0	19.1	8.4	5.0	5.5
Funding structure (%)													
Customer accounts/Total funding base	42.1	72.5	47.1	42.7	51.1	65.4	58.6	73.8	24.6	52.9	60.7	61.4	52.5
Net loans/Total funding base	54.3	75.1	65.9	60.6	77.0	62.6	73.2	71.9	81.3	66.2	81.4	64.3	73.7
Average net loans/Average customer accounts	152.7	108.8	N/A	188.4	N/A	107.9	N/A	112.6	372.8	126.6	150.7	109.4	150.1
Customer accounts/Shareholders' equity	192.4	610.6	191.8	885.4	488.3	415.9	435.1	1,615.6	168.5	324.2	633.9	497.0	297.1
Other ratios and indicators													
Retail share in loan book (%)	2.0	22.2	N/A	63.2	N/A	N/A	N/A	27.3	6.0	12.0	3.4	15.6	21.9
Operating income per employee (UAH000)	871.2	355.9	N/A	163.6	N/A	N/A	N/A	N/A	N/A	559.9	31.6	222.5	130.2

Notes: [^] - Banks in which NPLs are loans with 90+ days overdue, while in other banks, NPLs are calculated as individually impaired loans; Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROE – Return on average equity.

Sources: Company data.

Country

Ukraine

Ukreximbank

Sector

Banks: Commercial banking

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

B3/B/NR EXIMUK

Ukreximbank is currently No.2 by total assets on the overall list of Ukrainian banks, data as of 4Q11. With significant government support, the bank enjoys a material margin of safety from the equity side, injected during the tough 2009-1Q10 period, as well as from the liquidity perspective. Nevertheless, considering such support from behind, it would be desirable to for the bank to show better financial performance than it currently presents.

Capitalisation: Sector's highest, allowing future absorption of possible losses. The bank's Regulatory capital adequacy ratio (RCAR) is currently one of the highest among Ukrainian banks, presenting sizable ability to absorb possible losses. As of 4Q11, the bank's capitalisation was at RCAR 31.2%, although it was slightly decreased, by 0.2ppt QoQ. This is the result of past capital injections from the Ukrainian government during the 2009-10 period, when the bank's share capital was boosted by UAH6.9bn during 2009 and UAH6.4bn during 2010. While such a high level might sometimes signal a bank's inefficiency in use of attracted capital, it also implies some confidence in its margin of safety during volatile economic conditions.

Liquidity: Does not raise any questions, either, indicating a more than sufficient pillow. During the third quarter of 2011, Ukreximbank redeemed its 7.65%, US\$500m Eurobond, placed in early 2006, which materially decreased its cash and cash equivalents by 49.4%, to UAH6.7bn, or 9.2% of total assets. Nevertheless, the bank finished 4Q11 with 11.5% liquid assets ratio, and it still has about UAH16.0bn of securities, including a significant portion of liquid Ukrainian state bonds, at UAH6.7bn, according to unaudited 1H11 IFRS data. In addition, the bank can always rely on the backing by the NBU, which has always supported the bank in case of need.

Assets' quality: Leaves some doubts, considering material worsening during 2010. According to IFRS audited data, during 2010, the bank's gross amount of loans, individually determined to be impaired increased by 226.8%, to UAH12.0bn, or 23.5% of the total credit portfolio. Such a worsening might affect the bank's further profitability through loan-loss provisions in case of further impairment, assuming their 61% LLR coverage. As of end-2010, 19.3% of the gross credit portfolio consisted of loans to agriculture and food processing, and 16.9% to trade enterprises, presenting quite normal diversification. The bank's credit portfolio would also suffer in case of local currency devaluation, considering the 49.1% of FX loans among its total business ones (4Q11 UAS data), which we consider as rather risky in Ukreximbank's case

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2010 IFRS	2Q11 IFRS	3Q11 IFRS	4Q11 UAS
Financials				
Assets	71,855	78,983	73,072	75,103
Loans	43,681	42,851	45,344	42,919
Deposits	27,811	33,244	32,279	31,682
Equity	17,071	17,277	17,644	17,729
Net % income	2,607	2,606	3,418	3,463
Net com income	360	372	508	517
Operating income	3,720	3,716	4,084	4,397
PPI	2,929	2,900	3,113	3,378
LLP	(2,664)	(2,579)	(2,926)	(3,219)
Net income	126	154	76	88
Ratios (%)				
Tier 1 ratio	26.8	25.1	N/A	N/A
CAR	33.2	31.3	31.4	31.2
Equity-to-assets	23.8	21.9	24.1	23.6
Loan-to-deposit	157.1	128.9	140.5	135.5
Liquid assets	15.2	19.2	9.2	11.5
ROAA	0.2	0.2	0.1	0.1
ROAE	0.9	0.9	0.4	0.5
Net % margin	5.1	4.9	5.8	5.8
NII-to-op.income	70.1	70.1	83.7	78.8
Cost-to-income	21.3	22.0	23.8	23.2
LLR	14.3	16.8	16.3	18.6
NPLs	23.5	N/A	N/A	N/A
NPL coverage	61.0	N/A	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
NII – Net interest income; LLR – loan-loss reserves;
NPL – non-performing loans (individually impaired loans).

Sources: Bank data, Investment Capital Ukraine LLC.

Ukreximbank's financial performance leaves much to be desired, as for a bank with such sizable government support.

In the bank's defence, we can say that this is not an uncommon feature among state-owned banks all over the world and it is difficult for a bank to improve without private ownership or independent management. 2011 revealed a worsening in the bank's cost-to-income ratio, by 3.1ppt, to a still-low 23.2%, and net interest margin, by 0.4ppt, to 5.8% (both calculated based on UAS 12-month, annualised P&Ls). While from a provisioning perspective, the bank's figures do not look rosy, with significantly high loan-loss provisions at UAH3.2bn during 2011 (UAH3.1bn during 2010), materially decreasing bank's profits, with 2011 net income at UAH88.1m (UAH51.3m during 2010). A decreased net interest margin also signals inefficiency in the use of resources, with a weakened ability by the bank to generate profits.

A decrease of clients' deposits, with a total decline of 10.0%, to UAH31.7bn during 2H11, but still increased by 15.9% YoY. Most of such outflow was made in UAH business deposits, which decreased by 16.0%, to UAH18.2bn during 2H11. This is not the first case of an outflow in UAH business deposits during end-2011 among Ukrainian banks, and such tendencies vary. We assume that this situation is mostly the result of increased expectations for local-currency devaluation, with client's funds moving towards FX currency.

Table 21. List of outstanding Eurobonds issued by Ukreximbank, pricing as of 30 January, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
EXIMUK 6.8% due 12	B1/--/B	USD	250	99.438	7.652	667	45
EXIMUK 8.375% due 15	B1/--/B	USD	750	90.500	11.991	1,139	220
EXIMUK 5.79275% due 16	B1/--/CCC	USD	125	75.875	13.813	1,279	503

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity.

Sources: Company data.

Ukreximbank: Bank's bond charts (price, yield, spread)

Chart 91. History of prices of bank's bonds (% of par)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 92. History of bank's bond yields (%)



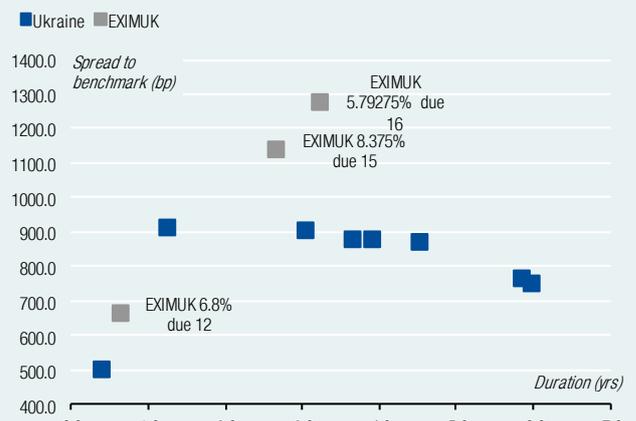
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 93. History of bank's bond spreads to sovereign bonds (bp)



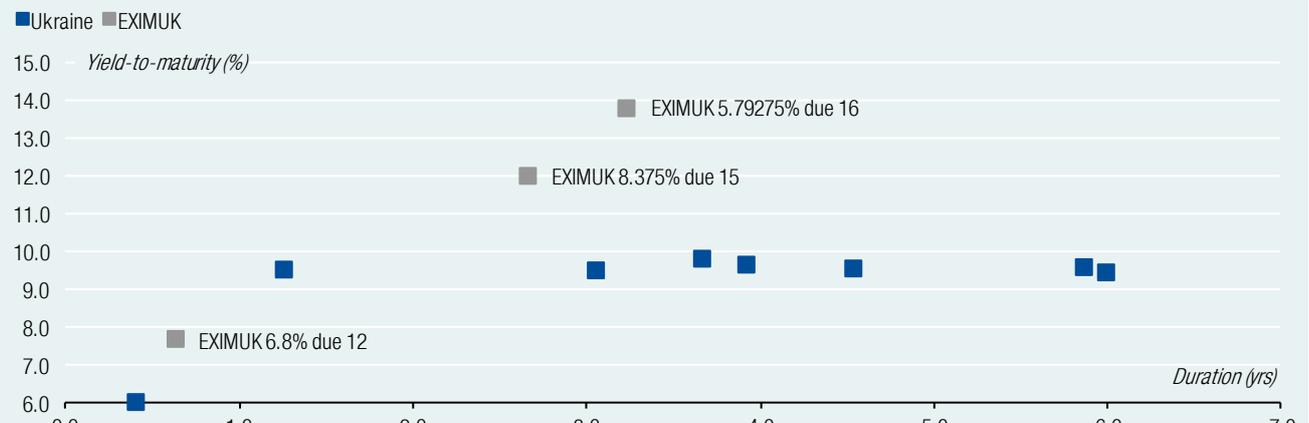
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 94. Spread¹ map as of 30 Jan 2012 (bp)



Note: [1] spread to US treasuries. Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 95. Yield map: bank's bonds versus sovereign yield curve



Source: Bloomberg, Investment Capital Ukraine LLC.

Ukreximbank: IFRS financials – key financials and ratios

Table 22. Key FINANCIALS derived from bank's IFRS financials

	2003	2004	2005	2006	2007	2008	2009	2010	2Q11
P&L (YTD)	(UAHm)								
Net interest income	178.2	240.3	381.1	724	1,052	1,630	3,094	2,607	1,389.5
Net fee & commission income	110.4	144.6	168.0	222	303	408	320	360	174.6
Operating income	318.0	431.8	614.9	1,055	1,519	2,430	3,721	3,720	1,738.6
Pre-provision income (PPI)	98.0	161.7	286.2	563	950	1,474	2,646	2,929	1,303.3
Loan-loss provisions (LLP)	(23.9)	(77.1)	(30.1)	(99)	(196)	(1,294)	(2,585)	(2,664)	(1,210.7)
Pre-tax income	74.0	84.6	256.2	464	754	180	61	264	92.7
Net income (NI)	50.8	59.4	184.9	335	553	122	35	126	54.1
Balance sheet	(UAHm)								
Cash & balances with central bank	227.0	457.0	2,217.3	2,944	3,460	6,309	4,852	10,893	15,189.0
Due from banks	410.0	427.8	101.3	97	279	963	1,736	1,129	3,562.3
Loans to customers	2,380.4	3,460.4	6,992.7	13,463	21,782	36,608	43,311	43,681	42,850.6
Investment securities	331.6	381.8	470.7	872	510	1,050	1,779	10,610	11,178.5
Property, equipment and intangible assets	348.2	346.5	356.5	997	1,035	1,461	2,032	2,218	2,187.4
Other assets	26.7	36.1	54.7	77	1,500	1,199	2,754	3,323	4,015.0
Total assets	3,723.8	5,109.7	10,193.2	18,449	28,566	47,589	56,464	71,855	78,982.7
Due to banks	717.5	633.3	1,436.0	3,510	8,143	15,476	8,537	7,379	6,324.3
Due to central bank	378.7	291.1	44.9	0	0	1,408	8,109	4,157	4,121.3
Customer accounts	2,276.5	2,902.5	4,761.1	6,690	10,595	16,600	19,953	27,811	33,244.1
Wholesale borrowings	0.0	799.9	2,752.5	5,634	6,433	8,914	6,282	12,194	14,703.5
Subordinated debt	0.0	0.0	205.2	636	640	978	145	136	3,299.7
Total equity	322.1	461.5	946.4	1,737	2,490	3,939	10,324	17,071	17,276.8
Total liabilities & equity	3,723.8	5,109.7	10,193.2	18,449	28,566	47,589	56,464	71,855	78,982.7

Note: P&L figures and ratios are based on 12-month annualised basis.

Sources: Company data.

Table 23. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2003	2004	2005	2006	2007	2008	2009	2010	2Q11
Growth rates (%YoY)										
Assets	(%YoY)	N/A	37.2	99.5	81.0	54.8	66.6	18.6	27.3	21.4
Loans	(%YoY)	N/A	45.4	102.1	92.5	61.8	68.1	18.3	0.9	3.1
Deposits	(%YoY)	N/A	27.5	64.0	40.5	58.4	56.7	20.2	39.4	50.9
Equity	(%YoY)	N/A	43.3	105.1	83.5	43.3	58.2	162.1	65.3	2.5
Net interest income	(%YoY)	N/A	34.8	58.6	90.1	45.3	54.9	89.8	-15.7	-0.03
Net commission income	(%YoY)	N/A	31.0	16.1	32.1	36.5	34.6	-21.5	12.6	7.1
Operating income	(%YoY)	N/A	35.8	42.4	71.6	43.9	60.0	53.1	-0.0	-0.2
Balance sheet ratios										
Liquid assets/Assets	(%)	6.1	8.9	21.8	16.0	12.1	13.3	8.6	15.2	19.2
Liquid assets/Liabilities	(%)	6.7	9.8	24.0	17.6	13.3	14.5	10.5	19.9	24.6
Due from banks/Due to banks	(x)	0.4	0.5	0.1	0.03	0.03	0.1	0.1	0.1	0.3
Current ratio	(x)	0.5	0.7	0.8	0.6	0.4	0.4	0.5	1.3	1.6
Equity/Assets	(%)	8.7	9.0	9.3	9.4	8.7	8.3	18.3	23.8	21.9
Gross loans/Deposits	(%)	124.6	136.3	156.5	209.3	212.5	233.8	240.6	183.4	155.0
Net loans/Deposits	(%)	104.6	119.2	146.9	201.3	205.6	220.5	217.1	157.1	128.9
Wholesale borrowings/Liabilities (%)	(%)	0.0	17.2	29.8	33.7	24.7	20.4	13.6	22.3	23.8
Profitability & Earning quality										
ROAA	(%)	N/A	1.3	2.4	2.3	2.4	0.3	0.1	0.2	0.2
ROAE	(%)	N/A	15.2	26.3	25.0	26.2	3.8	0.5	0.9	0.9
Net interest income/Operating income	(%)	N/A	55.7	62.0	68.6	69.3	67.1	83.1	70.1	70.1

Table 23. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2003	2004	2005	2006	2007	2008	2009	2010	2Q11
Net commission income/Operating income	(%)	N/A	33.5	27.3	21.0	19.9	16.8	8.6	9.7	10.0
Other income/Operating income	(%)	N/A	10.9	10.7	10.3	10.8	16.2	8.3	20.2	19.9
Net interest margin	(%)	N/A	6.5	6.4	6.6	5.7	5.3	7.2	5.1	4.9
Cost-to-income ratio	(%)	N/A	62.5	53.5	46.7	37.4	39.4	28.9	21.3	22.0
LLP/Operating income	(%)	N/A	17.9	4.9	9.4	12.9	53.2	69.5	71.6	69.4
Assets quality										
NPL/Gross loans	(%)	N/A	N/A	N/A	3.2	3.5	8.9	7.6	23.5	N/A
NPL coverage	(%)	N/A	N/A	N/A	120.9	91.8	63.6	127.9	61.0	N/A
LLR/Gross loans	(%)	16.1	12.5	6.2	3.8	3.3	5.7	9.8	14.3	16.8
Earning power										
Recurring earning power	(%)	N/A	3.7	3.7	3.9	4.0	3.9	5.1	4.6	4.0
PPI/Average total capital funds	(%)	N/A	41.3	40.7	42.0	45.0	45.8	37.1	21.4	17.0
Interest expense/Interest income	(%)	N/A	50.2	51.1	53.6	58.7	59.8	52.8	59.1	60.0
Interest income/Average interest earning assets	(%)	N/A	13.1	13.2	14.2	13.8	13.2	15.3	12.5	12.2
Interest expense/Average interest bearing liabilities	(%)	N/A	6.1	5.8	6.5	7.1	7.0	8.0	8.0	7.1
Net spread	ppt	N/A	7.0	7.4	7.7	6.7	6.2	7.3	4.5	5.1
Income tax / Pretax income	(%)	N/A	29.8	27.8	27.8	26.6	32.0	42.4	52.4	52.1
Efficiency										
Non-interest expense/Average assets	(%)	N/A	8.2	4.9	4.3	3.4	6.0	7.1	5.5	4.9
Personnel expense/Average assets	(%)	N/A	3.7	2.8	2.3	1.7	1.6	1.2	0.9	0.8
Personnel expense/Operating income	(%)	N/A	37.5	34.3	30.6	26.9	25.2	16.3	15.7	16.3
Personnel expense/Non-interest expense	(%)	N/A	44.7	56.4	52.6	51.1	26.7	16.3	16.4	17.3
Funding structure										
Customer accounts/Total funding base	(%)	61.6	57.0	46.9	36.7	37.4	35.1	37.4	40.5	42.1
Net loans/Total funding base	(%)	64.4	68.0	68.9	73.9	77.0	77.4	81.2	63.5	54.3
Average net loans/Average customer accounts	(%)	N/A	112.8	136.4	178.6	203.9	214.7	218.6	182.1	152.7
Customer accounts/Shareholders' equity	(%)	706.7	628.9	503.1	385.2	425.6	421.4	193.3	162.9	192.4
Provisioning										
Average net loans/Average assets	(%)	N/A	66.1	68.3	71.4	75.0	76.7	76.8	67.8	58.6
NPL/(Shareholders' equity + LLR)	(%)	N/A	N/A	N/A	19.5	24.8	56.3	24.4	49.1	N/A
LLP/Gross loans	(%)	N/A	1.9	0.4	0.7	0.9	3.3	5.4	5.2	5.0
LLP/(LLR - LLP)	(%)	N/A	18.4	7.0	22.6	36.6	142.8	123.0	57.3	42.3
LLP/PPI	(%)	N/A	47.7	10.5	17.6	20.7	87.8	97.7	91.0	88.9
Dividend payout	(%)	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal capital growth	(%)	N/A	18.4	40.1	35.4	31.8	4.9	0.9	1.2	0.9
Other ratios and indicators										
Retail share in loan book	(%)	N/A	1.5	1.3	2.8	4.5	5.4	2.7	2.2	2.0
Personnel expense per employee	(UAH 000s)	N/A	56.2	70.9	101.7	115.5	157.1	151.5	142.1	141.9
Operating income per employee	(UAH 000s)	N/A	149.8	206.6	332.6	429.6	622.4	932.1	905.1	871.2

Sources: Bank data, Investment Capital Ukraine LLC.

Ukreximbank: Quarterly UAS financials – key financials and ratios

Table 24. Key financials and ratios derived from bank's UAS financials

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	62,652.0	66,056.9	68,978.3	73,160.6	76,255.3	80,011.5	73,072.1	75,103.4
Liquid assets	6,329.2	10,756.8	9,853.3	11,076.8	13,528.1	13,271.2	6,709.0	8,632.2
Gross loans	48,834.2	48,270.7	51,963.1	52,094.3	52,357.1	52,898.3	54,151.9	52,752.7
Loan loss reserves (LLR)	4,862.0	5,681.0	6,606.1	7,392.3	8,270.5	8,922.4	8,808.4	9,833.7
Equity	17,284.0	17,289.1	17,435.1	17,553.5	17,597.1	17,622.1	17,643.5	17,729.0
Deposits	20,695.4	21,431.8	24,867.9	27,332.4	31,455.1	35,202.1	32,278.6	31,681.7
Quarterly P&L								
Net interest income	760.3	762.8	849.8	931.6	851.9	754.5	879.6	976.7
Net commission income	114.4	116.4	133.8	137.6	112.9	126.6	130.9	146.5
Operating income (before LLP)	816.5	878.3	1,163.2	1,143.4	1,074.1	966.3	899.8	1,456.8
Operating expense	(203.6)	(125.5)	(208.5)	(265.4)	(201.1)	(252.9)	(251.6)	(313.7)
Loan-loss provisions (LLP)	(571.4)	(775.6)	(921.1)	(793.6)	(845.9)	(657.6)	(629.2)	(1,086.3)
Net income	9.8	11.7	13.3	16.6	17.1	19.7	22.4	28.9
Last 12-month period P&L								
Net interesting income	3,399.6	3,289.1	3,400.5	3,304.4	3,396.0	3,387.7	3,417.6	3,462.7
Net commission income	519.8	528.0	499.9	502.2	500.7	510.9	507.9	516.8
Operating income (before LLP)	3,833.0	3,774.3	4,002.7	4,001.4	4,258.9	4,347.0	4,083.6	4,397.0
Operating expense	(1,068.9)	(943.6)	(947.3)	(803.0)	(800.6)	(928.0)	(971.0)	(1,019.3)
Loan-loss provisions (LLP)	(2,764.5)	(2,837.7)	(3,032.5)	(3,061.7)	(3,336.1)	(3,218.2)	(2,926.3)	(3,219.0)
Net income	32.6	39.7	43.7	51.3	58.6	66.7	75.7	88.1
Growth rates (%YoY)								
Assets	22.7	16.4	25.1	28.0	21.7	21.1	5.9	2.7
Gross loans	13.7	8.8	11.0	7.8	7.2	9.6	4.2	1.3
Deposits (by businesses)	49.0	-1.0	39.6	42.3	64.3	97.7	42.4	21.4
Deposits (by households)	34.5	39.1	41.5	38.9	37.9	29.4	15.2	9.3
Deposits (total)	41.9	15.3	40.5	40.7	52.0	64.3	29.8	15.9
Equity	111.0	113.3	89.2	61.3	1.8	1.9	1.2	1.0
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	47.7	47.5	43.9	43.9	43.2	32.0	31.4	31.2
Equity/Assets	27.6	26.2	25.3	24.0	23.1	22.0	24.1	23.6
(Equity + Subor. debt)/Assets	32.4	30.8	29.6	28.2	26.9	25.8	28.1	27.6
Liquid assets/Assets	10.1	16.3	14.3	15.1	17.7	16.6	9.2	11.5
Current liquidity (R5 by NBU)	102.1	108.0	75.7	83.3	140.8	99.3	61.9	49.0
Gross loans/Deposits	236.0	225.2	209.0	190.6	166.5	150.3	167.8	166.5
Net loans/Deposits	212.5	198.7	182.4	163.5	140.2	124.9	140.5	135.5
Cost-to-income ratio	27.9	25.0	23.7	20.1	18.8	21.3	23.8	23.2
Net interest margin	7.1	6.7	6.7	6.2	6.3	6.0	5.8	5.8
ROAA	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
ROAE	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.5
NII/operating income	88.7	87.1	85.0	82.6	79.7	77.9	83.7	78.8
LLR/Gross loans	62,652.0	66,056.9	68,978.3	73,160.6	76,255.3	80,011.5	73,072.1	75,103.4

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

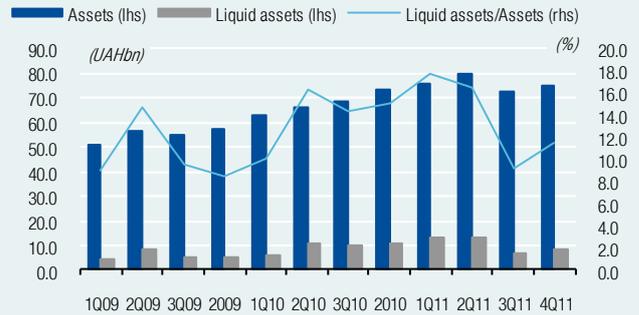
Ukreximbank: Charts on bank's key credit metrics

Chart 96. Bank's capitalisation



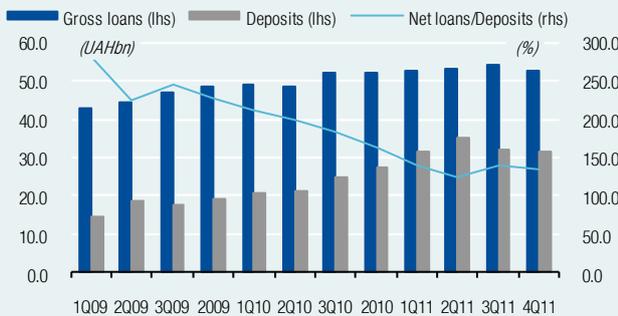
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 97. Liquidity



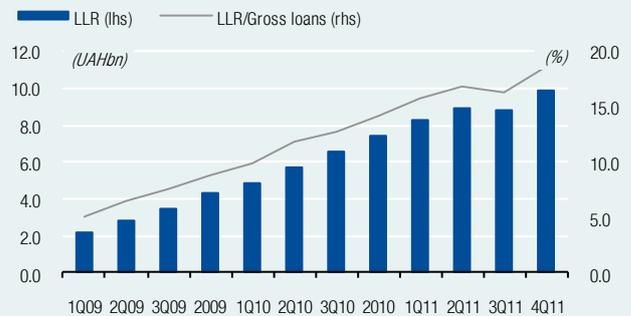
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 98. Loans and deposits



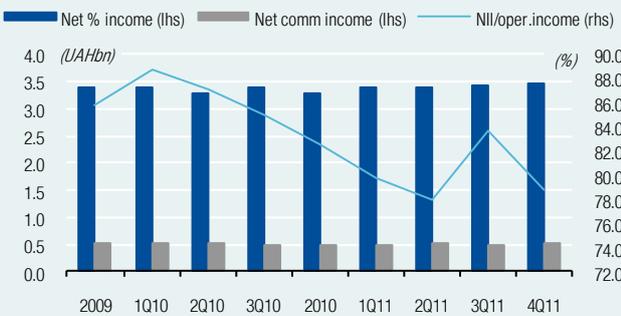
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 99. Loan-loss reserves history



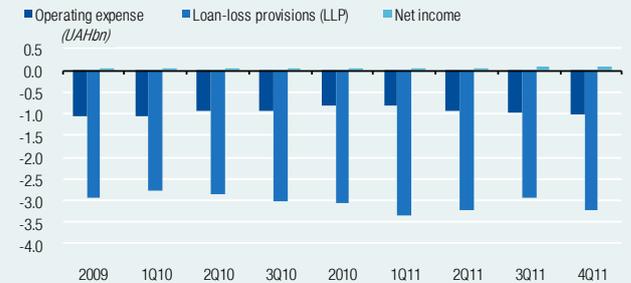
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 100. Income structure(annualised basis)



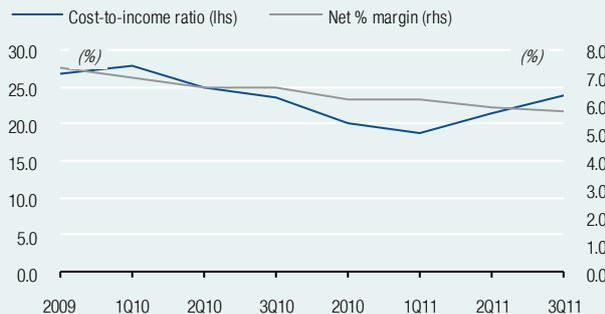
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 101. Expense and net income(annualised basis)



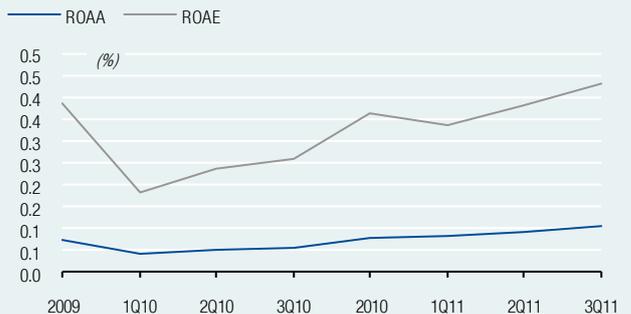
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 102. Financial performance ratios



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

Chart 103. Financial performance ratios



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

Country

Ukraine

Privatbank

Sector

Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch Ticker(s) in Bloomberg

B3/NR/B PRBANK

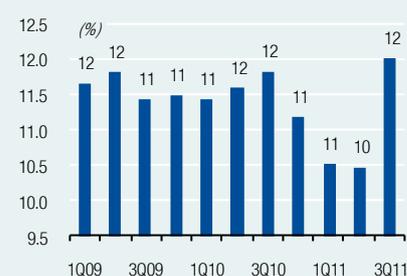
The biggest Ukrainian bank, Privatbank, definitely enjoys its market share, which was 13.7% as of end-3Q11 according to UAS, and credibility in the eyes of the Ukrainian population. Nevertheless, the bank's recent, significant growth varies, with its balance sheet showing no bubbles, and the bank could persevere in a worst-case economic scenario. We also believe that the bank might have significant related party risks, which may become evident in the event of the bank's owner's departure. On one hand, Privatbank is definitely one that seems too big to fail in the event of a significant downturn in the economic situation, and will be supported by the regulator's side. Nevertheless, we believe that there is a possibility that in that type of macroeconomic scenario, the bank may be too big to save, as the cost of saving the bank may be prohibitive.

Capitalisation: Materially improved during 3Q11, but still weak. Privatbank is neither a bank with significant foreign capital, nor state-owned, thus, raising new capital is no trivial task for it. Still, during 3Q11, the bank increased its share capital by 33.3% to UAH13.5bn under UAS, improving CAR to 12% (R2 ratio under NBU standards), which stood close to the 10% threshold level for two quarters (see chart at right). Taking into account the bank's significant growth, and recent news on its questionable capital withdrawal (which should decrease RCAR almost to 10% minimum) we do not consider its capitalisation as sufficient for the absorption of potential losses.

Liquidity: As of end-3Q11, no cause for concern. With cash and cash equivalents at about UAH20.3bn, or 14.4% of total assets, the bank's liquidity cushion can withstand most of the unforeseen outflows. Still, Privatbank's past aggressive growth resulted in a near absence of held securities, so it has no material amounts in other liquid assets that could be quickly converted into cash.

Assets' quality: Also leaves doubts. According to the 2010 IFRS audited report, 67.2% of loans were unsecured. While late in 2011, about 50% of unsecured loans were collateralised, such moves assume high possibilities of related parties' transactions (much more than revealed in the 2010 IFRS audited report, at UAH11.0bn, or 10.7% of the gross credit portfolio) and possibilities for fraud. As of end-2010, 32% of total gross loans were loans to oil-trading activities, which indirectly confirms the significant amounts of related parties' transactions in the bank's activities, due to links with such companies to the bank's key shareholder, Mr Kolomoyskiy. In case of his further ownership of the bank's, related parties' transactions should not

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2009	2010	2Q11	3Q11
	IFRS	IFRS	UAS	UAS
Financials				
Assets	89,689	121,916	135,741	141,363
Loans	66,597	89,694	99,172	102,770
Deposits	47,659	67,747	81,532	89,488
Equity	12,050	14,169	12,684	16,288
Net % income	7,254	6,189	6,225	7,155
Net com income	1,887	2,734	3,386	3,706
Operating income	12,460	10,535	10,326	11,900
PPI	7,541	4,919	5,881	7,195
LLP	(5,497)	(3,408)	(4,312)	(5,758)
Net income	1,329	1,440	1,521	1,357
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	11.5	11.2	10.5	12.0
Equity-to-assets	13.4	11.6	9.3	11.5
Loan-to-deposit	116.6	103.7	110.8	111.6
Liquid assets	12.8	15.8	14.8	14.4
ROAA	1.5	1.4	1.3	1.1
ROAE	12.1	11.0	12.9	9.8
Net % margin	10.3	7.4	6.8	7.3
NII-to-op.income	58.2	58.7	60.3	60.1
Cost-to-income	39.5	53.3	43.1	39.5
LLR	15.9	13.2	16.0	16.9
NPLs	11.6	7.3	N/A	N/A
NPL coverage	136.6	180.2	N/A	N/A

Notes: P&L figures and ratios are based on 12-month annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for 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, Investment Capital Ukraine LLC.

be a major issue for Privatbank's stability, although it should decrease the bank's interest profits with pressure on net interest margin, which is still in an upside trend. According to quarterly UAS reports, as of 3Q11, the bank's gross loans to businesses amounted to UAH97.5bn, or 78.9% of the total credit portfolio, with significant 36.1% YoY growth. Nevertheless, as presented in the data of the Association of the Ukrainian Banks, as of end-November 2011 Privatbank has completely stopped increasing its business credit portfolio (with UAH95.5bn of total gross amount as the latest available data), which also creates questions, considering such rapid growth observed recently.

Financial performance: Incredibly high financial results, even during the tough 2008-09 period. The bank's revenue mix presents a significant portion of fee and commission income of about 26%, according to the 2010 IFRS audited report (31.1% as of 3Q11, according to UAS figures). A nationwide network of branches, 100% recognition among the population, and innovative technologies have allowed it to enjoy profit leadership among Ukrainian banks, and we definitely consider the bank's P&L as its strongest side, with UAH979.7m in YTD net income as of 3Q11, according to UAS. Nevertheless, in the P&L section can also be found worrisome trends. The past two quarters presented an increase in the bank's loan-loss provisions, to UAH 1.4bn and UAH2.1bn as of 2Q11 and 3Q11, respectively. This resulted in a decrease in quarterly net income by 20.0% and 43.2%, to UAH347.7m for 2Q11 and UAH197.4m for 3Q11, respectively. The recent fourth quarter might not be as rosy for the bank as the previous ones, but still, its 2011 year's result should be close to an impressive UAH1bn, or ROE of close to 7.5%.

Significant 138.9% growth in the bank's households' deposits since 1Q09, to UAH68.8bn, as of 3Q11. Since 1Q09, the bank has constantly increased its deposits base, boosting total deposits by 109.1% since that period, with the biggest share in that of households, of about 74.8%, or UAH68.8bn, as of 3Q11, according to UAS figures. Such numbers are significantly worrisome, considering that the second-biggest Ukrainian bank, Oschadbank (in which the Ukrainian government guarantees clients 100% of their deposits) had only UAH24.5bn of household deposits as of 3Q11, according to the NBU's figures.

Outstanding due to central bank of about UAH7bn as of April 2011, according to market sources. The bank already had liquidity issues in 2008, which resulted in UAH3.4bn of refinancing, which increased to UAH8.3bn during 2009. This confirms NBU's willingness to support Privatbank, but also reveals the bank's shaky recent financial condition.

Table 25. List of outstanding Eurobonds issued by Privatbank, pricing as of 30 January, 2012

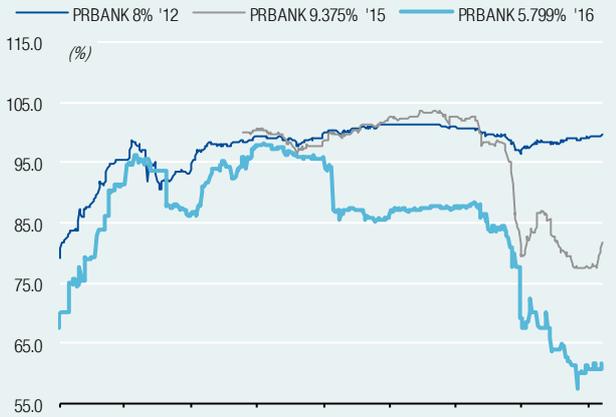
Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
PRBANK 8% due 12	B1/--/B	USD	500	90.902	9.467	751	N/M
PRBANK 9.375% due 15	B1/--/B	USD	200	99.625	40.324	779	532
PRBANK 5.799% due 16	B1/--/--	USD	150	85.000	14.842	1,419	1,056
UALF FRN % due 18 ³	WR/--/PIF	USD	18.7	N/A	N/A	N/A	N/A
UALF FRN 12% due 18 ³	NR/--/--	USD	5.5	N/A	N/A	N/A	N/A
UALF % due 18	WR/--/PIF	USD	85.8	N/A	N/A	N/A	N/A
UMLF FRN% due 31 ³	B3/--/B	USD	45.9	N/A	N/A	N/A	N/A
UMLF 10% due 31	NR/--/--	USD	9	N/A	N/A	N/A	N/A
UMLF FRN% due 31 ³	WR/--/PIF	USD	134.1	N/A	N/A	N/A	N/A

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity; [3] floating rate note, see Table 17, pp. 65.

Sources: Company data.

Privatbank: Bank's bond charts (price, yield, spread)

Chart 104. History of prices of bank's bonds (% of par)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 105. History of bank's bond yields (%)



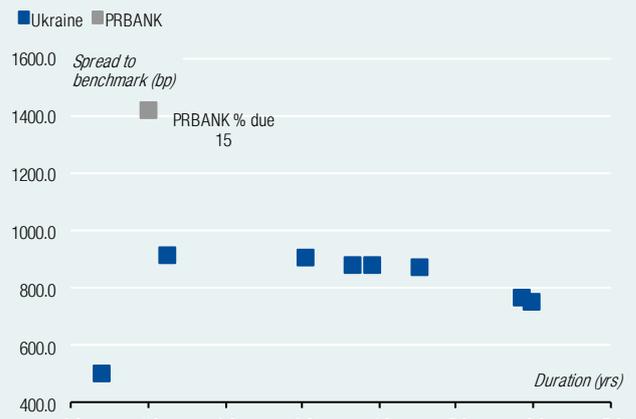
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 106. History of bank's bond spreads to sovereign bonds (bp)



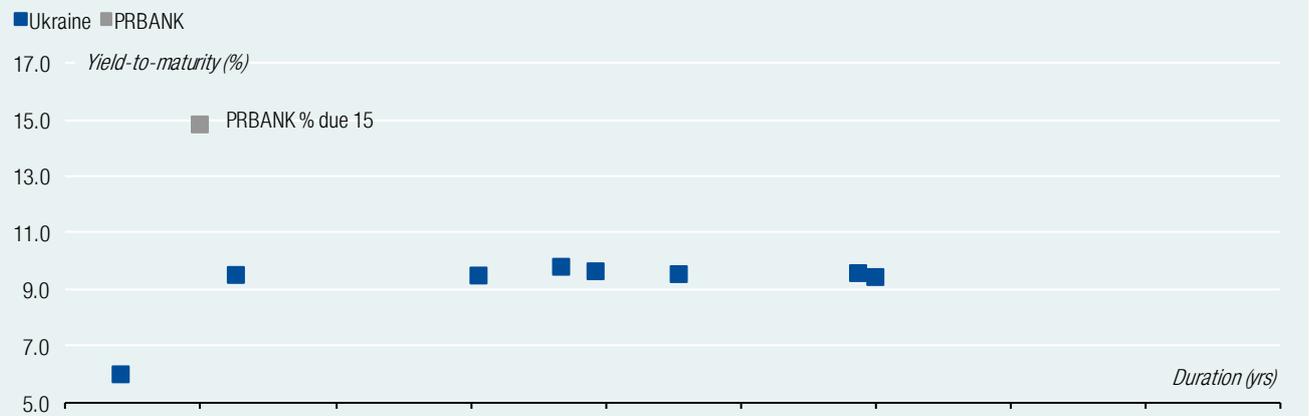
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 107. Spread¹ map as of 30 Jan 2012 (bp)



Note: [1] spread to US treasuries. Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 108. Yield map: bank's bonds versus sovereign yield curve



Source: Bloomberg, Investment Capital Ukraine LLC.

Privatbank: IFRS financials – key financials and ratios

Table 26. Key FINANCIALS derived from bank's IFRS financials

	2003	2004	2005	2006	2007	2008	2009	2010
P&L (YTD) (UAHm)								
Net interest income	623	662	1,212	2,374	4,013	6,422	7,254	6,189
Net fee & commission income	339	466	674	952	1,312	1,807	1,887	2,734
Operating income	1,103	1,587	2,482	3,519	5,416	12,060	12,460	10,535
Pre-provision income (PPI)	418	661	1,018	1,354	2,180	7,045	7,541	4,919
Loan-loss provisions (LLP)	(269)	(378)	(609)	(497)	(666)	(4,507)	(5,497)	(3,408)
Pre-tax income	153	264	380	857	1,514	2,538	2,044	1,511
Net income (NI)	99	178	265	616	1,122	1,987	1,329	1,440
Balance sheet (UAHm)								
Cash & balances with central bank	1,020	3,011	4,313	3,865	7,952	9,392	11,455	19,266
Due from banks	348	1,883	1,133	613	1,328	2,662	4,069	5,330
Loans to customers	7,597	9,410	15,675	26,967	43,070	68,074	66,597	89,694
Investment securities	236	0	720	484	1,164	4	31	1,161
Property, equipment and intangible assets	427	902	1,171	1,763	2,281	3,539	2,992	3,009
Other assets	45	647	309	337	475	3,849	4,545	3,456
Total assets	9,674	15,853	23,321	34,029	56,270	87,520	89,689	121,916
Due to banks	257	760	1,684	4,266	6,240	6,593	2,319	3,860
Due to central bank	170	831	0	0	0	3,554	8,310	7,312
Customer accounts	7,583	11,854	18,249	23,711	36,003	56,970	57,133	86,521
Wholesale borrowings	525	524	814	925	6,359	7,370	6,112	6,161
Subordinated debt	49	92	130	926	937	1,333	1,438	1,379
Total equity	812	1,347	1,887	3,248	5,406	9,830	12,050	14,169
Total liabilities & equity	9,674	15,853	23,321	34,029	56,270	87,520	89,689	121,916

Sources: Company data.

Table 27. Key FINANCIAL RATIOS derived from bank's IFRS financials

	2003	2004	2005	2006	2007	2008	2009	2010
Growth rates (%YoY)								
Assets (%YoY)	N/A	63.9	47.1	45.9	65.4	55.5	2.5	35.9
Loans (%YoY)	N/A	23.9	66.6	72.0	59.7	58.1	-2.2	34.7
Deposits (%YoY)	N/A	56.3	53.9	29.9	51.8	58.2	0.3	51.4
Equity (%YoY)	N/A	65.8	40.1	72.2	66.4	81.8	22.6	17.6
Net interest income (%YoY)	N/A	6.2	83.0	96.0	69.0	60.0	13.0	-14.7
Net commission income (%YoY)	N/A	37.3	44.8	41.2	37.8	37.7	4.4	44.9
Operating income (%YoY)	N/A	43.9	56.4	41.8	53.9	122.7	3.3	-15.4
Balance sheet ratios								
Liquid assets/Assets (%)	10.5	19.0	18.5	11.4	14.1	10.7	12.8	15.8
Liquid assets/Liabilities (%)	11.5	20.8	20.1	12.6	15.6	12.1	14.8	17.9
Due from banks/Due to banks (x)	0.8	1.2	0.7	0.1	0.2	0.3	0.4	0.5
Current ratio (x)	6.3	6.4	3.7	0.4	0.5	0.6	0.9	1.0
Equity/Assets (%)	8.4	8.5	8.1	9.5	9.6	11.2	13.4	11.6
Gross loans/Deposits (%)	111.9	89.4	95.8	122.9	127.4	133.8	138.6	119.4
Net loans/Deposits (%)	100.2	79.4	85.9	113.7	119.6	119.5	116.6	103.7
Wholesale borrowings/Liabilities (%)	5.9	3.6	3.8	3.0	12.5	9.5	7.9	5.7
Profitability & Earning quality								
ROAA (%)	N/A	1.4	1.4	2.1	2.5	2.8	1.5	1.4
ROAE (%)	N/A	16.5	16.4	24.0	25.9	26.1	12.1	11.0
Net interest income/Operating income (%)	N/A	41.7	48.8	67.5	74.1	53.3	58.2	58.7
Net commission income/Operating income (%)	N/A	29.3	27.2	27.1	24.2	15.0	15.1	26.0

Table 27. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2003	2004	2005	2006	2007	2008	2009	2010
Other income/Operating income	(%)	N/A	29.0	24.0	5.5	1.7	31.8	26.6	15.3
Net interest margin	(%)	N/A	6.8	8.4	10.4	10.9	11.0	10.3	7.4
Cost-to-income ratio	(%)	N/A	58.3	59.0	61.5	59.7	41.6	39.5	53.3
LLP/Operating income	(%)	N/A	23.8	24.5	14.1	12.3	37.4	44.1	32.3
Assets quality									
NPL/Gross loans	(%)	3.3	4.5	2.8	2.7	3.4	4.7	11.6	7.3
NPL coverage	(%)	322.3	247.3	368.6	271.3	178.5	224.8	136.6	180.2
LLR/Gross loans	(%)	10.5	11.2	10.3	7.4	6.1	10.7	15.9	13.2
Earning power									
Recurring earning power	(%)	N/A	5.2	5.2	4.7	4.8	9.8	8.5	4.6
PPI/Average total capital funds	(%)	N/A	61.2	63.0	52.7	50.4	92.5	68.9	37.5
Interest expense/Interest income	(%)	N/A	58.0	51.8	43.3	42.9	44.7	50.1	59.1
Interest income/Average interest earning assets	(%)	N/A	16.2	17.4	18.4	19.1	20.0	20.6	18.1
Interest expense/Average interest bearing liabilities	(%)	N/A	8.1	7.5	7.1	7.6	8.3	9.7	9.9
Net spread	ppt	N/A	8.1	10.0	11.2	11.5	11.7	10.9	8.2
Income tax / Pretax income	(%)	N/A	32.5	30.2	28.1	25.9	21.7	35.0	4.7
Efficiency									
Non-interest expense/Average assets	(%)	N/A	10.5	10.9	9.6	9.0	13.7	12.0	8.8
Personnel expense/Average assets	(%)	N/A	3.0	3.7	3.7	3.5	3.5	2.5	2.6
Personnel expense/Operating income	(%)	N/A	23.9	28.8	30.0	28.8	20.6	17.4	25.9
Personnel expense/Non-interest expense	(%)	N/A	28.2	33.7	38.3	38.4	25.3	20.4	29.3
Funding structure									
Customer accounts/Total funding base	(%)	80.7	76.9	80.2	71.7	65.5	66.5	65.4	72.5
Net loans/Total funding base	(%)	80.8	61.1	68.9	81.5	78.4	79.5	76.2	75.1
Average net loans/Average customer accounts	(%)	N/A	87.5	83.3	101.6	117.3	119.5	118.0	108.8
Customer accounts/Shareholders' equity	(%)	933.5	880.1	967.3	730.0	666.0	579.6	474.1	610.6
Provisioning									
Average net loans/Average assets	(%)	N/A	66.6	64.0	74.4	77.6	77.3	76.0	73.9
NPL/(Shareholders' equity + LLR)	(%)	16.2	19.0	13.2	14.8	19.2	20.1	37.4	27.2
LLP/Gross loans	(%)	N/A	3.6	3.5	1.7	1.5	5.9	6.9	3.3
LLP/(LLR - LLP)	(%)	N/A	46.6	51.1	29.7	31.1	124.4	77.6	33.4
LLP/PPI	(%)	N/A	57.2	59.8	36.7	30.6	64.0	72.9	69.3
Dividend payout	(%)	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal capital growth	(%)	N/A	21.9	19.7	32.7	34.5	36.8	13.5	12.0
Other ratios and indicators									
Retail share in loan book	(%)	N/A	32.2	40.0	44.2	39.1	40.4	30.4	22.2
Personnel expense per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	91.2	74.1	92.2
Operating income per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	442.2	425.0	355.9

Note: NPL – non-performing loans (>90 days overdue).

Sources: Bank data, Investment Capital Ukraine LLC..

