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Executive summary

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

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

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

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

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

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

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

The number of failed banks is expected to increase

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

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

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

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

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

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

Overview of the banking sector

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

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

Factors shaping the banking sector in 1Q14

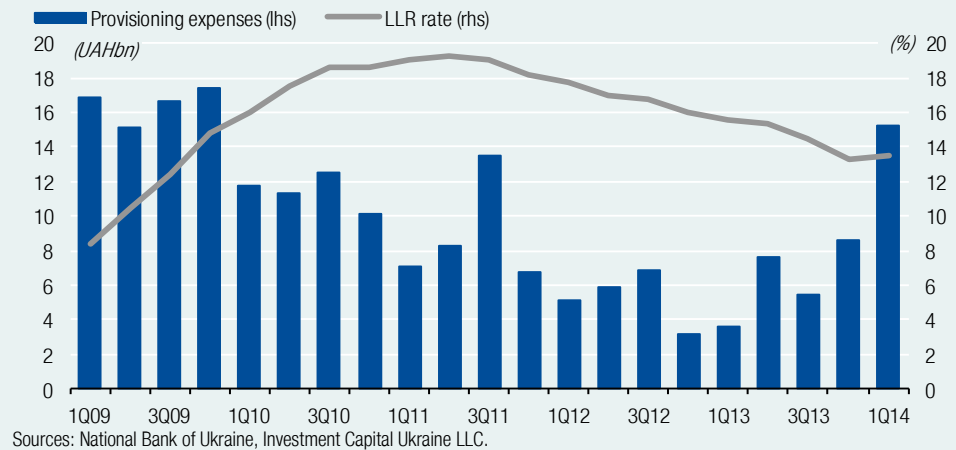
Increased state control over the banks. Owing to the armed conflict in the eastern part of the country and turbulence on the local market, Ukraine's commercial banks have become increasingly dependent on the NBU and legislators. Key issues for the banking sector in 1H14 were the regulation of FX transactions,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

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

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

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

Chart 1. Quarterly provisioning expenses and LLR ratio



Run on deposits

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

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

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

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

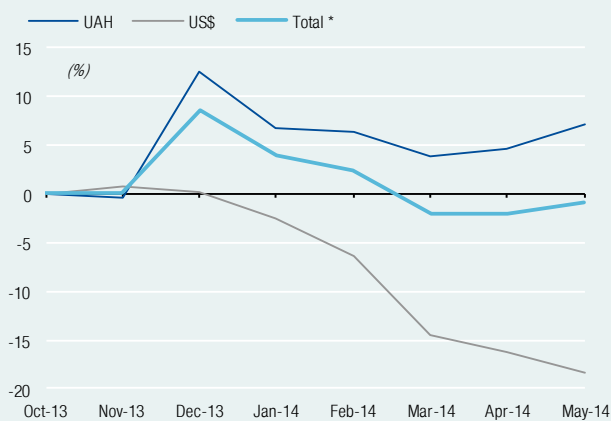
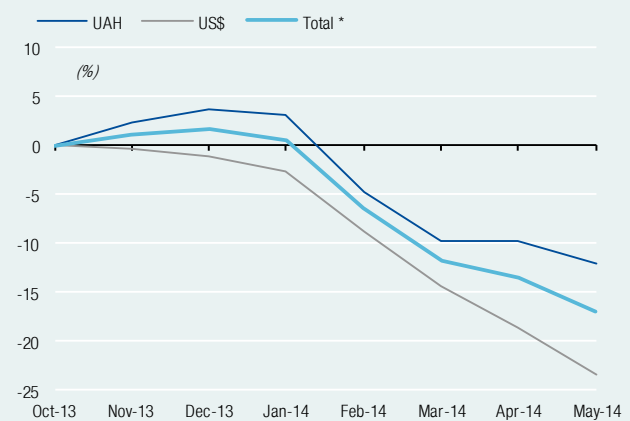


Chart 3. Dynamic of retail deposits (October 2013=0%)



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

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

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

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

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

Current market conditions do not permit lower interest rates

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

Chart 4. Average interest rates on UAH household deposits

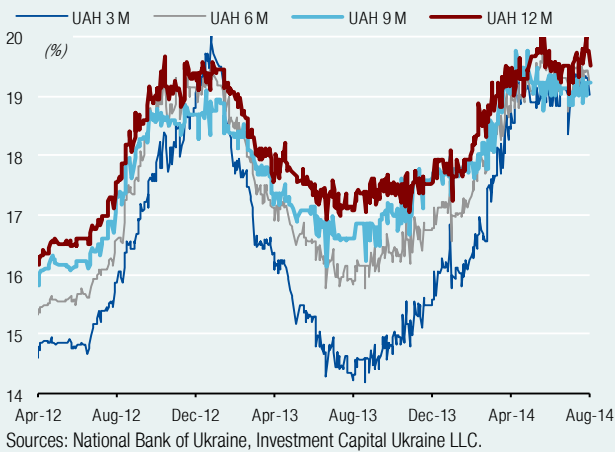
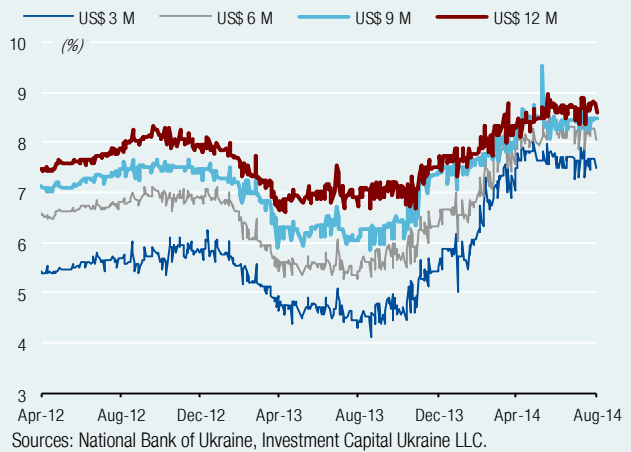


Chart 5. Average interest rates on US\$ household deposits

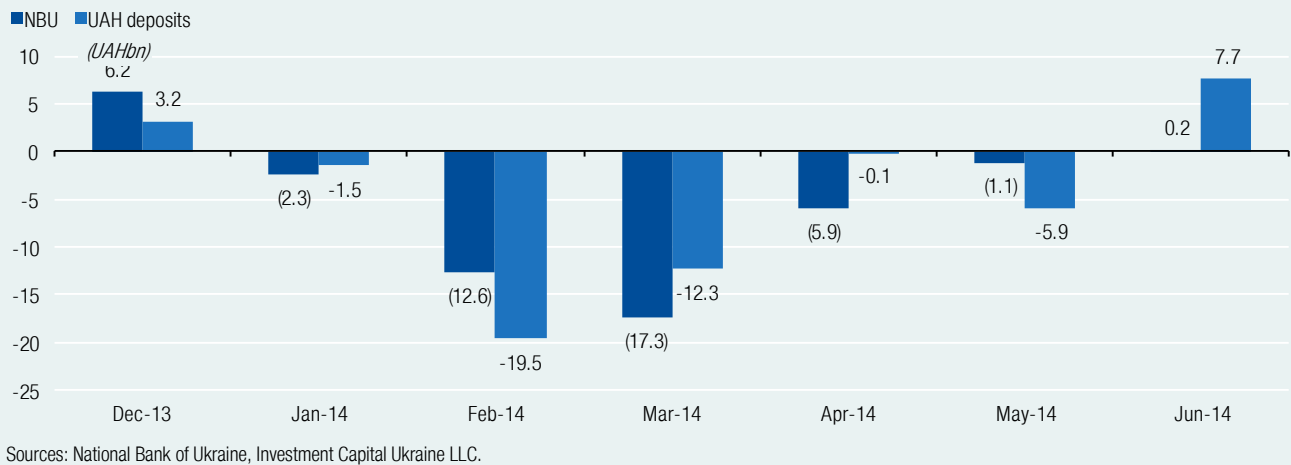


NBU support for banks during the crisis

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

In response to the outflow of deposits and the liquidity crisis, the NBU has launched a massive refinancing programme. The total amount of loans issued by the regulator to commercial banks rose from UAH78.9bn in January to UAH113.6bn in June – an increase of UAH34.5bn or 44.0%. This sharp spike in NBU lending has raised various questions. While the regulator has provided banks with some of the liquidity they desperately needed to satisfy depositor demands, it has been unable to provide them with the FX funding they also urgently needed since it does not issue loans in hard currency. As a result, despite significant support from the regulator, many commercial banks failed to meet their obligations on FX accounts owing to the inadequate supply of hard currency. Meanwhile, increased local currency liquidity and higher demand for FX have put additional pressure on the hryvnia.

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



Doing away with unfair advantages. NBU loans issued since March 2014 have interest rates comparable to those observed on the market. However, we believe that a large number of banks currently have outstanding loans with single-digit interest rates, which give them a strong competitive advantage in terms of cost of funding. In our view, the regulator will be unable to alter existing refinancing agreements legally, but a higher interest

rate will apply if the financial institution requests a debt rollover. This may pose a threat for banks that are barely profitable (e.g., Nadra Bank).

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

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

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

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

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

Bank failures

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

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

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

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

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

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

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

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

Sources: Company data, Investment Capital Ukraine LLC.

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

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

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

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

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

Legislative initiatives

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

The government is seeking UAH6bn in tax revenues from deposit interest

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

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

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

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

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

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

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

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

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

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

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

Bank pages

This part of the report provides credit analysis of selected banks. We provide a snapshot summary of our view on each bank and a historical perspective of its key financial data and ratios as of 1Q14.

Country

Ukraine

Privatbank

Sector

Banks: Commercial banking

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

Ca/ CCC /CCC PRBANK

Ticker(s) in Bloomberg

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

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	4Q13	1Q14
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	148,841	187,919	214,491	196,129
Loans	113,759	142,548	142,548	148,729
Deposits	106,324	133,551	133,551	138,578
Equity	18,301	20,312	20,312	20,791
Net % income	8,049	8,444	8,444	9,520
Net com income	3,274	2,557	2,557	2,560
Operating income	12,290	11,491	11,489	11,579
PPI	6,704	4,823	4,820	4,357
LLP	-4,909	-2,671	-2,669	-2,537
Net income	1,533	1,873	1,873	1,543

Ratios (%)

Tier 1 ratio	10.7	9.8	N/a	N/a
CAR	11.7	12.9	12.2	10.7
Equity-to-assets	12.3	10.8	9.5	10.6
Net loan-to-deposit	107.0	106.7	106.7	107.3
Cash-to-liabilities	20.4	20.1	17.4	10.1
ROAA	2.1	1.1	1.0	0.8
ROAE	16.8	9.7	9.5	7.6
Net % margin	13.7	6.4	6.2	6.6
NI-to-op income	65.5	73.5	73.5	82.2
Cost-to-income	45.5	58.0	58.0	62.4
LLR	18.1	14.3	14.3	13.7
NPLs	9.6	6.8	N/a	N/a
NPL coverage	189.6	208.6	N/a	N/a

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

Privatbank: Key quarterly UAS financials and ratios

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

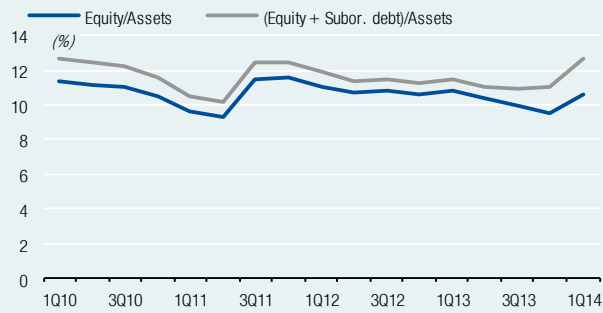
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	153,655	161,740	164,563	172,429	174,930	190,924	202,551	214,491	196,129
Cash and cash equivalents	22,189	28,028	26,024	28,196	22,500	32,194	33,970	33,723	17,676
Gross loans	128,162	131,761	136,195	138,961	146,054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

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

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

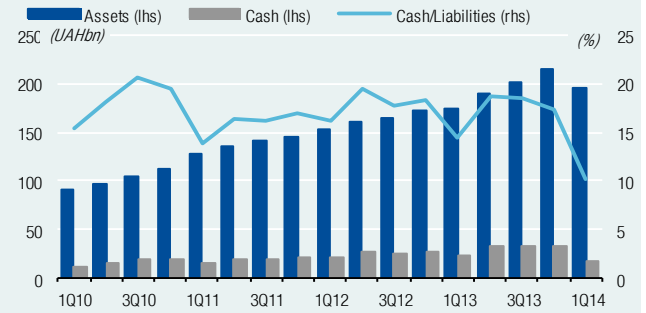
Privatbank: Key credit metrics

Chart 7. Capitalisation



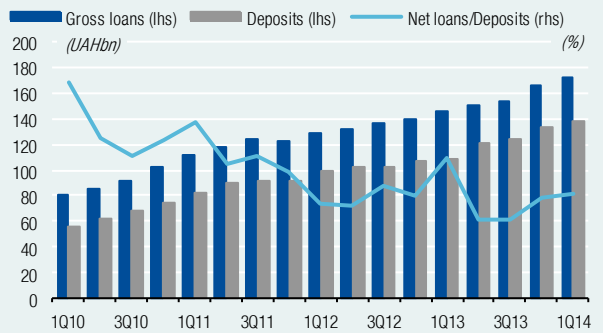
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Liquidity



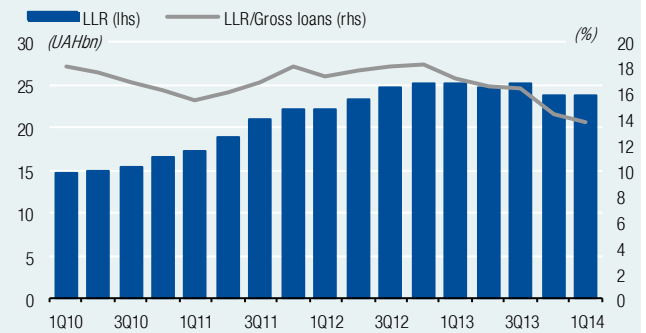
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 9. Loans and deposits



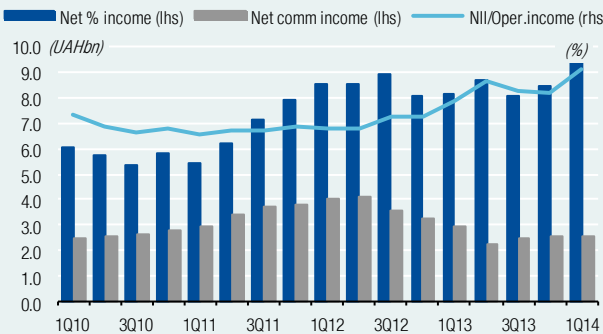
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 10. Loan loss reserves history



