

Banking Sector Insight

2Q12 update: Still licking the wounds

 Sector
Banks

MONDAY, 10 SEPTEMBER, 2012

RESEARCH INSIGHT

The banking sector. The second quarter revealed a worsening in credit portfolio quality among many Ukrainian banks, with their overall provisioning charge increasing by 18% QoQ in 2Q12, to UAH5.6bn. While as of end-2Q12, the banks' LLR/gross loans ratio amounted to 17%, we believe that there is still a significant amount of banks with inadequately formed provisions, with a lack of capital being one of the key factors behind this. Reports from major global credit rating agencies, who consider a fair amount of the total sector's NPLs at 30-40% of total loans, also confirms our outlook on the possibility of further credit portfolio quality erosion among banks, as well as an increase in loan-loss provisioning. All in all, we believe it is just a matter of time when NPLs will become a burdensome weight for banks, creating the urgent need to attract much-needed capital and dispose of such assets.

Top bank names by credit metrics. Our analysis of banks' 2Q12 UAS financials revealed immaterial changes in our list of Ukraine's strongest banks, which are active players in the bond market. In our opinion, of the group of banks with Ukrainian roots, Oschadbank, Ukreximbank, and First Ukrainian International Bank remain among the strongest. From the group of foreign banks, we highlight Prominvestbank, Sberbank of Russia (SBRF), VTB Bank, and ProCredit Bank.

Table 1. ICU top picks of bank names in Ukraine that stands out by credit metrics, business model, operations and parent support

Bank	Balance sheet (UAHbn)		Key ratios (%)						
	Assets	Share ^[1] (%)	RCAR	E/A ratio	L/D ratio	C/I ratio	NIM	ROAA	ROAE
Oschadbank	84.7	7.7	25.6	21.0	136.6	46.0	7.3	0.7	2.9
Ukreximbank	75.5	6.8	31.9	23.5	132.9	25.0	6.0	0.1	0.5
Prominvestbank	41.0	3.7	12.1	12.4	205.8	74.7	4.4	0.0	0.4
VTB Bank	38.2	3.5	11.6	9.2	224.4	50.8	6.8	-0.8	-8.9
FUIB	31.5	2.8	15.5	13.0	97.0	50.4	7.6	0.9	7.8
Sberbank of Russia	20.3	1.8	15.0	14.2	164.8	58.1	6.7	1.9	15.6
ProCredit Bank	2.4	0.2	15.3	11.0	108.1	75.0	12.6	0.8	7.4

Notes: [1] market share by assets; L/D – loan-to-deposit ratio in net terms (net loans used for calculating the ratio); RCAR – regulatory capital adequacy ratio; E/A – equity-to-assets ratio; C/I – cost-to-income ratio; NIM – net % margin.

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

The bond market. Currently, Ukraine's bank bond market is held down by a rigid monetary policy, which does not allow borrowers to enjoy funding at decent interest rates. On top of that, challenging current macro conditions spell high credit risks for investors in sovereign debt as well as corporate and bank debt securities alike. These risks translate into a highly speculative nature of bonds of Ukraine origin, discouraging investment inflows into the Ukrainian bond markets. Such a difficult situation leads us to conclude that banks are likely to offer new bonds only at highly competitive rates in the near future. In general, the redemption of outstanding bonds by banks will exceed new borrowings going forward.

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Executive summary

“...[Corporate] conglomerates should not be allowed to own banks—because combining lender and debtor under one roof is a debt crisis waiting to happen.”

Ruchir Sharma¹, head of EM Equities & Macroeconomics, Morgan Stanley Investment Management

Our banking sector update for the second quarter of 2012 focuses on the following viewpoints:

Banks still licking their wounds. The second quarter revealed a worsening in credit portfolio quality among many Ukrainian banks, with their overall provisioning charge increasing by 18% QoQ, to UAH5.6bn. While as of end-2Q12, the banks' LLR/gross loans ratio amounted to 17%, we believe that there is still a significant amount of banks with inadequately formed provisions, with the lack of capital being one of the key factors. Reports from rating agencies which consider a fair amount of the total sectors' NPLs at 30-40% of total loans also confirm our thoughts on the possibility of a further weakening in banks' credit portfolios quality, as well as an increase in loan-loss provisioning. All in all, it is just a matter of time until NPLs become an overly burdensome weight for banks, creating the urgent need to attract needed capital and dispose of such assets.

Risks still remain. Ukraine's banking sector has been recovering after the bust and boom in the lending sector of 2005-08, and is still on its way towards transitioning into a healthier, more stable state. While exchange-rate risks were addressed by authorities and banks themselves by limiting unhedged FX lending, there are other risks hidden on the balance sheets of the banks, and hence in the entire sector. Another risk, to name just one, is related party lending which is epitomised by the activities, though not exclusively, of the so-called 'Big Guys' banks (see section "Banks in the hands of the 'Big guys'", pp.19).

Financial oppression by authorities. The NBU's current monetary stance, which is influenced by the government's populist orthodoxy, with the local currency still pegged to the US dollar³, bodes ill for the economy, as external trade and capital flows play against the highly open domestic economy (export proceeds are becoming weaker due to the softer global economy, and capital flows are being diverted into less risky places). Recent developments in the domestic financial market, where interest rates have proven to be highly volatile, hovering at 20%, reflect this approach by authorities, who are effectively subduing the normal functioning of the domestic credit market.

High interest rates as a by-product of this stance, on top of the pegged currency, threaten to push the economy into recession and cause a market correction of the basic macro indicators, including a devaluing of the local currency. This is likely to happen, unless external factors recover enough to ease current domestic economic and financial strains. The upcoming elections and general tendency of authorities to muddle through and duck reforms admonished by the IMF leave slim hopes that the local authorities will take counter-

¹ Mr Sharma made this statement in his book, "Breakout Nations: In Pursuit of the Next Economic Miracles," which was published in April 2012. Originally, the phrase referred to Indonesia, which was the "country hardest hit by the crisis of 1997-98, suffering a drop in GDP of around 20 percent." The book was included into the long list for the 2012 Financial Times and Goldman Sachs Business Book of the Year Award (see: <http://www.ft.com/intl/indepth/business-book-award-2012>).

³ The domestic FX market regime is defined by a pegged currency, as the USD/UAH exchange rate has been fluctuating inside the +/-2% band since November 2009, according to our calculations.

cyclical action, i.e., avoid monetary tightening in an economy that vitally needs an internal stimulus of fiscal or monetary nature in the remaining part of this year. Ultimately, we expect only a gradual shift in this direction—in the implementation of counter-cyclical economic policymaking—by early next year, when the dust from this October's elections settles.

Gradual phasing-out in the bond markets. In our view, due to a number of risk factors surrounding Ukraine's economy and the banking sector in particular, Ukraine's banks are likely to gradually reduce their presence in the local bond markets, i.e., in net terms, they will be redeeming outstanding bonds over the course of this year and next year as well. As a result, the banks' key focus will remain on domestic funding, primarily deposits. The banking sector is still carrying a high loan-to-deposit ratio of 1.6x as of end 2Q12, which is projected to move toward a healthier level of 1.2x as of end-2014.

Best bank names as credit stories. Our analysis of banks' 2Q12 UAS financials revealed immaterial changes in our list of strongest banks, which are key bond market players. In our opinion, of the group of banks with Ukrainian roots, Oschadbank, Ukreximbank, and First Ukrainian International Bank remain among the strongest. From the group of foreign banks, we highlight Prominvestbank, Sberbank of Russia (SBRF), VTB Bank, and ProCredit Bank.

Key developments in the sector in 2Q12

Factors shaping the banking sector in 2Q12

Key viewpoints on banks' financials

Government bond holdings grow further; sector liquidity is excessive. Over the 2Q of 2012, the banking sector continued to adhere to its previous trend of increasing its securities portfolio, rising by 12% QoQ during the quarter, to UAH104bn⁴, or a 9% share of the total assets of the banking sector. Government bonds represent the lion's (81%) share of the portfolio (see Chart 3, pp.7). The state-owned banks remain the key buyers of securities on the domestic financial market, and hence, they are key providers of financial resources to the Ukrainian government. In total, the state-owned banks increased their holdings of securities by 16% QoQ, to a material 42% share of the total securities portfolio in the banking sector. As for general liquidity in the sector, in our view, it remained at a relatively high level as of end-2Q12, with the banks' liquid assets (cash plus available government securities) representing about a 20% share of total assets.

Slower lending activity, with banks engaged mostly in short-term loans.

The total loan portfolio of the banking sector in gross terms changed immaterially during 2Q12, growing by only UAH2.3bn, or 0.3% QoQ, and in relative terms, as a share of GDP, the sector loan portfolio actually decreased by 1ppt, to 58%. During the second quarter, further growth of short-term loans in local currency was seen, which was prompted by a number of factors, among which the main ones are a lack of local-currency as a long-term resource on banks' books, and the limitations on foreign-currency lending to unhedged FX borrowers (households as well as corporations that are not exporters). As of today, in our view, there is still no firm ground for change in such a trend, and the 2H of this year will likely replicate the trend mentioned above.

Loan portfolio quality still a primary issue for the sector.

Macro developments during the 2Q12 did not change our view on Ukrainian banks' loan portfolio quality and we expect further news from the sector regarding the worsening of loan portfolios at certain banks, just as during 2Q12, entities such as VTB Bank, VAB Bank, and Finance Initiative Bank, to name just a few, in effect materially increased their loan-loss provisioning. As will be further described below, our expectations for poor loan portfolio quality among banks with Ukrainian ownership are particularly acute, because these banks' current levels of loan-loss provisioning have been notably lower than in those with foreign ownership in developed markets.

Western European (WE) banks' market share set to shrink further.

During 2Q12, the Ukrainian banks owned by Western European (WE) banks decreased their foreign-currency liabilities to other banks, which effectively represents a withdrawal of intra-group lending by a parent WE bank from the books of its local subsidiary, by the equivalent of UAH8bn. In the previous quarter, such a withdrawal amounted to UAH6bn. In our previous 1Q12 banking sector update, we mentioned a possible figure of total future withdrawals of

⁴ According to banks' quarterly UAS financials.

such resources amounting to about UAH32bn, and we stand by such a figure, on expectations for a further outflow of resources to be continued at least during the 2H12.

Reliance on clients' deposits on the rise, but there are risks. While the Ukrainian banking sector is on its way to rebalancing its books in terms of achieving a leaner proportion between loans and deposits—the sector's gross loan-to-deposit ratio decreased by 2ppt QoQ, to 150% over the 2Q, and by 5ppt over the 1H—there is a particular risk to this trend if, in a worst-case scenario, a deposits outflow in the economy materialises. With the banking sector able to boast a sufficiently high volume of liquid assets to its books, in this report, our 2Q12 sector update, we analyse what possible impacts such an outflow of deposits could have on the sector.

Liquid assets

The sector's liquid assets still remain at an elevated level, ...

While during 2Q12, the banking sector's liquid assets changed immaterially, an increase in the banks' securities portfolios (which were still mostly near-cash government bonds) resulted in the growth of banks' liquid assets of 0.9ppt, to 22.0% of total assets (see charts below), or 20.2% of total assets, implying the share of government debt in the total amount of securities held by banks. The tendency for an accumulation of liquidity was observed among all banks, which are grouped according to our own classification criteria by country of domicile of the bank's controlling owner. In this regard, the group of WE banks differed from other groups, decreasing their cash and cash equivalents, though their amount of liquid assets after this reduction was still above historical average. These banks increased the securities held in their portfolios, and the new securities added to portfolios were likely USD-denominated, government bonds bought by the banks for FX-hedging purposes.

Chart 1. Cash-to-assets ratio (%)

Based on banks' quarterly UAS balance sheets



Note: UA – banks with Ukrainian shareholders, including state-owned banks.
Source: NBU, Investment Capital Ukraine LLC.

Chart1. Cash & securities-to-assets (%)

Based on banks' quarterly UAS balance sheets



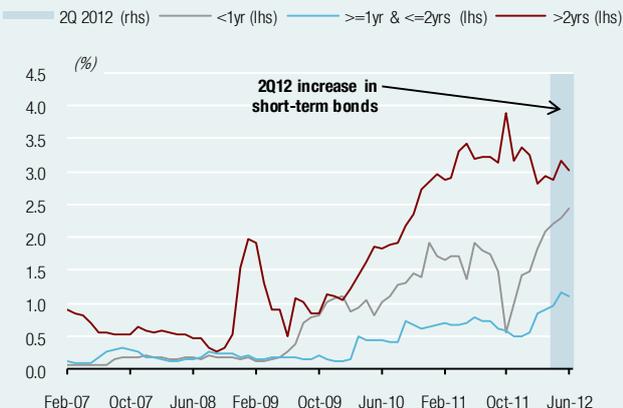
Note: UA – banks with Ukrainian shareholders, including state-owned banks.
Source: NBU, Investment Capital Ukraine LLC.

... with government bonds representing the bulk of the liquidity

During 2Q12, the size of government bonds held on the banking sector's balance sheet grew by 15.8% QoQ, to UAH78.2bn, or 80.6% of total securities held (see charts below). An approximate 91.2% share of the increased volume of securities was in bonds denominated in foreign currencies. These bonds proved to be quite attractive instruments for Ukrainian banks in their aim to decrease exposure to exchange-rate risk. Nevertheless, as of end-2Q12, local-currency bonds were still the dominant asset among the banks' securities portfolios, with a sector-wide share of about 79.9% of the total.

Chart 2. Dynamics of securities held by banks (%)

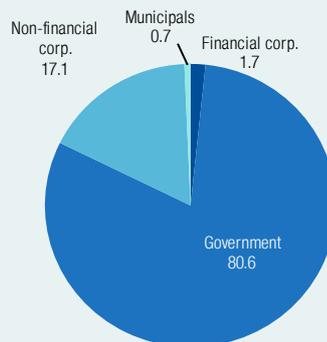
As a % of total assets, according to NBU's Department of Statistics



Source: NBU, Investment Capital Ukraine LLC.

Chart 3. Breakdown of held securities by issuer (%)

According to NBU's Department of Statistics, data as of end-2Q12



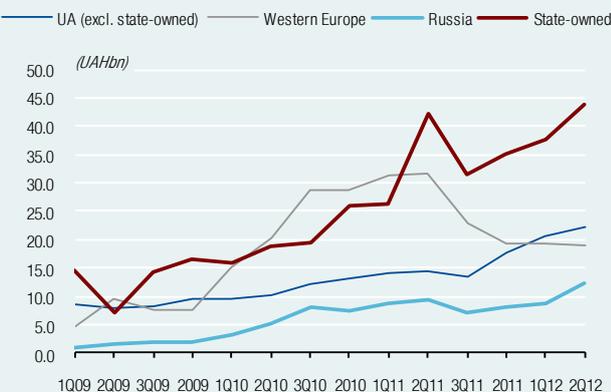
Source: NBU, Investment Capital Ukraine LLC.

State-owned banks continued to increase their government debt holdings

While growth in the securities portfolios in the group of Russian banks (of UAH3.6bn) in 2Q12 was driven solely by VTB Bank's UAH3.7bn increase, the Ukrainian state-owned banks (mainly Oschadbank and Ukreximbank) were still the key players in the domestic bond market. As of end-2Q12, they accumulated about a 42.0% share of the overall banking sector's securities portfolio, or a 1.5ppt QoQ increase in the share over the 2Q.

Chart 4. Dynamics of securities held by banks (UAHbn)

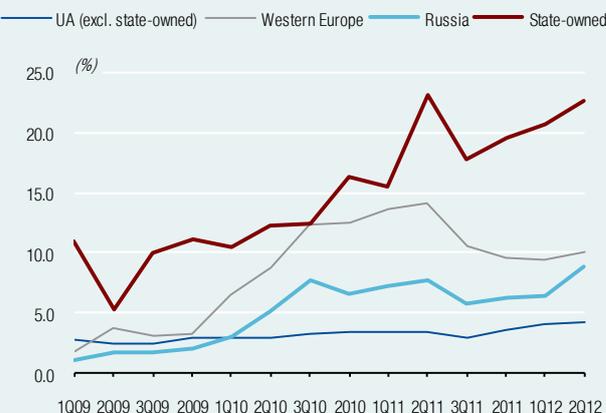
Based on banks' quarterly UAS balance sheets



Source: NBU, Investment Capital Ukraine LLC.

Chart 5. Securities held as a % of total assets (%)

Based on banks' quarterly UAS balance sheets, UAH86bn total



Source: NBU, Investment Capital Ukraine LLC.

Refinancing

NBU continued its active usage of bank refinancing during 2Q12

In 2Q12, the National Bank of Ukraine continued to provide refinancing for the Ukrainian banks, with about UAH16.5bn of total refinancing during the quarter. In terms of refinancing tools, the NBU used mostly direct repo operations (please see charts below). Also, notably, there is a material bias observed in the NBU's refinancing operations towards funds with maturity of more than 30 days, and in this regard, we can now clearly see that March 2012 was not an exception, with materially increased amounts of the NBU's 30-plus-day refinancing made to Ukrainian banks, and such instruments were also actively used during 2Q12 (see Chart 8).

Chart 6. Total refinancing given by the NBU (monthly data)

Data as of end-2Q12



Source: National Bank of Ukraine.

Chart 7. Total NBU's refinancing breakdown (monthly data)

Data as of end-2Q12



Source: National Bank of Ukraine.

Chart 8. Refinancing with 30-plus-day maturity (monthly data)

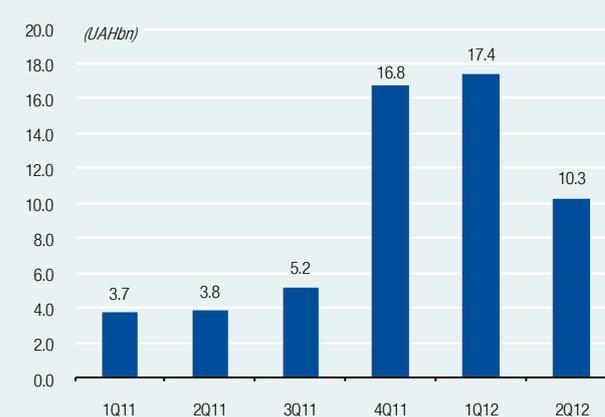
Data as of end-2Q12



Source: National Bank of Ukraine.

Chart 9. Total return of the refinancing by Ukrainian banks

UAH27.7bn returned total during 1H12



Source: National Bank of Ukraine.

Lending activity

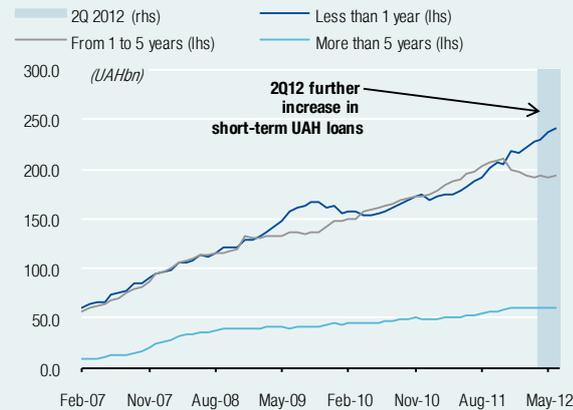
The increase in short-term and decrease in long-term loans in 2Q12 is clearly evident

As can be seen in the charts below, during 2Q12, only short-term lending to residents in local currency was expanding, with a strong upside trend, rising by 6.2% QoQ, to UAH241.6bn, as of quarter-end. Local-currency loans to residents with longer maturity were almost flat in their total amount during the second quarter, increasing by only 0.7%, to UAH254.1bn.

Considering loans to residents in foreign currency, they saw a decrease in the second quarter of 4.0% QoQ, to UAH306.6bn in total. In a breakdown by maturity, the short-term loans grew insignificantly, while the outstanding amount of longer-term loans decreased. In general, however, such developments in the size of the foreign-currency loan portfolios is a result of the NBU's overall efforts on the de-dollarisation of the economy, a policy that is apparently viewed by the NBU as both urgent and long overdue.

Chart 10. Loans to residents in local currency

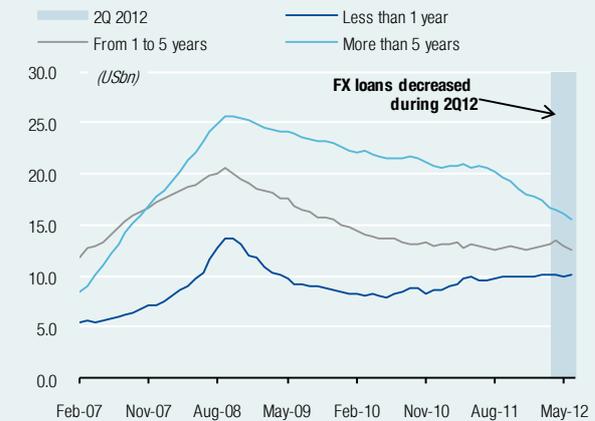
According to NBU's Department of Statistics



Source: NBU, Investment Capital Ukraine LLC.

Chart 11. Loans to residents in foreign currencies

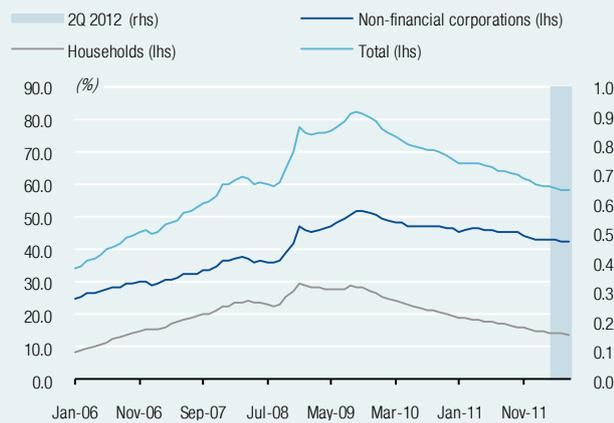
According to NBU's Department of Statistics



Note: Volumes are calculated assuming 100% of loans being denominated in US\$
Source: NBU, Investment Capital Ukraine LLC.

Chart 12. Loans to GDP ratio

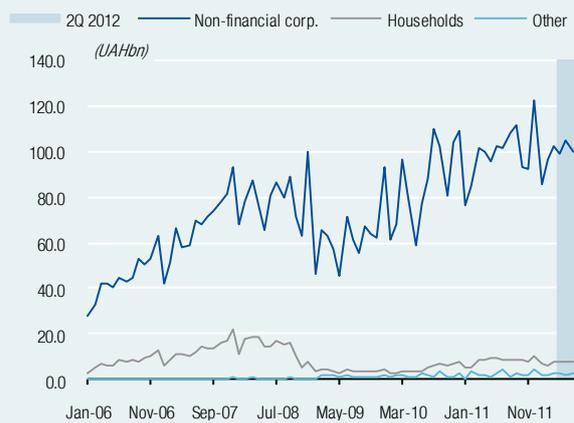
Based on NBU's Department of Statistics' data



Source: NBU, Investment Capital Ukraine LLC.

Chart 13. Loans to residents' monthly issues

According to NBU's Department of Statistics



Source: NBU, Investment Capital Ukraine LLC.

The loan-to-GDP ratio continued to decrease, ...

Despite the slight, but still apparent, growth in total loans to residents in absolute volumes, relative to GDP, this ratio fell by 1.0ppt, to 58.2% (please see Chart 12 above). We expect a further reduction of household loans during the end-2012, while loans to the business segment should also experience downside pressure, with the availability of long-term resources still being one of the key, long-lasting, problematic issues for the sector, and moreover, the failure of current monetary policy to encourage banks to lend at affordable interest rates.

... with only corporate loans as the sector's key recourse

Lending to corporate segment

Toward the end-2011, the Ukrainian banking sector showed a clear upside movement in short-term loans to non-financial corporations, while longer-term loans were on the decline (see Chart 14 below). In this regard, 2Q12 was not an exception, with about a 5.9% QoQ growth in loans with maturity of less than 1 year, while longer-term loans (of more than 1 year tenor) fell by 2.2%, *inter alia*, presenting a lack of reliable, long-term funding from banks.

From the perspective of local banks' ownership, which we classify into several groups by regions of ownership, in 2Q12, a slight decrease in the outstanding amounts of business loans in foreign banks was observed, both WE and Russian banks, while the key driver for

the increase in lending remained the banks under Ukrainian management, mostly controlled by private groups (see section “Banks in the hands of the ‘Big guys’” pp. 19).

Chart 14. Issuance of new loans to non-financial corporations

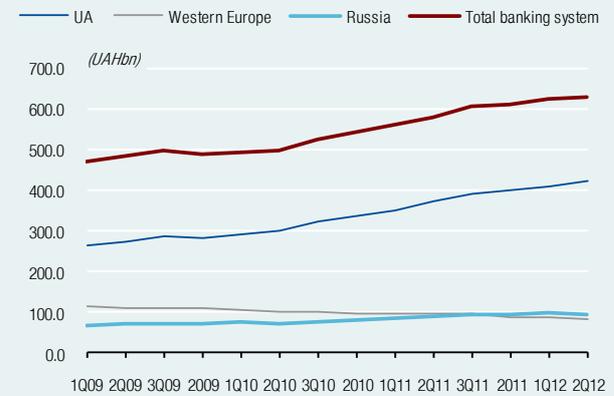
According to NBU's Department of Statistics, breakdown by maturity



Source: NBU, Investment Capital Ukraine LLC.

Chart 15. Gross business loans

Based on banks' quarterly UAS balance sheets



Source: NBU, Investment Capital Ukraine LLC.

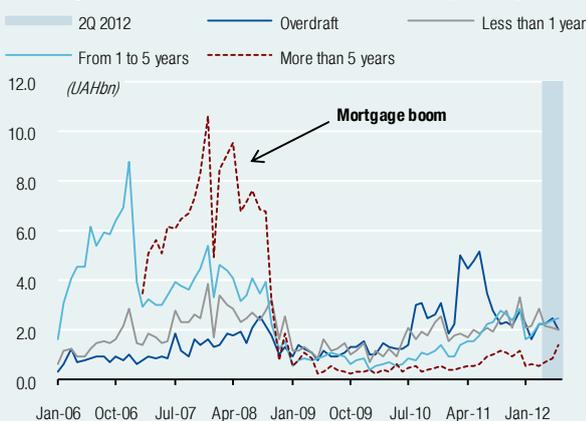
Lending to households

The private segment will unlikely be attractive for most of the banks at end-2012

The contraction in the total outstanding amount of household loans did not undergo material changes during 2Q12; the size of the sector's household loan book declined by UAH5.1bn, or 2.6% QoQ, over the period. Notably, mostly the Russian banks proved to be somehow active in this segment of the bank lending market, increasing their loan book as a whole by 5.2% QoQ, to a still-moderate 8.4% share of the total sectors' gross loans to households. We expect that loans to households will not be a compelling business line for most of the Ukrainian banks, at least until year-end, as their primary focus is on the corporate segment, which is considered as more attractive for the time being, despite currently tight funding conditions.

Chart 16. Issuance of new loans to households

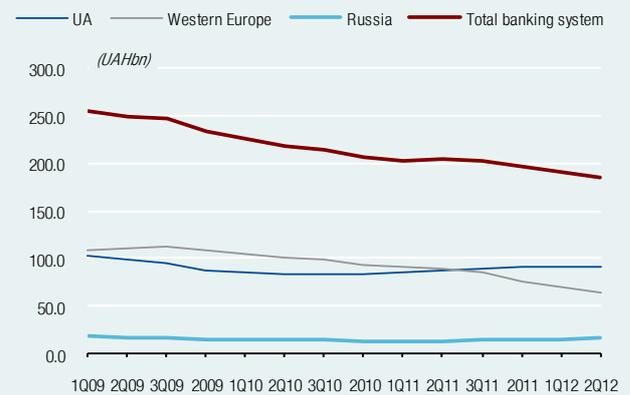
According to NBU's Department of Statistics, breakdown by maturity



Source: NBU, Investment Capital Ukraine LLC.

Chart 17. Gross households' loans

Based on banks' quarterly UAS balance sheets



Source: NBU, Investment Capital Ukraine LLC.

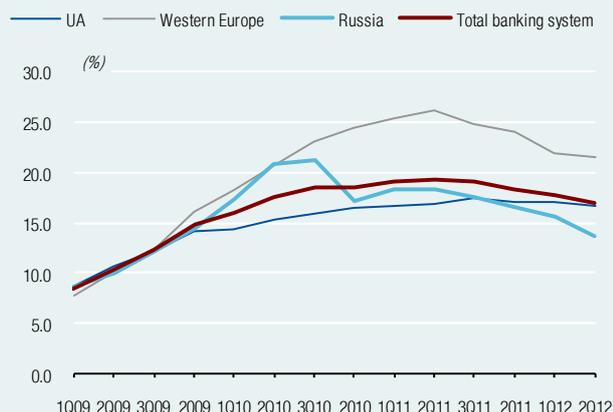
Assets' quality and reserves

Dynamics of the decrease in LLRs continued

The Ukrainian banking sector decreased its overall loan-loss reserves by 3.2% QoQ, to UAH139.1bn as of end-2Q12, and in this regard, the increased amount of write-offs of bad loans also played a significant role. Considering a breakdown by country of domicile, Russian banks and those with Ukrainian roots (owned by local investors) increasing their LLR coverage gap with WE banks (see Chart 18 below), which has conversely been the trend labeled since 2Q11, and might be a result of the above-mentioned write-offs.

Chart 18. LLR/gross loans ratio (%)

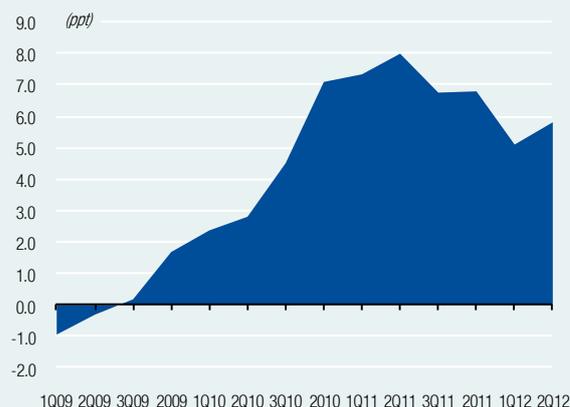
Based on banks' quarterly UAS balance sheets



Source: NBU, Investment Capital Ukraine LLC.