Privatbank: Quarterly UAS financials – key financials and ratios

Table 28. Key financials and ratios derived from bank's UAS financials

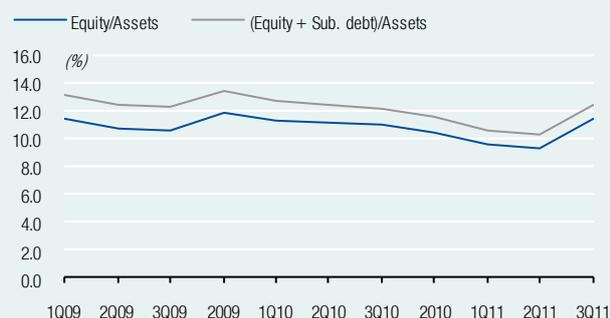
	2009	1Q10	2Q10	3Q10	2010	1Q11	2Q11	3Q11
Balance sheet figures (UAHm)								
Assets	86,066.1	91,978.5	97,468.6	104,398.4	113,437.2	128,360.5	135,740.8	141,362.9
Liquid assets	9,251.2	12,515.0	15,702.9	19,140.2	19,725.9	16,037.5	20,152.1	20,314.7
Gross loans	74,991.9	81,179.1	85,436.6	90,976.9	101,855.2	111,470.1	118,003.4	123,697.1
Loan loss reserves (LLR)	13,376.8	14,699.3	15,001.7	15,327.9	16,469.9	17,278.3	18,830.9	20,927.5
Equity	10,270.7	10,485.1	10,890.0	11,502.3	11,880.0	12,326.1	12,683.6	16,288.3
Deposits	49,835.3	55,254.0	61,878.0	67,746.7	75,182.8	81,532.0	89,487.6	92,095.7
Quarterly P&L								
Net interest income	1,392.0	1,633.1	973.3	1,323.0	1,873.3	1,227.6	1,801.3	2,253.1
Net commission income	698.8	620.8	568.9	735.6	883.6	780.0	986.4	1,055.5
Operating income (before LLP)	2,376.5	2,530.8	1,870.1	2,091.8	3,048.5	2,182.6	3,003.6	3,665.6
Operating expense	(922.2)	(788.9)	(924.5)	(1,057.5)	(1,135.8)	(1,083.1)	(1,169.1)	(1,316.9)
Loan-loss provisions (LLP)	(1,023.0)	(1,521.0)	(488.0)	(672.4)	(1,488.6)	(702.6)	(1,448.3)	(2,118.1)
Net income	528.8	215.4	415.7	361.9	377.1	434.7	347.7	197.4
Last 12-month period P&L								
Net interesting income	7,371.3	6,078.1	5,744.8	5,321.3	5,802.6	5,397.1	6,225.1	7,155.2
Net commission income	2,514.5	2,474.9	2,591.5	2,624.2	2,809.0	2,968.2	3,385.7	3,705.6
Operating income (before LLP)	10,060.9	9,258.2	9,311.4	8,869.3	9,541.3	9,193.0	10,326.5	11,900.3
Operating expense	(4,258.5)	(3,844.0)	(3,559.2)	(3,693.1)	(3,906.8)	(4,200.9)	(4,445.6)	(4,704.9)
Loan-loss provisions (LLP)	(4,866.5)	(4,641.4)	(4,630.5)	(3,704.4)	(4,170.0)	(3,351.6)	(4,311.9)	(5,757.6)
Net income	1,050.5	926.5	1,276.4	1,521.9	1,370.2	1,589.4	1,521.4	1,356.8
Growth rates (%YoY)								
Assets	7.4	23.7	22.6	28.1	31.8	39.6	39.3	35.4
Gross loans	0.8	13.8	21.4	23.7	35.8	37.3	38.1	36.0
Deposits (by businesses)	(18.8)	14.9	3.0	10.7	31.6	16.1	33.0	27.5
Deposits (by households)	1.7	31.0	47.0	58.7	59.6	62.1	48.9	39.0
Deposits (total)	(5.7)	25.5	31.7	42.1	50.9	47.6	44.6	35.9
Equity	25.3	23.3	27.0	32.4	15.7	17.6	16.5	41.6
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	11.5	11.4	11.6	11.8	11.2	10.5	10.5	12.0
Equity/Assets	11.9	11.4	11.2	11.0	10.5	9.6	9.3	11.5
(Equity + Subor. debt)/Assets	13.4	12.7	12.4	12.2	11.6	10.5	10.2	12.4
Liquid assets/Assets	10.7	13.6	16.1	18.3	17.4	12.5	14.8	14.4
Current liquidity (R5 by NBU)	80.5	48.8	62.9	67.5	75.2	54.1	54.7	52.7
Gross loans/Deposits	150.5	146.9	138.1	134.3	135.5	136.7	131.9	134.3
Net loans/Deposits	123.6	120.3	113.8	111.7	113.6	115.5	110.8	111.6
Cost-to-income ratio	42.3	41.5	38.2	41.6	40.9	45.7	43.1	39.5
Net interest margin	11.1	8.9	8.1	7.2	7.3	6.3	6.8	7.3
ROAA	1.3	1.1	1.4	1.6	1.4	1.4	1.3	1.1
ROAE	11.4	9.8	13.1	15.1	12.4	13.9	12.9	9.8
NII/operating income	73.3	65.7	61.7	60.0	60.8	58.7	60.3	60.1
LLR/Gross loans	17.8	18.1	17.6	16.8	16.2	15.5	16.0	16.9

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

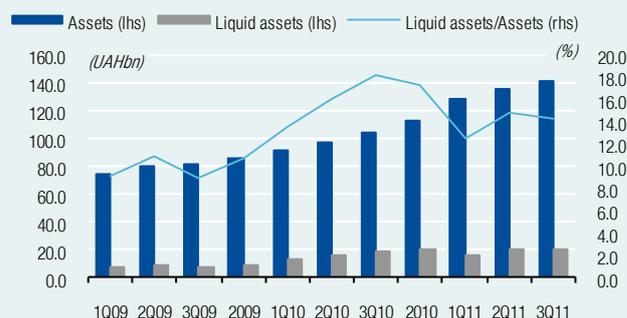
Privatbank: Charts on bank's key credit metrics

Chart 109. Bank's capitalisation



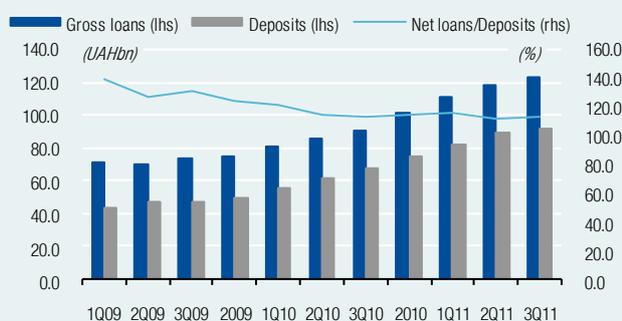
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 110. Liquidity



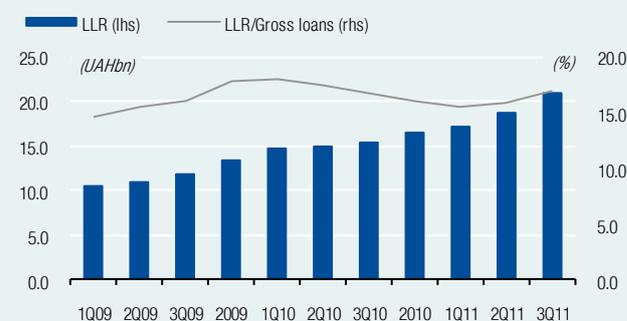
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 111. Loans and deposits



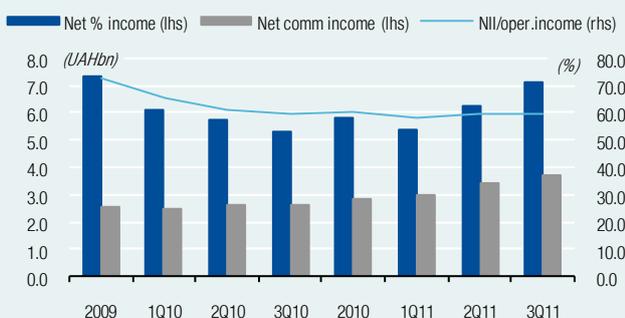
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 112. Loan loss reserves history



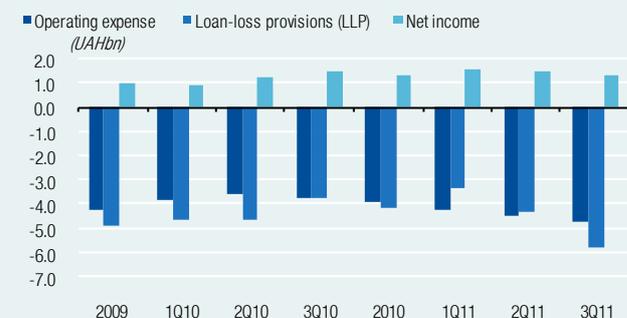
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 113. Income structure (annualised basis)



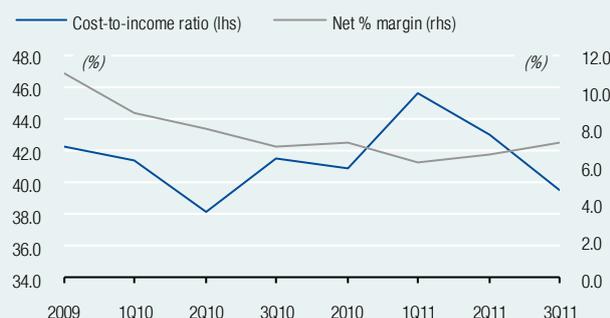
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 114. Expense and net income (annualised basis)



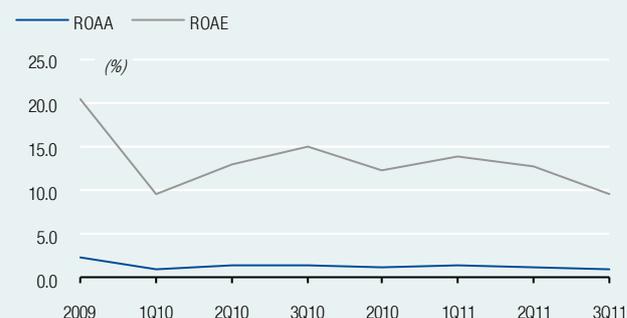
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 115. Financial performance ratios



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

Chart 116. 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

Ticker(s) in Bloomberg
B3/NR/B OSCHAD

Oschadbank's 2011 UAS results presented quite sizable UAH531m net income, which could be compared with another state-owned bank, Ukreximbank, with 2011 UAS net income of only UAH88m. Still, 2H11 was not inspiring for the bank in terms of liquid assets and growth in assets. Nevertheless, high capitalisation and government support gives the bank an increased safety buffer, sufficient enough to absorb further possible losses.

Capitalisation: Remains at a more than sufficient level, a common feature for both historically state-owned banks. As of end-4Q11, according to UAS quarterly figures, the bank's capitalisation remained at a high 30.5% (considering the regulatory capital adequacy ratio, R2, by the NBU), but decreased by 9.9% YoY, with an increase in the bank's risk-weighted assets. Such level enhances the bank's possibilities to absorb future possible losses, yet we cannot comment on its lack of support from the Ukrainian government.

Liquidity: Slightly decreased during 4Q11, but is not worrisome in this bank's particular case. During 4Q11, the bank decreased its cash and cash equivalents by 32.7%, to 5.6bn, or 7.5% of total assets. While we consider this level as close to minimum, Oschadbank has on its balance about UAH13.9bn of held securities, and according to 1H11 IFRS, 54.9% of the securities were in Ukrainian Government debt, and 18.3% certificates of deposit from the National Bank of Ukraine, thus near-cash instruments which could be easily converted into cash in case of need.

Assets' quality: Leaves a variety of impressions. On the one hand, Oschadbank has quite a low amount of impaired loans of 12.8%, with 106.3% LLR coverage (or 7.2%, considering 90-plus-day overdue loans; see table at the right). On the other, the bank has significant amount of loans to state-owned company Naftogaz Ukraine and Ukrtatnafta, representing about 39.9% of the total gross credit portfolio, or UAH24.1bn. For those loans, the bank has an individual license from the NBU not to form loan-loss reserves (although it has formed about 9.2% of the loans given to those companies), and the bank did not reveal the current situation of those loans in its IFRS reports, and whether they presented any signs of impairment. While we consider loans to Naftogaz as relatively secure, still, their fair value could be lower, currently overstating the bank's balance sheet account. During 2011, Oschadbank increased its loan-loss reserves by 49.9%, to UAH8.4bn, slightly decreasing its LLR/gross loans ratio, by 1.2ppt, to 13.7%, due to lending growth, which is described further.

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2009	2010	3Q11	4Q11
	IFRS	IFRS	UAS	UAS
Financials				
Assets	57,391	57,556	75,349	73,968
Loans	45,716	42,572	49,823	50,484
Deposits	24,673	24,552	38,255	38,585
Equity	15,343	15,984	17,534	17,647
Net % income	4,136	4,143	4,297	4,522
Net com income	852	908	946	936
Operating income	5,149	5,229	5,662	5,861
PPI	3,352	3,231	3,300	3,282
LLP	(3,164)	(2,402)	(2,644)	(2,788)
Net income	109	458	414	531
Ratios (%)				
Tier 1 ratio	28.4	30.7	N/A	N/A
CAR	32.3	35.6	30.7	30.5
Equity-to-assets	26.7	27.8	23.3	23.9
Loan-to-deposit	185.3	173.4	130.2	130.8
Liquid assets	4.0	4.7	11.0	7.5
ROAA	0.2	0.8	0.6	0.8
ROAE	0.7	2.9	2.4	3.1
Net % margin	7.9	7.9	7.6	7.5
NII-to-op.income	80.3	79.2	75.9	77.2
Cost-to-income	34.9	38.2	41.7	44.0
LLR	8.3	13.3	13.2	14.2
NPLs	3.8	6.6	N/A	N/A
NPL coverage	218.1	202.2	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for 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, Investment Capital Ukraine LLC.

Significantly increased total assets, with 25.3% YoY growth, to UAH74.0bn, despite a decrease of 1.8% during 4Q11. Here should also be mentioned the bank's 9.3% YoY growth in local-currency assets, to UAH59.4bn, and 221.9% YoY increase in FX, to UAH14.3bn, thus increasing FX risks. The overall drift in bank's assets during 3Q11 was further: at about a UAH6.7bn decrease in securities, directing funds into loans, which increased by UAH8.1bn, mostly due to a UAH5.4bn increase in FX loans. Considering this, a boost in the bank's loans to state-owned businesses (for example, Naftogaz, which is more than tightly related to Oschadbank) could be assumed in the credit portfolio structure. Nevertheless, during 4Q11, the bank's business loans increased by 3.0%, to 54.4bn, while households dropped by 2.5%, to UAH4.5bn, leaving total gross loans at UAH58.8bn, or an increase of 3.0% QoQ.

Bank's 2011 UAS net income increased by 15.3% compared to 2010, to UAH531.0m (UAH460.6m during 2010). With quarterly net interest income increased by 8.3% to UAH1.3bn, bank presented UAH146.1m 4Q11 net income (6.2% QoQ increase), while 2011 profit was about UAH531.0m (UAH460.6 as of 2010). Bank's net interest margin and cost-to-income ratio stood at 7.5% and 44.0%, or worsened by 1.2ppt and 6.6ppt, respectively (based on 12-month annualised P&L). Loan-loss provisions increased by 5.1% YoY to a figure of UAH2.8bn for the 2011.

Table 29. List of outstanding Eurobonds issued by Oschadbank, pricing as of 30 January, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
OSCHAD 8.25% due 16	B2/--/B	USD	500	86.500	12.551	1,151	318

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity.

Sources: Company data.

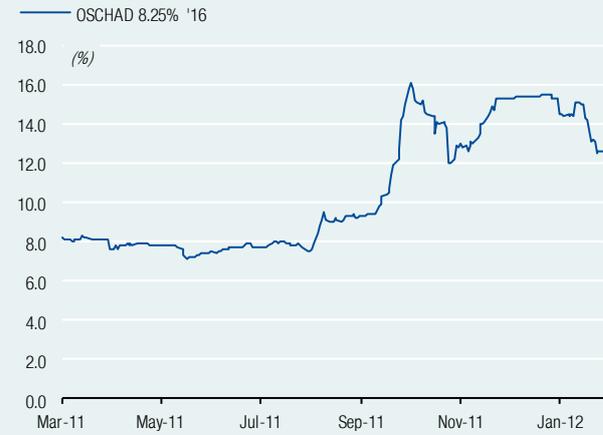
Oschadbank: Bank's bond charts (price, yield, spread)

Chart 117. History of prices of bank's bonds (% of par)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 118. History of bank's bond yields (%)



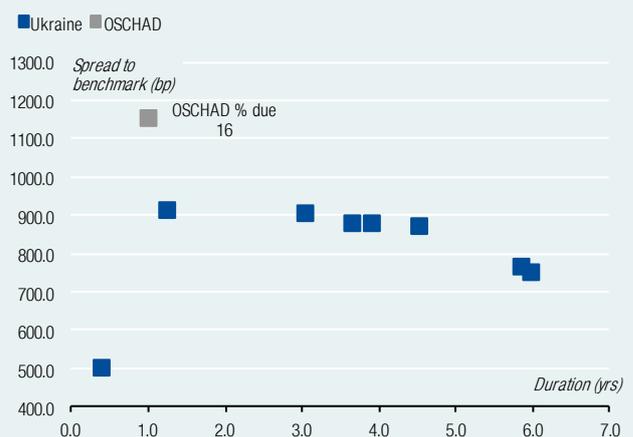
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 119. History of bank's bond spreads to sovereign bonds (bp)



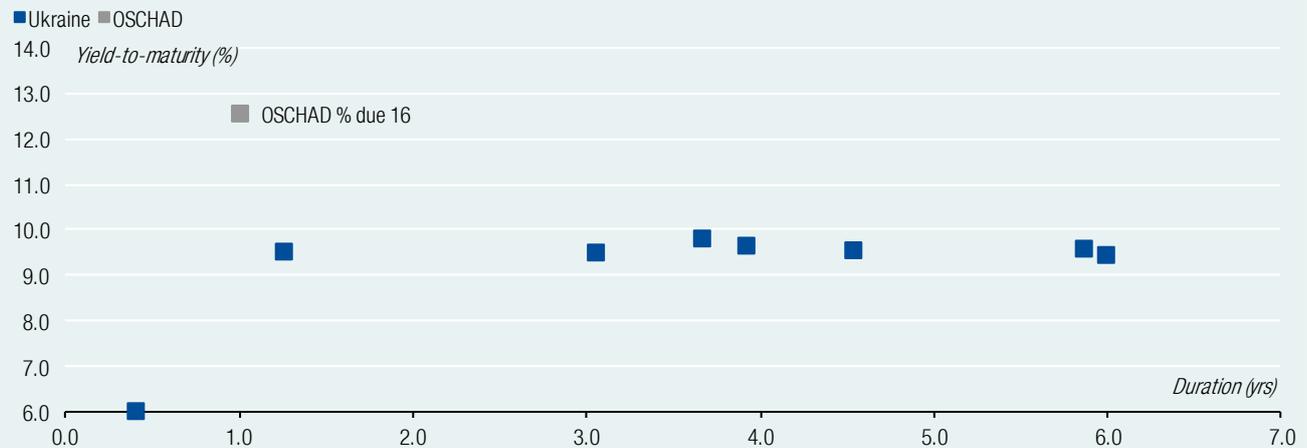
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 120. Spread¹ map as of 30 Jan 2012 (bp)



Note: [1] spread to US treasuries. Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 121. Yield map: bank's bonds versus sovereign yield curve



Source: Bloomberg, Investment Capital Ukraine LLC.

Oschadbank: IFRS financials – key financials and ratios

Table 30. Key FINANCIALS derived from bank's IFRS financials

	2007	2008	2009	2010	2011
P&L (YTD)	(UAHm)				
Net interest income	875.2	1,473.4	4,135.8	4,143.5	2,137.0
Net fee & commission income	538.2	714.6	851.9	908.0	469.0
Operating income	1,489.3	2,446.1	5,149.3	5,229.5	2,756.7
Pre-provision income (PPI)	327.7	739.4	3,352.5	3,231.4	1,581.2
Loan-loss provisions (LLP)	(72.4)	(645.2)	(3,164.3)	(2,401.9)	(713.9)
Pre-tax income	257.4	86.1	187.3	827.0	862.0
Net income (NI)	182.3	39.3	109.0	457.7	677.4
Balance sheet	(UAHm)				
Cash & balances with central bank	1,604.3	2,569.2	2,278.4	2,724.3	3,902.3
Due from banks	2,586.3	2,185.2	2,956.3	2,932.3	5,849.6
Loans to customers	8,403.6	33,891.5	45,716.3	42,572.2	46,007.3
Investment securities	2,691.0	15,712.5	4,012.4	6,558.1	12,004.5
Property, equipment and intangible assets	1,299.3	1,940.3	1,988.9	2,273.7	2,292.6
Other assets	42.4	66.3	438.3	495.8	418.4
Total assets	16,626.8	56,365.0	57,390.5	57,556.2	70,474.8
Due to banks	5.5	261.5	91.6	195.3	602.7
Due to central bank	0.0	21,977.7	15,931.2	15,442.1	14,147.9
Customer accounts	14,092.8	17,492.9	24,672.9	24,551.5	32,885.1
Wholesale borrowings	0.0	501.5	446.1	511.1	4,259.4
Subordinated debt	519.5	793.3	824.6	823.4	824.5
Total equity	1,841.3	15,120.7	15,342.9	15,984.5	17,147.2
Total liabilities & equity	16,626.8	56,365.0	57,390.5	57,556.2	70,474.8

P&L figures and ratios are based on 12-month annualised basis

Sources: Company data.

Table 31. Key FINANCIAL RATIOS derived from bank's IFRS financials

	2007	2008	2009	2010	2011	
Growth rates (%YoY)						
Assets	(%YoY)	N/A	239.0	1.8	0.3	N/A
Loans	(%YoY)	N/A	303.3	34.9	-6.9	N/A
Deposits	(%YoY)	N/A	24.1	41.0	-0.5	N/A
Equity	(%YoY)	N/A	721.2	1.5	4.2	N/A
Net interest income	(%YoY)	N/A	68.4	180.7	0.2	N/A
Net commission income	(%YoY)	N/A	32.8	19.2	6.6	N/A
Operating income	(%YoY)	N/A	64.2	110.5	1.6	N/A
Balance sheet ratios						
Liquid assets/Assets	(%)	9.6	4.6	4.0	4.7	5.5
Liquid assets/Liabilities	(%)	10.9	6.2	5.4	6.6	7.3
Due from banks/Due to banks	(x)	473.9	0.1	0.2	0.2	0.4
Current ratio	(x)	0.7	1.9	0.9	0.9	1.3
Equity/Assets	(%)	11.1	26.8	26.7	27.8	24.3
Gross loans/Deposits	(%)	63.2	199.9	202.0	200.0	162.0
Net loans/Deposits	(%)	59.6	193.7	185.3	173.4	139.9
Wholesale borrowings/Liabilities (%)	(%)	0.0	1.2	1.1	1.2	8.0
Profitability & Earning quality						
ROAA	(%)	N/A	0.1	0.2	0.8	N/A
ROAE	(%)	N/A	0.5	0.7	2.9	N/A

Table 31. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2007	2008	2009	2010	2Q11
Net interest income/Operating income	(%)	N/A	60.2	80.3	79.2	N/A
Net commission income/Operating income	(%)	N/A	29.2	16.5	17.4	N/A
Other income/Operating income	(%)	N/A	10.6	3.1	3.4	N/A
Net interest margin	(%)	N/A	4.5	7.9	7.9	N/A
Cost-to-income ratio	(%)	N/A	69.8	34.9	38.2	N/A
LLP/Operating income	(%)	N/A	26.4	61.5	45.9	N/A
Assets quality						
NPL/Gross loans	(%)	N/A	N/A	7.9	12.3	12.8
NPL coverage	(%)	N/A	N/A	105.3	108.0	106.3
LLR/Gross loans	(%)	5.6	3.1	8.3	13.3	13.6
Earning power						
Recurring earning power	(%)	N/A	2.0	5.9	5.6	N/A
PPI/Average total capital funds	(%)	N/A	8.7	22.0	20.6	N/A
Interest expense/Interest income	(%)	N/A	41.6	46.8	45.9	N/A
Interest income/Average interest earning assets	(%)	N/A	7.7	14.9	14.6	N/A
Interest expense/Average interest bearing liabilities	(%)	N/A	3.8	8.8	8.4	N/A
Net spread	ppt	N/A	3.9	6.1	6.2	N/A
Income tax / Pretax income	(%)	N/A	54.4	41.8	44.7	N/A
Efficiency						
Non-interest expense/Average assets	(%)	N/A	6.8	9.0	8.0	N/A
Personnel expense/Average assets	(%)	N/A	3.4	2.3	2.5	N/A
Personnel expense/Operating income	(%)	N/A	50.8	25.1	27.4	N/A
Personnel expense/Non-interest expense	(%)	N/A	49.8	25.2	31.3	N/A
Funding structure						
Customer accounts/Total funding base	(%)	85.6	31.2	43.1	42.7	47.1
Net loans/Total funding base	(%)	51.1	60.4	79.8	74.0	65.9
Average net loans/Average customer accounts	(%)	N/A	133.9	188.8	179.4	N/A
Customer accounts/Shareholders' equity	(%)	765.4	115.7	160.8	153.6	191.8
Provisioning						
Average net loans/Average assets	(%)	N/A	57.9	70.0	76.8	N/A
NPL/(Shareholders' equity + LLR)	(%)	N/A	N/A	20.1	26.8	28.0
LLP/Gross loans	(%)	N/A	1.8	6.3	4.9	N/A
LLP/(LLR - LLP)	(%)	N/A	151.4	331.7	58.3	N/A
LLP/PPI	(%)	N/A	87.3	94.4	74.3	N/A
Dividend payout	(%)	N/A	0.0	0.0	0.0	N/A
Internal capital growth	(%)	N/A	2.1	0.7	3.0	N/A
Other ratios and indicators						
Retail share in loan book	(%)	N/A	20.3	11.9	10.2	N/A
Personnel expense per employee	(UAH 000s)	N/A	31.4	32.1	36.8	N/A
Operating income per employee	(UAH 000s)	N/A	61.8	127.7	134.5	N/A

Note: P&L figures and ratios are based on 12-month annualised basis.

Sources: Bank data, Investment Capital Ukraine LLC..

Oschadbank: Quarterly UAS financials – key financials and ratios

Table 32. Key financials and ratios derived from bank's UAS financials

	1Q10	2Q10	3Q10	2010	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	57,625.7	58,747.0	59,505.6	59,019.1	68,081.3	72,451.5	75,348.9	73,968.5
Liquid assets	9,598.5	7,517.6	7,269.8	5,455.7	15,007.5	6,816.7	8,253.2	5,553.9
Gross loans	43,858.2	44,101.1	45,049.2	44,778.2	45,036.7	49,451.9	57,384.5	58,837.9
Loan loss reserves (LLR)	3,704.0	4,222.5	4,862.2	5,574.8	6,152.6	6,770.6	7,561.7	8,354.0
Equity	16,576.1	16,542.5	16,615.0	16,626.3	16,838.0	17,396.2	17,534.2	17,647.0
Deposits	19,521.2	22,265.1	22,755.7	24,420.6	33,128.9	36,580.4	38,255.3	38,585.4
Quarterly P&L								
Net interest income	1,082.5	986.3	1,040.5	1,057.5	1,013.7	1,041.7	1,184.2	1,282.3
Net commission income	228.1	209.7	217.7	248.4	240.7	226.5	230.5	238.7
Operating income (before LLP)	1,528.0	1,208.5	1,266.7	1,419.7	1,330.6	1,397.7	1,514.0	1,618.6
Operating expense	(476.8)	(478.6)	(522.0)	(552.3)	(563.4)	(613.5)	(633.2)	(769.3)
Loan-loss provisions (LLP)	(839.1)	(530.3)	(629.6)	(655.0)	(627.4)	(619.7)	(742.4)	(798.2)
Net income	190.6	174.6	66.1	29.3	126.6	120.8	137.5	146.1
Last 12-month period P&L								
Net interesting income	4,358.5	4,342.4	4,232.0	4,166.7	4,097.9	4,153.4	4,297.1	4,521.9
Net commission income	873.2	874.9	873.3	904.0	916.5	933.3	946.1	936.4
Operating income (before LLP)	5,274.3	5,326.3	5,370.1	5,422.9	5,225.5	5,414.7	5,662.1	5,861.0
Operating expense	(1,874.2)	(1,903.3)	(1,972.5)	(2,029.7)	(2,116.4)	(2,251.3)	(2,362.4)	(2,579.4)
Loan-loss provisions (LLP)	(2,735.1)	(3,006.4)	(3,406.7)	(2,654.0)	(2,442.3)	(2,531.7)	(2,644.4)	(2,787.7)
Net income	444.0	304.3	(56.1)	460.6	396.6	342.8	414.2	531.0
Growth rates (%YoY)								
Assets	5.2	9.7	-2.0	-1.5	18.1	23.3	26.6	25.3
Gross loans	18.0	5.1	3.2	0.4	2.7	12.1	27.4	31.4
Deposits (by businesses)	-11.6	3.2	-57.5	-48.1	221.0	160.0	204.5	170.4
Deposits (by households)	25.9	25.3	28.0	29.8	32.4	37.0	34.4	29.5
Deposits (total)	16.2	19.6	-8.5	-0.4	69.7	64.3	68.1	58.0
Equity	2.8	0.7	-1.3	1.5	1.6	5.2	5.5	6.1
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	41.2	39.3	40.1	40.4	40.5	34.7	30.7	30.5
Equity/Assets	28.8	28.2	27.9	28.2	24.7	24.0	23.3	23.9
(Equity + Subor. debt)/Assets	30.2	29.5	29.3	29.6	25.9	25.1	24.3	25.0
Liquid assets/Assets	16.7	12.8	12.2	9.2	22.0	9.4	11.0	7.5
Current liquidity (R5 by NBU)	85.8	83.0	77.9	61.6	97.5	77.4	70.7	73.3
Gross loans/Deposits	224.7	198.1	198.0	183.4	135.9	135.2	150.0	152.5
Net loans/Deposits	205.7	179.1	176.6	160.5	117.4	116.7	130.2	130.8
Cost-to-income ratio	35.5	35.7	36.7	37.4	40.5	41.6	41.7	44.0
Net interest margin	9.1	8.9	8.8	8.7	8.3	7.9	7.6	7.5
ROAA	0.8	0.5	-0.1	0.8	0.6	0.5	0.6	0.8
ROAE	2.7	1.8	-0.3	2.8	2.4	2.0	2.4	3.1
Nil/operating income	82.6	81.5	78.8	76.8	78.4	76.7	75.9	77.2
LLR/Gross loans	8.4	9.6	10.8	12.4	13.7	13.7	13.2	14.2

Notes: P&L figures and ratios are based on 12-month annualised basis; Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; Nil – Net interest income

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

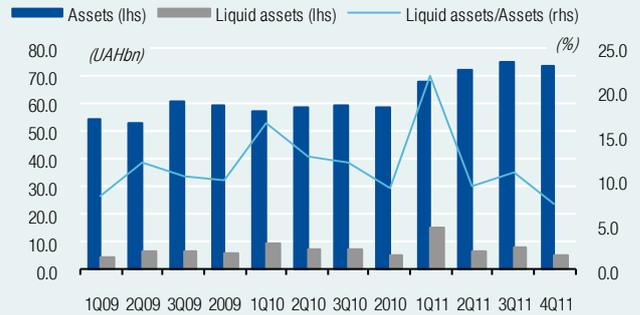
Oschadbank: Charts on bank's key credit metrics

Chart 122. Bank's capitalisation



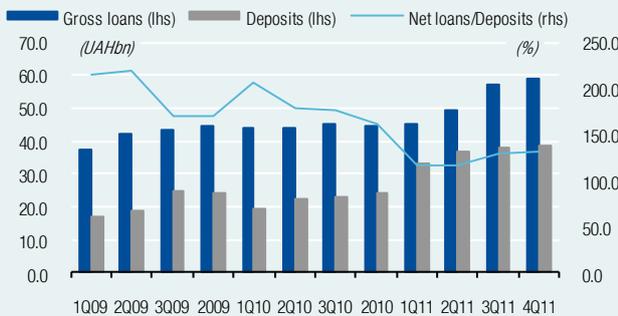
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 123. Liquidity



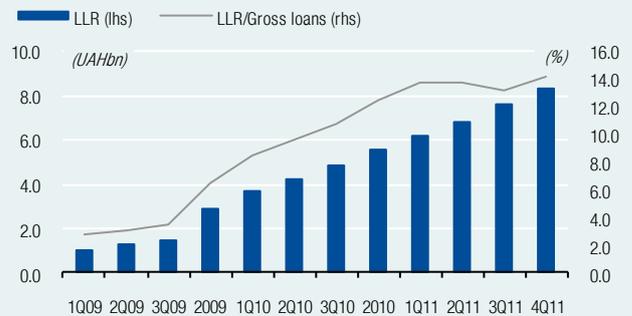
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 124. Loans and deposits



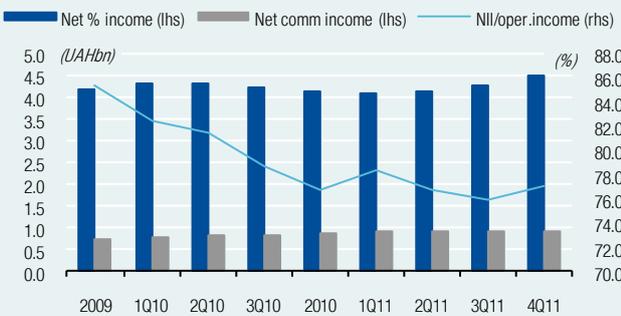
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 125. Loan loss reserves history



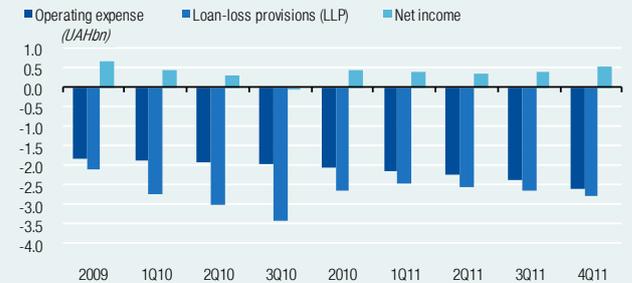
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 126. Income structure (annualised basis)



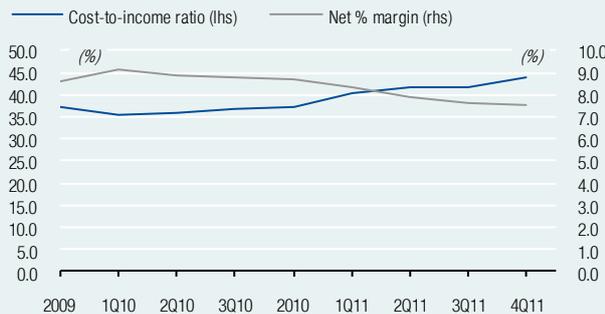
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 127. Expense and net income (annualised basis)



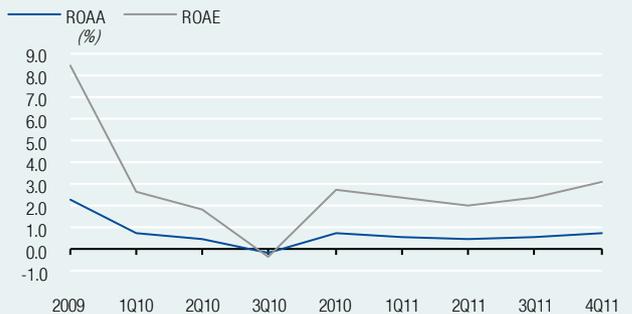
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 128. Financial performance ratios



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

Chart 129. 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 Ticker(s) in Bloomberg

B3/NR/B UKRSIB

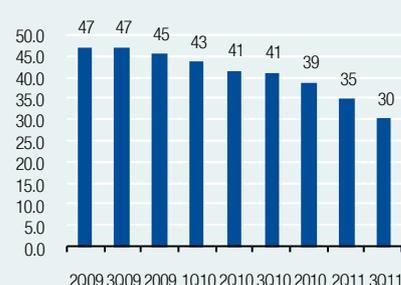
UkrSibbank is currently the leader in banks' losses, among the largest Ukrainian banks. Such situation came about due to both the increased risks taken before 2009 (with significant amounts of FX loans in credit portfolio) and current conservative policies in recognition of such toxic assets and further reserves formation and write-offs. Along with EU economical woes, it is understood why speculation on the group's exit from the Ukrainian market arose (which possesses 85% of shares, while EBRD has held other 15% since 2011), which the bank's current top-management recently hurried to refute. While the bank definitely has great potential, its recovery from the financial crisis has not come yet, while there is currently a very high possibility for a second round of world economics' worsening.

Capitalisation: Weak according to IFRS; sufficient according to UAS. During 4Q10, UkrSibbank significantly increased its share capital, by 42.3% to UAH7.5bn, according to quarterly UAS figures. Considering such a capital boost as of end-3Q11, the bank's RCAR stood at 18.5%, materially above the required 10% minimum. In November, the bank announced a further capital increase of UAH1.4bn, which should boost the bank's RCAR to about 22% ceteris paribus, it remains to be officially revealed who will inject fresh capital into the bank. Despite such rosy figures under UAS, on 5 May, 2011, along with a rating cut, Moody's publicised the bank's CAR according to IFRS, which was at 10.3%, and Tier 1 capital, at 6.9%, data as of end-2010. Considering these numbers, the bank's capital increase is forceful, with further pressure seen, however, through loan-loss reserves formation, which might materially decrease the bank's capitalisation.

Liquidity: Was noticeably accumulated during 3Q11, but we will pay close attention to its outflow during December. Taking into account the US\$500m UKRSIB 7.75% '11 Eurobond outstanding (UAH4.4bn considering interest), with maturity on 21 December, 2011, UkrSibbank accumulated about UAH8.9bn of cash and cash equivalents, or 21.1% of total assets. Considering the bond redemption, this level should fall to about 11%, which is normal, but close to worrisome, so we should further pay attention to the bank's liquidity after the end of 2011.

Significant short FX position: About UAH6.1bn as of end-3Q11, or about 167.2% of equity. Considering current local-currency devaluation expectations, we assume UkrSibbank is further targeting FX risk hedging, through both seeking FX currency and usage of government securities implemented in end-2011 related to exchange-rate fluctuations.

Total gross loans (UAHbn, UAS data)



Source: bank data.

Key financials and ratios

	2009	2010	2Q11	3Q11
	IFRS	IFRS	UAS	UAS
Financials				
Assets	43,309	42,502	46,286	42,235
Loans	35,088	25,570	24,845	22,885
Deposits	14,181	18,019	19,921	18,931
Equity	2,124	2,035	4,470	3,629
Net % income	2,303	1,138	2,693	2,516
Net com income	490	515	505	508
Operating income	3,116	1,780	3,460	3,350
PPI	(583)	(2,340)	166	(237)
LLP	(5,090)	(2,910)	(2,941)	(2,495)
Net income	(4,705)	(5,211)	(2,442)	(2,487)
Ratios (%)				
Tier 1 ratio	N/A	6.9	N/A	N/A
CAR	N/A	10.3	17.8	18.5
Equity-to-assets	4.9	4.8	9.7	8.6
Loan-to-deposit	247.4	141.9	124.7	120.9
Liquid assets	8.5	15.3	15.9	21.1
ROAA	(9.7)	(12.1)	(5.4)	(5.8)
ROAE	(161.2)	(250.6)	(59.7)	(74.4)
Net % margin	5.5	3.3	7.5	7.5
NII-to-op.income	73.9	63.9	77.8	75.1
Cost-to-income	59.4	115.7	95.2	107.1
LLR	20.6	29.6	28.6	23.9
NPLs	27.9	38.0	N/A	N/A
NPL coverage	73.8	77.9	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for 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, Investment Capital Ukraine LLC.

Assets quality: Revealed material issues in the past, with still-remaining questions. As of end-2009, the bank had about 27.9% of NPLs (90+ days overdue) in its credit portfolio, or UAH12.3bn, while as of end-2010, this figure increased by 10.1ppt, or to UAH13.8bn. The NPL coverage of loan-loss reserves increased from 73.8% to 77.9%, which we believe is still insufficient. The above-described Moody's rating cut also revealed 43.8% of problem loans as of end-2010, along with 14.7% of restructured ones, so we believe that the bank's current credit portfolio is still far from clean, and will present further worsening, along with pressure on the bank's profitability.

Financial performance: UkrSibbank finished 3Q11 with the second-worst result among Ukrainian banks, a loss of UAH1.4bn. The bank's annualised operating expense increased to UAH3.6bn as of end-3Q11, according to UAS, while only UAH1.8bn as of 3Q10 (boosting the cost-to-income ratio to 107.7% from 50.2%). The bank's net interest margin stood at currently normal for Ukrainian banks 7.5%, which leaves questions on the cost side, with its 702 branches as of end 2010. Considering constant, significant loan-loss provisions (see further table and charts), we do not expect to see any profitability from UkrSibbank's side as of end-2012.

Clients' deposits 3Q11 outflow: About UAH1bn washed out during 3Q11. Since 1Q11, the bank's total deposits decreased by 8.2% to UAH18.9bn, mostly due to a shrinking in local-currency deposits, according to UAS figures, presenting UAH0.7bn and UAH1.0bn in total deposits outflow during 2Q11 and 3Q11, respectively. While our YTD calculation still presents 6.0% deposits growth due to 1Q11, the past two quarters' tendencies likely signal the bank's excessive liquidity, with a targeted decrease in the UAH deposits base. Nevertheless, the bank should pay more attention to its local funding, considering the possibility of uncontrolled resources outflow in case of panic. Likely for the purpose of bond redemption and FX resources accumulation, UkrSibbank has lately boosted FX deposits, with an increase during 2011 by 13.8%, to UAH12.4bn.

Table 33. List of outstanding Eurobonds issued by UkrSibbank, pricing as of 30 January, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
UKRSIB 14.2% due 11	B1/--/B	USD	500	N/A	N/A	N/A	N/A

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity. Bond was redeemed successfully.

Sources: Company data.

UkrSibbank: Bank's bond charts (price, yield, spread)

Chart 130. History of prices of bank's bonds (% of par)



Chart 131. History of bank's bond yields (%)

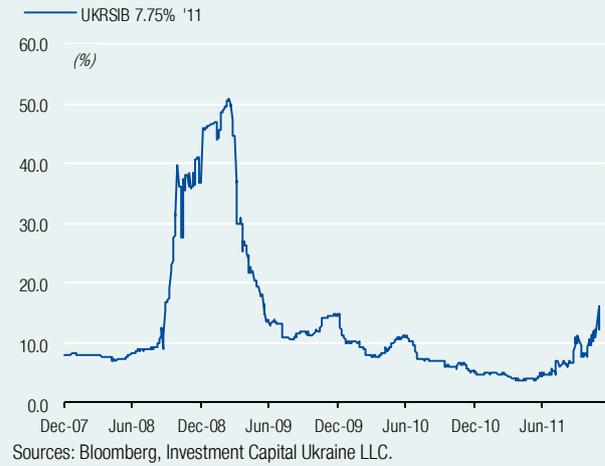


Chart 132. History of bank's bond spreads to sovereign bonds (bp)



UkrSibbank: IFRS financials – key financials and ratios

Table 34. Key FINANCIALS derived from bank's IFRS financials

	2008	2009	2010
P&L (YTD)			
	(UAHm)		
Net interest income	2,147.1	2,302.9	1,137.9
Net fee & commission income	490.1	489.9	515.5
Operating income	3,468.1	3,116.4	1,779.6
Pre-provision income (PPI)	(395.4)	(583.1)	(2,340.2)
Loan-loss provisions (LLP)	(2,742.8)	(5,090.0)	(2,910.3)
Pre-tax income	(3,138.3)	(5,673.1)	(5,250.4)
Net income (NI)	(2,847.0)	(4,705.1)	(5,211.0)
Balance sheet			
	(UAHm)		
Cash & balances with central bank	3,123.1	3,697.7	6,494.2
Due from banks	271.5	345.1	595.1
Loans to customers	46,923.1	35,087.6	25,570.3
Investment securities	1,048.0	662.6	6,543.7
Property, equipment and intangible assets	1,632.3	1,673.4	1,417.7
Other assets	927.6	1,842.4	1,880.5
Total assets	53,925.6	43,308.7	42,501.6
Due to banks	22,184.5	14,801.3	11,910.9
Due to central bank	0.0	805.9	0.0
Customer accounts	15,019.5	14,181.0	18,018.9
Wholesale borrowings	10,414.5	8,123.7	6,076.0
Subordinated debt	2,281.4	3,072.9	4,141.0
Total equity	3,712.0	2,124.0	2,035.0
Total liabilities & equity	53,925.6	43,308.7	42,501.6

Sources: Company data.

Table 35. Key FINANCIAL RATIOS derived from bank's IFRS financials

	2008	2009	2010
Growth rates (%YoY)			
Assets	(%YoY)	N/A	-19.7
Loans	(%YoY)	N/A	-25.2
Deposits	(%YoY)	N/A	-5.6
Equity	(%YoY)	N/A	-42.8
Net interest income	(%YoY)	N/A	7.3
Net commission income	(%YoY)	N/A	-0.0
Operating income	(%YoY)	N/A	-10.1
Balance sheet ratios			
Liquid assets/Assets	(%)	5.8	8.5
Liquid assets/Liabilities	(%)	6.2	9.0
Due from banks/Due to banks	(x)	0.01	0.02
Current ratio	(x)	0.2	0.2
Equity/Assets	(%)	6.9	4.9
Gross loans/Deposits	(%)	339.4	311.5
Net loans/Deposits	(%)	312.4	247.4
Wholesale borrowings/Liabilities (%)	(%)	20.7	19.7
Profitability & Earning quality			
ROAA	(%)	N/A	-9.7
ROAE	(%)	N/A	-161.2
Net interest income/Operating income	(%)	N/A	73.9
Net commission income/Operating income	(%)	N/A	15.7

Table 35. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2008	2009	2010
Other income/Operating income	(%)	N/A	10.4	7.1
Net interest margin	(%)	N/A	5.5	3.3
Cost-to-income ratio	(%)	N/A	59.4	115.7
LLP/Operating income	(%)	N/A	163.3	163.5
Assets quality				
NPL/Gross loans	(%)	4.7	27.9	38.0
NPL coverage	(%)	168.3	73.8	77.9
LLR/Gross loans	(%)	7.9	20.6	29.6
Earning power				
Recurring earning power	(%)	N/A	(1.2)	(5.5)
PPI/Average total capital funds	(%)	N/A	(20.0)	(112.5)
Interest expense/Interest income	(%)	N/A	62.2	73.9
Interest income/Average interest earning assets	(%)	N/A	14.5	12.7
Interest expense/Average interest bearing liabilities	(%)	N/A	8.4	7.9
Net spread	ppt	N/A	6.1	4.7
Income tax / Pretax income	(%)	N/A	17.1	0.8
Efficiency				
Non-interest expense/Average assets	(%)	N/A	14.4	11.7
Personnel expense/Average assets	(%)	N/A	1.9	2.3
Personnel expense/Operating income	(%)	N/A	29.7	56.2
Personnel expense/Non-interest expense	(%)	N/A	13.2	19.9
Funding structure				
Customer accounts/Total funding base	(%)	28.0	32.9	42.7
Net loans/Total funding base	(%)	87.5	81.4	60.6
Average net loans/Average customer accounts	(%)	N/A	280.9	188.4
Customer accounts/Shareholders' equity	(%)	404.6	667.6	885.4
Provisioning				
Average net loans/Average assets	(%)	N/A	84.3	70.7
NPL/(Shareholders' equity + LLR)	(%)	31.0	109.8	108.0
LLP/Gross loans	(%)	N/A	11.5	8.0
LLP/(LLR - LLP)	(%)	N/A	127.4	37.0
LLP/PPI	(%)	N/A	(872.9)	(124.4)
Dividend payout	(%)	N/A	0.0	0.0
Internal capital growth	(%)	N/A	(126.8)	(245.3)
Other ratios and indicators				
Retail share in loan book	(%)	N/A	61.6	63.2
Personnel expense per employee	(UAH 000s)	N/A	79.9	92.0
Operating income per employee	(UAH 000s)	N/A	269.0	163.6

Sources: Bank data, Investment Capital Ukraine LLC..