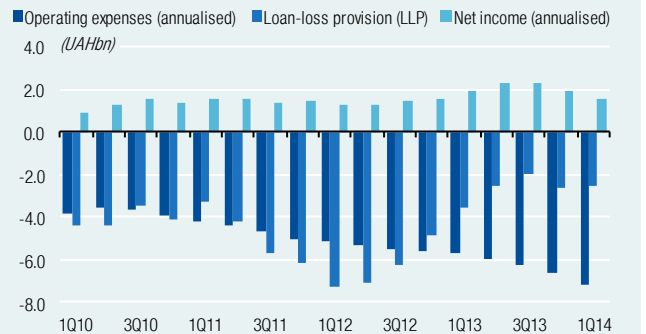
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 11. Income structure (annualised basis)



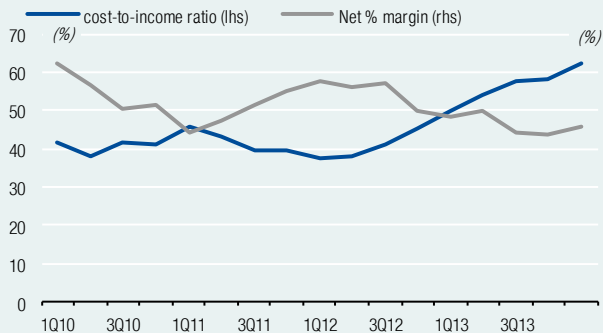
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 12. Expense and net income (annualised basis)



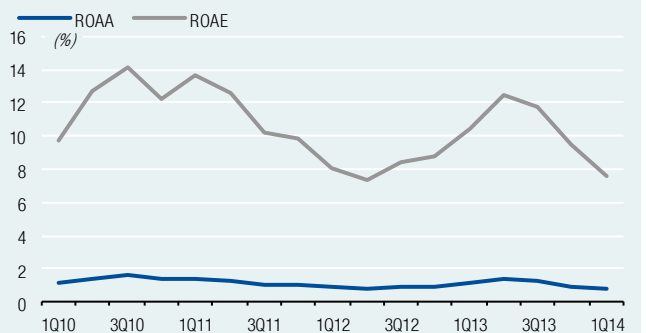
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 13. Financial performance ratios



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

Chart 14. Financial performance ratios



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

Country

Ukraine

Oschadbank

Sector

Banks: Commercial banking

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

Ca/ NR /CCC OSCHAD

Ticker(s) in Bloomberg

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

Oschadbank: Key quarterly UAS financials and ratios

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

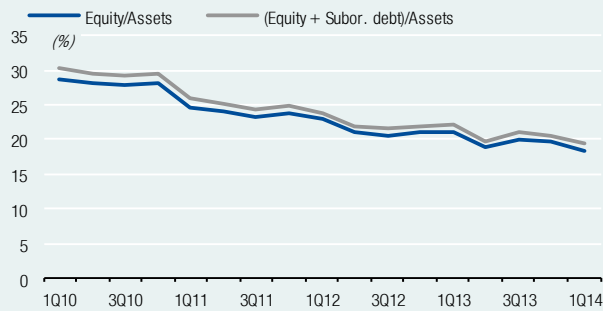
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	78,418	84,733	86,474	85,996	86,226	95,624	92,320	103,568	110,757
Cash and cash equivalents	7,962	6,995	7,605	15,489	9,587	7,394	6,539	7,470	7,113
Gross loans	57,678	59,957	60,382	61,348	60,520	61,871	64,356	64,281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

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

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

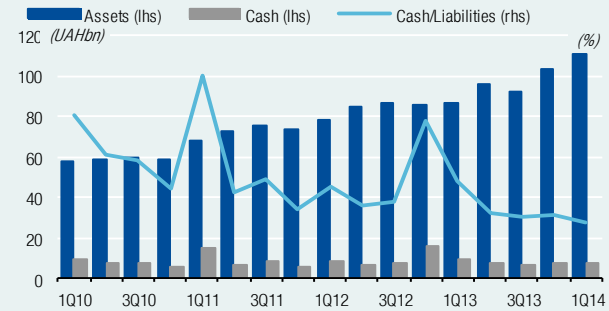
Oschadbank: Key credit metrics

Chart 15. Capitalisation



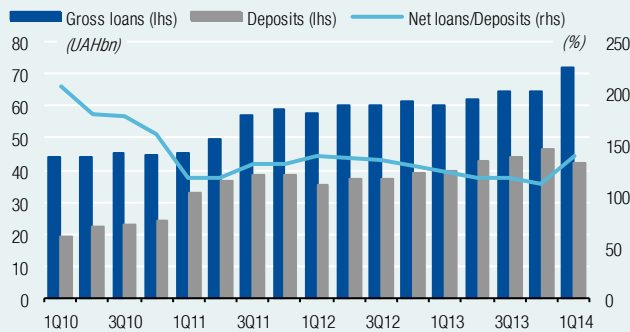
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 16. Liquidity



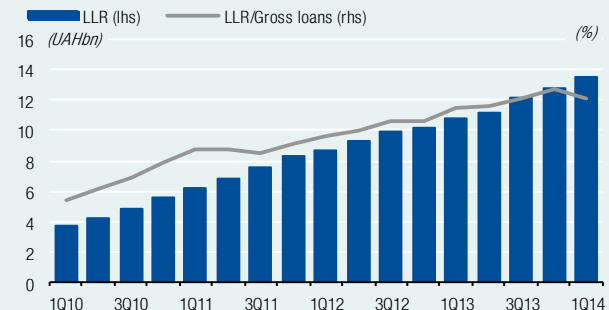
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 17. Loans and deposits



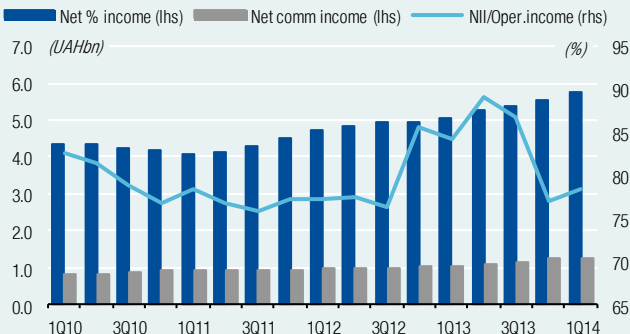
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 18. Loan loss reserves history



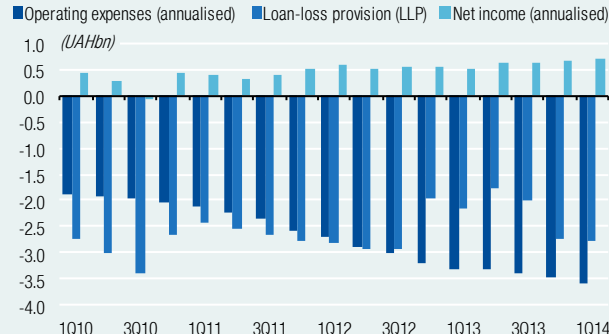
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 19. Income structure (annualised basis)



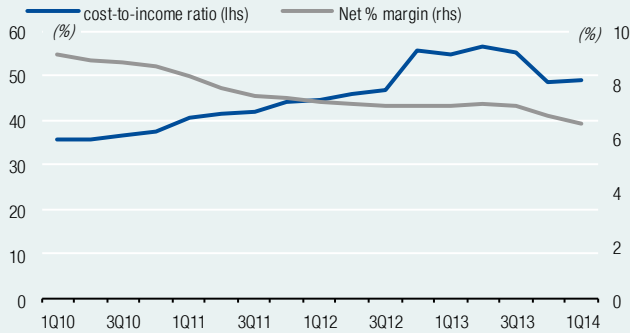
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 20. Expense and net income(annualised basis)



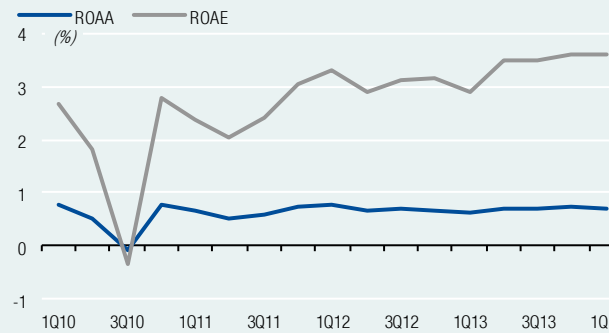
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 21. Financial performance ratios



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

Chart 22. Financial performance ratios



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

Country

Ukraine

Ukreximbank

Sector

Banks: Commercial banking

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

Ca/ NR /CCC EXIMUK

Ticker(s) in Bloomberg

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

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

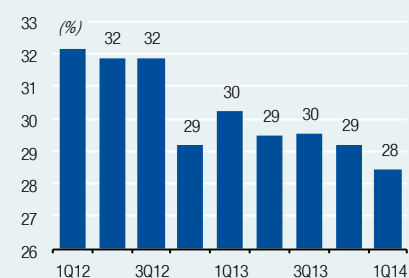
The USD deposit of the bank's largest depositor – the State Food-Grain Corporation of Ukraine – remained at the same level in 1Q14 as in 4Q13: US\$1.5bn, which accounts for 80.1% of total FX corporate deposits.

Capitalisation is strong but declining. The regulatory CAR decreased by just 0.7ppt in 1Q14 owing to the UAH1.3bn increase in regulatory capital. However, the level of capitalisation (28.5%) remains significantly higher than the sector average of 14.8%.

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

Ukreximbank: Key quarterly UAS financials and ratios

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

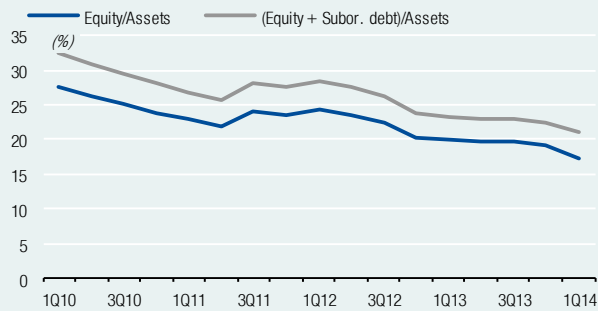
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	72,851	75,543	78,674	87,949	89,672	91,627	91,098	94,349	105,739
Cash and cash equivalents	7,454	6,842	8,155	19,078	11,895	8,274	6,863	7,964	9,070
Gross loans	52,914	51,148	49,308	49,806	47,000	48,637	48,725	51,307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

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

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

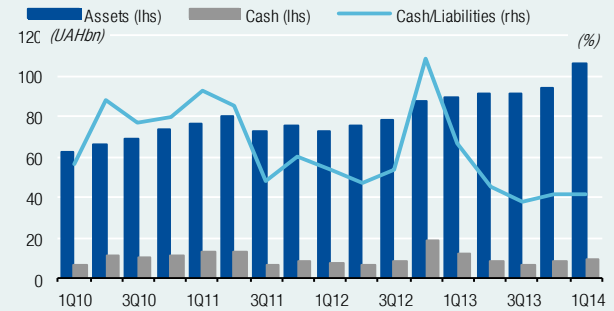
Ukreximbank: Key credit metrics

Chart 23. Capitalisation



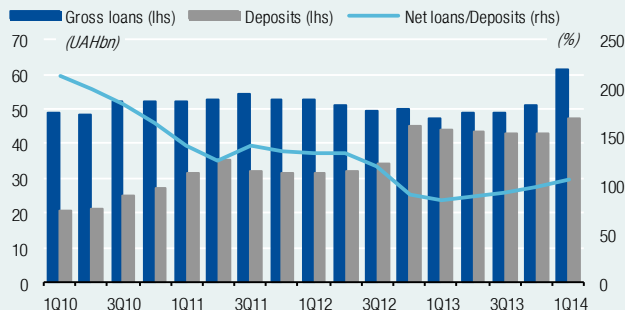
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 24. Liquidity



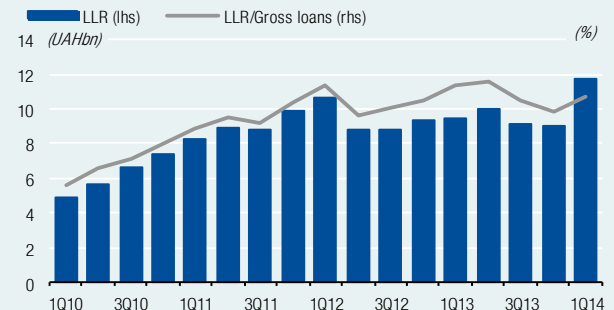
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 25. Loans and deposits



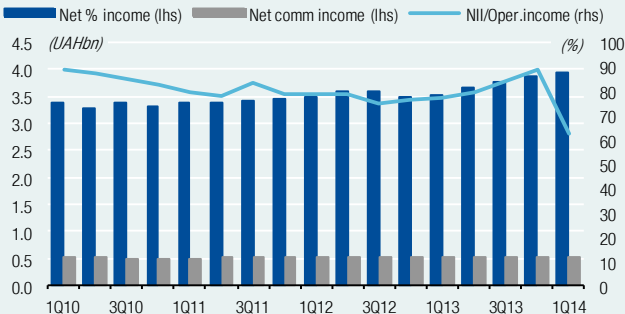
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 26. Loan loss reserves history



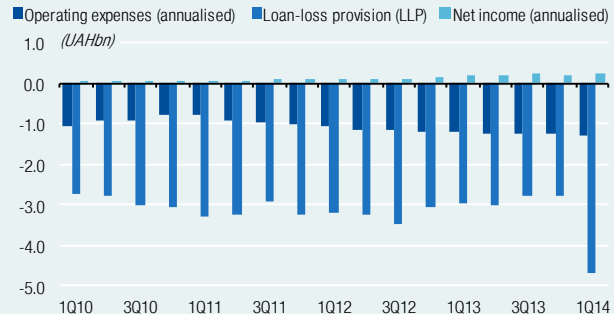
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 27. Income structure (annualised basis)



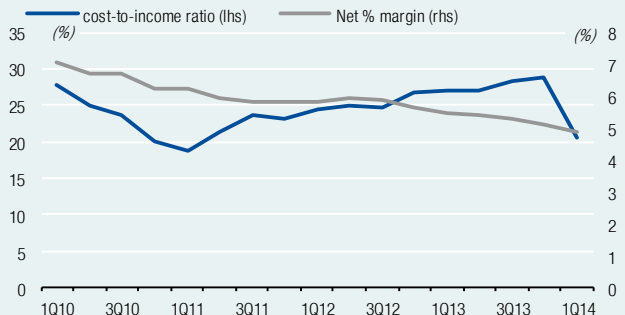
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 28. Expense and net income (annualised basis)



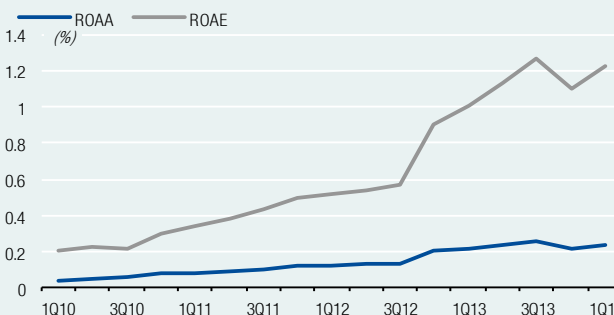
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 29. Financial performance ratios



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

Chart 30. Financial performance ratios



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

Country

Ukraine

Delta Bank

Sector

Banks: Commercial banking

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

NR/NR/NR DELBNK

Ticker(s) in Bloomberg

Delta Bank's regulatory capital is critically low – at just 0.01ppt above the required minimum of 10%. This limits the bank's ability to assess the quality of its assets properly. Deposits decline amid panic. Households decreased their exposure by 11.6% QoQ and corporate by 6.3% QoQ. Delta Bank is currently among the largest recipients of NBU short-term funding, which has helped marginally increase the bank's cash-to-liabilities ratio – from 10.3% in 4Q13 to 11.0% in 1Q14 – and meet demand for deposit withdrawals.