Chart 19. LLR coverage gap between EU and other banks

Based on banks' quarterly UAS balance sheets



Source: NBU, Investment Capital Ukraine LLC.

Despite our depiction of the reported figures on loan-loss provisioning, we would like to briefly touch upon the question of adequate loan-loss reserves' formation in the credit portfolios of banks with Ukrainian roots. For this purpose, we identified the top-30 largest banks operating in Ukraine, and calculated their provisioning charges from 1Q09 until 2Q12, according to UAS quarterly financials, relative to average credit portfolio⁶ for the same period.

The Ukrainian banks' average provisioning during 2009-12 was materially lower than that of WE banks

Our calculations revealed that, while average Western European banks' provisioning charges amounted to 20.4% of the average credit portfolio, banks with Ukrainian roots (excluding virtually "failed" Rodovid and Ukrgazbank, and the biggest state-owned banks, Oschadbank and Ukreximbank) showed loan-loss provisioning charges of only 13%. Furthermore, to find the reason for the decreased provisioning charge in Ukrainian banks, we calculated their adjusted regulatory capital adequacy ratio (R2 by the NBU) as if they charged the average amount for WE banks, of 20.4%. The resulting figures revealed that eight of the total of 12 private banks with Ukrainian shareholders) with Ukrainian roots, did not fit into such a scenario, with their capitalisation having fallen below the required minimum of 10%. We cannot state that the figures should definitely be that way, but still, some concerns arise on Ukrainian banks' adequate credit portfolio reserves, considering the lack of capital to compensate for loan-loss provisioning charges. There might also be a caveat to such a scenario, considering that WE banks' credit portfolios had more FX loans, which in the event of a severe devaluation of the local currency, would result in their greater worsening than in the case of loans denominated in local currency. For this case, we cite Rodovid Bank as an example, with only 29.5% of FX loans as of 1Q09; and Ukrgazbank, with 40.4% of FX loans, which is in line with other banks with Ukrainian roots, and these ratios did not help them to withstand 2008-09's deep recession in the Ukrainian economy.

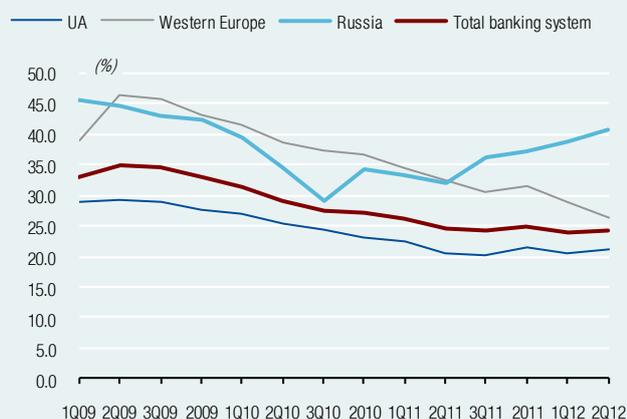
⁶ Excluding Delta bank, which acquired material amounts of fragile loans and we calculated bank's total outstanding amount of loans as of end-2Q12.

Funding

The Ukrainian banking sectors' funding⁸ did not undergo material changes during 2Q12, continuing to show an outflow of parents' resources in the WE banks, while conversely, there was an inflow of parents' funding on the books of the Russian banks (see charts below).

Chart 20. Due to banks (as % of total funding)

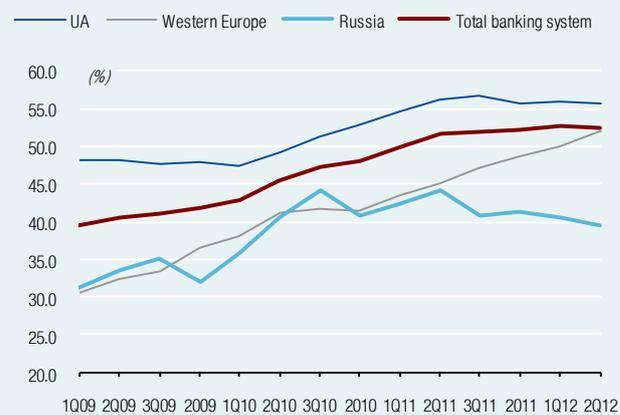
Based on banks' quarterly UAS balance sheets



Source: National Bank of Ukraine.

Chart 21. Total clients' deposits (as % of total funding)

Based on banks' quarterly UAS balance sheets



Source: National Bank of Ukraine.

The outflow in WE banks' resources continued during 2Q12

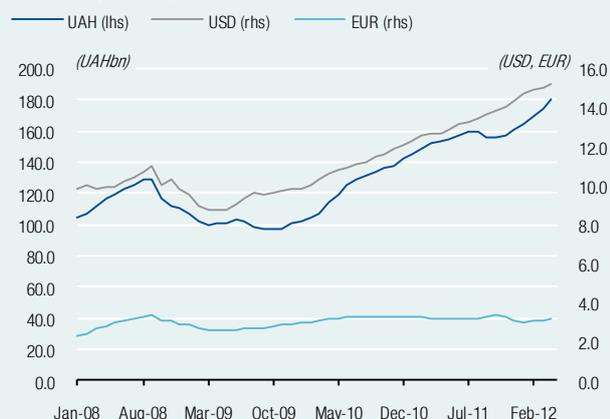
Parents of the Western European banks withdrew their loans to local subsidiaries by approximately UAH7.8bn during the 2Q, bringing the year-on-year volume of withdrawals to about UAH24.8bn in local currency equivalent. In our 1Q12 banking sector update, we mentioned possible figure of further outflow in such resources of about UAH32bn, and we stand by our calculation. Such withdrawals moved WE banks' share of deposits in funding closer to the sector's average, as shown in Chart 21. At the same time, the increase in 2Q12 on Russian banks' balance sheets of the volume of FX due to other banks was about UAH3.1bn in local currency equivalent, along with a decrease in the share of clients' deposits in their total funding of 1.1ppt, to 39.5%.

A case for the possible replication of the deposits' outflow scenario

At the beginning of-2009, the Ukrainian banking system was impacted by a series of bank failures, with subsequent placements of such banks under receivership by the National Bank of Ukraine. The key mission of the NBU in this regard was to recover banks' creditworthiness and to decrease the uncontrolled funding outflows. Since that period, there have been material structural changes both in banks' funding and liquidity, which we analyse further in this report. We also take a look at whether the Ukrainian banking sector is capable of withstanding another repetition of the 2009 crisis year without additional liquidity from outside (shareholders or the central bank).

According to data from the NBU's Department of Statistics, only during 1Q09 did the banking sector experience as much as an 11.9% outflow of deposits from residents, or UAH42.9bn, creating huge liquidity gaps for most of the banks. The outflow was subsequently observed in both local- and foreign-currency deposits, indicating an erosion of trust in the credibility of the overall banking system, on top of the devaluation and lack of stability in the local currency.

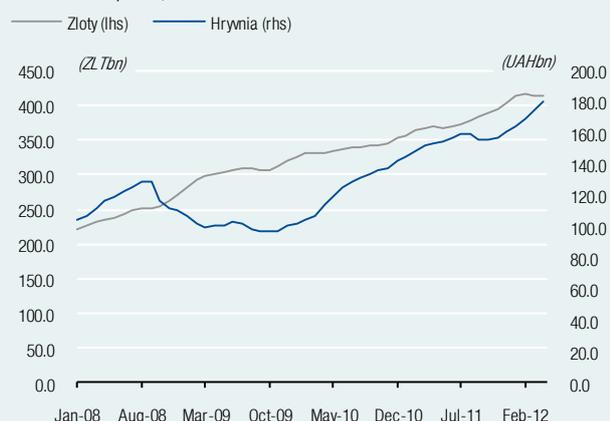
⁸ Here and further funding base includes due to banks', clients' deposits, subordinated debt, securities issued, Equity, other borrowed funds.

Chart 22. Dynamics of households' deposits*Breakdown by currency*

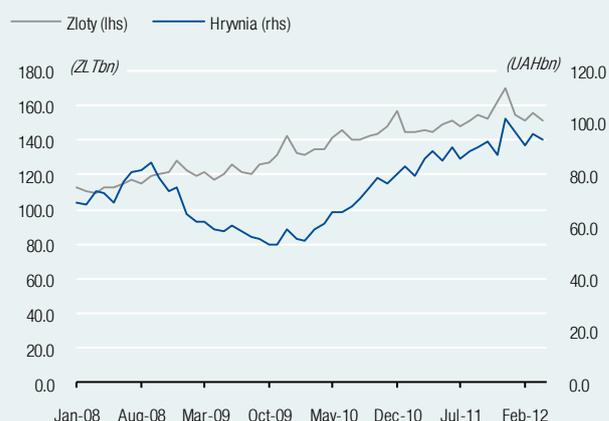
Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 23 Dynamics of non-financial corporations' deposits*Breakdown by currency*

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

Chart 24. Dynamics of deposits in local currency*Households' deposits, Ukraine versus Poland*

Source: National Bank of Ukraine, National Bank of Poland.

Chart 25. Dynamics of deposits in local currency*Deposits of non-financial corporations, Ukraine versus Poland*

Source: National Bank of Ukraine, National Bank of Poland.

The challenges of the macroeconomic environment in Ukraine compared to other countries are also seen in the charts above, in a comparison of the dynamics of local-currency household and business' deposits in both Poland and Ukraine. The material fall of deposits in Ukraine is clearly traced, versus Poland, which managed to escape recession in the 2008-09 downturn, and is currently undergoing no financial crisis, but is instead experiencing only a decrease in the pace of growth, despite the similarity in both countries' legislation, which grants households the right to withdraw funds before maturity.

A material outflow of local funding (deposits) was the key reason for the banks' placement under receivership

The table below shows the quarterly growth rates of clients' deposits in Ukraine's biggest banks, grouped by total assets, which were materially affected during the domestic financial crisis. From the list, only PrivatBank avoided being placed under receivership, while still obtaining material refinancing from the NBU to support its liquidity level (or UAH8.3bn of the bank's outstanding amount as of December 2008, according to the bank's IFRS audited annual report). Prominvestbank's condition differed slightly from the other banks in the sector, as its liquidity outflow began a quarter earlier and lasted until fully state-owned Russian Vnesheconombank (VEB) stepped in and bailed the bank out by taking over its ownership.

Table 2. Total deposits quarter-on-quarter growth rates (%)

	2Q08	3Q08	2008	1Q09	2Q09	3Q09	2009	1Q10	2Q10	3Q10	2010	1Q11	2Q11	3Q11	2011	1Q12	2Q12
Total Sector	19.3	6.4	8.0	-23.0	1.5	2.7	-0.2	1.5	8.0	8.7	5.5	7.7	5.6	1.4	3.6	1.9	1.5
PrivatBank	17.1	9.3	6.8	-22.9	6.7	1.4	4.6	10.9	12.0	9.5	11.0	8.4	9.8	2.9	-0.3	8.7	2.6
Prominvestbank	7.6	-10.2	-25.7	-19.0	6.4	6.0	6.1	1.6	4.8	9.3	14.7	-3.8	-1.4	-12.7	2.3	-6.4	-3.8
Nadra Bank	35.3	9.1	-13.5	-28.3	-3.3	-6.3	-11.3	4.1	-12.8	-3.5	4.2	-9.9	-16.1	26.5	16.3	-10.4	-15.1
Rodovid Bank	51.7	2.6	-20.9	-29.2	-9.3	-36.3	209.6	-33.2	-12.0	-6.8	-2.9	-1.4	-92.0	-13.1	-6.2	-5.2	-7.7
Kiev	20.0	9.0	-8.7	-1.9	-0.4	-46.3	-32.7	-12.1	-3.9	4.6	-9.0	-5.0	3.4	6.5	-19.1	-5.4	-10.7
Ukrprombank	21.2	6.6	-3.0	-19.4	-2.6	-2.9											

Notes: Bold are quarters with placements under receivership

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

Table 3. Cash/Deposits ratio (%)

	2Q08	3Q08	2008	1Q09	2Q09	3Q09	2009	1Q10	2Q10	3Q10	2010	1Q11	2Q11	3Q11	2011	1Q12	2Q12
Total Sector	11.7	9.4	10.7	8.9	22.8	25.1	25.0	29.4	29.8	31.4	29.2	30.0	30.0	26.8	26.7	27.0	25.4
Privatbank	7.7	9.8	9.3	5.6	15.5	18.5	15.3	18.6	22.6	25.4	28.3	26.2	19.7	22.5	22.1	23.7	22.2
Prominvestbank	9.4	9.1	9.2	10.3	64.1	21.7	39.7	24.1	20.5	15.4	10.7	18.5	17.8	21.0	19.5	20.8	14.4
Nadra Bank	7.4	6.9	6.5	2.9	2.9	6.0	5.2	3.9	16.0	11.3	12.8	12.4	9.9	13.5	42.9	36.6	22.0
Rodovid Bank	13.3	4.4	4.0	2.0	2.3	1.3	16.2	11.0	8.3	4.5	4.4	4.1	2.0	25.6	60.9	66.0	69.0
Kiev	4.6	3.1	3.0	1.4	1.7	0.5	20.4	11.4	15.0	17.5	6.4	33.4	12.5	14.9	11.3	7.8	44.3
Ukrprombank	11.7	8.5	8.2	3.3	1.1	0.8	0.5										

Notes: Bold are quarters with placements under receivership

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

Banks' volumes of liquid assets were quite negligible up until 2008

From the tables above, we can see that a more than 25% outflow of clients' deposits caused significant issues, including the need for additional liquidity inflows, from the shareholder or the NBU; thus, in a worst-case scenario, we assume a 25% fall in total deposits at end-2Q12. In this regard, the 2008 year's liquidity policy was quite risky, with about a 10% cash coverage of total deposits (see Table 3 above). Since the beginning of 2009, the banking sector has constantly been increasing cash and cash equivalents, which peaked at 31.4% as of 3Q10, but showed a further decline to 25.4% as of end-2Q12. For the calculations in the table below, we include 10% as a threshold level for the cash-to-deposits ratio.

Table 4. Top 30 Ukrainian banks by total assets as of end 2Q12

№ by total assets	Bank	2Q12						1Q08	
		Total deposits	Possible deposits fall (25%)	Total cash & cash equivalents	Liquidity threshold level (10% of deposits)	Scenario liquidity gap, UAHbn	As a % of total assets	Scenario liquidity gap (UAHbn)	As a % of total assets
1	Privatbank	102.4	25.6	28.0	10.2	-7.8	4.8	-11.4	18.8
2	Oschadbank	37.1	9.3	7.0	3.7	-6.0	7.1	-3.1	15.7
3	Ukreximbank	31.9	8.0	6.8	3.2	-4.3	5.7	-2.9	9.6
4	Raiffeisen Bank Aval	27.5	6.9	6.8	2.8	-2.8	6.0	-5.0	10.7
5	Prominvestbank	14.9	3.7	2.7	1.5	-2.5	6.1	-5.7	20.1
6	Ukrsotsbank	16.9	4.2	3.9	1.7	-2.0	5.1	-3.9	11.5
7	VTB Bank	11.1	2.8	3.6	1.1	-0.3	0.7	-0.7	4.9
8	First Ukrainian Int'l Bank	16.6	4.2	3.9	1.7	-1.9	6.0	-1.4	9.5
9	Delta Bank	13.4	3.3	3.9	1.3	-0.8	2.7	-0.5	11.2
10	Ukrblibbank	18.3	4.6	6.3	1.8	-0.2	0.6	-2.8	7.0
11	Alfa Bank	12.9	3.2	4.6	1.3	0.1	-0.3	-2.3	13.0

Table 4. Top 30 Ukrainian banks by total assets as of end 2Q12

№ by total assets	Bank	2Q12					1Q08		
		Total deposits	Possible deposits fall (25%)	Total cash & cash equivalents	Liquidity threshold level (10% of deposits)	Scenario liquidity gap, UAHbn	As a % of total assets	Scenario liquidity gap (UAHbn)	As a % of total assets
12	Nadra Bank	6.6	1.6	1.4	0.7	-0.9	3.7	-3.8	16.6
13	Finance and Credit Bank	11.3	2.8	1.2	1.1	-2.7	12.3	-2.7	17.8
14	Brokbiznesbank	12.6	3.1	2.6	1.3	-1.8	8.0	-2.1	17.4
15	OTP Bank	9.2	2.3	2.3	0.9	-0.9	4.5	-3.7	17.9
16	Ukrgazbank	6.8	1.7	3.0	0.7	0.7	-3.2	-1.4	29.7
17	Sberbank of Russia	9.1	2.3	1.5	0.9	-1.7	8.6	-0.3	12.3
18	VAB Bank	8.4	2.1	1.1	0.8	-1.9	14.2	-1.0	15.9
19	Creditprombank	7.2	1.8	1.2	0.7	-1.3	10.6	-1.8	13.7
20	ING Bank Ukraine	3.9	1.0	0.9	0.4	-0.5	4.1	-0.4	7.3
21	Pivdenny	6.5	1.6	0.9	0.7	-1.3	13.1	-1.3	15.6
22	Erste Bank	2.1	0.5	1.2	0.2	0.4	-4.4	0.2	-2.5
23	Kreschatyk Bank	4.5	1.1	0.8	0.4	-0.8	7.9	-1.1	19.0
24	Bank Forum	5.4	1.3	1.3	0.5	-0.6	6.0	-3.1	20.3
25	Finance Initiative	3.6	0.9	0.7	0.4	-0.5	5.8	-0.7	14.1
26	Rodovid Bank	0.2	0.1	0.2	0.0	0.1	-0.9	-2.0	19.9
27	Imexbank	3.3	0.8	0.5	0.3	-0.7	7.8	-0.7	16.0
28	Bank Credit Dnipro	5.3	1.3	0.5	0.5	-1.4	15.9	-0.5	20.3
29	Universal Bank	3.4	0.8	1.0	0.3	-0.1	1.9	-0.2	4.9
30	Credit Agricole	4.6	1.1	1.0	0.5	-0.6	8.2	-0.3	10.3

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

While banks currently have a greater cash cushion than in 2008, there is concern that clients may face obstacles in obtaining their funds before maturity

While as of 2Q12, bank's liquidity definitely indicated more conservative policies, from the table above, we can still see that in a repetition of the deposits' outflow scenario, there is a sufficiently high possibility for the need for fresh liquid fund injections, either from parents or from the NBU. While from the parents' perspective, we expect an easing in funds attraction for foreign-parent banks (foremost from Russian banks, and even more so from the EU banks, despite the fact that they are deal with their own domestic liquidity problems), we have doubts regarding the easing of liquidity attraction by the privately held domestic banks, including those that have not yet paid off the NBU's long-term refinancing received back in the crisis-laden years of 2008-09. In a worst-case scenario, we expect a replication of banks' placement under receivership, for two reasons – first, to protect them from uncontrolled resources' outflow; and second, to ease the pressure on the FX exchange rate, as the bulk of the withdrawn clients' deposits will be likely converted into foreign currency, as is often the case in Ukraine under a distress scenario.

2Q12 trends in deposit base

Short-term household deposits continue to be dominant in Ukrainian banks' funding

In the charts below, we can clearly trace banks' material increase in reliance on short-term, household deposits. During 2Q12, household deposits with maturity of one year, including current accounts, grew by 4.7% to UAH198.8bn, making up about 74.2% of the increase in the total households' deposits base. As the local bond market is currently virtually closed for the banking sector, we expect a further increase in the banks' reliance on clients' deposits.

Chart 26. Dynamics of households' deposits

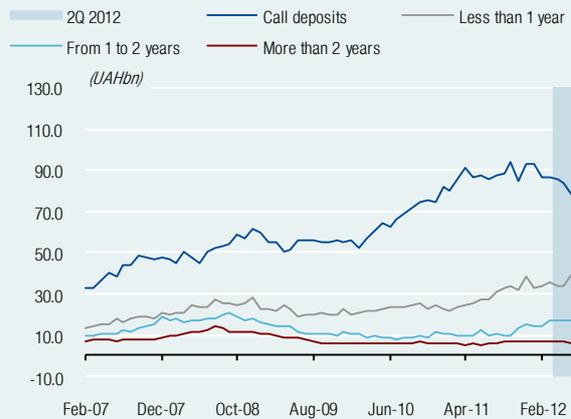
Total outstanding amount, breakdown by maturity



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

Chart 27 Dynamics of non-financial corporations' deposits

Total outstanding amount, breakdown by maturity



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

As for the corporate segment, during 2Q12, their deposit base decreased by 2.9%, to UAH141.0bn in local-currency equivalent, representing a smaller share of clients' deposits funding, (see charts above).

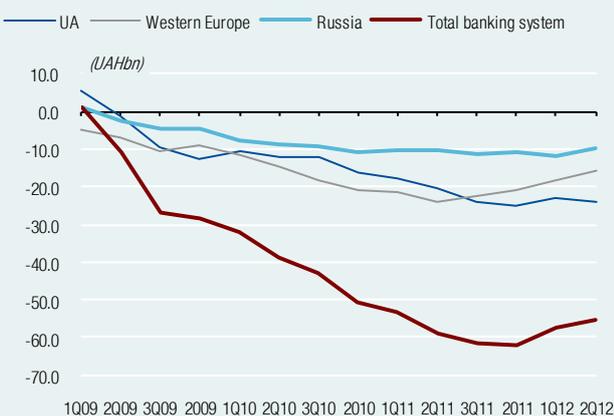
FX position

The targeting of FX risk-hedging continued during 2Q12

Ukrainian banks' FX position improved slightly, by a UAH2.0bn equivalent, or 3.5%, during 2Q12, still being at a significantly short UAH55.3bn equivalent level (see charts below). Such a decrease was made through the absorption of FX securities held, which we described above, with foreign banks being the key driver.

Chart 28. Accounting FX position

Based on banks' quarterly UAS balance sheets



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

Chart 29. FX position/total assets ratio

Based on banks' quarterly UAS balance sheets



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

In the table below, we provide a brief analysis of the impact of local-currency devaluation on the top-30 largest Ukrainian banks by total assets, in terms of their regulatory capital adequacy ratio, which is currently defined at a 10% minimum level. For our base-case scenario, we assume a 2.5% devaluation, while for the worst-case scenario, a 30% local currency devaluation. In the following analysis, we do not consider the availability of hidden FX hedging instruments on banks' balance sheets (for example, USD-indexed bonds), and provide calculations solely based on banks' 2Q12 UAS quarterly financials, their accounting FX position, and capitalisation level. Another effect which is not factored into our

calculations is the worsening of FX loans' quality, along with the increase in loan-loss reserves and risk-weighted assets, which will also have an impact on hryvnia depreciation.

Up to a 2.5% local-currency devaluation should not create material issues for the Ukrainian banks

The table below shows that in a worst-case scenario, out of the selected banks, only three of them would have an R2 ratio (regulatory capital adequacy ratio) of below 10%, while another six banks have an R2 that is close to a more worrisome 11%. From the table, we can also see that a moderate devaluation at the 2.5% level will have an immaterial impact on the presented banks, with none of them breaching the required minimum of 10%. Here should also be mentioned remark that some of the banks below might have inadequately formed loan-loss reserves on FX loans; thus, their accounting FX position might be overestimated, with a materially more negative effect in a worst-case scenario of devaluation, than it is presented in our calculations.

Table 5. Calculations of two scenarios of local-currency devaluation

Bank	Total FX assets	Total FX liabilities	Accounting FX position	R2 as of end-2Q12	R2 in a base-case scenario	R2 in a worst-case scenario
Privatbank	65.0	79.6	-14.6	11.4	11.1	8.3
Oschadbank	15.1	17.9	-2.8	25.6	25.2	24.5
Ukreximbank	29.9	36.0	-6.1	31.9	30.9	29.0
Raiffeisen Bank Aval	17.4	21.8	-4.3	18.1	17.1	15.2
Prominvestbank	22.8	24.1	-1.2	12.1	11.8	11.2
Ukrsotsbank	20.6	23.1	-2.6	12.5	11.8	10.4
VTB Bank	23.3	28.3	-5.0	11.6	10.2	7.6
First Ukrainian Int'l Bank	15.4	16.2	-0.8	15.5	15.2	14.6
Delta Bank	10.1	9.1	1.0	10.3	10.6	11.3
Ukrblibbank	15.6	16.8	-1.2	18.7	18.2	17.2
Alfa Bank	13.3	15.9	-2.6	17.0	16.0	14.2
Nadra Bank	13.1	6.1	7.0	11.1	13.4	17.9
Finance and Credit Bank	7.7	8.4	-0.7	10.3	10.0	9.4
Brokbiznesbank	7.8	10.1	-2.4	15.0	13.7	11.3
OTP Bank	11.3	14.4	-3.2	19.1	17.6	14.8
Ukrgazbank	6.0	5.7	0.3	18.2	18.4	18.8
Sberbank of Russia	12.2	12.8	-0.6	15.0	14.7	14.1
VAB Bank	6.5	6.5	0.0	11.4	11.4	11.4
Creditprombank	4.5	5.3	-0.9	13.5	12.7	11.2
ING Bank Ukraine	7.9	7.9	0.0	40.4	40.5	40.7
Pivdenny	4.4	4.9	-0.5	16.3	15.7	14.7
Erste Bank	4.6	6.0	-1.3	27.4	25.5	21.8
Kreschatyk Bank	4.2	4.1	0.1	12.6	12.7	13.1
Bank Forum	3.9	6.0	-2.1	21.3	19.2	15.0
Finance Initiative	0.4	0.5	-0.1	22.8	22.6	22.4
Rodovid Bank	0.2	0.4	-0.3	37.7	37.4	36.9
Imexbank	1.8	2.1	-0.3	17.2	16.7	15.8
Bank Credit Dnipro	4.1	4.3	-0.3	13.3	12.9	12.0
Universal Bank	2.6	3.7	-1.1	18.1	16.3	12.8
Crédit Agricole	2.9	3.1	-0.2	12.5	12.3	11.9

Sources: Company data, Investment Capital Ukraine LLC.

Capitalisation

Most of the biggest banks saw an immaterial change in their RCAR during 2Q12

The second quarter of the 2012 revealed immaterial changes in banks' capitalisation, considering the group of largest Ukrainian banks by total assets. SBRF was excluded from the group of risk, as its capital increase resulted in a 3.4ppt QoQ growth in its regulatory capital adequacy ratio, while still, five more banks have an R2 of below 12%, which we consider as a level for concern. Once again, as was described above, we do not hold these figures to be 100% accurate, as we believe that there are still banks with yet unveiled credit portfolio issues, or formation of loan-loss reserves, which could materially pressure banks' capital.

Table 6. Capitalisation level of the group of biggest banks in Ukraine

Bank	2011	1Q12	2Q12	Change (QoQ)	Change (YTD)
Privatbank	11.7	11.3	11.4	0.1	-0.3
Oschadbank	30.5	28.6	25.6	-3.0	-4.9
Ukreximbank	31.2	32.2	31.9	-0.3	0.7
Raiffeisen Bank Aval	16.2	16.5	18.1	1.6	2.0
Prominvestbank	13.2	12.0	12.1	0.1	-1.1
Ukrsotsbank	13.3	12.6	12.5	-0.1	-0.8
VTB Bank	13.2	11.7	11.6	-0.1	-1.6
First Ukrainian Int'l Bank	15.9	15.1	15.5	0.4	-0.4
Delta Bank	11.5	11.3	10.3	-1.0	-1.2
UkrSibbank	22.9	16.9	18.7	1.8	-4.2
Alfa Bank	18.2	17.6	17.0	-0.6	-1.3
Nadra Bank	11.2	10.3	11.1	0.7	-0.1
Finance and Credit Bank	10.6	10.2	10.3	0.2	-0.3
Brokbiznesbank	15.5	14.5	15.0	0.5	-0.6
OTP Bank	21.3	19.3	19.1	-0.2	-2.1
Ukrgazbank	22.6	18.9	18.2	-0.7	-4.4
Sberbank of Russia	13.9	11.7	15.0	3.4	1.1

Sources: Company data, Investment Capital Ukraine LLC.

Profitability

Banks' credit portfolios worsening in 2Q12 pointed to continuing issues in the banks' quality of loans

The 2Q12 presented further weaknesses in banks' financial performance, with a total net loss amounting to UAH0.2bn, versus UAH1.7bn in profit during 1Q12. Such a worsening was due to increased loan-loss provisioning, leaving the question of the sector's credit portfolio quality still to be addressed. It is also notable that the sector's decrease in profit was mostly made by foreign banks, with Russian and WE banks showing about a UAH0.3bn loss, while banks with Ukrainian roots revealed an aggregated UAH0.3bn in profit. Digging deeper into the figures, we can say that the bulk of the loss was effected by only a few names, while most of the banks were at least slightly profitable. These banks showed a materially increased provisioning charge, and we believe that it is rather unlikely that this arose from newly issued loans, but rather from pre-crisis loans which were extended to the present through restructuring. Among these banks were, beginning with the biggest loss, VAB Bank, with a UAH0.4bn loss, Bazis Bank, with a UAH0.3bn loss (recall that this bank has also been under the NBU's temporary administration since April 2012), and Swedbank, with a UAH0.2bn loss that resulted from its decision to exit the Ukrainian retail sector.