UkrSibbank: Quarterly UAS financials – key financials and ratios

Table 36. Key financials and ratios derived from bank's UAS financials

	2009	1Q10	2Q10	3Q10	2010	1Q11	2Q11	3Q11
Balance sheet figures (UAHm)								
Assets	46,347.8	45,793.7	44,752.3	43,301.0	46,128.2	46,868.4	46,286.0	42,234.6
Liquid assets	3,674.2	4,734.8	4,783.1	2,829.3	6,530.1	5,656.2	7,368.3	8,911.5
Gross loans	45,275.5	43,363.4	41,405.8	40,984.0	38,699.3	36,934.1	34,787.2	30,065.8
Loan loss reserves (LLR)	6,693.5	7,637.6	8,741.4	10,458.4	10,438.5	10,777.4	9,942.6	7,181.3
Equity	4,901.5	4,247.0	3,711.5	3,055.3	4,855.4	4,866.4	4,469.8	3,628.5
Deposits	14,148.8	15,252.7	17,293.3	18,001.4	17,867.0	20,629.7	19,920.8	18,930.5
Quarterly P&L								
Net interest income	761.1	709.2	657.5	743.3	748.3	801.7	399.3	566.6
Net commission income	130.0	117.4	127.8	136.0	146.2	86.3	136.4	139.5
Operating income (before LLP)	970.3	884.1	827.4	972.5	893.8	926.4	666.8	863.3
Operating expense	(458.7)	(445.9)	(476.5)	(454.1)	(1,138.0)	(792.0)	(908.9)	(748.2)
Loan-loss provisions (LLP)	(681.0)	(1,233.5)	(1,179.0)	(1,647.2)	(725.4)	(341.8)	(226.1)	(1,201.8)
Net income	(110.3)	(716.9)	(545.4)	(794.6)	(1,088.3)	(170.6)	(388.4)	(839.7)
Last 12-month period P&L								
Net interesting income	3,093.7	3,059.0	2,903.5	2,871.1	2,858.2	2,950.7	2,692.5	2,515.9
Net commission income	519.6	518.6	516.4	511.2	527.3	496.2	504.8	508.4
Operating income (before LLP)	4,125.5	3,865.7	3,638.7	3,654.3	3,577.8	3,620.1	3,459.5	3,350.3
Operating expense	(1,822.0)	(1,800.2)	(1,819.9)	(1,835.2)	(2,514.5)	(2,860.6)	(3,293.0)	(3,587.2)
Loan-loss provisions (LLP)	(4,130.8)	(3,605.3)	(4,004.8)	(4,740.8)	(4,785.2)	(3,893.5)	(2,940.6)	(2,495.2)
Net income	(1,243.6)	(1,108.7)	(1,675.2)	(2,167.2)	(3,145.2)	(2,598.8)	(2,441.8)	(2,486.9)
Growth rates (%YoY)								
Assets	N/A	(12.6)	(12.2)	(10.6)	(0.5)	2.3	3.4	(2.5)
Gross loans	N/A	(10.9)	(11.6)	(12.5)	(14.5)	(14.8)	(16.0)	(26.6)
Deposits (by businesses)	N/A	(19.7)	3.9	37.6	16.7	89.9	49.6	27.0
Deposits (by households)	N/A	53.7	40.8	31.5	30.4	14.5	1.0	(4.9)
Deposits (total)	N/A	22.8	27.6	33.3	26.3	35.3	15.2	5.2
Equity	N/A	5.6	(29.7)	(39.1)	(0.9)	14.6	20.4	18.8
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	14.8	N/A	N/A	N/A	20.7	19.0	17.8	18.5
Equity/Assets	10.6	9.3	8.3	7.1	10.5	10.4	9.7	8.6
(Equity + Subor. debt)/Assets	17.2	15.9	15.0	14.1	19.5	19.3	18.3	18.2
Liquid assets/Assets	7.9	10.3	10.7	6.5	14.2	12.1	15.9	21.1
Current liquidity (R5 by NBU)	N/A	N/A	N/A	N/A	N/A	82.5	93.4	79.3
Gross loans/Deposits	320.0	284.3	239.4	227.7	216.6	179.0	174.6	158.8
Net loans/Deposits	272.7	234.2	188.9	169.6	158.2	126.8	124.7	120.9
Cost-to-income ratio	44.2	46.6	50.0	50.2	70.3	79.0	95.2	107.1
Net interest margin	7.2	7.5	7.4	7.6	7.7	8.1	7.5	7.5
ROAA	(5.4)	(2.3)	(3.5)	(4.7)	(6.8)	(5.6)	(5.4)	(5.8)
ROAE	(50.7)	(26.8)	(37.3)	(53.7)	(64.5)	(57.0)	(59.7)	(74.4)
NII/operating income	75.0	79.1	79.8	78.6	79.9	81.5	77.8	75.1
LLR/Gross loans	14.8	17.6	21.1	25.5	27.0	29.2	28.6	23.9

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

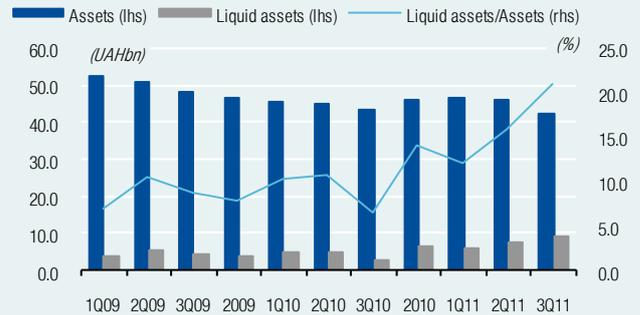
UkrSibbank: Charts on bank's key credit metrics

Chart 133. Bank's capitalisation



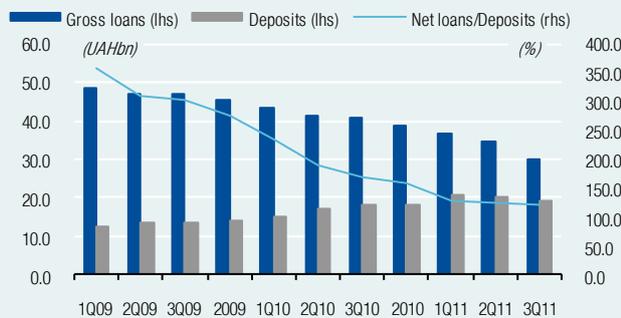
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 134. Liquidity



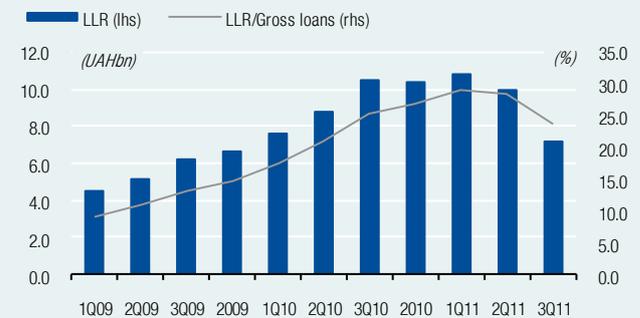
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 135. Loans and deposits



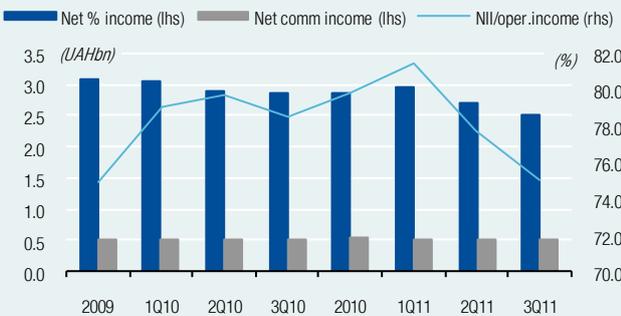
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 136. Loan loss reserves history



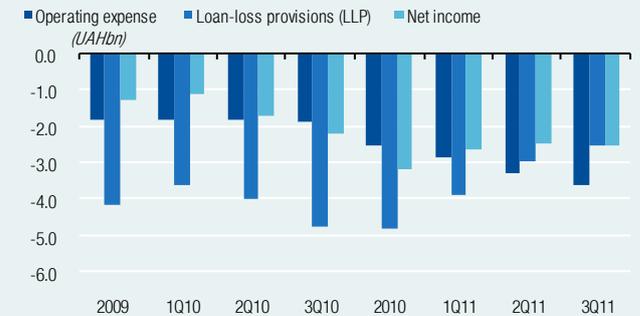
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 137. Income structure (annualised basis)



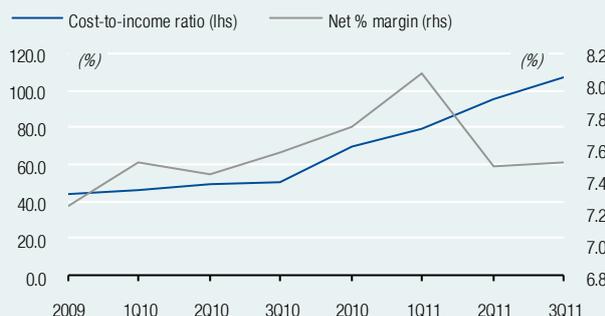
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 138. Expense and net income (annualised basis)



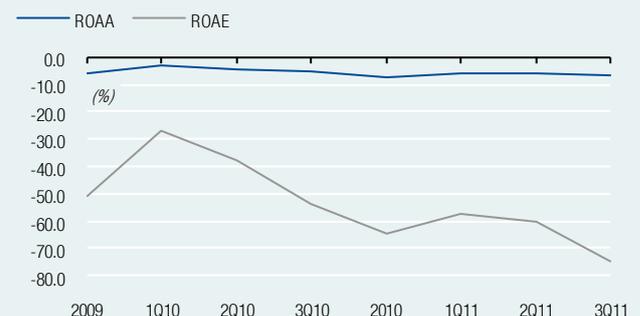
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 139. Financial performance ratios



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

Chart 140. Financial performance ratios



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

Country

Ukraine

Alfa-Bank (Ukraine)

Sector

Banks: Commercial banking

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

Ticker(s) in Bloomberg
WR/B-/B- ALFAUA

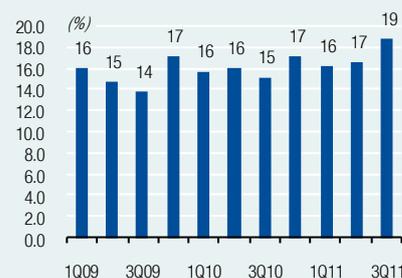
Despite its Russian shareholder, Alfa-Bank did not present aggressive plans for expansion, seen in Russian, state-owned banks in Ukraine, but instead a decline in total assets during 2011. While its published 4Q11 UAS financials reveal adequate capitalisation and sufficient liquidity, we can say that the bank is close to being completely restored after the 2009-10 years, and is actively gaining momentum.

Capitalisation: Improved, with materially increased, even sufficient, RCAR, by 1.2ppt YoY, to 18.2%. Along with a 8.2% increase to UAH4.9bn in regulatory capital, Alfa-Bank's current capitalisation is quite solid, presenting sufficient amounts of capital to support the bank's further growth or absorption of possible loss. During 1H11, the bank's subordinated debt decreased by 49.9%, to UAH0.9bn (denominated in USD), in connection with the share capital increase of the same amount, with maturity during 2016-17 and nominal interest rate of 5.75%; all the subordinated debt belongs to Alfa-Bank Russia.

Liquidity: Sufficient, allowing payments for future Eurobond tranches. Recall that the bank is continuing to repay its previously restructured sinking fund Eurobonds, decreasing its other borrowed funds by 20.5%, to UAH3.5bn during 3Q11. The bank already repaid its fifth tranche in October 2011, and seventh in January 2011, with two more remaining, to be paid each quarter. Despite such payments, as of 4Q11, the bank's cash and cash equivalents consisted of about UAH6.0bn, or 21.3% of total assets, presenting a sufficient margin of safety in the bank's further payments. The bank also has about UAH1.4bn of held securities, as of 4Q11, according to UAS figures, and we believe that it will not face material liquidity issues in a short-term period.

Assets' quality: improved, and currently digestible. According to the IFRS reports, as of end-2010, the bank has about 51.4% of loans that are individually determined to be impaired in its total credit portfolio (up 3.5ppt YoY) and 24.2% of the total credit portfolio is considered 90-plus days overdue. Considering our analysis of reported credit operations quality, we assume an improving in the bank's credit portfolio characteristics, and we believe that 23.5% of the formed loan-loss reserves as of 4Q11 are close to their fair-value level, and will be increased only in case of the economic situation worsening (with about 48.2% of FX loans, the bank is sensitive to FX risks in the event of currency-rate fluctuations).

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2010 IFRS	1H11 IFRS	3Q11 UAS	4Q11 UAS
Financials				
Assets	22,723	23,538	26,157	27,965
Loans	16,441	17,945	17,559	17,905
Deposits	9,873	11,903	10,815	12,174
Equity	1,439	2,438	3,158	4,075
Net % income	1,022	858	1,633	1,620
Net com income	118	91	156	168
Operating income	1,070	1,081	1,938	1,931
PPI	147	91	902	812
LLP	(1,509)	(274)	(876)	(830)
Net income (YoY)	(1,254)	(336)	13	17
Ratios (%)				
Tier 1 ratio	5.0	9.6	N/A	N/A
CAR	8.6	15.6	18.6	18.2
Equity-to-assets	6.3	10.4	12.1	14.6
Loan-to-deposit	166.5	150.8	162.4	147.1
Liquid assets	13.0	7.4	18.6	21.3
ROAA	-5.3	-1.4	0.0	0.1
ROAE	-79.7	-16.8	0.4	0.5
Net % margin	5.4	4.4	7.6	7.4
NII-to-op.income	95.5	79.4	84.3	83.9
Cost-to-income	86.3	91.6	53.5	57.9
LLR	15.9	176.3	26.6	23.5
NPLs	24.2	N/A	N/A	N/A
NPL coverage	65.9	N/A	N/A	N/A

Notes: P&L figures and ratios are based on 12-month annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for 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, Investment Capital Ukraine LLC.

Improving, but still weak, profitability. As of today, we have not seen material increases in the bank's profitability, although some positive tendencies were presented. We believe that Alfa-Bank should increase its commission income, which decreased almost by twice as much as of end-2011 (in comparison with the 2009 year's result, considering annualised UAS P&L), and was about 8.7% of total operating income, or UAH168.5m. An increased cost-to-income ratio (by 19.7ppt during 2011 to 57.9% as of end-2011) also does not help the bank to present sufficient profitability, and according to UAS, the bank finished the fourth quarter with slight UAH17.5m YTD net income, or UAH5.1m quarterly.

Alfa-Bank's net loans-to-deposits ratio is high, at 147.1%, showing recently increased reliance on local funding (ratio decreased by 15.3ppt during 4Q11). Total business deposits increased by 11.5% during 4Q11, to UAH5.6bn, while households' deposits increased by 13.5%, to UAH6.5bn as stated in UAS figures. According to IFRS data, as of 1H11, due-to banks consisted of due-to the National Bank of Ukraine, (about UAH1.6bn, or 42.2% of total due-to banks, maturing in 2013), and about UAH2.2bn of due to other banks, with a share of related parties' transactions among them of about UAH0.3bn, or 16.1%. Taking into account the still high loans-to-deposits ratio, we believe that without the parent's material injections, the bank would further decrease its credit portfolio.

Table 37. List of outstanding Eurobonds issued by Alfa-Bank, pricing as of 30 January, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
ALFAUA 13% due 12	--/B/--	USD	315.237375	100.250	12.469	1,241	463

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity.

Sources: Company data.

Alfa-Bank: Bank's bond charts (price, yield, spread)

Chart 141. History of prices of bank's bonds (% of par)



Chart 142. History of bank's bond yields (%)

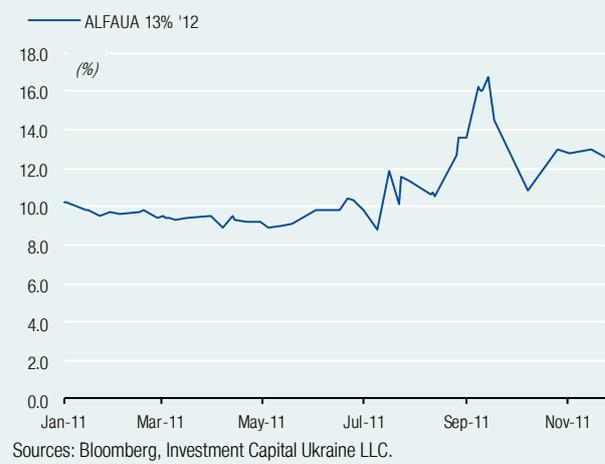


Chart 143. History of bank's bond spreads to sovereign bonds (bp)



Chart 144. Spread¹ map as of 30 Jan 2012 (bp)

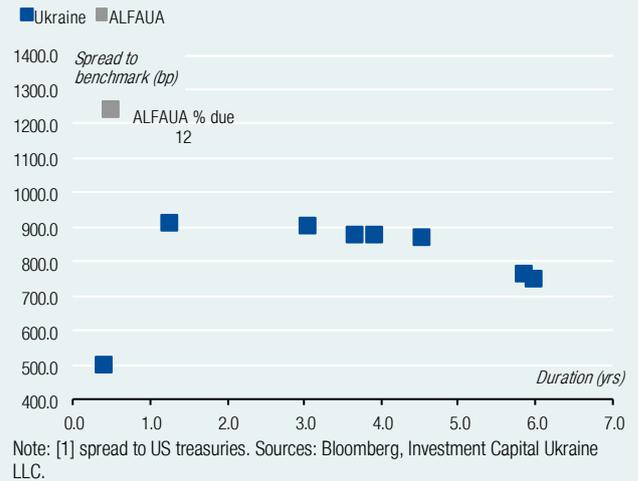
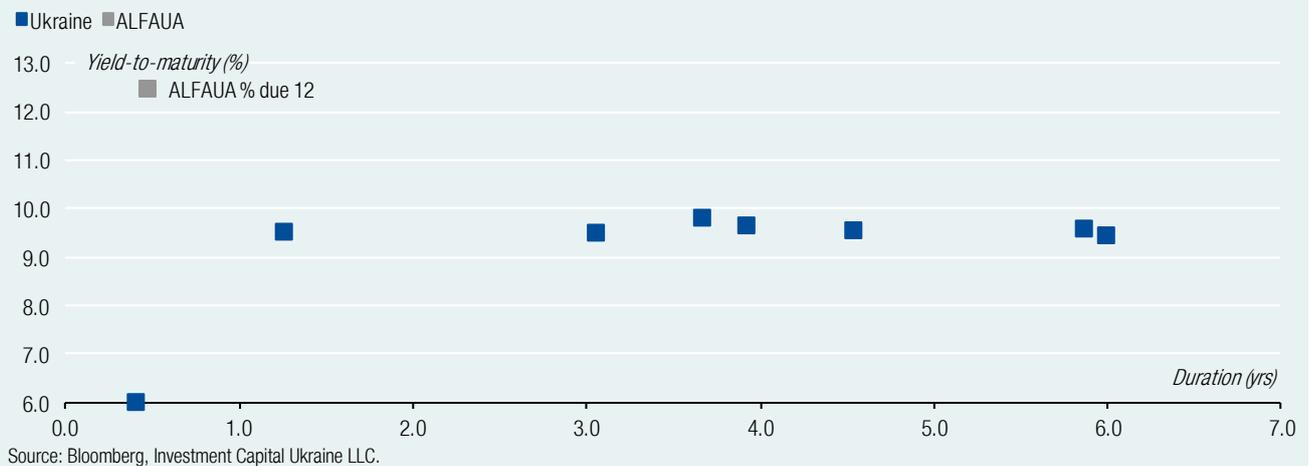


Chart 145. Yield map: bank's bonds versus sovereign yield curve



Alfa-Bank: IFRS financials – key financials and ratios

Table 38. Key FINANCIALS derived from bank's IFRS financials

	2007	2008	2009	2010	2011
P&L (YTD) (US\$m)					
Net interest income	115.6	337.2	254.4	128.7	50.8
Net fee & commission income	17.6	25.2	23.8	14.8	5.8
Operating income	142.3	488.5	328.6	134.7	77.7
Pre-provision income (PPI)	50.1	319.3	214.5	18.5	13.1
Loan-loss provisions (LLP)	(33.5)	(277.1)	(520.8)	(189.9)	(5.9)
Pre-tax income	16.6	42.2	(306.3)	(171.4)	7.1
Net income (NI)	11.8	35.6	(225.6)	(157.8)	4.0
Balance sheet (US\$m)					
Cash & balances with central bank	202.8	328.3	412.1	370.6	219.3
Due from banks	25.6	103.7	20.8	0.2	0.2
Loans to customers	2,260.7	3,133.4	2,406.2	2,069.4	2,257.2
Investment securities	49.3	65.4	63.7	207.5	262.2
Property, equipment and intangible assets	54.8	71.0	65.5	63.5	64.1
Other assets	5.1	62.9	84.4	148.9	157.8
Total assets	2,598.3	3,764.6	3,052.7	2,860.2	2,960.8
Due to banks	508.3	494.2	538.1	236.9	270.0
Due to central bank	0.0	50.8	215.4	203.1	196.9
Customer accounts	842.8	1,429.3	975.9	1,242.8	1,497.2
Wholesale borrowings	748.9	1,218.7	845.6	751.2	545.7
Subordinated debt	69.2	74.4	247.5	226.1	113.8
Total equity	312.6	446.8	214.6	181.1	306.6
Total liabilities & equity	2,598.3	3,764.6	3,052.7	2,860.2	2,960.8

Note: P&L figures and ratios are based on 12-month annualised basis.

Sources: Company data.

Table 39. Key FINANCIAL RATIOS derived from bank's IFRS financials

	2007	2008	2009	2010	2011
Growth rates (%YoY)					
Assets (%YoY)	N/A	44.9	-18.9	-6.3	-0.1
Loans (%YoY)	N/A	38.6	-23.2	-14.0	-0.1
Deposits (%YoY)	N/A	69.6	-31.7	27.3	33.0
Equity (%YoY)	N/A	42.9	-52.0	-15.6	55.1
Net interest income (%YoY)	N/A	191.6	-24.5	-49.4	-29.0
Net commission income (%YoY)	N/A	43.3	-5.8	-37.6	-37.2
Operating income (%YoY)	N/A	243.3	-32.7	-59.0	1.6
Balance sheet ratios					
Liquid assets/Assets (%)	7.8	8.7	13.5	13.0	7.4
Liquid assets/Liabilities (%)	8.9	9.9	14.5	13.8	8.3
Due from banks/Due to banks (x)	0.1	0.2	0.03	0.001	0.0005
Current ratio (x)	0.3	0.7	0.5	1.2	0.9
Equity/Assets (%)	12.0	11.9	7.0	6.3	10.4
Gross loans/Deposits (%)	272.4	236.1	312.9	198.1	176.3
Net loans/Deposits (%)	268.3	219.2	246.6	166.5	150.8
Wholesale borrowings/Liabilities (%)	32.8	36.7	29.8	28.0	20.6
Profitability & Earning quality					
ROAA (%)	N/A	1.1	-6.6	-5.3	(1.4)
ROAE (%)	N/A	9.4	-68.2	-79.7	(16.8)
Net interest income/Operating income (%)	N/A	69.0	77.4	95.5	79.4

Table 39. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2007	2008	2009	2010	2Q11
Net commission income/Operating income	(%)	N/A	5.2	7.2	11.0	8.4
Other income/Operating income	(%)	N/A	25.8	15.3	-6.5	12.2
Net interest margin	(%)	N/A	12.0	8.8	5.4	4.4
Cost-to-income ratio	(%)	N/A	34.6	34.7	86.3	91.6
LLP/Operating income	(%)	N/A	56.7	158.5	141.0	25.3
Assets quality						
NPL/Gross loans	(%)	0.5	3.4	22.3	24.2	N/A
NPL coverage	(%)	295.0	207.9	95.0	65.9	N/A
LLR/Gross loans	(%)	1.5	7.2	21.2	15.9	14.5
Earning power						
Recurring earning power	(%)	N/A	10.0	6.3	0.6	0.4
PPI/Average total capital funds	(%)	N/A	84.1	64.9	9.3	4.5
Interest expense/Interest income	(%)	N/A	47.1	58.8	71.6	72.5
Interest income/Average interest earning assets	(%)	N/A	22.6	21.3	19.0	16.2
Interest expense/Average interest bearing liabilities	(%)	N/A	11.0	11.9	11.8	10.6
Net spread	ppt	N/A	11.6	9.4	7.2	5.5
Income tax / Pretax income	(%)	N/A	15.7	26.4	7.9	(83.5)
Efficiency						
Non-interest expense/Average assets	(%)	N/A	14.3	18.8	10.5	5.5
Personnel expense/Average assets	(%)	N/A	2.8	1.5	1.8	2.1
Personnel expense/Operating income	(%)	N/A	18.5	15.8	39.9	45.6
Personnel expense/Non-interest expense	(%)	N/A	19.8	8.1	17.4	38.1
Funding structure						
Customer accounts/Total funding base	(%)	34.0	38.5	32.1	43.7	51.1
Net loans/Total funding base	(%)	91.1	84.4	79.2	72.8	77.0
Average net loans/Average customer accounts	(%)	N/A	237.4	230.3	201.7	172.2
Customer accounts/Shareholders' equity	(%)	269.6	319.9	454.7	686.1	488.3
Provisioning						
Average net loans/Average assets	(%)	N/A	84.8	81.3	75.7	76.2
NPL/(Shareholders' equity + LLR)	(%)	3.4	16.9	79.1	103.8	N/A
LLP/Gross loans	(%)	N/A	8.2	17.1	7.7	1.3
LLP/(LLR - LLP)	(%)	N/A	-780.6	412.4	93.7	9.9
LLP/PPI	(%)	N/A	86.8	242.8	1,026.6	302.3
Dividend payout	(%)	N/A	0.0	0.0	-0.0	(0.0)
Internal capital growth	(%)	N/A	11.4	50.5	-73.5	(21.4)
Other ratios and indicators						
Retail share in loan book	(%)	N/A	31.8	23.2	22.8	21.0
Personnel expense per employee	(US\$ 000s)	N/A	18.4	18.5	16.6	13.8
Operating income per employee	(US\$ 000s)	N/A	99.5	117.2	41.5	30.2

Sources: Bank data, Investment Capital Ukraine LLC..

Alfa-Bank: Quarterly UAS financials – key financials and ratios

Table 40. Key financials and ratios derived from bank's UAS financials

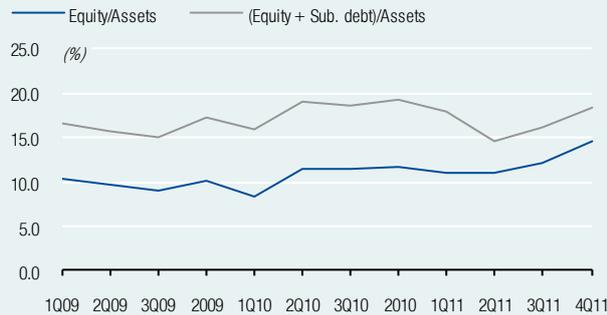
	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	27,288.8	27,166.5	27,142.3	26,594.8	28,473.2	28,786.2	26,157.1	27,964.6
Liquid assets	2,896.2	5,126.5	4,156.6	5,249.6	5,271.8	899.4	4,870.5	5,967.8
Gross loans	25,756.2	23,842.9	24,938.3	22,907.6	23,878.2	24,432.1	23,927.9	23,399.0
Loan loss reserves (LLR)	5,363.8	5,673.5	6,028.5	6,039.5	6,307.0	6,486.8	6,369.1	5,494.4
Equity	2,292.4	3,129.3	3,101.8	3,121.2	3,135.1	3,172.9	3,158.1	4,075.1
Deposits	7,248.5	8,487.2	9,232.3	9,653.3	11,004.1	11,601.7	10,815.1	12,174.0
Quarterly P&L								
Net interest income	494.7	492.9	426.5	402.5	371.6	412.7	446.6	388.7
Net commission income	45.3	43.1	38.7	35.7	29.8	50.6	40.0	48.1
Operating income (before LLP)	577.4	560.2	525.0	502.6	450.0	487.3	498.4	495.0
Operating expense	(188.7)	(187.5)	(192.0)	(260.2)	(198.1)	(305.5)	(272.8)	(342.1)
Loan-loss provisions (LLP)	(398.6)	(370.7)	(330.0)	(237.5)	(246.3)	(170.8)	(220.9)	(192.2)
Net income	0.4	0.2	0.2	0.2	2.4	4.9	5.1	5.1
Last 12-month period P&L								
Net interesting income	2,517.7	2,432.7	2,004.8	1,816.6	1,693.5	1,613.2	1,633.3	1,619.5
Net commission income	260.6	234.4	189.4	162.8	147.2	154.7	156.1	168.5
Operating income (before LLP)	3,074.8	2,905.0	2,404.8	2,165.2	2,037.8	1,964.9	1,938.3	1,930.7
Operating expense	(1,512.0)	(1,467.9)	(550.1)	(828.5)	(837.8)	(955.8)	(1,036.6)	(1,118.5)
Loan-loss provisions (LLP)	(1,737.4)	(1,570.4)	(2,061.1)	(1,336.8)	(1,184.5)	(984.6)	(875.5)	(830.3)
Net income	(186.6)	(155.0)	(207.7)	1.0	3.0	7.8	12.6	17.5
Growth rates (%YoY)								
Assets	-10.20	-16.11	-20.08	-7.31	4.34	5.96	-3.63	5.15
Gross loans	-8.26	-21.51	-6.83	-9.51	-7.29	2.47	-4.05	2.15
Deposits (by businesses)	-51.43	-49.07	-46.65	-5.13	32.69	32.10	4.89	23.99
Deposits (by households)	95.47	91.32	74.31	93.99	75.47	41.75	30.50	28.00
Deposits (total)	-26.86	-21.72	-20.12	30.08	51.81	36.70	17.14	26.11
Equity	-27.69	-0.38	1.66	8.45	36.76	1.39	1.82	30.56
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	15.68	15.89	15.05	17.01	16.13	16.54	18.63	18.21
Equity/Assets	8.40	11.52	11.43	11.74	11.01	11.02	12.07	14.57
(Equity + Subor. debt)/Assets	15.85	19.04	18.65	19.15	17.94	14.66	16.08	18.33
Liquid assets/Assets	10.61	18.87	15.31	19.74	18.51	3.12	18.62	21.34
Current liquidity (R5 by NBU)	120.59	92.65	83.95	131.09	124.36	135.31	81.82	108.77
Gross loans/Deposits	355.33	280.93	270.12	237.30	216.99	210.59	221.25	192.20
Net loans/Deposits	281.33	214.08	204.82	174.74	159.68	154.68	162.35	147.07
Cost-to-income ratio	49.18	50.53	22.87	38.26	41.11	48.64	53.48	57.93
Net interest margin	9.63	10.27	9.35	8.80	8.34	7.45	7.63	7.44
ROAA	-0.65	-0.52	-0.68	0.00	0.01	0.03	0.05	0.06
ROAE	-6.83	-4.94	-6.75	0.03	0.11	0.25	0.40	0.49
NII/operating income	81.88	83.74	83.36	83.90	83.10	82.10	84.26	83.88
LLR/Gross loans	20.83	23.80	24.17	26.36	26.41	26.55	26.62	23.48

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

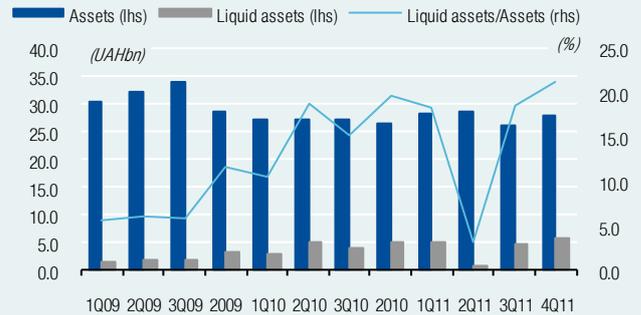
Alfa-Bank: Charts on bank's key credit metrics

Chart 146. Bank's capitalisation



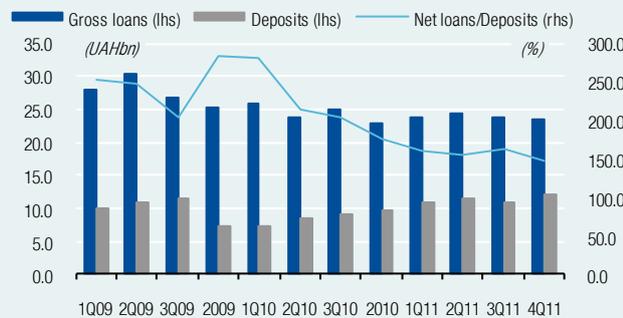
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 147. Liquidity



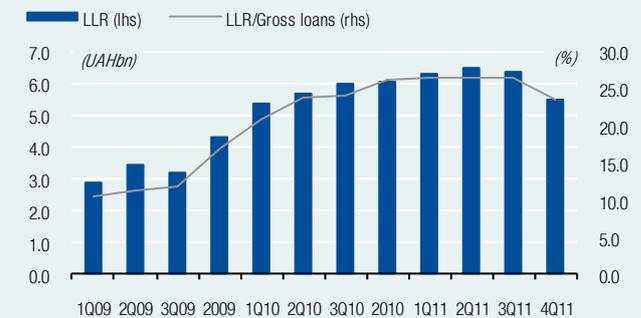
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 148. Loans and deposits



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

Chart 149. Loan loss reserves history



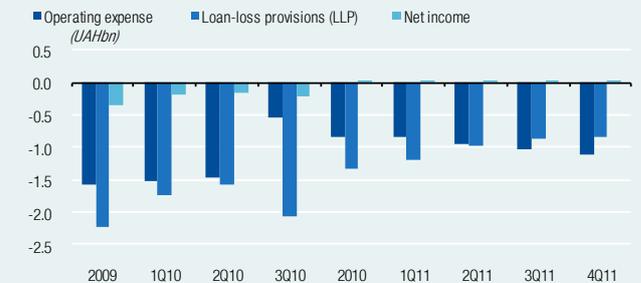
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 150. Income structure (annualised basis)



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

Chart 151. Expense and net income (annualised basis)



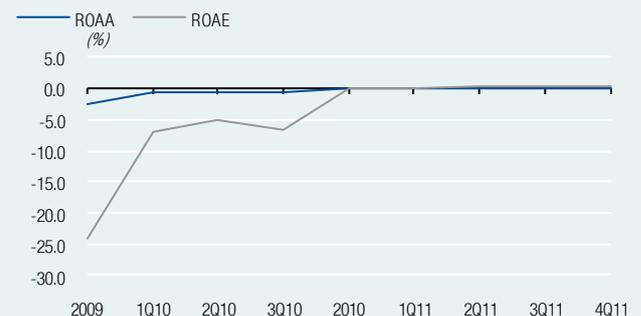
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 152. Financial performance ratios



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

Chart 153. Financial performance ratios



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

Country

Ukraine

First Ukrainian International Bank

Sector

Banks: Commercial banking

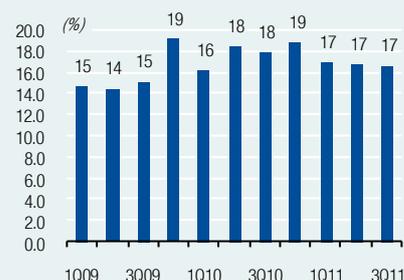
Credit ratings by Moody's/S&P/Fitch

Ticker(s) in Bloomberg
B3/NR/NR PUMBUZ

First Ukrainian International Bank (FUIB), the 13th-largest bank according to NBU data as of 2Q11, announced the completion on 16 July, 2011 of its merger with Dongorbank (ranked 27th). After the merger, the bank's top-management began its policy on openness of information, which is not such a common feature among Ukrainian banks, and we definitely consider this as positive signal, because it forms the impression that the bank has nothing to conceal. As of today, the bank presents quite decent figures due to its moderate risk policies and presence in the largest Ukrainian private business group, System Capital Management (SKM).

- Capitalisation: Solid, with 26% CAR, according to IFRS.** The process of the merger had no material impact on the bank's capitalisation. Reviewing recently published 3Q11 IFRS figures, with US\$89m Tier 1 capital and US\$57m Tier 2 capital injections during 2011, as of 3Q11, FUIB's CAR amounted to 26.2% under IFRS and 15.9% under NBU's methodology (RCAR, as of 4Q11 data), which is far from the required minimum and leaves no questions about the bank's margin of safety.
- Liquidity: is more than sufficient, with 22% of liquid assets on the bank's balance sheet** (60% of which are denominated in UAH), including 20% in cash. Historical results showed even greater amounts of cash in the combined banks' balances, as high as UAH8bn at the end of 2010. While such an amount could have been accumulated for the SCM Group, the bank still has enough cash on its balance sheet to increase its margin of safety, allowing it to more confidently weather the currently unstable financial environment
- Assets' quality: Satisfactory, with fair LLR formed.** According to the 3Q11 IFRS results, the bank's combined gross credit portfolio amounted to US\$2.3bn. Despite the fact that Dongorbank's credit portfolio quality was worse than FUIB's, the combined portfolio has quite good quality, with a NPL YTD increase of only 1ppt, to 24.2%, along with 73% LLR/NPL coverage. The retail credit portfolio worsened by 9.8ppt, to a 47.7% NPL/loans ratio (mostly the result of the merger from Dongorbank's side), while the corporate portfolio presented improvement of 1.5ppt, to a quite positive 16.9% NPL/loans ratio. The bank's customer accounts amounted to US\$1.9bn, presenting a strong 120% loans/deposits ratio. According to the IFRS report, as of 2010, the bank had about 20.0% of loans issued to related parties, which is not such a high figure, considering the bank's affiliation with the biggest Ukrainian private business group. Still, considering the closeness of the group to current authorities, over the short term we do not expect any related difficulties.

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2009	2010	2Q11	3Q11
	IFRS	IFRS	IFRS	IFRS
Financials (US\$m)				
Assets	1,987	2,222	2,198	3,233
Loans	1,418	1,409	1,494	1,955
Deposits	727	1,006	1,148	2,043
Equity	376	435	450	491
Net % income	127	126	107	111
Net com income	19	20	23	24
Operating income	159	163	152	150
PPI	98	93	82	83
LLP	(162)	(21)	(11)	(20)
Net income	(54)	54	52	48
Ratios (%)				
Tier 1 ratio	15.6	13.3	N/A	N/A
CAR	25.3	26.2	25.5	26.2
Equity-to-assets	18.9	19.6	20.5	15.2
Loan-to-deposit	195.1	140.1	130.2	95.7
Liquid assets	4.8	5.6	4.6	2.3
ROAA	-2.5	2.6	2.5	0.6
ROAE	-13.1	13.4	12.4	3.6
Net % margin	6.8	6.9	5.9	1.5
NII-to-op.income	80.1	77.6	70.4	53.6
Cost-to-income	38.3	42.7	46.4	48.9
LLR	16.9	17.8	N/A	N/A
NPLs	40.7	34.3	N/A	N/A
NPL coverage	41.4	52.0	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
NII – Net interest income; LLR – loan-loss reserves;
NPL – non-performing loans (impaired loans).

Sources: Bank data, Investment Capital Ukraine LLC.

- FUIB's funding is sufficiently diversified**, but within a notable bias to clients' deposits (about 60.6% in total funding structure). With SCM as a key shareholder, we assume sufficient amounts of related parties' accounts in the bank's deposit base, but as of today, we cannot attribute this as negative in FUIB's case, due to the absence of any material issues within the SCM Group. Nevertheless, we believe that the bank's key risk in the future might be its current strength: huge amounts of deposits on demand (57.2% of total deposits, 4Q11 UAS figures), with a high possibility of belonging to related parties. In case of significant worsening of the economic situation and/or a change in the Ukrainian government, the bank may face an outflow of such resources. Still, as of today, such risk is quite low, and the current top management's conservative politics offset it as being immaterial. As of 3Q11, the bank had about UAH1bn of the NBU's outstanding refinancing, but was actively returning it, with a 16.6% QoQ decrease.
- Financial performance: As of today, no questions arise, with the bank presenting stable positive figures since 1Q10.** The bank's 3Q11 income statement presented a positive UAH160.8m YTD in net income. The net interest margin stood at a competitive 6.2%, and we expect this ratio to improve further, while the cost-to-income ratio was 40.5%, showing efficient use of financial resources. According to its official website, the bank finished 3Q11 with ROA of 0.7% and ROE of 6.5%. According to the Ukrainian accounting standards, the bank finished the 2011 year with UAH268.2m in net income, while 2010 UAS profit was about UAH235.4m.

Table 41. List of outstanding Eurobonds issued by FUIB, pricing as of 30 January, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
PUMBUZ 11% due 14	B2/--/NR	USD	252.488	90.413	15.128	1,476	549

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity.

Sources: Company data.

FUIB: Bank's bond charts (price, yield, spread)

Chart 154. History of prices of bank's bonds (% of par)



Chart 155. History of bank's bond yields (%)

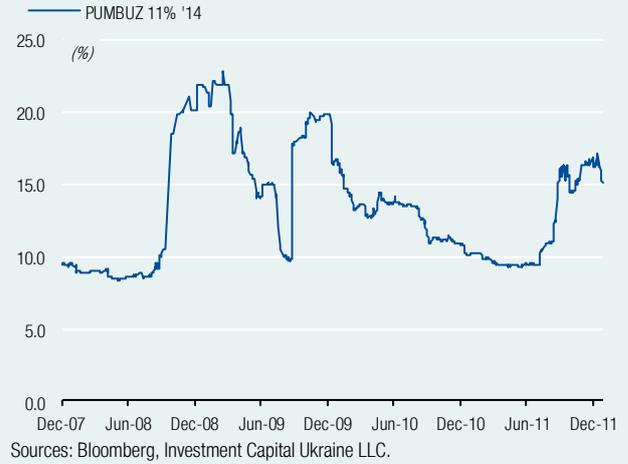


Chart 156. History of bank's bond spreads to sovereign bonds (bp)



Chart 157. Spread¹ map as of 30 Jan 2012 (bp)

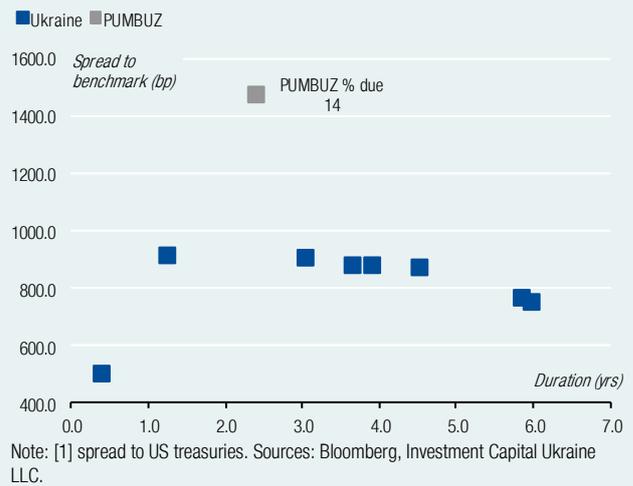
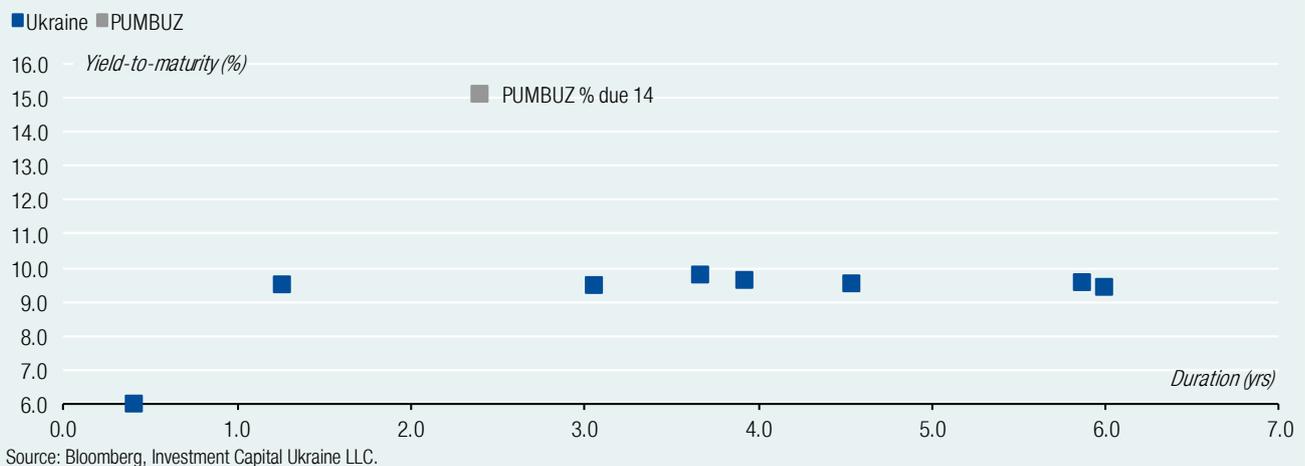


Chart 158. Yield map: bank's bonds versus sovereign yield curve



FUIB: IFRS financials – key financials and ratios

Table 42. Key FINANCIALS derived from bank's IFRS financials

	2005	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11
P&L (YTD) (US\$m)									
Net interest income	24.1	42.9	72.0	136.1	127.4	126.2	22.3	44.9	111.4
Net fee & commission income	13.9	17.1	27.1	32.1	19.2	19.6	5.9	11.8	23.7
Operating income	42.1	64.3	106.4	195.4	159.0	162.7	32.1	64.9	150.2
Pre-provision income (PPI)	16.2	30.0	54.4	117.7	98.2	93.2	14.8	28.4	83.4
Loan-loss provisions (LLP)	(5.8)	(13.1)	(14.8)	(103.2)	(162.4)	(21.3)	(9.3)	(9.5)	(19.9)
Pre-tax income	10.5	16.8	38.2	7.5	(56.1)	71.5	5.4	19.0	63.4
Net income (NI)	6.9	11.3	28.0	15.3	(54.3)	54.4	3.8	14.2	47.9
Balance sheet (US\$m)									
Cash & balances with central bank	16.1	27.2	112.1	99.1	95.7	125.5	82.9	101.4	75.1
Due from banks	194.7	168.9	112.4	113.6	296.2	336.8	288.5	287.4	742.1
Loans to customers	360.2	676.1	1,675.9	1,902.1	1,418.1	1,408.7	1,458.9	1,494.4	1,954.9
Investment securities	20.0	70.6	122.8	33.5	6.2	212.8	302.6	162.0	268.1
Property, equipment and intangible assets	52.2	90.2	173.8	144.5	123.3	120.3	123.4	121.9	156.3
Other assets	4.0	12.1	44.2	24.9	47.7	18.1	28.9	31.0	36.3
Total assets	647.1	1,045.0	2,241.2	2,317.8	1,987.3	2,222.2	2,285.2	2,198.1	3,232.9
Due to banks	53.3	53.5	71.6	62.6	29.9	160.7	241.8	53.7	68.8
Due to central bank	0.5	0.0	0.0	66.8	245.2	174.4	165.7	152.9	127.5
Customer accounts	380.5	501.1	832.2	863.5	727.0	1,005.8	1,022.9	1,147.9	2,042.5
Wholesale borrowings	109.0	291.4	817.2	806.5	560.5	402.6	372.9	349.6	306.2
Subordinated debt	0.0	0.0	0.0	0.0	27.8	27.8	27.8	27.8	86.2
Total equity	94.9	182.6	482.7	451.2	375.7	434.8	441.1	450.3	491.1
Total liabilities & equity	647.1	1,045.0	2,241.2	2,317.8	1,987.3	2,222.2	2,285.2	2,198.1	3,232.9

Note: P&L figures and ratios are based on 12-month annualised basis.

Sources: Company data.