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

Delta Bank: Key quarterly UAS financials and ratios

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

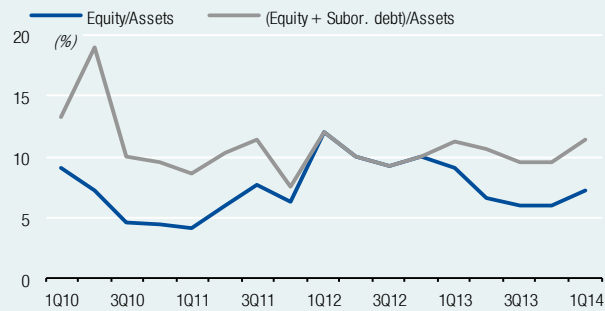
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	24,528	29,044	31,612	29,842	34,746	47,616	54,041	55,298	62,118
Cash and cash equivalents	2,960	3,892	3,832	4,906	7,711	10,725	9,267	5,361	6,341
Gross loans	18,804	20,426	19,599	21,265	24,744	30,751	36,720	43,220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

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

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

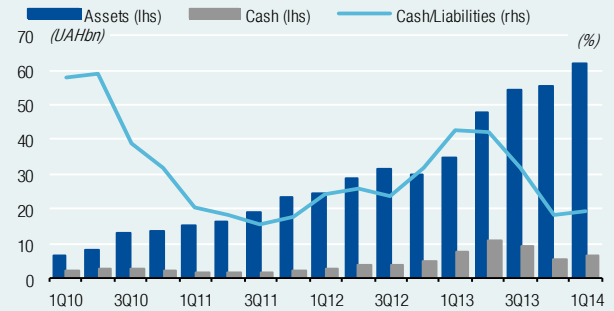
Delta Bank: Key credit metrics

Chart 31. Capitalisation



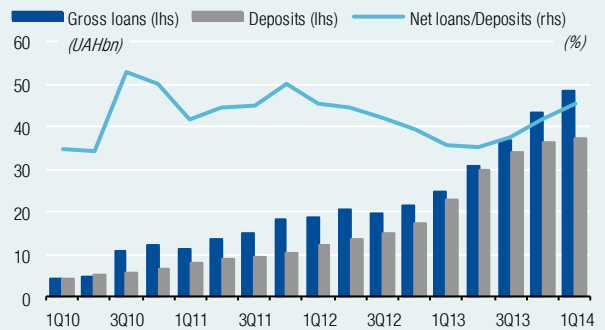
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 32. Liquidity



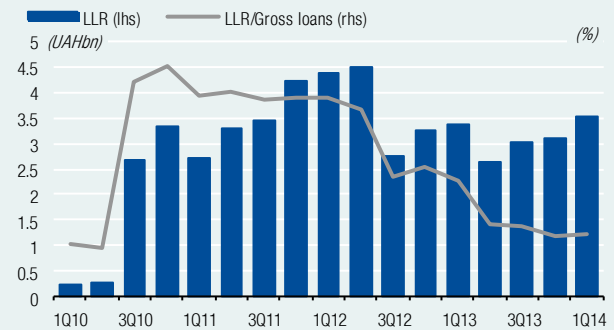
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 33. Loans and deposits



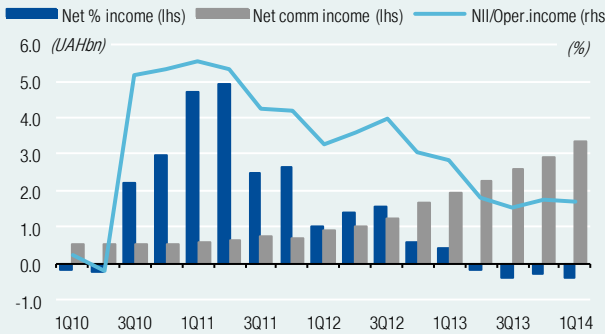
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 34. Loan loss reserves history



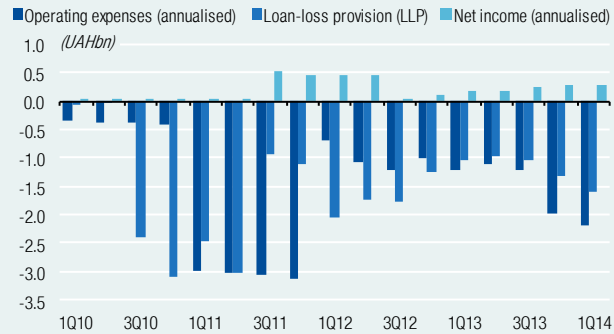
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 35. Income structure (annualised basis)



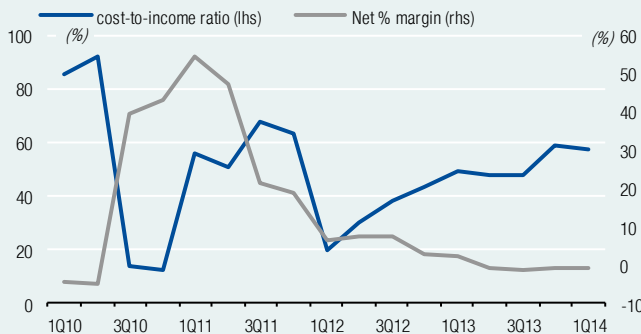
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 36. Expense and net income (annualised basis)



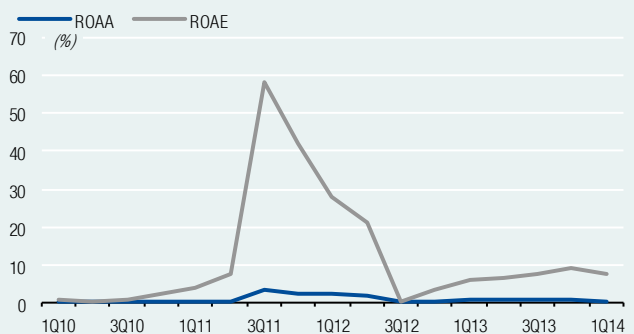
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 37. Financial performance ratios



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

Chart 38. Financial performance ratios



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

Country

Ukraine

Raiffeisen Bank Aval

Sector

Banks: Commercial banking

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

Caa/ NR /NR AVAL

Ticker(s) in Bloomberg

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

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

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

Raiffeisen Bank Aval: Key quarterly UAS financials and ratios

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

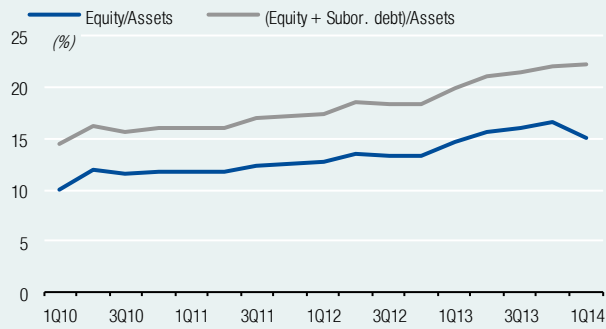
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	50,803	47,478	47,434	47,694	45,977	44,929	44,804	43,460	44,987
Cash and cash equivalents	8,288	6,804	8,364	9,797	6,184	5,559	7,243	5,844	5,236
Gross loans	39,249	37,566	37,145	35,987	36,059	36,054	35,263	35,896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

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

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

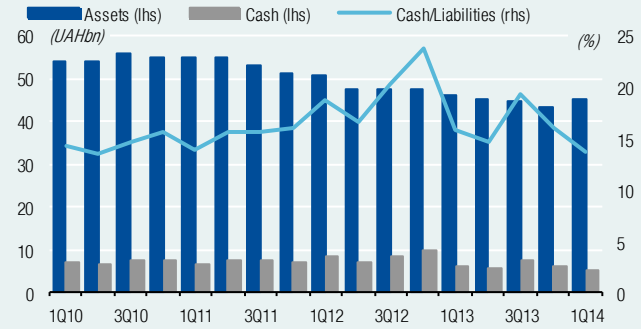
Raiffeisen Bank Aval: Key credit metrics

Chart 39. Capitalisation



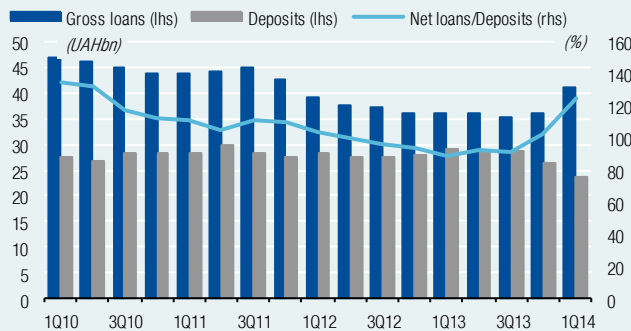
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 40. Liquidity



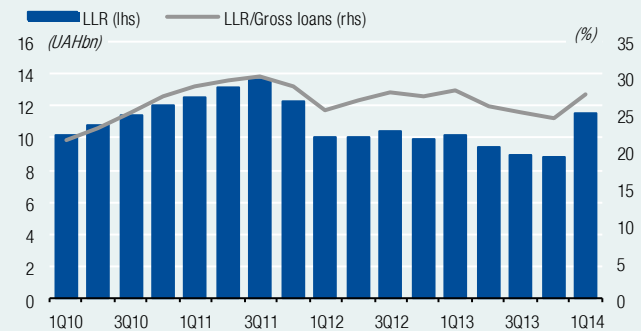
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 41. Loans and deposits



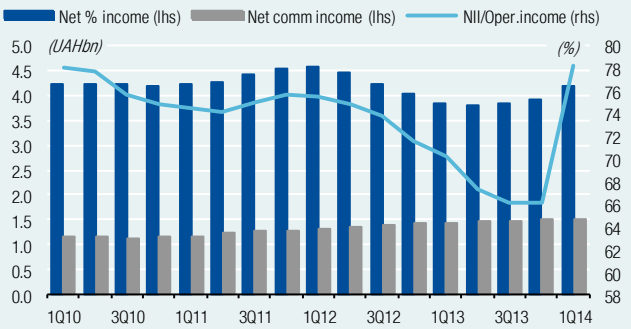
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 42. Loan loss reserves history



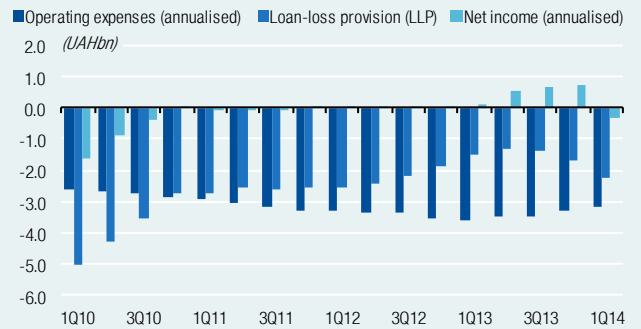
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 43. Income structure (annualised basis)



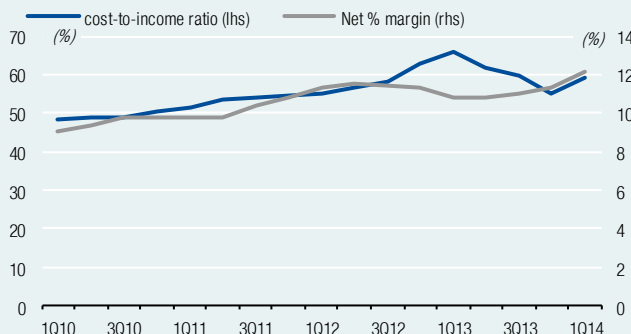
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 44. Expense and net income (annualised basis)



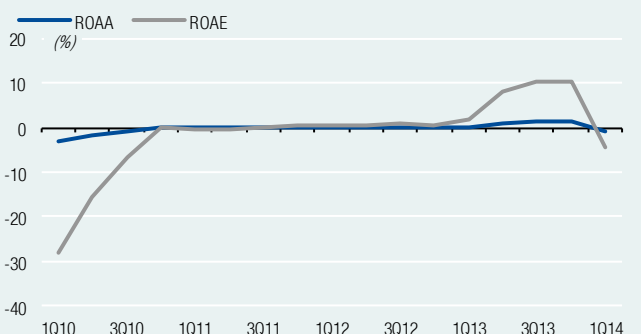
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 45. Financial performance ratios



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

Chart 46. Financial performance ratios



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

Country

Ukraine

Prominvestbank

Sector

Banks: Commercial banking

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

NR / NR /NR **VEBBNK**

Ticker(s) in Bloomberg

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

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	4Q13	1Q14
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	38,181	39,381	39,737	48,945
Loans	26,646	28,055	28,400	35,405
Deposits	14,505	14,513	13,898	13,935
Equity	5,070	5,008	5,384	6,300
Net % income	1,273	1,338	1,233	1,305
Net com income	213	293	373	378
Operating income	1,611	1,917	1,877	2,005
PPI	293	567	458	579
LLP	-2,061	(606)	-3,036	-2,619
Net income	-1,806	(2)	-2,575	-2,039

Ratios (%)

Tier 1 ratio	8.9	8.7	N/a	N/a
CAR	17.4	16.9	13.7	13.4
Equity-to-assets	13.3	12.7	13.5	12.9
Net loan-to-deposit	183.7	193.3	204.3	254.1
Cash-to-liabilities	13.8	12.0	7.7	7.7
ROAA	-4.8	-	-6.5	-4.9
ROAE	-41.1	-	-49.0	-36.7
Net % margin	4.4	4.4	3.8	3.8
NII-to-op income	79.0	69.8	65.7	65.1
Cost-to-income	81.8	70.4	75.6	71.1
LLR	14.2	7.8	7.3	5.3
NPLs	12.3	20.3	N/a	N/a
NPL coverage	115.4	38.1	N/a	N/a

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

Prominvestbank: Key quarterly UAS financials and ratios

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

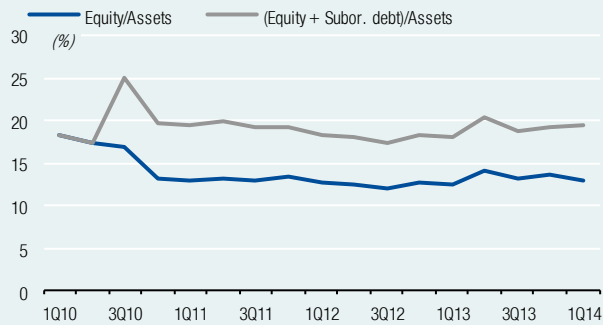
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	40,463	40,998	41,824	41,318	40,796	37,337	40,237	39,737	48,945
Cash and cash equivalents	2,224	2,719	1,631	3,111	2,608	2,131	2,834	2,633	3,276
Gross loans	32,014	32,646	33,245	31,300	31,436	30,982	33,037	30,628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