Chart 30. Ukrainian banks' quarterly net income

Based on banks' quarterly UAS balance sheets



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

Chart 31 Ukrainian banks' quarterly loan loss provisioning

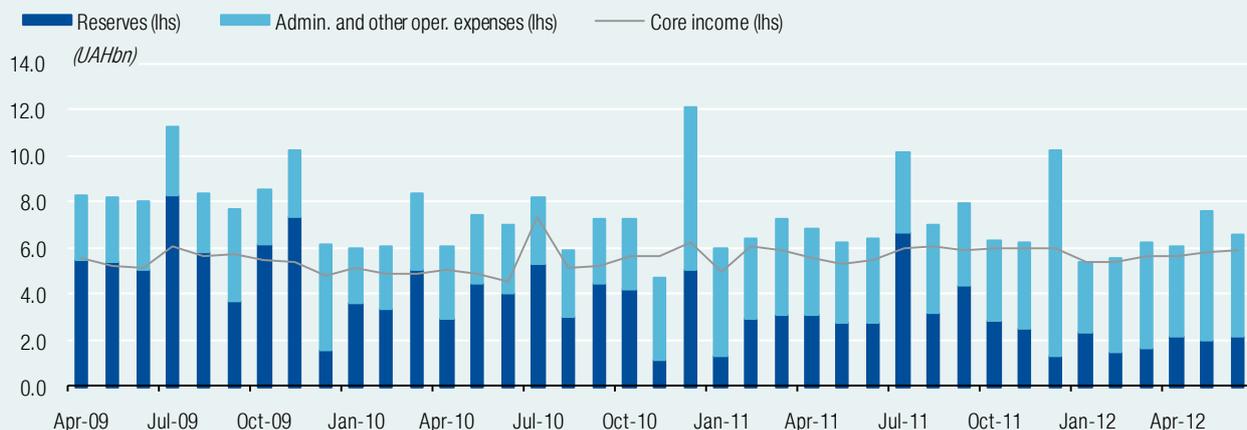
Based on banks' quarterly UAS balance sheets



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

Chart 32. Ukrainian banking sector's core revenues and expenses

According to NBU's Department of Statistics



Notes: Core income includes net interest income (excluding loan-loss provisions) and net commission income.
Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

Banks in the hands of the 'Big guys'

The group of so-called 'Big guy' banks (those that are linked to the largest Ukrainian private business groups) during 2Q12 continued to increase their local funding, which is primarily in household deposits, with a further direction of their resources into the corporate segment, although at a lower pace compared with 1Q12. Their total household deposits grew by 12.7% QoQ, to UAH133.5bn as of end-2Q12, while their total gross loans to the corporate sector increased by 4.1%, to UAH201.2bn. In the table below, we also include Bank Forum, which was recently acquired by the Ukrainian private business group Smart Holding,⁹ and could shortly also become a bank with close ties to the private, diversified Ukrainian group.

⁹ <http://www.smart-holding.u>

Table 7. Key balance sheet figures of Ukrainian “Big guys” banks

Ukraine's private business group	Bank	Assets		Total gross loans		Loans to business		Total deposits		Private deposits		Total equity	
		Volume (UAHbn)	QoQ growth (%)	Volume (UAHbn)	QoQ growth (%)	Volume (UAHbn)	QoQ growth (%)	Volume (UAHbn)	QoQ growth (%)	Volume (UAHbn)	QoQ growth (%)	Volume (UAHbn)	QoQ growth (%)
Privat Group	Privatbank	161.7	5.3	131.8	2.8	105.4	3.2	100.2	2.6	78.3	11.5	17.3	1.5
SCM	FUIB	31.5	-0.6	19.6	-1.2	14.8	1.8	16.2	3.6	9.5	10.5	4.1	0.4
SCM	Ren. Capital	0.7	18.8	0.4	-1.4	0	0	0.04	-10.6	0.0	-23.2	0.3	-0.2
Group DF	Nadra Bank	24.5	-5.4	24.0	-3.7	10.7	-2.2	6.6	-15.1	2.6	0.0	4.0	0.01
F&C Group	Finance and Credit	22.2	-3.6	20.0	1.9	16.2	2.6	11.3	-1.6	8.2	8.5	1.8	0.1
Buryak Brothers	Brokbiznesbank	21.9	8.6	14.8	6.2	11.9	7.8	13.3	-4.6	8.1	10.7	2.9	19.4
Group Energo	Kreditprombank	12.6	-0.02	12.1	-1.6	9.6	-0.9	7.3	0.2	5.3	-0.1	2.1	-1.1
Mr Lagun	Delta Bank	29.0	18.4	20.4	8.6	10.9	9.1	12.1	12.3	10.3	26.8	2.9	-0.5
Bakhmatyuk	VAB Bank	13.2	17.1	8.7	13.6	7.0	20.0	7.8	21.9	5.8	34.1	1.0	15.0
Bakhmatyuk	Finance Initiative	9.0	6.6	9.3	10.1	9.3	10.1	3.1	17.9	1.6	61.2	1.9	0.0
Interpipe	Bank Credit Dnipro	8.5	-0.6	5.9	4.4	5.4	8.3	5.2	-8.4	3.6	9.8	0.6	-0.5
Total selected banks		334.9	4.5	222.7	266.9	2.8	4.1	183.0	2.3	133.5	12.7	39.0	2.2
Smart Holding	Bank Forum	9.3	-8.6	9.8	-9.3	6.4	-11.7	5.9	-13.0	4.2	-16.1	1.5	0.5
Total banking sector		1,104.4	2.0	677.0	677.0	1.0	1.2	542.7	1.5	343.1	3.6	163.8	1.3

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

The table below shows the dynamics of the total gross loans to corporate clients of the biggest banks from the ‘Big Guys’ list. The highest 2Y CAGR is still shown by Delta Bank, considering its cash credit portfolio acquisitions. The bank was also not last in this regard in 2Q12, with a 9% QoQ growth, as the biggest growth in terms of expansion in the corporate segment during the second quarter was shown by VAB Bank, of 20% QoQ, and Finance Initiative, with a 10% QoQ increase in gross corporate loans.

Table 8. Total gross business' loans history of biggest banks held by Ukrainian private groups

	1Q09	2Q09	3Q09	2009	1Q10	2Q10	3Q10	2010	1Q11	2Q11	3Q11	2011	2012	1Q12	CAGR 2yr (%)	1Q12 chg (%)	2Q12 chg (%)
Privatbank	46.8	46.5	51.0	54.7	61.3	66.1	71.6	81.3	89.9	94.2	97.5	96.7	102.0	105.4	26.2	6%	3%
FUIB	10.2	10.0	9.9	9.7	9.6	9.3	9.8	10.3	10.8	11.3	14.1	14.5	14.5	14.8	25.8	0%	2%
Nadra Bank	8.4	8.7	8.9	8.7	8.5	8.3	9.0	9.6	10.3	10.5	10.0	11.1	10.9	10.7	13.6	-2%	-2%
Finance and Credit	9.9	10.4	10.9	11.8	12.5	13.5	14.5	14.7	15.3	15.7	15.4	15.3	15.8	16.2	9.5	3%	3%
Brokbiznesbank	7.9	8.0	8.5	8.7	9.2	9.7	9.2	9.6	9.5	9.6	10.1	10.6	11.0	11.9	10.7	4%	8%
Kreditprombank	8.1	8.1	8.5	8.4	8.6	8.7	8.9	8.2	8.5	8.6	9.4	9.6	9.7	9.6	5.4	1%	-1%
Delta Bank	1.3	1.6	1.7	1.8	1.6	2.3	6.7	8.2	6.0	7.6	8.3	10.1	10.0	10.9	118.7	-1%	9%
VAB Bank	4.1	4.1	4.5	4.3	4.3	4.2	4.3	3.9	4.5	4.6	4.7	4.5	5.8	7.0	28.6	28%	20%
Finance Initiative	4.6	4.6	4.6	5.0	5.7	5.8	6.0	6.4	7.0	7.6	8.3	9.7	8.4	9.3	26.8	-13%	10%
Total “Big Guys”	101.3	101.7	108.3	113.2	121.4	127.9	139.9	152.2	161.8	169.7	177.8	182.3	193.3	201.2	25.4	6%	4%
Without Privatbank	54.5	55.2	57.3	58.5	60.0	61.8	68.3	70.9	71.9	75.5	80.3	85.6	91.3	95.8	24.5	7%	5%
Total sector	471.7	481.6	496.4	489.2	492.4	498.5	525.5	540.5	560.0	580.0	606.5	610.4	622.7	630.4	12.5	2%	1%

Sources: Company data, Investment Capital Ukraine LLC.

Deposits guarantee scheme: New rules adopted

The new law on the deposits guarantee will take effect in September

In February 2012, Ukraine's Parliament adopted new law on the deposits guarantee system, sufficiently changing the Deposits Guarantee Fund's privileges, obligations and activity. The new law will take effect on 22 September of this year. A previous legislative act was adopted 11 years ago.

The new liquidator of banks will be the Fund, not the NBU

The largest modification in the law was made to Fund privileges, transferring to the Fund the right to provide the procedure for bank liquidation, which currently has to be provided by the National Bank of Ukraine (NBU). The law also changed the liquidation mechanism, and as of now, the NBU will constitute the temporary administration of insolvent banks; according to the new law, this function will be carried out by the Fund, which will provide for all procedures to improve bank solvency or liquidate it.

A new mechanism for the Fund's administration appointment has been set

The new law also slightly changed the make-up of Fund managers, and as of now, its administrative board has to be appointed by the NBU and the Cabinet of Ministers—two individuals from each body, and one from the banks' association. Additionally, the new law shortened the number of the Cabinet of Ministers' representatives to just one person, and the NBU reserved the right to appoint two individuals, and a fourth individual on the administrative board will be a representative of the Parliament. One representative of the banks' associations (which are essentially lobbying groups that deal with regulators and lawmakers, as well as with public opinion with regard to banking sector activities) will also be replaced by the director of Fund.

Banks will have to pay more funds as regular payments to the Fund in FX, and the Fund will independently set the maximum level of guarantee

Slight changes were made in the financial provisions to the law, as follows: (1) the new law includes two rates of regular payments calculations, 0.5% from the basis of local currency and 0.8% from the basis of foreign currency, while the old law had just one rate of 0.5% as a basis; (2) the new basis will be calculated as the weighted average volume of the daily balance of deposits and interest on deposits, while the old law includes a basis of deposits and interest volume on 31 December and 30 June; (3) if a bank does not make the regular payment in time, the Fund will have the right to ask the NBU to make a compulsory transfer of funds from the bank account to Fund accounts at the NBU; (4) the new law does not include the maximum level of guaranteed volume of deposits, and the administrative board has the right to set this level, while at the same time, according to the current law, the maximum level is set by the law at UAH1,200, and can only be increased by the administrative board (under current law, it is set by the administrative board at UAH150,000 per person in the bank, for all individual deposits in the bank).

The new maximum level of guarantee was recently set at UAH200,000, which will take effect in September

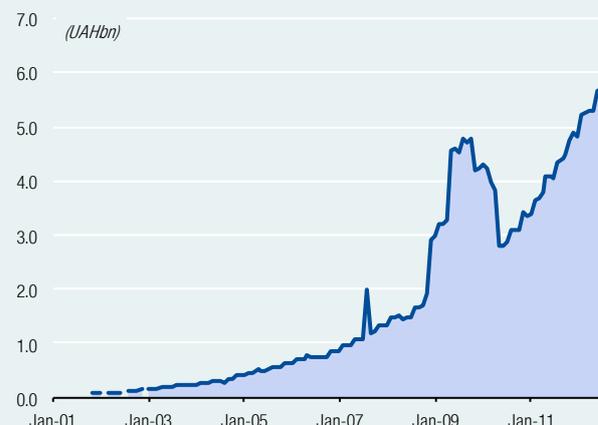
On 22 August, 2012, the NBU announced that the administrative board of the Deposit Guarantee Fund of Ukraine made a decision to increase the maximum volume of guaranteed deposits from UAH150,000 to UAH200,000. As such, the volume of guaranteed deposits including interest was increased for the first time since October 2008, when the financial crisis began raging in the economy. The Fund's new decision was submitted to the Ministry of Justice of Ukraine for registration, and will take the effect not earlier than 10 days after registration.

Most account holders have deposits lower than the volume of guarantee

The total volume of deposits guaranteed by the Fund, which is held by 34.3m depositors, amounted to UAH310.9bn at the end of 1H12. At the same time, the Fund did not publish its report for 2011, but according to the report for the year 2010, the Fund provided more detailed information, according to which, at the end of that year, 99.3%, or 32.34m, account holders held deposits amounting to below the level of guarantee, and the volume of their deposits amounted to UAH111.8bn, or just 44% of the total volume of guaranteed deposits. At the same time, the rest of the UAH254.2bn of guaranteed deposits, or UAH142.38bn, was held by only 0.7% of depositors, or 0.24m, account holders.

Chart 33. Development in maximum level of guaranteed deposits

Source: Wikipedia.org, Investment Capital Ukraine LLC.

Chart 34. Dynamic of Fund assets

Source: Deposits Guarantee Fund, Investment Capital Ukraine LLC.

Table 9. Data on deposits, guaranteed by the Fund

Date	Volume of deposits (UAHbn)	Quantity of depositors (m)	Average volume of deposit (UAH)
1-Jan-2000	3.70	4.60	806
1-Jan-2001	5.60	5.40	1 046
1-Jan-2002	9.30	4.80	1 915
1-Jan-2003	16.60	7.00	2 376
1-Jan-2004	29.20	10.50	2 780
1-Jan-2005	38.40	15.00	2 559
1-Jan-2006	67.90	18.60	3 656
1-Jan-2007	100.40	24.20	4 143
1-Jan-2008	155.20	29.60	5 243
1-Jan-2009	204.90	34.50	5 935
1-Jan-2010	198.00	31.60	6 273
1-Jan-2011	254.20	32.60	7 802
1-Jan-2012	282.60	35.00	8 072
1-Apr-2012	300.90	37.20	8 098
1-Jul-2012	310.90	34.30	9 068

Source: Deposits Guarantee Fund, Investment Capital Ukraine LLC.

NBU adds flexibility in supporting banks

New conditions for stabilisation loans were adopted in July, increasing their maturity period up to five years

At the end of July, the NBU adopted a resolution to modify its rules on issuing loans, in order to support banks and banking system stability. The new resolution, which was adopted more than a month ago and registered at the Ministry of Justice, did not take effect till September, and will be formally go into effect following its official publication. As a result of the resolution, the NBU will now have the opportunity to issue stabilisation loans for two years, with the possibility of extend the period for up to five years.

Since the time when stabilisation loans were introduced in 2008, they still amount to a very high level of about UAH60bn

These loans could be issued for banks that become insolvent and are without support from the regulator. Historically, the NBU began issuing such loans four years ago, when banks were faced with significant withdrawals of deposits and were experiencing liquidity problems, especially at a time when many loans extended to private sector borrowers become problematic. Up until 2010, the total volume of stabilisation loans issued had

amounted to UAH74bn, and during more than two years since then, the total volume of these loans has declined by only UAH14bn.

The maturity period for loans has been increased from 90 days to two years

Originally, in 2008, loans were provided for a period of only one year, but in 2010, the maturity period was decreased to 90 days, and over the last two years, stabilisation loans could be issued for 90 days, with a maximum maturity period of 450 days. The new loan scheme allows the NBU to issue loans for up to two years, and if a bank's loan activity is threatened, the maturity period could be extended for up to five years.

The NBU's decision is also a preventative measure

The new conditions for the stabilisation loans will provide banks with an ample period of time to increase their efficiency and resolve liquidity problems, while at the same time, help them prepare for possible future problems in the banking sector, which could occur if a new wave of financial crisis lands on the Ukrainian economy and banking sector.

1-year refinancing was sanctioned by the NBU, which negatively reflected on FX market

At the end of August, the NBU began an experiment of issuing 1-year refinancing loans amounting to UAH3.83bn. The loans were sold at a tender on the last day of August, but were not transferred to banks until Monday, 3 September due to internal issues at the NBU. After the loans were issued, banks' correspondent accounts with the NBU jumped by UAH4.23bn, to UAH26.34bn, the highest level seen since January, 2012, but the increase had a negative impact on the FX market, resulting in an immediate drop in the hryvnia's exchange rate.

The NBU's council recommended continuing the refinancing experiment, approved by the IMF

At the same time, the NBU's council recommended the Bank's executive board to continue the practice of issuing new refinancing loans with the same credit period, increasing banking sector liquidity by issuing "long money." The NBU's representatives also commented that the 1-year loans were an experiment approved by the IMF.

The NBU's steps could improve the situation on the money market, if liquidity is not utilised to buy FX

Long-term refinancing appears to be an additional step by the NBU to increase the maturity of stabilisation loans which were recently approved by the NBU but have not yet taken effect. These steps will serve to decrease short-term pressure on banks' liquidity, and will significantly postpone loan repayments. Increasing long-term liquidity could also improve the situation on the money market, if liquidity is not spent in the FX market.

Banking sector forecast

In the following two tables, we provide our outlook on the sector for the 2012-14 period, based upon our base-case macroeconomic scenario in our *Quarterly Report* dated 24 July, 2012.

Yearly forecast for 2012-14, base-case scenario

Table 10. Ukraine's banking sector: key indicators and 3-year forecast for 2012-14 (annual)

	Historical data by National Bank of Ukraine, 2000-11												Forecast by ICU		
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Quantity of banks															
Total number ¹	153	152	157	157	160	163	169	173	182	182	176	176	173	173	173
Ownership															
State-owned	2	2	2	2	2	2	2	2	2	5	5	5	5	4	3
Private	151	150	155	155	158	161	167	171	180	177	171	171	168	169	170
Domestic	122	131	137	138	141	140	134	126	129	131	121	123	124	124	124
Foreign (ttl)	31	21	20	19	19	23	35	47	53	51	55	53	52	50	50
Foreign (100%)	7	6	7	7	9	9	13	17	17	18	20	22	21	19	19
Concentration (% of total assets)															
Top 5 banks	N/A	N/A	39.4	38.1	37.2	36.2	35.3	33.1	33.3	34.8	36.8	37.4	37.2	38.5	40.0
Top 10 banks	N/A	N/A	54.1	53.7	53.1	53.8	52.4	49.7	52.0	53.2	53.9	53.7	53.3	56.3	60.0
Absolute dimensions (UAHbn)															
Assets	37.1	47.6	64.0	100.4	134.5	213.9	340.4	598.3	927.2	890.7	945.5	1,058.6	1,080.7	1,125.7	1,236.0
Capital	N/A	N/A	N/A	N/A	17.3	25.7	43.3	69.9	121.4	126.2	141.7	161.0	165.7	177.6	186.0
Loans	19.1	28.4	42.0	67.8	88.6	143.4	245.2	426.9	734.0	723.3	732.8	801.8	780.5	812.9	892.6
Deposits	18.6	25.7	37.7	62.5	84.6	134.8	185.9	283.9	359.7	335.0	416.6	491.8	538.8	627.3	743.8
Relative dimensions (% of GDP)															
Assets	21.8	23.3	28.3	37.5	38.9	51.1	63.5	83.9	97.8	97.5	86.4	80.4	75.5	68.8	66.5
Capital	N/A	N/A	N/A	N/A	5.0	6.1	8.1	9.8	12.8	13.8	12.9	12.2	11.6	10.9	10.0
Loans	11.2	13.9	18.6	25.4	25.6	34.3	45.8	59.9	77.4	79.2	66.9	60.9	54.5	49.7	48.0
Deposits	10.9	12.6	16.7	23.4	24.5	32.2	34.7	39.8	37.9	36.7	38.1	37.4	37.6	38.3	40.0
Growth rates (%YoY)															
Assets	N/A	28.2	34.5	56.8	34.0	59.0	59.1	75.8	55.0	-3.9	6.2	12.0	2.1	4.2	9.8
Capital	N/A	N/A	N/A	N/A	N/A	48.3	68.6	61.4	73.7	4.0	12.3	13.6	2.9	7.2	4.7
Loans	62.3	48.4	48.2	61.4	30.6	61.9	71.0	74.1	72.0	-1.5	1.3	9.4	-2.7	4.2	9.8
Deposits	52.9	38.1	46.9	65.7	35.4	59.3	38.0	52.7	26.7	-6.9	24.4	18.0	9.6	16.4	18.6
Nominal GDP	33.8	20.1	10.6	18.4	29.4	21.0	28.0	33.0	33.0	-3.7	19.8	21.6	8.8	14.2	13.7
Ratios³															
Regulatory capital (%)	N/A	N/A	N/A	N/A	N/A	15.0	14.2	13.9	15.1	19.8	23.4	18.9	18.0	18.0	18.0
Regulatory Tier 1 (%)	N/A	N/A	N/A	N/A	N/A	11.5	10.8	10.1	12.1	15.6	16.9	14.0	13.6	13.3	12.6
Capital-to-Assets (%)	N/A	N/A	N/A	N/A	N/A	11.9	12.5	11.6	12.9	13.1	14.6	14.8	15.3	15.8	15.0
Liquid assets (%)	N/A	N/A	N/A	N/A	N/A	18.0	14.3	11.6	9.4	11.5	10.2	10.6	11.9	13.0	14.0
LA to ST liabilities (%)	N/A	N/A	N/A	N/A	N/A	31.0	26.9	23.5	21.9	25.8	20.8	94.7	84.6	62.0	26.9
NPLs (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.9	13.7	15.3	14.7	13.1	9.0	5.0
Loan-to-deposit ² (x)	1.0	1.1	1.1	1.1	1.0	1.1	1.3	1.5	2.0	2.2	1.8	1.6	1.4	1.3	1.2
LD (x, local currency)	0.9	0.9	1.0	0.9	1.0	0.9	1.1	1.1	1.5	2.1	1.7	1.7	1.5	1.3	1.2
LD (x, foreign ccy)	1.3	1.5	1.5	1.4	1.2	1.3	1.7	2.3	2.7	2.3	1.9	1.5	1.4	1.3	1.2
FC loans (% of total)	46.5	44.2	41.8	41.7	42.2	43.3	49.5	49.9	59.1	50.8	46.0	40.3	36.4	32.8	30.0
FC deposits (% of ttl)	38.5	32.3	32.0	32.0	37.1	34.9	38.1	32.3	43.9	48.3	42.6	43.0	39.0	32.4	30.0
National Bank of Ukraine															
Base money (UAHbn)	N/A	N/A	30.8	40.1	53.8	82.8	97.2	141.9	186.7	195.0	225.7	239.9	263.7	301.3	342.5
Base money (%YoY)	N/A	N/A	N/A	30.1	34.1	53.9	17.5	46.0	31.6	4.4	15.8	6.3	9.9	14.2	13.7
Bal. sheet (UAHbn)	N/A	N/A	58.6	73.6	90.0	125.0	141.2	198.3	356.1	388.3	456.7	453.4	422.7	440.6	464.9
Balance sheet (%YoY)	N/A	N/A	N/A	25.6	22.3	38.9	13.0	40.4	79.6	9.0	17.6	-0.7	-6.8	4.2	5.5
Bal. sheet (% of GDP)	N/A	N/A	25.9	27.5	26.0	29.9	26.4	27.8	37.6	42.5	41.7	34.4	29.5	26.9	25.0
Monetary aggregates															
M3 (UAHbn)	32.3	45.8	64.9	95.0	125.8	194.1	261.1	396.2	515.7	487.3	597.9	685.5	715.1	817.0	928.6
M3 (%YoY)	46.1	41.9	41.8	46.5	32.4	54.3	34.5	51.7	30.2	-5.5	22.7	14.7	4.3	14.2	13.7

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

Quarterly forecast for 2012-14, base-case scenario

Table 11. Ukraine's banking sector: key indicators and 3-year forecast for 2012-14 (quarterly)

	Historical data by NBU			Forecast by ICU									
	4Q11	1Q12	2Q12	3Q12F	4Q12F	1Q13F	2Q13F	3Q13F	4Q13F	1Q14F	2Q14F	3Q14F	4Q14F
Quantity of banks													
Total number ¹	176	176	176	175	173	173	173	173	173	173	173	173	173
Ownership													
State-owned	5	5	5	5	5	4	4	4	4	3	3	3	3
Private	171	171	171	170	168	169	169	169	169	170	170	170	170
Domestic	123	123	123	124	124	124	124	124	124	124	124	124	124
Foreign (ttl)	53	53	53	52	52	50	50	50	50	50	50	50	50
Foreign (100%)	22	22	22	21	21	19	19	19	19	19	19	19	19
Concentration (% of total assets)													
Top 5 banks	37.4	36.6	36.6	36.9	37.2	37.5	37.8	38.1	38.5	38.8	39.1	39.4	40.0
Top 10 banks	53.7	51.8	51.8	52.6	53.3	54.1	54.8	55.5	56.3	57.0	57.8	58.5	60.0
Absolute dimensions (UAHbn)													
Assets	1,058.6	1,084.0	1,107.1	1,093.0	1,080.7	1,082.6	1,087.1	1,106.4	1,125.7	1,131.3	1,154.8	1,195.8	1,236.0
Capital	161.0	159.5	164.7	164.7	165.7	167.1	169.0	173.3	177.6	179.9	182.5	185.8	186.0
Loans	801.8	799.2	802.3	789.3	780.5	781.8	785.0	799.0	812.9	817.0	833.9	863.5	892.6
Deposits	491.8	507.5	514.5	524.9	538.8	554.5	572.4	599.1	627.3	649.1	672.7	699.8	743.8
Relative dimensions (% of GDP)													
Assets	80.4	80.2	80.2	78.0	75.5	73.8	72.1	70.5	68.8	67.1	66.4	66.4	66.5
Capital	12.2	11.8	11.9	11.7	11.6	11.4	11.2	11.0	10.9	10.7	10.5	10.3	10.0
Loans	60.9	59.1	58.1	56.3	54.5	53.3	52.1	50.9	49.7	48.5	48.0	48.0	48.0
Deposits	37.4	37.5	37.3	37.4	37.6	37.8	38.0	38.2	38.3	38.5	38.7	38.9	40.0
Growth rates (%YoY)													
Assets	12.0	8.6	8.4	5.9	2.1	-0.1	-1.8	1.2	4.2	4.5	6.2	8.1	9.8
Capital	13.6	12.4	9.9	6.1	2.9	4.8	2.6	5.2	7.2	7.7	8.0	7.2	4.7
Loans	9.4	6.3	3.7	-1.5	-2.7	-2.2	-2.2	1.2	4.2	4.5	6.2	8.1	9.8
Deposits	18.0	14.5	10.4	10.6	9.6	9.3	11.3	14.1	16.4	17.1	17.5	16.8	18.6
Nominal GDP	21.6	19.9	16.5	11.3	8.8	8.5	9.1	12.0	14.2	14.9	15.3	14.6	13.7
Ratios³													
Regulatory capital (%)	18.9	17.9	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.1	18.1	18.1	18.0
Regulatory Tier 1 (%)	14.0	13.6	13.8	13.7	13.6	13.6	13.5	13.4	13.3	13.2	13.1	13.0	12.6
Capital-to-Assets (%)	14.8	14.6	14.7	15.1	15.3	15.4	15.5	15.7	15.8	15.9	15.8	15.5	15.0
Liquid assets (%)	10.6	11.0	11.3	11.6	11.9	12.1	12.4	12.7	13.0	13.3	13.5	13.8	14.0
LA to ST liabilities (%)	94.7	95.3	95.9	90.3	84.6	79.0	73.3	67.7	62.0	56.4	50.7	45.1	26.9
NPLs (%)	14.7	14.9	14.1	14.1	13.1	12.1	11.0	10.0	9.0	8.0	7.0	6.0	5.0
Loan-to-deposit ² (x)	1.6	1.6	1.6	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.2
LD (x, local currency)	1.7	1.6	1.7	1.6	1.5	1.5	1.4	1.3	1.3	1.2	1.2	1.2	1.2
LD (x, foreign ccy)	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.2
FC loans (% of total)	40.3	40.0	38.2	37.3	36.4	35.5	34.6	33.7	32.8	31.9	31.0	30.1	30.0
FC deposits (% of ttl)	43.0	42.6	42.3	40.6	39.0	37.3	35.7	34.0	32.4	30.7	29.1	27.4	30.0
National Bank of Ukraine													
Base money (UAHbn)	239.9	233.1	243.2	258.2	263.7	270.1	277.5	289.1	301.3	310.3	320.1	331.5	342.5
Base money (%YoY)	6.3	4.3	6.6	10.2	9.9	15.9	14.1	12.0	14.2	14.9	15.3	14.6	13.7
Bal. sheet (UAHbn)	453.4	434.2	425.5	422.9	422.7	423.5	425.3	432.9	440.6	442.8	445.5	449.7	464.9
Balance sheet (%YoY)	-0.7	-4.4	-9.9	-8.0	-6.8	-2.5	0.0	2.4	4.2	4.6	4.7	3.9	5.5
Bal. sheet (% of GDP)	34.4	32.1	30.8	30.2	29.5	28.9	28.2	27.6	26.9	26.3	25.6	25.0	25.0
Monetary aggregates													
M3 (UAHbn)	685.5	691.3	710.4	700.1	715.1	732.5	752.6	784.0	817.0	841.4	867.9	898.7	928.6
M3 (%YoY)	14.7	11.3	8.9	5.7	4.3	6.0	5.9	12.0	14.2	14.9	15.3	14.6	13.7

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

The bond market for bank bonds

This summer regulators reported significant volumes of registered in 2Q12 corporate bond issues, as well as bank bonds. However, the registering of bonds does not mean that an issue was (or will be) made. Last year, local banks placed only 31.6% of the bond issues that were registered with the securities market regulator for local market placement. The situation so far this year has been less successful, as banks have reportedly sold only UAH1.45bn, while registering UAH8.0bn of new issues this year, in addition to bond issues registered last year with issue dates for this year. In the Eurobond market, no Ukrainian bank bonds were issued this year, due to the high volatility on the Eurobond market and the punitive level of yields attached to Ukraine's sovereign Eurobonds, and subsequently, to bonds issued by Ukrainian banks. For the rest of this year, we will see Ukrainian banks' issues focused primarily on the domestic market, raising funds mostly through attracting deposits, and by issuing domestic bonds. As far as the Eurobond market is concerned, the Eurozone debt crisis will dampen new Eurobond issuance by Ukrainian borrowers, especially from banks.