Table 43. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2005	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11
Growth rates (%YoY)										
Assets	(%YoY)	N/A	61.5	114.5	3.4	-14.3	11.8	15.5	10.2	44.3
Loans	(%YoY)	N/A	87.7	147.9	13.5	-25.4	-0.7	5.1	11.8	41.8
Deposits	(%YoY)	N/A	31.7	66.1	3.8	-15.8	38.4	25.8	36.1	95.0
Equity	(%YoY)	N/A	92.3	164.4	-6.5	-16.7	15.7	11.9	13.8	18.8
Net interest income	(%YoY)	N/A	78.3	67.7	89.1	-6.4	-0.9	-31.4	-29.7	15.6
Net commission income	(%YoY)	N/A	23.4	58.5	18.5	-40.2	1.8	35.2	37.6	72.8
Operating income	(%YoY)	N/A	52.8	65.5	83.7	-18.6	2.3	-17.9	-13.8	33.4
Balance sheet ratios										
Liquid assets/Assets	(%)	2.5	2.6	5.0	4.3	4.8	5.6	3.6	4.6	2.3
Liquid assets/Liabilities	(%)	2.9	3.2	6.4	5.3	5.9	7.0	4.5	5.8	2.7
Due from banks/Due to banks	(x)	3.6	3.2	1.6	0.9	1.1	1.0	0.7	1.4	3.8
Current ratio	(x)	1.1	0.9	1.0	0.9	2.0	1.4	2.8	10.3	15.8
Equity/Assets	(%)	14.7	17.5	21.5	19.5	18.9	19.6	19.3	20.5	15.2
Gross loans/Deposits	(%)	98.3	140.1	206.3	235.0	234.6	170.4	N/A	N/A	N/A
Net loans/Deposits	(%)	94.7	134.9	201.4	220.3	195.1	140.1	142.6	130.2	95.7
Wholesale borrowings/Liabilities (%)	(%)	19.7	33.8	46.5	43.2	34.8	22.5	20.2	20.0	11.2
Profitability & Earning quality										
ROAA	(%)	N/A	1.3	1.7	0.7	-2.5	2.6	1.1	2.5	0.6
ROAE	(%)	N/A	8.2	8.4	3.3	-13.1	13.4	5.8	12.4	3.6
Net interest income/Operating income	(%)	N/A	66.8	67.6	69.7	80.1	77.6	81.6	70.4	53.6

Table 43. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2005	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11
Net commission income/Operating income	(%)	N/A	26.6	25.5	16.4	12.1	12.0	14.5	15.0	22.7
Other income/Operating income	(%)	N/A	6.6	6.9	13.9	7.8	10.4	4.0	14.6	23.7
Net interest margin	(%)	N/A	5.8	5.1	6.9	6.8	6.9	4.6	5.9	1.5
Cost-to-income ratio	(%)	N/A	53.4	48.9	39.8	38.3	42.7	47.5	46.4	48.9
LLP/Operating income	(%)	N/A	20.4	13.9	52.8	102.1	13.1	7.0	7.3	25.1
Assets quality										
NPL/Gross loans	(%)	0.3	1.3	0.8	5.2	40.7	34.3	N/A	N/A	N/A
NPL coverage	(%)	1,134.3	292.4	292.0	121.6	41.4	52.0	N/A	N/A	N/A
LLR/Gross loans	(%)	3.7	3.7	2.4	6.3	16.9	17.8	N/A	N/A	N/A
Earning power										
Recurring earning power	(%)	N/A	3.5	3.3	5.2	4.6	4.4	2.6	3.9	1.3
PPI/Average total capital funds	(%)	N/A	21.6	16.3	25.2	23.7	23.0	13.3	19.3	7.9
Interest expense/Interest income	(%)	N/A	49.2	57.2	55.7	57.3	54.8	196.3	57.0	20.3
Interest income/Average interest earning assets	(%)	N/A	11.3	11.9	15.5	15.8	15.2	10.6	13.6	3.5
Interest expense/Average interest bearing liabilities	(%)	N/A	6.0	7.5	9.7	10.1	9.1	6.7	8.6	2.2
Net spread	ppt	N/A	5.4	4.4	5.8	5.7	6.1	3.9	5.1	1.3
Income tax / Pretax income	(%)	N/A	32.8	26.6	-103.7	3.2	23.9	49.6	25.5	9.7
Efficiency										
Non-interest expense/Average assets	(%)	N/A	6.3	4.7	8.5	10.8	4.8	3.1	4.5	2.1
Personnel expense/Average assets	(%)	N/A	1.7	1.5	1.6	1.3	1.6	N/A	1.6	N/A
Personnel expense/Operating income	(%)	N/A	22.5	23.5	19.1	18.0	20.2	N/A	21.6	N/A
Personnel expense/Non-interest expense	(%)	N/A	27.0	32.4	19.3	12.4	32.3	N/A	34.9	N/A
Funding structure										
Customer accounts/Total funding base	(%)	59.6	48.7	37.8	38.4	37.0	45.6	45.0	52.6	65.4
Net loans/Total funding base	(%)	56.4	65.7	76.1	84.5	72.1	63.9	64.2	68.5	62.6
Average net loans/Average customer accounts	(%)	N/A	117.5	176.4	211.0	208.8	163.1	155.1	142.2	107.9
Customer accounts/Shareholders' equity	(%)	400.8	274.5	172.4	191.4	193.5	231.3	231.9	254.9	415.9
Provisioning										
Average net loans/Average assets	(%)	N/A	61.2	71.6	78.5	77.1	67.2	66.8	67.5	60.9
NPL/(Shareholders' equity + LLR)	(%)	1.1	4.2	2.7	18.1	104.7	79.3	N/A	N/A	N/A
LLP/Gross loans	(%)	N/A	1.9	0.9	5.1	9.5	1.2	0.5	0.7	0.9
LLP/(LLR - LLP)	(%)	70.5	102.4	57.0	427.5	129.8	7.5	N/A	N/A	N/A
LLP/PPI	(%)	N/A	43.7	27.3	87.7	165.5	22.8	13.4	13.6	49.1
Dividend payout	(%)	N/A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal capital growth	(%)	N/A	11.9	15.4	3.2	-12.0	14.5	6.1	13.2	4.0
Other ratios and indicators										
Retail share in loan book	(%)	N/A	13.0	23.5	28.7	28.2	24.6	28.0	26.8	N/A
Personnel expense per employee	(UAH 000s)	N/A	7.5	8.9	11.4	10.9	13.1	N/A	N/A	N/A
Operating income per employee	(UAH 000s)	N/A	33.2	37.6	59.7	60.7	64.9	N/A	N/A	N/A

Sources: Bank data, Investment Capital Ukraine LLC..

FUIB: Quarterly UAS financials – key financials and ratios

Table 44. Key financials and ratios derived from bank's UAS financials

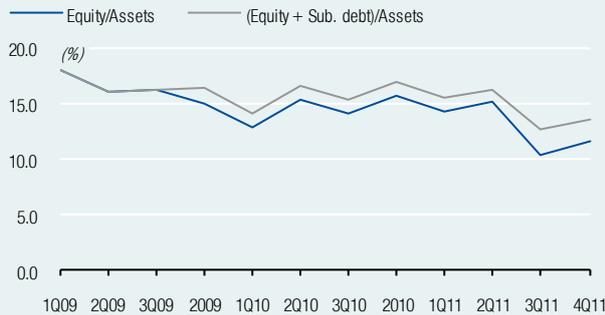
	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	20,179.1	17,042.0	18,743.5	18,098.4	20,002.4	19,505.6	29,278.5	34,866.1
Liquid assets	2,149.4	3,307.4	4,751.5	3,848.2	2,865.2	2,470.6	5,991.8	7,028.5
Gross loans	13,324.9	12,923.4	13,237.7	13,620.3	14,104.6	14,479.4	18,666.3	19,695.0
Loan loss reserves (LLR)	2,750.3	2,854.8	2,936.3	3,009.6	3,168.1	3,221.6	4,037.5	4,121.2
Equity	2,615.0	2,621.2	2,647.3	2,850.9	2,880.6	2,968.3	3,056.4	4,029.9
Deposits	6,425.5	6,635.0	8,266.0	8,003.1	8,114.7	9,125.8	16,234.7	20,093.7
Quarterly P&L								
Net interest income	257.2	239.5	237.8	257.6	240.0	253.9	589.2	393.3
Net commission income	41.4	46.8	66.0	61.8	52.0	59.0	118.1	84.0
Operating income (before LLP)	311.5	307.1	291.0	333.7	319.4	334.6	746.8	468.1
Operating expense	(129.3)	(139.2)	(125.1)	(164.3)	(143.0)	(164.5)	(255.5)	(260.4)
Loan-loss provisions (LLP)	(181.9)	(118.0)	(66.2)	(65.4)	(156.8)	(50.8)	(416.1)	(82.1)
Net income	26.3	16.7	32.4	160.0	8.4	92.1	60.2	107.4
Last 12-month period P&L								
Net interesting income	1,010.7	982.9	961.9	992.0	974.8	989.2	1,340.6	1,476.4
Net commission income	187.8	194.1	197.3	216.1	226.7	238.9	291.0	313.2
Operating income (before LLP)	1,337.2	1,368.0	1,250.3	1,243.3	1,251.3	1,278.8	1,734.5	1,868.9
Operating expense	(553.1)	(572.0)	(570.4)	(557.9)	(571.6)	(596.9)	(727.3)	(823.4)
Loan-loss provisions (LLP)	(1,467.8)	(909.9)	(604.1)	(431.4)	(406.3)	(339.1)	(689.0)	(705.8)
Net income	(654.8)	(153.7)	(144.8)	235.4	217.5	292.9	320.8	268.2
Growth rates (%YoY)								
Assets	8.8	-4.0	4.9	4.0	-0.9	14.5	56.2	92.6
Gross loans	-8.1	-7.9	-5.0	0.4	5.9	12.0	41.0	44.6
Deposits (by businesses)	0.8	11.1	101.8	46.2	33.6	72.4	127.8	295.9
Deposits (by households)	50.6	49.8	39.2	34.9	23.1	22.4	73.9	69.0
Deposits (total)	30.9	35.5	60.0	38.8	26.3	37.5	96.4	151.1
Equity	-22.2	-8.7	-9.0	8.5	10.2	13.2	15.5	41.4
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	16.1	18.4	17.8	18.8	16.9	16.7	16.6	15.9
Equity/Assets	13.0	15.4	14.1	15.8	14.4	15.2	10.4	11.6
(Equity + Subor. debt)/Assets	14.1	16.7	15.3	17.0	15.5	16.4	12.8	13.5
Liquid assets/Assets	10.7	19.4	25.3	21.3	14.3	12.7	20.5	20.2
Current liquidity (R5 by NBU)	103.2	101.0	94.4	68.8	40.5	53.8	58.2	68.3
Gross loans/Deposits	207.4	194.8	160.1	170.2	173.8	158.7	115.0	98.0
Net loans/Deposits	164.6	151.8	124.6	132.6	134.8	123.4	90.1	77.5
Cost-to-income ratio	41.4	41.8	45.6	44.9	45.7	46.7	41.9	44.1
Net interest margin	7.8	7.9	7.9	8.0	7.5	7.1	8.5	7.9
ROAA	-3.4	-0.9	-0.8	1.3	1.1	1.6	1.3	1.0
ROAE	-21.9	-5.6	-5.2	8.6	7.9	10.5	11.2	7.8
NII/operating income	75.6	71.9	76.9	79.8	77.9	77.4	77.3	79.0
LLR/Gross loans	20.6	22.1	22.2	22.1	22.5	22.2	21.6	20.9

Notes: Liquid assets include cash and cash equivalents; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

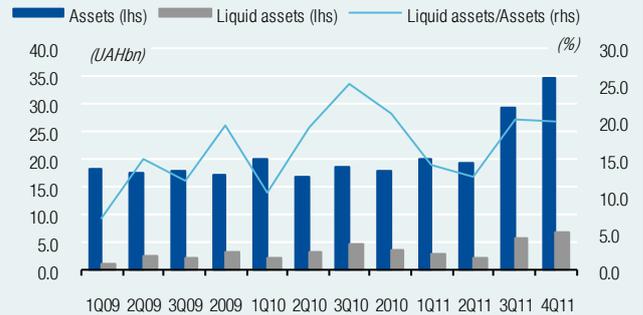
FUIB: Charts on bank's key credit metrics

Chart 159. Bank's capitalisation



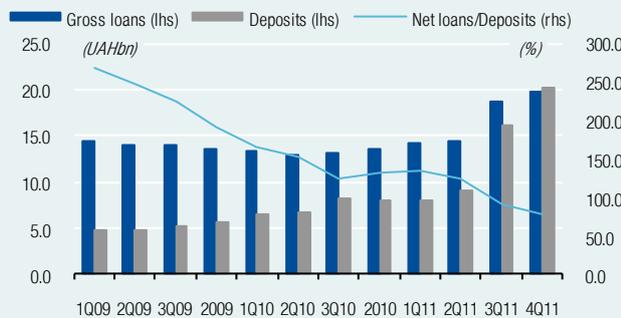
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 160. Liquidity



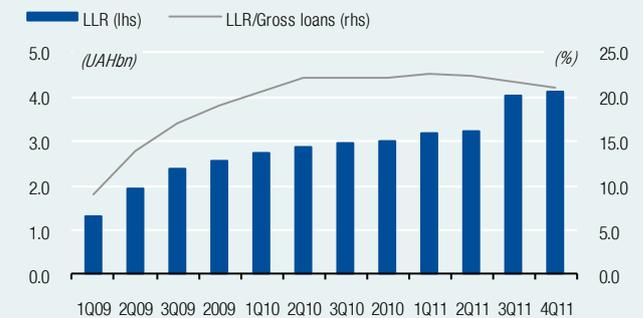
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 161. Loans and deposits



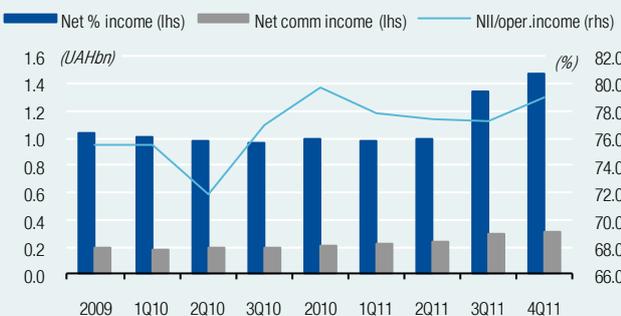
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 162. Loan loss reserves history



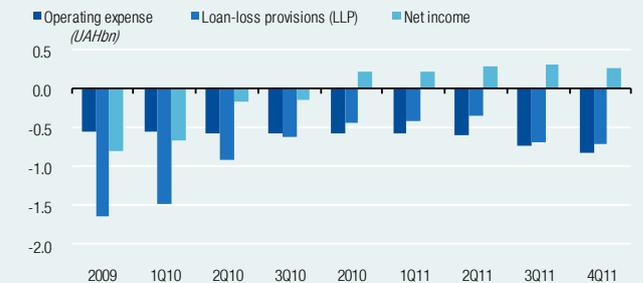
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 163. Income structure (annualised basis)



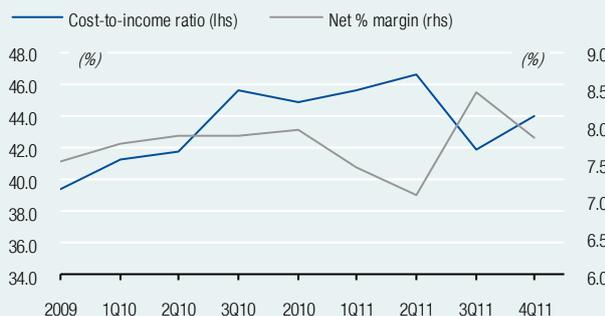
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 164. Expense and net income (annualised basis)



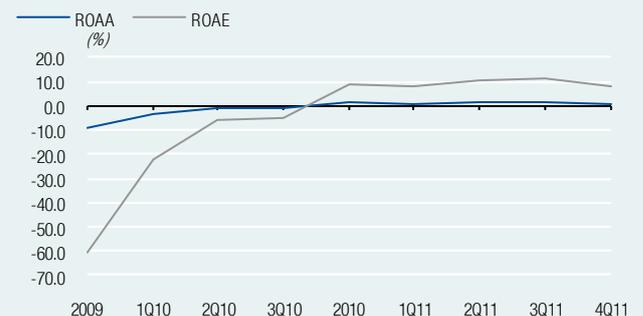
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 165. Financial performance ratios



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

Chart 166. 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 Ticker(s) in Bloomberg

B3/NR/NR VEBBNK

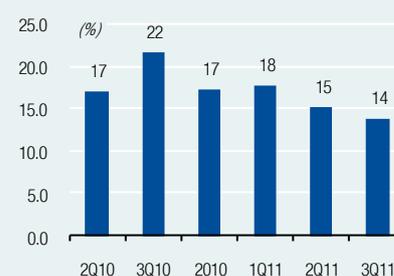
Prominvestbank is a unique Ukrainian bank with regard with its majority shareholder. Vnesheconombank (Baa1/BBB/BBB), an exclusive government financial institution in the Russian Federation, due to its non-banking status and absence of obligations to follow Russian banking ratios or legislation. While parental support can be clearly traced during from the time of the acquisition in 2009, our brief analysis of PIB's UAS quarterly financials has shown that as of end-2011, the bank has not managed to materially increase its capability of profits generation, but continues to have quite high margins of safety.

Capitalisation: Materially decreased during 2011, by 4.1ppt, to 13.2% (RCAR), which is above the required minimum, and still higher than that of many peers. In PIB's case, we consider such a level as reasonable, but without a significant margin of safety, as it was in the beginning of 2011. Taking into account an expected further loan-loss reserves formation, we believe that in early 2012, the bank will need more capital from its parent, and in this regard, there should not be any issues for PIB to raise the needed amount.

Liquidity: Cash and cash equivalents up 9.2% QOQ to UAH3.4bn, presenting a 4.6% YoY decrease. Such an increase improved the bank's liquid assets ratio by 0.1ppt to 9.0%, quite a low figure and similar to that of many Ukrainian banks, as a result of recent liquidity tightening by the NBU. Nevertheless, we considered the level as digestible in the case of PIB, with its possibilities to refresh funds from its parent and about UAH0.9bn of Ukrainian State bonds as of 1H11 according to the IFRS, but caution that the ratio is close to minimum, without any significant margin of safety, so we should see a further contraction in the bank's active operations before more liquidity will be accumulated.

Assets' quality: leaves possibilities for further deterioration, with impaired loans increasing by 10.4ppt to 31.3% during 2010, and a further slight decrease, to 30.8% as of 1H11, according to IFRS figures, on the background of a credit portfolio boost. In 4Q11, the bank decreased its loan-loss reserves, by 27.0% to UAH2.2bn, bringing the LLR/gross loans ratio to 7.5%, supposedly writing off bad loans. PIB was earlier noted for an active bad debt write-off, during end-2010, of about UAH4.6bn, according to IFRS data. We believe that there are still some old NPLs from the previous shareholder, and it should take some more time (possibly during 2012) to clear the bank's balance sheet.

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2009	2010	3Q11	4Q11
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	28,286	33,220	35,279	38,161
Loans	18,712	22,598	25,971	27,036
Deposits	14,555	19,518	16,140	16,507
Equity	4,825	4,457	4,569	5,082
Net % income	1,087	1,528	1,703	1,491
Net com income	286	288	345	317
Operating income	1,406	1,686	2,220	2,303
PPI	147	313	864	765
LLP	(3,232)	(1,614)	(1,248)	(770)
Net income	(3,196)	(1,184)	(246)	31
Ratios (%)				
Tier 1 ratio	13.6	8.1	N/A	N/A
CAR	19.7	16.2	13.9	13.2
Equity-to-assets	17.1	13.4	13.0	13.3
Loan-to-deposit	128.6	115.8	160.9	163.8
Liquid assets	19.7	16.5	8.9	9.0
ROAA	-11.6	-3.9	-0.8	0.1
ROAE	-71.9	-25.5	-5.2	0.6
Net % margin	5.2	7.0	6.1	5.2
NII-to-op.income	77.3	90.7	76.7	64.7
Cost-to-income	89.5	81.4	61.1	66.8
LLR	24.3	12.0	10.4	7.5
NPLs	20.8	31.3	N/A	N/A
NPL coverage	116.7	38.4	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively; NII – Net interest income; LLR – loan-loss reserves; NPL – non-performing loans (individually impaired loans).
Sources: Bank data, Investment Capital Ukraine LLC.

- **Total deposits presented a 15.3% decrease during 2011, to UAH16.5bn, with 2.3% increase during 4Q11.** PIB's deposits outflow process started during 1Q11, with a 3.8% decrease, significantly accelerating in 3Q11, with a 12.7% fall. Nevertheless, we believe that local funding risks were materially decreased since 2008 due to the current presence of the bank's shareholder, who could quickly inject needed liquidity into the bank in a stress scenario.
- **4Q11 P&Ls were not rosy, although showed a slight, UAH30.0m 2011 net income.** 4Q11 resulted in a slight decrease in net interest income, by 13.5%, to UAH344.2m, and commission income, by 36.7% to UAH60.5m. At the same time, the bank's expenses grew slightly, resulting in worsening cost-to-income ratio, by 5.7ppt to 66.8%. PIB's net interest margin decreased by 0.9ppt to 5.2% (according to our calculations based on annualised financials)..

PIB: IFRS financials – key financials and ratios

Table 45. Key FINANCIALS derived from bank's IFRS financials

	2008	2009	2010	2Q11
P&L (YTD) (US\$m)				
Net interest income	1,540.2	1,086.7	1,528.4	759.5
Net fee & commission income	667.3	285.9	287.8	112.2
Operating income	3,037.5	1,405.8	1,686.0	1,015.1
Pre-provision income (PPI)	1,490.3	146.9	312.9	425.4
Loan-loss provisions (LLP)	(1,466.4)	(3,231.7)	(1,614.0)	(434.7)
Pre-tax income	(108.8)	(3,244.2)	(1,286.8)	(126.3)
Net income (NI)	(77.5)	(3,196.1)	(1,184.4)	(174.7)
Balance sheet (UAHm)				
Cash & balances with central bank	2,337.5	1,693.0	5,567.3	5,478.0
Due from banks	40.0	115.9	290.7	234.3
Loans to customers	19,790.6	21,838.6	18,711.6	22,597.5
Investment securities	395.5	168.5	539.7	1,262.0
Property, equipment and intangible assets	2,084.3	3,041.6	2,893.1	2,892.2
Other assets	93.1	166.0	283.6	756.1
Total assets	24,741.1	27,023.5	28,286.0	33,220.2
Due to banks	0.0	6,752.2	5,911.8	6,675.7
Due to central bank	757.3	368.8	2,300.0	100.0
Customer accounts	20,711.8	14,939.6	14,554.6	19,517.7
Wholesale borrowings	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	2,212.3
Total equity	2,565.5	4,065.2	4,824.9	4,457.4
Total liabilities & equity	24,741.1	27,023.5	28,286.0	33,220.2

Note: P&L figures and ratios are based on 12-month annualised basis.

Sources: Company data.

Table 46. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2007	2008	2009	2010	2Q11
Growth rates (%YoY)						
Assets	(%YoY)	N/A	9.2	4.7	17.4	N/A
Loans	(%YoY)	N/A	10.3	-14.3	20.8	N/A
Deposits	(%YoY)	N/A	-27.9	-2.6	34.1	N/A
Equity	(%YoY)	N/A	58.5	18.7	-7.6	N/A
Net interest income	(%YoY)	N/A	N/A	-29.4	40.7	N/A
Net commission income	(%YoY)	N/A	N/A	-57.2	0.6	N/A
Operating income	(%YoY)	N/A	N/A	-53.7	19.9	N/A
Balance sheet ratios						
Liquid assets/Assets	(%)	9.4	6.3	19.7	16.5	11.5
Liquid assets/Liabilities	(%)	10.5	7.4	23.7	19.0	13.2
Due from banks/Due to banks	(x)	0.05	0.02	0.04	0.03	0.04
Current ratio	(x)	N/A	0.2	0.6	0.5	0.4
Equity/Assets	(%)	10.4	15.0	17.1	13.4	13.4
Gross loans/Deposits	(%)	95.6	164.9	169.9	131.6	144.3
Net loans/Deposits	(%)	95.6	146.2	128.6	115.8	124.8
Wholesale borrowings/Liabilities (%)	(%)	0.0	0.0	0.0	0.0	5.5
Profitability & Earning quality						
ROAA	(%)	N/A	-0.3	-11.6	-3.9	N/A
ROAE	(%)	N/A	-2.3	-71.9	-25.5	N/A
Net interest income/Operating income	(%)	N/A	50.7	77.3	90.7	N/A

Table 46. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2007	2008	2009	2010	2Q11
Net commission income/Operating income	(%)	N/A	22.0	20.3	17.1	N/A
Other income/Operating income	(%)	N/A	27.3	2.4	-7.7	N/A
Net interest margin	(%)	N/A	7.3	5.2	7.0	N/A
Cost-to-income ratio	(%)	N/A	50.9	89.5	81.4	N/A
LLP/Operating income	(%)	N/A	48.3	229.9	95.7	N/A
Assets quality						
NPL/Gross loans	(%)	N/A	32.7	20.8	31.3	N/A
NPL coverage	(%)	N/A	34.7	116.7	38.4	N/A
LLR/Gross loans	(%)	N/A	11.4	24.3	12.0	13.5
Earning power						
Recurring earning power	(%)	N/A	5.8	0.5	1.0	N/A
PPI/Average total capital funds	(%)	N/A	45.0	3.3	6.7	N/A
Interest expense/Interest income	(%)	N/A	57.4	71.9	61.4	N/A
Interest income/Average interest earning assets	(%)	N/A	17.1	18.6	18.1	N/A
Interest expense/Average interest bearing liabilities	(%)	N/A	9.6	12.4	9.5	N/A
Net spread	ppt	N/A	7.5	6.2	8.7	N/A
Income tax / Pretax income	(%)	N/A	28.8	1.5	8.0	N/A
Efficiency						
Non-interest expense/Average assets	(%)	N/A	11.9	16.3	9.8	N/A
Personnel expense/Average assets	(%)	N/A	3.4	2.5	2.2	N/A
Personnel expense/Operating income	(%)	N/A	29.1	48.7	39.4	N/A
Personnel expense/Non-interest expense	(%)	N/A	28.8	15.2	22.0	N/A
Funding structure						
Customer accounts/Total funding base	(%)	86.2	57.2	52.8	59.2	58.6
Net loans/Total funding base	(%)	82.3	83.6	67.8	68.6	73.2
Average net loans/Average customer accounts	(%)	N/A	116.8	137.5	121.2	N/A
Customer accounts/Shareholders' equity	(%)	807.3	367.5	301.7	437.9	435.1
Provisioning						
Average net loans/Average assets	(%)	N/A	80.4	73.3	67.2	N/A
NPL/(Shareholders' equity + LLR)	(%)	N/A	117.4	47.5	106.5	N/A
LLP/Gross loans	(%)	N/A	6.0	13.1	6.3	N/A
LLP/(LLR - LLP)	(%)	N/A	110.2	116.3	110.0	N/A
LLP/PPI	(%)	N/A	98.4	2,199.4	515.9	N/A
Dividend payout	(%)	N/A	0.0	0.0	0.0	N/A
Internal capital growth	(%)	N/A-	-3.0	-78.6	-24.5	N/A
Other ratios and indicators						
Retail share in loan book	(%)	N/A	12.5	12.4	5.5	N/A
Personnel expense per employee	(UAH 000s)	N/A	366.6	283.7	277.7	N/A
Operating income per employee	(UAH 000s)	N/A	1,258.3	582.3	704.2	N/A

Sources: Bank data, Investment Capital Ukraine LLC..

PIB: Quarterly UAS financials – key financials and ratios

Table 47. Key financials and ratios derived from bank's UAS financials

	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	29,963.1	28,649.9	28,913.8	34,612.9	34,948.3	34,590.5	35,278.8	38,160.9
Liquid assets	3,035.2	2,398.4	1,815.3	3,605.3	3,332.3	3,878.2	3,148.1	3,438.4
Gross loans	25,241.7	24,958.4	27,146.9	25,712.1	27,379.6	27,162.2	28,974.0	29,227.0
Loan loss reserves (LLR)	5,017.2	5,561.1	5,954.8	2,090.8	2,473.7	2,729.4	3,002.7	2,191.2
Equity	5,458.9	4,989.1	4,854.6	4,589.7	4,537.4	4,593.2	4,569.2	5,081.9
Deposits	14,829.5	15,539.9	16,982.9	19,481.7	18,749.6	18,488.4	16,140.0	16,507.3
Quarterly P&L								
Net interest income	291.7	329.5	310.7	556.1	353.8	395.0	398.0	344.2
Net commission income	101.3	93.8	111.2	88.8	83.1	77.9	95.6	60.5
Operating income (before LLP)	221.7	367.5	556.2	711.7	505.7	424.6	578.2	794.8
Operating expense	(315.4)	(357.1)	(288.7)	(531.1)	(273.3)	(222.4)	(329.2)	(713.2)
Loan-loss provisions (LLP)	(123.2)	(365.9)	(495.2)	(534.5)	(316.7)	(149.4)	(246.9)	(57.1)
Net income	(151.5)	(303.0)	(137.0)	(251.4)	(48.7)	52.3	2.2	24.9
Last 12-month period P&L								
Net interesting income	977.1	1,153.1	1,186.9	1,487.9	1,550.1	1,615.6	1,702.9	1,491.0
Net commission income	482.0	485.7	432.2	395.0	376.9	361.0	345.4	317.2
Operating income (before LLP)	1,287.9	1,356.0	1,440.6	1,857.1	2,141.1	2,198.3	2,220.2	2,303.3
Operating expense	(1,284.4)	(1,363.0)	(1,345.7)	(1,492.4)	(1,450.3)	(1,315.6)	(1,356.0)	(1,538.1)
Loan-loss provisions (LLP)	(2,586.9)	(2,687.3)	(1,873.3)	(1,518.9)	(1,712.3)	(1,495.9)	(1,247.6)	(770.2)
Net income	(2,858.8)	(3,006.7)	(2,215.9)	(842.9)	(740.1)	(384.8)	(245.6)	30.8
Growth rates (%YoY)								
Assets	-8.3	2.8	-6.1	14.4	16.6	20.7	22.0	10.3
Gross loans	7.6	5.2	10.4	5.1	8.5	8.8	6.7	13.7
Deposits (by businesses)	26.0	23.0	22.7	77.6	71.9	63.2	16.4	-10.3
Deposits (by households)	19.8	18.4	23.8	12.4	5.8	-1.7	-15.5	-19.0
Deposits (total)	21.7	19.8	23.5	33.5	26.4	19.0	-5.0	-15.3
Equity	32.2	52.7	108.7	-15.3	-16.9	-7.9	-5.9	10.7
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	N/A	16.9	21.6	17.2	17.7	15.1	13.9	13.2
Equity/Assets	18.2	17.4	16.8	13.3	13.0	13.3	13.0	13.3
(Equity + Subor. debt)/Assets	18.2	17.4	25.1	19.7	19.4	19.9	19.2	19.2
Liquid assets/Assets	10.1	8.4	6.3	10.4	9.5	11.2	8.9	9.0
Current liquidity (R5 by NBU)	N/A	77.0	48.5	55.0	55.5	53.1	49.5	55.0
Gross loans/Deposits	170.2	160.6	159.8	132.0	146.0	146.9	179.5	177.1
Net loans/Deposits	136.4	124.8	124.8	121.2	132.8	132.2	160.9	163.8
Cost-to-income ratio	99.7	100.5	93.4	80.4	67.7	59.8	61.1	66.8
Net interest margin	4.2	5.0	5.1	6.1	6.1	6.1	6.1	5.2
ROAA	-9.1	-10.6	-7.4	-2.6	-2.3	-1.2	-0.8	0.1
ROAE	-59.6	-72.8	-61.7	-16.8	-14.8	-8.0	-5.2	0.6
NII/operating income	75.9	85.0	82.4	80.1	72.4	73.5	76.7	64.7
LLR/Gross loans	19.9	22.3	21.9	8.1	9.0	10.0	10.4	7.5

Notes: Liquid assets include cash and cash equivalents; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

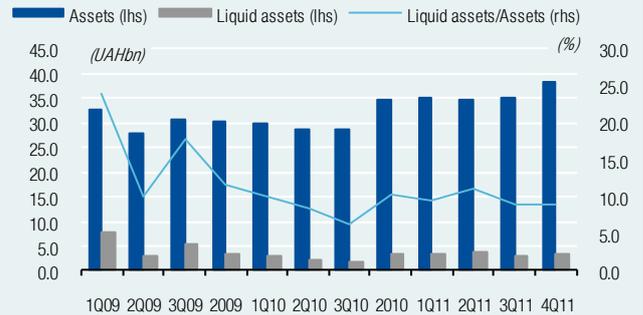
PIB: Charts on bank's key credit metrics

Chart 167. Bank's capitalisation



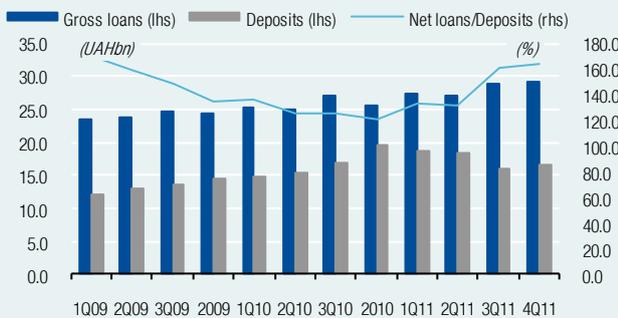
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 168. Liquidity



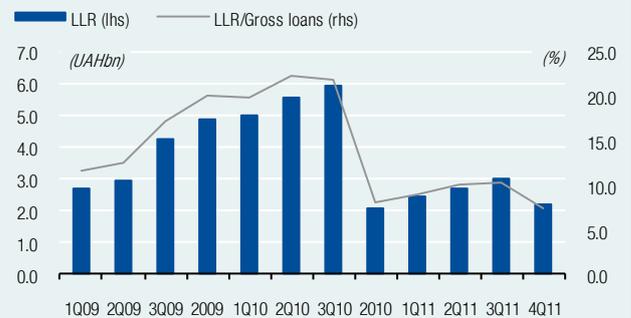
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 169. Loans and deposits



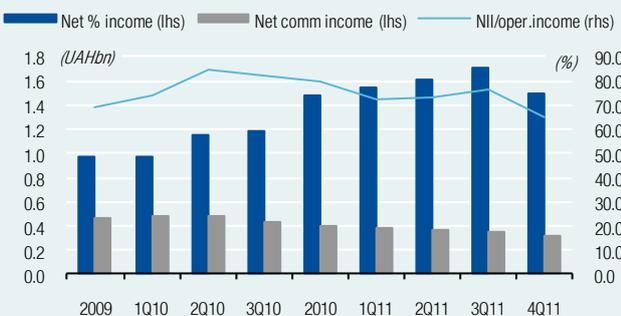
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 170. Loan loss reserves history



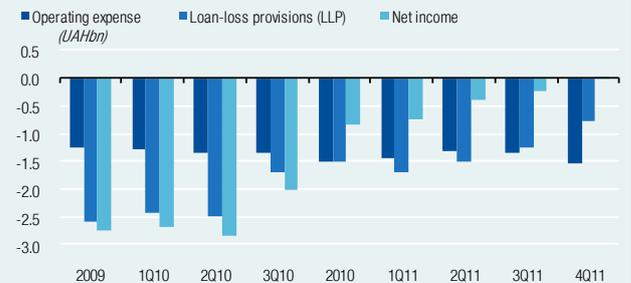
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 171. Income structure (annualised basis)



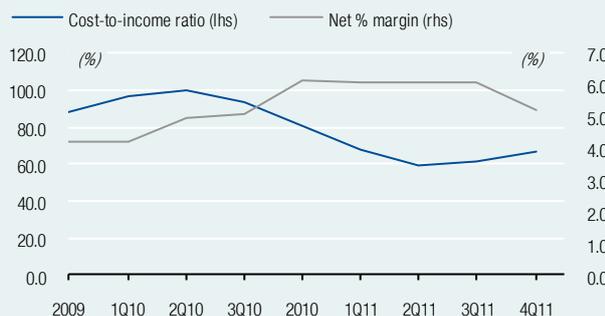
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 172. Expense and net income (annualised basis)



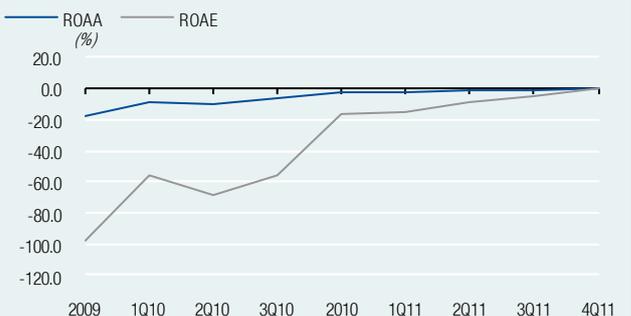
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 173. Financial performance ratios



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

Chart 174. Financial performance ratios



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

Country

Ukraine

Nadra Bank

Sector

Banks: Commercial banking

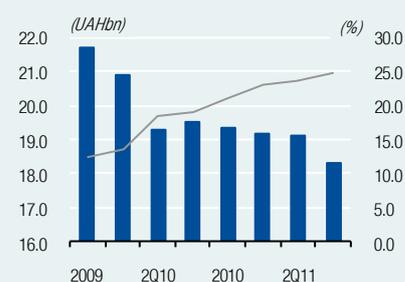
Credit ratings by Moody's/S&P/Fitch Ticker(s) in Bloomberg

WR/NR/NR NADRA

A tough 2009-11 severely pressed Nadra Bank, with not only funding outflows, but also the loss of valuable staff. The appearance of a new bank owner eased the situation, but we believe it is still far from normally operating, with much more capital needed to return to the top players in the Ukrainian banking sector. Currently, there is a sufficiently high possibility that the bank is afloat only because of the deposits from the shareholders' companies, though related party's risks are extremely high, with significant restructuring processes needed.

- Capitalisation: RCAR already at 11%, above minimum, but hard to believe it is real.** Before the UAH3.5bn capital injection during 2Q11, the bank's RCAR was at a significantly lower, 10% threshold (6.5% according to the UAS 2010 report). We believe that further loan-loss reserves formation to an adequate level will pressure the bank's capitalisation far below 10%, and there should be much more capital injected.
- Liquidity: Materially improved during 3Q11,** with a UAH2.4bn boost in the bank's cash and cash equivalents to UAH3.2bn, or to 13% of total assets (9.5ppt boost QoQ), we can say that the bank can finally normally provide for its current operations. While Nadra Bank has no other liquidity margin, it is business clients whose current accounts provide inflow, which has fluctuated around UAH1.8bn since 1Q10, supporting the bank's liquidity, and we believe that they are likely related to the bank's shareholder-related parties.
- Assets' quality: More questions arise than answers.** The bank did not reveal any IFRS NPL's figures, and its credit operation calculation will not present reliable figures due to the NBU's individual license on LLR formation, which Nadra Bank likely has. Thus, we are left with only LLR analysis, which has constantly increased since 1Q10, to UAH6.0bn, or 24.9% of the total credit portfolio as of 3Q11. Considering that the LLR level in other banks with issues during 2009-10, we deem Nadra Bank's LLR level are far from adequate, with a targeted fair level of about 70-80% (about UAH11-13bn more in capital is needed to cover provisions).
- Since 1Q10, the bank's loan-loss provisions** have been formed only in an amount that does not decrease total shareholders' equity, i.e., from the bank's profit. We do not believe there will be a material improvement in profitability by the bank, though it will need about five-to-six years to increase loan loss-reserves to fair value without more capital injections, considering the current situation, according to our rough calculations.

Gross loans and LLR ratio, according to UAS



Source: bank data.

Key financials and ratios

	2009	2010	2011	3Q11
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	24,846	22,908	22,485	24,566
Loans	21,701	19,357	19,139	18,280
Deposits	8,520	7,782	5,887	7,449
Equity	475	479	3,980	3,980
Net % income	1,484	1,377	976	955
Net com income	174	71	27	57
Operating income	1,119	2,876	2,150	2,129
PPI	211	2,137	1,404	1,367
LLP	(1,351)	(2,191)	(1,600)	(1,483)
Net income	(1,364)	5	1	1
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	N/A	N/A	6.5	11.0
Equity-to-assets	1.9	2.1	17.7	16.2
Loan-to-deposit	254.7	248.8	325.1	245.4
Liquid assets	1.3	4.2	3.5	13.0
ROAA	(11.0)	0.0	0.003	0.004
ROAE	(574.6)	1.0	0.03	0.04
Net % margin	6.3	6.7	4.9	4.8
NII-to-op.income	132.7	47.9	45.4	44.8
Cost-to-income	81.1	25.7	34.7	35.8
LLR	12.5	21.1	23.8	24.9
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 based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
 NII – Net interest income; LLR – loan-loss reserves;
 NPL – non-performing loans

Sources: Bank data, Investment Capital Ukraine LLC.

- **Financial performance: Weak and far-fetched.** Considering the above-described credit portfolio quality, and with a high possibility of needed loan-loss provisions, the UAH0.8m YTD net income according to UAS presented by the bank seems to be more public-targeted, without having anything in common with the real situation.
- **The bank also has NBU refinancing outstanding,** of about UAH7bn, as of April 2011, according to open sources, and we assume that these funds could be easily prolonged in case of need, taking into account the close relations of the bank's shareholder with the current government.
- **Constant outflow in households' deposits.** Considering its failure to return client's deposits during the financial crisis, we await further outflow in households' accounts, which decreased by 19.3% QoQ, or 33.8% YTD, to UAH3.2bn as of 3Q11, UAS data. As of today, the bank's local funding is supported only by business deposits, which we touched on earlier from the related party's perspective, with an increase of 118.5% QoQ, or 43.2% as of year-end 2011, to UAH4.3bn.

Table 48. List of outstanding Eurobonds issued by Nadra Bank, pricing as of 30 January, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
NADRA 8% due 17	WR/--/WD	USD	74.5745	N/A	N/A	N/A	N/A
NADRA 9.375% due 17	--/--/--	USD	50	N/A	N/A	N/A	N/A

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity.

Sources: Company data.

Nadra Bank: Bank's bond charts (price, yield, spread)

Chart 175. History of prices of bank's bonds (% of par)



Chart 176. History of bank's bond yields (%)

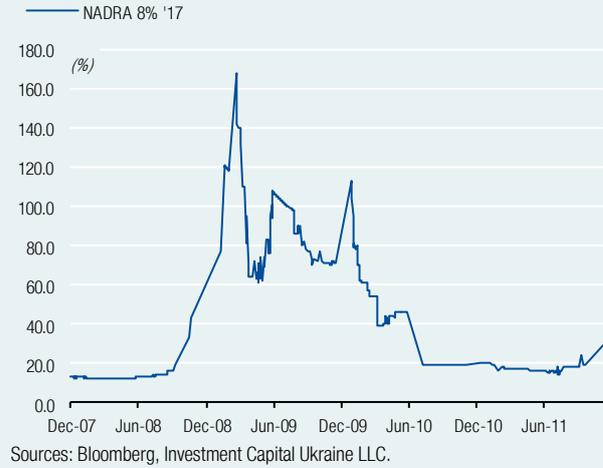
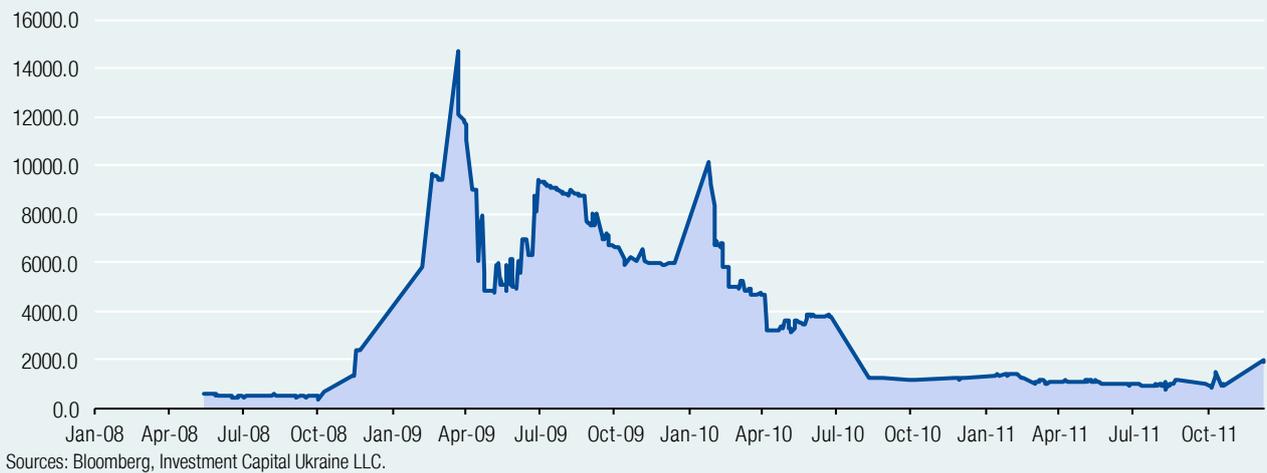


Chart 177. History of bank's bond spreads to sovereign bonds (bp)



Nadra Bank: Quarterly UAS financials – key financials and ratios

Table 49. Key financials and ratios derived from bank's UAS financials

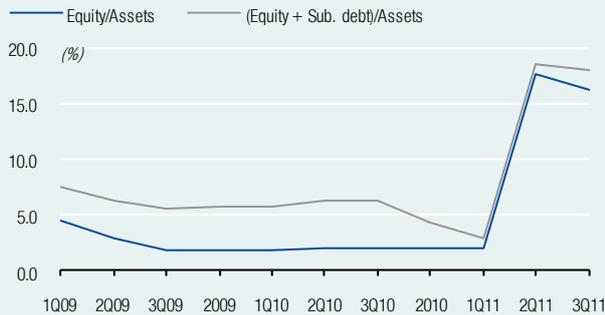
	2009	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11
Balance sheet figures (UAHm)								
Assets	24,845.8	25,080.4	22,852.1	23,093.8	22,907.7	22,448.5	22,485.3	24,566.4
Liquid assets	332.5	1,416.5	878.1	954.2	962.6	695.0	792.7	3,198.1
Gross loans	24,793.3	24,183.7	23,692.2	24,085.7	24,547.5	24,989.6	25,105.3	24,329.1
Loan loss reserves (LLR)	3,092.1	3,261.2	4,391.5	4,579.4	5,190.1	5,813.3	5,966.6	6,049.0
Equity	474.7	479.1	479.3	479.4	479.4	479.6	3,979.8	3,980.3
Deposits	8,519.8	8,872.6	7,740.8	7,469.0	7,781.8	7,014.6	5,887.3	7,449.1
Quarterly P&L								
Net interest income	425.4	415.7	332.0	298.0	331.3	92.7	253.9	276.6
Net commission income	33.8	24.7	23.8	10.3	12.2	(23.7)	28.4	40.5
Operating income (before LLP)	412.1	431.1	1,287.4	288.2	869.8	686.7	305.5	267.2
Operating expense	(185.9)	(228.9)	(79.8)	(172.9)	(258.2)	(164.7)	(150.3)	(188.9)
Loan-loss provisions (LLP)	(33.4)	(189.2)	(1,195.2)	(194.4)	(611.7)	(639.1)	(154.7)	(77.6)
Net income	(25.9)	4.4	0.2	0.1	0.1	0.1	0.3	0.4
Last 12-month period P&L								
Net interesting income	1,484.2	1,547.9	1,470.5	1,471.1	1,377.0	1,054.0	976.0	954.5
Net commission income	173.7	147.1	125.8	92.5	70.9	22.5	27.1	57.3
Operating income (before LLP)	1,118.6	1,907.4	2,809.1	2,418.8	2,876.4	3,132.0	2,150.1	2,129.1
Operating expense	(907.5)	(887.8)	(771.7)	(667.5)	(739.7)	(675.5)	(746.0)	(762.0)
Loan-loss provisions (LLP)	(1,350.6)	(1,608.1)	(2,191.8)	(1,612.3)	(2,190.6)	(2,640.4)	(1,599.9)	(1,483.1)
Net income	(1,363.8)	(801.9)	(318.3)	(21.2)	4.7	0.5	0.6	0.9
Growth rates (%YoY)								
Assets	N/A	-10.7	-13.1	-10.8	-7.8	-10.5	-1.6	6.4
Gross loans	N/A	-3.6	-4.6	-4.9	-1.0	3.3	6.0	1.0
Deposits (by businesses)	N/A	23.7	3.5	11.5	81.7	11.9	-2.4	100.0
Deposits (by households)	N/A	-25.6	-30.9	-30.6	-30.3	-33.7	-31.5	-40.5
Deposits (total)	N/A	-16.3	-24.4	-22.2	-8.7	-20.9	-23.9	-0.3
Equity	N/A	-62.6	-39.9	-4.2	1.0	0.1	730.4	730.3
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	N/A	N/A	N/A	N/A	N/A	N/A	6.5	11.0
Equity/Assets	1.9	1.9	2.1	2.1	2.1	2.1	17.7	16.2
(Equity + Subor. debt)/Assets	5.7	5.7	6.3	6.3	4.4	2.9	18.5	17.9
Liquid assets/Assets	1.3	5.6	3.8	4.1	4.2	3.1	3.5	13.0
Current liquidity (R5 by NBU)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	98.2
Gross loans/Deposits	291.0	272.6	306.1	322.5	315.4	356.3	426.4	326.6
Net loans/Deposits	254.7	235.8	249.3	261.2	248.8	273.4	325.1	245.4
Cost-to-income ratio	81.1	46.5	27.5	27.6	25.7	21.6	34.7	35.8
Net interest margin	6.3	6.8	6.7	6.9	6.7	5.2	4.9	4.8
ROAA	-11.0	-3.0	-1.3	-0.1	0.02	0.002	0.003	0.004
ROAE	-574.6	-91.1	-49.9	-4.3	1.0	0.1	0.03	0.04
NII/operating income	132.7	81.2	52.3	60.8	47.9	33.7	45.4	44.8
LLR/Gross loans	12.5	13.5	18.5	19.0	21.1	23.3	23.8	24.9

Notes: Liquid assets include cash and cash equivalents; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

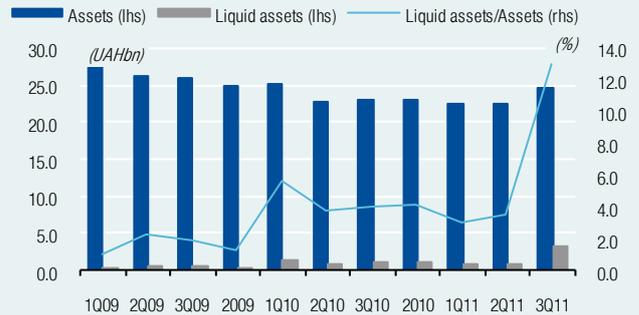
Nadra Bank: Charts on bank's key credit metrics

Chart 178. Bank's capitalisation



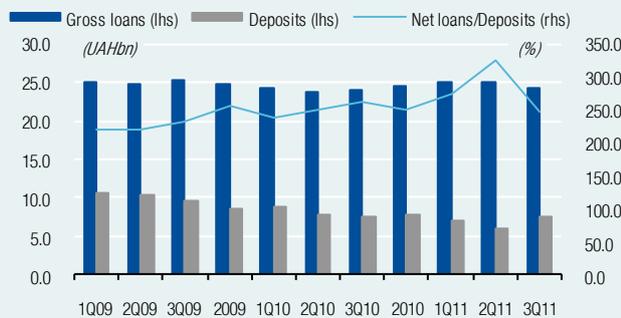
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 179. Liquidity



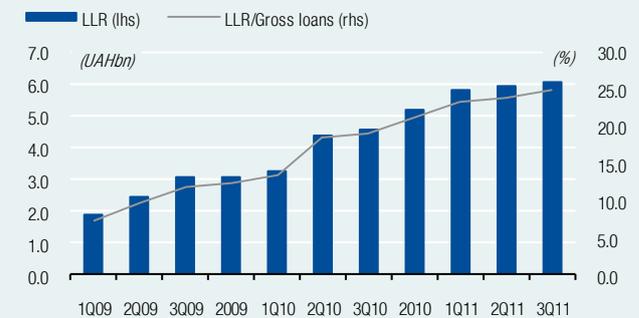
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 180. Loans and deposits



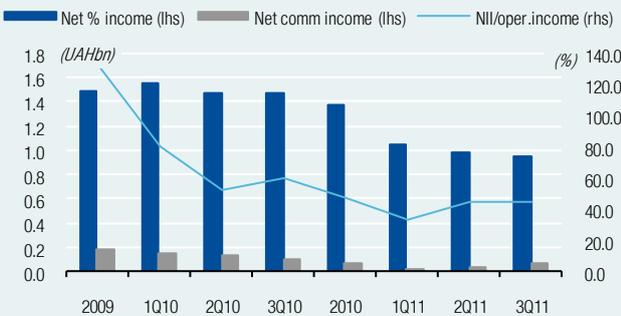
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 181. Loan loss reserves history



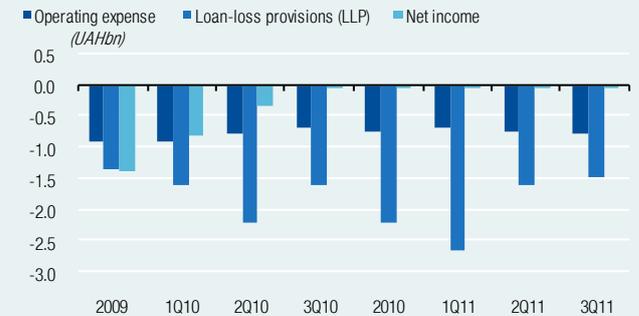
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 182. Income structure (annualised basis)



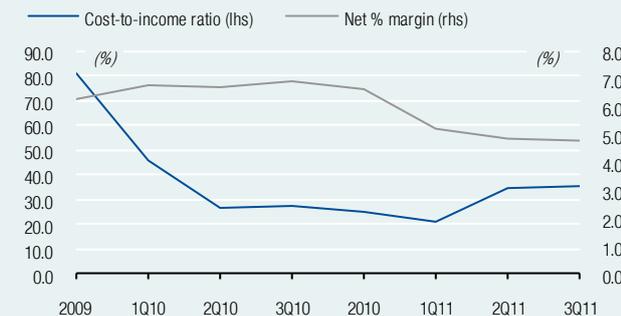
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 183. Expense and net income (annualised basis)



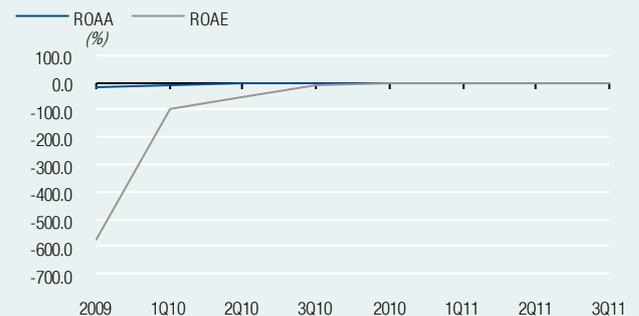
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 184. Financial performance ratios



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

Chart 185. Financial performance ratios



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

Country

Ukraine

VAB Bank

Sector

Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch Ticker(s) in Bloomberg

B3/NR/NR VABANK

Recent press wars among the bank's shareholders did not bring anything positive to VAB Bank's image. Revealed credit portfolios issues should materially spoil the bank's currently not very superior financials, placing the bank in further jeopardy during volatile economic conditions. Still, we believe that when the bank gets a shareholder with a controlling stake (which should be in the short-term period, with a stakes redemption by Mr Bachmatyk), along with further capital injections, VAB Bank has good chances to return to profitability with targets on growth.