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

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

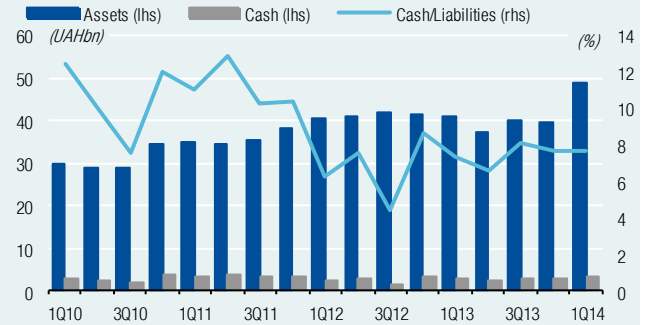
Prominvestbank: Key credit metrics

Chart 47. Capitalisation



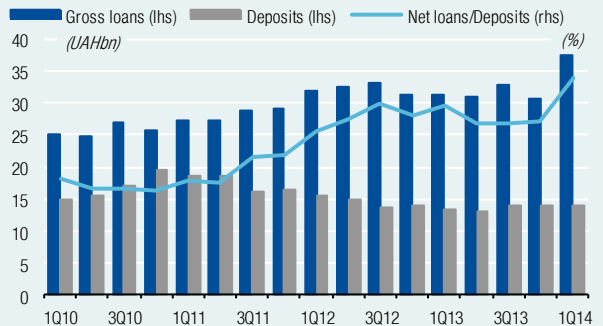
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 48. Liquidity



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

Chart 49. Loans and deposits



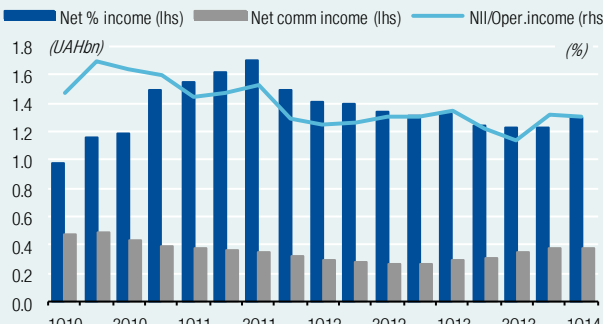
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 50. Loan loss reserves history



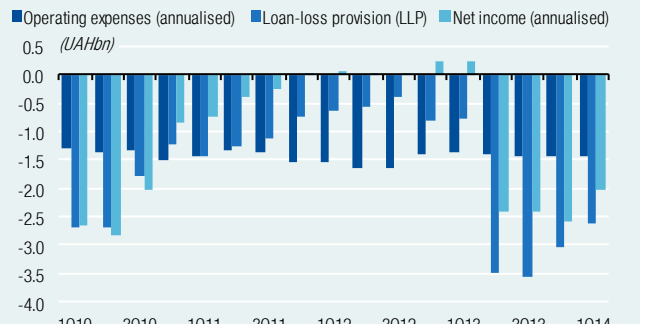
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 51. Income structure (annualised basis)



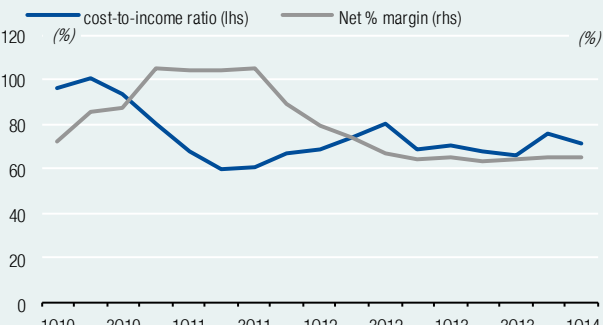
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 52. Expense and net income (annualised basis)



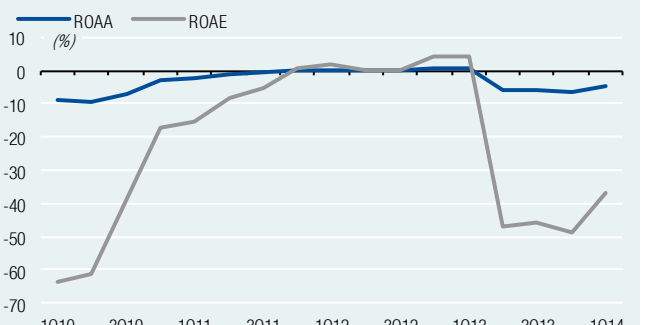
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 53. Financial performance ratios



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

Chart 54. Financial performance ratios



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

Country

Ukraine

Ukrasotsbank

Sector

Banks: Commercial banking

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

NR/NR/CCC USCB

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

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

Ukrsotsbank: Key quarterly UAS financials and ratios

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

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

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

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

Ukrsotsbank: Key credit metrics

Chart 55. Capitalisation

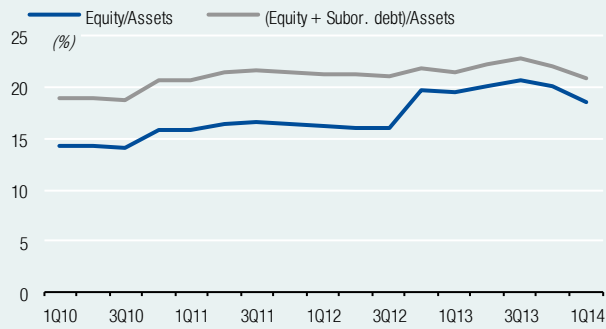


Chart 56. Liquidity



Chart 57. Loans and deposits

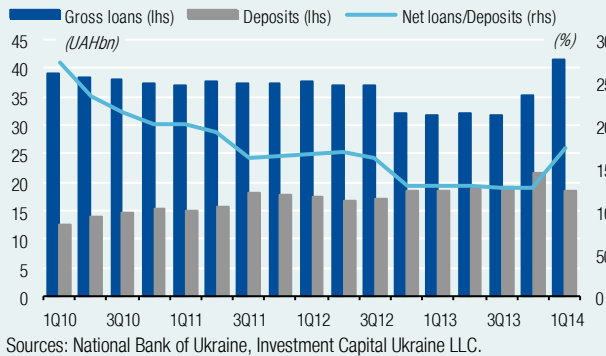


Chart 58. Loan loss reserves history



Chart 59. Income structure (annualised basis)

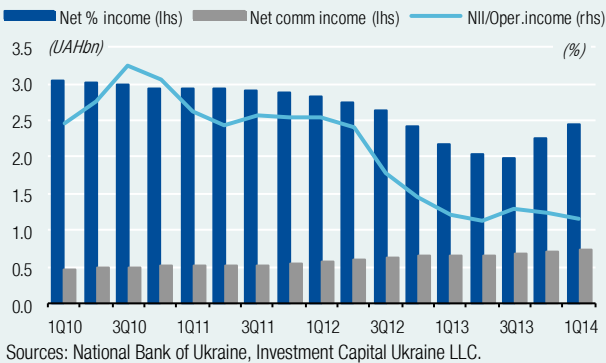


Chart 60. Expense and net income (annualised basis)

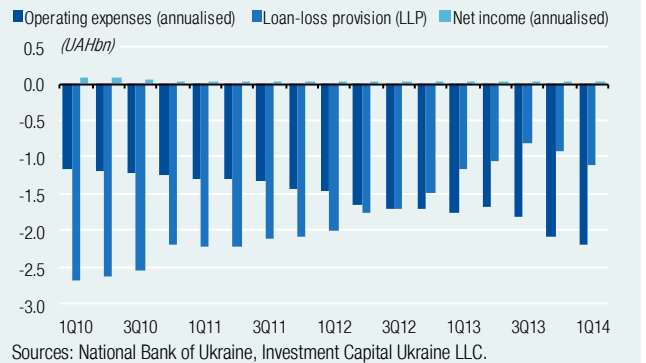


Chart 61. Financial performance ratios

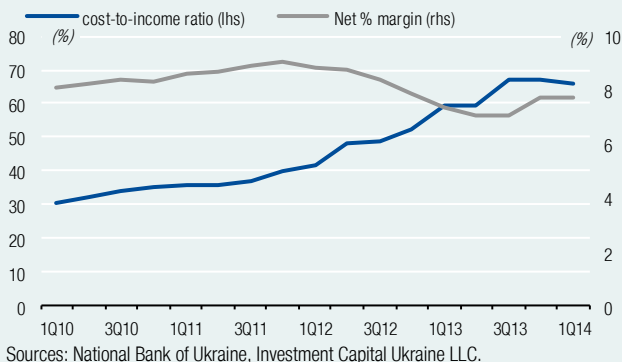
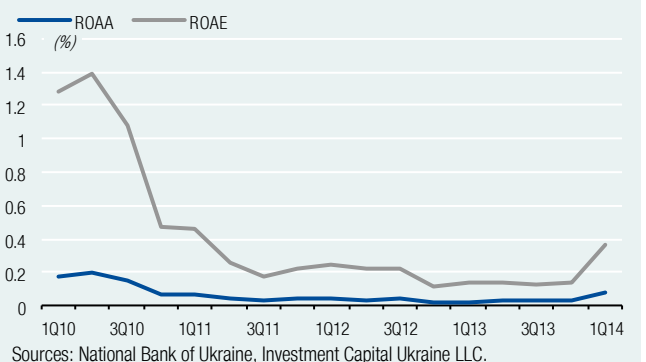


Chart 62. Financial performance ratios



Country

Ukraine

First Ukrainian International Bank

Sector

Banks: Commercial banking

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

Ca/ NR /NR

Ticker(s) in Bloomberg

PUMBUZ

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

Corporate segment compensates for retail deposit outflow.

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

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

FUIB: Key quarterly UAS financials and ratios

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

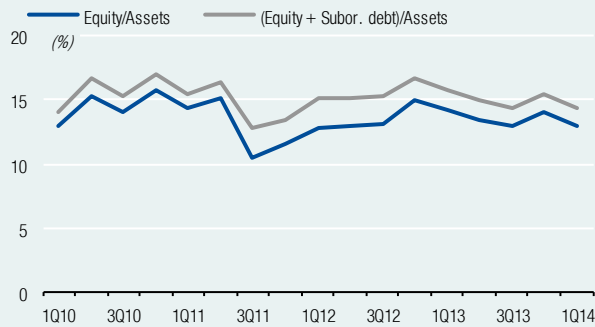
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	31,639	31,459	31,592	28,230	30,330	32,442	34,959	33,207	36,677
Cash and cash equivalents	3,197	3,946	5,008	4,402	4,526	4,400	7,654	4,910	6,646
Gross loans	19,889	19,641	20,306	20,767	20,886	21,221	22,511	23,196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

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

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

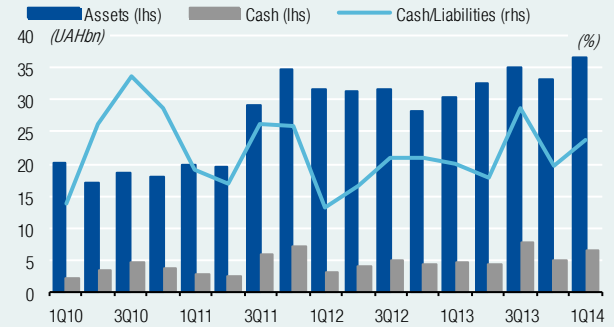
FUIB: Key credit metrics

Chart 63. Capitalisation



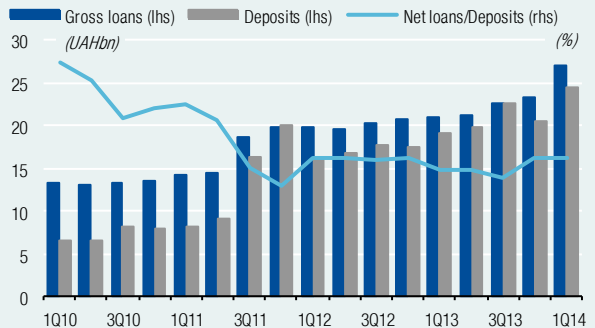
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 64. Liquidity



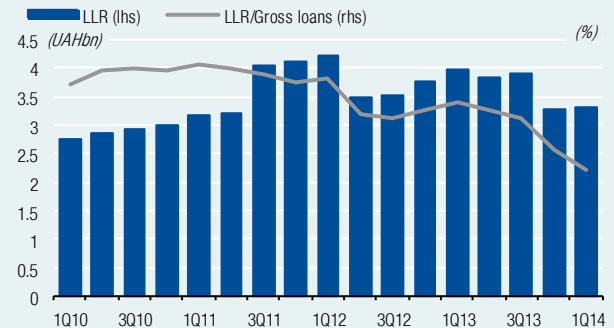
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 65. Loans and deposits



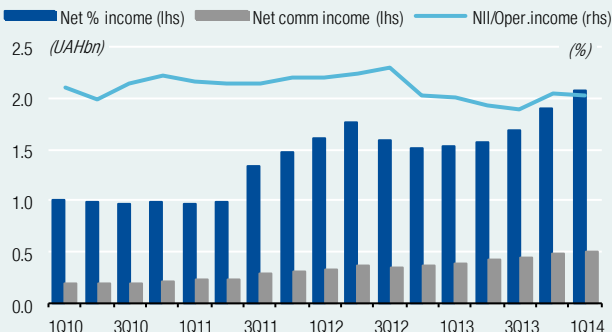
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 66. Loan loss reserves history



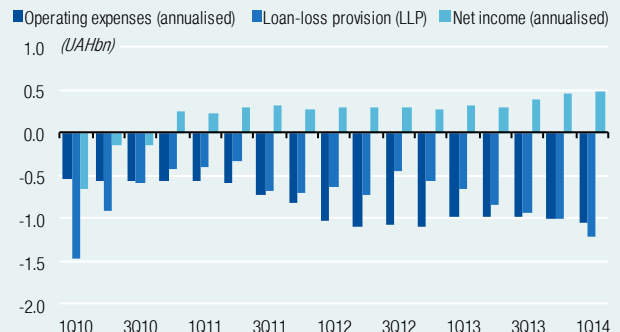
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 67. Income structure (annualised basis)



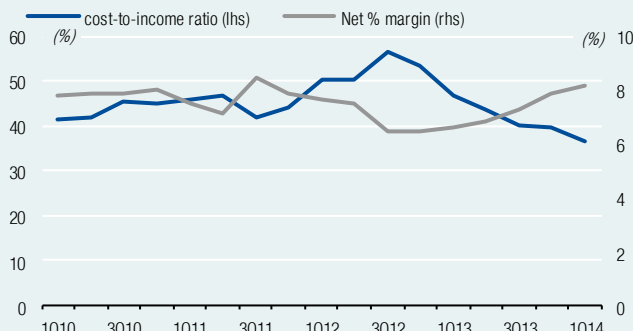
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 68. Expense and net income (annualised basis)