Local-currency bond market

The volume of issues registered in 2Q12 rose compared with 1Q12

The second quarter in 2012 was very active in terms of bond issue registrations, with the total volume of corporate bonds registered in 1H12 rising to UAH15.84bn from UAH6.39bn in 1Q12. But, of the UAH9.46bn of new bonds issues registered by the NSSMC, banks' new issues amounted to only UAH3.50bn, and their share of registered issues fell to 50.49%, from 70.46% in 1Q12. At the same time, the total volume of issues registered was much lower than in 1H11, though UAH0.70bn more of banks' bonds were registered (see table below).

Table 12. Volume of bond issues registered by NSSMC

	2007	2008	2009	2010	1H11	FY11	1H12
Total volume of corporate bonds registered by SSMC (UAHm)	44,480.51	31,346.28	10,107.35	9,493.86	16580.98	35,696.92	15,844.20
incl. bonds issued by banks (UAHm)	18,869.37	7,115.94	0.00	3,150.00	7300	13,893.50	8,000.00
Banks' share of total (%)	42.42	22.70	0.00	33.18	44.03	38.92	50.49

Sources: NSSMC, Investment Capital Ukraine LLC.

FUIB will issue two series of bonds

From the UAH3.5bn of banks bonds registered in 2Q12, UAH1.0bn was registered by FUIB, which plans to issue two series of bonds amounting to UAH0.50bn each. The bonds will be issued with a 3-year maturity and two put-options, at 1-year and 2-years. The coupon rate for the first year is set at 19.0%. The bonds' placement started on 11 June, 2012 for series "E," and on 11 July, 2012 for series "F." Currently, there is no news on the placement results.

Eurobond market

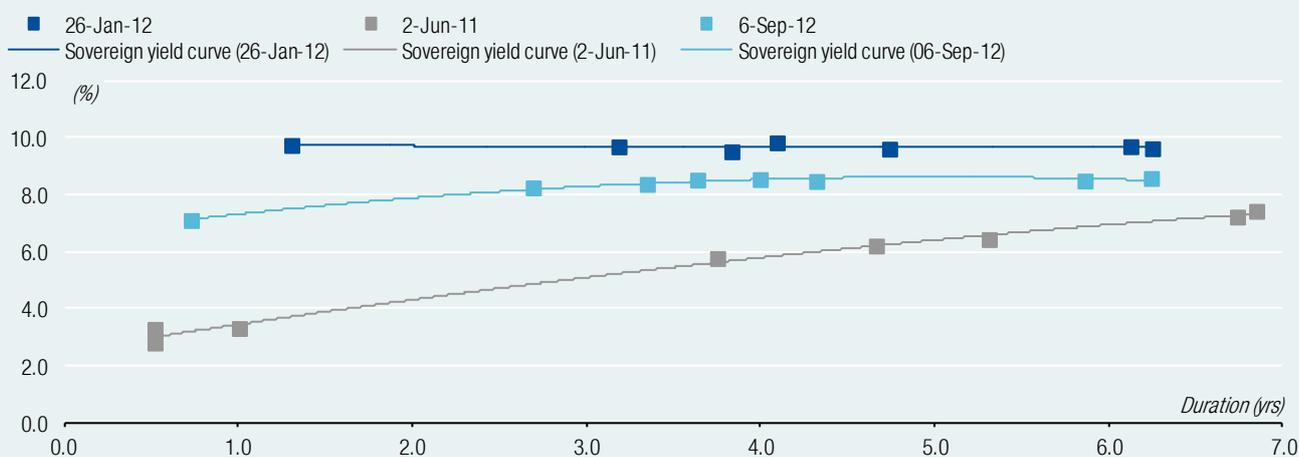
Most of the planned new Eurobond issuances by local banks have been shelved

Deteriorating market conditions for Ukrainian Eurobonds, which began last June and have continued to the present, are the primary reason for the postponement or cancelation of planned Ukrainian sovereign, corporate, and bank Eurobond issues. The Ukrainian Ministry of finance found the right moment for the new Eurobonds issue at the mid of July, but for other issuers, the market is closed, or at the very least, highly volatile and prohibitively expensive.

Sovereign yield curve remains high

The sovereign yield curve, as depicted in the chart below, remains significantly higher than a year ago, yielding almost 8.0%, and the short end of the yield curve has risen substantially, as well. Uncertainty not only over the Greek debt situation, but also on unforeseen debt challenges in the entire Eurozone, has increased market volatility.

Chart 35. Ukraine's sovereign yield curve now (as of 22 August 2012) and then (as of 2 June 2011 and 26 January 2012)



Source: Bloomberg, Investment Capital Ukraine LLC.

The MoF caught the right moment for the new issue

YTM's of Ukrainian Eurobonds were slightly less volatile in 1H12 than in 2H11 (see the left-hand chart below), and in July, the Ministry of Finance of Ukraine caught the right moment to issue expensive, but very needed, Eurobonds, in total amounting to US\$2.0bn. At the time the issue was made, YTM's of Ukrainian Eurobonds were below 9.0%, and the UKRAIN 6.75% '17 was at about 8.70%, which helped fix the coupon rate at 9.25%. But, this interval was very short-lived, and a few days after the issue was made, YTM's rose above 9.0%, and the newly issued Eurobond was quoted close to and above 10.0%. Spreads also widened at the end of July to close to 900bp (see right-hand chart below).

Chart 36. YTM's of Ukrainian sovereign Eurobonds



Source: Bloomberg, Investment Capital Ukraine LLC.

Chart 37. Spreads of 5-year Eurobonds and 5-year CDS



Source: Bloomberg, Investment Capital Ukraine LLC.

Bank bonds' YTM's remain close to 14.0%

While as a result of the above-mentioned economic backdrop, the sovereign Eurobonds' yield-curve remains at the same level as at the beginning of this year, macro conditions for both corporate and banks' Eurobonds issues remain unchanged, and banks' bonds' YTM's are at their usual level of at about 14.0%. The charts below show the YTM's of some banks' bonds at the end of May and at the beginning of September, which slightly declined below 14.0%, but only due to the decline in the sovereign yield-curve. An increase in the EXIMUK 6.8% '12 also likely happened due to the close maturity of this bond, which will come due in

less than in a month, on 4 October, 2012. The current market will provide banks' with resources which should cost them no less than 15.0%, including volatility in the market before issue and new-issue premiums.

Chart 38. Bank Eurobond and sovereign yield curve as of 25 May 2012

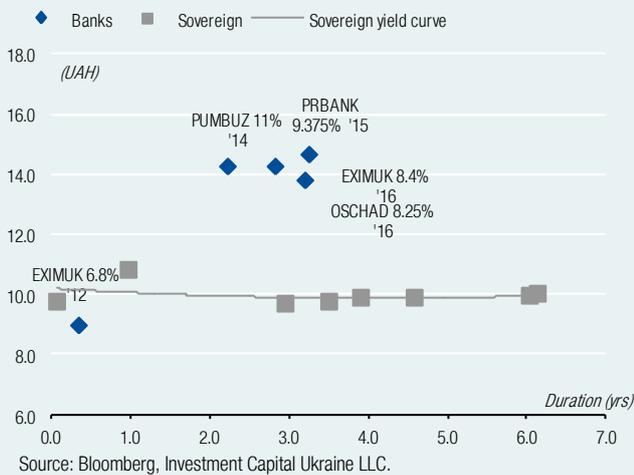
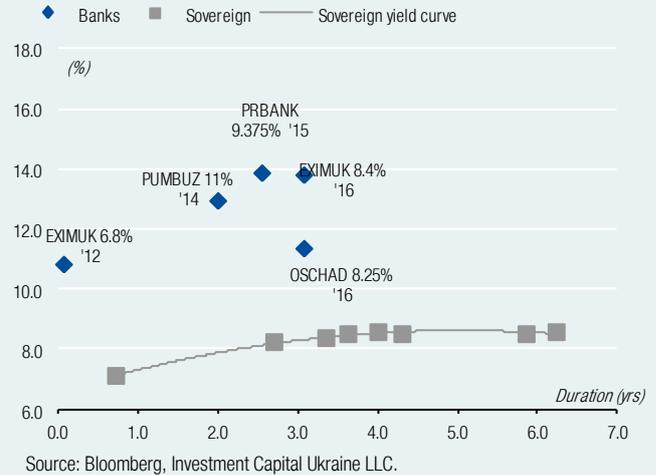


Chart 39. Bank Eurobond and sovereign yield curve as of 6 September 2012



The YTM's of Spanish bonds fell below 6.0% last Friday

At the same time, the above-described improvement in the market was a result of just a few positive developments in Europe and the US, causing an increase in liquidity and a fall in interest rates. The announcement of the new Outright Monetary Transactions programme announced last week by the European Central Bank increased investors' confidence and caused the risk premium to decline. The announcement had a significantly larger impact on European countries, and while Ukrainian Eurobond YTM's declined below 8.0%, the YTM's of 10-year Spanish bonds fell below 6.0% for the first time since 25 May, 2012, to 5.98% from the high of 7.75% seen in July.

Banks' credit analysis pages

The following section of the report provides a credit analysis of the banks that have been issuing bonds to the market. For each bank, we provide a snapshot summary of our view on the bank, historical perspective of the bank's key financial figures, and ratios up to end-1Q12.

A comparative view of the banks

On the following page, we provide our outlook on the credit profiles of the banks whose bonds are traded on and invested in Ukraine's domestic and Eurobond markets. This analysis is based on the latest available 2Q12 filings of the banks' financials under Ukrainian Accounting Standards (UAS). We focus especially on capitalisation and liquidity, along with credit portfolio quality and funding structure. On top of this, we also focus on the banks' shareholder support.

In our opinion, state-owned banks have the highest solvency, due to the government's continuing support, ...

In comparison with our previous banking sector update for 1Q12, banks' operations in 2Q12 did not change our general view on the financial strength and solvency of the biggest Ukrainian state-owned banks, Oschadbank and Ukreximbank. Despite the uncertainty regarding Ukreximbank's future credit portfolio quality and material linkage of both banks to the Ukrainian government (both from the assets and liabilities side), we still believe that the banks' shareholder, the government, will play a key role in supporting these banks with capital and liquidity in a worst-case scenario (effectively a stressful situation in an economy that has been marked by recession and currency devaluation). And yet, we are confident in the ability of the Ukrainian government to maintain such support in case of need by capitalising the banks with government debt into the assets of the banks' books, and in the subsequent monetising of these bonds by the NBU. The large state banks' regulatory capital adequacy ratio stood materially above the sector's average—which was 18%, according to NBU's data—at 31.9% and 25.6%, respectively. These banks also possess material amounts of liquid government bonds on their balance sheets, and will unlikely experience the need for liquid assets during the short-term period in our base case macro scenario.

... while Russian banks are likely to continue their active expansion

Among the foreign-owned banks in Ukraine, we remain optimistic about their further expansion, and hence stable operations, of Subsidiary Bank Sberbank of the Russian Federation, which has continuously revealed only positive signs, including a capital injection from its shareholder, which increased the bank's RCAR to a strong 15.0% level. We also keep Prominvestbank on our list of top local banking names by credit quality (majority owned by Russian VEB) along with the above-mentioned names., despite Prominvestbank's elevated loan-loss provisions and quite thin net income, which shifted to a slight UAH13.2m quarterly net loss during 2Q12. We still remain sufficiently confident in continued support from VTB Bank's strong Russian parent, thus we maintain it on our list of top-credit quality bank names.

With regard to other foreign players, we retain a positive view on relatively small-sized ProCredit Bank, as one of the few banks which shows nearly all its financial ratios at healthy levels. The bank's RCAR stood at a sufficient 15.3%, while its 7.4% ROE and 12.6% net interest margin imply healthy financial performance. The bank's unique business profile as a lender to small and medium enterprises (which are, in our view, underfinanced by the banking sector), especially in Ukraine's less-developed oblasts (regions), has a viable chance to gradually pick up in terms of size, and at the same time maintain stable loan book quality.

A well-conducted merger should materially strengthen Crédit Agricole's position in the Ukrainian banking sector

Among the other banks, we must also make mention of Crédit Agricole, which is not yet on our top list, but we are closely following it, as it has a strong potential to be among the strongest. We are waiting for the end of the merger with the bank's corporate investment sister, for which there are high expectations for an increase in the bank's market share, diversification of its business lines, increased liquidity, and capital margins of safety.

We give a similar reason for omitting another top name on our list, UkrSibbank. While the bank has already incurred the majority of its losses from the financial crisis, we would like to

see at least an additional six months of stable financial performance, along with completion of the bank's restructuring process, into an entity with a more compact structure, particularly as its P&L figures are currently pressured due to a high cost-to-income ratio (it was above 100% as of end-2Q12).

FUIB's strong IFRS and UAS financials allowed it to remain among the strongest Ukrainian banks

Among the privately-held Ukrainian banks, we still include First Ukrainian International Bank (SCM group) on our list, which continued to reveal sufficiently strong results both under UAS and IFRS. Despite its relatively higher non-performing loans, which stood at 20%, according to the bank's 2Q12 IFRS financials, the bank shows a solid 15.5% of RCAR, along with a competitive 7.8% ROE and 7.6% net interest margin. As of end-2Q12, the bank also reported a nearly ideal loan-to-deposit ratio level of 100%, which is mostly an exception among Ukrainian banks. Its historically strong liquidity also breathes confidence into its ability to withstand a wave of deposits outflow, in the event of such a development in the sector under a stressful macro scenario.

Table 13. Key financial figures and ratios of the Ukrainian banks that have Eurobonds and local currency bonds outstanding. Data is based on UAS financials as of end 2Q12.

	Privat- bank	Oschad- bank	Ukrexim- bank	Promin- vestbank	VTB Bank (Ukraine)	FUIB	UkrSib- bank	Nadra Bank	Delta Bank	Finance and Credit Bank	SBRF	VAB	Credit Dnepr	Credit Agricole	Megabank	ProCredit
Balance sheet figures (UAHm)																
Assets	161,740.0	84,732.8	75,542.6	40,998.2	38,170.0	31,459.2	28,648.4	24,544.3	29,043.9	22,188.5	20,252.6	13,244.3	8,546.8	7,354.1	4,664.3	2,411.4
Net loans	108,394.6	50,623.4	42,397.5	30,587.1	24,986.4	16,152.8	15,936.2	19,560.0	15,916.8	18,221.8	15,020.6	6,743.9	5,370.1	5,781.0	3,422.9	1,701.1
Equity	17,260.4	17,795.7	17,727.6	5,086.0	3,493.2	4,093.6	2,614.9	4,029.4	2,923.5	1,779.9	2,871.7	1,048.4	597.4	731.1	661.5	264.8
Deposits	102,413.2	37,060.8	31,909.0	14,865.0	11,135.4	16,649.6	18,328.3	6,595.4	13,374.5	11,299.6	9,112.3	8,401.0	5,288.9	4,584.0	2,473.2	1,573.8
Quarterly P&L																
Net interest income	1,789.0	1,171.7	842.5	387.1	500.8	397.7	502.8	119.7	448.7	108.1	290.0	41.3	34.3	70.9	29.0	58.9
Net commission income	1,058.9	245.0	123.5	70.5	157.8	88.2	127.2	32.6	358.4	76.2	57.5	66.8	19.5	66.2	30.2	19.3
Operating income (before LLP)	3,010.7	1,560.2	1,109.7	394.1	739.5	482.0	745.3	751.6	819.8	183.8	361.3	114.4	67.5	170.6	61.9	83.7
Operating expense	(1,316.0)	(779.4)	(311.8)	(315.6)	(295.7)	(236.2)	(833.8)	(1,265.6)	(534.9)	(176.3)	(211.7)	(101.4)	(66.7)	(140.9)	(48.4)	(64.0)
Loan-loss provisions (LLP)	(1,280.9)	(704.0)	(747.4)	(92.1)	(641.6)	(115.6)	100.1	513.4	(259.9)	(5.1)	5.0	(448.3)	(0.1)	(22.3)	(8.2)	(20.7)
Net income	323.4	50.1	23.9	(13.2)	(202.3)	89.2	17.7	0.2	25.9	0.94	96.7	(363.6)	0.4	3.6	3.5	(0.9)
Last 12-month period P&L																
Net interest income	8,529.1	4,842.8	3,580.1	1,402.4	2,036.6	1,755.9	2,228.7	(390.0)	1,366.5	368.3	1,041.5	92.0	183.2	306.3	119.8	239.9
Net commission income	4,086.9	976.3	517.0	282.5	490.9	368.4	518.2	141.0	1,026.6	378.2	204.1	247.7	68.7	221.3	118.3	74.0
Operating income (before LLP)	13,969.1	6,257.1	4,564.5	2,224.7	2,682.0	2,186.3	3,698.0	368.7	3,651.1	798.4	1,347.1	354.5	302.3	657.7	263.0	337.1
Operating expense	(5,354.0)	(2,880.5)	(1,142.1)	(1,661.6)	(1,362.5)	(1,101.1)	(5,063.9)	(1,896.8)	(1,086.5)	(738.8)	(783.0)	(489.2)	(279.0)	-610.5	(203.7)	(252.7)
Loan-loss provisions (LLP)	(7,128.4)	(2,568.0)	(3,301.0)	(545.7)	(1,642.9)	(709.5)	(1,562.9)	1,528.4	(1,735.0)	(148.8)	(224.8)	(684.8)	(24.7)	-10.7	(48.3)	(55.2)
Net income	1,233.9	512.0	95.4	17.9	(310.9)	295.6	(3,110.2)	2.1	467.8	(81.0)	337.6	(723.1)	2.2	24.9	7.6	19.5
Growth rates (%YoY)																
Assets	19.2	17.0	-5.6	18.5	6.4	61.3	-38.1	9.2	77.4	-9.10	71.1	71.2	31.6	13.1	29.5	-6.88
Gross loans	11.7	21.2	-3.3	20.2	-3.8	35.7	-47.5	-4.6	50.1	1.6	65.3	37.3	19.7	25.9	24.8	-17.0
Deposits (total)	23.7	1.5	10.7	-12.6	13.7	107.4	1.5	14.0	67.3	-1.3	47.9	91.6	35.6	148.3	46.6	11.3
Equity	36.1	2.3	0.6	10.7	-9.8	37.9	-41.5	1.2	199.4	-4.3	143.8	56.1	-0.5	-2.6	2.0	3.4
Key ratios (%)																
RCAR (R2 by NBU)	11.4	25.6	31.9	12.1	11.6	15.5	18.7	11.1	10.3	10.3	15.0	11.4	13.1	12.5	18.5	15.3
Equity/Assets	10.7	21.0	23.5	12.4	9.2	13.0	9.1	16.4	10.1	8.0	14.2	7.9	7.0	9.9	14.2	11.0
Liquid assets/Assets	18.6	10.4	10.9	7.1	9.6	13.9	24.0	6.3	14.1	5.2	7.7	8.0	5.5	14.3	10.1	10.0
Current liquidity (% , R5 by NBU)	0.0	66.0	83.6	61.1	94.7	53.5	72.8	42.7	63.6	64.0	61.9	58.1	82.5	44.9	85.2	53.9
Net loans/Deposits	105.8	136.6	132.9	205.8	224.4	97.0	86.9	296.6	119.0	161.3	164.8	80.3	101.5	126.1	138.4	108.1
Cost-to-income ratio	38.3	46.0	25.0	74.7	50.8	50.4	136.9	514.5	29.8	92.5	58.1	138.0	92.3	92.8	77.5	75.0
Net % margin	8.1	7.3	6.0	4.4	6.8	7.6	10.4	Not app	7.7	2.0	6.7	1.2	2.6	5.6	3.2	12.6
ROAA	0.8	0.7	0.1	0.0	-0.8	0.9	-9.3	0.0	2.0	-0.4	1.9	-6.8	0.03	0.4	0.2	0.8
ROAE	7.3	2.9	0.5	0.4	-8.9	7.8	-123.2	0.1	21.4	-4.5	15.6	-102.5	0.4	3.3	1.2	7.4
Nil/operating income	61.1	77.4	78.4	63.0	75.9	80.3	60.3	-105.8	37.4	46.1	77.3	25.9	60.6	46.6	45.6	71.2
LLR/Gross loans	17.7	15.6	17.1	6.3	19.5	17.8	12.7	18.4	22.1	8.7	9.0	22.6	8.3	7.8	5.8	5.5

Source: Company data, Investment Capital Ukraine LLC.

Country

Ukraine

Privatbank

Sector

Banks: Commercial banking

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

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

Privatbank's 2Q12 UAS financials revealed quite strong profitability figures, mostly driven by materially decreased loan-loss provisions. Considering that, conversely to Privatbank, the Ukrainian banking sector increased its provisioning charge during the 2Q12 by 18% QoQ, and that we still view Privatbank's credit portfolio with caution regarding the bank's related party transactions, we are skeptical with regard to assessing Privatbank's UAS financials, taking into account the possibility of further credit portfolio impairment at the bank, with an increase in allocation to the bank's loan-loss reserves, along with erosion of profitability.

Capitalisation: Changed insignificantly, still close to cautionary. Privatbank's regulatory capital adequacy ratio changed immaterially, being at 11.4% as of end-2Q12. Yet, the key source for the bank's growth in capital was its retained earnings, which were supported by a material UAH0.6bn in net income during 1H12.

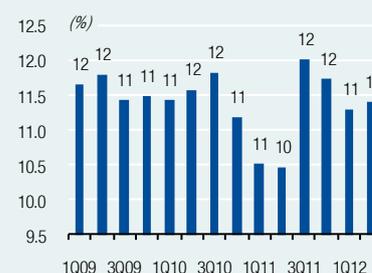
Liquidity: Remains high, as one of the bank's key advantages in terms of its margin of safety. Privatbank's cash and cash equivalents were at a sufficient 18.6% level relative to its total liabilities, presenting more than a sufficient cash pillow.

Assets' quality: Without any particular trends. During 2Q12, Privatbank increased its gross credit portfolio by 2.7%, to UAH131.7bn, mostly through growth in the corporate segment, which totaled UAH105.4bn, while also slightly increasing gross loans to households. Loan-loss reserves increased by 5.1%, to UAH23.4bn, showing an 17.7% credit portfolio coverage, or a slight increase of 0.4ppt QoQ. Considering the still-significant amounts of sub-standard credit operations, which amounted to 45.4% of the total credit operations as of end-2Q12, we still cannot accurately assess the bank's credit portfolio quality as being unambiguously high-quality.

P&L: Strong, but with a slight fall YoY. The bank finished the 2Q12 with UAH323.4m in net income, versus UAH267.0m in 1Q12, decreasing its annualised ROE by 0.7ppt, to 7.3%. The bank's net interest margin and cost-to-income ratio changed immaterially, at a sufficiently strong 8.1% and 38.3%, respectively. Privatbank's loan-loss provisions fell by 27.7% QoQ, to UAH1.3bn, while core revenues grew by 2.4%, to UAH2.8bn.

Bank's funding: Privatbank's clients' deposits grew by 2.6%, to UAH102.4bn, mostly because of deposits from households, which amounted to a significant UAH78.3bn as of quarter-end, or 54.2% of the bank's total liabilities.

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2010	2011	1Q11	2Q12
	IFRS	IFRS	UAS	UAS
Financials				
Assets	121,916	140,931	153,655	161,740
Loans	89,694	107,430	105,936	108,395
Deposits	86,521	104,209	99,832	102,413
Equity	14,169	19,185	17,006	17,260
Net % income	6,189	10,079	8,541	8,529
Net com income	2,734	2,729	4,014	4,087
Operating income	10,535	13,486	13,962	13,969
PPI	4,919	7,166	8,755	8,615
LLP	(3,408)	(5,627)	(7,296)	(7,128)
Net income	1,440	1,493	1,258	1,234
Ratios (%)				
Tier 1 ratio	14.3	14.8	N/A	N/A
CAR	16.1	14.9	11.3	11.4
Equity-to-assets	11.6	13.6	11.1	10.7
Loan-to-deposit	103.7	103.1	106.1	105.8
Cash/liabilities	15.8	15.2	15.2	18.6
ROAA	1.4	1.1	0.9	0.8
ROAE	11.0	9.0	8.0	7.3
Net % margin	7.4	9.6	8.3	8.1
NII-to-op.income	58.7	74.7	61.2	61.1
Cost-to-income	53.3	46.9	37.3	38.3
LLR	13.2	12.9	17.3	17.7
NPLs	7.3	4.3	N/A	N/A
NPL coverage	180.2	301.4	N/A	N/A

Notes: P&L figures and ratios are based on 12-month annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively; NII – Net interest income; LLR – loan-loss reserves; NPL – non-performing loans (>90 days overdue).

Sources: Bank data, Investment Capital Ukraine LLC.

Table 14. List of outstanding Eurobonds issued by Privatbank, pricing as of 10 September, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
RBANK 9.375% due 15	B1/--/B	USD	200	90.688	13.202	1,247	-1,083
RBANK 5.799% due 16	B1/--/--	USD	150	72.487	16.711	1,488	75
UALF FRN % due 18 ³	WR/--/PIF	USD	18.7	N/A	N/A	N/A	N/A
UALF FRN 12% due 18 ³	NR/--/--	USD	5.5	N/A	N/A	N/A	N/A
UALF % due 18	WR/--/PIF	USD	85.8	N/A	N/A	N/A	N/A
UMLF FRN% due 31 ³	B3/--/B	USD	45.9	N/A	N/A	N/A	N/A
UMLF 10% due 31	NR/--/--	USD	9	N/A	N/A	N/A	N/A
UMLF FRN% due 31 ³	WR/--/PIF	USD	134.1	N/A	N/A	N/A	N/A
RBANK 9.375% due 15	B1/--/B	USD	200	89.063	13.886	1,311	-1,083

Notes: [1] spread to US Treasury note of similar maturity; [2] spread to Ukraine sovereign Eurobond of similar maturity; [3] floating rate note

Sources: Company data.

Privatbank: IFRS financials – key financials and ratios

Table 15. Key financials derived from bank's IFRS financial reports

	2003	2004	2005	2006	2007	2008	2009	2010	2011
P&L (YTD)	(UAHm)								
Net interest income	623	662	1,212	2,374	4,013	6,422	7,254	6,189	10,079
Net fee & commission income	339	466	674	952	1,312	1,807	1,887	2,734	2,729
Operating income	1,103	1,587	2,482	3,519	5,416	12,060	12,460	10,535	13,486
Pre-provision income (PPI)	418	661	1,018	1,354	2,180	7,045	7,541	4,919	7,166
Loan-loss provisions (LLP)	(269)	(378)	(609)	(497)	(666)	(4,507)	(5,497)	(3,408)	(5,627)
Pre-tax income	153	264	380	857	1,514	2,538	2,044	1,511	1,539
Net income (NI)	99	178	265	616	1,122	1,987	1,329	1,440	1,493
Balance sheet	(UAHm)								
Cash & balances with central bank	1,020	3,011	4,313	3,865	7,952	9,392	11,455	19,266	21,363
Due from banks	348	1,883	1,133	613	1,328	2,662	4,069	5,330	4,648
Loans to customers	7,597	9,410	15,675	26,967	43,070	68,074	66,597	89,694	107,430
Investment securities	236	0	720	484	1,164	4	31	1,161	804
Property, equipment and intangible assets	427	902	1,171	1,763	2,281	3,539	2,992	3,009	3,365
Other assets	45	647	309	337	475	3,849	4,545	3,456	3,321
Total assets	9,674	15,853	23,321	34,029	56,270	87,520	89,689	121,916	140,931
Due to banks	257	760	1,684	4,266	6,240	6,593	2,319	3,860	2,453
Due to central bank	170	831	0	0	0	3,554	8,310	7,312	5,825
Customer accounts	7,583	11,854	18,249	23,711	36,003	56,970	57,133	86,521	104,209
Wholesale borrowings	525	524	814	925	6,359	7,370	6,112	6,161	5,600
Subordinated debt	49	92	130	926	937	1,333	1,438	1,379	1,418
Total equity	812	1,347	1,887	3,248	5,406	9,830	12,050	14,169	19,185
Total liabilities & equity	9,674	15,853	23,321	34,029	56,270	87,520	89,689	121,916	140,931

Sources: Company data.