- Capitalisation: Increased during 3Q11.** Through 3Q11, VAB Bank improved RCAR by 4.5ppt, to 16%, with a UAH600m capital increase, which was not registered till the reporting date. As stated in the 1H11 IFRS report, according to Basel I, the CAR was at the minimum required level of 8%. In official releases were mentioned plans to increase capital by US\$100m, boosting the bank's RCAR above 20%, according to estimates, and in our opinion, the bank will raise necessary capital after the end of its woes surrounding its shareholders' structure, when a new shareholder with a controlling stake will inject capital into the bank. We believe that after a US\$100m capital injection, the bank will have enough capital to cover unexpected loan-loss provisions.
- Liquidity: Notably improved after a fall in the beginning of 2011.** As of 3Q11, bank's cash and cash equivalents amounted to UAH1.1bn, or 13% of total assets, while as of 1Q11, this figure was a worrisome 6.7%. This was contributed by the households' current accounts, which increased by US\$337.9m during past two quarters. Also of concern are the constant negative liquidity gaps, presented in the 2010 IFRS report; thus, it would be rather difficult for the bank's management to reverse the liquidity situation, and we leave the possibility for the bank's further decrease in liquid assets, which is highly risky in the current environment.
- Assets' quality: Questionable, with possible further impairment.** The bank's NPL ratio (considering individually impaired loans) was at 58.3%, or US\$476.0m, with 42.8% LLR coverage (data as of 2H11). The fair value of collateral under individually impaired loans, at US\$256.0m, or about 53.8% of their amount, presents a significantly high shortfall risk for the bank. Considering mentions in the press of significant fraud at the bank, there is a sufficiently high probability of a further worsening in the credit portfolio, along with an increase in loan-loss provisions, taking into account the relatively low 21.5% LLR/Gross loans ratio (3Q11 UAS data).

RCAR, according to UAS



Source: bank data.

Key financials and ratios

	2010	1Q11	2Q11	3Q11
	IFRS	UAS	IFRS	UAS
Financials (UAHm)				
Assets	6,010	7,294	6,830	8,698
Loans	3,895	4,819	4,878	5,225
Deposits	4,352	4,610	5,009	5,442
Equity	432	747	310	528
Net % income	112	69	177	111
Net com income	60	107	75	155
Operating income	311	359	417	325
PPI	(178)	(208)	(119)	(321)
LLP	(806)	(532)	(681)	(429)
Net income	(823)	(595)	(632)	(624)
Ratios (%)				
Tier 1 ratio	9.2	N/A	N/A	N/A
CAR	15.0	15.0	N/A	16.0
Equity-to-assets	7.2	10.2	4.5	6.1
Loan-to-deposit	89.5	104.5	97.4	96.0
Liquid assets	19.5	6.7	10.5	13.0
ROAA	(13.2)	(8.3)	(9.4)	(8.1)
ROAE	(172.5)	(86.4)	(169.2)	(111.1)
Net % margin	2.3	1.3	3.3	2.0
Nil-to-op.income	36.1	19.2	42.6	34.2
Cost-to-income	157.1	157.8	128.6	198.8
LLR	28.8	21.2	24.9	21.5
NPLs	65.0	N/A	58.3	N/A
NPL coverage	44.4	N/A	42.8	N/A

Notes: P&L figures and ratios are based on 12-month annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
 Nil – Net interest income; LLR – loan-loss reserves;
 NPL – non-performing loans (individually impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC.

- Profitability: Remains weak and negative since 2009.** The bank's net interest margin stood at a low 2%, while cost-to-income increased by 47.3ppt, to 198.8% QoQ (UAS figures). The overall loss since 2009 amounted to UAH1.3bn, and, as we can see from the above-described figures, as of today, the bank has not mentioned a reverse in the trend or presented any sign of future profits. Both the bank's expenses and loan-loss provisions (UAH646.7m and UAH428.6m, respectively, according to the annualised 12-month period, UAS P&L, data as of 3Q11) are way too high in comparison with UAH324.9m of operating income.

Table 50. List of outstanding Eurobonds issued by VAB Bank, pricing as of 30 January, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
VABANK 10.5% due 14	Caa1/--/WD	USD	112.477	N/A	N/A	N/A	N/A

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity.

Sources: Company data.

VAB Bank: Bank's bond charts (price, yield, spread)

Chart 186. History of prices of bank's bonds (% of par)



Chart 187. History of bank's bond yields (%)

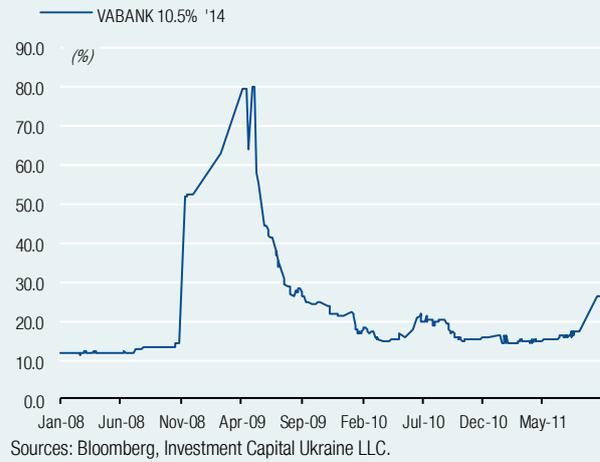
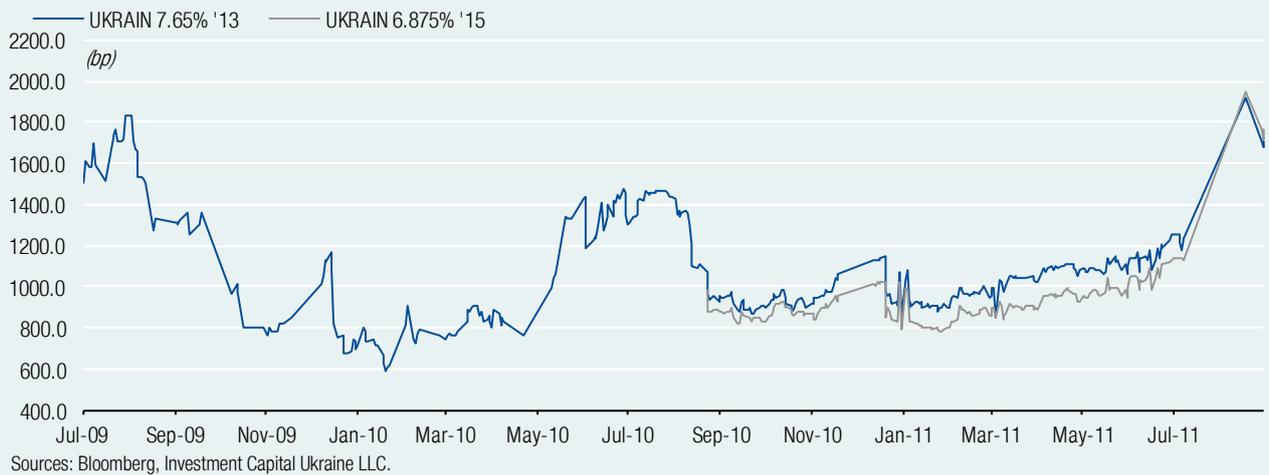


Chart 188. History of bank's bond spreads to sovereign bonds (bp)



VAB Bank: IFRS financials – key financials and ratios

Table 51. Key FINANCIALS derived from bank's IFRS financials

	2005	2006	2007	2008	2009	2010	2011
P&L (YTD) (US\$m)							
Net interest income	11.6	25.3	13.8	81.9	43.6	14.1	13.0
Net fee & commission income	7.4	8.6	6.7	15.3	7.2	7.6	5.0
Operating income	21.1	39.1	25.4	126.3	67.1	39.1	22.1
Pre-provision income (PPI)	5.4	9.0	3.0	37.4	7.2	(22.4)	(9.7)
Loan-loss provisions (LLP)	(2.1)	(5.8)	(2.5)	(50.8)	(69.2)	(101.3)	(7.3)
Pre-tax income	3.3	3.4	0.5	(13.4)	(62.1)	(123.6)	(16.9)
Net income (NI)	2.7	2.1	0.3	(12.0)	(47.0)	(103.5)	(16.9)
Balance sheet (US\$m)							
Cash & balances with central bank	165.7	276.6	200.5	91.2	78.7	147.4	89.9
Due from banks	5.6	5.3	1.0	2.0	11.6	5.1	4.8
Loans to customers	236.8	501.6	909.8	792.4	653.9	489.6	612.5
Investment securities	0.0	3.4	0.0	0.0	0.0	21.8	32.8
Property, equipment and intangible assets	15.1	31.0	43.7	40.3	27.9	25.5	25.0
Other assets	30.1	44.7	67.0	28.9	45.4	66.2	92.4
Total assets	453.3	862.7	1,222.0	954.8	817.6	755.6	857.5
Due to banks	97.2	257.8	187.0	145.2	62.6	14.7	48.0
Due to central bank	0.0	5.0	2.8	49.6	131.7	0.0	0.0
Customer accounts	265.6	491.6	736.9	500.6	369.5	547.1	628.9
Wholesale borrowings	12.0	3.6	153.4	133.0	122.1	87.5	92.5
Subordinated debt	24.2	0.0	20.2	20.3	63.0	44.6	43.8
Total equity	53.5	102.2	117.6	99.6	65.6	54.3	38.9
Total liabilities & equity	453.3	862.7	1,222.0	954.8	817.6	755.6	857.5

Note: P&L figures and ratios are based on 12-month annualised basis.

Sources: Company data.

Table 52. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2005	2006	2007	2008	2009	2010	2011
Growth rates (%YoY)								
Assets	(%YoY)	N/A	90.3	41.6	-21.9	-14.4	-7.6	2.1
Loans	(%YoY)	N/A	111.8	81.4	-12.9	-17.5	-25.1	0.9
Deposits	(%YoY)	N/A	85.1	49.9	-32.1	-26.2	48.1	38.6
Equity	(%YoY)	N/A	91.0	15.1	-15.3	-34.1	-17.2	-29.1
Net interest income	(%YoY)	N/A	118.6	-45.7	494.8	-46.8	-67.5	166.3
Net commission income	(%YoY)	N/A	16.7	-22.0	127.1	-53.0	5.6	59.6
Operating income	(%YoY)	N/A	85.0	-35.1	397.7	-46.8	-41.7	147.4
Balance sheet ratios								
Liquid assets/Assets	(%)	36.5	32.1	16.4	9.5	9.6	19.5	10.5
Liquid assets/Liabilities	(%)	41.4	36.4	18.2	10.7	10.5	21.0	11.0
Due from banks/Due to banks	(x)	0.1	0.02	0.01	0.01	0.1	0.3	0.1
Current ratio	(x)	2.0	1.3	0.7	0.4	0.6	0.8	0.6
Equity/Assets	(%)	11.8	11.8	9.6	10.4	8.0	7.2	4.5
Gross loans/Deposits	(%)	91.9	104.7	147.6	168.4	208.6	125.7	129.8
Net loans/Deposits	(%)	89.2	102.0	123.5	158.3	177.0	89.5	97.4
Wholesale borrowings/Liabilities (%)	(%)	3.0	0.5	13.9	15.5	16.2	12.5	11.3
Profitability & Earning quality								
ROAA	(%)	N/A	0.3	0.03	-1.1	-5.3	-13.2	-9.4
ROAE	(%)	N/A	2.7	0.3	-11.0	-56.9	-172.5	-169.2
Net interest income/Operating income	(%)	N/A	64.8	54.3	64.9	64.9	36.1	42.6

Table 52. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2005	2006	2007	2008	2009	2010	2011
Net commission income/Operating income	(%)	N/A	22.1	26.6	12.1	10.7	19.4	18.1
Other income/Operating income	(%)	N/A	13.1	19.1	23.0	24.4	44.4	39.3
Net interest margin	(%)	N/A	6.2	1.8	9.2	5.9	2.3	3.3
Cost-to-income ratio	(%)	N/A	76.9	88.1	70.4	89.3	157.1	128.6
LLP/Operating income	(%)	N/A	14.8	9.9	40.2	103.1	258.8	163.5
Assets quality								
NPL/Gross loans	(%)	N/A	N/A	N/A	N/A	39.3	65.0	N/A
NPL coverage	(%)	N/A	N/A	N/A	N/A	38.5	44.4	N/A
LLR/Gross loans	(%)	3.0	2.6	16.4	6.0	15.2	28.8	24.9
Earning power								
Recurring earning power	(%)	N/A	1.4	0.3	3.4	0.8	-2.8	-1.8
PPI/Average total capital funds	(%)	N/A	11.6	2.8	34.4	8.7	-37.3	-31.8
Interest expense/Interest income	(%)	N/A	58.4	78.6	54.9	67.5	85.7	76.5
Interest income/Average interest earning assets	(%)	N/A	14.9	8.5	20.5	18.1	16.2	14.1
Interest expense/Average interest bearing liabilities	(%)	N/A	6.1	5.5	10.3	11.3	11.7	9.1
Net spread	ppt	N/A	8.8	3.0	10.2	6.7	4.5	5.0
Income tax / Pretax income	(%)	N/A	39.1	40.0	10.8	24.3	16.3	20.3
Efficiency								
Non-interest expense/Average assets	(%)	N/A	5.7	2.5	13.3	14.8	21.0	18.3
Personnel expense/Average assets	(%)	N/A	2.0	1.0	3.8	2.9	3.4	3.6
Personnel expense/Operating income	(%)	N/A	34.3	40.2	32.8	37.7	68.4	57.9
Personnel expense/Non-interest expense	(%)	N/A	35.9	39.2	28.7	19.3	16.2	19.5
Funding structure								
Customer accounts/Total funding base	(%)	58.7	57.2	60.5	52.8	45.4	73.1	73.8
Net loans/Total funding base	(%)	52.3	58.3	74.7	83.6	80.3	65.4	71.9
Average net loans/Average customer accounts	(%)	N/A	97.5	114.9	137.6	166.2	124.8	112.6
Customer accounts/Shareholders' equity	(%)	496.4	481.2	626.8	502.7	563.0	1,007.1	1,615.6
Provisioning								
Average net loans/Average assets	(%)	N/A	56.1	67.7	78.2	81.6	72.7	71.8
NPL/(Shareholders' equity + LLR)	(%)	N/A	N/A	N/A	N/A	166.2	176.9	N/A
LLP/Gross loans	(%)	N/A	1.1	0.2	6.0	9.0	14.7	10.5
LLP/(LLR - LLP)	(%)	N/A	78.6	1.4	-12,211.5	145.4	104.5	72.5
LLP/PPI	(%)	N/A	64.1	83.1	135.9	967.1	-453.2	-572.2
Dividend payout	(%)	N/A	0.0	0.0	0.0	0.0	0.0	0.0
Internal capital growth	(%)	N/A	3.9	0.3	-10.2	-47.2	-157.6	-144.6
Other ratios and indicators								
Retail share in loan book	(%)	N/A	19.5	22.7	30.6	30.3	27.8	27.3
Personnel expense per employee	(US\$ 000s)	N/A	5.0	N/A	13.8	11.6	13.2	N/A
Operating income per employee	(US\$ 000s)	N/A	14.5	N/A	42.0	30.8	19.2	N/A

Sources: Bank data, Investment Capital Ukraine LLC..

VAB Bank: Quarterly UAS financials – key financials and ratios

Table 53. Key financials and ratios derived from bank's UAS financials

	2009	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11
Balance sheet figures (UAHm)								
Assets	7,258.2	7,006.9	7,116.5	6,785.4	6,661.9	7,293.7	7,736.8	8,698.4
Liquid assets	676.1	822.5	878.9	747.9	1,133.8	490.3	681.6	1,127.7
Gross loans	6,158.0	6,087.7	5,912.9	5,922.7	5,472.5	6,117.8	6,343.0	6,660.0
Loan loss reserves (LLR)	751.8	831.6	898.4	1,072.0	1,225.4	1,299.1	1,347.1	1,435.1
Equity	672.2	630.6	536.7	595.1	279.8	747.4	671.5	527.9
Deposits	2,930.5	3,126.5	3,538.5	3,834.8	4,356.6	4,609.8	5,041.3	5,441.9
Quarterly P&L								
Net interest income	56.8	16.8	8.9	18.8	16.5	24.8	45.4	24.5
Net commission income	33.2	26.4	27.6	25.8	25.8	27.6	44.0	57.8
Operating income (before LLP)	93.1	41.9	57.4	165.9	50.8	85.0	96.4	93.1
Operating expense	(103.8)	(99.3)	(108.3)	(113.8)	(226.6)	(117.9)	(144.8)	(157.4)
Loan-loss provisions (LLP)	(243.5)	(80.0)	(77.3)	(173.5)	(205.6)	(75.9)	(48.4)	(98.8)
Net income	(239.0)	(106.7)	(97.8)	(93.4)	(321.8)	(82.4)	(75.9)	(143.6)
Last 12-month period P&L								
Net interesting income	299.6	201.3	135.7	101.3	61.0	69.0	105.6	111.2
Net commission income	134.6	129.8	124.1	113.0	105.5	106.8	123.1	155.2
Operating income (before LLP)	482.9	363.3	299.3	358.2	315.9	359.0	398.0	325.2
Operating expense	(421.5)	(415.0)	(412.2)	(425.2)	(548.0)	(566.5)	(603.1)	(646.7)
Loan-loss provisions (LLP)	(472.8)	(490.2)	(493.0)	(574.3)	(536.3)	(532.2)	(503.3)	(428.6)
Net income	(381.7)	(481.7)	(512.2)	(537.0)	(619.8)	(595.5)	(573.5)	(623.7)
Growth rates (%YoY)								
Assets	-6.3	-1.4	2.9	-8.8	-8.2	4.1	8.7	28.2
Gross loans	-2.0	1.6	-0.8	-6.8	-11.1	0.5	7.3	12.4
Deposits (by businesses)	-36.8	-17.7	-1.2	-12.6	26.5	35.0	32.0	22.7
Deposits (by households)	-13.1	22.2	49.0	67.3	60.1	53.0	46.8	48.8
Deposits (total)	-23.0	6.4	29.7	34.8	48.7	47.4	42.5	41.9
Equity	-25.6	-29.6	-35.4	-20.5	-58.4	18.5	25.1	-11.3
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	18.5	13.9	14.7	15.2	19.3	15.0	11.5	16.0
Equity/Assets	9.3	9.0	7.5	8.8	4.2	10.2	8.7	6.1
(Equity + Subor. debt)/Assets	16.2	16.2	12.3	13.9	9.5	15.1	13.2	10.1
Liquid assets/Assets	9.3	11.7	12.3	11.0	17.0	6.7	8.8	13.0
Current liquidity (R5 by NBU)	56.5	70.6	61.2	59.1	86.6	51.7	51.2	64.7
Gross loans/Deposits	210.1	194.7	167.1	154.4	125.6	132.7	125.8	122.4
Net loans/Deposits	184.5	168.1	141.7	126.5	97.5	104.5	99.1	96.0
Cost-to-income ratio	87.3	114.2	137.7	118.7	173.5	157.8	151.5	198.8
Net interest margin	4.9	3.4	2.3	1.8	1.2	1.3	2.0	2.0
ROAA	-5.1	-6.8	-7.3	-7.5	-8.9	-8.3	-7.7	-8.1
ROAE	-48.5	-63.1	-74.9	-79.9	-130.2	-86.4	-94.9	-111.1
NII/operating income	62.0	55.4	45.3	28.3	19.3	19.2	26.5	34.2
LLR/Gross loans	12.2	13.7	15.2	18.1	22.4	21.2	21.2	21.5

Notes: Liquid assets include cash and cash equivalents; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

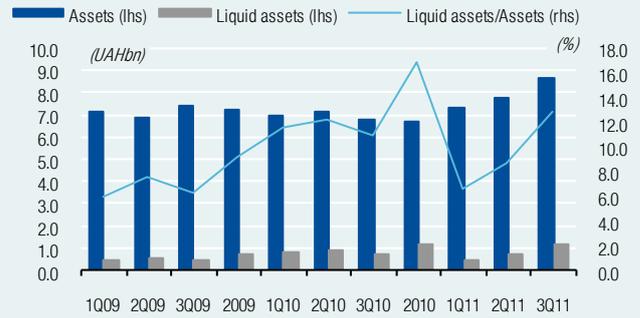
VAB Bank: Charts on bank's key credit metrics

Chart 189. Bank's capitalisation



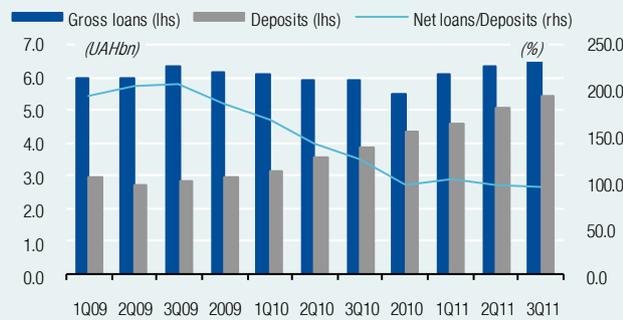
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 190. Liquidity



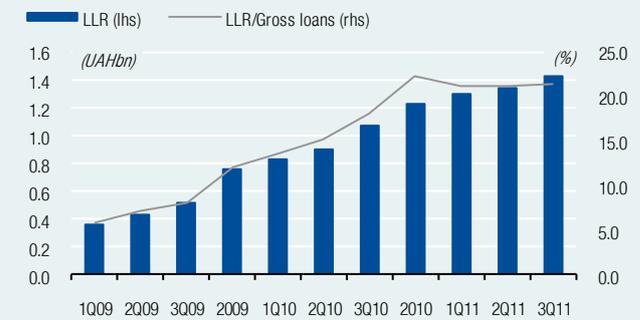
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 191. Loans and deposits



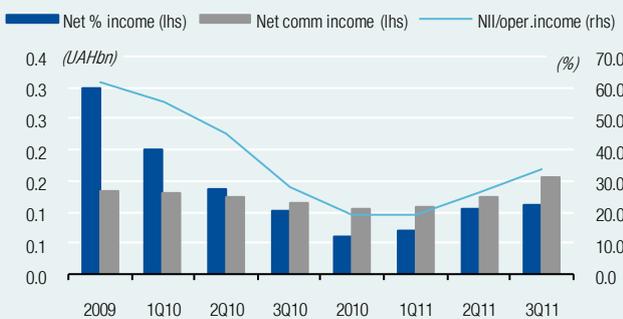
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 192. Loan loss reserves history



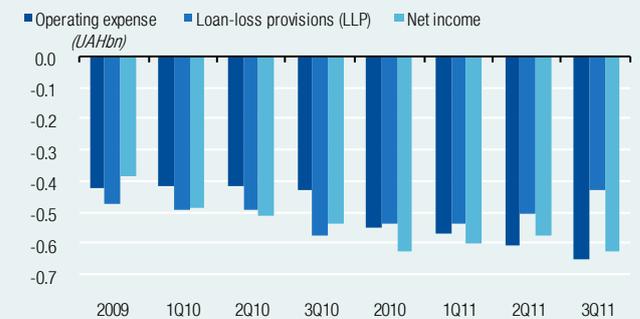
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 193. Income structure (annualised basis)



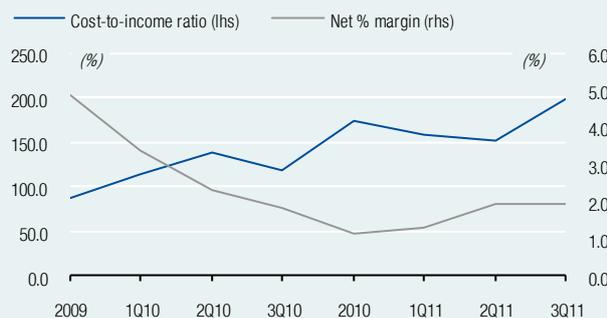
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 194. Expense and net income (annualised basis)



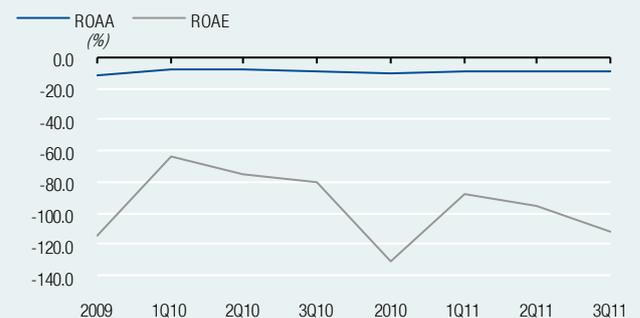
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 195. Financial performance ratios



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

Chart 196. Financial performance ratios



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

Country

Ukraine

VTB Bank (Ukraine)

Sector

Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch Ticker(s) in Bloomberg

NR/NR/B VTB

VTB Bank (Ukraine), one of the top players in the Ukrainian banking sector by lending activity this year, is known for its aggressive growth and ambitious targets. In this regard, the bank is repeating the strategy of its shareholder, VTB Bank, the second-largest bank in the Russian Federation. However, too much lending might result in asset quality deterioration. In this note, we analyse whether the recently published 4Q11 UAS quarterly financials indicate any such deterioration.

Capitalisation: Although is not as high as it was in early 2011, it is still solid. VTB Bank's regulatory capital adequacy ratio (R2 by the NBU) fell during 2011 by 7.1ppt, to 13.2%, which is still above the required minimum, as a result of active expansion and LLR formation. While we consider the level to be sufficient for VTB Bank, in case of a continuation of such aggressive strategy, it will need additional capital injections from shareholders to support its growth and possibilities for losses absorption.

Liquidity: Cash is slightly up, and investments available for sale are down. With a 26.9% increase during 4Q11 in cash and cash equivalents, the bank has materially improved its cash-to-assets ratio, by 3.7ppt to 10.0%. From the perspective of relatively liquid securities held by the bank (a significant share of which was in Government debt, according to end-2010 data), VTB Bank decreased its total by 16.7% QoQ, to UAH1.8, or a 32.1% decrease during 2011. Considering the bank's active securities operations, we expect that the securities held in the bank's trading portfolio will be quite volatile going forward. Summing up the liquidity area, we cannot state that as of end-4Q11 VTB Bank had an excess of liquid assets, but we believe that such a level is still acceptable in this particular case.

Assets' quality: Leaves doubts, with expectations for further deterioration. During 4Q11, the bank's gross loans-to-deposits ratio increased 18.8ppt, to 277% (but with a further fall during 4Q11, to a still-high 277.6%), showing the highest figures in the first group of Ukrainian banks by assets, according to NBU classification. Such a development is the result of parental support, as reflected in VTB Bank's funding structure, described further below. With high loans growth, the bank's individually impaired loans increased by 12.5%, to UAH7.2bn, or 24.1% of total loans, while their LLR coverage decreased by 10.2ppt, to 45.6%, leaving a sufficiently high possibility of further reserves formation. We believe that the bank's risky strategy will worsen its credit portfolio in the nearest future, although not by a critical amount that the bank could not deal with.

RCAR, according to UAS



Source: bank data.

Key financials and ratios

	2009	2010	3Q11	4Q11
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	27,381	32,792	36,661	37,067
Loans	22,622	26,596	27,668	27,796
Deposits	5,147	8,055	9,987	11,936
Equity	2,190	4,781	3,877	4,057
Net % income	1,738	1,115	2,196	2,201
Net com income	154	154	306	376
Operating income	2,066	1,376	2,531	2,625
PPI	1,359	442	1,326	1,276
LLP	(2,269)	(284)	(1,268)	(682)
Net income	(692)	79	47	582
Ratios (%)				
Tier 1 ratio	8.5	N/A	N/A	N/A
CAR	13.3	N/A	13.0	13.2
Equity-to-assets	8.0	14.6	10.6	10.9
Loan-to-deposit	439.5	330.2	277.0	232.9
Liquid assets	11.0	5.5	7.9	10.0
ROAA	-2.5	0.3	0.1	1.7
ROAE	-32.5	2.3	1.6	13.9
Net % margin	7.4	4.2	7.5	7.5
NII-to-op.income	84.1	81.0	86.8	83.8
Cost-to-income	34.2	67.9	47.6	51.4
LLR	13.7	11.0	16.6	16.1
NPLs	24.4	24.1	N/A	N/A
NPL coverage	55.9	45.6	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
 NII – Net interest income; LLR – loan-loss reserves;
 NPL – non-performing loans (individually impaired loans)
 Sources: Bank data, Investment Capital Ukraine LLC.

Parental funding of the lending party. During 3Q11, VTB Bank increased its due-to banks by 5.2%, to UAH 19.2bn, or 5.6% YTD according to UAS figures. Nevertheless, 4Q11 revealed an 8.4%, or UAH1.6bn, decrease in due-to banks, to UAH17.6bn (96.7% of which are denominated in FX currency), along with a significant bias towards local funding, with clients' deposits rising by 19.5% QoQ, to UAH11.9bn, presenting the possibility of changes in the parent's strategy, which should be confirmed or refuted during 1Q12. We believe that there was no material change in due-to the bank's structure since year-end 2010, when almost 100% of funds due to banks were due to the parent company. In its funding structure, they represent more than 50% (see charts at the end of this note). This is a key source of VTB Bank's expansion in Ukraine, thus it decreases, but not completely eliminates, risks related to a high loan-to-deposits ratio, with ease in prolonging of such funds. Debt securities issued during 3Q11 increased 60%, or UAH0.3bn, but are still immaterial to the bank's funding structure. Nevertheless, with the bank's plans to issue more debt, this share will further increase, but not until at least 2H12, in our view, as the local bond market is completely closed to corporate bond placements due to the drought of local liquidity and foreign investors.

2011 P&Ls were quite good, but should be confirmed by 2011 IFRS financials. VTB Bank presented quarterly net income for 4Q11 of UAH182.1m, with a quite decent UAH582.2m 2011 financial result (versus a UAH483.4m net loss during 2010), mostly because of the decreased loan-loss provisions. During 2011, the bank's LLP amounted to UAH681.9m, while the 2010 number was 53.6% higher, at UAH1.5bn. Net interest income during 4Q11 slightly decreased to UAH190.5m, but without material impact on net interest margin (based on an annualised basis), which was 7.5%. Nevertheless we are careful regarding the bank's material profit and await 2011 IFRS results, regardless of whether the bank's loan-loss reserves according to UAS are adequately formed.

VTB Bank: IFRS financials – key financials and ratios

Table 54. Key FINANCIALS derived from bank's IFRS financials

	2007	2008	2009	2010
P&L (YTD)				
	(UAHm)			
Net interest income	332.5	856.0	1,738.4	1,114.8
Net fee & commission income	97.7	165.6	154.3	154.2
Operating income	450.3	1,322.8	2,065.8	1,376.0
Pre-provision income (PPI)	136.5	609.8	1,358.8	442.2
Loan-loss provisions (LLP)	(41.5)	(1,066.2)	(2,269.3)	(283.6)
Pre-tax income	95.0	(456.4)	(910.5)	158.6
Net income (NI)	59.9	(363.5)	(692.1)	79.4
Balance sheet				
	(UAHm)			
Cash & balances with central bank	1,628.3	2,130.1	3,006.5	1,796.1
Due from banks	158.5	15.4	244.3	381.0
Loans to customers	9,010.8	23,838.5	22,621.6	26,595.7
Investment securities	37.7	113.5	115.8	2,659.4
Property, equipment and intangible assets	545.6	886.5	887.1	936.7
Other assets	70.2	163.5	505.4	423.4
Total assets	11,451.2	27,147.5	27,380.8	32,792.2
Due to banks	5,371.0	18,799.6	18,183.9	18,123.6
Due to central bank	0.0	500.0	0.0	0.0
Customer accounts	3,327.2	5,042.0	5,147.0	8,054.7
Wholesale borrowings	0.9	0.0	89.6	87.6
Subordinated debt	412.6	627.0	1,682.2	1,676.9
Total equity	806.3	2,073.2	2,190.3	4,781.3
Total liabilities & equity	11,451.2	27,147.5	27,380.8	32,792.2

Sources: Company data.

Table 55. Key FINANCIAL RATIOS derived from bank's IFRS financials

	2007	2008	2009	2010
Growth rates (%YoY)				
Assets	(%YoY)	N/A	137.1	0.9
Loans	(%YoY)	N/A	164.6	-5.1
Deposits	(%YoY)	N/A	51.5	2.1
Equity	(%YoY)	N/A	157.1	5.7
Net interest income	(%YoY)	N/A	157.5	103.1
Net commission income	(%YoY)	N/A	69.5	-6.8
Operating income	(%YoY)	N/A	193.8	56.2
Balance sheet ratios				
Liquid assets/Assets	(%)	14.2	7.8	11.0
Liquid assets/Liabilities	(%)	15.3	8.5	11.9
Due from banks/Due to banks	(x)	0.03	0.001	0.01
Current ratio	(x)	0.3	0.1	0.2
Equity/Assets	(%)	7.0	7.6	8.0
Gross loans/Deposits	(%)	276.9	498.2	509.0
Net loans/Deposits	(%)	270.8	472.8	439.5
Wholesale borrowings/Liabilities (%)	(%)	0.01	0.0	0.4
Profitability & Earning quality				
ROAA	(%)	N/A	-1.9	-2.5
ROAE	(%)	N/A	-25.3	-32.5
Net interest income/Operating income	(%)	N/A	64.7	84.1
Net commission income/Operating income	(%)	N/A	12.5	7.5

Table 55. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2007	2008	2009	2010
Other income/Operating income	(%)	N/A	22.8	8.4	7.8
Net interest margin	(%)	N/A	5.2	7.4	4.2
Cost-to-income ratio	(%)	N/A	53.9	34.2	67.9
LLP/Operating income	(%)	N/A	80.6	109.8	20.6
Assets quality					
NPL/Gross loans	(%)	3.6	9.2	24.4	24.1
NPL coverage	(%)	61.0	55.4	55.9	45.6
LLR/Gross loans	(%)	2.2	5.1	13.7	11.0
Earning power					
Recurring earning power	(%)	N/A	3.2	5.0	1.5
PPI/Average total capital funds	(%)	N/A	42.4	63.7	12.7
Interest expense/Interest income	(%)	N/A	59.2	54.6	65.3
Interest income/Average interest earning assets	(%)	N/A	12.6	16.3	12.2
Interest expense/Average interest bearing liabilities	(%)	N/A	7.3	8.3	7.9
Net spread	ppt	N/A	5.4	8.0	4.3
Income tax / Pretax income	(%)	N/A	20.3	24.0	49.9
Efficiency					
Non-interest expense/Average assets	(%)	N/A	9.3	10.9	4.2
Personnel expense/Average assets	(%)	N/A	1.9	1.2	1.5
Personnel expense/Operating income	(%)	N/A	28.1	16.4	32.3
Personnel expense/Non-interest expense	(%)	N/A	20.7	11.4	35.2
Funding structure					
Customer accounts/Total funding base	(%)	33.5	18.6	18.9	24.6
Net loans/Total funding base	(%)	90.9	88.2	82.9	81.3
Average net loans/Average customer accounts	(%)	N/A	392.5	456.0	372.8
Customer accounts/Shareholders' equity	(%)	412.7	243.2	235.0	168.5
Provisioning					
Average net loans/Average assets	(%)	N/A	85.1	85.2	81.8
NPL/(Shareholders' equity + LLR)	(%)	0.2	6.2	10.3	89.3
LLP/Gross loans	(%)	N/A	4.2	8.7	0.9
LLP/(LLR - LLP)	(%)	N/A	492.1	173.5	9.4
LLP/PPI	(%)	N/A	174.8	167.0	64.1
Dividend payout	(%)	N/A	0.0	0.0	0.0
Internal capital growth	(%)	N/A	-45.1	-33.4	3.6
Other ratios and indicators					
Retail share in loan book	(%)	N/A	8.2	7.1	6.0
Personnel expense per employee	(UAH 000s)	N/A	96.7	86.6	N/A
Operating income per employee	(UAH 000s)	N/A	343.9	527.4	N/A

Sources: Bank data, Investment Capital Ukraine LLC..

VTB Bank: Quarterly UAS financials – key financials and ratios

Table 56. Key financials and ratios derived from bank's UAS financials

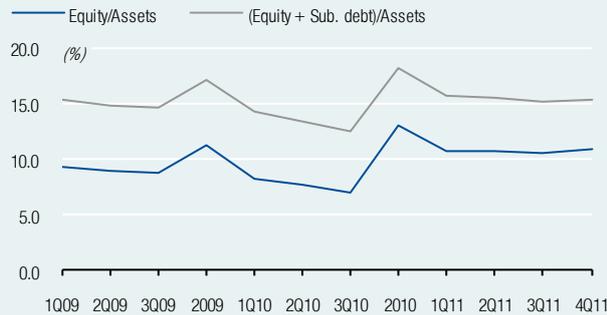
	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	27,996.8	29,845.1	30,826.2	33,144.6	33,588.7	35,869.9	36,661.3	37,067.2
Liquid assets	2,471.2	4,026.7	2,818.5	2,075.9	2,982.9	2,896.6	2,908.4	3,690.9
Gross loans	26,412.1	26,159.3	26,206.2	30,519.3	30,581.3	32,261.8	33,194.3	33,140.2
Loan loss reserves (LLR)	3,742.2	3,969.5	4,311.1	4,683.7	5,701.4	5,441.1	5,526.0	5,344.6
Equity	2,315.5	2,327.0	2,182.5	4,343.4	3,597.3	3,872.2	3,876.9	4,056.6
Deposits	7,039.7	9,118.8	9,517.2	8,085.2	8,984.7	10,384.6	9,987.2	11,936.3
Quarterly P&L								
Net interest income	439.8	403.8	373.6	485.9	536.6	581.0	592.4	490.5
Net commission income	45.7	55.0	61.2	60.4	65.0	84.1	96.3	130.8
Operating income (before LLP)	489.1	470.2	443.2	522.5	586.4	666.6	755.7	616.1
Operating expense	(182.6)	(231.4)	(223.0)	(299.9)	(271.8)	(298.9)	(334.5)	(443.2)
Loan-loss provisions (LLP)	(306.6)	(238.7)	(350.4)	(575.4)	(186.2)	(97.7)	(408.6)	10.6
Net income	0.1	0.3	(130.6)	(353.1)	117.5	255.5	27.1	182.1
Last 12-month period P&L								
Net interesting income	1,825.4	1,790.3	1,715.7	1,703.0	1,799.9	1,977.0	2,195.9	2,200.5
Net commission income	232.7	237.7	218.3	222.3	241.6	270.7	305.8	376.2
Operating income (before LLP)	2,172.6	2,149.0	2,008.2	1,925.0	2,022.3	2,218.6	2,531.1	2,624.7
Operating expense	(725.9)	(777.5)	(831.5)	(936.9)	(1,026.1)	(1,093.6)	(1,205.1)	(1,348.3)
Loan-loss provisions (LLP)	(1,459.6)	(1,392.4)	(1,309.4)	(1,471.1)	(1,350.7)	(1,209.7)	(1,267.9)	(681.9)
Net income	(7.8)	(1.0)	(130.0)	(483.4)	(365.9)	(110.7)	47.1	582.2
Growth rates (%YoY)								
Assets	5.6	9.4	9.1	15.2	20.0	20.2	18.9	11.8
Gross loans	6.3	3.5	-1.1	16.4	15.8	23.3	26.7	8.6
Deposits (by businesses)	9.9	92.8	80.0	61.8	53.8	25.3	12.8	100.2
Deposits (by households)	146.9	129.4	102.5	52.9	7.6	2.0	-2.4	12.3
Deposits (total)	60.3	109.2	91.0	56.4	27.6	13.9	4.9	47.6
Equity	-6.2	-5.5	-11.5	33.7	55.4	66.4	77.6	-6.6
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	18.2	14.3	22.9	20.3	18.9	13.1	13.0	13.2
Equity/Assets	8.3	7.8	7.1	13.1	10.7	10.8	10.6	10.9
(Equity + Subor. debt)/Assets	14.2	13.4	12.5	18.2	15.7	15.5	15.2	15.4
Liquid assets/Assets	8.8	13.5	9.1	6.3	8.9	8.1	7.9	10.0
Current liquidity (R5 by NBU)	118.1	146.4	101.8	55.0	103.5	73.4	72.0	57.1
Gross loans/Deposits	375.2	286.9	275.4	377.5	340.4	310.7	332.4	277.6
Net loans/Deposits	322.0	243.3	230.1	319.5	276.9	258.3	277.0	232.9
Cost-to-income ratio	33.4	36.2	41.4	48.7	50.7	49.3	47.6	51.4
Net interest margin	7.5	7.4	7.0	6.7	6.8	7.1	7.5	7.5
ROAA	-0.03	-0.003	-0.4	-1.6	-1.2	-0.3	0.1	1.7
ROAE	-0.3	-0.04	-5.6	-12.7	-12.4	-3.6	1.6	13.9
NII/operating income	84.0	83.3	85.4	88.5	89.0	89.1	86.8	83.8
LLR/Gross loans	14.2	15.2	16.5	15.3	18.6	16.9	16.6	16.1

Notes: Liquid assets include cash and cash equivalents; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

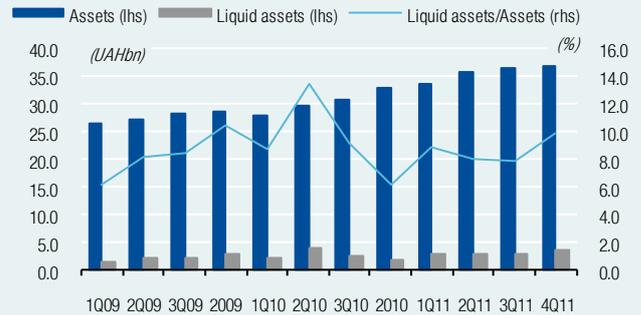
VTB Bank: Charts on bank's key credit metrics

Chart 197. Bank's capitalisation



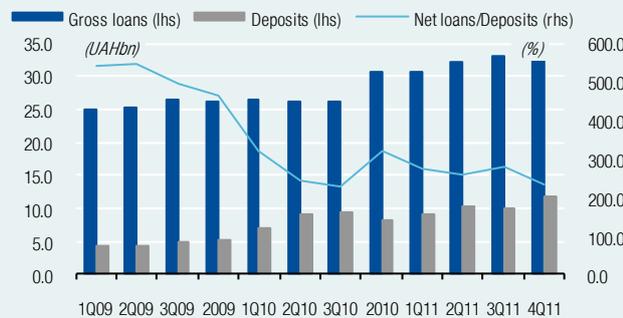
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 198. Liquidity



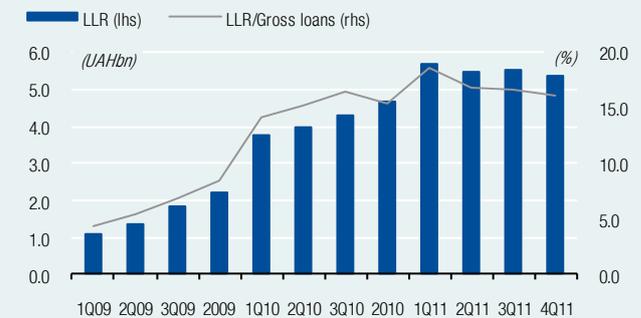
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 199. Loans and deposits



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

Chart 200. Loan loss reserves history



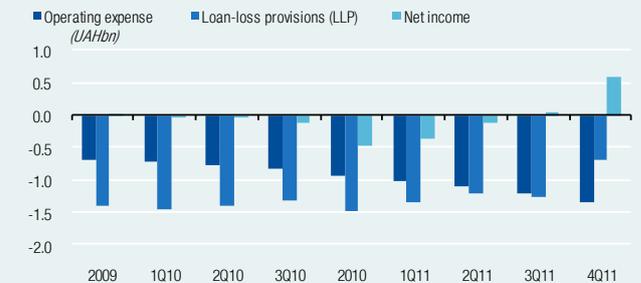
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 201. Income structure (annualised basis)



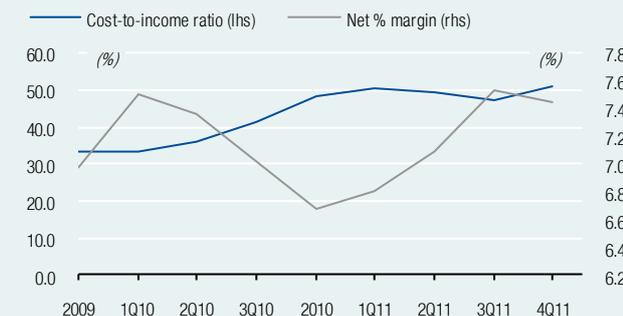
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 202. Expense and net income (annualised basis)



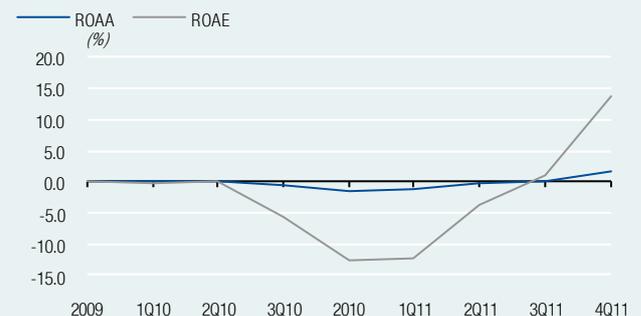
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 203. Financial performance ratios



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

Chart 204. Financial performance ratios



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

Country

Ukraine

Finance and Credit Bank

Sector

Banks: Commercial banking

Credit ratings by Moody's/S&P/Fitch Ticker(s) in Bloomberg

Caa1/NR/NR FICBUA

Finance and Credit Bank (F&C) is a bank involved in significant “shadow” business belonging to Ukrainian businessmen Kostyantyn Zhevago. Considering the profitability of businessman’s core spheres, we do not believe that he will inject resources to achieve material profitability in the bank, which would rather be supportive for its businesses, with significant amounts of related parties’ transactions. Distance from the government does not provide the bank any advantages, and as of today, many of our questions on the bank’s stability remain unanswered. Also worth mentioning is the bank’s proximity to information while an absence of IFRS reports on its official website, thus indirectly confirming our conclusion on the owner’s mostly supportive role of the bank.