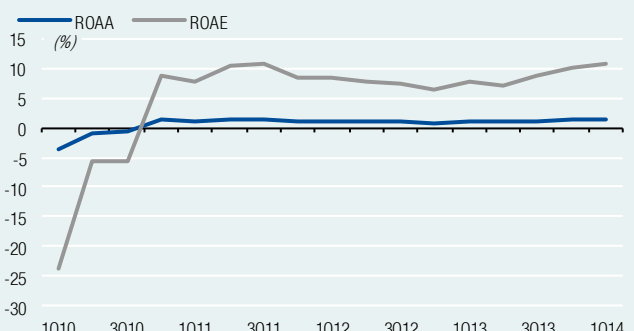
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 69. Financial performance ratios



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

Chart 70. Financial performance ratios



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

Country

Ukraine

Subsidiary Bank Sberbank of Russia

Sector

Banks: Commercial banking

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

Ca/NR/NR SBUA

Ticker(s) in Bloomberg

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	4Q13	1Q14
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	26,365	35,029	35,095	42,532
Loans	20,618	26,554	25,912	34,385
Deposits	13,219	18,863	18,910	19,637
Equity	3,548	4,091	3,667	3,832
Net % income	1,230	1,722	1,759	2,064
Net com income	203	271	271	261
Operating income	1,794	2,303	2,328	2,864
PPI	906	1,069	1,066	1,518
LLP	-391	(418)	-428	-902
Net income	410	574	573	535

Ratios (%)

Tier 1 ratio	14.5	12.7	N/a	N/a
CAR	16.0	14.9	12.4	10.4
Equity-to-assets	13.5	11.7	10.4	9.0
Net loan-to-deposit	156.0	140.8	137.0	175.1
Cash-to-liabilities	11.1	12.7	12.7	9.4
ROAA	1.9	1.9	1.8	1.5
ROAE	13.2	15.0	16.6	14.8
Net % margin	6.5	7.3	6.3	6.6
NII-to-op income	68.5	74.8	75.6	72.1
Cost-to-income	49.5	53.6	54.2	47.0
LLR	9.8	8.7	5.3	5.7
NPLs	9.0	6.8	N/a	N/a
NPL coverage	109.7	127.3	N/a	N/a

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

Sberbank: Key quarterly UAS financials and ratios

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

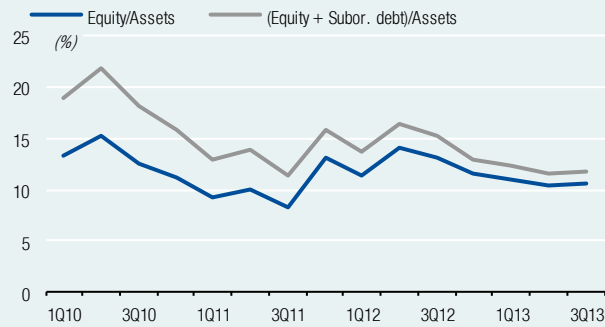
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	20,206	20,253	22,705	27,026	29,520	32,722	33,572	35,095	42,532
Cash and cash equivalents	1,334	1,456	1,894	2,304	2,383	2,516	3,455	4,005	3,631
Gross loans	17,360	16,505	18,904	21,408	21,574	24,423	25,319	27,364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

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

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

Sberbank: Key credit metrics

Chart 71. Capitalisation



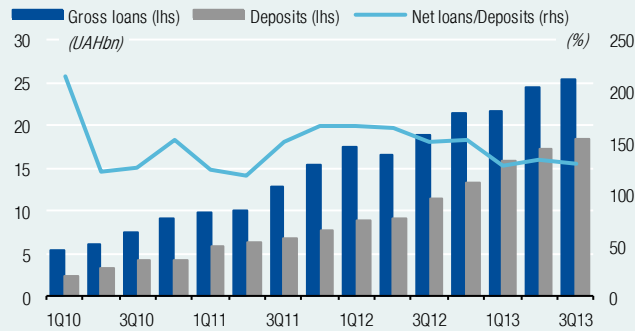
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 72. Liquidity



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

Chart 73. Loans and deposits



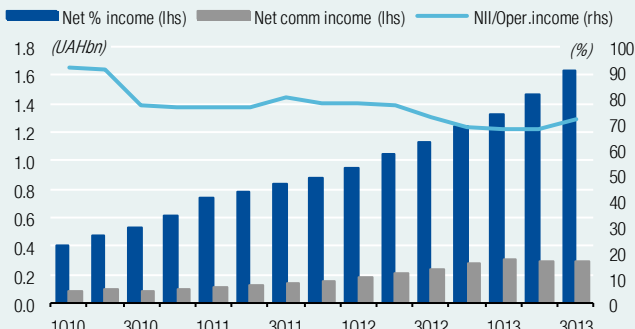
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 74. Loan loss reserves history



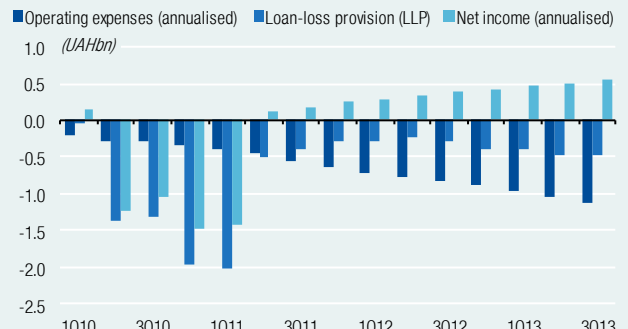
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 75. Income structure (annualised basis)



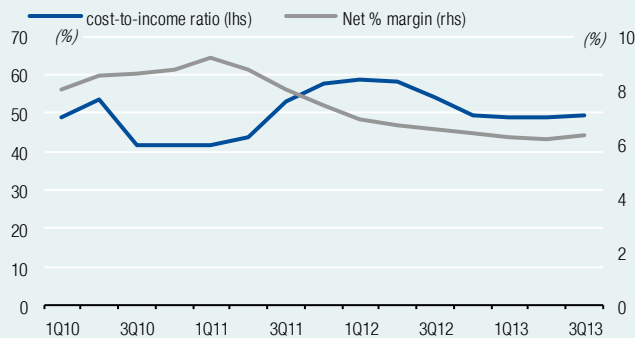
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 76. Expense and net income (annualised basis)



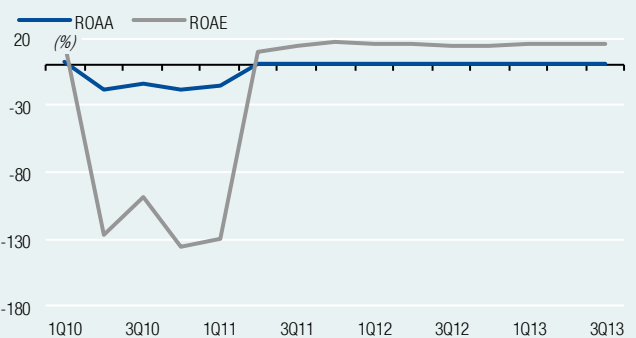
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 77. Financial performance ratios



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

Chart 78. Financial performance ratios



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

Country

Ukraine

Nadra Bank

Sector

Banks: Commercial banking

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

NR / NR /NR NADRA

Ticker(s) in Bloomberg

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

Nadra Bank: Key quarterly UAS financials and ratios

Table 12. Key financials and ratios derived from the bank's UAS financials

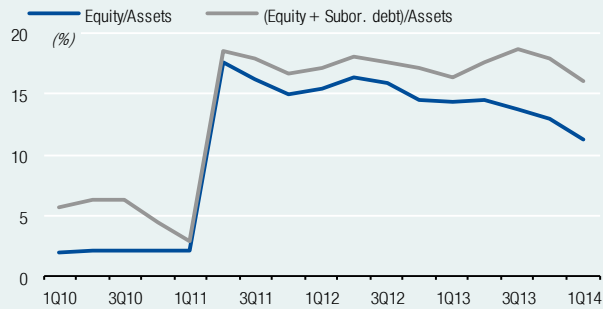
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	25,951	24,544	25,308	27,684	27,906	27,860	29,346	31,116	35,578
Cash and cash equivalents	1,710	1,395	1,152	2,079	1,453	1,200	1,320	1,729	1,511
Gross loans	24,867	23,960	24,205	25,790	27,528	27,274	28,347	29,160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

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

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

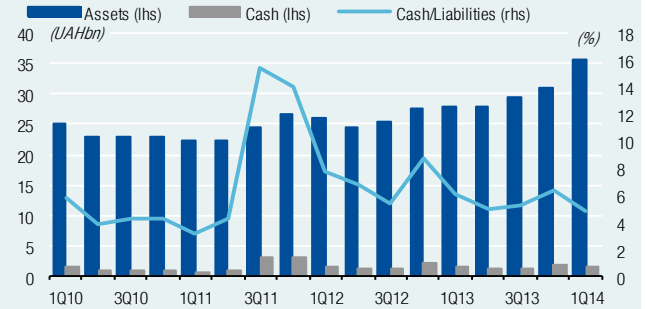
Nadra Bank: Key credit metrics

Chart 79. Capitalisation



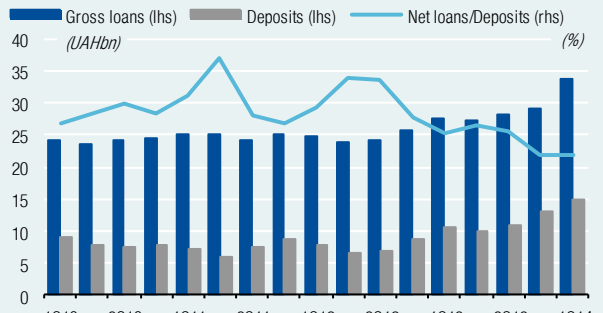
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 80. Liquidity



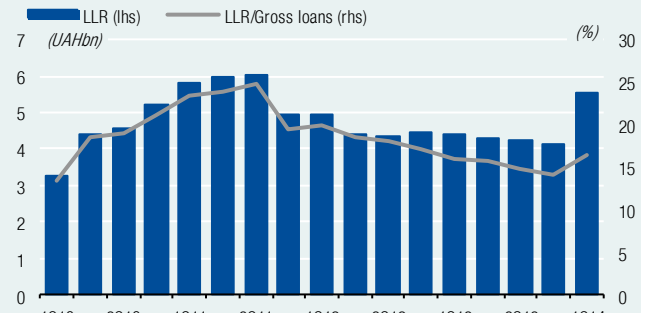
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 81. Loans and deposits



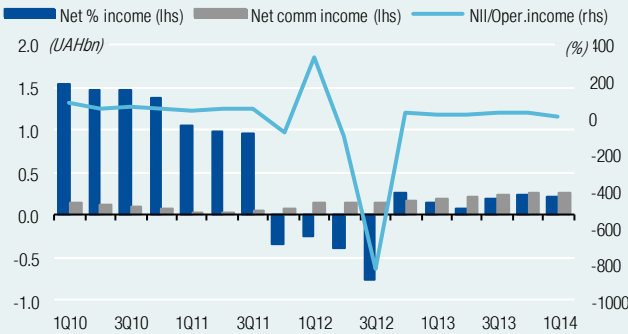
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 82. Loan loss reserves history



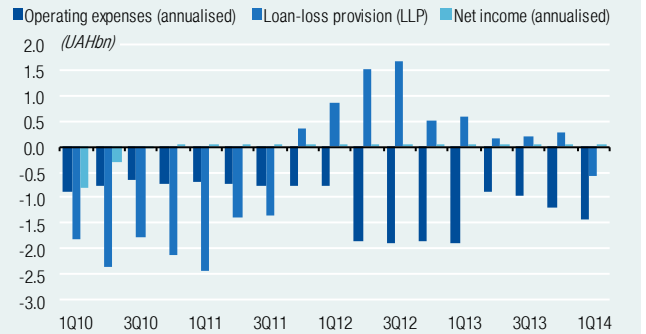
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 83. Income structure (annualised basis)



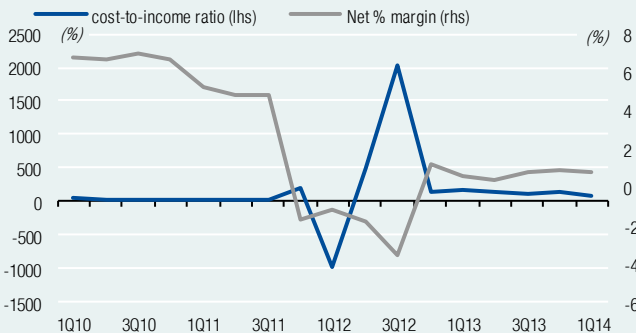
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 84. Expense and net income (annualised basis)



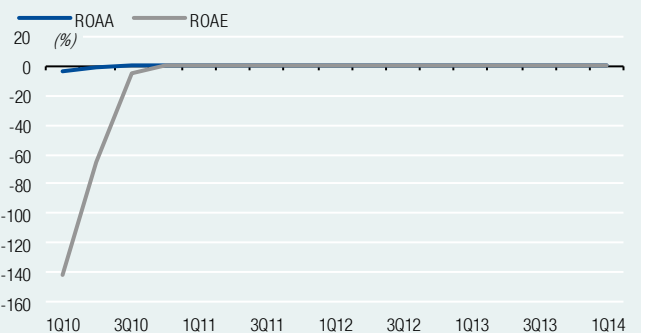
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 85. Financial performance ratios



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

Chart 86. Financial performance ratios



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

Country

Ukraine

VTB Bank

Sector

Banks: Commercial banking

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

NR / NR / CCC

Ticker(s) in Bloomberg

VTB

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

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	4Q13	1Q14
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	32,848	24,247	25,286	29,460
Loans	23,756	17,923	18,688	24,388
Deposits	12,072	11,211	11,148	9,302
Equity	3,880	2,165	3,207	4,481
Net % income	1,723	1,348	1,771	1,758
Net com income	464	265	468	514
Operating income	2,356	1,773	2,252	2,405
PPI	993	528	1,119	1,290
LLP	-1,884	(2,184)	-1,280	-274
Net income	-695	(1,717)	-194	982

Ratios (%)

Tier 1 ratio	7.2	9.5	N/a	N/a
CAR	24.3	14.9	14.7	10.2
Equity-to-assets	11.8	8.9	12.7	15.2
Net loan-to-deposit	196.8	159.9	167.6	262.2
Cash-to-liabilities	12.8	11.8	14.5	7.3
ROAA	-2.0	(6.0)	-0.7	3.5
ROAE	-16.4	(56.8)	-5.5	26.0
Net % margin	5.9	5.7	7.7	7.5
NII-to-op income	73.2	76.1	78.7	73.1
Cost-to-income	57.8	70.2	50.3	46.4
LLR	15.8	24.9	18.5	11.3
NPLs	N/a	N/a	N/a	N/a
NPL coverage	N/a	N/a	N/a	N/a