Table 16. Key financial ratios derived from bank's IFRS financial reports

		2003	2004	2005	2006	2007	2008	2009	2010	2011
Growth rates (%YoY)										
Assets	(%YoY)	N/A	63.9	47.1	45.9	65.4	55.5	2.5	35.9	15.6
Loans	(%YoY)	N/A	23.9	66.6	72.0	59.7	58.1	-2.2	34.7	19.8
Deposits	(%YoY)	N/A	56.3	53.9	29.9	51.8	58.2	0.3	51.4	20.4
Equity	(%YoY)	N/A	65.8	40.1	72.2	66.4	81.8	22.6	17.6	35.4
Net interest income	(%YoY)	N/A	6.2	83.0	96.0	69.0	60.0	13.0	-14.7	62.9
Net commission income	(%YoY)	N/A	37.3	44.8	41.2	37.8	37.7	4.4	44.9	-0.2
Operating income	(%YoY)	N/A	43.9	56.4	41.8	53.9	122.7	3.3	-15.4	28.0
Balance sheet ratios										
Liquid assets/Assets	(%)	10.5	19.0	18.5	11.4	14.1	10.7	12.8	15.8	15.2
Liquid assets/Liabilities	(%)	11.5	20.8	20.1	12.6	15.6	12.1	14.8	17.9	17.5
Due from banks/Due to banks	(x)	0.8	1.2	0.7	0.1	0.2	0.3	0.4	0.5	0.6
Current ratio	(x)	6.3	6.4	3.7	0.4	0.5	0.6	0.9	1.0	0.9
Equity/Assets	(%)	8.4	8.5	8.1	9.5	9.6	11.2	13.4	11.6	13.6
Gross loans/Deposits	(%)	111.9	89.4	95.8	122.9	127.4	133.8	138.6	119.4	118.4
Net loans/Deposits	(%)	100.2	79.4	85.9	113.7	119.6	119.5	116.6	103.7	103.1
Wholesale borrowings/Liabilities (%)	(%)	5.9	3.6	3.8	3.0	12.5	9.5	7.9	5.7	4.6
Profitability & Earning quality										
ROAA	(%)	N/A	1.4	1.4	2.1	2.5	2.8	1.5	1.4	1.1
ROAE	(%)	N/A	16.5	16.4	24.0	25.9	26.1	12.1	11.0	9.0
Net interest income/Operating income	(%)	N/A	41.7	48.8	67.5	74.1	53.3	58.2	58.7	74.7
Net commission income/Operating income	(%)	N/A	29.3	27.2	27.1	24.2	15.0	15.1	26.0	20.2

Table 16. Key financial ratios derived from bank's IFRS financial reports

		2003	2004	2005	2006	2007	2008	2009	2010	2011
Other income/Operating income	(%)	N/A	29.0	24.0	5.5	1.7	31.8	26.6	15.3	5.0
Net interest margin	(%)	N/A	6.8	8.4	10.4	10.9	11.0	10.3	7.4	9.6
Cost-to-income ratio	(%)	N/A	58.3	59.0	61.5	59.7	41.6	39.5	53.3	46.9
LLP/Operating income	(%)	N/A	23.8	24.5	14.1	12.3	37.4	44.1	32.3	41.7
Assets quality										
NPL/Gross loans	(%)	3.3	4.5	2.8	2.7	3.4	4.7	11.6	7.3	4.3
NPL coverage	(%)	322.3	247.3	368.6	271.3	178.5	224.8	136.6	180.2	301.4
LLR/Gross loans	(%)	10.5	11.2	10.3	7.4	6.1	10.7	15.9	13.2	12.9
LLP/PPI	(%)	N/A	57.2	59.8	36.7	30.6	64.0	72.9	69.3	78.5
Earning power										
Recurring earning power	(%)	N/A	5.2	5.2	4.7	4.8	9.8	8.5	4.6	5.5
PPI/Average total capital funds	(%)	N/A	61.2	63.0	52.7	50.4	92.5	68.9	37.5	43.0
Interest expense/Interest income	(%)	N/A	58.0	51.8	43.3	42.9	44.7	50.1	59.1	48.1
Interest income/Average interest earning assets	(%)	N/A	16.2	17.4	18.4	19.1	20.0	20.6	18.1	18.6
Interest expense/Average interest bearing liabilities	(%)	N/A	8.1	7.5	7.1	7.6	8.3	9.7	9.9	8.3
Net spread	ppt	N/A	8.1	10.0	11.2	11.5	11.7	10.9	8.2	10.3
Income tax / Pretax income	(%)	N/A	32.5	30.2	28.1	25.9	21.7	35.0	4.7	3.0
Efficiency										
Non-interest expense/Average assets	(%)	N/A	10.5	10.9	9.6	9.0	13.7	12.0	8.8	9.4
Personnel expense/Average assets	(%)	N/A	3.0	3.7	3.7	3.5	3.5	2.5	2.6	2.7
Personnel expense/Operating income	(%)	N/A	23.9	28.8	30.0	28.8	20.6	17.4	25.9	26.2
Personnel expense/Non-interest expense	(%)	N/A	28.2	33.7	38.3	38.4	25.3	20.4	29.3	28.5
Funding structure										
Customer accounts/Total funding base	(%)	80.7	76.9	80.2	71.7	65.5	66.5	65.4	72.5	75.1
Net loans/Total funding base	(%)	80.8	61.1	68.9	81.5	78.4	79.5	76.2	75.1	77.5
Average net loans/Average customer accounts	(%)	N/A	87.5	83.3	101.6	117.3	119.5	118.0	108.8	103.4
Customer accounts/Shareholders' equity	(%)	933.5	880.1	967.3	730.0	666.0	579.6	474.1	610.6	543.2
Other ratios and indicators										
Retail share in loan book	(%)	N/A	32.2	40.0	44.2	39.1	40.4	30.4	22.2	21.5
Personnel expense per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	91.2	74.1	92.2	N/A
Operating income per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	442.2	425.0	355.9	N/A

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

Sources: Bank data, Investment Capital Ukraine LLC..

Privatbank: Key quarterly UAS financials and ratios

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

	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	97,468.6	104,398.4	113,437.2	128,360.5	135,740.8	141,362.9	145,118.5	153,655.1	161,740.0
Cash and cash equivalents	15,702.9	19,140.2	19,725.9	16,037.5	20,152.1	20,314.7	21,770.9	22,188.7	26,905.6
Gross loans	85,436.6	90,976.9	101,855.2	111,470.1	118,003.4	123,697.1	122,922.2	128,161.9	131,660.0
Gross business loans	66,111.3	71,647.7	81,286.5	89,856.7	94,241.7	97,538.9	96,701.7	102,044.9	105,358.6
Gross households loans	19,325.4	19,329.2	20,568.6	21,613.4	23,761.7	26,158.2	26,220.5	26,117.0	26,401.9
Loan loss reserves (LLR)	15,001.7	15,327.9	16,469.9	17,278.3	18,830.9	20,927.5	22,130.0	22,225.9	23,365.9
Deposits	61,878.0	67,746.7	75,182.8	81,532.0	89,487.6	92,095.7	91,841.8	99,832.0	102,413.2
Business deposits	16,773.4	18,230.5	20,412.7	20,309.5	22,307.6	23,246.5	21,592.9	23,730.0	24,065.0
Households deposits	45,104.6	49,516.2	54,770.0	61,222.5	67,180.0	68,849.2	70,248.8	76,101.9	78,348.2
Total equity	10,890.0	11,502.3	11,880.0	12,326.1	12,683.6	16,288.3	16,747.0	17,005.7	17,260.4
Quarterly P&L									
Net interest income	973.3	1,323.0	1,873.3	1,227.6	1,801.3	2,253.1	2,658.7	1,828.4	1,789.0
Net commission income	568.9	735.6	883.6	780.0	986.4	1,055.5	1,019.5	953.1	1,058.9
Operating income (before LLP)	1,870.1	2,091.8	3,048.5	2,182.6	3,003.6	3,665.6	3,987.2	3,305.6	3,010.7
Operating expense	(924.5)	(1,057.5)	(1,135.8)	(1,083.1)	(1,169.1)	(1,316.9)	(1,512.5)	(1,208.7)	(1,316.0)
Loan-loss provisions (LLP)	(488.0)	(672.4)	(1,488.6)	(702.6)	(1,448.3)	(2,118.1)	(1,957.4)	(1,772.0)	(1,280.9)
Net income	415.7	361.9	377.1	434.7	347.7	197.4	446.1	267.0	323.4
Last 12-month period P&L									
Net interesting income	5,744.8	5,321.3	5,802.6	5,397.1	6,225.1	7,155.2	7,940.6	8,541.5	8,529.1
Net commission income	2,591.5	2,624.2	2,809.0	2,968.2	3,385.7	3,705.6	3,841.4	4,014.5	4,086.9
Operating income (before LLP)	9,311.4	8,869.3	9,541.3	9,193.0	10,326.5	11,900.3	12,839.0	13,962.0	13,969.1
Operating expense	(3,559.2)	(3,693.1)	(3,906.8)	(4,200.9)	(4,445.6)	(4,704.9)	(5,081.6)	(5,207.2)	(5,354.0)
Loan-loss provisions (LLP)	(4,630.5)	(3,704.4)	(4,170.0)	(3,351.6)	(4,311.9)	(5,757.6)	(6,226.5)	(7,295.8)	(7,128.4)
Net income	1,276.4	1,521.9	1,370.2	1,589.4	1,521.4	1,356.8	1,425.8	1,258.2	1,233.9
Growth rates (%YoY)									
Assets	22.6	28.1	31.8	39.6	39.3	35.4	27.9	19.7	19.2
Gross loans	21.4	23.7	35.8	37.3	38.1	36.0	20.7	15.0	11.7
Deposits (by businesses)	3.0	10.7	31.6	16.1	33.0	27.5	5.8	16.8	7.9
Deposits (by households)	47.0	58.7	59.6	62.1	48.9	39.0	28.3	24.3	16.6
Deposits (total)	31.7	42.1	50.9	47.6	44.6	35.9	22.2	22.4	23.7
Total Equity	27.0	32.4	15.7	17.6	16.5	41.6	41.0	38.0	36.1
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.6	11.8	11.2	10.5	10.5	12.0	11.7	11.3	11.4
Equity/Assets	11.2	11.0	10.5	9.6	9.3	11.5	11.5	11.1	10.7
(Equity + Subor. debt)/Assets	12.4	12.2	11.6	10.5	10.2	12.4	12.4	11.9	11.4
Cash & cash equivalents/Liabilities	18.1	20.6	19.4	13.8	16.4	16.2	17.0	16.2	18.6
Current liquidity (R5 by NBU)	62.9	67.5	75.2	54.1	54.7	52.7	77.1	58.9	N/A
Gross loans/Deposits	138.1	134.3	135.5	136.7	131.9	134.3	133.8	128.4	128.7
Net loans/Deposits	113.8	111.7	113.6	115.5	110.8	111.6	109.7	106.1	105.8
Cost-to-income ratio	38.2	41.6	40.9	45.7	43.1	39.5	39.6	37.3	38.3
Net interest margin	8.1	7.2	7.3	6.3	6.8	7.3	7.9	8.3	8.1
ROAA	1.4	1.6	1.3	1.4	1.3	1.0	1.0	0.9	0.8
ROAE	12.7	14.1	12.2	13.6	12.6	10.2	9.8	8.0	7.3
NII/Operating income	61.7	60.0	60.8	58.7	60.3	60.1	61.8	61.2	61.1
Core income/Operating expense	234.2	215.1	220.4	199.1	216.2	230.8	231.9	241.1	235.6
LLR/Gross loans	17.6	16.8	16.2	15.5	16.0	16.9	18.0	17.3	17.7

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

Privatbank: Charts on bank's key credit metrics

Chart 40. Bank's capitalisation



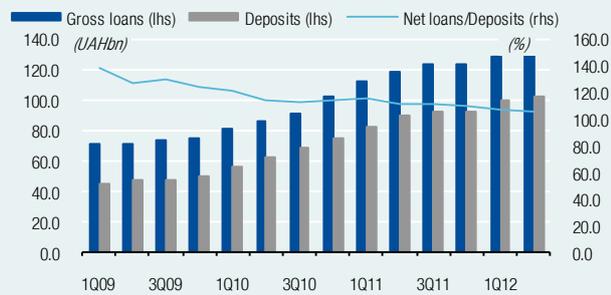
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 41. Liquidity



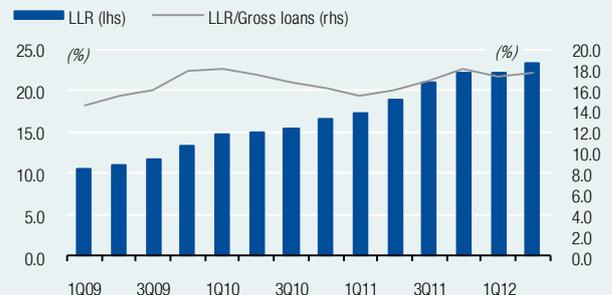
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 42. Loans and deposits



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

Chart 43. Loan loss reserves history



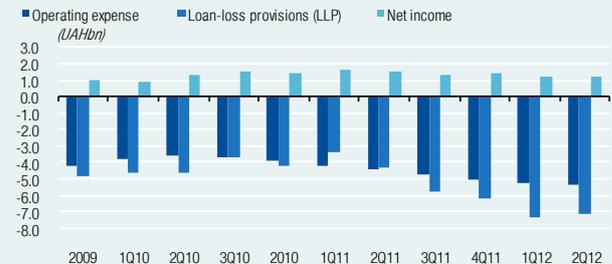
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 44. Income structure (annualised basis)



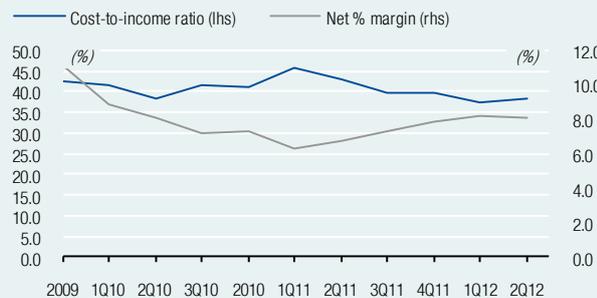
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 45. Expense and net income (annualised basis)



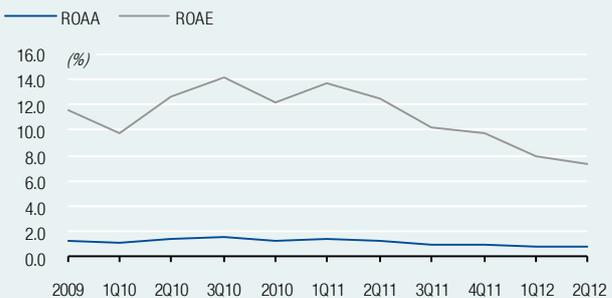
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 46. Financial performance ratios



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

Chart 47. Financial performance ratios



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

Country

Ukraine

Oschadbank

Sector

Banks: Commercial banking

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

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

As both Moody's and Fitch have scrutinised the Ukrainian banks' exposure to the government, Oschadbank's material growth in state securities run the risk of being negatively viewed. Despite this, we see very few risks in such instruments with regard to the bank's stability, unless they pressure interest income. From other perspectives, we view the bank's 2Q12 UAS financials as quite strong, in addition to continued reliable government support.

Capitalisation: Down, but still excessive. During 2Q12, the bank's regulatory capital adequacy ratio (R2 by the NBU) fell 3.0ppt QoQ, to 25.6%. The decrease in the bank's RCAR was mostly due to the growth of risk-weighted assets by approximately UAH7.2bn, according to our calculations.

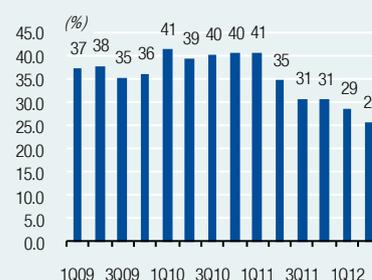
Liquidity: Decreased, but still sufficient. The bank's cash-to-liabilities ratio decreased 2.6ppt, to 10.4% as of end-2Q12. During the quarter, Oschadbank materially increased its holdings in securities, most likely government debt. Held-for-sale securities grew a substantial 36.0%, or UAH4.6bn, to UAH17.6bn (with new securities largely denominated in local currency, according to our calculations). Also taking into account the reliable backing from the government, we see no potential for problematic issues for the bank's liquidity in the short term.

Assets' quality: Relatively stable, but with an increase in loan-loss provisioning. Oschadbank has shown a 4.0% growth in its gross credit portfolio, to UAH60.0bn, mostly through growth in the business segment, which amounted to UAH55.6bn, while loan-loss reserves increased 8.0%, to UAH9.3bn, or 15.6% of loan coverage (0.6ppt higher than in 1Q12).

P&L: Weaker, but still quite decent. The bank's quarterly net income for 2Q12 was UAH50.1m, versus UAH178.3m in 1Q12, bringing it to UAH512.0m on an annualised basis, or down 12.1% QoQ. Oschadbank materially increased its loan-loss provisions, from UAH323.4m in 1Q12 to UAH704.0m in the 2Q, while the bank's core income fell 3.4% QoQ, to UAH1.4bn in 2Q12. Net interest margin declined 0.1ppt, to 7.3%, while the cost-to-income ratio grew 1.5ppt, to a respectable 46.0% (both ratios are calculated on an annualised basis).

Bank's funding: An increase in securities held, described above, was accompanied by growth in due-to other banks, up UAH2.8bn, to UAH19.0bn, which indicates possible NBU injections. Client deposits rose 5.5% QoQ, to UAH37.1bn, as a result of growth in households' deposits, which were at UAH29.0bn as of quarter-end.

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2010	2011	1Q12	2Q12
	IFRS	IFRS	UAS	UAS
Financials				
Assets	57,556	73,856	78,419	84,733
Loans	42,572	50,460	49,035	50,623
Deposits	24,552	32,600	35,120	37,061
Equity	15,984	17,358	17,951	17,796
Net % income	4,143	4,601	4,713	4,843
Net com income	908	936	958	976
Operating income	5,229	5,852	6,365	6,257
PPI	3,231	3,275	3,380	3,377
LLP	(2,402)	(1,850)	(2,484)	(2,568)
Net income	458	1,092	583	512
Ratios (%)				
Tier 1 ratio	30.7	26.2	N/A	N/A
CAR	35.6	30.3	28.6	25.6
Equity-to-assets	27.8	23.5	22.9	21.0
Loan-to-deposit	173.4	154.8	139.6	136.6
Cash/liabilities	4.7	3.0	13.2	10.4
ROAA	0.8	1.7	0.8	0.7
ROAE	2.9	6.6	3.3	2.9
Net % margin	7.9	7.6	7.4	7.3
NII-to-op.income	79.2	78.6	74.0	77.4
Cost-to-income	38.2	44.0	44.5	46.0
LLR	13.3	14.2	15.0	15.6
NPLs	6.6	7.1	N/A	N/A
NPL coverage	202.2	200.2	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively; NII – Net interest income; LLR – loan-loss reserves; NPL – non-performing loans (90+ days overdue).

Sources: Bank data, Investment Capital Ukraine LLC.

Table 18. List of outstanding Eurobonds issued by Oschadbank, pricing as of 10 September, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
ISCHAD 8.25% due 16	B2/--/B	USD	500	91.813	11.144	1,029	353

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

Sources: Company data.

Oschadbank: IFRS financials – key financials and ratios

Table 19. Key financials derived from bank's IFRS financial reports

	2007	2008	2009	2010	2011
P&L (YTD)					
	(UAHm)				
Net interest income	875.2	1,473.4	4,135.8	4,143.5	4,601.3
Net fee & commission income	538.2	714.6	851.9	908.0	936.4
Operating income	1,489.3	2,446.1	5,149.3	5,229.5	5,851.9
Pre-provision income (PPI)	327.7	739.4	3,352.5	3,231.4	3,275.4
Loan-loss provisions (LLP)	(72.4)	(645.2)	(3,164.3)	(2,401.9)	(1,849.6)
Pre-tax income	257.4	86.1	187.3	827.0	1,410.0
Net income (NI)	182.3	39.3	109.0	457.7	1,092.0
Balance sheet					
	(UAHm)				
Cash & balances with central bank	1,604.3	2,569.2	2,278.4	2,724.3	2,216.0
Due from banks	2,586.3	2,185.2	2,956.3	2,932.3	9,721.9
Loans to customers	8,403.6	33,891.5	45,716.3	42,572.2	50,459.9
Investment securities	2,691.0	15,712.5	4,012.4	6,558.1	8,657.4
Property, equipment and intangible assets	1,299.3	1,940.3	1,988.9	2,273.7	2,466.1
Other assets	42.4	66.3	438.3	495.8	335.2
Total assets	16,626.8	56,365.0	57,390.5	57,556.2	73,856.5
Due to banks	5.5	261.5	91.6	195.3	1,476.8
Due to central bank	0.0	21,977.7	15,931.2	15,442.1	14,974.1
Customer accounts	14,092.8	17,492.9	24,672.9	24,551.5	32,600.5
Wholesale borrowings	0.0	501.5	446.1	511.1	5,909.3
Subordinated debt	519.5	793.3	824.6	823.4	827.4
Total equity	1,841.3	15,120.7	15,342.9	15,984.5	17,357.5
Total liabilities & equity	16,626.8	56,365.0	57,390.5	57,556.2	73,856.5

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

Sources: Company data.

Table 20. Key financial ratios derived from bank's IFRS financial reports

	2007	2008	2009	2010	2011
Growth rates (%YoY)					
Assets	(%YoY)	N/A	239.0	1.8	28.3
Loans	(%YoY)	N/A	303.3	34.9	18.5
Deposits	(%YoY)	N/A	24.1	41.0	32.8
Equity	(%YoY)	N/A	721.2	1.5	8.6
Net interest income	(%YoY)	N/A	68.4	180.7	11.0
Net commission income	(%YoY)	N/A	32.8	19.2	3.1
Operating income	(%YoY)	N/A	64.2	110.5	11.9
Balance sheet ratios					
Liquid assets/Assets	(%)	9.6	4.6	4.0	3.0
Liquid assets/Liabilities	(%)	10.9	6.2	5.4	3.9
Due from banks/Due to banks	(x)	473.9	0.1	0.2	0.6
Current ratio	(x)	0.7	1.9	0.9	1.4
Equity/Assets	(%)	11.1	26.8	26.7	23.5
Gross loans/Deposits	(%)	63.2	199.9	202.0	180.5
Net loans/Deposits	(%)	59.6	193.7	185.3	154.8
Wholesale borrowings/Liabilities (%)	(%)	0.0	1.2	1.1	10.5
Profitability & Earning quality					
ROAA	(%)	N/A	0.1	0.2	1.7
ROAE	(%)	N/A	0.5	0.7	6.6

Table 20. Key financial ratios derived from bank's IFRS financial reports

		2007	2008	2009	2010	2011
Net interest income/Operating income	(%)	N/A	60.2	80.3	79.2	78.6
Net commission income/Operating income	(%)	N/A	29.2	16.5	17.4	16.0
Other income/Operating income	(%)	N/A	10.6	3.1	3.4	5.4
Net interest margin	(%)	N/A	4.5	7.9	7.9	7.6
Cost-to-income ratio	(%)	N/A	69.8	34.9	38.2	44.0
LLP/Operating income	(%)	N/A	26.4	61.5	45.9	31.6
Assets quality						
NPL/Gross loans	(%)	N/A	N/A	7.9	12.3	7.1
NPL coverage	(%)	N/A	N/A	105.3	108.0	200.2
LLR/Gross loans	(%)	5.6	3.1	8.3	13.3	14.2
LLP/PPI	(%)	N/A	87.3	94.4	74.3	56.5
Earning power						
Recurring earning power	(%)	N/A	2.0	5.9	5.6	5.0
PPI/Average total capital funds	(%)	N/A	8.7	22.0	20.6	19.6
Interest expense/Interest income	(%)	N/A	41.6	46.8	45.9	46.1
Interest income/Average interest earning assets	(%)	N/A	7.7	14.9	14.6	14.1
Interest expense/Average interest bearing liabilities	(%)	N/A	3.8	8.8	8.4	8.1
Net spread	ppt	N/A	3.9	6.1	6.2	6.0
Income tax / Pretax income	(%)	N/A	54.4	41.8	44.7	22.6
Efficiency						
Non-interest expense/Average assets	(%)	N/A	6.8	9.0	8.0	7.1
Personnel expense/Average assets	(%)	N/A	3.4	2.3	2.5	2.9
Personnel expense/Operating income	(%)	N/A	50.8	25.1	27.4	32.2
Personnel expense/Non-interest expense	(%)	N/A	49.8	25.2	31.3	40.5
Funding structure						
Customer accounts/Total funding base	(%)	85.6	31.2	43.1	42.7	44.6
Net loans/Total funding base	(%)	51.1	60.4	79.8	74.0	69.0
Average net loans/Average customer accounts	(%)	N/A	133.9	188.8	179.4	162.8
Customer accounts/Shareholders' equity	(%)	765.4	115.7	160.8	153.6	187.8
Other ratios and indicators						
Retail share in loan book	(%)	N/A	20.3	11.9	10.2	7.6
Personnel expense per employee	(UAH 000s)	N/A	31.4	32.1	36.8	49.5
Operating income per employee	(UAH 000s)	N/A	61.8	127.7	134.5	154.1

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

Sources: Bank data, Investment Capital Ukraine LLC..

Oschadbank: Key quarterly UAS financials and ratios

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

	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	58,747.0	59,505.6	59,019.1	68,081.3	72,451.5	75,348.9	73,968.5	78,418.6	84,732.8
Cash and cash equivalents	7,517.6	7,269.8	5,455.7	15,007.5	6,816.7	8,253.2	5,553.9	7,961.6	6,994.7
Gross loans	44,101.1	45,049.2	44,778.2	45,036.7	49,451.9	57,384.5	58,837.9	57,677.7	59,956.8
Gross business loans	38,641.4	39,796.3	39,749.7	40,192.4	44,750.3	52,801.4	54,369.0	53,259.7	55,557.4
Gross households loans	5,459.7	5,252.9	5,028.5	4,844.3	4,701.6	4,583.1	4,468.9	4,418.0	4,399.5
Loan loss reserves (LLR)	4,222.5	4,862.2	5,574.8	6,152.6	6,770.6	7,561.7	8,354.0	8,642.3	9,333.4
Deposits	22,265.1	22,755.7	24,420.6	33,128.9	36,580.4	38,255.3	32,880.3	35,119.8	37,060.8
Business deposits	4,944.7	4,510.8	4,940.4	12,407.3	12,858.8	13,735.8	7,651.7	8,080.5	8,052.2
Households deposits	17,320.4	18,244.9	19,480.2	20,721.6	23,721.7	24,519.5	25,228.5	27,039.3	29,008.6
Total equity	16,542.5	16,615.0	16,626.3	16,838.0	17,396.2	17,534.2	17,647.0	17,950.5	17,795.7
Quarterly P&L									
Net interest income	986.3	1,040.5	1,057.5	1,013.7	1,041.7	1,184.2	1,282.3	1,204.5	1,171.7
Net commission income	209.7	217.7	248.4	240.7	226.5	230.5	238.7	262.1	245.0
Operating income (before LLP)	1,208.5	1,266.7	1,419.7	1,330.6	1,397.7	1,514.0	1,618.6	1,834.3	1,560.2
Operating expense	(478.6)	(522.0)	(552.3)	(563.4)	(613.5)	(633.2)	(769.3)	(968.6)	(779.4)
Loan-loss provisions (LLP)	(530.3)	(629.6)	(655.0)	(627.4)	(619.7)	(742.4)	(798.2)	(323.4)	(704.0)
Net income	174.6	66.1	29.3	126.6	120.8	137.5	146.1	178.3	50.1
Last 12-month period P&L									
Net interesting income	4,342.4	4,232.0	4,166.7	4,097.9	4,153.4	4,297.1	4,521.9	4,712.8	4,842.8
Net commission income	874.9	873.3	904.0	916.5	933.3	946.1	936.4	957.9	976.3
Operating income (before LLP)	5,326.3	5,370.1	5,422.9	5,225.5	5,414.7	5,662.1	5,861.0	6,364.7	6,257.1
Operating expense	(1,903.3)	(1,972.5)	(2,029.7)	(2,116.4)	(2,251.3)	(2,362.4)	(2,579.4)	(2,984.7)	(2,880.5)
Loan-loss provisions (LLP)	(3,006.4)	(3,406.7)	(2,654.0)	(2,442.3)	(2,531.7)	(2,644.4)	(2,787.7)	(2,483.8)	(2,568.0)
Net income	304.3	(56.1)	460.6	396.6	342.8	414.2	531.0	582.7	512.0
Growth rates (%YoY)									
Assets	9.7	-2.0	-1.5	18.1	23.3	26.6	25.3	15.2	17.0
Gross loans	5.1	3.2	0.4	2.7	12.1	27.4	31.4	28.1	21.2
Deposits (by businesses)	3.2	-57.5	-48.1	221.0	160.0	204.5	54.9	-34.9	-37.4
Deposits (by households)	25.3	28.0	29.8	32.4	37.0	34.4	29.5	30.5	22.3
Deposits (total)	19.6	-8.5	-0.4	69.7	64.3	68.1	34.6	6.0	1.5
Total Equity	0.7	-1.3	1.5	1.6	5.2	5.5	6.1	6.6	2.3
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	39.3	40.1	40.4	40.5	34.7	30.7	30.5	28.6	25.6
Equity/Assets	28.2	27.9	28.2	24.7	24.0	23.3	23.9	22.9	21.0
(Equity + Subor. debt)/Assets	29.5	29.3	29.6	25.9	25.1	24.3	25.0	23.9	22.0
Cash & cash equivalents/Liabilities	17.8	16.9	12.9	29.3	12.4	14.3	9.9	13.2	10.4
Current liquidity (R5 by NBU)	83.0	77.9	61.6	97.5	77.4	70.7	73.3	83.7	66.0
Gross loans/Deposits	198.1	198.0	183.4	135.9	135.2	150.0	178.9	164.2	161.8
Net loans/Deposits	179.1	176.6	160.5	117.4	116.7	130.2	153.5	139.6	136.6
Cost-to-income ratio	35.7	36.7	37.4	40.5	41.6	41.7	44.0	44.5	46.0
Net interest margin	8.9	8.8	8.7	8.3	7.9	7.6	7.5	7.4	7.3
ROAA	0.5	-0.1	0.8	0.6	0.5	0.6	0.7	0.8	0.7
ROAE	1.8	-0.3	2.8	2.4	2.0	2.4	3.1	3.3	2.9
NII/Operating income	81.5	78.8	76.8	78.4	76.7	75.9	77.2	74.0	77.4
Core income/Operating expense	274.1	258.8	249.8	236.9	225.9	221.9	211.6	190.0	202.0
LLR/Gross loans	9.6	10.8	12.4	13.7	13.7	13.2	14.2	15.0	15.6

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income include net interest income and commission income

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

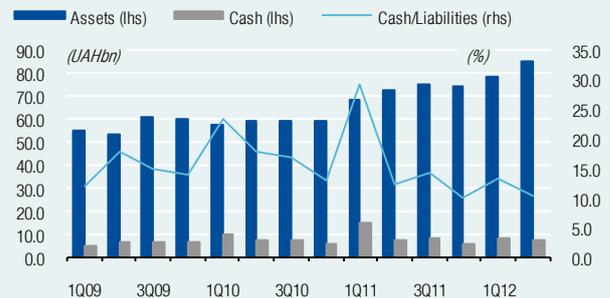
Oschadbank: Charts on bank's key credit metrics

Chart 48. Bank's capitalisation



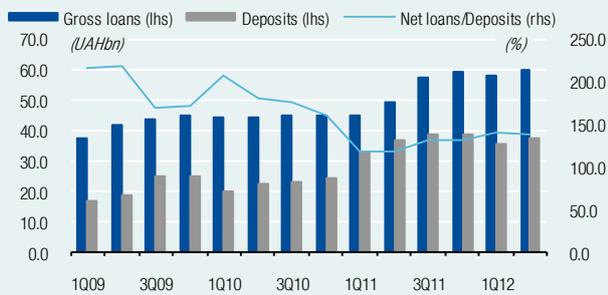
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 49. Liquidity



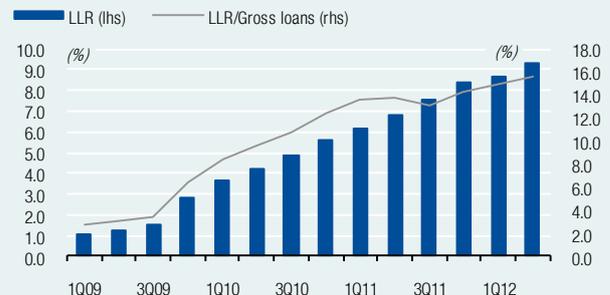
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 50. Loans and deposits



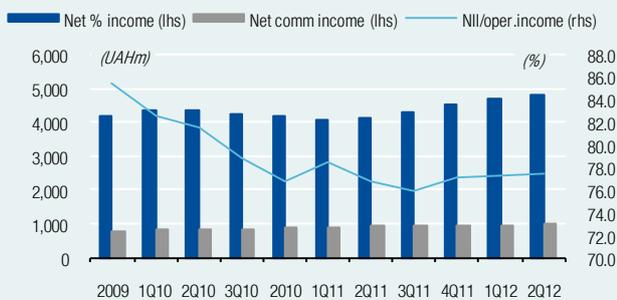
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 51. Loan loss reserves history



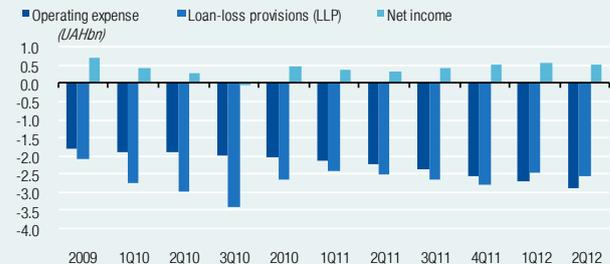
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 52. Income structure (annualised basis)



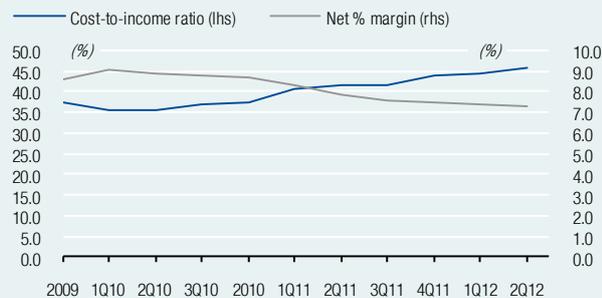
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 53. Expense and net income (annualised basis)



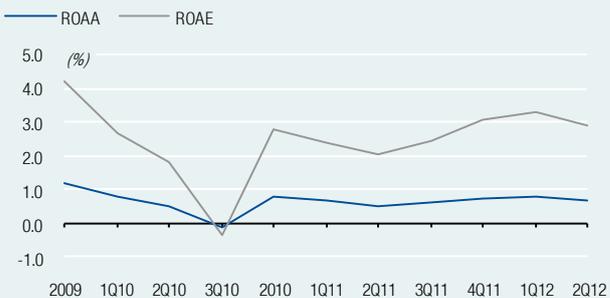
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 54. Financial performance ratios(annualised basis)



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

Chart 55. Financial performance ratios(annualised basis)



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

Country

Ukraine

Ukreximbank

Sector

Banks: Commercial banking

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

B3/B/NR EXIMUK

Ticker(s) in Bloomberg

While Ukreximbank's financial performance showed no material improvements during 2Q12, its capitalisation and government support are sufficient enough. Nevertheless, we cannot say that the bank is strongly efficient, with high provisioning being one of the main, lasting issues for the bank and possibly an issue going forward.