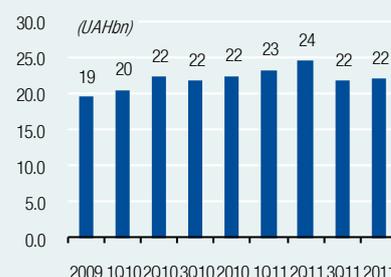
Capitalisation: Close to minimum, with RCAR at 10.6% as of end-2011. The bank’s capitalisation does not seem to be very solid, being near 10% during the last nine months of 2011. In July, a slight UAH200m share capital raising was announced, but was still unregistered as of 4Q11, and we believe that even such an increase would be insufficient.

Liquidity: Low, absence of margin of safety. The bank finished 4Q11 with UAH1.7bn of cash and cash equivalents, at 7.9% of total assets (an increase of 2.3ppt QoQ, or down by 3.8ppt YoY). Considering the high 163.0% net loans/deposits ratio, we believe that the bank should shrink its loan portfolio in favour of liquidity..

Assets’ quality: Is unclear, with a high possibility of related party transactions. As of the writing of this report, we did not possess any reliable data on the bank’s asset quality. Its LLR ratio was 9.0%, significantly lower than that of most of the Ukrainian banks. Considering its weak capability to generate interest profits and low amounts of formed LLR, we believe that the bank has significant amounts of related party loans, or hidden NPLs.

As of 4Q11, loans to individuals amounted to 20.1% of the total gross credit portfolio, or UAH3.8bn, and we do not expect any material growth in the nearest future. As we described earlier, the core business for the bank is loans to legal entities, many of which are likely related to shareholder parties. Still, during 4Q11, the bank’s loans to businesses decreased by 0.4% QoQ, to UAH15.4bn, but still presented 4.7% YoY growth.

Total assets, according to UAS figures



Source: bank data.

Key financials and ratios

	2009	2010	3Q11	4Q11
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	19,457	22,367	21,698	22,007
Loans	15,378	17,320	17,623	17,464
Deposits	6,985	10,124	9,707	10,717
Equity	2,027	1,857	1,861	1,779
Net % income	599	436	453	383
Net com income	264	276	323	357
Operating income	801	767	941	861
PPI	174	46	203	125
LLP	(625)	(259)	(359)	(204)
Net income	(450)	(189)	(131)	(79)
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	N/A	N/A	10.3	10.6
Equity-to-assets	10.4	8.3	8.6	8.1
Loan-to-deposit	220.1	171.1	181.6	163.0
Liquid assets	7.9	11.8	5.6	7.9
ROAA	-4.6	-0.9	-0.6	-0.4
ROAE	-44.4	-9.7	-6.9	-4.4
Net % margin	3.7	2.4	2.4	2.0
NII-to-op.income	74.8	56.8	48.1	44.4
Cost-to-income	78.3	93.9	78.4	85.5
LLR	7.7	8.1	8.9	9.0
NPLs	N/A	N/A	N/A	N/A
NPL coverage	N/A	N/A	N/A	N/A

Notes: CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
 NII – Net interest income; LLR – loan-loss reserves;
 NPL – non-performing loans (impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC.

Profitability: weak and questionable. The bank finished 4Q11 with UAH82.3m quarterly net income, bringing yearly net loss to about UAH79.2m. F&C Bank shows quite a low net interest margin, averaging 2.2% during the past six quarters, along with an average high 91.0% cost-to-income ratio. Considering the above, we do not anticipate improvements in the bank's P&L in the nearest future.

F&C Bank has NBU's refinancing outstanding (about UAH7bn, as of April 2011, data from open sources). In contrast with NADRA Bank, we do not feel that this refinancing could be easily prolonged in case of need, while receiving such amounts in the recent past signals a lack of the bank's margin of safety.

Table 57. List of outstanding Eurobonds issued by F&C Bank, pricing as of 30 January, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
FICBUA 10.5% due 14	Caa1/--/--	USD	95	60.000	42.259	3,672	3,259

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity.

Sources: Company data.

Finance and Credit Bank: Bank's bond charts (price, yield, spread)

Chart 205. History of prices of bank's bonds (% of par)

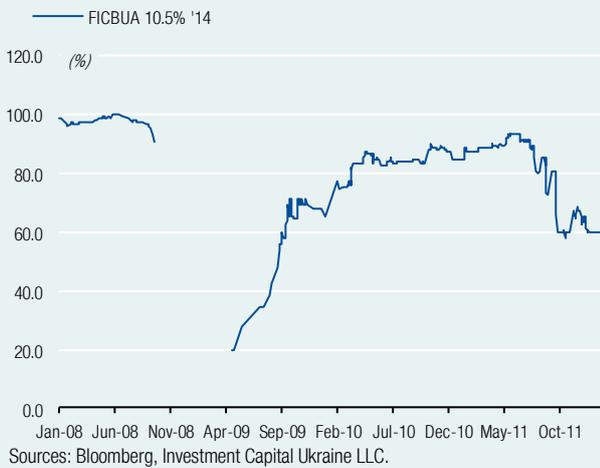


Chart 206. History of bank's bond yields (%)



Chart 207. History of bank's bond spreads to sovereign bonds (bp)



Chart 208. Spread¹ map as of 30 January, 2012 (bp)

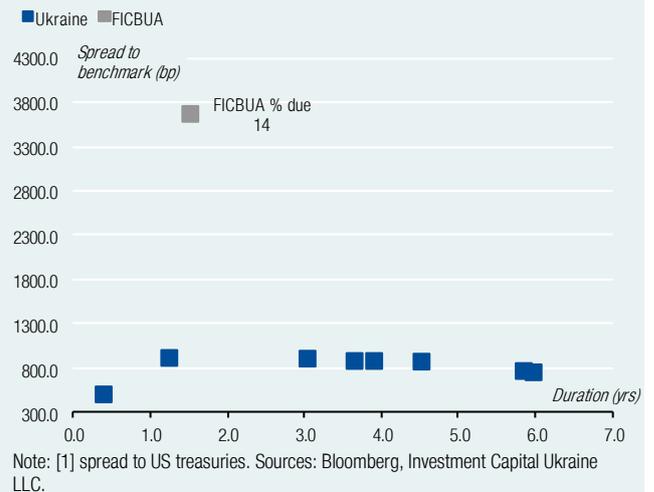
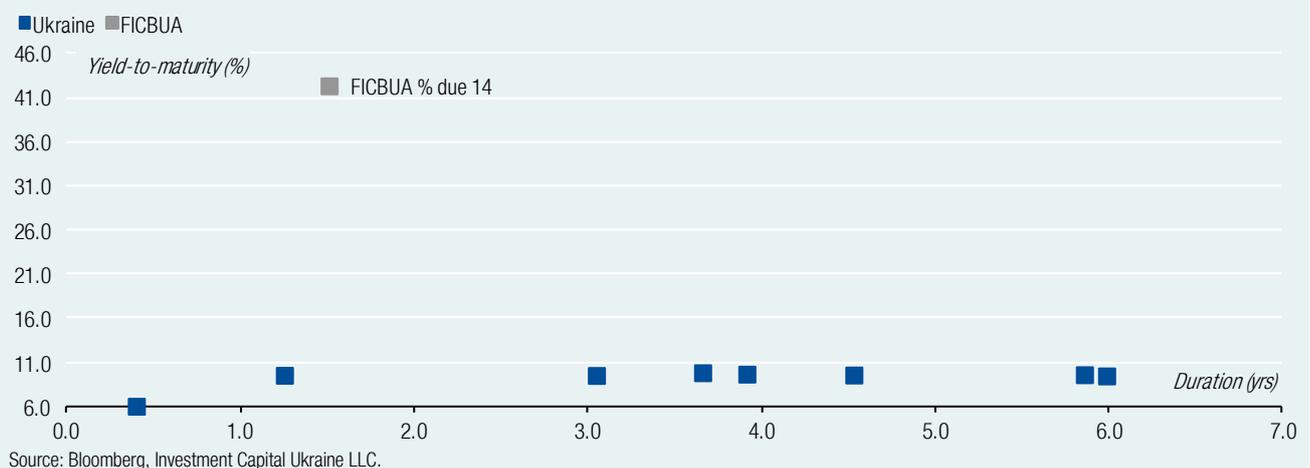


Chart 209. Yield map: bank's bonds versus sovereign yield curve



Finance and Credit Bank: Quarterly UAS financials – key financials and ratios

Table 58. Key financials and ratios derived from bank's UAS financials

	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	20,454.9	22,202.0	21,707.5	22,366.8	23,176.2	24,410.1	21,698.1	22,006.6
Liquid assets	1,562.9	2,150.0	2,069.7	2,628.5	1,805.5	3,469.3	1,217.2	1,746.9
Gross loans	17,198.5	18,027.9	18,878.3	18,849.0	19,371.3	19,648.5	19,342.3	19,186.3
Loan loss reserves (LLR)	1,317.8	1,349.2	1,368.6	1,529.3	1,495.3	1,593.5	1,719.4	1,721.9
Equity	2,004.1	1,972.6	1,972.9	1,857.5	1,922.6	1,860.3	1,860.6	1,778.8
Deposits	7,044.1	8,007.7	8,775.7	10,124.2	10,011.3	11,947.5	9,706.6	10,717.0
Quarterly P&L								
Net interest income	132.1	118.0	112.1	73.9	89.3	116.1	173.8	3.4
Net commission income	59.3	62.7	69.1	85.1	66.6	70.0	100.9	119.8
Operating income (before LLP)	196.5	167.8	192.5	210.3	205.0	220.2	305.6	130.3
Operating expense	(180.5)	(167.2)	(171.6)	(201.4)	(175.2)	(179.3)	(182.1)	(199.9)
Loan-loss provisions (LLP)	(38.9)	(32.0)	(20.7)	(167.6)	35.3	(103.2)	(123.2)	(13.4)
Net income	(22.9)	(31.4)	0.2	(134.6)	65.1	(62.3)	0.3	(82.3)
Last 12-month period P&L								
Net interesting income	521.7	450.7	409.1	436.0	393.2	391.4	453.1	382.7
Net commission income	247.4	244.6	253.6	276.2	283.5	290.7	322.5	357.2
Operating income (before LLP)	763.4	680.3	643.7	767.1	775.5	828.0	941.1	861.1
Operating expense	(657.1)	(676.0)	(695.4)	(720.7)	(715.3)	(727.4)	(737.9)	(736.5)
Loan-loss provisions (LLP)	(580.4)	(339.2)	(242.9)	(259.2)	(185.0)	(256.3)	(358.7)	(204.5)
Net income	(473.1)	(316.9)	(285.6)	(188.6)	(100.7)	(131.5)	(131.4)	(79.2)
Growth rates (%YoY)								
Assets	11.7	26.2	17.7	15.0	13.3	9.9	-0.0	-1.6
Gross loans	8.3	16.3	18.4	13.1	12.6	9.0	2.5	1.8
Deposits (by businesses)	-9.9	33.3	79.7	59.1	46.4	80.2	-7.8	-16.6
Deposits (by households)	-7.3	19.4	35.5	37.5	40.3	33.7	19.4	19.4
Deposits (total)	-8.1	23.7	47.2	44.9	42.1	49.2	10.6	5.9
Equity	-19.1	-13.8	-12.6	-8.4	-4.1	-5.7	-5.7	-4.2
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	N/A	N/A	N/A	N/A	12.8	10.5	10.3	10.6
Equity/Assets	9.8	8.9	9.1	8.3	8.3	7.6	8.6	8.1
(Equity + Subor. debt)/Assets	12.0	11.9	12.9	12.1	12.7	11.9	13.4	12.8
Liquid assets/Assets	7.6	9.7	9.5	11.8	7.8	14.2	5.6	7.9
Current liquidity (R5 by NBU)	N/A	N/A	N/A	N/A	N/A	128.1	60.3	70.3
Gross loans/Deposits	244.2	225.1	215.1	186.2	193.5	164.5	199.3	179.0
Net loans/Deposits	225.4	208.3	199.5	171.1	178.6	151.1	181.6	163.0
Cost-to-income ratio	86.1	99.4	108.0	93.9	92.2	87.8	78.4	85.5
Net interest margin	3.2	2.7	2.4	2.4	2.1	2.1	2.4	2.0
ROAA	-2.4	-1.6	-1.4	-0.9	-0.5	-0.6	-0.6	-0.4
ROAE	-21.1	-14.9	-13.5	-9.7	-5.1	-6.9	-6.9	-4.4
NII/operating income	68.3	66.2	63.6	56.8	50.7	47.3	48.1	44.4
LLR/Gross loans	7.7	7.5	7.2	8.1	7.7	8.1	8.9	9.0

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

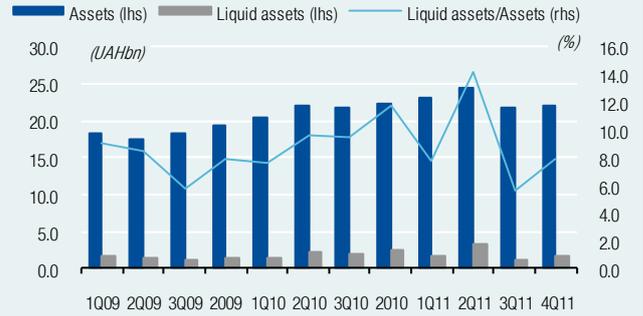
Finance and Credit Bank: Charts on bank's key credit metrics

Chart 210. Bank's capitalisation



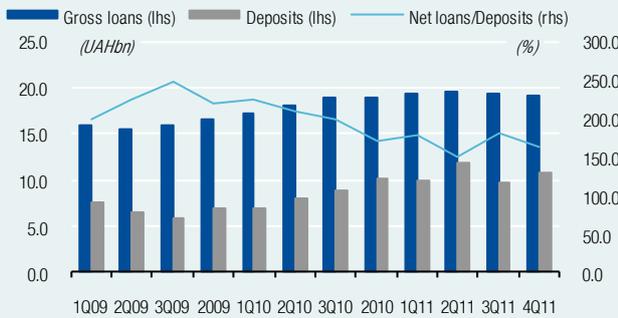
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 211. Liquidity



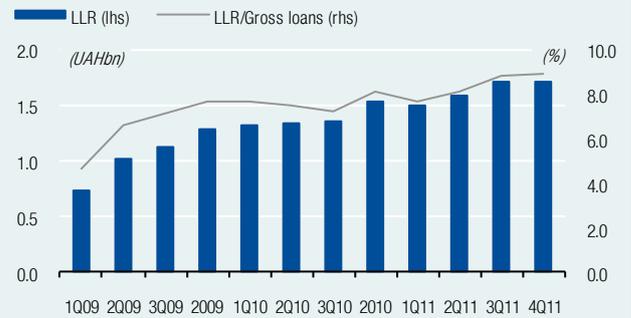
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 212. Loans and deposits



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

Chart 213. Loan loss reserves history



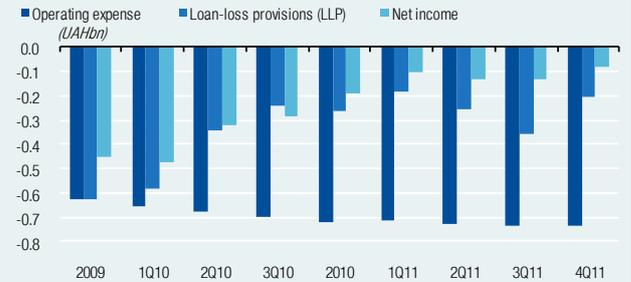
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 214. Income structure (annualised basis)



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

Chart 215. Expense and net income (annualised basis)



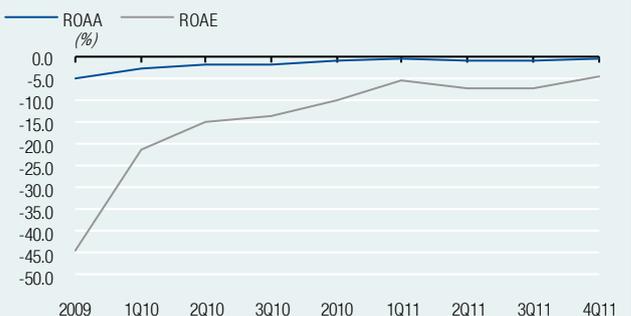
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 216. Financial performance ratios



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

Chart 217. Financial performance ratios



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

Country

Ukraine

Sberbank of Russian Federation (Ukraine)

Sector

Banks: Commercial banking

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

NR/NR/NR

Ticker(s) in Bloomberg

SBUA

Subsidiary Bank Sberbank of the Russian Federation (SBRF UA) has high claims on entering into the group of the top-10 Ukrainian banks, being at 17th place by total assets as of 3Q11 (NBU's data). The target is clear, considering the parent's position in the Russian banking sector as the biggest Russian bank with high expansion claims. In our opinion, as of today, SBRF UA is easily coping with its task, and parental support materially eases it.

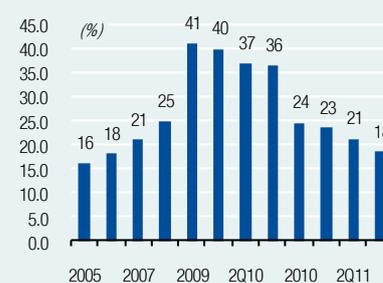
Capitalisation: Adequate, with clearly evident support from parent. During 2009, about UAH1.8bn was injected into the bank's capital to support its growth, boosting CAR to 40.9%, which was washed through further with the bank's loan-loss provisions and active growth to 14.9%, as described further. On 1 November, the bank registered a share capital increase of UAH682.2m, which will boost the bank's CAR to about 24%, ceteris paribus. We believe that there should not be any problems in raising more capital from the parent in case of need.

Liquidity: Sufficient, presenting adequate safety pillow. The bank ended 3Q11 with 11.0% of cash and cash equivalents among total assets, according to IFRS. According to the IFRS consolidated figures, the bank also had about UAH1.2bn of relatively liquid government securities, which are near-cash assets, adding more confidence to the bank's margins of safety and ability for further growth.

Material growth in total assets of 40.1% during the first nine months 2011, to UAH14.3bn. SBRF's total gross credit portfolio rose by 33.3% during 3Q11, or 53.5% during the first nine months 2011, to UAH12.8bn as of 3Q11. Most of the expansion was made through loans to businesses, which increased by 30.8% QoQ, or 50.3% YTD, to UAH11.3bn. As of 3Q11, according to the unaudited ISRS report, the bank's credit portfolio was sufficiently well diversified by economic segments, with the biggest share in trade, of 17.2%; and food and agriculture, at 17.5%. According to the same report, 20 of the bank's largest borrowers had an outstanding amount each of above UAH219.0m. Their total aggregate amount was 48.1% of the bank's total gross loan portfolio, which we consider as a rather high figure, presenting certain risks for the bank.

Considering the bank's 4Q11 UAS financials, it increased its total assets by 12.0% QoQ, to UAH16.9bn, and there were already announcements by the NBU that the bank had entered the group of the biggest Ukrainian banks (top-18).

CAR, according to IFRS figures



Source: bank data.

Key financials and ratios

	2009	2010	2011	3Q11
	IFRS	IFRS	IFRS	IFRS
Financials (UAHm)				
Assets	5,882	10,202	12,150	14,295
Loans	3,018	6,926	7,979	10,633
Deposits	1,777	4,301	6,373	6,814
Equity	1,564	1,754	1,966	2,582
Net % income	218	523	528	556
Net com income	60	97	120	114
Operating income	324	689	759	736
PPI	149	358	284	294
LLP	(1,297)	(133)	49	(45)
Net income	(1,155)	137	121	283
Ratios (%)				
Tier 1 ratio	30.2	17.9	15.9	14.9
CAR	40.9	24.4	21.2	18.4
Equity-to-assets	26.6	17.2	16.2	18.1
Loan-to-deposit	169.8	161.0	125.2	156.1
Liquid assets	9.8	11.4	12.7	11.0
ROAA	-22.4	1.7	1.3	2.4
ROAE	-92.1	8.2	6.4	12.4
Net % margin	6.7	9.3	6.9	5.8
NII-to-op.income	67.4	75.9	69.6	75.5
Cost-to-income	54.0	48.1	62.5	60.1
LLR	36.6	21.3	19.1	15.3
NPLs	43.0	22.6	20.9	16.4
NPL coverage	85.2	94.5	91.1	93.3

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for 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, Investment Capital Ukraine LLC.

Assets' quality: Has worsened, but is still at a normal level. The first nine months of the 2011 year presented a 3.4% increase in NPLs (considering 90+ days overdue), to UAH2.1bn as of 3Q11, or 16.4% of total loans, along with a 93.3% LLR coverage. While we assume a further funds withdrawal on LLP, as of today, the bank's credit portfolio quality does not reveal any worrisome signals.

Profitability: As of 3Q11, the bank's YTD net income amounted to UAH283.1m, according to IFRS. SBRF presented a normal 5.8% NIM, with adequate capability to generate profits from interest-bearing assets. The bank could present even better performance in case of an increase in its commission income, which consisted of only 15.5% total operational net income (excluding LLP), according to the 3Q11 IFRS report.

Boost in clients' deposits. The bank's client's deposits increased by 6.9% during 3Q11, and 58.4% YTD, to UAH6.8bn, thus materially supporting the bank's growth from the local funding side. Nevertheless, despite such growth, the bank's net loans-to-deposits ratio increased QoQ by 30.8ppt, to 156.1% as of 3Q11, according to IFRS figures, as a result of an abnormal growth in loans, as described above.

SBRF UA: IFRS financials – key financials and ratios

Table 59. Key FINANCIALS derived from bank's IFRS financials

	2004	2005	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11
P&L (YTD) (UAHm)										
Net interest income	42.8	51.4	60.4	80.0	224.0	218.4	522.9	190.5	355.0	555.8
Net fee & commission income	5.2	7.0	7.8	13.0	30.7	60.1	96.7	29.1	64.7	114.5
Operating income	54.4	66.7	77.1	99.2	344.4	324.1	688.7	232.3	458.0	736.2
Pre-provision income (PPI)	34.4	40.0	48.8	56.4	197.4	149.3	357.8	104.2	181.1	293.8
Loan-loss provisions (LLP)	(11.5)	(19.5)	(14.7)	(13.4)	(364.2)	(1,296.7)	(132.6)	47.8	(8.2)	(44.5)
Pre-tax income	22.9	20.5	34.0	43.0	(166.8)	(1,147.4)	225.2	152.4	163.2	249.3
Net income (NI)	17.0	15.1	25.3	31.5	(149.1)	(1,155.5)	136.9	137.0	190.2	283.1
Balance sheet (UAHm)										
Cash & balances with central bank	30.6	60.3	57.6	174.8	636.7	574.6	1,162.8	1,304.7	1,543.7	1,571.0
Due from banks	101.4	209.3	282.7	0.8	5.0	13.2	5.2	119.8	147.7	52.0
Loans to customers	396.8	583.0	788.2	1,412.2	3,390.6	3,018.1	6,926.3	7,858.8	7,979.1	10,633.1
Investment securities	41.8	38.5	67.9	35.1	24.7	79.2	1,047.9	1,912.0	1,504.6	1,238.3
Property, equipment and intangible assets	1.8	3.1	14.4	246.6	263.3	348.5	539.3	577.7	615.5	633.4
Other assets	19.5	10.0	8.6	21.4	96.9	1,848.2	520.9	342.7	359.1	166.8
Total assets	592.0	904.3	1,219.6	1,890.8	4,417.3	5,881.7	10,202.3	12,115.7	12,149.6	14,294.5
Due to banks	192.7	262.2	298.7	454.2	1,135.0	1,961.1	3,195.8	2,909.5	2,398.9	3,243.3
Due to central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.8
Customer accounts	291.6	524.2	738.2	854.1	2,085.2	1,777.0	4,301.4	5,849.0	6,372.8	6,813.8
Wholesale borrowings	0.0	0.0	0.0	159.0	57.1	83.9	359.8	832.3	838.0	1,060.0
Subordinated debt	0.0	0.0	35.4	96.1	146.5	471.6	469.7	469.6	470.1	470.2
Total equity	95.5	107.1	131.2	279.5	946.7	1,563.8	1,754.4	1,894.5	1,965.7	2,581.9
Total liabilities & equity	592.0	904.3	1,219.6	1,890.8	4,417.3	5,881.7	10,202.3	12,115.7	12,149.6	14,294.5

Note: P&L figures and ratios are based on 12-month annualised basis.

Sources: Company data.

Table 60. Key FINANCIAL RATIOS derived from bank's IFRS financials

	2004	2005	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11
Growth rates (%YoY)										
Assets (%YoY)	54.6	52.7	34.9	55.0	133.6	33.2	73.5	83.8	72.0	58.5
Loans (%YoY)	43.5	46.9	35.2	79.2	140.1	-11.0	129.5	117.0	95.0	87.6
Deposits (%YoY)	56.1	79.8	40.8	15.7	144.1	-14.8	142.1	154.3	101.5	63.0
Equity (%YoY)	21.6	12.2	22.5	113.1	238.7	65.2	12.2	10.0	10.2	29.5
Net interest income (%YoY)	43.3	20.0	17.6	32.5	179.8	-2.5	139.5	-11.9	1.5	55.2
Net commission income (%YoY)	129.9	35.2	12.1	65.6	136.8	95.8	60.8	176.4	55.8	58.8
Operating income (%YoY)	59.8	22.7	15.6	28.7	247.1	-5.9	112.5	3.6	18.1	64.0
Balance sheet ratios										
Liquid assets/Assets (%)	5.2	6.7	4.7	9.2	14.4	9.8	11.4	10.8	12.7	11.0
Liquid assets/Liabilities (%)	6.2	7.6	5.3	10.8	18.3	13.3	13.8	12.8	15.2	13.4
Due from banks/Due to banks (x)	0.5	0.8	0.9	0.002	0.004	0.01	0.002	0.04	0.1	0.0
Current ratio (x)	0.7	0.7	0.8	0.3	0.4	0.2	0.5	0.7	0.7	0.5
Equity/Assets (%)	16.1	11.8	10.8	14.8	21.4	26.6	17.2	15.6	16.2	18.1
Gross loans/Deposits (%)	148.3	121.5	115.8	175.3	183.8	268.0	204.7	165.5	154.7	184.2
Net loans/Deposits (%)	136.1	111.2	106.8	165.3	162.6	169.8	161.0	134.4	125.2	156.1
Wholesale borrowings/Liabilities (%)	0.0	0.0	0.0	9.9	1.6	1.9	4.3	8.1	8.2	9.1
Profitability & Earning quality										
ROAA (%)	3.5	2.0	2.4	2.0	-4.7	-22.4	1.7	1.5	1.3	2.4
ROAE (%)	19.5	14.9	21.3	15.4	-24.3	-92.1	8.2	7.6	6.4	12.4

Table 60. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2004	2005	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11
Net interest income/Operating income	(%)	78.7	77.0	78.4	80.7	65.0	67.4	75.9	82.0	69.6	75.5
Net commission income/Operating income	(%)	9.5	10.5	10.2	13.1	8.9	18.6	14.0	12.5	15.8	15.5
Other income/Operating income	(%)	11.8	12.5	11.5	6.3	26.1	14.1	10.0	5.4	14.6	9.0
Net interest margin	(%)	9.6	7.5	6.1	6.2	9.2	6.7	9.4	2.6	6.9	5.8
Cost-to-income ratio	(%)	36.8	40.1	36.7	43.2	27.6	54.0	48.1	55.1	62.5	60.1
LLP/Operating income	(%)	21.2	29.2	19.1	13.5	105.7	400.0	19.3	-20.6	-6.4	6.1
Assets quality											
NPL/Gross loans	(%)	0.6	2.4	5.7	3.4	4.1	43.0	22.6	22.0	25.7	16.4
NPL coverage	(%)	1,433.8	356.9	138.1	167.0	280.5	85.2	94.5	85.6	74.2	93.3
LLR/Gross loans	(%)	8.3	8.4	7.8	5.6	11.5	36.6	21.3	18.8	19.1	15.3
Earning power											
Recurring earning power	(%)	7.0	5.3	4.6	3.6	6.3	2.9	4.4	1.1	3.0	2.5
PPI/Average total capital funds	(%)	39.5	39.5	40.9	27.5	32.2	11.9	21.6	5.8	15.2	12.8
Interest expense/Interest income	(%)	41.4	44.2	47.4	54.9	44.5	55.4	44.1	44.3	51.3	47.2
Interest income/Average interest earning assets	(%)	16.4	13.4	11.7	13.7	16.6	15.0	16.9	4.6	14.2	11.1
Interest expense/Average interest bearing liabilities	(%)	7.7	6.4	5.9	7.4	7.2	7.0	6.5	2.0	7.3	5.3
Net spread	ppt	8.6	7.0	5.8	6.3	9.4	8.0	10.3	2.6	7.0	5.7
Income tax / Pretax income	(%)	25.8	26.2	25.6	26.7	10.6	-0.7	39.2	10.1	62.7	-13.6
Efficiency											
Non-interest expense/Average assets	(%)	6.6	6.3	4.2	3.9	14.8	29.0	5.9	0.9	4.6	4.3
Personnel expense/Average assets	(%)	1.3	1.2	1.1	1.2	1.6	1.8	2.0	0.7	3.2	1.9
Personnel expense/Operating income	(%)	11.9	14.0	14.8	18.6	15.1	28.1	23.9	28.2	40.3	30.3
Personnel expense/Non-interest expense	(%)	20.1	19.9	25.7	30.6	11.1	6.1	34.6	78.0	69.5	44.6
Funding structure											
Customer accounts/Total funding base	(%)	50.3	58.7	61.3	46.3	47.7	30.3	42.7	48.9	52.9	48.0
Net loans/Total funding base	(%)	68.4	65.3	65.5	76.6	77.6	51.5	68.7	65.7	66.2	74.9
Average net loans/Average customer accounts	(%)	140.8	120.1	108.6	138.2	163.4	165.9	163.6	140.9	126.6	148.3
Customer accounts/Shareholders' equity	(%)	305.4	489.5	562.8	305.6	220.3	113.6	245.2	308.7	324.2	263.9
Provisioning											
Average net loans/Average assets	(%)	69.1	65.5	64.6	70.7	76.1	62.2	61.8	61.4	62.8	69.9
NPL/(Shareholders' equity + LLR)	(%)	1.9	9.4	24.4	13.9	11.3	61.9	54.7	57.3	65.9	45.7
LLP/Gross loans	(%)	2.7	3.1	1.7	0.9	9.5	27.2	1.5	-0.5	-0.5	0.4
LLP/(LLR - LLP)	(%)	47.5	57.1	28.3	18.8	474.5	289.5	7.6	-2.6	-2.5	2.4
LLP/PPI	(%)	33.5	48.8	30.2	23.8	184.5	868.8	37.1	-45.9	-17.2	15.2
Dividend payout	(%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal capital growth	(%)	21.6	15.8	23.7	24.0	-53.3	-122.1	8.8	8.0	6.8	14.2
Other ratios and indicators											
Retail share in loan book	(%)	9.5	17.9	36.2	42.2	39.1	71.4	14.2	12.5	12.0	9.6
Personnel expense per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	165.0	134.8	49.3	225.5	161.3
Operating income per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	587.2	564.9	174.8	559.9	531.6

Sources: Bank data, Investment Capital Ukraine LLC..

SBRF UA: Quarterly UAS financials – key financials and ratios

Table 61. Key financials and ratios derived from bank's UAS financials

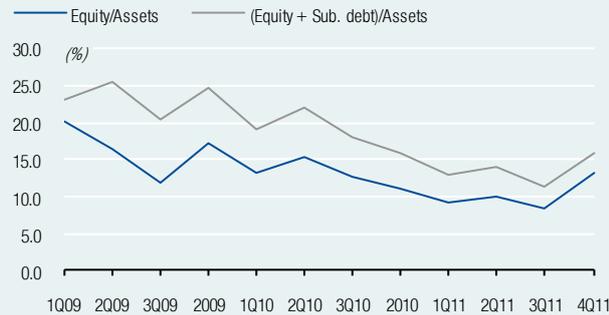
	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	8,258.9	7,096.8	8,394.5	9,924.4	12,477.2	11,838.9	15,118.3	16,932.5
Liquid assets	698.6	378.1	804.4	1,042.0	720.7	923.4	999.8	1,687.3
Gross loans	5,439.4	5,980.8	7,504.5	8,971.7	9,747.3	9,985.8	12,754.5	15,360.2
Loan loss reserves (LLR)	536.6	2,117.5	2,297.9	2,453.2	2,497.8	2,551.2	2,660.5	2,708.1
Equity	1,097.6	1,086.6	1,053.9	1,105.2	1,141.6	1,178.1	1,254.2	2,214.9
Deposits	2,293.7	3,161.6	4,177.7	4,279.6	5,849.4	6,379.4	6,757.9	7,592.5
Quarterly P&L								
Net interest income	93.9	151.7	168.0	201.3	212.6	202.2	221.4	249.1
Net commission income	17.2	24.6	30.3	27.8	27.7	34.1	48.3	48.1
Operating income (before LLP)	102.7	179.7	264.7	261.0	257.9	238.9	282.3	451.3
Operating expense	(62.1)	(103.9)	(59.5)	(110.6)	(127.9)	(149.0)	(165.5)	(208.2)
Loan-loss provisions (LLP)	(32.9)	(1,544.7)	(212.7)	(160.1)	(52.6)	(67.4)	(90.1)	(48.2)
Net income	7.0	(1,500.6)	6.7	18.1	57.0	36.9	52.3	210.8
Last 12-month period P&L								
Net interesting income	407.5	470.6	535.1	615.0	733.7	784.1	837.5	885.3
Net commission income	88.3	96.8	88.9	99.9	110.5	119.9	137.9	158.2
Operating income (before LLP)	444.3	514.4	692.1	808.1	963.3	1,022.4	1,040.1	1,230.4
Operating expense	(218.0)	(274.2)	(288.1)	(336.2)	(402.0)	(447.1)	(553.1)	(650.7)
Loan-loss provisions (LLP)	(75.9)	(1,364.3)	(1,296.6)	(1,950.3)	(1,970.0)	(492.8)	(370.2)	(258.4)
Net income	159.4	(1,234.5)	(1,053.7)	(1,468.8)	(1,418.8)	118.7	164.4	357.1
Growth rates (%YoY)								
Assets	77.5	41.0	52.6	60.1	51.1	66.8	80.1	70.6
Gross loans	40.0	39.7	58.0	85.3	79.2	67.0	70.0	71.2
Deposits (by businesses)	-8.9	9.3	54.5	118.7	143.5	127.3	44.0	89.2
Deposits (by households)	56.0	138.7	156.2	159.1	165.5	85.4	77.1	69.6
Deposits (total)	16.5	63.0	96.3	141.3	155.0	101.8	61.8	77.4
Equity	17.7	31.6	61.9	4.1	4.0	8.4	19.0	100.4
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	26.1	22.4	17.2	15.0	14.3	12.3	14.3	13.9
Equity/Assets	13.3	15.3	12.6	11.1	9.1	10.0	8.3	13.1
(Equity + Subor. debt)/Assets	19.0	21.9	18.1	15.9	12.9	13.9	11.4	15.9
Liquid assets/Assets	8.5	5.3	9.6	10.5	5.8	7.8	6.6	10.0
Current liquidity (R5 by NBU)	95.5	67.5	71.2	51.8	65.2	74.5	59.2	N/A
Gross loans/Deposits	237.1	189.2	179.6	209.6	166.6	156.5	188.7	202.3
Net loans/Deposits	213.8	122.2	124.6	152.3	123.9	116.5	149.4	166.6
Cost-to-income ratio	49.1	53.3	41.6	41.6	41.7	43.7	53.2	52.9
Net interest margin	8.0	8.5	8.6	8.7	9.2	8.7	8.0	7.4
ROAA	2.5	-20.4	-15.2	-18.2	-13.7	1.3	1.4	2.7
ROAE	15.7	-129.1	-123.6	-135.6	-126.7	10.5	14.2	21.5
NII/operating income	91.7	91.5	77.3	76.1	76.2	76.7	80.5	72.0
LLR/Gross loans	9.9	35.4	30.6	27.3	25.6	25.5	20.9	17.6

Notes: Liquid assets include cash and cash equivalents; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

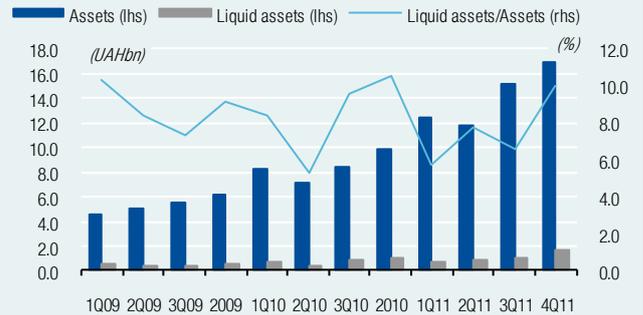
SBRF UA: Charts on bank's key credit metrics

Chart 218. Bank's capitalisation



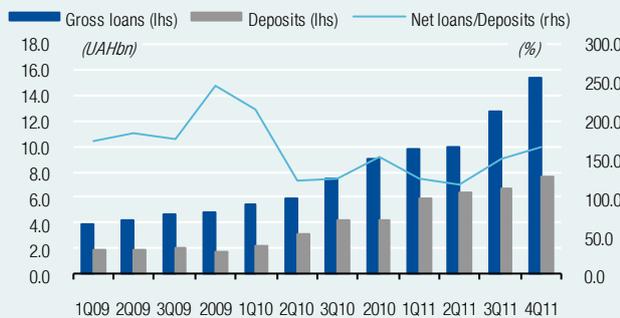
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 219. Liquidity



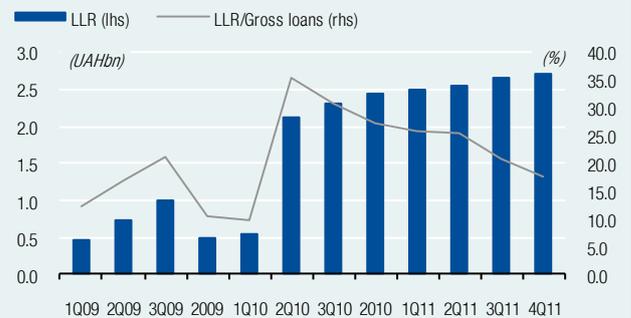
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 220. Loans and deposits



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

Chart 221. Loan loss reserves history



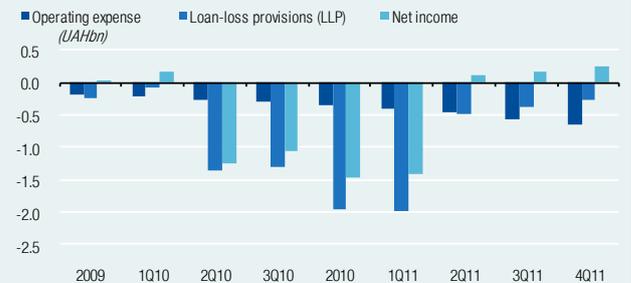
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 222. Income structure (annualised basis)



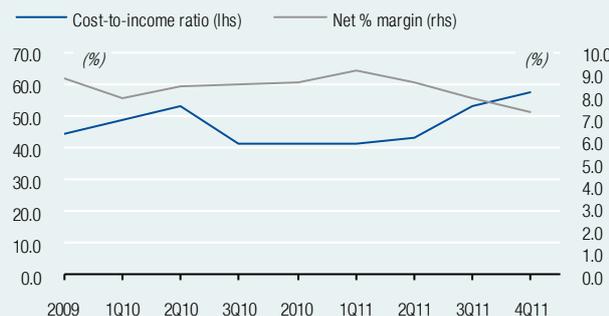
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 223. Expense and net income (annualised basis)



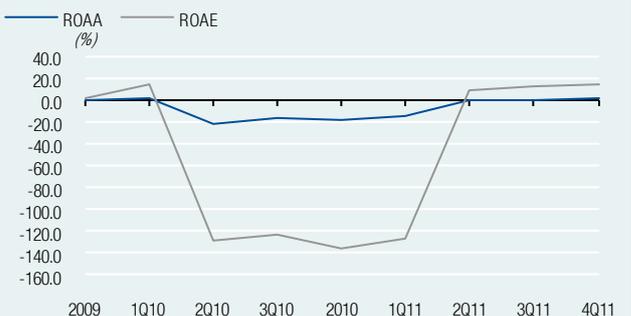
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 224. Financial performance ratios



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

Chart 225. 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 **DELBNK**

Ticker(s) in Bloomberg

Delta bank has shown a 337% growth in assets from 1Q09 till end-2011, which makes it one of the leaders among Ukrainian banks by this indicator. Such growth is often not followed by asset quality, with the possibility of leaving the bank one day with a bloated asset bubble. As of 4Q11, by total assets, Delta Bank entered into the group of the biggest Ukrainian banks after the reorganisations on the list, according to the NBU's classification. Delta Bank's target for further growth is clearly traced, and we consider it as a highly risky strategy.

- Capitalisation: Not high, with 11.5% RCAR as of 4Q11.** Delta Bank has only about UAH0.8bn of share capital, which is supported by UAH0.3bn of subordinated debt. The bank had plans for a significant capital increase, of UAH1.5bn during end-2011, and the beginning of 2012, and we should watch further for the bank's capitalisation. Recall that currently, 69.9% of the bank's shares are controlled by Nikolay Laghun, and 30.1% by Cargill Financial Services International Inc., which entered into the bank's shareholders' structure at end-2Q11.
- Liquidity: Weak, remaining at a worrisome level.** The bank finished 4Q11 with UAH2.2bn of cash and cash equivalents, or 9.3% of total assets. The bank also has about UAH2.4bn of held securities, but we do not possess information on their types, and whether they are liquid or not.
- Assets' quality: Due to absence of reliable information, the bank's assets' quality is difficult to identify.** In the past, the bank received a significant portion of liquidated Ukrprombank's assets (about UAH6-8bn from different sources, end-2010 year data). This, along with too-much asset growth, makes the 23.4 LLR ratio questionable, assuming a possibility of a bubble in the bank's assets.
- Profitability: The bank's P&Ls have a high chance of being exaggerated.** Delta Bank finished 3Q11 with UAH518.9m YTD of net income, according to UAS figures, but with a further decrease during 4Q11, to UAH469.3m. We believe that the bank's profitability is exaggerated, with further downside pressure coming mostly from the loan-loss provisions side. With Ukrprombank's assets, the acquired bank's NIM presented unreliable figures, with jumps above 54% in 1Q11, though we should wait for another two-to-three quarters for both the bank's P&L's and credit portfolio quality to make any relatively reliable analysis
- According to different open-sources, the bank currently has about UAH4.5bn of NBU's refinancing.** As in Nadra Bank's case, we believe that it could be easily prolonged if needed.

Total assets, according to UAS figures



Source: bank data.

Key financials and ratios

	2009	2010	3Q11	4Q11
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	8,465	13,798	18,856	23,216
Loans	3,944	8,971	11,348	13,823
Deposits	4,277	6,728	9,462	10,353
Equity	590	607	1,442	1,450
Net % income	(195)	2,939	2,499	2,635
Net com income	532	522	720	696
Operating income	449	3,533	4,541	4,964
PPI	84	3,113	1,468	1,816
LLP	(71)	(3,089)	(942)	(1,103)
Net income	8	15	530	469
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	13.4	12.8	12.1	11.5
Equity-to-assets	7.0	4.4	7.6	6.2
Loan-to-deposit	92.2	133.3	119.9	133.5
Liquid assets	23.9	17.3	8.1	9.3
ROAA	0.2	0.1	3.3	2.5
ROAE	2.7	2.5	52.1	45.6
Net % margin	-4.3	42.7	21.1	18.6
NII-to-op.income	-43.4	83.2	55.0	53.1
Cost-to-income	81.4	11.9	67.7	63.4
LLR	6.1	27.1	23.2	23.4
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 based on 12-month annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
 NII – Net interest income; LLR – loan-loss reserves;
 NPL – non-performing loans

Sources: Bank data, Investment Capital Ukraine LLC.