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

VTB: Key quarterly UAS financials and ratios

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

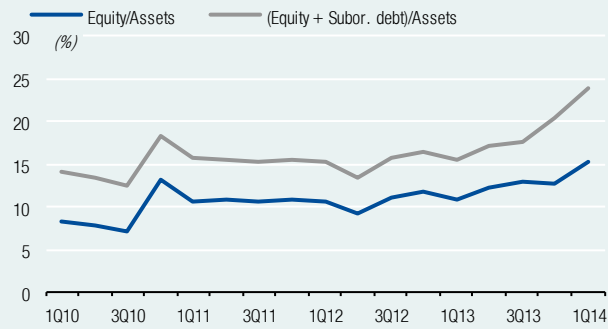
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	35 394	38 170	34 489	34 212	32 118	29,523	29,089	25,286	29,460
Cash and cash equivalents	3 025	3 619	2 161	3 987	4 156	2,504	2,751	3,195	1,817
Gross loans	32 967	31 052	30 307	29 048	27 295	25,355	24,738	22,923	27,483
Gross business loans	28 926	26 374	25 469	24 394	22 873	21,021	20,723	18,953	23,628
Gross household loans	4 041	4 678	4 838	4 654	4 421	4,334	4,015	3,970	3,855
Loan loss reserves (LLR)	-6 305	-6 065	-5 773	-5 516	-5 173	-4,312	-4,123	-4,234	-3,095
Deposits	11 238	11 135	11 472	12 120	12 878	12,490	12,277	11,148	9,302
Business deposits	5 831	5 541	5 980	5 898	5 884	5,009	4,948	4,085	3,639
Household deposits	5 408	5 595	5 492	6 223	6 994	7,481	7,330	7,062	5,663
Total equity	3 717	3 493	3 790	4 051	3 481	3,641	3,779	3,207	4,481
Quarterly P&L (UAHm)									
Net interest income	453	501	487	415	368	567	450	386	354
Net commission income	106	158	161	137	89	100	131	148	135
Operating income (before LLP)	573	739	696	563	561	684	624	383	715
Operating expenses	-288	-296	-390	-567	-277	-295	-263	-297	-260
Loan loss provisions (LLP)	300	-645	15	262	-205	-228	-221	-625	801
Net income	585	-202	311	258	79	160	139	-572	1,255
Last 12-month period P&L (UAHm)									
Net interest income	2 116	2 036	1 931	1 856	1 771	1,837	1,800	1,771	1,758
Net commission income	417	491	556	562	545	487	457	468	514
Operating income (before LLP)	2 612	2 684	2 624	2 571	2 559	2,503	2,432	2,252	2,405
Operating expenses	-1 365	-1 362	-1 417	-1 541	-1 530	-1,530	-1,403	-1,133	-1,116
Loan loss provisions (LLP)	-197	-730	-321	-68	-573	-157	-393	-1,280	-274
Net income	1 050	592	876	952	446	808	636	-194	982
Growth rates (%YoY)									
Assets	5,4	6,4	-5,9	-7,7	-9,3	-22,7	-15,7	-26,1	-8,3
Gross loans	7,8	-3,8	-8,7	-12,3	-17,2	-18,3	-18,4	-21,1	0,7
Deposits (by businesses)	24,3	-4,6	15,4	-9,4	0,9	-9,6	-17,3	-30,7	-38,2
Deposits (by households)	26,0	22,3	14,3	14,6	29,3	33,7	33,5	13,5	-19,0
Deposits (total)	25,1	7,2	14,9	1,5	14,6	12,2	7,0	-8,0	-27,8
Total equity	3,3	-9,8	-2,2	-0,1	-6,3	4,2	-0,3	-20,8	28,7
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11,7	11,6	12,4	13,0	12,5	12,4	12,5	14,7	10,2
Equity/assets	10,5	9,2	11,0	11,8	10,8	12,3	13,0	12,7	15,2
(Equity + sub-debt)/assets	15,2	13,4	15,7	16,4	15,5	17,1	17,5	20,4	23,9
Cash & cash equivalents/liabilities	9,6	10,4	7,0	13,2	14,5	9,7	10,9	14,5	7,3
Current liquidity (R5 by NBU)	52,4	94,7	83,5	73,3	80,0	53,6	56,8	64,1	46,2
Gross loans/deposits	293	279	264	240	212	203	201,5	205,6	295,4
Net loans/deposits	237,2	224,4	213,9	194,2	171,8	168,5	167,9	167,6	262,2
Cost-to-income ratio	52,3	50,7	54,0	59,9	59,8	61,1	57,7	50,3	46,4
Net interest margin	7,1	6,7	6,4	6,3	6,3	7,0	7,3	7,7	7,5
ROAA	2,9	1,6	2,4	2,7	1,3	2,5	2,0	-0,7	3,5
ROAE	27,1	15,6	23,3	25,3	12,0	21,6	17,0	-5,5	26,0
NII/operating income	81,0	75,9	73,6	72,2	69,2	73,4	74,0	78,7	73,1
Core income/operating expenses	185,6	185,5	175,5	156,9	151,4	151,9	160,9	197,7	203,6

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

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

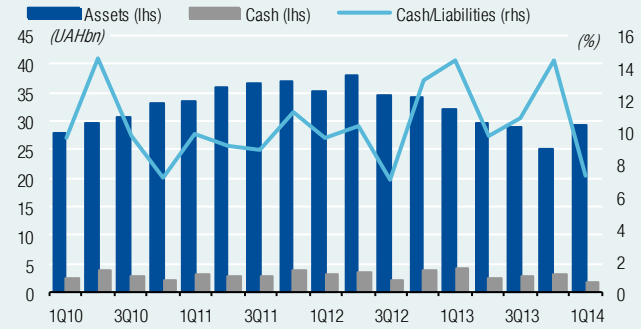
VTB: Key credit metrics

Chart 87. Capitalisation



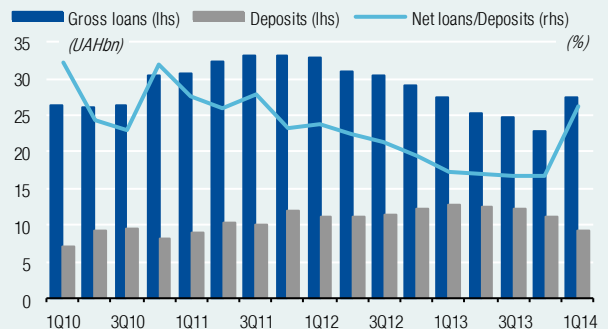
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 88. Liquidity



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

Chart 89. Loans and deposits



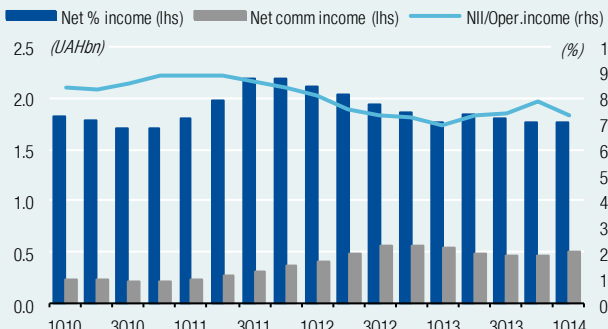
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 90. Loan loss reserves history



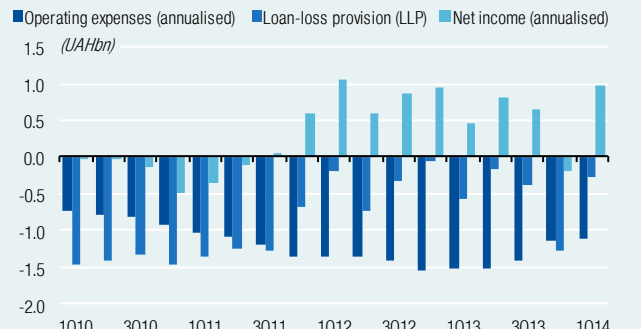
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 91. Income structure (annualised basis)



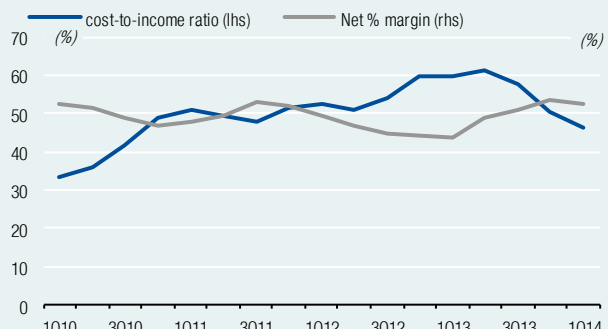
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 92. Expense and net income (annualised basis)



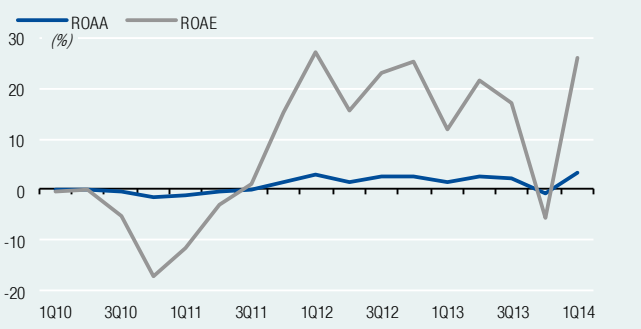
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 93. Financial performance ratios



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

Chart 94. Financial performance ratios



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

Country

Ukraine

Alfa Bank

Sector

Banks: Commercial banking

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

NR / CCC / CCC N/A

Ticker(s) in Bloomberg

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

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

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

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	4Q13	1Q14
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	25,578	29,288	29,293	35,773
Loans	17,199	20,214	20,228	22,149
Deposits	14,376	15,838	15,831	18,137
Equity	4,102	4,102	4,199	4,208
Net % income	1,649	1,565	1,604	1,697
Net com income	355	508	508	527
Operating income	2,068	2,354	2,446	3,003
PPI	863	998	1,035	1,507
LLP	-800	(949)	-989	-1,461
Net income	34	15	13	11

Ratios (%)

Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	N/A	N/A	19.0	18.4
Equity-to-assets	16.0	14.0	14.3	11.8
Net loan-to-deposit	119.6	127.6	127.8	122.1
Cash-to-liabilities	27.2	24.2	24.2	30.2
ROAA	0.1	0.1	0.0	0.0
ROAE	0.8	0.4	0.3	0.3
Net % margin	8.6	7.5	7.1	7.2
NII-to-op income	79.7	66.5	65.6	56.5
Cost-to-income	58.3	57.6	57.7	49.8
LLR	12.9	9.1	8.1	9.8
NPLs	15.7	10.2	N/A	N/A
NPL coverage	82.3	88.6	N/A	N/A

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

Alfa Bank: Key quarterly UAS financials and ratios

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

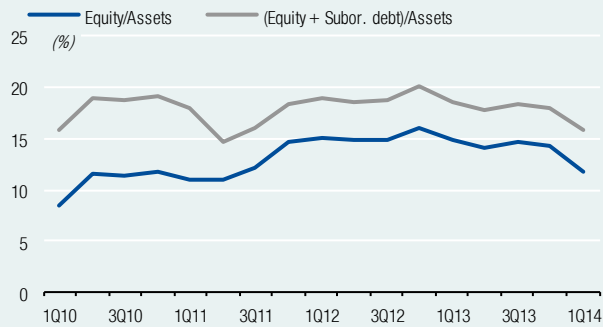
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	27,646	27,942	27,457	25,589	27,954	29,634	28,496	29,293	35,773
Cash and cash equivalents	4,793	4,576	5,827	5,833	5,184	4,941	4,523	6,066	9,521
Gross loans	22,904	22,575	20,984	19,923	21,650	21,584	21,091	22,012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

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

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

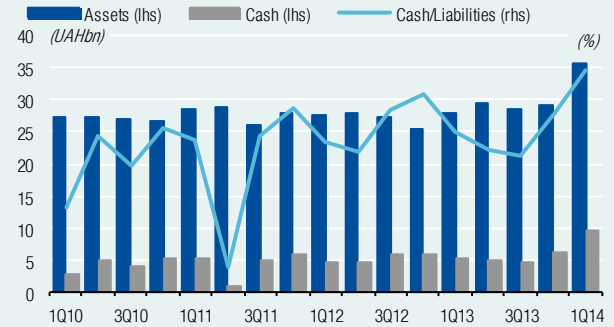
Alfa Bank: Key credit metrics

Chart 95. Capitalisation



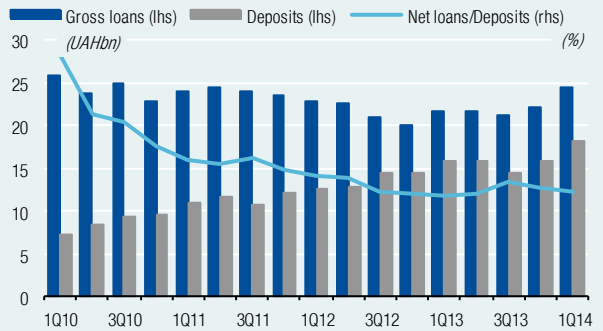
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 96. Liquidity



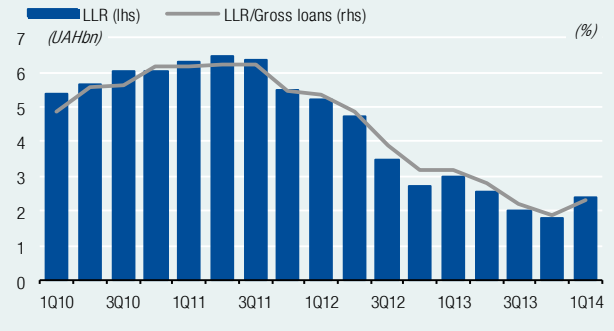
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 97. Loans and deposits



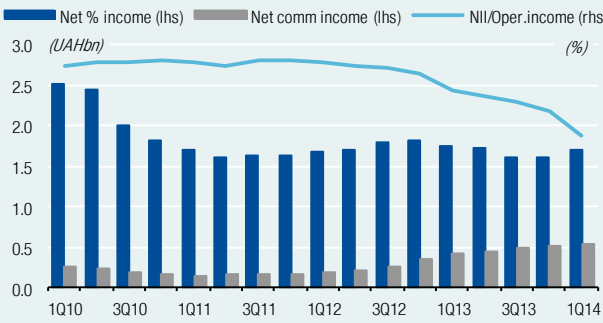
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 98. Loan loss reserves history



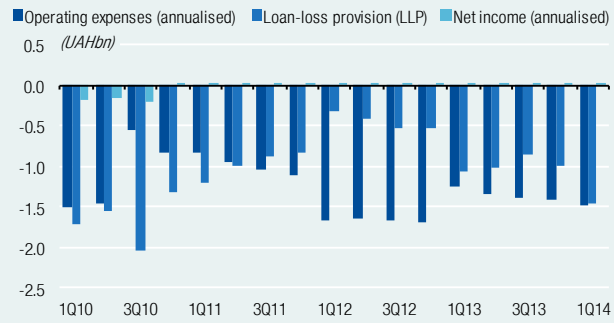
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 99. Income structure (annualised basis)



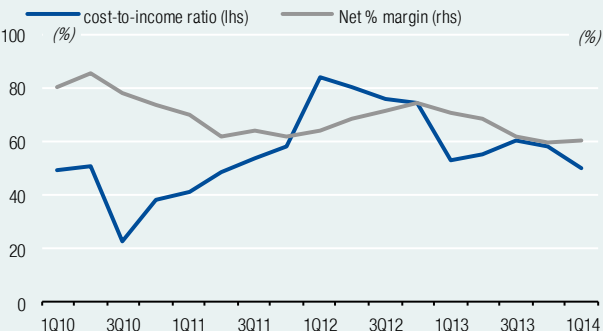
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 100. Expense and net income (annualised basis)