Capitalisation: Insignificant changes. Ukreximbank's regulatory capital adequacy ratio (R2 by the NBU) during 2Q12 decreased insignificantly, remaining at a high 31.9%.

Liquidity: Adequate, with a slight decrease in cash. Ukreximbank's decrease in cash and cash equivalents amounted to 7.9% QoQ to a still-sufficient 10.9% of total liabilities. The bank saw an increase in its held-for-sale securities by UAH1.4bn (versus UAH4.6bn at Oschadbank), to UAH15.4bn. As in Oschadbank's case, we expect no problematic issues from the bank's liquidity perspective, as the bank has reliable government support and near-cash assets.

Assets' quality: Slightly improved on a possible NPLs disposal. During 2Q12, the bank decreased its gross loans by 3.3%, to UAH51.1bn, mostly through its corporate segment, which was at UAH50.2bn, or most of its credit portfolio. Loan-loss reserves decreased materially, by 18.1%, to 8.7bn, or a 17.1% loan coverage versus a 20.2% coverage as of end-1Q12 (write-offs of bad loans are the possible explanation for this, especially if one takes into account the significant, UAH2.5bn decrease in the bank's credit operations, classified as a loss, to UAH5.5bn).

Still-weak financial performance. Ukreximbank's 2Q12 net income was barely above zero, at UAH23.9m, versus the also slight UAH20.2m in 1Q12. The bank's core income declined 3.1% QoQ, to UAH966.0m, while loan-loss provisions decreased 10.8% QoQ, to UAH747.4m in 2Q12. The cost-to-income ratio increased 0.5ppt, to a still-strong 25.0%, but the net interest margin improved only 0.1ppt, to 6.0%, which is low compared to peers.

Bank's funding: Although the bank's deposit base remained stable, its due-to other banks grew 17.1% QoQ, to UAH13.3bn, possibly due to the NBU's injections.

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2010 IFRS	2011 IFRS	1Q12 UAS	2Q12 UAS
Financials				
Assets	71,855	74,525	72,851	75,543
Loans	43,681	41,855	42,234	42,398
Deposits	27,811	29,678	31,672	31,909
Equity	17,071	17,258	17,742	17,728
Net % income	2,607	3,155	3,492	3,580
Net com income	360	367	574	517
Operating income	3,720	4,074	4,421	4,565
PPI	2,929	3,088	3,338	3,422
LLP	(2,664)	(2,898)	(3,211)	(3,301)
Net income	126	131	91	95
Ratios (%)				
Tier 1 ratio	26.8	25.2	N/A	N/A
CAR	33.2	31.0	32.2	31.9
Equity-to-assets	23.8	23.2	24.4	23.5
Loan-to-deposit	157.1	141.0	133.3	132.9
Cash/liabilities	15.2	13.5	13.5	10.9
ROAA	0.2	0.2	0.1	0.1
ROAE	0.9	0.8	0.5	0.5
Net % margin	5.1	5.5	5.8	6.0
NII-to-op.income	70.1	77.4	79.0	78.4
Cost-to-income	21.3	24.2	24.5	25.0
LLR	14.3	18.5	20.2	17.1
NPLs	23.5	28.1	N/A	N/A
NPL coverage	61.0	65.8	N/A	N/A

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

Sources: Bank data, Investment Capital Ukraine LLC.

Table 22. List of outstanding Eurobonds issued by Ukreximbank, pricing as of 10 September, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
XIMUK 6.8% due 12	B1/--/B	USD	250	100.063	5.558	228	63
XIMUK 8.375% due 15	B1/--/B	USD	750	95.750	10.256	971	220
XIMUK 5.79275% due 16	B1/--/CCC	USD	125	80.438	13.090	1,200	503

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

Sources: Company data.

Ukreximbank: IFRS financials – key financials and ratios

Table 23. Key financials derived from bank's IFRS financial reports

	2003	2004	2005	2006	2007	2008	2009	2010	2011
P&L (YTD)	(UAHm)								
Net interest income	178.2	240.3	381.1	724	1,052	1,630	3,094	2,607	3,155
Net fee & commission income	110.4	144.6	168.0	222	303	408	320	360	367
Operating income	318.0	431.8	614.9	1,055	1,519	2,430	3,721	3,720	4,074
Pre-provision income (PPI)	98.0	161.7	286.2	563	950	1,474	2,646	2,929	3,088
Loan-loss provisions (LLP)	(23.9)	(77.1)	(30.1)	(99)	(196)	(1,294)	(2,585)	(2,664)	(2,898)
Pre-tax income	74.0	84.6	256.2	464	754	180	61	264	189
Net income (NI)	50.8	59.4	184.9	335	553	122	35	126	131
Balance sheet	(UAHm)								
Cash & balances with central bank	227.0	457.0	2,217.3	2,944	3,460	6,309	4,852	10,893	10,052
Due from banks	410.0	427.8	101.3	97	279	963	1,736	1,129	1,853
Loans to customers	2,380.4	3,460.4	6,992.7	13,463	21,782	36,608	43,311	43,681	41,855
Investment securities	331.6	381.8	470.7	872	510	1,050	1,779	10,610	14,449
Property, equipment and intangible assets	348.2	346.5	356.5	997	1,035	1,461	2,032	2,218	2,245
Other assets	26.7	36.1	54.7	77	1,500	1,199	2,754	3,323	4,071
Total assets	3,723.8	5,109.7	10,193.2	18,449	28,566	47,589	56,464	71,855	74,525
Due to banks	717.5	633.3	1,436.0	3,510	8,143	15,476	8,537	7,379	7,664
Due to central bank	378.7	291.1	44.9	0	0	1,408	8,109	4,157	6,197
Customer accounts	2,276.5	2,902.5	4,761.1	6,690	10,595	16,600	19,953	27,811	29,678
Wholesale borrowings	0.0	799.9	2,752.5	5,634	6,433	8,914	6,282	12,194	10,439
Subordinated debt	0.0	0.0	205.2	636	640	978	145	136	3,102
Total equity	322.1	461.5	946.4	1,737	2,490	3,939	10,324	17,071	17,258
Total liabilities & equity	3,723.8	5,109.7	10,193.2	18,449	28,566	47,589	56,464	71,855	74,525

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

Sources: Company data.

Table 24. Key financial ratios derived from bank's IFRS financial reports

	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Growth rates (%YoY)										
Assets	(%YoY)	N/A	37.2	99.5	81.0	54.8	66.6	18.6	27.3	3.7
Loans	(%YoY)	N/A	45.4	102.1	92.5	61.8	68.1	18.3	0.9	-4.2
Deposits	(%YoY)	N/A	27.5	64.0	40.5	58.4	56.7	20.2	39.4	6.7
Equity	(%YoY)	N/A	43.3	105.1	83.5	43.3	58.2	162.1	65.3	1.1
Net interest income	(%YoY)	N/A	34.8	58.6	90.1	45.3	54.9	89.8	-15.7	21.0
Net commission income	(%YoY)	N/A	31.0	16.1	32.1	36.5	34.6	-21.5	12.6	1.9
Operating income	(%YoY)	N/A	35.8	42.4	71.6	43.9	60.0	53.1	-0.0	9.5
Balance sheet ratios										
Liquid assets/Assets	(%)	6.1	8.9	21.8	16.0	12.1	13.3	8.6	15.2	13.5
Liquid assets/Liabilities	(%)	6.7	9.8	24.0	17.6	13.3	14.5	10.5	19.9	17.6
Due from banks/Due to banks	(x)	0.4	0.5	0.1	0.03	0.03	0.1	0.1	0.1	0.1
Current ratio	(x)	0.5	0.7	0.8	0.6	0.4	0.4	0.5	1.3	1.0
Equity/Assets	(%)	8.7	9.0	9.3	9.4	8.7	8.3	18.3	23.8	23.2
Gross loans/Deposits	(%)	124.6	136.3	156.5	209.3	212.5	233.8	240.6	183.4	173.0
Net loans/Deposits	(%)	104.6	119.2	146.9	201.3	205.6	220.5	217.1	157.1	141.0
Wholesale borrowings/Liabilities (%)	(%)	0.0	17.2	29.8	33.7	24.7	20.4	13.6	22.3	18.2
Profitability & Earning quality										
ROAA	(%)	N/A	1.3	2.4	2.3	2.4	0.3	0.1	0.2	0.2
ROAE	(%)	N/A	15.2	26.3	25.0	26.2	3.8	0.5	0.9	0.8

Table 24. Key financial ratios derived from bank's IFRS financial reports

		2003	2004	2005	2006	2007	2008	2009	2010	2011
Net interest income/Operating income	(%)	N/A	55.7	62.0	68.6	69.3	67.1	83.1	70.1	77.4
Net commission income/Operating income	(%)	N/A	33.5	27.3	21.0	19.9	16.8	8.6	9.7	9.0
Other income/Operating income	(%)	N/A	10.9	10.7	10.3	10.8	16.2	8.3	20.2	13.5
Net interest margin	(%)	N/A	6.5	6.4	6.6	5.7	5.3	7.2	5.1	5.5
Cost-to-income ratio	(%)	N/A	62.5	53.5	46.7	37.4	39.4	28.9	21.3	24.2
LLP/Operating income	(%)	N/A	17.9	4.9	9.4	12.9	53.2	69.5	71.6	71.1
Assets quality										
NPL/Gross loans	(%)	N/A	N/A	N/A	3.2	3.5	8.9	7.6	23.5	28.1
NPL coverage	(%)	N/A	N/A	N/A	120.9	91.8	63.6	127.9	61.0	65.8
LLR/Gross loans	(%)	16.1	12.5	6.2	3.8	3.3	5.7	9.8	14.3	18.5
LLP/PPI	(%)	N/A	47.7	10.5	17.6	20.7	87.8	97.7	91.0	93.9
Earning power										
Recurring earning power	(%)	N/A	3.7	3.7	3.9	4.0	3.9	5.1	4.6	4.2
PPI/Average total capital funds	(%)	N/A	41.3	40.7	42.0	45.0	45.8	37.1	21.4	18.0
Interest expense/Interest income	(%)	N/A	50.2	51.1	53.6	58.7	59.8	52.8	59.1	56.8
Interest income/Average interest earning assets	(%)	N/A	13.1	13.2	14.2	13.8	13.2	15.3	12.5	12.8
Interest expense/Average interest bearing liabilities	(%)	N/A	6.1	5.8	6.5	7.1	7.0	8.0	8.0	7.4
Net spread	ppt	N/A	7.0	7.4	7.7	6.7	6.2	7.3	4.5	5.4
Income tax / Pretax income	(%)	N/A	29.8	27.8	27.8	26.6	32.0	42.4	52.4	30.9
Efficiency										
Non-interest expense/Average assets	(%)	N/A	8.2	4.9	4.3	3.4	6.0	7.1	5.5	5.5
Personnel expense/Average assets	(%)	N/A	3.7	2.8	2.3	1.7	1.6	1.2	0.9	0.9
Personnel expense/Operating income	(%)	N/A	37.5	34.3	30.6	26.9	25.2	16.3	15.7	16.6
Personnel expense/Non-interest expense	(%)	N/A	44.7	56.4	52.6	51.1	26.7	16.3	16.4	16.9
Funding structure										
Customer accounts/Total funding base	(%)	61.6	57.0	46.9	36.7	37.4	35.1	37.4	40.5	39.9
Net loans/Total funding base	(%)	64.4	68.0	68.9	73.9	77.0	77.4	81.2	63.5	56.3
Average net loans/Average customer accounts	(%)	N/A	112.8	136.4	178.6	203.9	214.7	218.6	182.1	148.8
Customer accounts/Shareholders' equity	(%)	706.7	628.9	503.1	385.2	425.6	421.4	193.3	162.9	172.0
Other ratios and indicators										
Retail share in loan book	(%)	N/A	1.5	1.3	2.8	4.5	5.4	2.7	2.2	1.8
Personnel expense per employee	(UAH 000s)	N/A	56.2	70.9	101.7	115.5	157.1	151.5	142.1	154.6
Operating income per employee	(UAH 000s)	N/A	149.8	206.6	332.6	429.6	622.4	932.1	905.1	931.0

Sources: Bank data, Investment Capital Ukraine LLC.

Ukreximbank: Key quarterly UAS financials and ratios

Table 25. Key financials and ratios derived from bank's UAS financials

	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	66,056.9	68,978.3	73,160.6	76,255.3	80,011.5	73,072.1	75,103.4	72,850.6	75,542.6
Cash and cash equivalents	10,756.8	9,853.3	11,076.8	13,528.1	13,271.2	6,709.0	8,632.2	7,453.9	6,276.0
Gross loans	48,270.7	51,963.1	52,094.3	52,357.1	52,898.3	54,151.9	52,752.7	52,913.9	51,147.6
Gross business loans	47,060.4	50,787.5	50,952.4	51,266.0	51,815.4	53,135.5	51,756.3	51,956.3	50,249.9
Gross households loans	1,210.4	1,175.7	1,141.9	1,091.1	1,082.8	1,016.4	996.4	957.6	897.7
Loan loss reserves (LLR)	5,681.0	6,606.1	7,392.3	8,270.5	8,922.4	8,808.4	9,833.7	10,680.3	8,750.1
Deposits	21,431.8	24,867.9	27,332.4	31,455.1	35,202.1	32,278.6	31,681.7	31,671.5	31,909.0
Business deposits	10,929.0	13,371.6	14,955.8	18,163.9	21,606.4	19,035.6	18,158.4	17,713.7	17,720.8
Households deposits	10,502.8	11,496.3	12,376.7	13,291.2	13,595.7	13,243.0	13,523.3	13,957.8	14,188.2
Total equity	17,289.1	17,435.1	17,553.5	17,597.1	17,622.1	17,643.5	17,729.0	17,742.1	17,727.6
Quarterly P&L									
Net interest income	762.8	849.8	931.6	851.9	754.5	879.6	976.7	881.2	842.5
Net commission income	116.4	133.8	137.6	112.9	126.6	130.9	146.5	170.5	123.5
Operating income (before LLP)	878.3	1,163.2	1,143.4	1,074.1	966.3	899.8	1,456.8	1,098.3	1,109.7
Operating expense	(125.5)	(208.5)	(265.4)	(201.1)	(252.9)	(251.6)	(313.7)	(264.9)	(311.8)
Loan-loss provisions (LLP)	(775.6)	(921.1)	(793.6)	(845.9)	(657.6)	(629.2)	(1,086.3)	(838.1)	(747.4)
Net income	11.7	13.3	16.6	17.1	19.7	22.4	29.0	20.2	23.9
Last 12-month period P&L									
Net interesting income	3,289.1	3,400.5	3,304.4	3,396.0	3,387.7	3,417.6	3,462.7	3,492.0	3,580.1
Net commission income	528.0	499.9	502.2	500.7	510.9	507.9	516.8	574.4	517.0
Operating income (before LLP)	3,774.3	4,002.7	4,001.4	4,258.9	4,347.0	4,083.6	4,397.0	4,421.1	4,564.5
Operating expense	(943.6)	(947.3)	(803.0)	(800.6)	(928.0)	(971.0)	(1,019.3)	(1,083.1)	(1,142.1)
Loan-loss provisions (LLP)	(2,837.7)	(3,032.5)	(3,061.7)	(3,336.1)	(3,218.2)	(2,926.3)	(3,219.0)	(3,211.3)	(3,301.0)
Net income	39.7	43.7	51.3	58.6	66.7	75.7	88.1	91.2	95.4
Growth rates (%YoY)									
Assets	16.4	25.1	28.0	21.7	21.1	5.9	2.7	-4.5	-5.6
Gross loans	8.8	11.0	7.8	7.2	9.6	4.2	1.3	1.1	-3.3
Deposits (by businesses)	-1.0	39.6	42.3	64.3	97.7	42.4	21.4	-2.5	-18.0
Deposits (by households)	39.1	41.5	38.9	37.9	29.4	15.2	9.3	5.0	4.4
Deposits (total)	15.3	40.5	40.7	52.0	64.3	29.8	15.9	0.7	10.7
Total Equity	113.3	89.2	61.3	1.8	1.9	1.2	1.0	0.8	0.6
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	47.5	43.9	43.9	43.2	32.0	31.4	31.2	32.2	31.9
Equity/Assets	26.2	25.3	24.0	23.1	22.0	24.1	23.6	24.4	23.5
(Equity + Subor. debt)/Assets	30.8	29.6	28.2	26.9	25.8	28.1	27.6	28.4	27.5
Cash & cash equivalents/Liabilities	22.1	19.1	19.9	23.1	21.3	12.1	15.0	13.5	10.9
Current liquidity (R5 by NBU)	108.0	75.7	83.3	140.8	99.3	61.9	49.0	53.6	83.6
Gross loans/Deposits	225.2	209.0	190.6	166.5	150.3	167.8	166.5	167.1	160.3
Net loans/Deposits	198.7	182.4	163.5	140.2	124.9	140.5	135.5	133.3	132.9
Cost-to-income ratio	25.0	23.7	20.1	18.8	21.3	23.8	23.2	24.5	25.0
Net interest margin	6.7	6.7	6.2	6.3	6.0	5.8	5.8	5.8	6.0
ROAA	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
ROAE	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5
NII/Operating income	87.1	85.0	82.6	79.7	77.9	83.7	78.8	79.0	78.4
Core income/Operating expense	404.5	411.7	474.0	486.7	420.1	404.3	390.4	375.4	358.7
LLR/Gross loans	11.8	12.7	14.2	15.8	16.9	16.3	18.6	20.2	17.1

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

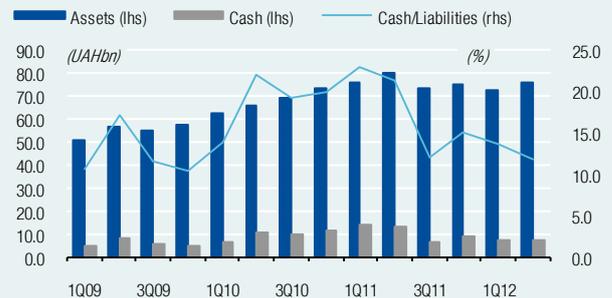
Ukreximbank: Charts on bank's key credit metrics

Chart 56. Bank's capitalisation



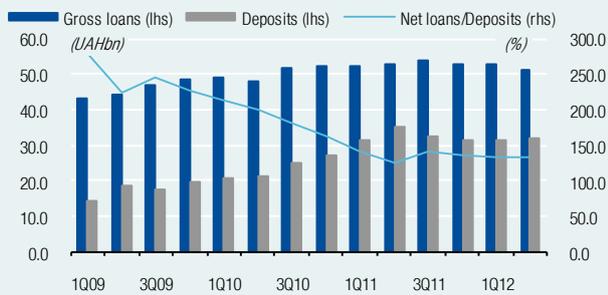
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 57. Liquidity



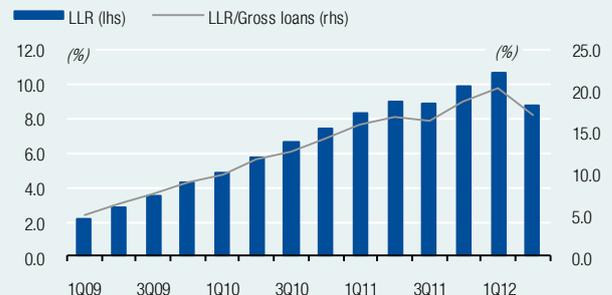
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 58. Loans and deposits



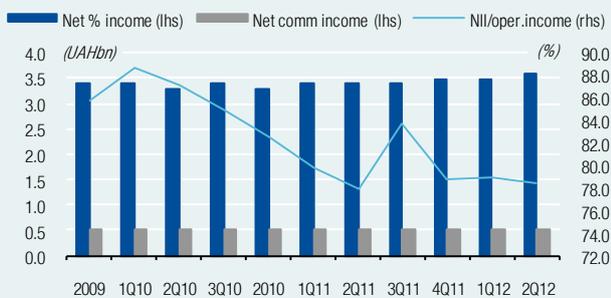
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 59. Loan-loss reserves history



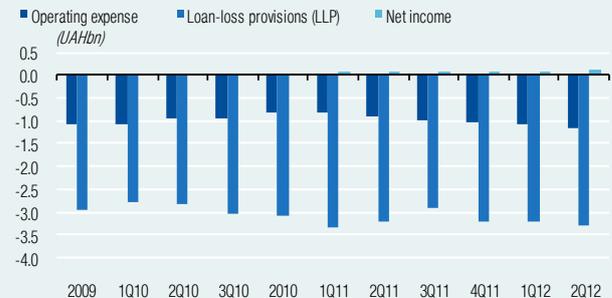
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 60. Income structure(annualised basis)



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

Chart 61. Expense and net income(annualised basis)



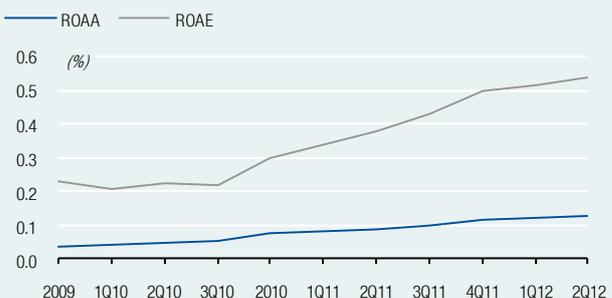
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 62. Financial performance ratios



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

Chart 63. Financial performance ratios



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

Country

Ukraine

Prominvestbank

Sector

Banks: Commercial banking

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

B3/NR/NR VEBBNK

We cannot say that Prominvestbank's (PIB) 2Q12 UAS financials were inspiring, nor that they were definitely negative. We have a positive view of the bank's core revenues in general, but its ability to generate income remains weak.

Capitalisation: Unchanged, but still sufficient. The bank's regulatory capital adequacy ratio (R2 by the NBU) decreased by 0.1ppt, to 12.1%, which is sufficient, yet still close to a worrisome level.

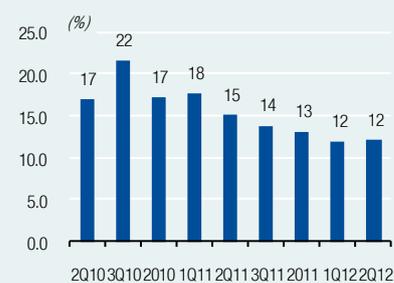
Liquidity: Increased. PIB's cash and cash equivalents grew 30.4% QoQ, to UAH2.5bn, or 7.1% of total liabilities coverage. The bank's current liquidity ratio (R5 by the NBU) also improved, by 11.0ppt to a sufficient 61.1%; thus, we see no material issues in the bank's liquidity, also keeping in mind a reliable liquidity source from the bank's parent (even though in foreign currency), Russian VEB, which could be tapped in time of need.

Assets quality: Still lacking a clear trend. During 2Q12, PIB's gross loans grew by 2.0%, to UAH32.6bn, due to greater exposure to the business segment of its clients, while household loans continued to decrease, by 9.0% QoQ, to UAH682.9m. Loan-loss reserves fell by 13.8%, to UAH2.1bn, or a 6.3% gross loans coverage, while as of end-1Q12, this was at 7.5%. Based on the bank's UAS financials, we assume further NPLs disposals, and without detailed IFRS financials, we cannot define a clear trend for bank's credit portfolio.

P&L: Still weak. The bank's quarterly net loss amounted to UAH13.2m, versus a nominal profit of UAH3.9m during the 1Q12. PIB's core income revealed a material increase, of 39.1% QoQ, to UAH457.6m, and the key issue in 2Q12 profitability was UAH101.8m in expenses arising from the initial recognition of financial liabilities at a rate that is higher than the market (questions remain regarding the increase in related-party transactions). The bank's loan-loss provisions fell by 38.4%, to UAH92.1m, and the net interest margin and cost-to-income ratio worsened immaterially, though they were already at worse-than-average levels of 4.4% and 74.7%, respectively.

Bank's funding: The clients' deposit base fell by 3.8% QoQ, with an outflow in both business and retail accounts, while the bank increased its FX due-from other banks, by an approximate UAH1.2bn equivalent, to UAH16.3bn, likely due to an increase in the parent's funding.

RCAR according to UAS



Source: bank data.

Key financials and ratios

	2009	2010	1Q12	2Q12
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	28,286	33,220	40,463	40,998
Loans	18,712	22,598	29,626	30,587
Deposits	14,555	19,518	15,454	14,865
Equity	4,825	4,457	5,132	5,086
Net % income	1,087	1,528	1,410	1,402
Net com income	286	288	290	282
Operating income	1,406	1,686	2,255	2,225
PPI	147	313	687	563
LLP	(3,232)	(1,614)	(603)	(546)
Net income	(3,196)	(1,184)	83	18
Ratios (%)				
Tier 1 ratio	13.6	8.1	N/A	N/A
CAR	19.7	16.2	12.0	12.1
Equity-to-assets	17.1	13.4	12.7	12.4
Loan-to-deposit	128.6	115.8	191.7	205.8
Cash/liabilities	19.7	16.5	6.3	7.1
ROAA	-11.6	-3.9	0.2	0.05
ROAE	-71.9	-25.5	1.7	0.4
Net % margin	5.2	7.0	4.7	4.4
NII-to-op.income	77.3	90.7	62.5	63.0
Cost-to-income	89.5	81.4	69.5	74.7
LLR	24.3	12.0	7.5	6.3
NPLs	20.8	31.3	N/A	N/A
NPL coverage	116.7	38.4	N/A	N/A

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

PIB: IFRS financials – key financials and ratios

Table 26. Key financials derived from bank's IFRS financial reports

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

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

Sources: Company data.

Table 27. Key financial ratios derived from bank's IFRS financial reports

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

Table 27. Key financial ratios derived from bank's IFRS financial reports

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

Sources: Bank data, Investment Capital Ukraine LLC..