Delta Bank: Quarterly UAS financials – key financials and ratios

Table 62. Key financials and ratios derived from bank's UAS financials

	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	6,511.2	8,154.7	13,070.6	13,798.0	15,330.6	16,368.2	18,855.6	23,216.4
Liquid assets	1,952.9	2,552.4	2,779.4	2,388.9	1,706.4	1,622.3	1,528.6	2,166.6
Gross loans	4,036.4	4,841.9	10,599.1	12,313.0	11,420.1	13,605.8	14,784.4	18,052.0
Loan loss reserves (LLR)	248.2	270.4	2,666.0	3,342.3	2,707.2	3,283.8	3,436.7	4,229.3
Equity	592.5	594.2	595.5	607.5	620.8	976.5	1,441.6	1,449.5
Deposits	4,071.3	4,992.6	5,626.2	6,728.5	7,826.5	8,745.0	9,461.6	10,353.2
Quarterly P&L								
Net interest income	(66.8)	(74.3)	2,413.3	666.9	1,706.3	119.0	6.9	803.0
Net commission income	130.1	162.3	96.3	133.6	161.3	213.6	211.1	110.0
Operating income (before LLP)	87.5	109.7	2,519.7	816.4	1,886.4	736.2	1,102.2	1,238.9
Operating expense	(79.5)	(98.2)	(113.9)	(128.5)	(2,637.9)	(142.4)	(164.1)	(203.7)
Loan-loss provisions (LLP)	6.2	(23.2)	(2,396.0)	(676.4)	622.4	(562.8)	(325.0)	(837.5)
Net income	0.5	1.0	1.9	11.6	9.5	30.1	479.4	(49.6)
Last 12-month period P&L								
Net interesting income	(197.8)	(236.1)	2,217.3	2,939.2	4,712.2	4,905.5	2,499.1	2,635.2
Net commission income	507.6	538.6	511.2	522.3	553.5	604.8	719.6	696.0
Operating income (before LLP)	402.8	395.5	2,807.8	3,533.2	5,332.1	5,958.6	4,541.1	4,963.7
Operating expense	(344.9)	(364.0)	(383.2)	(420.0)	(2,978.5)	(3,022.7)	(3,072.8)	(3,148.0)
Loan-loss provisions (LLP)	(35.5)	(25.4)	(2,411.3)	(3,089.4)	(2,473.2)	(3,012.8)	(941.8)	(1,103.0)
Net income	4.8	2.9	3.5	14.9	23.9	52.9	530.5	469.3
Growth rates (%YoY)								
Assets	22.5	47.7	113.8	63.0	135.4	100.7	44.3	68.3
Gross loans	4.8	22.5	154.8	193.2	182.9	181.0	39.5	46.6
Deposits (by businesses)	9.8	11.4	-10.0	-32.1	-1.7	22.5	73.5	93.2
Deposits (by households)	33.7	86.8	93.4	114.7	136.3	92.7	66.8	45.9
Deposits (total)	25.0	59.8	56.6	57.3	92.2	75.2	68.2	53.9
Equity	1.7	1.8	1.7	3.1	4.8	64.4	142.1	138.6
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	N/A	N/A	N/A	12.8	N/A	11.2	12.1	11.5
Equity/Assets	9.1	7.3	4.6	4.4	4.0	6.0	7.6	6.2
(Equity + Subor. debt)/Assets	13.3	19.0	10.0	9.5	8.7	10.3	11.5	7.5
Liquid assets/Assets	30.0	31.3	21.3	17.3	11.1	9.9	8.1	9.3
Current liquidity (R5 by NBU)	N/A	N/A	N/A	N/A	N/A	59.9	52.1	61.6
Gross loans/Deposits	99.1	97.0	188.4	183.0	145.9	155.6	156.3	174.4
Net loans/Deposits	93.0	91.6	141.0	133.3	111.3	118.0	119.9	133.5
Cost-to-income ratio	85.6	92.0	13.6	11.9	55.9	50.7	67.7	63.4
Net interest margin	-4.4	-5.0	39.4	42.7	54.5	47.0	21.1	18.6
ROAA	0.1	0.04	0.04	0.1	0.2	0.4	3.3	2.5
ROAE	0.8	0.5	0.6	2.5	3.9	6.7	52.1	45.6
NII/operating income	-49.1	-59.7	79.0	83.2	88.4	82.3	55.0	53.1
LLR/Gross loans	6,511.2	8,154.7	13,070.6	13,798.0	15,330.6	16,368.2	18,855.6	23,216.4

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

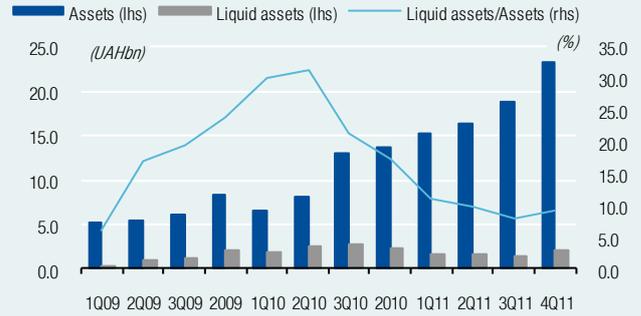
Delta Bank: Charts on bank's key credit metrics

Chart 226. Bank's capitalisation



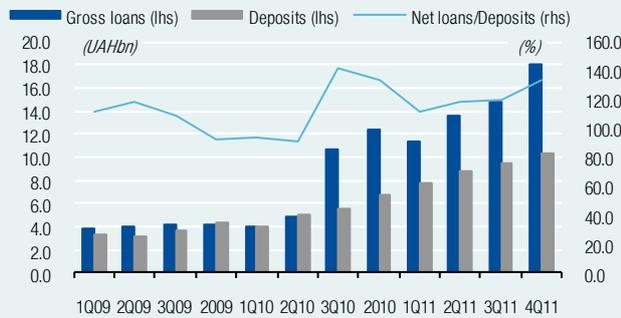
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 227. Liquidity



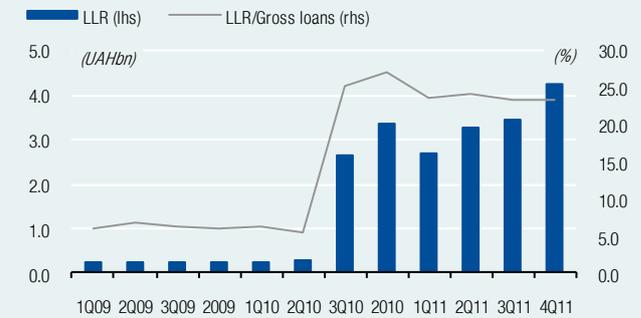
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 228. Loans and deposits



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

Chart 229. Loan loss reserves history



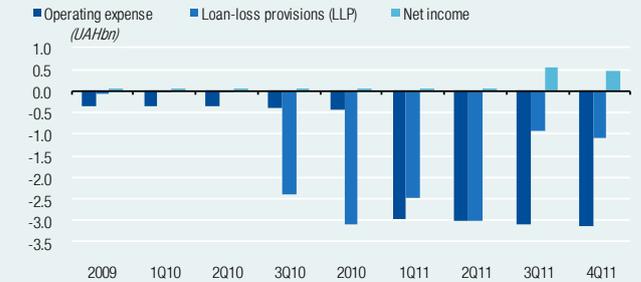
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 230. Income structure (annualised basis)



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

Chart 231. Expense and net income (annualised basis)



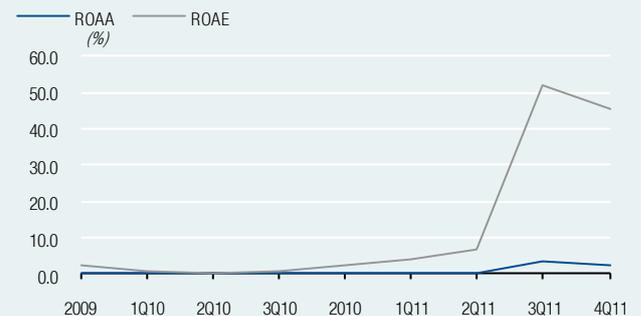
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 232. Financial performance ratios



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

Chart 233. Financial performance ratios



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

Country

Ukraine

ProCredit Bank Ukraine

Sector

Banks: Commercial banking

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

NR/NR/B **PROCRE**

Ticker(s) in Bloomberg

PCBU is a compact bank focused on SMEs lending, part of the ProCredit Group, which is present in 21 countries all over the world. As of today, we believe in the bank's stable operations in the nearest future, supported by tolerant risk-policies and margins of safety.

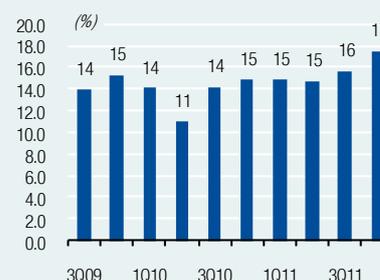
Capitalisation: Sufficient, with 17.5% RCAR as of end-2011. The bank does not exhibit active expansion, with more than plenty of capitalisation during the past four quarters (see chart at the right). We believe that the bank might, but has no need to, attract resources from its parent group, considering the current economic situation in Ukraine and absence of possibilities for rapid growth in the nearest future, while the current level of capital is satisfactory in the event of possible credit portfolio impairment (in case the economic situation worsens), along with increased loan-loss provisions.

Liquidity: Materially increased since 2010, and sufficient as of end-2011. The bank's cash and cash equivalents amounted to UAH329.5m, or 13.7% of its total assets, 4Q11 UAS data. Since the beginning of 2010 (when this ratio was at about 9.7%), the bank has materially improved its liquidity cushion, and it is prepared for most cases of unexpected outflow of resources.

Assets' quality: At a normal level, with the absence of expectations for further, significant worsening. The bank finished 2010 with a 10.4 NPLs ratio and 80.9% LLR coverage, considering 90-plus day overdue loans. Reviewing the bank's quarterly UAS figures, there were no material impairments to the bank's credit operations, and we believe that this should remain the same further, taking into account the bank's risk-adversity and absence of uncontrolled lending.

Profitability: Materially improved during 2011. The bank quite surprised us with a UAH9.6 4Q11 UAS net income, bringing 2011 profit to UAH22.3m (versus a UAH12.5m net loss in 2010).. ProCredit Bank's NIM improved to a superior 12.8% (added 3.1ppt during 2011), while its cost-to-income ratio fell by 24.2ppt, to 69.2%, and we believe this should decline further, with the bank's continued restructuring processes. Considering the last one, we note the constant decrease in the bank's staff, from 2,165 as of end-2008 to 1,089 as of end-2010, according to IFRS figures, while according to SMIDA, after that, the bank increased its personnel to 1,391 as of 3Q11, indicating an increase in expansion. With recently risen chances for the economic situation worsening, we expect ProCredit to contract its active operations (initial signs of this process were noticed during 2H11, with a 18.9% drop in the gross credit portfolio), along with operating expenses.

RCAR, according to UAS figures



Source: bank data.

Key financials and ratios

	2009	2010	3Q11	4Q11
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	2,807	2,290	2,573	2,405
Loans	2,068	1,856	1,822	1,648
Deposits	1,217	1,384	1,510	1,531
Equity	198	218	262	271
Net % income	234	208	250	252
Net com income	38	53	68	70
Operating income	299	274	336	342
PPI	22	17	104	105
LLP	(112)	(67)	(87)	(78)
Net income	(65)	(48)	14	22
Ratios (%)				
Tier 1 ratio	8.6	9.7	N/A	N/A
CAR	12.9	14.1	15.7	17.5
Equity-to-assets	7.0	9.5	10.2	11.3
Loan-to-deposit	170.0	134.1	120.7	107.6
Liquid assets	9.8	8.8	14.4	13.7
ROAA	-2.1	-1.9	0.5	0.9
ROAE	-33.4	-23.3	5.5	7.8
Net % margin	8.9	9.8	12.5	12.8
NII-to-op.income	78.3	76.0	74.4	73.6
Cost-to-income	92.7	93.8	69.0	69.2
LLR	5.5	8.4	9.3	6.2
NPLs	6.5	10.4	N/A	N/A
NPL coverage	85.1	80.9	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for 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, Investment Capital Ukraine LLC.

The loans-to-deposits ratio decreased, and is now closer to 100%. As of 4Q11, the bank's net loans-to-deposits ratio decreased by 27.7ppt YoY, to 107.6%, showing a constant decrease since 4Q10, when it was at 135.3%, according to UAS quarterly financials. This was both the result of a decrease in total loans and an increase in deposits base, and we consider the current level as close to optimum.

Low share of term deposits in funding structure. As of 4Q11, term deposits were 40.9%, or UAH625.7m of total deposits, (but worth to mention increased in their share by 4.6ppt during 4Q11). On the one hand, bank enjoys the low cost of such funds, partly resulting in high NIM, as described earlier. On the other, such a structure of deposits causes concern, as in a worst-case economic scenario, the bank could suffer from a significant outflow during a short period of time. However, this issue is partly offset by the increase in cash and cash equivalents described earlier.

ProCredit Bank: IFRS financials – key financials and ratios

Table 63. Key FINANCIALS derived from bank's IFRS financials

	2007	2008	2009	2010
P&L (YTD) (US\$m)				
Net interest income	38.3	45.7	28.8	26.1
Net fee & commission income	6.3	7.2	4.6	6.6
Operating income	46.0	56.4	36.9	34.4
Pre-provision income (PPI)	8.1	6.1	2.7	2.1
Loan-loss provisions (LLP)	(3.4)	(8.2)	(13.8)	(8.5)
Pre-tax income	4.8	(2.1)	(11.1)	(6.3)
Net income (NI)	3.0	(2.0)	(8.0)	(6.1)
Balance sheet (US\$m)				
Cash & balances with central bank	35.4	34.8	34.1	25.4
Due from banks	7.8	0.0	37.2	6.2
Loans to customers	379.3	357.4	255.2	233.3
Investment securities	0.1	0.1	0.1	3.2
Property, equipment and intangible assets	21.3	14.5	11.9	11.0
Other assets	10.2	4.7	7.9	8.7
Total assets	454.0	411.6	346.5	287.9
Due to banks	17.0	0.1	0.0	0.0
Due to central bank	0.0	0.0	0.0	0.0
Customer accounts	220.6	175.0	150.1	174.0
Wholesale borrowings	164.5	197.3	147.2	71.1
Subordinated debt	10.8	14.0	23.3	14.0
Total equity	39.4	23.4	24.4	27.4
Total liabilities & equity	454.0	411.6	346.5	287.9

Sources: Company data.

Table 64. Key FINANCIAL RATIOS derived from bank's IFRS financials

	2007	2008	2009	2010
Growth rates (%YoY)				
Assets (%YoY)	N/A	-9.3	-15.8	-16.9
Loans (%YoY)	N/A	-5.8	-28.6	-8.6
Deposits (%YoY)	N/A	-20.7	-14.2	15.9
Equity (%YoY)	N/A	-40.4	4.1	12.5
Net interest income (%YoY)	N/A	19.1	-36.8	-9.4
Net commission income (%YoY)	N/A	14.3	-35.1	42.5
Operating income (%YoY)	N/A	22.6	-34.7	-6.7
Balance sheet ratios				
Liquid assets/Assets (%)	7.8	8.5	9.8	8.8
Liquid assets/Liabilities (%)	8.5	9.0	10.6	9.8
Due from banks/Due to banks (x)	0.5	0.0	N/M	N/M
Current ratio (x)	0.5	0.7	1.0	0.4
Equity/Assets (%)	8.7	5.7	7.0	9.5
Gross loans/Deposits (%)	176.4	211.8	179.9	146.4
Net loans/Deposits (%)	172.0	204.2	170.0	134.1
Wholesale borrowings/Liabilities (%)	39.7	50.8	45.7	27.3
Profitability & Earning quality				
ROAA (%)	N/A	-0.5	-2.1	-1.9
ROAE (%)	N/A	-6.5	-33.4	-23.3
Net interest income/Operating income (%)	N/A	81.0	78.3	76.0
Net commission income/Operating income (%)	N/A	12.7	12.6	19.2

Table 64. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2007	2008	2009	2010
Other income/Operating income	(%)	N/A	6.4	9.1	4.8
Net interest margin	(%)	N/A	12.3	8.9	9.8
Cost-to-income ratio	(%)	N/A	89.2	92.7	93.8
LLP/Operating income	(%)	N/A	14.6	37.4	24.7
Assets quality					
NPL/Gross loans	(%)	0.8	1.0	6.5	10.4
NPL coverage	(%)	303.7	369.8	85.1	80.9
LLR/Gross loans	(%)	2.5	3.6	5.5	8.4
Earning power					
Recurring earning power	(%)	N/A	1.4	0.7	0.7
PPI/Average total capital funds	(%)	N/A	19.4	11.3	8.2
Interest expense/Interest income	(%)	N/A	44.0	47.6	44.8
Interest income/Average interest earning assets	(%)	N/A	21.9	16.9	17.7
Interest expense/Average interest bearing liabilities	(%)	N/A	9.0	7.4	7.3
Net spread	ppt	N/A	12.9	9.5	10.4
Income tax / Pretax income	(%)	N/A	3.9	27.7	4.6
Efficiency					
Non-interest expense/Average assets	(%)	N/A	13.9	12.9	13.2
Personnel expense/Average assets	(%)	N/A	5.9	4.5	5.6
Personnel expense/Operating income	(%)	N/A	45.6	46.3	51.2
Personnel expense/Non-interest expense	(%)	N/A	42.9	34.8	42.0
Funding structure					
Customer accounts/Total funding base	(%)	48.8	42.7	43.5	60.7
Net loans/Total funding base	(%)	83.9	87.2	74.0	81.4
Average net loans/Average customer accounts	(%)	N/A	186.2	188.4	150.7
Customer accounts/Shareholders' equity	(%)	560.2	746.3	615.2	633.9
Provisioning					
Average net loans/Average assets	(%)	N/A	85.1	80.8	77.0
NPL/(Shareholders' equity + LLR)	(%)	6.6	9.8	44.5	54.0
LLP/Gross loans	(%)	N/A	2.2	5.1	3.3
LLP/(LLR - LLP)	(%)	N/A	162.5	1230.2	66.0
LLP/PPI	(%)	N/A	134.8	509.3	396.6
Dividend payout	(%)	N/A	0.0	0.0	0.0
Internal capital growth	(%)	N/A	-5.2	-34.1	-24.8
Other ratios and indicators					
Retail share in loan book	(%)	N/A	3.4	3.8	3.4
Personnel expense per employee	(US\$ 000s)	N/A	11.9	11.4	16.2
Operating income per employee	(US\$ 000s)	N/A	26.1	24.7	31.6

Sources: Bank data, Investment Capital Ukraine LLC.

ProCredit Bank: Quarterly UAS financials – key financials and ratios

Table 65. Key financials and ratios derived from bank's UAS financials

	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	2,728.9	2,686.2	2,496.3	2,403.7	2,474.6	2,589.7	2,572.7	2,404.8
Liquid assets	267.2	251.4	267.2	232.6	260.8	344.5	369.4	329.5
Gross loans	2,231.2	2,188.7	2,157.7	2,054.2	2,167.5	2,168.3	2,009.3	1,757.5
Loan loss reserves (LLR)	226.9	248.0	255.3	150.9	250.5	225.6	187.7	109.4
Equity	255.3	229.4	228.8	300.9	241.1	256.0	261.7	271.2
Deposits	1,275.9	1,440.3	1,413.9	1,406.6	1,448.9	1,486.1	1,509.7	1,531.1
Quarterly P&L								
Net interest income	46.7	46.4	51.5	60.0	61.3	65.6	62.9	62.1
Net commission income	10.4	11.7	14.6	16.8	14.6	17.3	18.9	19.3
Operating income (before LLP)	61.4	63.2	70.2	81.8	79.0	86.9	87.9	88.4
Operating expense	(67.9)	(65.7)	(65.2)	(59.5)	(55.5)	(58.5)	(58.1)	(64.7)
Loan-loss provisions (LLP)	(13.0)	6.7	(5.2)	(16.3)	(39.3)	(8.5)	(22.6)	(7.7)
Net income	(16.0)	3.3	(0.6)	0.8	(7.9)	14.9	5.7	9.6
Last 12-month period P&L								
Net interesting income	201.2	196.9	197.2	204.6	219.2	238.4	249.8	251.9
Net commission income	44.1	46.2	50.2	53.5	57.7	63.2	67.5	70.0
Operating income (before LLP)	272.4	266.8	265.1	276.6	294.1	317.9	335.6	342.2
Operating expense	(273.5)	(272.0)	(271.5)	(258.3)	(245.9)	(238.6)	(231.6)	(236.8)
Loan-loss provisions (LLP)	(41.0)	(13.2)	(8.0)	(27.9)	(54.1)	(69.3)	(86.7)	(78.1)
Net income	(32.4)	(15.3)	(11.1)	(12.5)	(4.4)	7.3	13.5	22.3
Growth rates (%YoY)								
Assets	-12.1	-7.4	-15.7	-15.4	-9.3	-3.6	3.1	0.0
Gross loans	-14.4	-7.4	-7.9	-10.1	-2.9	-0.9	-6.9	-14.4
Deposits (by businesses)	-0.8	22.7	16.8	52.7	49.1	42.2	46.4	21.5
Deposits (by households)	8.1	29.2	19.0	9.1	5.5	-5.5	-3.8	4.8
Deposits (total)	6.4	27.9	18.5	17.2	13.6	3.2	6.8	8.8
Equity	21.2	16.5	-15.0	10.9	-5.6	11.6	14.4	-9.9
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	14.1	11.0	14.2	14.8	14.8	14.8	15.7	17.5
Equity/Assets	9.4	8.5	9.2	12.5	9.7	9.9	10.2	11.3
(Equity + Subor. debt)/Assets	16.2	15.6	14.0	17.4	14.6	14.4	14.9	16.2
Liquid assets/Assets	9.8	9.4	10.7	9.7	10.5	13.3	14.4	13.7
Current liquidity (R5 by NBU)	79.8	73.3	46.9	42.7	42.7	47.4	51.3	62.2
Gross loans/Deposits	174.9	152.0	152.6	146.0	149.6	145.9	133.1	114.8
Net loans/Deposits	157.1	134.7	134.6	135.3	132.3	130.7	120.7	107.6
Cost-to-income ratio	100.4	101.9	102.4	93.4	83.6	75.1	69.0	69.2
Net interest margin	8.7	8.5	8.9	9.7	10.7	11.9	12.5	12.8
ROAA	-1.1	-0.5	-0.4	-0.5	-0.2	0.3	0.5	0.9
ROAE	-13.9	-7.2	-4.5	-4.4	-1.8	3.0	5.5	7.8
NII/operating income	73.9	73.8	74.4	74.0	74.5	75.0	74.4	73.6
LLR/Gross loans	10.2	11.3	11.8	7.3	11.6	10.4	9.3	6.2

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

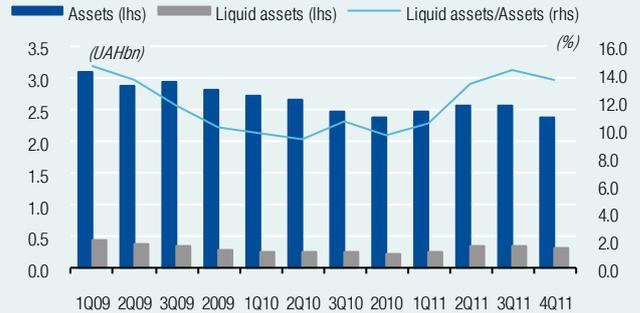
ProCredit Bank: Charts on bank's key credit metrics

Chart 234. Bank's capitalisation



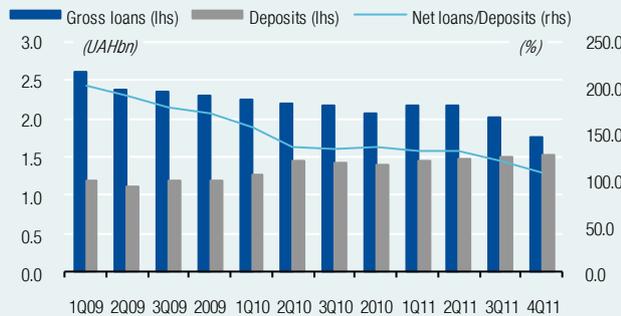
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 235. Liquidity



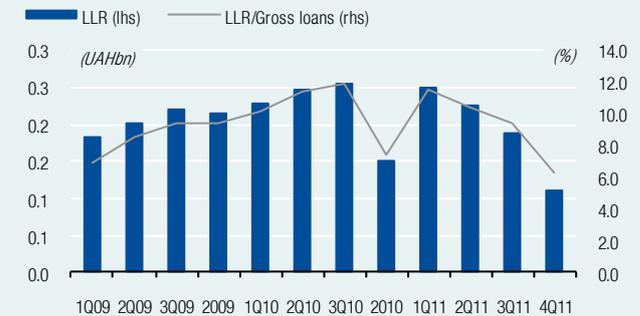
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 236. Loans and deposits



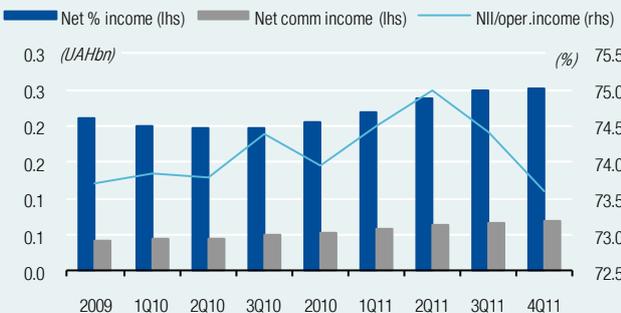
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 237. Loan loss reserves history



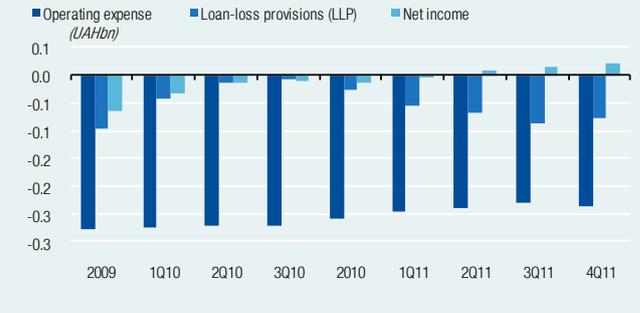
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 238. Income structure (annualised basis)



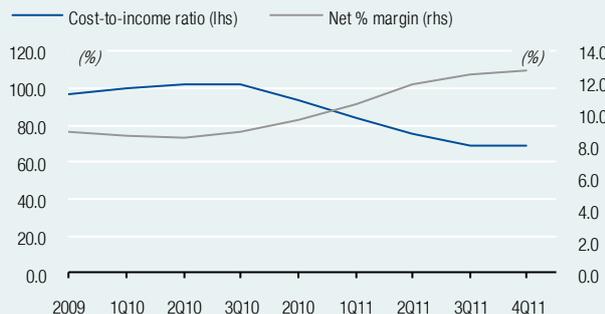
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 239. Expense and net income (annualised basis)



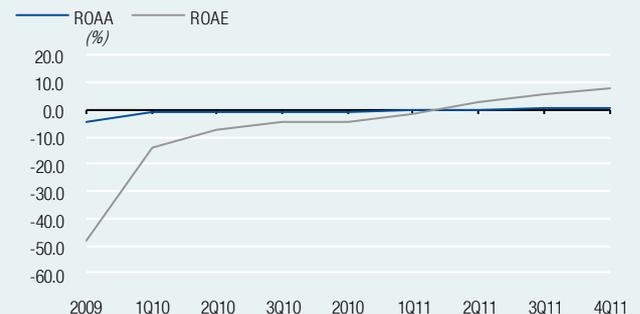
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 240. Financial performance ratios



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

Chart 241. Financial performance ratios



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

Country

Ukraine

Bank Credit Dnepr

Sector

Banks: Commercial banking

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

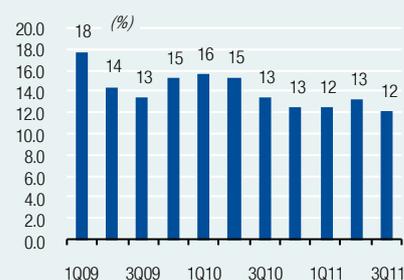
NR/NR/NR N/A

Ticker(s) in Bloomberg

Bank Credit Dnepr was the 29th bank by total assets as of 3Q11, according to the NBU's data. The bank is owned by a famous Ukraine businessman, Viktor Pinchuk, who is also known for his ability to reach understandings with Ukrainian authorities. The bank is similar to that of many owned by Ukrainian businessmen, whose key task is to support business operations, but not to make profits. Still, this particular case causes some doubts on future stability because of the absence of material safety margins, as can be seen further in reviewing bank's financials.

- Capitalisation: Close to minimum, with further capital needed.** During 2010-11, the bank increased its business activity, boosting its credit portfolio from UAH3.1bn to UAH5.1bn, thus washing its RCAR from 15.5% to 12.1%. Credit Dnepr will need capital injections in the nearest future, although there were no announcements about such actions recently. We believe that in the case of absence of fresh capital, the bank should decrease its risk-weighted assets to pick up its RCAR to about a 14-15% minimum.
- Liquidity: Materially decreased during past two quarters.** While as of 1Q11, the bank has 11.5% of cash and cash equivalents in its assets, as of 3Q11, this figure decreased to 7.7%, or UAH550.7m of cash and cash equivalents. In our opinion, the bank's liquidity strategy is quite a risky one, considering the absence of a significant foreign parent behind it, but also leaving the possibility that it could effectively deal with a regulator for support in case of need. Considering the positive liquidity gaps described in the banks' 2010 IFRS audited report, it has the possibility to accumulate cash, so we will watch closely further from this perspective.
- Assets' quality: Good, presenting absence of any material impairment.** During 2010, the bank's NPL ratio (considering that individually impaired loans decreased by 4.4ppt, to 10.1%, with 49.2 LLR coverage). Taking into account the bank's quarterly UAS financials, we did not notice any material impairment of the bank's credit operations since the beginning of 2011, so we consider the bank's credit portfolio quality as normal, with close to adequate formation of loan-loss reserves, at 9.3% as of 3Q11. Considering the bank's ownership, there might also be material amounts of related party's transactions on its balance sheet, although we did not find any evidence of such in the IFRS report. About 44.5% of the bank's loans are secured with real estate and land, and we believe that the fair value of these collaterals might be materially lower than the amount of outstanding loans they secure.

RCAR, according to UAS figures



Source: bank data.

Key financials and ratios

	2009	2010	2Q11	3Q11
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	4,934	6,148	6,493	7,187
Loans	3,025	3,916	4,426	4,588
Deposits	2,605	3,738	4,037	4,480
Equity	700	752	600	601
Net % income	126	154	233	231
Net com income	47	41	48	54
Operating income	193	220	317	330
PPI	77	62	103	89
LLP	(65)	(32)	(82)	(59)
Net income	8	24	2	1
Ratios (%)				
Tier 1 ratio	23.3	18.1	N/A	N/A
CAR	26.5	22.7	13.2	12.1
Equity-to-assets	14.2	12.2	9.2	8.4
Loan-to-deposit	116.1	104.7	109.6	102.4
Liquid assets	33.4	29.4	7.8	7.7
ROAA	0.2	0.4	0.0	0.0
ROAE	1.2	3.3	0.4	0.3
Net % margin	4.0	4.3	4.8	4.4
NII-to-op.income	65.3	70.0	73.6	70.0
Cost-to-income	59.8	71.8	67.4	72.9
LLR	5.6	5.0	9.5	9.3
NPLs	14.5	10.1	N/A	N/A
NPL coverage	38.4	49.2	N/A	N/A

Notes: P&L figures and ratios are based on 12-month annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
 NII – Net interest income; LLR – loan-loss reserves;
 NPL – non-performing loans (individually impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC.

- **Profitability: slight, but stable-positive.** The bank's YTD net income was UAH1.1m, along with slight 4.4% NIM. The cost-to-income ratio leaves a lot to be desired, at a high 72.9%, increased by 11ppt YTD in the 3Q11. We are not anticipating improvements in the bank's profitability in the nearest future, though losses are also unlikely.
- **NBU's refinancing outstanding: UAH0.3bn as of end-2010.** In April 2009, the bank received about UAH420.0m in refinancing repayments from the regulator, UAH350m of which was prolonged in 2010 till 2013. As in other banks' cases, we believe that such loans are the results of banks' lack of sufficient margins of safety, along with too-risky liquidity policies, though in this particular case, the amount of refinancing is significantly lower.

Bank Credit Dnepr: IFRS financials – key financials and ratios

Table 66. Key FINANCIALS derived from bank's IFRS financials

	2008	2009	2010
P&L (YTD)			
	(UAHm)		
Net interest income	177.2	125.9	154.2
Net fee & commission income	40.6	46.6	41.2
Operating income	273.3	192.8	220.3
Pre-provision income (PPI)	168.5	77.4	62.1
Loan-loss provisions (LLP)	(61.4)	(64.9)	(31.8)
Pre-tax income	107.1	12.5	30.3
Net income (NI)	80.5	7.9	24.1
Balance sheet			
	(UAHm)		
Cash & balances with central bank	648.8	1,649.2	1,807.8
Due from banks	5.8	7.4	78.1
Loans to customers	3,182.4	3,024.9	3,915.6
Investment securities	5.9	46.8	68.5
Property, equipment and intangible assets	167.6	162.7	172.3
Other assets	27.4	42.5	106.0
Total assets	4,038.0	4,933.5	6,148.3
Due to banks	339.0	956.1	1,194.3
Due to central bank	166.5	478.2	343.8
Customer accounts	2,578.4	2,604.9	3,738.1
Wholesale borrowings	129.7	55.7	0.0
Subordinated debt	62.1	64.4	64.2
Total equity	634.4	700.1	752.2
Total liabilities & equity	4,038.0	4,933.5	6,148.3

Sources: Company data.

Table 67. Key FINANCIAL RATIOS derived from bank's IFRS financials

	2008	2009	2010
Growth rates (%YoY)			
Assets	(%YoY)	N/A	24.6
Loans	(%YoY)	N/A	29.4
Deposits	(%YoY)	N/A	43.5
Equity	(%YoY)	N/A	7.4
Net interest income	(%YoY)	N/A	22.5
Net commission income	(%YoY)	N/A	-11.5
Operating income	(%YoY)	N/A	14.3
Balance sheet ratios			
Liquid assets/Assets	(%)	16.1	33.4
Liquid assets/Liabilities	(%)	19.1	39.0
Due from banks/Due to banks	(x)	0.01	0.1
Current ratio	(x)	0.5	0.9
Equity/Assets	(%)	15.7	14.2
Gross loans/Deposits	(%)	128.4	122.9
Net loans/Deposits	(%)	123.4	116.1
Wholesale borrowings/Liabilities (%)	(%)	3.8	1.3
Profitability & Earning quality			
ROAA	(%)	N/A	0.4
ROAE	(%)	N/A	3.3
Net interest income/Operating income	(%)	N/A	70.0
Net commission income/Operating income	(%)	N/A	18.7

Table 67. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2008	2009	2010
Other income/Operating income	(%)	N/A	10.5	11.3
Net interest margin	(%)	N/A	4.0	4.3
Cost-to-income ratio	(%)	N/A	59.8	71.8
LLP/Operating income	(%)	N/A	33.7	14.4
Assets quality				
NPL/Gross loans	(%)	N/A	14.5	10.1
NPL coverage	(%)	N/A	38.4	49.2
LLR/Gross loans	(%)	3.9	5.6	5.0
Earning power				
Recurring earning power	(%)	N/A	1.7	1.1
PPI/Average total capital funds	(%)	N/A	11.6	8.6
Interest expense/Interest income	(%)	N/A	74.6	71.2
Interest income/Average interest earning assets	(%)	N/A	15.8	15.0
Interest expense/Average interest bearing liabilities	(%)	N/A	10.0	8.0
Net spread	ppt	N/A	5.9	7.0
Income tax / Pretax income	(%)	N/A	37.1	20.5
Efficiency				
Non-interest expense/Average assets	(%)	N/A	4.1	3.6
Personnel expense/Average assets	(%)	N/A	1.1	1.2
Personnel expense/Operating income	(%)	N/A	25.4	29.4
Personnel expense/Non-interest expense	(%)	N/A	26.6	32.8
Funding structure				
Customer accounts/Total funding base	(%)	65.9	53.6	61.4
Net loans/Total funding base	(%)	81.4	62.2	64.3
Average net loans/Average customer accounts	(%)	N/A	119.8	109.4
Customer accounts/Shareholders' equity	(%)	406.4	372.1	497.0
Provisioning				
Average net loans/Average assets	(%)	N/A	69.2	62.6
NPL/(Shareholders' equity + LLR)	(%)	N/A	52.7	43.4
LLP/Gross loans	(%)	N/A	2.0	0.8
LLP/(LLR - LLP)	(%)	N/A	57.5	18.4
LLP/PPI	(%)	N/A	83.9	51.2
Dividend payout	(%)	N/A	0.0	0.0
Internal capital growth	(%)	N/A	1.2	3.4
Other ratios and indicators				
Retail share in loan book	(%)	N/A	26.6	15.6
Personnel expense per employee	(UAH 000s)	N/A	62.5	65.5
Operating income per employee	(UAH 000s)	N/A	246.2	222.5

Sources: Bank data, Investment Capital Ukraine LLC..

Bank Credit Dnepr: Quarterly UAS financials – key financials and ratios

Table 68. Key financials and ratios derived from bank's UAS financials

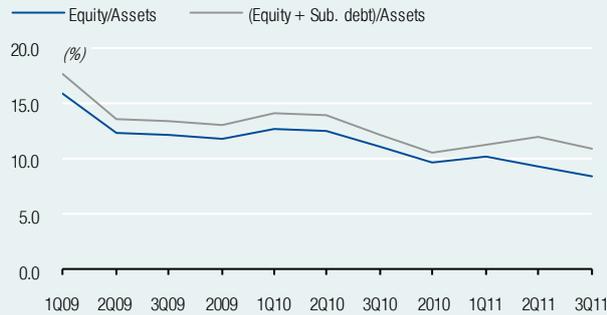
	2009	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11
Balance sheet figures (UAHm)								
Assets	4,833.9	4,487.2	4,572.6	5,174.1	6,036.4	5,717.1	6,493.3	7,186.6
Liquid assets	381.1	310.9	176.6	432.3	662.0	656.2	508.6	550.7
Gross loans	3,195.8	3,058.3	3,313.7	3,660.8	4,158.1	4,412.1	4,889.3	5,056.2
Loan loss reserves (LLR)	356.6	365.2	380.4	410.1	416.5	435.1	462.9	468.1
Equity	569.3	570.9	571.7	571.8	577.7	579.4	600.1	600.9
Deposits	2,414.2	2,305.9	2,371.9	2,902.0	3,635.8	3,589.0	4,037.0	4,480.2
Quarterly P&L								
Net interest income	25.8	24.7	35.7	53.8	56.8	54.8	67.6	51.9
Net commission income	19.7	9.8	10.1	9.6	14.2	10.0	14.2	15.4
Operating income (before LLP)	59.6	43.5	53.4	67.3	79.9	79.0	90.3	80.7
Operating expense	(31.8)	(30.7)	(33.6)	(37.1)	(49.7)	(61.2)	(65.4)	(64.1)
Loan-loss provisions (LLP)	(13.6)	(11.0)	(17.8)	(29.3)	(10.8)	(15.9)	(26.3)	(6.4)
Net income	13.7	1.3	1.4	1.5	0.4	0.4	0.1	0.6
Last 12-month period P&L								
Net interesting income	119.7	110.5	115.3	139.9	171.0	201.1	232.9	231.1
Net commission income	54.6	51.7	52.2	49.2	43.7	43.9	48.0	53.8
Operating income (before LLP)	218.2	190.5	201.0	223.7	244.0	279.5	316.5	329.9
Operating expense	(114.8)	(119.1)	(124.9)	(133.2)	(151.1)	(181.6)	(213.4)	(240.5)
Loan-loss provisions (LLP)	(88.4)	(55.9)	(23.3)	(71.7)	(68.9)	(73.8)	(82.3)	(59.4)
Net income	15.7	16.6	51.9	17.9	4.6	3.7	2.4	1.5
Growth rates (%YoY)								
Assets	N/A	28.1	7.0	11.7	24.9	27.4	42.0	38.9
Gross loans	N/A	4.2	3.7	7.2	30.1	44.3	47.5	38.1
Deposits (by businesses)	N/A	-46.9	-36.9	-14.6	63.2	102.6	111.7	55.8
Deposits (by households)	N/A	73.9	49.0	47.4	44.3	39.8	57.0	53.8
Deposits (total)	N/A	10.6	12.1	21.7	50.6	55.6	70.2	54.4
Equity	N/A	2.7	9.5	2.6	1.5	1.5	5.0	5.1
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	15.2	15.5	15.2	13.4	12.5	12.5	13.2	12.1
Equity/Assets	11.8	12.7	12.5	11.1	9.6	10.1	9.2	8.4
(Equity + Subor. debt)/Assets	13.1	14.1	13.9	12.3	10.6	11.3	12.1	11.0
Liquid assets/Assets	7.9	6.9	3.9	8.4	11.0	11.5	7.8	7.7
Current liquidity (R5 by NBU)	103.9	87.1	50.3	82.2	97.1	95.8	83.8	85.6
Gross loans/Deposits	132.4	132.6	139.7	126.1	114.4	122.9	121.1	112.9
Net loans/Deposits	117.6	116.8	123.7	112.0	102.9	110.8	109.6	102.4
Cost-to-income ratio	52.6	62.5	62.1	59.5	61.9	65.0	67.4	72.9
Net interest margin	3.2	2.8	2.8	3.3	3.9	4.4	4.8	4.4
ROAA	0.7	0.4	1.2	0.4	0.1	0.1	0.04	0.02
ROAE	5.5	3.0	9.5	3.2	0.8	0.6	0.4	0.3
NII/operating income	54.8	58.0	57.4	62.5	70.1	71.9	73.6	70.0
LLR/Gross loans	11.2	11.9	11.5	11.2	10.0	9.9	9.5	9.3

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

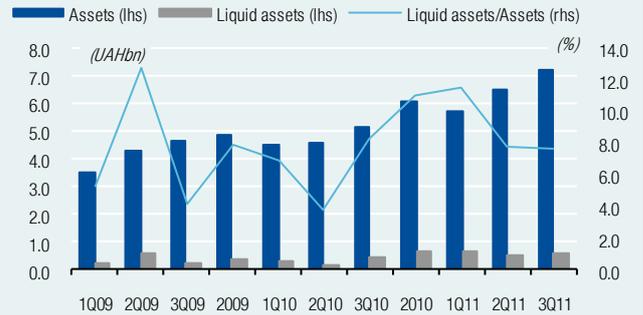
Bank Credit Dnepr: Charts on bank's key credit metrics

Chart 242. Bank's capitalisation



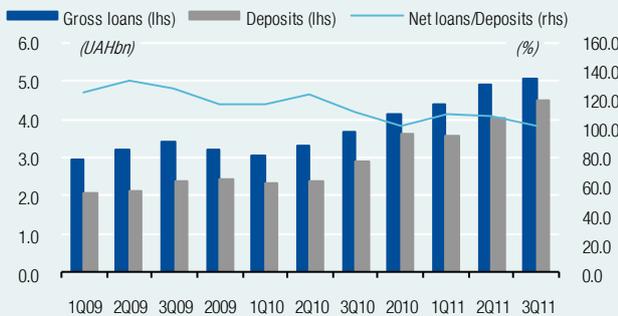
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 243. Liquidity



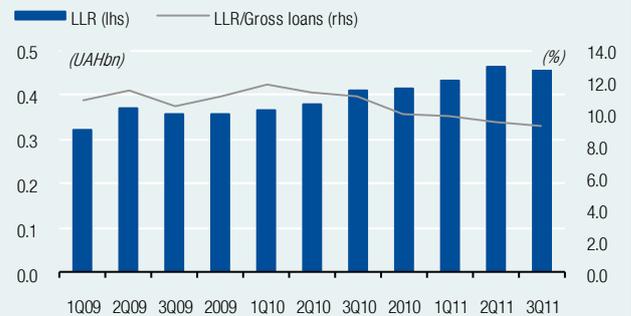
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 244. Loans and deposits



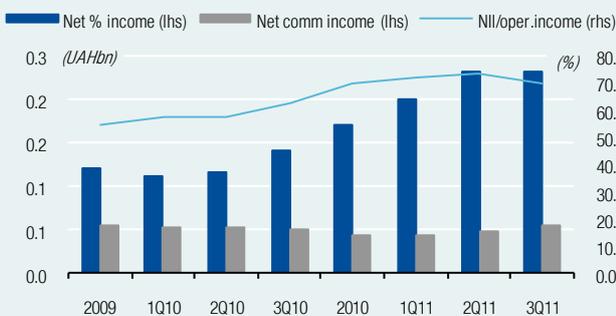
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 245. Loan loss reserves history



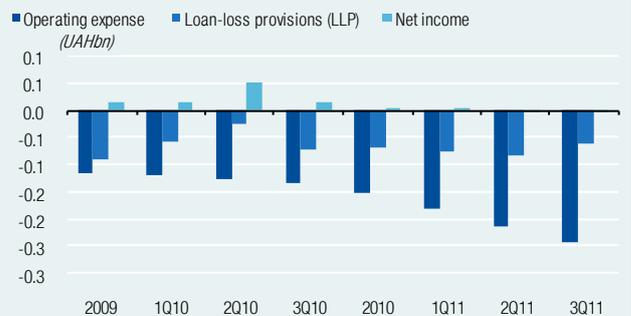
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 246. Income structure (annualised basis)



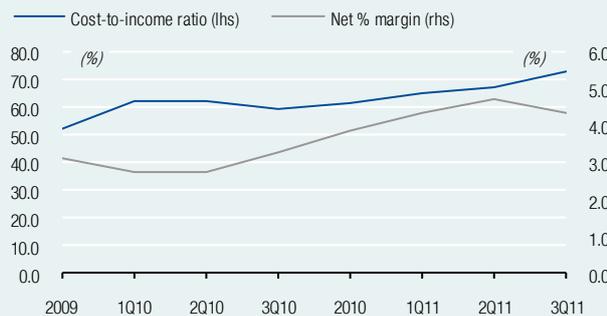
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 247. Expense and net income (annualised basis)



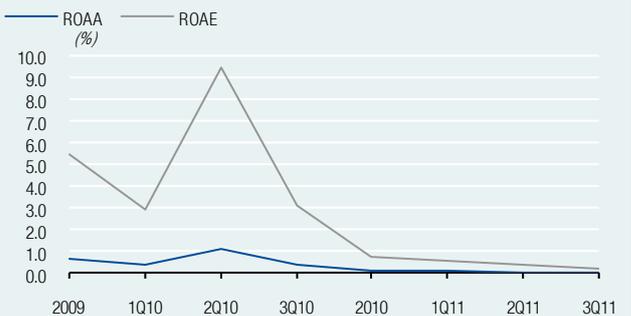
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 248. Financial performance ratios



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

Chart 249. Financial performance ratios



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

Country

Ukraine

Russian Standard Bank (Ukraine)

Sector

Banks: Commercial banking

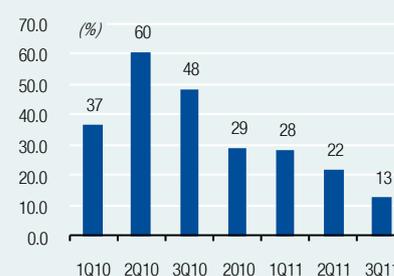
Credit ratings by Moody's/S&P/Fitch

NR/NR/NR N/A

Ticker(s) in Bloomberg

Russian Standard Bank of Ukraine (RSBU) is a small bank, but despite its size by assets (98th as of 3Q11, according to the NBU's data), RSBU is among the top players in the point-of-sale (POS)-lending market, as also is its parent in the Russian Federation, Russian Standard Bank of Russia (Ba3/B+/B+). While there was a recently material boost noticed in the bank's operations, considering a possible worsening in overall economic conditions, it would be harder for the bank to continue its expansion further.

- Capitalisation: The bank's recent growth materially decreased its RCAR, to 12.6% (see chart at the right).** The bank's 205% YoY boost in lending activity decreased RCAR by 35.6ppt, which was as high as 60% after the UAH61m share capital injection. During November 2011, the bank planned to raise more capital to support its further expansion, of about UAH50m, which will bring its share capital to UAH183m, thus bringing RCAR to about 17%, according to our calculations.
- Liquidity: More than sufficient, with material margin of safety.** The bank's business model on dealing with POS loans assumes a short receivables period, with increased amounts of cash on the bank's balance. As of 3Q11, RSBU's cash and cash equivalents amounted to 14.4% of total assets, or UAH147.6m, with no worries from this perspective.
- Assets' quality: Healthy, but with slight impairment during 3Q11.** The bank had very few NPL's on its balance sheet during 2010-11, which resulted in a low level of impaired credit operations, about 2-8%. Since the resumption of active lending during the beginning of 2010, we have noticed a slight increase in impaired credit operations during 3Q11, to 10.8%, which is still considered to be a healthy level, but we should look closely at the bank's credit portfolio quality further.
- Profitability: Weak, but has possibility to improve further.** Until 3Q11, the bank did not impress investors with its P&L, considering its UAH0.3m YTD net income. RSBU's cost side presented quite a high cost-to-income ratio during 2010, averaging 165.6%, but with a further decrease to 78.8% as of 3Q11. The bank's ROAA and ROAE ratios (based on quarterly net income) present not such great figures, of 0.03% and 0.18% as of 2Q11, respectively (see following charts). Due to the bank's specific POS-lending direction, under UAS statistics, the major share of the bank's income from dealing with loans to customers comes in the form of commission income, which represents about 81% of total income. Hence, the calculation of net interest margin, which will be significantly low in this particular case, is not a relevant indicator for the bank.

RCAR, according to UAS figures

Source: bank data.

Key financials and ratios

	2009	2010	2Q11	3Q11
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	199.3	507.7	586.4	1,021.9
Loans	82.9	300.3	405.8	677.8
Deposits	19.9	40.1	78.4	132.6
Equity	50.6	111.9	112.3	112.6
Net % income	0.7	8.1	9.1	15.1
Net com income	17.4	58.8	96.7	122.2
Operating income	43.0	69.9	111.7	198.2
PPI	(47.9)	6.1	17.2	42.0
LLP	26.7	(5.6)	(8.2)	(31.6)
Net income	(21.5)	0.3	8.2	8.3
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	N/A	28.9	21.8	12.6
Equity-to-assets	25.4	22.0	19.1	11.0
Loan-to-deposit	416.0	749.8	517.9	511.3
Liquid assets	40.7	16.7	12.1	14.4
ROAA	-21.5	0.1	2.0	1.3
ROAE	-84.9	0.3	10.6	7.7
Net % margin	0.6	4.2	2.8	3.1
NII-to-op.income	1.6	11.6	8.2	7.6
Cost-to-income	211.3	91.2	84.6	78.8
LLR	10.6	4.7	4.8	5.8
NPLs	N/A	N/A	N/A	N/A
NPL coverage	N/A	N/A	N/A	N/A

Notes: P&L figures and ratios are based on 12-month annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
 NII – Net interest income; LLR – loan-loss reserves;
 NPL – non-performing loans (impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC.

- **Low exposure to FX risk.** The bank has continued its POS lending strategy, resulting in the complete absence of FX loans, both for households and businesses. Due to recent FX rate fluctuations in Ukraine and the possibility of the economic situation worsening, we consider its complete reliance on lending in the local currency as one of the bank's strongest advantages. However, this was aided by the central bank's ban on foreign-currency loans to households, effective as of 2009.
- **Funding structure, the major share of which is in due-to banks,** was at 61.1%, or UAH613.3m, as of 3Q11 (a UAH3698m increase during 3Q11), and we believe that the bank should attempt to skew its funding more toward client deposits. According to its annual report, as of January 2011, all of the UAH190.3m in subordinated debt came from its parent; thus, we assume it could be easily prolonged in the event that there is ever a need to do so.

RSBU's local bonds are fully guaranteed by its Russian parent, so in the following, we highlight key points from the financials of Russian Standard Bank (Russia).

Russian Standard Bank

Russian Standard Bank (Ba3/B+/B+), or RSB, the Russian parent to Ukraine's Russian Standard Bank, which controls a 100% stake in the latter, was among the pioneers—and Later, among the top players—in the Russian POS-lending market. The bank is currently in 27th place by total assets,²⁷ with RUB145.3bn as of end-June 2011, according to local GAAP. Despite the recent loss of its front-line positions, the bank still remains a serious player in the Russian banking sector, with high possibilities for further growth and the resumption of lost positions in the POS lending market.