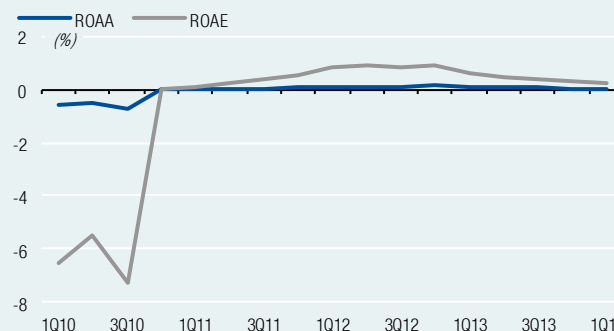
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 101. Financial performance ratios



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

Chart 102. Financial performance ratios



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

Country

Ukraine

UkrSibbank

Sector

Banks: Commercial banking

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

NR/NR/ CCC

Ticker(s) in Bloomberg

UKRSIB

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

	2012	2013	4Q13	1Q14
	IFRS	IFRS	UAS	UAS

Financials (UAHm)

Assets	25,346	23,330	24,112	23,373
Loans	15,369	14,602	14,602	14,580
Deposits	17,450	16,835	16,632	15,766
Equity	2,779	2,792	2,650	2,372
Net % income	1,239	1,070	1,341	1,293
Net com income	544	650	638	638
Operating income	2,123	1,891	2,300	2,213
PPI	261	(54)	332	288
LLP	(34)	156	-258	-499
Net income	21	41	25	-255

Ratios (%)

Tier 1 ratio	N/a	N/a	N/a	N/a
CAR	N/a	N/a	23.0	22.6
Equity-to-assets	11.0	12.0	11.0	10.1
Net loan-to-deposit	88.1	86.7	87.8	92.5
Cash-to-liabilities	22.5	21.4	20.2	16.0
ROAA	0.1	0.2	0.1	-1.0
ROAE	0.8	1.5	0.9	-9.9
Net % margin	6.7	6.6	8.2	7.9
NII-to-op income	58.3	56.6	58.3	58.4
Cost-to-income	87.7	102.9	85.6	87.0
LLR	11.0	5.6	5.6	8.2
NPLs	19.0	12.3	N/a	N/a
NPL coverage	58.0	45.1	N/a	N/a

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

UkrSibbank: Key quarterly UAS financials and ratios

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

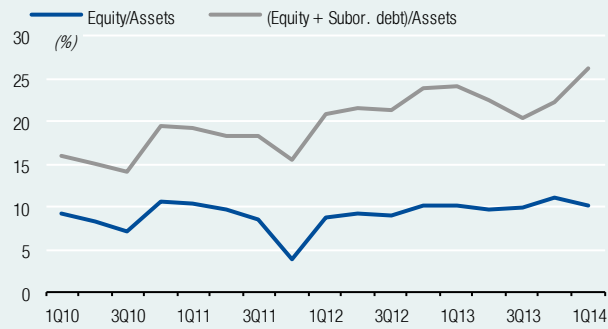
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	1,497	1,715	2,069	2,729	3,222	3,616	26,415	24,112	23,373
Cash and cash equivalents	260	163	203	315	418	572	5,976	4,327	3,356
Gross loans	1,242	1,514	1,857	2,477	2,817	3,095	15,784	15,460	15,879
Gross business loans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

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

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

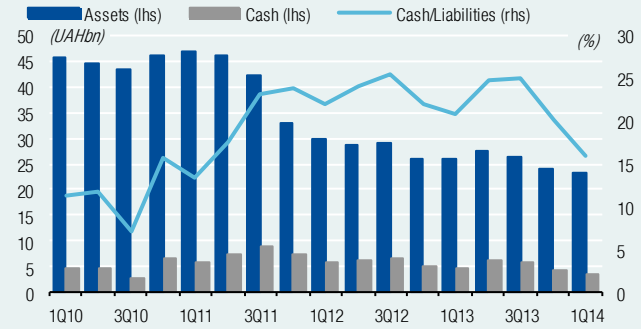
UkrSibbank: Key credit metrics

Chart 103. Capitalisation



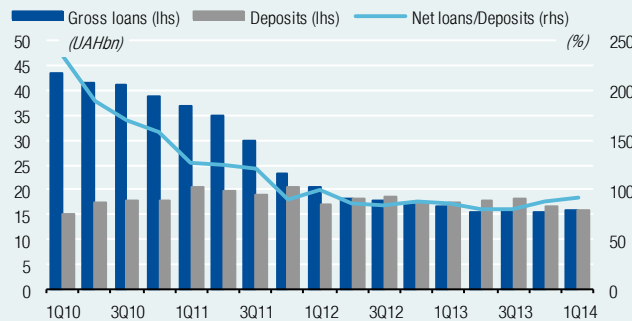
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 104. Liquidity



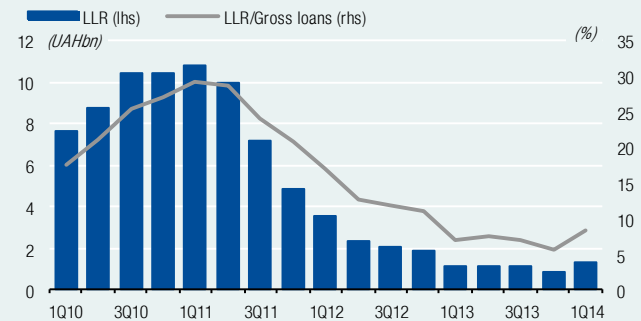
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 105. Loans and deposits



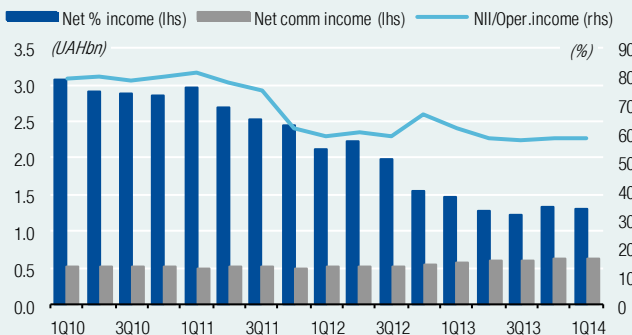
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 106. Loan loss reserves history



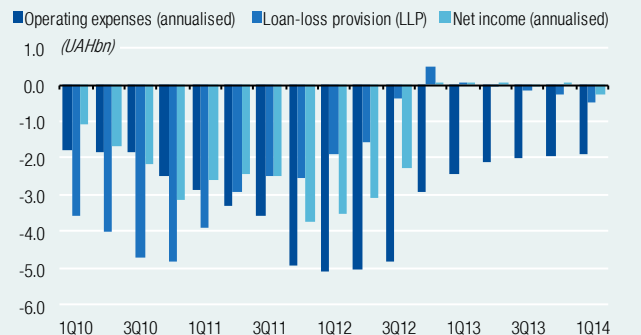
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 107. Income structure (annualised basis)



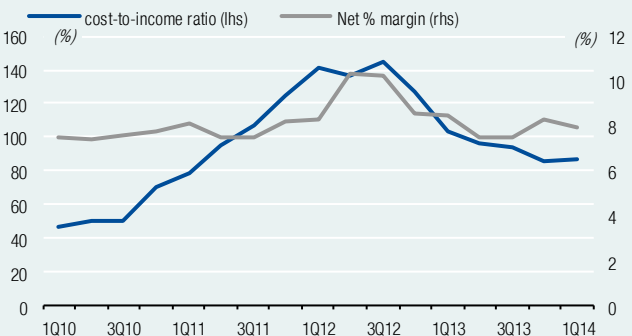
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 108. Expense and net income (annualised basis)



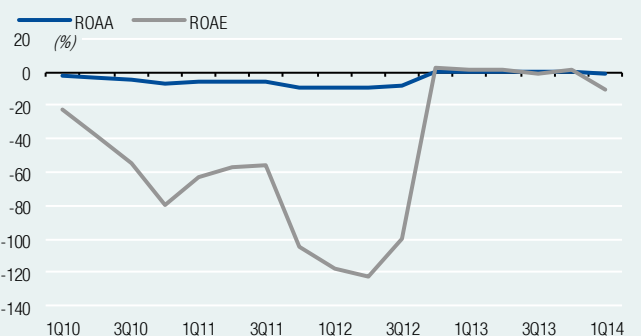
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 109. Financial performance ratios



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

Chart 110. Financial performance ratios



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

Country

Ukraine

OTP Bank

Sector

Banks: Commercial banking

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

Ca/ NR /NR N/A

Ticker(s) in Bloomberg

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

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

OTP Bank: Key quarterly UAS financials and ratios

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

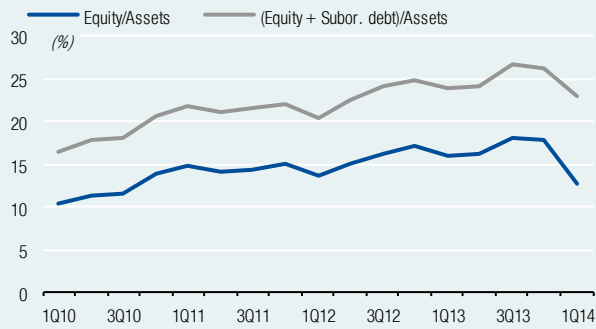
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	23,401	21,332	19,956	20,315	19,983	19,920	18,556	18,722	21,174
Cash and cash equivalents	3,148	2,274	2,638	2,670	1,832	1,865	2,189	2,373	2,606
Gross loans	19,739	18,708	17,602	17,996	17,577	17,379	16,803	16,978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

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

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

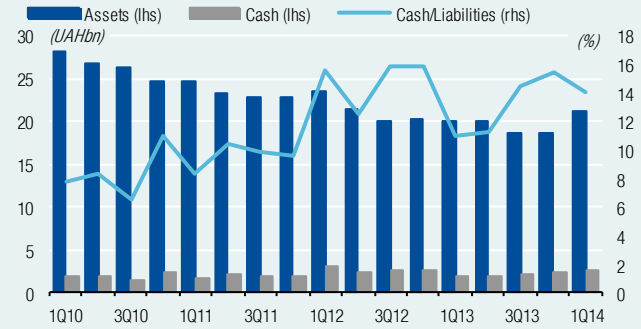
OTP Bank: Key credit metrics

Chart 111. Capitalisation



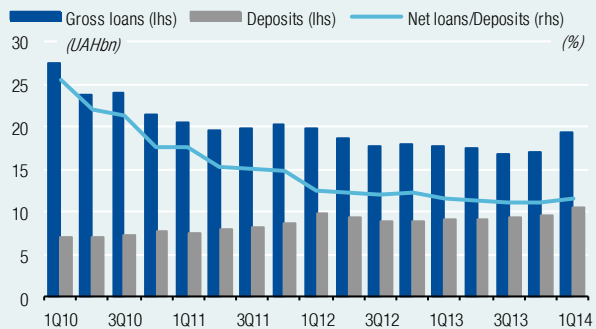
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 112. Liquidity



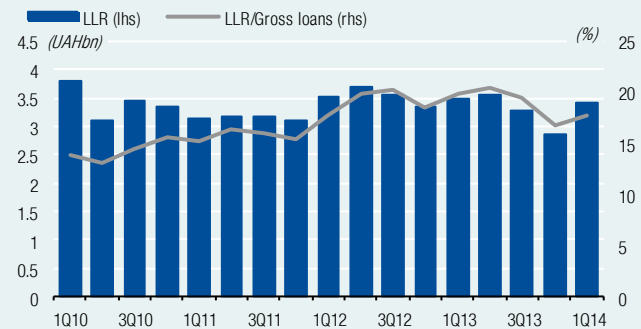
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 113. Loans and deposits



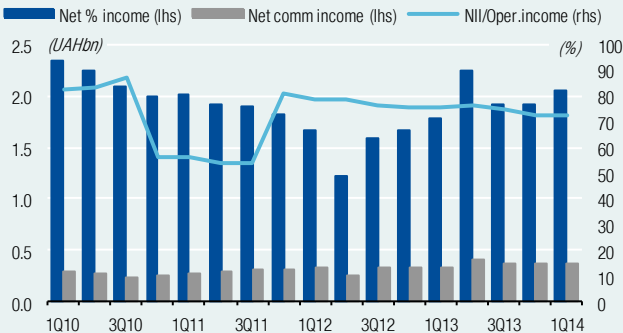
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 114. Loan loss reserves history



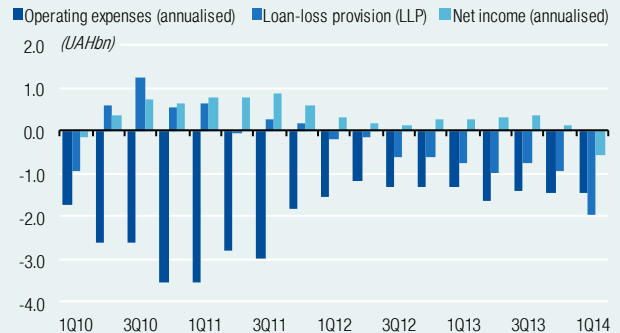
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 115. Income structure (annualised basis)



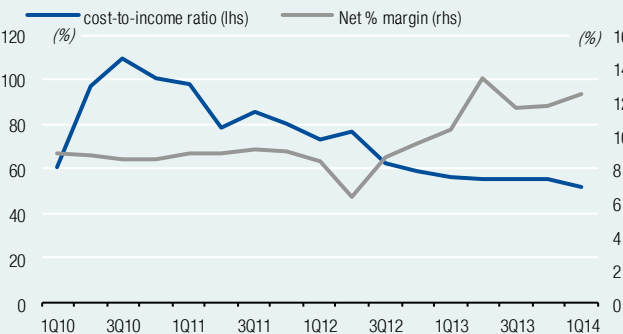
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 116. Expense and net income (annualised basis)



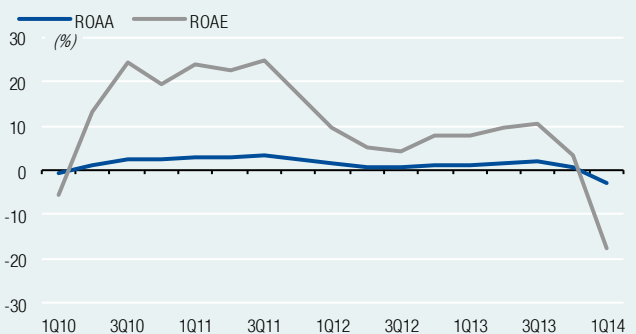
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 117. Financial performance ratios



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

Chart 118. Financial performance ratios



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

Country

Ukraine

Platinum Bank

Sector

Banks: Commercial banking

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

NR / NR /NR N/A

Ticker(s) in Bloomberg

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

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

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

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

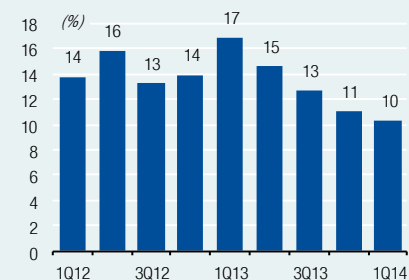
Limited funding options pose a risk. Platinum Bank seems to have only limited funding options – having no strong banking group among its shareholders. While it received no refinancing loan from the NBU in 1Q14, it was able to secure UAH110m in short-term lending from other Ukrainian banks during the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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