PIB: Key quarterly UAS financials and ratios

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

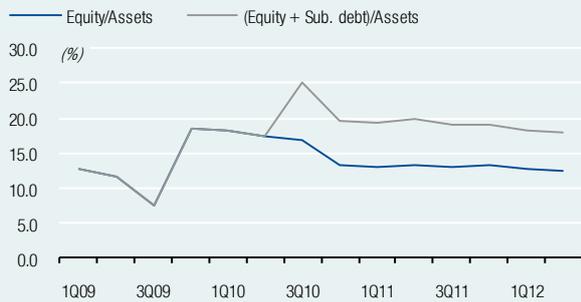
	2Q10	3Q10	2010	1011	2Q11	3Q11	4Q11	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	28,649.9	28,913.8	34,612.9	34,948.3	34,590.5	35,278.8	38,160.9	40,462.9	40,998.2
Cash and cash equivalents	2,398.4	1,815.3	3,605.3	3,332.3	3,878.2	3,148.1	3,438.4	2,223.7	2,543.2
Gross loans	24,958.4	27,146.9	25,712.1	27,379.6	27,162.2	28,974.0	29,227.0	32,014.3	32,646.4
Gross business loans	22,688.0	24,961.3	24,503.8	26,248.1	26,105.2	28,004.6	28,428.1	31,264.2	31,963.5
Gross households loans	2,270.4	2,185.6	1,208.3	1,131.5	1,056.9	969.5	798.9	750.1	682.9
Loan loss reserves (LLR)	5,561.1	5,954.8	2,090.8	2,473.7	2,729.4	3,002.7	2,191.2	2,388.2	2,059.3
Deposits	15,539.9	16,982.9	19,481.7	18,749.6	18,488.4	16,140.0	16,507.3	15,453.7	14,865.0
Business deposits	4,942.2	5,606.1	8,377.5	7,951.5	8,067.8	6,526.3	7,513.0	6,788.6	6,345.4
Households deposits	10,597.8	11,376.8	11,104.2	10,798.2	10,420.5	9,613.7	8,994.2	8,665.1	8,519.6
Total equity	4,989.1	4,854.6	4,589.7	4,537.4	4,593.2	4,569.2	5,081.9	5,132.0	5,086.0
Quarterly P&L									
Net interest income	329.5	310.7	556.1	353.8	395.0	398.0	344.2	273.2	387.1
Net commission income	93.8	111.2	88.8	83.1	77.9	95.6	60.5	55.8	70.5
Operating income (before LLP)	367.5	556.2	711.7	505.7	424.6	578.2	794.8	457.6	394.1
Operating expense	(357.1)	(288.7)	(531.1)	(273.3)	(222.4)	(329.2)	(713.2)	(303.6)	(315.6)
Loan-loss provisions (LLP)	(365.9)	(495.2)	(534.5)	(316.7)	(149.4)	(246.9)	(57.1)	(149.5)	(92.1)
Net income	(303.0)	(137.0)	(251.4)	(48.7)	52.3	2.2	24.9	3.9	(13.2)
Last 12-month period P&L									
Net interesting income	1,153.1	1,186.9	1,487.9	1,550.1	1,615.6	1,702.9	1,491.0	1,410.4	1,402.4
Net commission income	485.7	432.2	395.0	376.9	361.0	345.4	317.2	289.9	282.5
Operating income (before LLP)	1,356.0	1,440.6	1,857.1	2,141.1	2,198.3	2,220.2	2,303.3	2,255.3	2,224.7
Operating expense	(1,363.0)	(1,345.7)	(1,492.4)	(1,450.3)	(1,315.6)	(1,356.0)	(1,538.1)	(1,568.4)	(1,661.6)
Loan-loss provisions (LLP)	(2,687.3)	(1,873.3)	(1,518.9)	(1,712.3)	(1,495.9)	(1,247.6)	(770.2)	(603.0)	(545.7)
Net income	(3,006.7)	(2,215.9)	(842.9)	(740.1)	(384.8)	(245.6)	30.8	83.4	17.9
Growth rates (%YoY)									
Assets	2.8	-6.1	14.4	16.6	20.7	22.0	10.3	15.8	18.5
Gross loans	5.2	10.4	5.1	8.5	8.8	6.7	13.7	16.9	20.2
Deposits (by businesses)	23.0	22.7	77.6	71.9	63.2	16.4	-10.3	-14.6	-21.3
Deposits (by households)	18.4	23.8	12.4	5.8	-1.7	-15.5	-19.0	-19.8	-18.2
Deposits (total)	19.8	23.5	33.5	26.4	19.0	-5.0	-15.3	-17.6	-12.6
Total Equity	52.7	108.7	-15.3	-16.9	-7.9	-5.9	10.7	13.1	10.7
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	16.9	21.6	17.2	17.7	15.1	13.9	13.2	12.0	12.1
Equity/Assets	17.4	16.8	13.3	13.0	13.3	13.0	13.3	12.7	12.4
(Equity + Subor. debt)/Assets	17.4	25.1	19.7	19.4	19.9	19.2	19.2	18.3	18.1
Cash & cash equivalents/Liabilities	10.1	7.5	12.0	11.0	12.9	10.3	10.4	6.3	7.1
Current liquidity (R5 by NBU)	77.0	48.5	55.0	55.5	53.1	49.5	55.0	50.1	61.1
Gross loans/Deposits	160.6	159.8	132.0	146.0	146.9	179.5	177.1	207.2	219.6
Net loans/Deposits	124.8	124.8	121.2	132.8	132.2	160.9	163.8	191.7	205.8
Cost-to-income ratio	100.5	93.4	80.4	67.7	59.8	61.1	66.8	69.5	74.7
Net interest margin	5.0	5.1	6.1	6.1	6.1	6.1	5.2	4.7	4.4
ROAA	-10.1	-7.5	-2.8	-2.3	-1.2	-0.7	0.1	0.2	0.05
ROAE	-66.1	-42.8	-16.9	-15.6	-8.3	-5.4	0.7	1.7	0.4
NII/Operating income	85.0	82.4	80.1	72.4	73.5	76.7	64.7	62.5	63.0
Core income/Operating expense	120.2	120.3	126.2	132.9	150.2	151.1	117.6	108.4	101.4
LLR/Gross loans	22.3	21.9	8.1	9.0	10.0	10.4	7.5	7.5	6.3

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income include net interest income and commission income

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

PIB: Charts on bank's key credit metrics

Chart 64. Bank's capitalisation



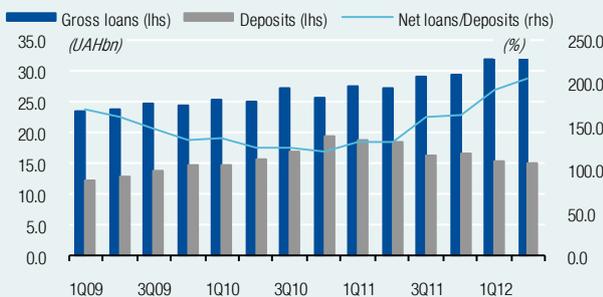
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 65. Liquidity



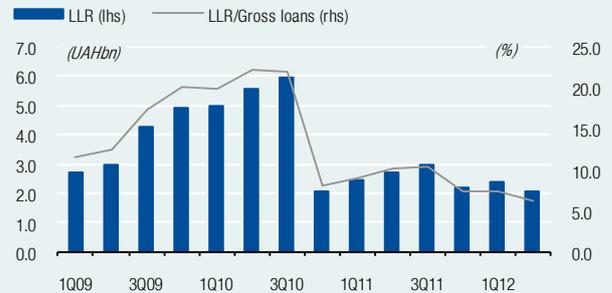
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 66. Loans and deposits



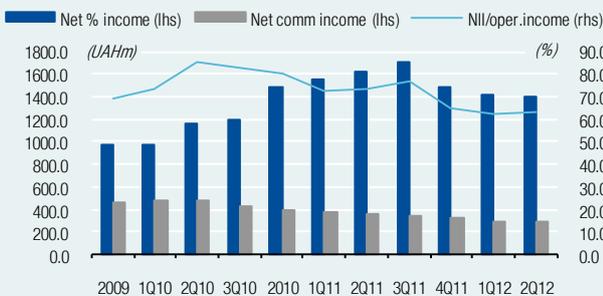
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 67. Loan loss reserves history



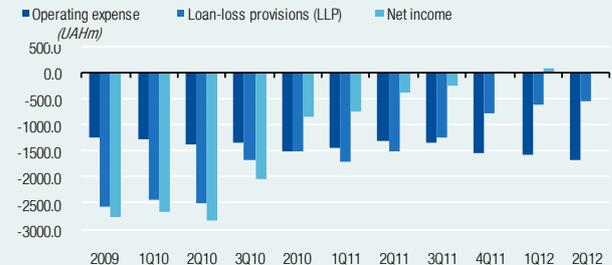
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 68. Income structure (annualised basis)



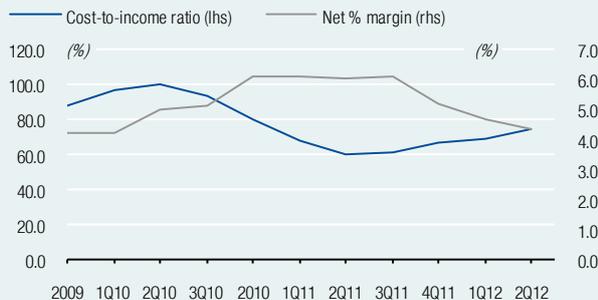
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 69. Expense and net income (annualised basis)



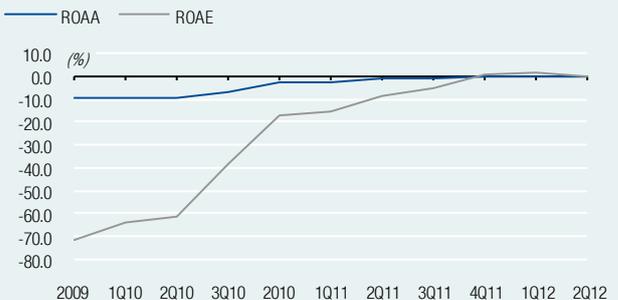
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 70. Financial performance ratios



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

Chart 71. Financial performance ratios



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

Country

Ukraine

VTB Bank (Ukraine)

Sector

Banks: Commercial banking

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

NR/NR/B VTB

VTB Bank showed relatively strong P&L figures, which were negated by materially increased provisioning. Recall that at year-end, the bank had already revaluated its loan-loss reserves, factoring in an additional increase of UAH0.9bn, and 2Q12 showed that the higher provisioning is not over yet. Additional questions arise from the bank's weak capitalisation. We believe fresh capital needs to be injected soon to increase the bank's margin of safety, in case of further credit portfolio quality erosion. Our overall impression after the 2Q12 UAS financials remained quite negative, with the caveat that we are still sufficiently confident in its continued support from its strong Russian parent.

Capitalisation: Above the required minimum. VTB Bank's capitalisation ratio (R2 by the NBU) fell slightly, to 11.6%, still presenting a tight margin of safety and lack of room for expansion claims, which were targeted by the bank during past years.

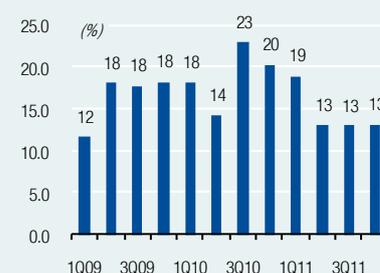
Liquidity: Material growth in liquid assets seen during 2Q12. VTB Bank's current liquidity (R5 by the NBU) grew significantly, by 42.3ppt, to 94.7%, possibly due to an inflow of resources from the parent. Cash and cash equivalents grew 29.6% QoQ, to 9.6% of liabilities coverage. The bank's balance sheet showed a marked material increase in trading securities, by UAH3.5bn, to UAH4.9bn (mostly US\$-denominated state-owned debt, according to the bank's data), or to 12.9% of the bank's balance sheet.

Assets' quality: Questions still remain. The bank's gross credit portfolio decreased by 5.8%, to UAH31.1bn, as a result of a decline in the business segment, while household gross loans grew by 15.8%, to UAH4.7bn. Loan-loss reserves decreased by 3.8%, to UAH6.1bn, or 19.5% loans coverage, and we can assume a corporate bad debt write-off of up to UAH0.6bn during the 2Q, based on our calculations.

P&L: Back to the losses of 2Q12. While the bank started 2012 with a strong UAH585.2m in net income, 2Q12 was not so rosy, bringing its quarterly net loss to UAH202.3m. Delving into the figures, we note significant provisioning charge, at UAH641.6m during the second quarter, which resulted in a downward slide. Despite the above-mentioned, the bank's P&L ratios appeared sufficiently normal; with quarterly core income up by a material 17.9% QoQ, to UAH658.6m, and annualised net interest margin down by 0.4ppt, to 6.8%, while the cost-to-income ratio decreased by 1.5ppt, to 50.8%.

Bank's funding: From the bank's funding, there was a notable, UAH3.5bn equivalent inflow in FX due to other banks, to UAH20.1bn, likely the result of funds attraction from its parent, while the clients' deposit base changed insignificantly, being at UAH11.1bn as of quarter-end.

RCAR, according to UAS



Source: bank data.

Key financials and ratios

	2009	2010	1Q12	2Q12
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	27,381	32,792	35,394	38,170
Loans	22,622	26,596	26,662	24,986
Deposits	5,147	8,055	11,238	11,135
Equity	2,190	4,781	3,717	3,493
Net % income	1,738	1,115	2,117	2,037
Net com income	154	154	417	491
Operating income	2,066	1,376	2,609	2,682
PPI	1,359	442	1,243	1,320
LLP	(2,269)	(284)	(1,099)	(1,643)
Net income	(692)	79	147	(311)
Ratios (%)				
Tier 1 ratio	8.5	N/A	N/A	N/A
CAR	13.3	N/A	11.7	11.6
Equity-to-assets	8.0	14.6	10.5	9.2
Loan-to-deposit	439.5	330.2	237.2	224.4
Cash/liabilities	11.0	5.5	9.6	9.6
ROAA	-2.5	0.3	0.4	-0.8
ROAE	-32.5	2.3	4.1	-8.9
Net % margin	7.4	4.2	7.2	6.8
NII-to-op.income	84.1	81.0	81.1	75.9
Cost-to-income	34.2	67.9	52.3	50.8
LLR	13.7	11.0	19.1	19.5
NPLs	24.4	24.1	N/A	N/A
NPL coverage	55.9	45.6	N/A	N/A

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

VTB Bank: IFRS financials – key financials and ratios

Table 29. Key financials derived from bank's IFRS financial reports

	2007	2008	2009	2010
P&L (YTD)				
	(UAHm)			
Net interest income	332.5	856.0	1,738.4	1,114.8
Net fee & commission income	97.7	165.6	154.3	154.2
Operating income	450.3	1,322.8	2,065.8	1,376.0
Pre-provision income (PPI)	136.5	609.8	1,358.8	442.2
Loan-loss provisions (LLP)	(41.5)	(1,066.2)	(2,269.3)	(283.6)
Pre-tax income	95.0	(456.4)	(910.5)	158.6
Net income (NI)	59.9	(363.5)	(692.1)	79.4
Balance sheet				
	(UAHm)			
Cash & balances with central bank	1,628.3	2,130.1	3,006.5	1,796.1
Due from banks	158.5	15.4	244.3	381.0
Loans to customers	9,010.8	23,838.5	22,621.6	26,595.7
Investment securities	37.7	113.5	115.8	2,659.4
Property, equipment and intangible assets	545.6	886.5	887.1	936.7
Other assets	70.2	163.5	505.4	423.4
Total assets	11,451.2	27,147.5	27,380.8	32,792.2
Due to banks	5,371.0	18,799.6	18,183.9	18,123.6
Due to central bank	0.0	500.0	0.0	0.0
Customer accounts	3,327.2	5,042.0	5,147.0	8,054.7
Wholesale borrowings	0.9	0.0	89.6	87.6
Subordinated debt	412.6	627.0	1,682.2	1,676.9
Total equity	806.3	2,073.2	2,190.3	4,781.3
Total liabilities & equity	11,451.2	27,147.5	27,380.8	32,792.2

Sources: Company data.

Table 30. Key financial ratios derived from bank's IFRS financial reports

	2007	2008	2009	2010
Growth rates (%YoY)				
Assets	(%YoY)	N/A	137.1	0.9
Loans	(%YoY)	N/A	164.6	-5.1
Deposits	(%YoY)	N/A	51.5	2.1
Equity	(%YoY)	N/A	157.1	5.7
Net interest income	(%YoY)	N/A	157.5	103.1
Net commission income	(%YoY)	N/A	69.5	-6.8
Operating income	(%YoY)	N/A	193.8	56.2
Balance sheet ratios				
Liquid assets/Assets	(%)	14.2	7.8	11.0
Liquid assets/Liabilities	(%)	15.3	8.5	11.9
Due from banks/Due to banks	(x)	0.03	0.001	0.01
Current ratio	(x)	0.3	0.1	0.2
Equity/Assets	(%)	7.0	7.6	8.0
Gross loans/Deposits	(%)	276.9	498.2	509.0
Net loans/Deposits	(%)	270.8	472.8	439.5
Wholesale borrowings/Liabilities (%)	(%)	0.01	0.0	0.4
Profitability & Earning quality				
ROAA	(%)	N/A	-1.9	-2.5
ROAE	(%)	N/A	-25.3	-32.5
Net interest income/Operating income	(%)	N/A	64.7	84.1
Net commission income/Operating income	(%)	N/A	12.5	7.5

Table 30. Key financial ratios derived from bank's IFRS financial reports

		2007	2008	2009	2010
Other income/Operating income	(%)	N/A	22.8	8.4	7.8
Net interest margin	(%)	N/A	5.2	7.4	4.2
Cost-to-income ratio	(%)	N/A	53.9	34.2	67.9
LLP/Operating income	(%)	N/A	80.6	109.8	20.6
Assets quality					
NPL/Gross loans	(%)	3.6	9.2	24.4	24.1
NPL coverage	(%)	61.0	55.4	55.9	45.6
LLR/Gross loans	(%)	2.2	5.1	13.7	11.0
LLP/PPI	(%)	N/A	174.8	167.0	64.1
Earning power					
Recurring earning power	(%)	N/A	3.2	5.0	1.5
PPI/Average total capital funds	(%)	N/A	42.4	63.7	12.7
Interest expense/Interest income	(%)	N/A	59.2	54.6	65.3
Interest income/Average interest earning assets	(%)	N/A	12.6	16.3	12.2
Interest expense/Average interest bearing liabilities	(%)	N/A	7.3	8.3	7.9
Net spread	ppt	N/A	5.4	8.0	4.3
Income tax / Pretax income	(%)	N/A	20.3	24.0	49.9
Efficiency					
Non-interest expense/Average assets	(%)	N/A	9.3	10.9	4.2
Personnel expense/Average assets	(%)	N/A	1.9	1.2	1.5
Personnel expense/Operating income	(%)	N/A	28.1	16.4	32.3
Personnel expense/Non-interest expense	(%)	N/A	20.7	11.4	35.2
Funding structure					
Customer accounts/Total funding base	(%)	33.5	18.6	18.9	24.6
Net loans/Total funding base	(%)	90.9	88.2	82.9	81.3
Average net loans/Average customer accounts	(%)	N/A	392.5	456.0	372.8
Customer accounts/Shareholders' equity	(%)	412.7	243.2	235.0	168.5
Other ratios and indicators					
Retail share in loan book	(%)	N/A	8.2	7.1	6.0
Personnel expense per employee	(UAH 000s)	N/A	96.7	86.6	N/A
Operating income per employee	(UAH 000s)	N/A	343.9	527.4	N/A

Sources: Bank data, Investment Capital Ukraine LLC..

VTB Bank: Key quarterly UAS financials and ratios

Table 31. Key financials and ratios derived from bank's UAS financials

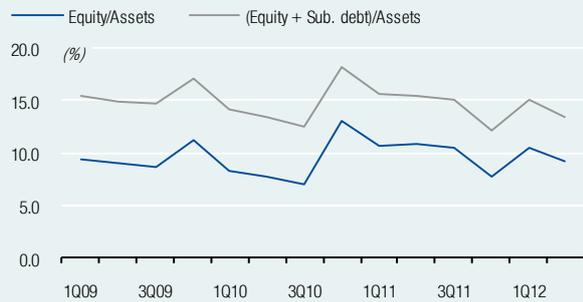
	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	29,845.1	30,826.2	33,144.6	33,588.7	35,869.9	36,661.3	37,067.2	35,394.4	38,170.0
Cash and cash equivalents	4,026.7	2,818.5	2,075.9	2,982.9	2,896.6	2,908.4	3,690.9	3,025.4	3,344.9
Gross loans	26,159.3	26,206.2	30,519.3	30,581.3	32,261.8	33,194.3	33,140.2	32,967.0	31,051.6
Gross business loans	22,995.5	23,054.1	27,416.6	27,714.1	29,180.6	29,761.7	29,359.6	28,925.6	26,373.6
Gross households loans	3,163.9	3,152.1	3,102.7	2,867.2	3,081.2	3,432.6	3,780.6	4,041.4	4,678.0
Loan loss reserves (LLR)	3,969.5	4,311.1	4,683.7	5,701.4	5,441.1	5,526.0	6,561.7	6,304.9	6,065.2
Deposits	9,118.8	9,517.2	8,085.2	8,984.7	10,384.6	9,987.2	11,936.3	11,238.2	11,135.4
Business deposits	4,636.9	4,595.8	3,250.0	4,691.7	5,810.9	5,182.7	6,507.1	5,830.5	5,540.7
Households deposits	4,481.9	4,921.5	4,835.3	4,293.1	4,573.7	4,804.4	5,429.2	5,407.6	5,594.7
Total equity	2,327.0	2,182.5	4,343.4	3,597.3	3,872.2	3,876.9	2,839.6	3,717.0	3,493.2
Quarterly P&L									
Net interest income	403.8	373.6	485.9	536.6	581.0	592.4	490.5	452.8	500.8
Net commission income	55.0	61.2	60.4	65.0	84.1	96.3	130.8	105.9	157.8
Operating income (before LLP)	470.2	443.2	522.5	586.4	666.6	755.7	614.3	572.5	739.5
Operating expense	(231.4)	(223.0)	(299.9)	(271.8)	(298.9)	(334.5)	(443.2)	(289.1)	(295.7)
Loan-loss provisions (LLP)	(238.7)	(350.4)	(575.4)	(186.2)	(97.7)	(408.6)	(890.7)	297.9	(641.6)
Net income	0.3	(130.6)	(353.1)	117.5	255.5	27.1	(720.9)	585.2	(202.3)
Last 12-month period P&L									
Net interesting income	1,790.3	1,715.7	1,703.0	1,799.9	1,977.0	2,195.9	2,200.5	2,116.8	2,036.6
Net commission income	237.7	218.3	222.3	241.6	270.7	305.8	376.2	417.1	490.9
Operating income (before LLP)	2,149.0	2,008.2	1,925.0	2,022.3	2,218.6	2,531.1	2,622.9	2,609.1	2,682.0
Operating expense	(777.5)	(831.5)	(936.9)	(1,026.1)	(1,093.6)	(1,205.1)	(1,348.3)	(1,365.7)	(1,362.5)
Loan-loss provisions (LLP)	(1,392.4)	(1,309.4)	(1,471.1)	(1,350.7)	(1,209.7)	(1,267.9)	(1,583.2)	(1,099.1)	(1,642.9)
Net income	(1.0)	(130.0)	(483.4)	(365.9)	(110.7)	47.1	(320.8)	146.9	(310.9)
Growth rates (%YoY)									
Assets	9.4	9.1	15.2	20.0	20.2	18.9	11.8	5.4	6.4
Gross loans	3.5	-1.1	16.4	15.8	23.3	26.7	8.6	7.8	-3.8
Deposits (by businesses)	92.8	80.0	61.8	53.8	25.3	12.8	100.2	24.3	-4.6
Deposits (by households)	129.4	102.5	52.9	7.6	2.0	-2.4	12.3	26.0	22.3
Deposits (total)	109.2	91.0	56.4	27.6	13.9	4.9	47.6	25.1	13.7
Total Equity	-5.5	-11.5	33.7	55.4	66.4	77.6	-34.6	3.3	-9.8
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	14.3	22.9	20.3	18.9	13.1	13.0	13.2	11.7	11.6
Equity/Assets	7.8	7.1	13.1	10.7	10.8	10.6	7.7	10.5	9.2
(Equity + Subor. debt)/Assets	13.4	12.5	18.2	15.7	15.5	15.2	12.2	15.2	13.4
Cash & cash equivalents/Liabilities	14.6	9.8	7.2	9.9	9.1	8.9	10.8	9.6	9.6
Current liquidity (R5 by NBU)	146.4	101.8	55.0	103.5	73.4	72.0	57.1	52.4	94.7
Gross loans/Deposits	286.9	275.4	377.5	340.4	310.7	332.4	277.6	293.3	278.9
Net loans/Deposits	243.3	230.1	319.5	276.9	258.3	277.0	222.7	237.2	224.4
Cost-to-income ratio	36.2	41.4	48.7	50.7	49.3	47.6	51.4	52.3	50.8
Net interest margin	7.4	7.0	6.7	6.8	7.1	7.5	7.5	7.2	6.8
ROAA	-0.003	-0.4	-1.6	-1.1	-0.3	0.1	-0.9	0.4	-0.8
ROAE	-0.04	-5.2	-17.3	-11.8	-3.2	1.2	-9.0	4.1	-8.9
NII/Operating income	83.3	85.4	88.5	89.0	89.1	86.8	83.9	81.1	75.9
Core income/Operating expense	260.8	232.6	205.5	199.0	205.5	207.6	191.1	185.5	185.5
LLR/Gross loans	15.2	16.5	15.3	18.6	16.9	16.6	19.8	19.1	19.5

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

VTB Bank: Charts on bank's key credit metrics

Chart 72. Bank's capitalisation



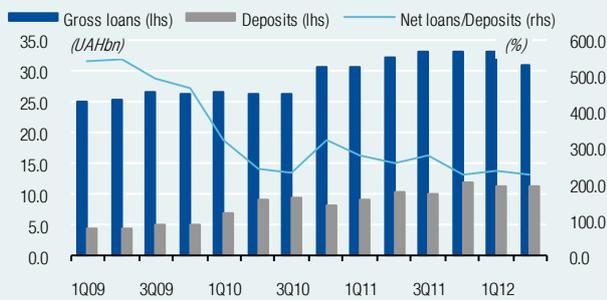
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 73. Liquidity



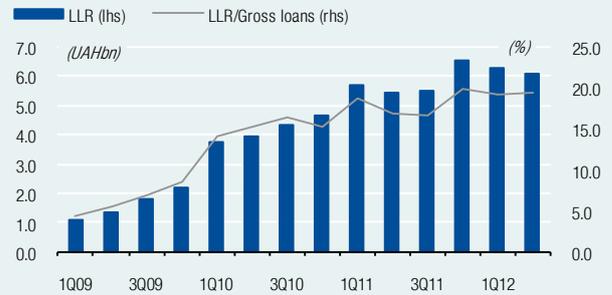
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 74. Loans and deposits



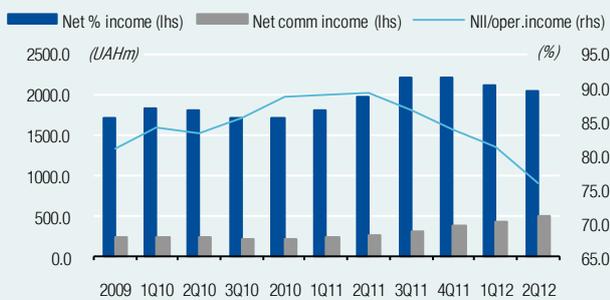
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 75. Loan loss reserves history



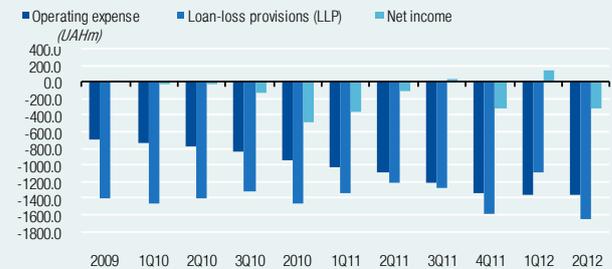
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 76. Income structure (annualised basis)



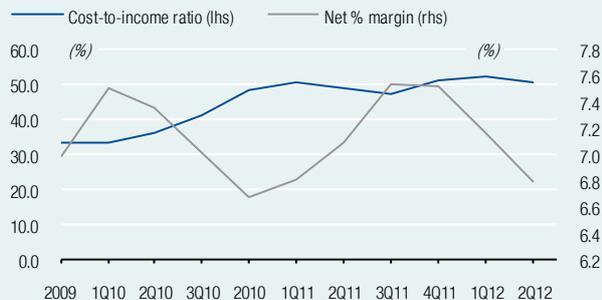
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 77. Expense and net income (annualised basis)



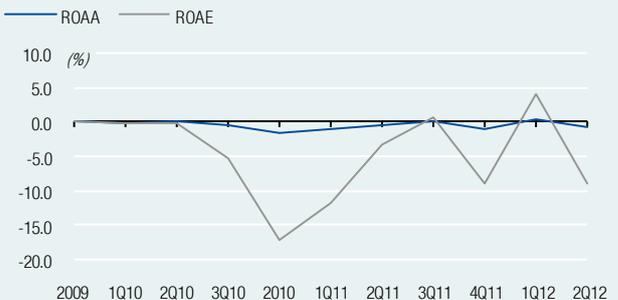
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 78. Financial performance ratios



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

Chart 79. Financial performance ratios



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

Country

Ukraine

First Ukrainian International Bank

Sector

Banks: Commercial banking

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

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

Despite the banking sector's overall lacklustre performance during 2Q12, FUIB's financials were quite strong, and in line with the bank's positive growth trend predetermined by the management earlier. Moreover, we have not seen any material issues in the bank's capitalisation, liquidity, or erosion of credit portfolio quality, still placing FUIB among the strongest privately held players in Ukraine.

Capitalisation: Historically strong. FUIB's regulatory capital adequacy ratio (R2 by the NBU) grew by 0.4ppt, to a strong 15.5%, mostly due to the last period's earnings, and still presenting a solid level.