From the analysis of RSB's IFRS 1H11 financials (unaudited), we can highlight further key points:

- **Lending up 8.3% during 1H11,** mainly through an 8.1% increase in households' net credit portfolio. Credit card loans consist about 52.4% of the total credit portfolio, and the bank is completely targeted on dealing with households, with their share in total credit portfolio at above 91%. Considering the RUB2.7bn that was written off during 1H11, the bank presented a rosy 1.6% NPL/consumer loans ratio and a more than sufficient 160% LLR/NPL coverage, according to data presented on its official website. We believe that RSB enjoys such active write-offs due to its sufficiently high interest rates' burden on its clients, of about 31.8% in consumer loans and 44.3% in credit card loans.
- **Significant bias in funding towards customers deposits,** which rose 30.2%, to RUB81.9bn, with an almost 96% share of households deposits in its total deposit structure. While such a shift in funding was targeted, the recent history of Ukrainian banks has shown that this strategy could also be quite risky, with massive clients outflow in the event of a panic situation.
- **Wholesale borrowings down 63.6%, to RUB7.7bn.** As of 1H11, the bank had outstanding euro commercial paper of RUB2.7bn denominated in USD and maturing in October 2011. Other bonds were denominated in RUB and UAH, maturing from September 2011 till April 2012, in our opinion presenting non-material risks for the group.
- **Bank's subordinated debt is presented by loan participation notes issued in December 2005 and 2006** (totaling USD400m, with maturities in December 2015 and 2016) and two RUB5bn loans each, with maturities in January

2020 and December 2019, received from VEB and JSC Company Russian Standard.

- **Material share of securities** at fair value through profit or loss in total assets, of about 14.2% or RUB20.5bn, as of end-1H11 (12.8%, or RUB17.6bn as of end- 2010), with all 100% of them geographically concentrated in Russia and maturing in up to 3 months. Such short-term securities present possibilities for further credit portfolio growth after their maturity; still, the question remains of how the bank will use these funds.
- **Significant, RUB25.2bn retained earnings**, which materially increase the bank's Tier 1 capital (Basel I). As of 1H11, RSB presented more than sufficient 18.2% Tier 1 CAR and 24.7% total CAR; thus, we consider RSB's capitalisation as one of its strongest sides.
- **Flat year-on-year net interest income, presenting RUB9.9bn as of 1H11.** Nevertheless, due to materially decreased loan-loss provisions (from RUB2.7bn as of end-2010 to RUB1.7bn as of 1H11), the bank has managed to boost its YTD net income by 34.9%, to RUB2.5bn. During 1H11, RSB has slightly decreased its net interest margin by 0.3ppt to 17.8%, along with ROA improved to 3.3% and ROE of 17.9% (a YTD increase of 1.9ppt and 11.6ppt, respectively), according to data from the bank's website.

At end-August, according to different sources, RSB obtained a RUB4bn, three-year loan from EBRD for consumer lending programmes. Entrance into world lending markets prompts a decrease in growth rates of local sources of funding; nevertheless, the bank still needs to support its growth ambitions. In conclusion, in our view, the bank has quite a reasonable credit quality standing, while it is in tough competition with the Russian, state-owned giants like Sberbank and VTB Bank.

With regard to its neutral or positive relations with the government (which plays not the least role in the banking sphere), we believe RSB would have good opportunities for further growth in the banking sector of the Russian Federation..

Table 69. Key bank's IFRS balance sheet and income statement figures (RUBm)

	2010	2011 (unaudited)	% change, YTD
Cash & balances with central bank	12,614	9,374	-25.7
Due from banks	513	548	6.8
Loans to customers	81,930	88,725	8.3
Loan-loss reserves (LLR)	-7,792	-7,644	-1.9
Securities at fair value through profit or loss	17,568	20,531	16.9
Investments available for sale	11,657	11,739	0.7
Goodwill	2,476	2,610	5.4
Total assets	137,055	144,132	5.2
Due to banks	459	1,236	169.3
Customer accounts	62,890	81,914	30.2
Wholesale borrowings	21,039	7,652	-63.6
Subordinated debt	21,870	21,057	-3.7
Total liabilities	110,065	116,437	5.8
Share capital	1,565	1,565	0.0
Retained earnings	24,427	25,167	3.0
Total equity	26,914	27,695	2.9
Net interest income	9,862	9,867	0.1
Income from insurance operations	1,128	1,896	68.1
Operating income	11,334	12,362	9.1
Operating expenses	-6,377	-7,598	19.1

Table 69. Key bank's IFRS balance sheet and income statement figures (RUBm)

	2010	2Q11 (unaudited)	% change, YTD
Loan-loss provisions (LLP)	-2,678	-1,689	-36.9
Net income	1,823	2,460	34.9

Sources: Company data.

RSBU: Quarterly UAS financials – key financials and ratios

Table 70. Key financials and ratios derived from bank's UAS financials

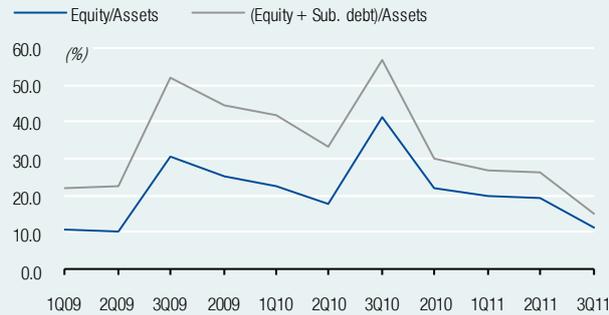
	2009	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11
Balance sheet figures (UAHm)								
Assets	199.3	201.8	244.6	253.2	507.7	573.0	586.4	1,021.9
Liquid assets	81.2	61.9	86.8	48.4	84.8	179.9	71.1	147.6
Gross loans	92.7	104.1	133.0	176.0	315.3	337.7	426.3	719.9
Loan loss reserves (LLR)	9.8	9.9	12.5	12.3	14.9	17.6	20.4	42.0
Equity	50.6	45.7	43.0	104.2	111.9	112.1	112.3	112.6
Deposits	19.9	26.8	23.5	30.4	40.1	58.2	78.4	132.6
Quarterly P&L								
Net interest income	1.0	1.5	1.9	2.3	2.3	0.8	3.7	8.2
Net commission income	2.6	4.3	9.6	14.9	29.8	25.3	26.6	40.5
Operating income (before LLP)	6.6	6.4	12.2	18.1	33.1	27.6	32.8	104.6
Operating expense	(10.9)	(10.7)	(12.6)	(18.3)	(22.2)	(24.9)	(29.2)	(79.9)
Loan-loss provisions (LLP)	1.6	(0.6)	(2.2)	0.5	(3.3)	(2.4)	(2.9)	(23.0)
Net income	(2.7)	(4.9)	(2.6)	0.2	7.6	0.2	0.1	0.3
Last 12-month period P&L								
Net interesting income	0.7	3.0	5.5	6.8	8.1	7.4	9.1	15.1
Net commission income	17.4	15.4	20.0	31.5	58.8	79.7	96.7	122.2
Operating income (before LLP)	43.0	30.6	30.8	43.4	69.9	91.1	111.7	198.2
Operating expense	(90.9)	(78.9)	(59.3)	(52.5)	(63.8)	(78.0)	(94.5)	(156.2)
Loan-loss provisions (LLP)	26.7	28.2	10.8	(0.8)	(5.6)	(7.4)	(8.2)	(31.6)
Net income	(21.5)	(20.4)	(17.8)	(10.1)	0.3	5.4	8.2	8.3
Growth rates (%YoY)								
Assets	N/A	-35.2	-13.6	45.1	154.8	183.9	139.7	303.5
Gross loans	N/A	-49.4	-5.7	74.8	240.1	224.2	220.5	309.0
Deposits (by businesses)	N/A	31.5	7.7	24.3	25.7	-5.4	35.9	49.6
Deposits (by households)	N/A	-9.8	69.2	263.0	491.6	704.8	752.2	880.8
Deposits (total)	N/A	21.9	19.7	60.7	101.0	117.2	233.6	335.9
Equity	N/A	33.9	49.1	95.5	121.1	145.4	160.9	8.0
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	N/A	36.6	60.5	48.2	28.9	28.2	21.8	12.6
Equity/Assets	25.4	22.6	17.6	41.2	22.0	19.6	19.1	11.0
(Equity + Subor. debt)/Assets	44.7	41.9	33.7	57.0	30.1	26.9	26.4	15.2
Liquid assets/Assets	40.7	30.7	35.5	19.1	16.7	31.4	12.1	14.4
Current liquidity (R5 by NBU)	N/A	158.6	272.0	98.8	44.9	81.7	81.1	56.9
Gross loans/Deposits	117.6	116.8	123.7	112.0	102.9	110.8	109.6	102.4
Net loans/Deposits	416.0	351.5	512.9	538.5	749.8	549.7	517.9	511.3
Cost-to-income ratio	211.3	257.6	192.5	120.9	91.2	85.6	84.6	78.8
Net interest margin	0.6	2.8	5.6	5.7	4.2	3.0	2.8	3.1
ROAA	-21.5	-8.0	-6.8	-4.7	0.1	1.4	2.0	1.3
ROAE	-84.9	-51.2	-49.6	-12.8	0.3	6.9	10.6	7.7
NII/operating income	1.6	9.8	17.9	15.6	11.6	8.1	8.2	7.6
LLR/Gross loans	10.6	9.5	9.4	7.0	4.7	5.2	4.8	5.8

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

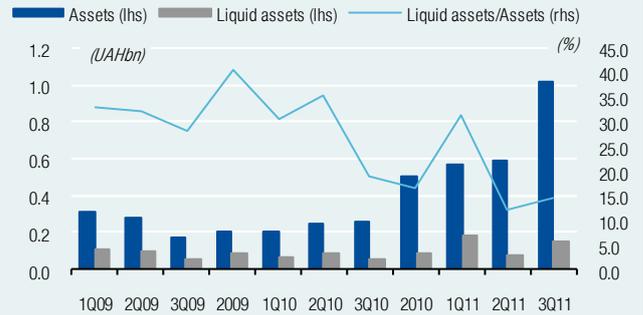
RSBU: Charts on bank's key credit metrics

Chart 250. Bank's capitalisation



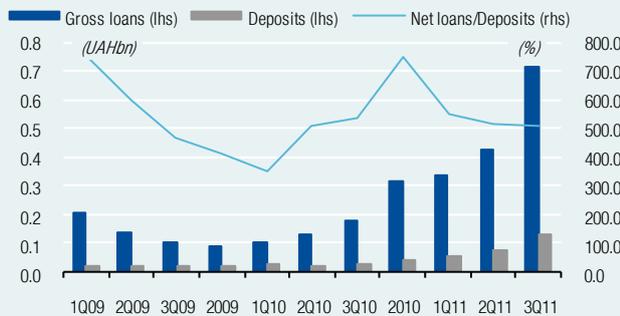
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 251. Liquidity



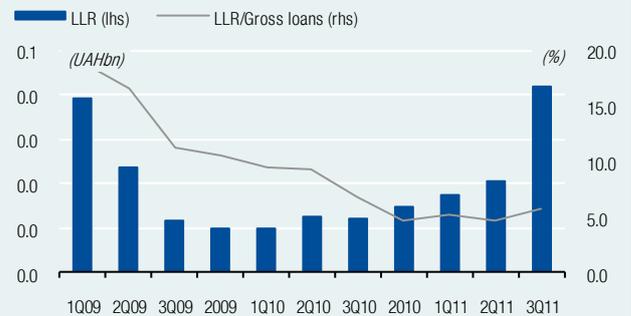
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 252. Loans and deposits



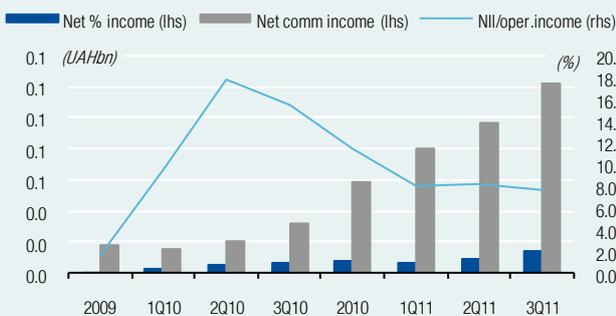
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 253. Loan loss reserves history



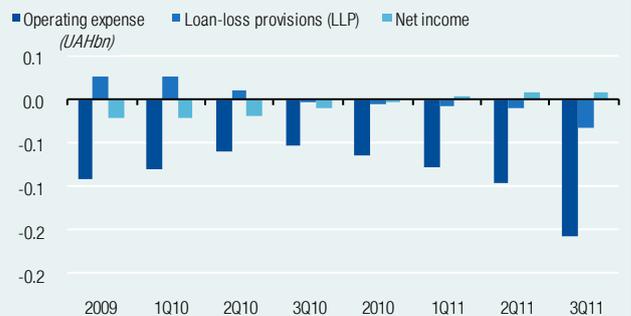
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 254. Income structure (annualised basis)



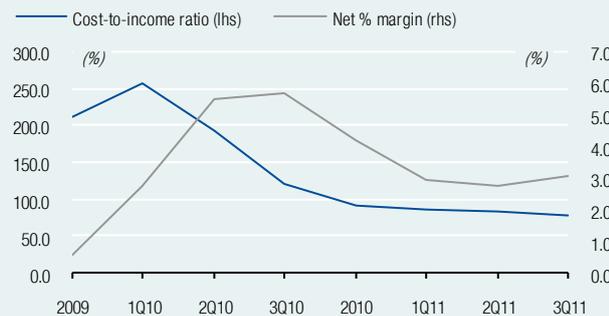
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 255. Expense and net income (annualised basis)



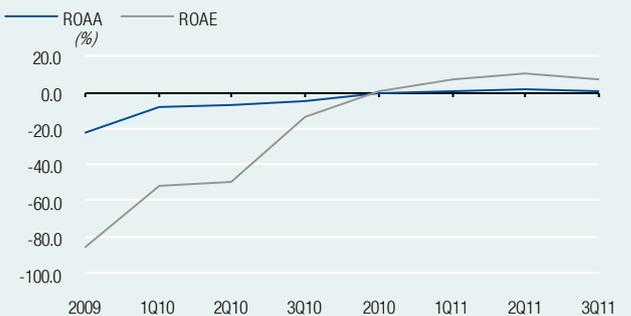
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 256. Financial performance ratios



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

Chart 257. Financial performance ratios



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

Country

Ukraine

Megabank

Sector

Banks: Commercial banking

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

NR/NR/NR N/A

Ticker(s) in Bloomberg

Megabank, a middle-sized Ukrainian bank (41st in the general group of banks as of 3Q11 by total assets, according to NBU classification), was established in 1989 in the second city of Ukraine by size, Kharkov. Despite its relatively long, 20-year history, we cannot say that this bank broke into the top-10 Ukrainian banks, nor is the key player in one of the banking segments. Nevertheless, the bank's compactness and presence of large foreign capital among its shareholders gives it enough advantages to stay afloat and to count on further stable operation

- Capitalisation: Sufficient, with enough capital to support the bank's future growth.** Megabank's high capitalisation was achieved after injections from KfW and EBRD (UAH300m during 2009), when RCAR peaked by 35.7% as of 3Q10. Further credit portfolio growth decreased Megabank's RCER, and the bank finished 4Q11 with a still-high 20.4% RCAR, according to UAS quarterly reports. We believe that the bank's RCAR might be currently overstated, with a possible decrease through loan-loss provisions in the nearest future, which we will describe further.
- Assets quality:** Gives us a dual impression. On the one hand, the business segment and low amounts of mortgage loans (3.2% as of January, 2011) allow the bank to make a more risk-balanced approach. From another perspective, there are assets in the credit portfolio which are questionable. As of end-December 2010, total impaired loans amounted to 29.5%, or UAH797.7m, including renegotiated loans of about UAH500m, for which concerns exist. Formed loan-loss reserves cover only overdue loans of 90-plus days, and we expect these loans to increase in the case of further deterioration in renegotiated loans.
- There was a notable **increase in loans related to real estate in 2010**, from UAH120m in 2009 to UAH331m in 2010, bringing its share to 12.2% of the total credit portfolio. In our view, this is not such a positive development in the bank's loan book, because we consider the situation in the Ukrainian real estate market as one that is stagnant, and which will remain so in the next couple of years. This is likely to represent the potential for an increase in non-performing loans going forward; hence, a loan-loss provisioning increase, and eventually, pressure on the bank's profitability. With a LLR/gross loans ratio of about 5.4% as of 4Q11, the bank will likely need to continue spending on loan-loss provisions, thus putting pressure on its profitability.

RCAR, according to UAS figures



Source: bank data.

Key financials and ratios

	2009	2010	3Q11	4Q11
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	3,138.3	3,478.0	4,206.6	4,540.0
Loans	2,284.9	2,558.1	2,825.2	3,224.3
Deposits	1,405.0	1,822.0	2,275.2	2,277.8
Equity	606.7	613.3	649.4	651.2
Net % income	83.7	103.3	115.9	121.5
Net com income	84.1	101.8	109.6	110.9
Operating income	165.5	209.7	247.6	251.1
PPI	12.7	47.1	60.9	56.7
LLP	(29.4)	(42.0)	(57.0)	(52.6)
Net income	(15.9)	1.7	3.0	3.5
Ratios (%)				
Tier 1 ratio	21.6	19.9	N/A	N/A
CAR	27.8	31.7	22.9	20.4
Equity-to-assets	19.3	17.6	15.4	14.3
Loan-to-deposit	162.6	140.4	124.2	141.6
Liquid assets	4.1	4.8	14.7	9.4
ROAA	-0.5	0.1	0.1	0.1
ROAE	-3.4	0.3	0.5	0.5
Net % margin	3.0	3.5	3.9	3.8
NII-to-op.income	50.6	49.3	46.8	48.4
Cost-to-income	92.3	77.5	75.4	77.4
LLR	4.5	5.5	5.7	5.4
NPLs	44.9	29.5	N/A	N/A
NPL coverage	10.1	18.7	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively NII – Net interest income; LLR – loan-loss reserves; NPL – non-performing loans (impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC.

- **Liquidity: Improved during 3Q11, but with a further decrease during 4Q11.** The bank finished 3Q11 with 5.3ppt growth in cash and cash equivalents, to 14.7% of total assets, or UAH616.5m. But, 4Q11 returned it to 9.4% of liquid assets, and we do not see this level as sufficient in this particular case.
- **The presence of strong international investors in the bank's share capital** includes German Kreditanstalt für Wiederaufbau (KfW) and European Bank for Reconstruction and Development (EBRD), with a 15% of share capital each, which was received by the bank in 2009. In the event of a continued stress situation in the markets, we believe that there would be systemic support of Megabank from the presented shareholders.
- **Factor of related parties.** According to the audited IFRS financials, quite a moderate level of related party transactions in the assets and liabilities sides of the bank's balance sheet (2.0% and 14.4%, respectively, as of year-end 2010) was reported. In our view, the bank is under risk, albeit remote as for now, of assets quality deterioration, if its majority shareholder, Mr Subbotin, and businesses that are associated with him, get into trouble
- **Profitability: Weak financial performance, along with low net interest margin, presents insufficiently qualitative lending policies.** From the revenue perspective, definitely notable is the bank's income mix. While the bank's net interest and fee income is practically balanced, with an insignificant shift towards net interest income, as of 4Q11, yearly expenses on fee and commission income were only UAH7.0m (interest expenses were UAH229.0m). Such low costs were mostly achieved by the Integrated Clearing Center (ICC),. In fact, this allowed the bank to show a slight profit as a result of the 2010, UAH3.5m. Megabank's net interest margin was comparably low, at 3.8% as of 4Q11, presenting inefficient risk-management strategies in the recent past. The cost-to-income ratio remains at about 77.4%, which we consider as rather high for such a bank.

Megabank: IFRS financials – key financials and ratios

Table 71. Key FINANCIALS derived from bank's IFRS financials

	2004	2005	2006	2007	2008	2009	2010
P&L (YTD)	(UAHm)						
Net interest income	18.2	29.1	37.1	65.3	105.3	83.7	103.3
Net fee & commission income	29.3	45.8	48.4	69.0	91.9	84.1	101.8
Operating income	68.8	84.7	91.9	140.3	222.2	165.5	209.7
Pre-provision income (PPI)	6.9	18.1	22.5	40.9	75.6	12.7	47.1
Loan-loss provisions (LLP)	(3.7)	(4.3)	(6.4)	(12.4)	(46.0)	(29.4)	(42.0)
Pre-tax income	2.9	13.7	16.1	28.4	29.6	(16.7)	5.1
Net income (NI)	1.7	11.4	11.3	22.8	17.6	(15.9)	1.7
Balance sheet	(UAHm)						
Cash & balances with central bank	41.2	77.8	83.6	242.7	77.2	129.0	165.4
Due from banks	115.6	99.7	149.0	150.7	157.7	408.8	400.7
Loans to customers	326.7	493.6	726.1	1,318.9	2,347.1	2,284.9	2,558.1
Investment securities	44.3	64.0	81.8	167.3	196.0	156.4	138.9
Property, equipment and intangible assets	49.3	70.5	89.4	116.8	138.9	148.3	166.1
Other assets	7.9	6.0	4.0	5.6	9.0	10.8	48.8
Total assets	585.0	811.6	1,134.0	2,002.0	2,925.9	3,138.3	3,478.0
Due to banks	43.6	23.2	39.3	214.1	341.7	433.4	501.3
Due to central bank	4.2	1.6	0.0	0.0	90.6	315.1	46.0
Customer accounts	419.1	628.0	828.6	1,373.1	1,950.7	1,405.0	1,822.0
Wholesale borrowings	2.1	0.0	1.7	25.5	111.4	136.1	172.9
Subordinated debt	37.7	36.7	46.7	60.5	92.5	229.5	314.2
Total equity	73.1	107.8	197.2	313.5	323.1	606.7	613.3
Total liabilities & equity	585.0	811.6	1,134.0	2,002.0	2,925.9	3,138.3	3,478.0

Sources: Company data.

Table 72. Key FINANCIAL RATIOS derived from bank's IFRS financials

	2004	2005	2006	2007	2008	2009	2010	
Growth rates (%YoY)								
Assets	(%YoY)	N/A	38.7	39.7	76.5	46.2	7.3	10.8
Loans	(%YoY)	N/A	51.1	47.1	81.6	78.0	-2.6	12.0
Deposits	(%YoY)	N/A	49.9	31.9	65.7	42.1	-28.0	29.7
Equity	(%YoY)	N/A	47.5	83.0	58.9	3.1	87.8	1.1
Net interest income	(%YoY)	N/A	59.7	27.7	75.9	61.3	-20.5	23.4
Net commission income	(%YoY)	N/A	56.4	5.8	42.5	33.2	-8.4	20.9
Operating income	(%YoY)	N/A	23.0	8.6	52.6	58.4	-25.5	26.7
Balance sheet ratios								
Liquid assets/Assets	(%)	7.0	9.6	7.4	12.1	2.6	4.1	4.8
Liquid assets/Liabilities	(%)	8.1	11.0	8.9	14.4	3.0	5.1	5.8
Due from banks/Due to banks	(x)	2.4	4.0	3.8	0.7	0.4	0.5	0.7
Current ratio	(x)	1.1	1.1	1.4	1.1	0.6	0.8	0.6
Equity/Assets	(%)	12.5	13.3	17.4	15.7	11.0	19.3	17.6
Gross loans/Deposits	(%)	80.3	80.9	90.2	98.6	124.4	170.4	148.6
Net loans/Deposits	(%)	78.0	78.6	87.6	96.1	120.3	162.6	140.4
Wholesale borrowings/Liabilities (%)	(%)	0.4	0.0	0.2	1.5	4.3	5.4	6.0
Profitability & Earning quality								
ROAA	(%)	N/A	1.6	1.2	1.5	0.7	-0.5	0.1
ROAE	(%)	N/A	12.7	7.4	8.9	5.5	-3.4	0.3
Net interest income/Operating income	(%)	N/A	34.3	40.4	46.5	47.4	50.6	49.3
Net commission income/Operating income	(%)	N/A	54.1	52.7	49.2	41.4	50.8	48.5

Table 72. Key FINANCIAL RATIOS derived from bank's IFRS financials

		2004	2005	2006	2007	2008	2009	2010
Other income/Operating income	(%)	N/A	11.6	7.0	4.3	11.3	-1.4	2.2
Net interest margin	(%)	N/A	5.1	4.6	5.0	4.9	3.0	3.5
Cost-to-income ratio	(%)	N/A	78.6	75.5	70.9	66.0	92.3	77.5
LLP/Operating income	(%)	N/A	5.1	7.0	8.9	20.7	17.7	20.0
Assets quality								
NPL/Gross loans	(%)	N/A	N/A	N/A	N/A	N/A	44.9	29.5
NPL coverage	(%)	N/A	N/A	N/A	N/A	N/A	10.1	18.7
LLR/Gross loans	(%)	2.9	2.8	2.8	2.5	3.3	4.5	5.5
Earning power								
Recurring earning power	(%)	N/A	2.6	2.3	2.6	3.1	0.4	1.4
PPI/Average total capital funds	(%)	N/A	20.0	14.8	16.0	23.7	2.7	7.7
Interest expense/Interest income	(%)	N/A	62.4	63.2	62.1	67.6	77.4	72.3
Interest income/Average interest earning assets	(%)	N/A	13.5	12.5	13.3	15.0	13.3	12.6
Interest expense/Average interest bearing liabilities	(%)	N/A	8.1	7.9	8.2	10.3	11.2	10.0
Net spread	ppt	N/A	5.4	4.6	5.0	4.7	2.1	2.5
Income tax / Pretax income	(%)	N/A	16.7	29.8	19.6	40.3	4.6	66.8
Efficiency								
Non-interest expense/Average assets	(%)	N/A	10.3	7.9	7.3	7.9	6.2	6.5
Personnel expense/Average assets	(%)	N/A	3.8	3.2	3.1	3.0	2.1	2.3
Personnel expense/Operating income	(%)	N/A	31.1	33.5	34.9	33.0	39.1	35.8
Personnel expense/Non-interest expense	(%)	N/A	36.7	39.9	43.0	37.5	34.3	34.9
Funding structure								
Customer accounts/Total funding base	(%)	72.3	78.8	74.4	69.1	67.0	44.9	52.5
Net loans/Total funding base	(%)	56.4	61.9	65.2	66.4	80.7	73.1	73.7
Average net loans/Average customer accounts	(%)	N/A	78.3	83.7	92.9	110.3	138.0	150.1
Customer accounts/Shareholders' equity	(%)	573.5	582.7	420.1	438.1	603.8	231.6	297.1
Provisioning								
Average net loans/Average assets	(%)	N/A	58.7	62.7	65.2	74.4	76.4	73.2
NPL/(Shareholders' equity + LLR)	(%)	N/A	N/A	N/A	N/A	N/A	150.3	104.7
LLP/Gross loans	(%)	N/A	0.9	0.9	0.9	1.9	1.2	1.6
LLP/(LLR - LLP)	(%)	N/A	43.3	44.0	57.0	133.5	36.9	39.3
LLP/PPI	(%)	N/A	24.0	28.6	30.4	60.8	231.5	89.2
Dividend payout	(%)	N/A	0.0	0.0	0.0	0.0	0.0	0.0
Internal capital growth	(%)	N/A	15.7	10.5	11.6	5.6	-4.9	0.3
Other ratios and indicators								
Retail share in loan book	(%)	N/A	13.4	21.7	31.1	31.1	27.8	21.9
Personnel expense per employee	(UAH 000s)	N/A	N/A	N/A	31.6	45.2	40.0	46.7
Operating income per employee	(UAH 000s)	N/A	N/A!	N/A	90.5	136.7	102.4	130.2

Notes: NPL– non-performing loans (impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC..

Megabank: Quarterly UAS financials – key financials and ratios

Table 73. Key financials and ratios derived from bank's UAS financials

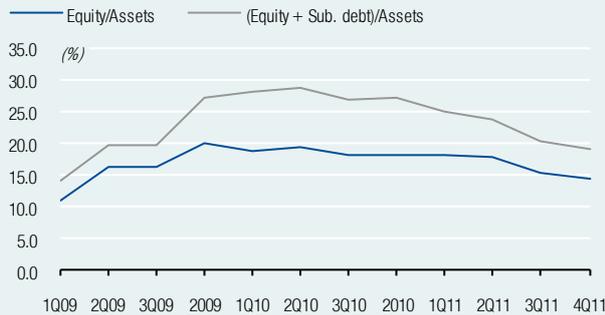
	1Q10	2Q10	3Q10	2011	1Q11	2Q11	3Q11	4Q11
Balance sheet figures (UAHm)								
Assets	3,365.9	3,302.9	3,524.1	3,509.1	3,490.7	3,603.1	4,206.6	4,540.0
Liquid assets	466.2	260.6	348.6	327.0	331.8	336.2	616.5	426.8
Gross loans	2,496.1	2,673.8	2,758.7	2,726.0	2,769.3	2,911.1	2,996.9	3,407.8
Loan loss reserves (LLR)	100.6	107.3	118.0	131.8	147.7	163.3	171.7	183.6
Equity	634.3	639.5	636.3	636.7	637.4	648.6	649.4	651.2
Deposits	1,455.9	1,474.4	1,737.0	1,806.5	1,824.7	1,904.5	2,275.2	2,277.8
Quarterly P&L								
Net interest income	14.1	24.3	26.8	27.0	29.3	29.9	29.7	32.6
Net commission income	25.3	24.8	24.0	27.7	29.4	26.9	25.5	29.0
Operating income (before LLP)	44.6	50.9	53.5	62.8	61.7	63.6	59.6	66.3
Operating expense	(40.3)	(43.4)	(42.3)	(44.8)	(44.8)	(47.4)	(49.7)	(52.5)
Loan-loss provisions (LLP)	(3.9)	(6.8)	(10.6)	(16.6)	(16.4)	(15.3)	(8.7)	(12.2)
Net income	0.3	0.5	0.6	0.6	0.6	0.7	1.0	1.1
Last 12-month period P&L								
Net interesting income	76.9	77.0	85.3	92.1	107.3	112.9	115.9	121.5
Net commission income	87.8	93.4	97.6	101.8	105.9	108.1	109.6	110.9
Operating income (before LLP)	182.8	188.3	198.4	211.8	228.9	241.5	247.6	251.1
Operating expense	(155.8)	(162.6)	(169.2)	(170.9)	(175.4)	(179.4)	(186.8)	(194.5)
Loan-loss provisions (LLP)	(23.4)	(22.6)	(26.9)	(38.0)	(50.4)	(58.9)	(57.0)	(52.6)
Net income	1.2	1.3	1.6	2.0	2.4	2.6	3.0	3.5
Growth rates (%YoY)								
Assets	11.1	12.0	18.9	10.6	3.7	9.1	19.4	29.4
Gross loans	4.4	12.5	15.9	13.0	10.9	8.9	8.6	25.0
Deposits (by businesses)	3.0	15.7	29.7	30.0	22.9	24.4	35.6	25.4
Deposits (by households)	-14.1	-2.5	12.5	29.9	27.2	32.8	27.0	26.6
Deposits (total)	-7.5	4.6	19.9	29.9	25.3	29.2	31.0	26.1
Equity	90.1	32.1	31.4	0.4	0.5	1.4	2.1	2.3
Key ratios (%)								
Capital adequacy ratio (R2 by NBU)	35.7	34.6	33.9	30.0	31.2	23.7	22.9	20.4
Equity/Assets	18.8	19.4	18.1	18.1	18.3	18.0	15.4	14.3
(Equity + Subor. debt)/Assets	28.1	28.7	27.0	27.1	25.1	23.8	20.5	19.0
Liquid assets/Assets	13.8	7.9	9.9	9.3	9.5	9.3	14.7	9.4
Current liquidity (R5 by NBU)	90.3	61.7	58.6	68.8	89.4	56.2	94.1	94.8
Gross loans/Deposits	171.4	181.4	158.8	150.9	151.8	152.9	131.7	149.6
Net loans/Deposits	164.5	174.1	152.0	143.6	143.7	144.3	124.2	141.6
Cost-to-income ratio	85.2	86.4	85.3	80.7	76.6	74.3	75.4	77.4
Net interest margin	2.9	2.9	3.1	3.3	3.7	3.9	3.9	3.8
ROAA	0.04	0.04	0.05	0.1	0.1	0.1	0.1	0.1
ROAE	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5
NII/operating income	42.1	40.9	43.0	43.5	46.9	46.8	46.8	48.4
LLR/Gross loans	4.0	4.0	4.3	4.8	5.3	5.6	5.7	5.4

Notes: Liquid assets include cash and cash equivalents; ROAE – Return on average assets; ROAE – Return on average equity; NII – Net interest income

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

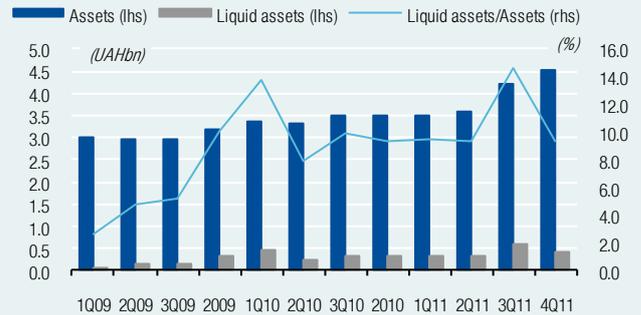
Megabank: Charts on bank's key credit metrics

Chart 258. Bank's capitalisation



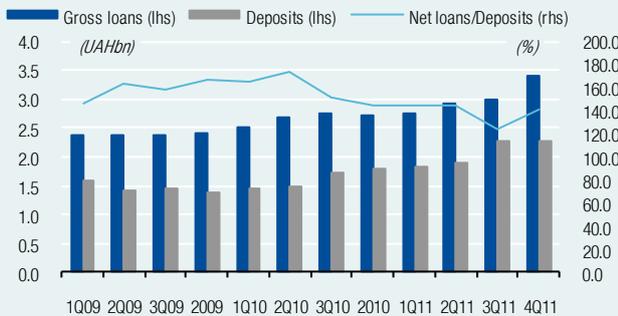
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 259. Liquidity



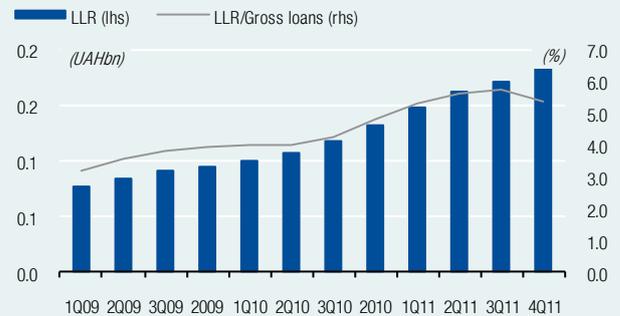
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 260. Loans and deposits



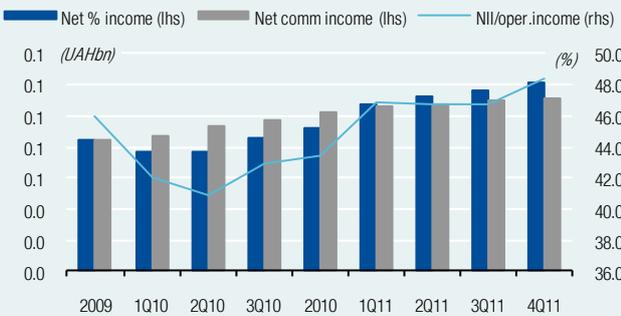
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 261. Loan loss reserves history



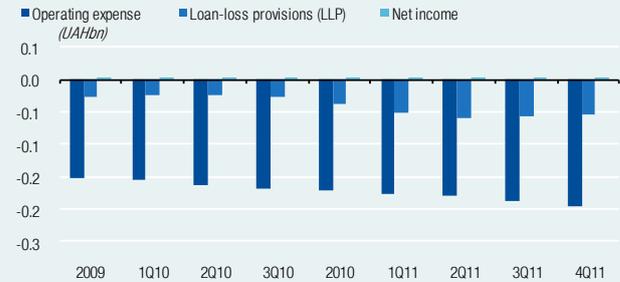
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 262. Income structure (annualised basis)



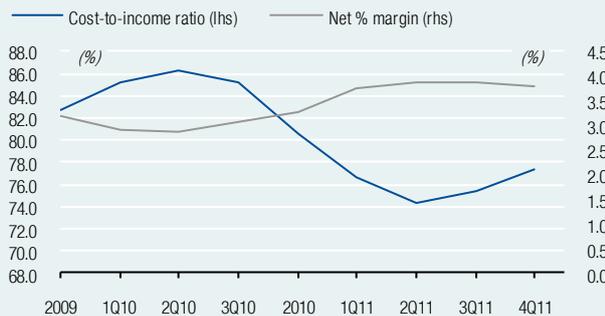
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 263. Expense and net income (annualised basis)



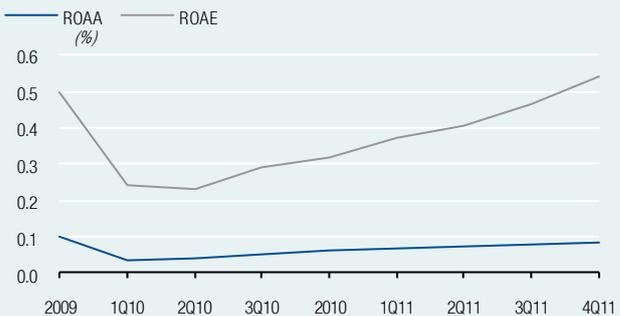
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 264. Financial performance ratios



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

Chart 265. Financial performance ratios



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

Appendix

Payback schedule of Eurobond debt by banks

Yearly schedule of payments in 2012-31

Table 74. Year schedule of Eurobond debt re-payment (interest and principal) by Ukrainian banks
Ordered by total volume of outstanding debt of Eurobonds of a bank

Bank	Year	Interest	Principal	Total
Privatbank				
	2011	1,005,651.00		1,005,651.00
	2012	66,617,845.00	500,000,000.00	566,617,845.00
	2013	46,581,200.00		46,581,200.00
	2014	49,658,480.00		49,658,480.00
	2015	51,184,907.00	200,000,000.00	251,184,907.00
	2016	32,483,306.00	150,000,000.00	182,483,306.00
	2017	19,309,907.00		19,309,907.00
	2018	18,798,539.00	110,000,000.00	128,798,539.00
	2019	10,597,896.00		10,597,896.00
	2020	10,624,086.00		10,624,086.00
	2021	10,597,896.00		10,597,896.00
	2022	10,597,896.00		10,597,896.00
	2023	10,597,896.00		10,597,896.00
	2024	10,624,086.00		10,624,086.00
	2025	10,597,896.00		10,597,896.00
	2026	10,597,896.00		10,597,896.00
	2027	10,597,896.00		10,597,896.00
	2028	10,624,086.00		10,624,086.00
	2029	10,597,896.00		10,597,896.00
	2030	10,597,896.00		10,597,896.00
	2031	10,597,896.00	189,000,000.00	199,597,896.00
	Total	423,491,053.00	1,149,000,000.00	1,572,491,053.00
Ukreximbank				
	2012	87,052,500.00	250,000,000.00	337,052,500.00
	2013	70,052,500.00		70,052,500.00
	2014	70,052,500.00		70,052,500.00
	2015	38,646,250.00	750,000,000.00	788,646,250.00
	2016	3,620,000.00	125,000,000.00	128,620,000.00
	Total	269,423,750.00	1,125,000,000.00	1,394,423,750.00
Oshchadbank				
	2012	57,750,000.00		57,750,000.00
	2013	57,750,000.00		57,750,000.00
	2014	57,750,000.00		57,750,000.00
	2015	57,750,000.00		57,750,000.00
	2016	28,875,000.00	700,000,000.00	728,875,000.00
	Total	259,875,000.00	700,000,000.00	959,875,000.00
UkrSibbank				
	2011	19,375,000.00	500,000,000.00	519,375,000.00
	Total	19,375,000.00	500,000,000.00	519,375,000.00

Table 74. Year schedule of Eurobond debt re-payment (interest and principal) by Ukrainian banks
Ordered by total volume of outstanding debt of Eurobonds of a bank

Bank	Year	Interest	Principal	Total
FUIB				
	2011	6,943,750.00		6,943,750.00
	2012	27,775,000.00		27,775,000.00
	2013	27,775,000.00		27,775,000.00
	2014	27,775,000.00	252,488,000.00	280,263,000.00
	Total	90,268,750.00	252,488,000.00	342,756,750.00
Alfa-Bank				
	2012	20,494,632.54	315,237,375.00	335,732,007.54
	Total	20,494,632.54	315,237,375.00	335,732,007.54
Nadra Bank				
	2011	2,343,750.00		2,343,750.00
	2012	10,753,000.00		10,753,000.00
	2013	10,735,500.00	14,914,900.00	25,650,400.00
	2014	9,526,250.00	18,643,625.00	28,169,875.00
	2015	8,014,250.00	18,643,625.00	26,657,875.00
	2016	6,507,500.00	11,186,175.00	17,693,675.00
	2017	5,594,000.00	61,186,175.00	66,780,175.00
	Total	53,474,250.00	124,574,500.00	178,048,750.00
VAB Bank				
	2011	2,952,521.25		2,952,521.25
	2012	11,810,085.00		11,810,085.00
	2013	11,810,085.00		11,810,085.00
	2014	5,905,042.50	112,477,000.00	118,382,042.50
	Total	32,477,733.75	112,477,000.00	144,954,733.75
Finance and Credit Bank				
	2012	9,975,000.00		9,975,000.00
	2013	9,975,000.00		9,975,000.00
	2014	4,987,500.00	95,000,000.00	99,987,500.00
	Total	24,937,500.00	95,000,000.00	119,937,500.00
Total		1,193,817,669.29	4,373,776,875.00	5,567,594,544.29

Sources: Bloomberg, CBonds, Investment Capital Ukraine LLC.

Daily schedule of payments 2012-16

Table 75. Daily schedule of Eurobond debt re-payment (interest and principal) by Ukrainian banks

Date	Bank	Type of payment	Currency	Volume
5-Dec-11	Nadra Bank	Interest	USD	2,343,750.00
14-Dec-11	VAB Bank	Interest	USD	2,952,521.25
15-Dec-11	Privatbank	Interest	USD	494,283.00
16-Dec-11	FUIB	Interest	USD	6,943,750.00
21-Dec-11	UkrSibbank	Interest	USD	19,375,000.00
21-Dec-11	UkrSibbank	Principal	USD	500,000,000.00
29-Dec-11	Privatbank	Interest	USD	511,368.00
		Total interest		32,620,672.25
		Total principal		500,000,000.00
Total 4Q 2011				532,620,672.25
15-Jan-12	Privatbank	Interest	USD	507,378.00

Table 75. Daily schedule of Eurobond debt re-payment (interest and principal) by Ukrainian banks

Date	Bank	Type of payment	Currency	Volume
25-Jan-12	Finance and Credit Bank	Interest	USD	4,987,500.00
29-Jan-12	Privatbank	Interest	USD	528,528.00
30-Jan-12	Alfa-Bank	Interest	USD	10,247,316.27
30-Jan-12	Alfa-Bank	Principal	USD	105,079,125.00
6-Feb-12	Privatbank	Interest	USD	20,000,000.00
6-Feb-12	Privatbank	Principal	USD	500,000,000.00
9-Feb-12	Ukreximbank	Interest	USD	3,620,000.00
9-Feb-12	Privatbank	Interest	USD	13,125,000.00
15-Feb-12	Privatbank	Interest	USD	507,378.00
28-Feb-12	Privatbank	Interest	USD	1,132,648.00
10-Mar-12	Oshchadbank	Interest	USD	28,875,000.00
14-Mar-12	VAB Bank	Interest	USD	2,952,521.25
15-Mar-12	Privatbank	Interest	USD	479,847.00
16-Mar-12	FUIB	Interest	USD	6,943,750.00
23-Mar-12	Privatbank	Interest	USD	9,375,000.00
29-Mar-12	Privatbank	Interest	USD	511,368.00
		Total interest		103,793,234.52
		Total principal		605,079,125.00
Total 1Q 2012				708,872,359.52
4-Apr-12	Ukreximbank	Interest	USD	8,500,000.00
15-Apr-12	Privatbank	Interest	USD	507,378.00
27-Apr-12	Ukreximbank	Interest	USD	31,406,250.00
29-Apr-12	Privatbank	Interest	USD	528,528.00
30-Apr-12	Alfa-Bank	Interest	USD	6,834,346.29
30-Apr-12	Alfa-Bank	Principal	USD	105,079,125.00
15-May-12	Privatbank	Interest	USD	494,283.00
29-May-12	Privatbank	Interest	USD	1,132,648.00
5-Jun-12	Nadra Bank	Interest	USD	2,343,750.00
14-Jun-12	VAB Bank	Interest	USD	2,952,521.25
15-Jun-12	Privatbank	Interest	USD	507,378.00
18-Jun-12	FUIB	Interest	USD	6,943,750.00
22-Jun-12	Nadra Bank	Interest	USD	6,065,500.00
29-Jun-12	Privatbank	Interest	USD	528,528.00
		Total interest		68,744,860.54
		Total principal		105,079,125.00
Total 2Q 2012				173,823,985.54
15-Jul-12	Privatbank	Interest	USD	494,283.00
25-Jul-12	Finance and Credit Bank	Interest	USD	4,987,500.00
29-Jul-12	Privatbank	Interest	USD	511,368.00
30-Jul-12	Alfa-Bank	Interest	USD	3,412,969.98
30-Jul-12	Alfa-Bank	Principal	USD	105,079,125.00
9-Aug-12	Ukreximbank	Interest	USD	3,620,000.00
15-Aug-12	Privatbank	Interest	USD	507,378.00
29-Aug-12	Privatbank	Interest	USD	1,154,670.00
10-Sep-12	Oshchadbank	Interest	USD	28,875,000.00
14-Sep-12	VAB Bank	Interest	USD	2,952,521.25
15-Sep-12	Privatbank	Interest	USD	507,378.00
17-Sep-12	FUIB	Interest	USD	6,943,750.00
23-Sep-12	Privatbank	Interest	USD	9,375,000.00
29-Sep-12	Privatbank	Interest	USD	528,528.00
		Total interest		63,870,346.23
		Total principal		105,079,125.00

Table 75. Daily schedule of Eurobond debt re-payment (interest and principal) by Ukrainian banks

Date	Bank	Type of payment	Currency	Volume
Total 3Q 2012				168,949,471.23
4-Oct-12	Ukreximbank	Interest	USD	8,500,000.00
4-Oct-12	Ukreximbank	Principal	USD	250,000,000.00
15-Oct-12	Privatbank	Interest	USD	494,283.00
27-Oct-12	Ukreximbank	Interest	USD	31,406,250.00
29-Oct-12	Privatbank	Interest	USD	511,368.00
15-Nov-12	Privatbank	Interest	USD	507,378.00
29-Nov-12	Privatbank	Interest	USD	1,154,670.00
5-Dec-12	Nadra Bank	Interest	USD	2,343,750.00
14-Dec-12	VAB Bank	Interest	USD	2,952,521.25
15-Dec-12	Privatbank	Interest	USD	494,283.00
17-Dec-12	FUIB	Interest	USD	6,943,750.00
29-Dec-12	Privatbank	Interest	USD	511,368.00
Total interest				55,819,621.25
Total principal				250,000,000.00
Total 4Q 2012				305,819,621.25

Sources: Bloomberg, CBonds, Investment Capital Ukraine LLC.

Disclosures

ANALYST CERTIFICATION

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

EQUITY RATING DEFINITIONS

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

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

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

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

DEBT RATING DEFINITIONS

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

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

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



INVESTMENT CAPITAL UKRAINE
INVESTMENT BANKING

Office 44, 11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

CHAIRMAN OF THE BOARD OF DIRECTORS

Valeria Gontareva
valeria.gontareva@icu.ua

CORPORATE FINANCE TEL. +38 044 2200120

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

Volodymyr Demchyshyn, Director
volodymyr.demchyshyn@icu.ua

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

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

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

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

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

EQUITY SALES AND TRADING TEL. +38 044 2201621

Vlad Sinani, Director, Equities
vlad.sinani@icu.ua

Julia Pecheritsa, International Equity Sales
julia.pecheritsa@icu.ua

RESEARCH DEPARTMENT TEL. +38 044 2200120

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

Alexander Martynenko
Senior equity analyst (Metals & Mining)
alexander.martynenko@icu.ua

Pavlo Bidak
Equity analyst (Food & Agribusiness)
pavlo.bidak@icu.ua

Taras Kotovych
Fixed-income analyst
taras.kotovych@icu.ua

Andriy Kyrushko
Fixed-income analyst (Banks)
andriy.kyrushko@icu.ua

Lee Daniels
Editor
lee.daniels@icu.ua

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (licence numbers: dealer activity AB 440399, broker activity AB 440398, underwriting activity AB 440400 dated 17 November 2008).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.



Additional information is available upon request.