Platinum Bank: Key quarterly UAS financials and ratios

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

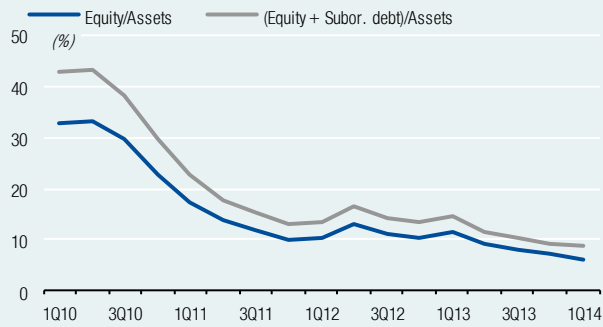
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	3,651	3,189	3,422	3,697	3,632	4,446	5,035	5,795	5,679
Cash and cash equivalents	169	161	137	165	187	191	244	652	250
Gross loans	2,812	2,647	2,698	3,106	3,344	3,971	4,609	5,606	6,169
Gross business loans	28	26	20	19	17	17	16	496	900
Gross household loans	2,784	2,620	2,678	3,087	3,327	3,954	4,592	5,110	5,269
Loan loss reserves (LLR)	-424	-334	-338	-378	-493	-573	-740	-820	-1,058
Deposits	2,756	2,319	2,576	2,968	2,856	3,606	4,145	4,824	4,809
Business deposits	609	304	353	424	534	699	738	672	500
Household deposits	2,147	2,015	2,224	2,544	2,323	2,907	3,407	4,153	4,309
Total equity	378	411	380	383	418	402	406	419	349
Quarterly P&L (UAHm)									
Net interest income	207	235	214	176	190	253	265	289	316
Net commission income	3	3	7	15	19	-23	-3	-2	-1
Operating income (before LLP)	264	315	287	299	276	341	378	421	428
Operating expenses	-182	-343	-261	-253	-159	-193	-204	-241	-201
Loan loss provisions (LLP)	-81	64	-45	-42	-84	-164	-160	-161	-296
Net income	1	33	-31	3	33	-16	4	13	-69
Last 12-month period P&L (UAHm)									
Net interest income	652	778	848	832	815	833	884	998	1,124
Net commission income	6	10	17	28	44	18	8	-9	-29
Operating income (before LLP)	896	1,064	1,127	1,165	1,177	1,203	1,293	1,416	1,568
Operating expenses	-654	-900	-985	-1,039	-1,016	-866	-809	-797	-840
Loan loss provisions (LLP)	-227	-111	-115	-104	-107	-335	-450	-570	-781
Net income	2	37	-1	6	38	-11	24	34	-68
Growth rates (%YoY)									
Assets	69.8	16.7	6.4	-1.5	-0.5	39.4	47.1	56.7	56.4
Gross loans	104.5	59.7	23.4	23.4	18.9	50.0	70.8	80.5	84.5
Deposits (by businesses)	278.3	71.8	69.7	-36.2	-12.3	129.9	109.2	58.3	-6.2
Deposits (by households)	216.7	68.8	65.5	16.9	8.2	44.3	53.2	63.3	85.5
Deposits (total)	228.5	69.1	66.0	4.5	3.6	55.5	60.9	62.5	68.4
Total equity	0.8	10.2	0.3	2.1	10.6	-2.2	6.9	9.5	-16.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	13.8	15.8	13.3	13.9	16.9	14.6	12.7	11.1	10.3
Equity/assets	10.4	12.9	11.1	10.4	11.5	9.0	8.1	7.2	6.1
(Equity + sub-debt)/assets	13.4	16.4	14.3	13.4	14.6	11.5	10.3	9.2	8.8
Cash & cash equivalents/liabilities	5.2	5.8	4.5	5.0	5.8	4.7	5.3	12.1	4.7
Current liquidity (R5 by NBU)	130.4	139.0	55.3	161.7	95.6	135.7	133.6	0.0	0.0
Gross loans/deposits	102.0	114.1	104.7	104.6	117.1	110.1	111.2	116.2	128.3
Net loans/deposits	86.7	99.7	91.6	91.9	99.8	94.2	93.3	99.2	106.3
Cost-to-income ratio	73.0	84.6	87.4	89.2	86.3	72.0	62.6	56.3	53.6
Net interest margin	25.1	27.7	28.1	27.1	26.7	24.8	23.7	24.1	24.2
ROAA	0.1	1.1	-0.0	0.2	1.1	-0.3	0.6	0.7	-1.3
ROAE	0.5	9.6	-0.3	1.5	9.6	-2.8	6.1	8.4	-17.2
NII/operating income	72.8	73.1	75.2	71.4	69.2	69.2	68.4	70.5	71.7
Core income/operating expenses	100.6	87.6	87.8	82.8	84.5	98.3	110.3	124.0	130.3

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

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

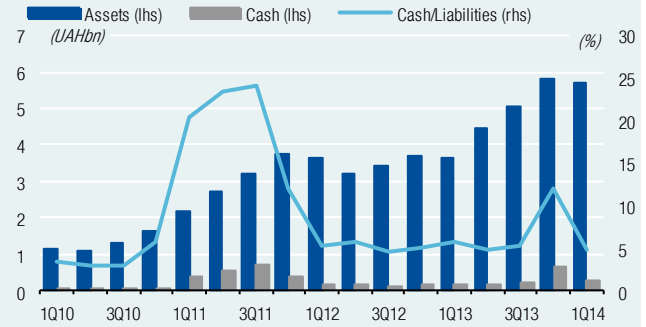
Platinum Bank: Key credit metrics

Chart 119. Capitalisation



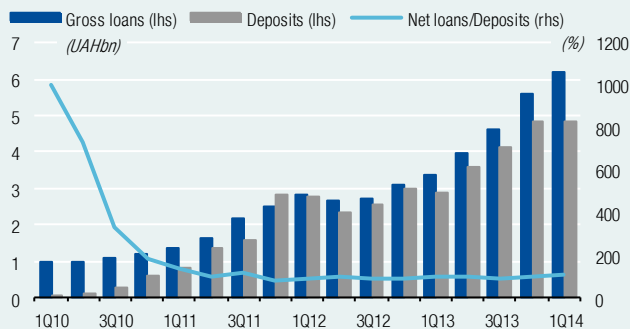
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 120. Liquidity



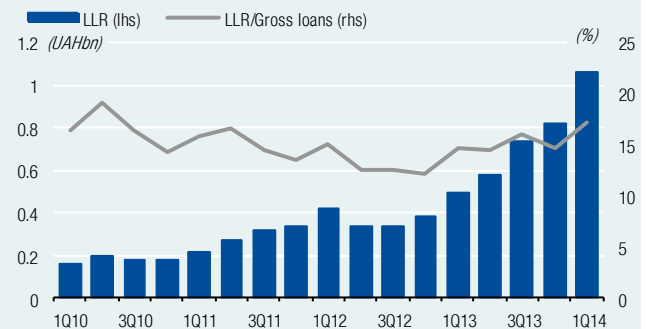
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 121. Loans and deposits



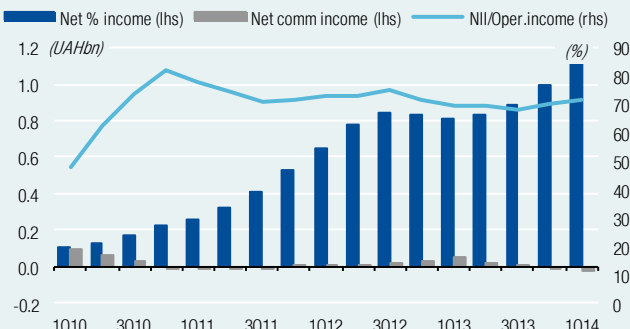
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 122. Loan loss reserves history



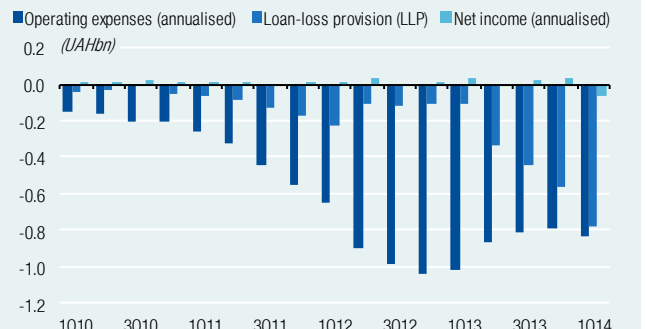
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 123. Income structure (annualised basis)



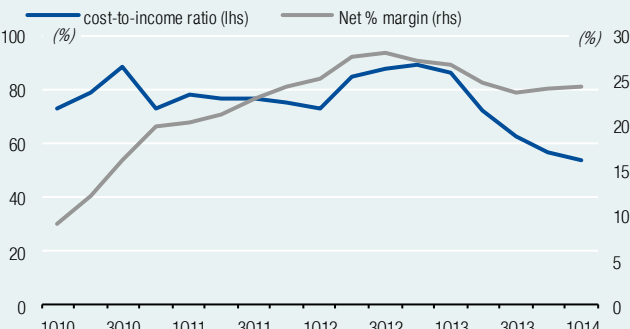
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 124. Expense and net income (annualised basis)



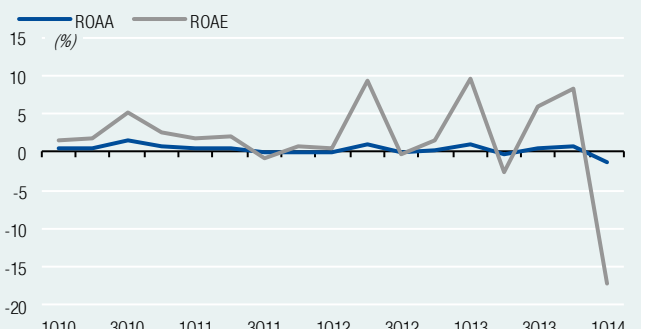
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 125. Financial performance ratios



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

Chart 126. Financial performance ratios



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

Country

Ukraine

Russian Standard Bank

Sector

Banks: Commercial banking

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

NR/ NR/NR N/A

Ticker(s) in Bloomberg

N/A

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

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

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

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

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

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

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

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

Regulatory capital adequacy ratio (UAS)



Source: Bank data.

Key financials and ratios

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

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

Russian Standard Bank: Key quarterly UAS financials and ratios

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

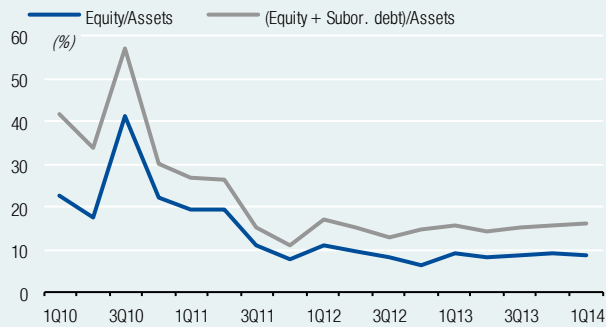
	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Balance sheet figures (UAHm)									
Assets	1,497	1,715	2,069	2,729	3,222	3,616	3,538	3,652	3,351
Cash and cash equivalents	260	163	203	315	418	572	488	381	341
Gross loans	1,242	1,514	1,857	2,477	2,817	3,095	3,230	3,509	3,144
Gross business loans	51	62	61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

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

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

Russian Standard Bank: Key credit metrics

Chart 127. Capitalisation



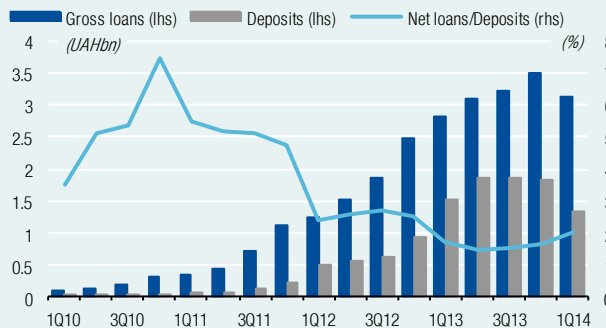
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 128. Liquidity



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

Chart 129. Loans and deposits



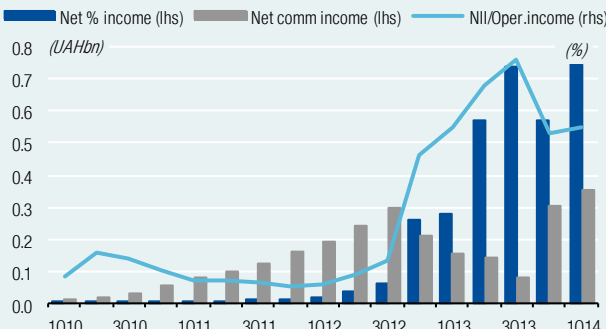
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 130. Loan loss reserves history



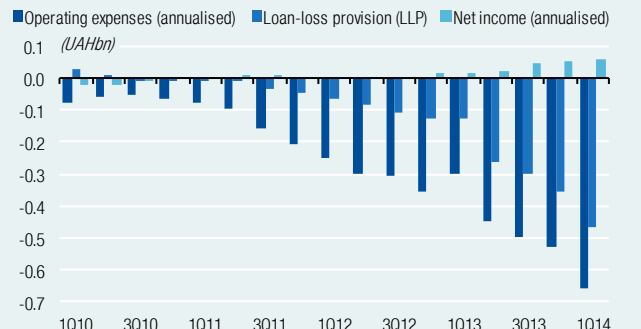
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 131. Income structure (annualised basis)



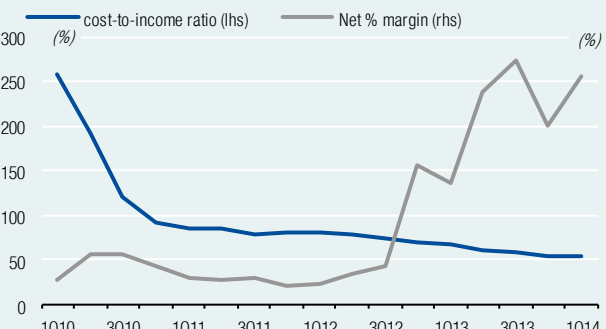
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 132. Expense and net income (annualised basis)



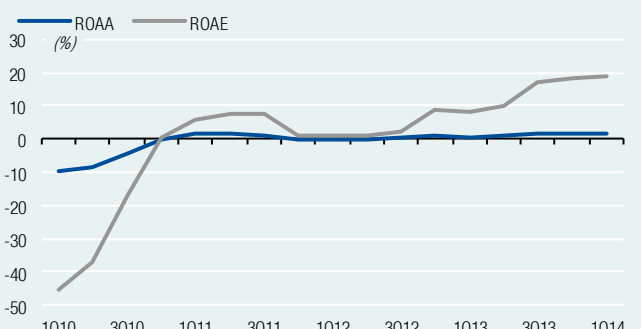
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 133. Financial performance ratios



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

Chart 134. Financial performance ratios



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

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