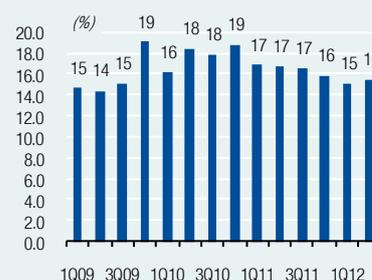
Liquidity: Back to an excessive level. During 2Q12, the bank's cash and cash equivalents grew 37.1% QoQ, to 13.9% liabilities coverage, returning to the habitually excessive levels after 1Q12's outflow. As of end-2Q12, among the bank's held securities were UAH3.3bn of Ukrainian state-owned debt, with 57% in local currency, and 43% in USD-denominated, which, we believe, is a quite moderate exposure to sovereign, and presents a good possibility to decrease FX currency risks.

Assets' quality: Still on an improving trajectory. The bank's gross credit portfolio fell by 1.2% QoQ, to UAH19.6bn, due to a decrease in the retail segment, by 9.5%, to UAH4.9bn, while the corporate segment continued to grow, by 1.8% to UAH14.8bn. Loan-loss reserves decreased by 17.3%, to UAH3.5bn, presenting 17.8% loans coverage. According to the bank's data, during 2Q12, it wrote off about UAH0.8bn in non-performing loans, mostly from households, showing a continuation in its process of credit portfolio clearance. The bank's NPLs (considering 60-plus-day overdue loans) fell by 1.9ppt YTD, to 18.3% of the credit portfolio.

P&Ls: Still solid. The bank finished the second quarter with UAH89.2m in net income, versus UAH38.8m in 1Q12, decreasing its annualised ROE by 0.7ppt, to a still competitive 7.8%. The bank's net interest margin and cost-to-income ratios changed immaterially, to 7.6% and 50.4%, respectively. FUIB's quarterly loan-loss provisioning grew by 20.7% QoQ, to UAH115.6m, but an increase in core income of 7.1% QoQ, to UAH485.9m, allowed the bank to defray the growth in its provisioning charge and show quite decent profitability.

Bank's funding: The bank's client's deposit base grew by 3.6% QoQ, to UAH16.6bn, mostly due to household deposits, which amounted to 9.5bn, as the business segment increased slightly.

RCAR according to UAS



Source: bank data.

Key financials and ratios according to UAS

	2010	2011	1Q12	2Q12
	IFRS(US\$)	IFRS(US\$)	UAS(UAH)	UAS(UAH)
Assets	3,721	3,270	31,639	31,459
Net Loans	2,056	2,142	15,670	16,153
Deposits	2,531	2,092	16,070	16,650
Equity	605	618	4,076	4,094
Net % income	123	144	1,612	1,756
Net com income	32	37	339	368
Operating income	173	198	2,039	2,186
PPI	76	83	1,010	1,085
LLP	(8)	(12)	(645)	(709)
Net income	56	60	299	296
Ratios (%)				
Tier 1 ratio	20.3	20.1	N/A	N/A
CAR	26.8	26.1	15.1	15.5
Equity-to-assets	16.3	18.9	12.9	13.0
Loan-to-deposit	81.2	102.4	97.5	97.0
Cash/liabilities	9.2	5.7	11.6	13.9
ROAA	1.9	2.2	1.0	0.9
ROAE	10.8	11.2	8.5	7.8
Net % margin	4.8	6.0	7.7	7.6
NII-to-op.income	70.9	72.6	79.1	80.3
Cost-to-income	56.0	57.9	50.5	50.4
LLR	15.1	14.7	21.2	17.8
NPLs (IFRS)	20.2	18.3	N/A	N/A
NPL coverage	75.0	80.4	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively NII – Net interest income; LLR – loan-loss reserves; NPL – non-performing loans (60+ days overdue).

Sources: Bank data, Investment Capital Ukraine LLC.

Table 32. List of outstanding Eurobonds issued by FUIB, pricing as of 10 September, 2012

Bond	Rating	Currency	Volume (m)	Price (% of par)	Yield (%)	Spread over UST ¹ (bp)	Spread over sovereign ² (bp)
PUMBUZ 11% due 14	B2/--/NR	USD	252.488	97.716	12.151	1,176	522

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

Sources: Company data.

FUIB: IFRS financials – key financials and ratios

Table 33. Key financials derived from bank's IFRS financial reports

	2005	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	2011	1Q12	2Q12
P&L (YTD)	(US\$m)											
Net interest income	24.1	42.9	72.0	136.1	127.4	126.2	22.3	44.9	111.4	122.7	29.3	65.9
Net fee & commission income	13.9	17.1	27.1	32.1	19.2	19.6	5.9	11.8	23.7	32.5	7.7	16.5
Operating income	42.1	64.3	106.4	195.4	159.0	162.7	32.1	64.9	150.2	173.0	40.5	89.8
Pre-provision income (PPI)	16.2	30.0	54.4	117.7	98.2	93.2	14.8	28.4	83.4	76.1	15.5	35.5
Loan-loss provisions (LLP)	(5.8)	(13.1)	(14.8)	(103.2)	(162.4)	(21.3)	(9.3)	(9.5)	(19.9)	(8.1)	(8.7)	(13.1)
Pre-tax income	10.5	16.8	38.2	7.5	(56.1)	71.5	5.4	19.0	63.4	68.5	6.6	22.1
Net income (NI)	6.9	11.3	28.0	15.3	(54.3)	54.4	3.8	14.2	47.9	56.4	5.5	17.6
Balance sheet	(US\$m)											
Cash & balances with central bank	16.1	27.2	112.1	99.1	95.7	125.5	82.9	101.4	75.1	342.2	235.0	184.9
Due from banks	194.7	168.9	112.4	113.6	296.2	336.8	288.5	287.4	742.1	585.4	208.0	321.3
Loans to customers	360.2	676.1	1,675.9	1,902.1	1,418.1	1,408.7	1,458.9	1,494.4	1,954.9	2,055.8	2,095.2	2,142.2
Investment securities	20.0	70.6	122.8	33.5	6.2	212.8	302.6	162.0	268.1	522.9	464.0	413.4
Property, equipment and intangible assets	52.2	90.2	173.8	144.5	123.3	120.3	123.4	121.9	156.3	174.8	171.5	172.7
Other assets	4.0	12.1	44.2	24.9	47.7	18.1	28.9	31.0	36.3	39.8	35.7	36.0
Total assets	647.1	1,045.0	2,241.2	2,317.8	1,987.3	2,222.2	2,285.2	2,198.1	3,232.9	3,720.9	3,209.3	3,270.5
Due to banks	53.3	53.5	71.6	62.6	29.9	160.7	241.8	53.7	68.8	65.2	63.0	60.8
Due to central bank	0.5	0.0	0.0	66.8	245.2	174.4	165.7	152.9	127.5	127.2	127.2	127.1
Customer accounts	380.5	501.1	832.2	863.5	727.0	1,005.8	1,022.9	1,147.9	2,042.5	2,531.3	2,023.6	2,092.2
Wholesale borrowings	109.0	291.4	817.2	806.5	560.5	402.6	372.9	349.6	306.2	293.6	283.1	271.0
Subordinated debt	0.0	0.0	0.0	0.0	27.8	27.8	27.8	27.8	86.2	85.3	85.5	85.7
Total equity	94.9	182.6	482.7	451.2	375.7	434.8	441.1	450.3	491.1	604.9	614.0	617.7
Total liabilities & equity	647.1	1,045.0	2,241.2	2,317.8	1,987.3	2,222.2	2,285.2	2,198.1	3,232.9	3,720.9	3,209.3	3,270.5

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

Sources: Company data.

Table 34. Key financial ratios derived from bank's IFRS financial reports

	2005	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	2011	1Q12	2Q12	
Growth rates (%YoY)													
Assets	(%YoY)	N/A	61.5	114.5	3.4	-14.3	11.8	15.5	10.2	44.3	67.4	40.4	48.8
Loans	(%YoY)	N/A	87.7	147.9	13.5	-25.4	-0.7	5.1	11.8	41.8	45.9	43.6	43.4
Deposits	(%YoY)	N/A	31.7	66.1	3.8	-15.8	38.4	25.8	36.1	95.0	151.7	97.8	82.3
Equity	(%YoY)	N/A	92.3	164.4	-6.5	-16.7	15.7	11.9	13.8	18.8	39.1	39.2	37.2
Net interest income	(%YoY)	N/A	78.3	67.7	89.1	-6.4	-0.9	-31.4	-29.7	-9.0	-2.8	31.7	46.9
Net commission income	(%YoY)	N/A	23.4	58.5	18.5	-40.2	1.8	35.2	37.6	25.0	65.8	32.0	40.1
Operating income	(%YoY)	N/A	52.8	65.5	83.7	-18.6	2.3	-17.9	-13.8	3.0	6.3	26.3	38.3
Balance sheet ratios													
Liquid assets/Assets	(%)	2.5	2.6	5.0	4.3	4.8	5.6	3.6	4.6	2.3	9.2	7.3	5.7
Liquid assets/Liabilities	(%)	2.9	3.2	6.4	5.3	5.9	7.0	4.5	5.8	2.7	11.0	9.1	7.0
Due from banks/Due to banks	(x)	3.6	3.2	1.6	0.9	1.1	1.0	0.7	1.4	3.8	3.0	1.1	1.7
Current ratio	(x)	1.1	0.9	1.0	0.9	2.0	1.4	2.8	10.3	15.8	1.0	14.4	1.1
Equity/Assets	(%)	14.7	17.5	21.5	19.5	18.9	19.6	19.3	20.5	15.2	16.3	19.1	18.9
Gross loans/Deposits	(%)	98.3	140.1	206.3	235.0	234.6	170.4	N/A	N/A	95.7	95.7	103.5	120.1
Net loans/Deposits	(%)	94.7	134.9	201.4	220.3	195.1	140.1	142.6	130.2	95.7	81.2	103.5	102.4
Wholesale borrowings/Liabilities (%)	(%)	19.7	33.8	46.5	43.2	34.8	22.5	20.2	20.0	11.2	9.4	10.9	10.2
Profitability & Earning quality													
ROAA	(%)	N/A	1.3	1.7	0.7	-2.5	2.6	2.0	2.5	1.8	1.9	2.1	2.2
ROAE	(%)	N/A	8.2	8.4	3.3	-13.1	13.4	10.3	12.4	10.8	10.8	11.0	11.2

Table 34. Key financial ratios derived from bank's IFRS financial reports

		2005	2006	2007	2008	2009	2010	1Q11	2Q11	3Q11	2011	1Q12	2Q12
Net interest income/Operating income	(%)	N/A	66.8	67.6	69.7	80.1	77.6	74.5	70.4	69.0	70.9	71.5	72.6
Net commission income/Operating income	(%)	N/A	26.6	25.5	16.4	12.1	12.0	13.5	15.0	14.6	18.8	18.9	18.8
Other income/Operating income	(%)	N/A	6.6	6.9	13.9	7.8	10.4	12.0	14.6	16.5	10.3	9.6	8.6
Net interest margin	(%)	N/A	5.8	5.1	6.9	6.8	6.9	6.2	5.9	4.6	4.8	5.4	6.0
Cost-to-income ratio	(%)	N/A	53.4	48.9	39.8	38.3	42.7	44.7	46.4	43.7	56.0	57.6	57.9
LLP/Operating income	(%)	N/A	20.4	13.9	52.8	102.1	13.1	10.9	7.3	17.5	4.7	4.1	5.9
Assets quality													
NPL/Gross loans	(%)	0.3	1.3	0.8	5.2	40.7	34.3	N/A	N/A	N/A	30.7	N/A	N/A
NPL coverage	(%)	1,134.3	292.4	292.0	121.6	41.4	52.0	N/A	N/A	N/A	49.3	N/A	N/A
LLR/Gross loans	(%)	3.7	3.7	2.4	6.3	16.9	17.8	N/A	N/A	N/A	15.1	14.8	14.7
LLP/PPI	(%)	N/A	43.7	27.3	87.7	165.5	22.8	19.6	13.6	31.0	10.6	9.7	14.0
Earning power													
Recurring earning power	(%)	N/A	3.5	3.3	5.2	4.6	4.4	4.0	3.9	3.4	2.6	2.8	3.0
PPI/Average total capital funds	(%)	N/A	21.6	16.3	25.2	23.7	23.0	20.6	19.3	20.8	14.6	14.6	15.6
Interest expense/Interest income	(%)	N/A	49.2	57.2	55.7	57.3	54.8	56.1	57.0	49.1	59.3	59.4	58.3
Interest income/Average interest earning assets	(%)	N/A	11.3	11.9	15.5	15.8	15.2	14.0	13.6	9.1	11.8	13.3	14.3
Interest expense/Average interest bearing liabilities	(%)	N/A	6.0	7.5	9.7	10.1	9.1	8.7	8.6	5.0	7.3	8.6	9.2
Net spread	ppt	N/A	5.4	4.4	5.8	5.7	6.1	5.3	5.1	4.1	4.4	4.7	5.1
Income tax / Pretax income	(%)	N/A	32.8	26.6	-103.7	3.2	23.9	37.1	25.5	24.4	17.7	16.6	16.5
Efficiency													
Non-interest expense/Average assets	(%)	N/A	6.3	4.7	8.5	10.8	4.8	4.6	4.5	4.2	4.1	4.7	5.4
Personnel expense/Average assets	(%)	N/A	1.7	1.5	1.6	1.3	1.6	N/A	N/A	N/A	1.8	N/A	N/A
Personnel expense/Operating income	(%)	N/A	22.5	23.5	19.1	18.0	20.2	N/A	N/A	N/A	30.1	N/A	N/A
Personnel expense/Non-interest expense	(%)	N/A	27.0	32.4	19.3	12.4	32.3	N/A	N/A	N/A	43.1	N/A	N/A
Funding structure													
Customer accounts/Total funding base	(%)	59.6	48.7	37.8	38.4	37.0	45.6	45.0	52.6	65.4	68.3	63.3	64.3
Net loans/Total funding base	(%)	56.4	65.7	76.1	84.5	72.1	63.9	64.2	68.5	62.6	55.4	65.5	65.8
Average net loans/Average customer accounts	(%)	N/A	117.5	176.4	211.0	208.8	163.1	155.1	142.2	107.9	97.9	116.7	112.2
Customer accounts/Shareholders' equity	(%)	400.8	274.5	172.4	191.4	193.5	231.3	231.9	254.9	415.9	418.4	329.6	338.7
Other ratios and indicators													
Retail share in loan book	(%)	N/A	13.0	23.5	28.7	28.2	24.6	28.0	26.8	N/A	25.0	25.5	26.0
Personnel expense per employee	(UAH 000s)	N/A	7.5	8.9	11.4	10.9	13.1	N/A	N/A	N/A	13.4	N/A	N/A
Operating income per employee	(UAH 000s)	N/A	33.2	37.6	59.7	60.7	64.9	N/A	N/A	N/A	44.7	N/A	N/A

Notes: NPL – non-performing loans, calculated as total impaired loans.

Sources: Bank data, Investment Capital Ukraine LLC..

FUIB: Key quarterly UAS financials and ratios

Table 35. Key financials and ratios derived from bank's UAS financials

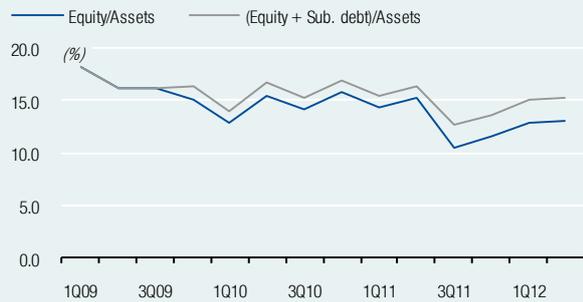
	2Q10	3Q10	2010	1011	2Q11	3Q11	4Q11	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	17,042.0	18,743.5	18,098.4	20,002.4	19,505.6	29,278.5	34,866.1	31,638.8	31,459.2
Cash and cash equivalents	3,307.4	4,751.5	3,848.2	2,865.2	2,470.6	5,991.8	7,028.5	3,196.8	3,805.5
Gross loans	12,923.4	13,237.7	17,894.7	14,104.6	14,479.4	18,666.3	19,695.0	19,889.1	19,641.3
Gross business loans	9,344.4	9,787.6	10,269.1	10,840.2	11,268.2	14,123.4	14,542.9	14,515.7	14,776.8
Gross households loans	3,579.0	3,450.1	3,351.2	3,264.4	3,211.1	4,542.8	5,152.0	5,373.4	4,864.5
Loan loss reserves (LLR)	2,854.8	2,936.3	3,009.6	3,168.1	3,221.6	4,037.5	4,121.2	4,219.5	3,488.5
Deposits	6,635.0	8,266.0	8,003.1	8,114.7	9,125.8	16,234.7	20,093.7	16,070.3	16,649.6
Business deposits	2,008.7	3,454.3	2,896.1	2,612.9	3,462.8	7,868.3	11,464.4	7,018.5	7,112.8
Households deposits	4,626.3	4,811.7	5,107.0	5,501.8	5,663.0	8,366.4	8,629.3	9,051.8	9,536.9
Total equity	2,621.2	2,647.3	2,850.9	2,880.6	2,968.3	3,056.4	4,029.9	4,075.7	4,093.6
Quarterly P&L									
Net interest income	239.5	237.8	257.6	240.0	253.9	589.2	393.3	375.7	397.7
Net commission income	46.8	66.0	61.8	52.0	59.0	118.1	84.0	78.0	88.2
Operating income (before LLP)	307.1	291.0	333.7	319.4	334.6	746.8	468.1	489.5	482.0
Operating expense	(139.2)	(125.1)	(164.3)	(143.0)	(164.5)	(255.5)	(260.4)	(348.9)	(236.2)
Loan-loss provisions (LLP)	(118.0)	(66.2)	(65.4)	(156.8)	(50.8)	(416.1)	(82.1)	(95.8)	(115.6)
Net income	16.7	32.4	160.0	8.4	92.1	60.2	107.4	38.8	89.2
Last 12-month period P&L									
Net interesting income	982.9	961.9	992.0	974.8	989.2	1,340.6	1,476.4	1,612.1	1,755.9
Net commission income	194.1	197.3	216.1	226.7	238.9	291.0	313.2	339.1	368.4
Operating income (before LLP)	1,368.0	1,250.3	1,243.3	1,251.3	1,278.8	1,734.5	1,868.9	2,039.0	2,186.3
Operating expense	(572.0)	(570.4)	(557.9)	(571.6)	(596.9)	(727.3)	(823.4)	(1,029.4)	(1,101.1)
Loan-loss provisions (LLP)	(909.9)	(604.1)	(431.4)	(406.3)	(339.1)	(689.0)	(705.8)	(644.7)	(709.5)
Net income	(153.7)	(144.8)	235.4	217.5	292.9	320.8	268.2	298.5	295.6
Growth rates (%YoY)									
Assets	-4.0	4.9	4.0	-0.9	14.5	56.2	92.6	58.2	61.3
Gross loans	-7.9	-5.0	32.0	5.9	12.0	41.0	10.1	41.0	35.7
Deposits (by businesses)	11.1	101.8	46.2	33.6	72.4	127.8	295.9	168.6	105.4
Deposits (by households)	49.8	39.2	34.9	23.1	22.4	73.9	69.0	64.5	68.4
Deposits (total)	35.5	60.0	38.8	26.3	37.5	96.4	151.1	98.0	107.4
Total Equity	-8.7	-9.0	8.5	10.2	13.2	15.5	41.4	41.5	37.9
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	18.4	17.8	18.8	16.9	16.7	16.6	15.9	15.1	15.5
Equity/Assets	15.4	14.1	15.8	14.4	15.2	10.4	11.6	12.9	13.0
(Equity + Subor. debt)/Assets	16.7	15.3	17.0	15.5	16.4	12.8	13.5	15.1	15.2
Cash & cash equivalents/Liabilities	22.9	29.5	25.2	16.7	14.9	22.9	22.8	11.6	13.9
Current liquidity (R5 by NBU)	101.0	94.4	68.8	40.5	53.8	58.2	68.3	47.9	53.5
Gross loans/Deposits	194.8	160.1	223.6	173.8	158.7	115.0	98.0	123.8	118.0
Net loans/Deposits	151.8	124.6	186.0	134.8	123.4	90.1	77.5	97.5	97.0
Cost-to-income ratio	41.8	45.6	44.9	45.7	46.7	41.9	44.1	50.5	50.4
Net interest margin	7.9	7.9	7.3	6.9	6.6	7.9	7.9	7.7	7.6
ROAA	-0.8	-0.8	1.3	1.2	1.5	1.5	1.0	1.0	0.9
ROAE	-5.7	-5.5	8.8	7.9	10.3	10.9	8.3	8.5	7.8
NII/Operating income	71.9	76.9	79.8	77.9	77.4	77.3	79.0	79.1	80.3
Core income/Operating expense	205.8	203.2	216.5	210.2	205.7	224.3	217.3	189.6	192.9
LLR/Gross loans	22.1	22.2	16.8	22.5	22.2	21.6	20.9	21.2	17.8

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

FUIB: Charts on bank's key credit metrics

Chart 80. Bank's capitalisation



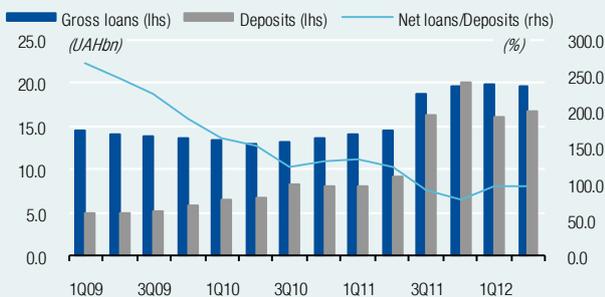
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 81. Liquidity



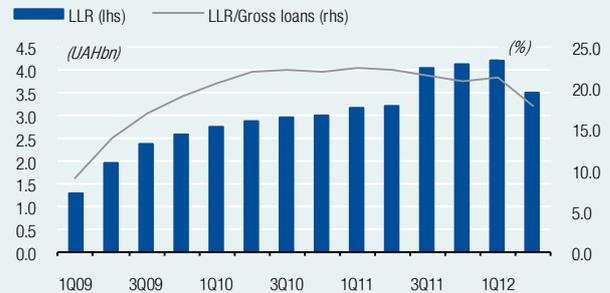
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 82. Loans and deposits



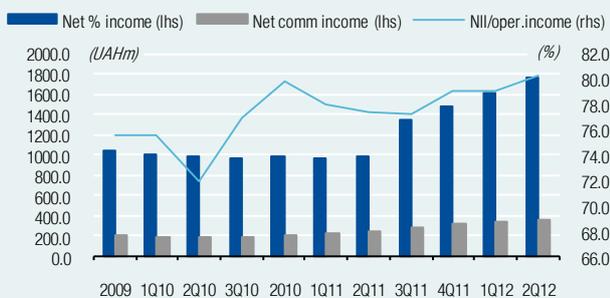
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 83. Loan loss reserves history



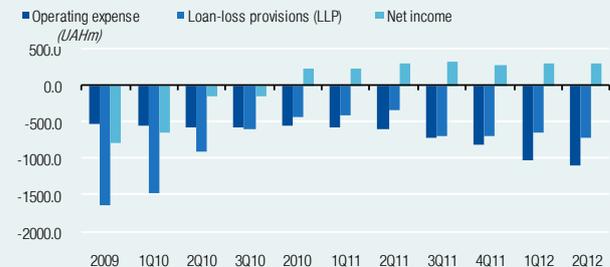
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 84. Income structure (annualised basis)



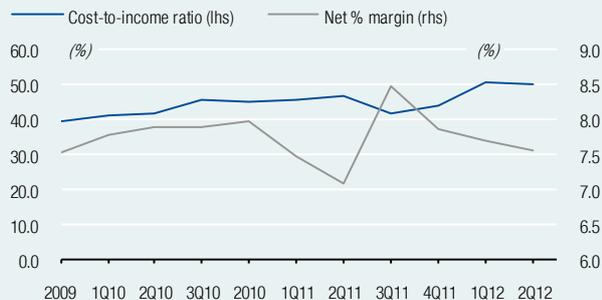
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 85. Expense and net income (annualised basis)



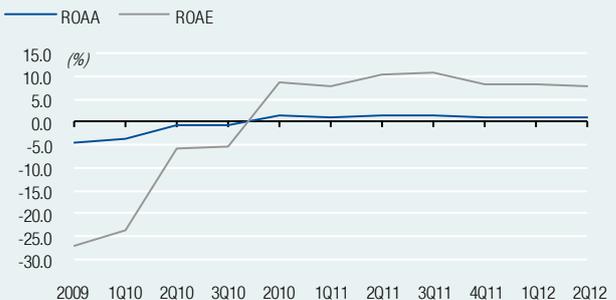
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 86. Financial performance ratios



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

Chart 87. Financial performance ratios



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

Country

Ukraine

UkrSibbank

Sector

Banks: Commercial banking

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

B3/NR/B UKRSIB

UkrSibbank's 2Q12 financials were in line with 1Q12 results, showing constant improvements after significant loan loss provisioning charges made earlier, during 2009-11. As most of the hard impact was taken until the end of 2011, we expect that the bank will present competitive full-year 2012 results, although 1H12 figures are still far from strong, with further rebalancing processes foreseen.

Capitalisation: Increased, currently at a strong level. During 2Q12, the bank's RCAR grew 1.8ppt, to a high 18.7%, due to a shrinkage in risk-weighted assets. As the bank has already made loan-loss provisioning charges in the past, and its expansion claims are quite moderate, we do not expect a material fall in the bank's capital in the short term.

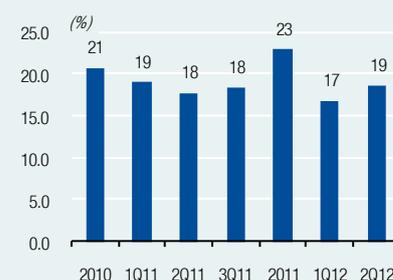
Liquidity: Still at an excessive level. The bank's cash and cash equivalents grew by 7.6% QoQ, to a 24.0% liabilities coverage. UkrSibbank also has about UAH1.6bn of securities held on its balance sheet, which is 20.7% higher than as of end-1Q12.

Assets' quality: Unlikely to materially change. During 2Q12, the bank decreased its gross credit portfolio by 11.9%, to UAH18.3bn, with a decline in both the corporate and households' segments. Loan-loss reserves fell by 34.5%, to a 12.7% gross loans coverage, and we do not rule out a further decrease in NPLs through disposal of bad loans (possibly through the completion of earlier sale arrangements).

P&L: Positive, but still weak. The bank finished the 2Q12 with UAH17.7m in net income, only slightly lifting up its negative annualised ROE. As the last big losses for the bank were at end-2011, we expect that it will present positive annualised P&L figures as of year-end 2012. The bank's net interest margin grew by 2.0ppt QoQ, to a quite strong 10.4%, while the cost-to-income ratio fell by 5.0ppt, to a still-extreme level of 136.9%.

Bank's funding: During 2Q12, UkrSibbank showed a further decrease of its FX due-to other banks (likely parent funding), by 43.0%, to a UAH1.4bn equivalent. The clients' deposits base increased by 6.7% QoQ, to UAH18.3bn, mostly due to the corporate segment, which amounted to UAH7.0bn, while household deposits changed immaterially.

Total gross loans (UAHbn, UAS data)



Source: bank data.

Key financials and ratios

	3Q11	2011	1Q12	2Q12
	UAS	UAS	UAS	UAS
Financials				
Assets	42,235	32,868	29,861	28,648
Loans	22,885	18,504	17,178	15,936
Deposits	18,931	20,701	17,181	18,328
Equity	3,629	1,259	2,594	2,615
Net % income	2,516	2,444	2,125	2,229
Net com income	508	490	527	518
Operating income	3,350	3,948	3,620	3,698
PPI	(237)	(981)	(1,520)	(1,366)
LLP	(2,495)	(2,536)	(1,889)	(1,563)
Net income	(2,487)	(3,721)	(3,516)	(3,110)
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	18.5	22.9	16.9	18.7
Equity-to-assets	8.6	3.8	8.7	9.1
Loan-to-deposit	120.9	89.4	100.0	86.9
Liquid assets	23.1	23.8	21.3	24.0
ROAA	-5.5	-8.8	-9.3	-9.3
ROAE	-55.8	-104.7	-117.7	-123.2
Net % margin	7.5	8.2	8.3	10.4
NII-to-op.income	75.1	61.9	58.7	60.3
Cost-to-income	107.1	124.8	142.0	136.9
LLR	23.9	20.8	17.1	12.7
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 based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
NII – Net interest income; LLR – loan-loss reserves;
NPL – non-performing loans (90+days overdue).

Sources: Bank data, Investment Capital Ukraine LLC.

UkrSibbank: IFRS financials – key financials and ratios

Table 36. Key financials derived from bank's IFRS financial reports

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

Sources: Company data.

Table 37. Key financial ratios derived from bank's IFRS financial reports

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

Table 37. Key financial ratios derived from bank's IFRS financial reports

		2008	2009	2010
Net commission income/Operating income	(%)	N/A	15.7	29.0
Other income/Operating income	(%)	N/A	10.4	7.1
Net interest margin	(%)	N/A	5.5	3.3
Cost-to-income ratio	(%)	N/A	59.4	115.7
LLP/Operating income	(%)	N/A	163.3	163.5
Assets quality				
NPL/Gross loans	(%)	4.7	27.9	38.0
NPL coverage	(%)	168.3	73.8	77.9
LLR/Gross loans	(%)	7.9	20.6	29.6
LLP/PPI	(%)	N/A	(872.9)	(124.4)
Earning power				
Recurring earning power	(%)	N/A	(1.2)	(5.5)
PPI/Average total capital funds	(%)	N/A	(20.0)	(112.5)
Interest expense/Interest income	(%)	N/A	62.2	73.9
Interest income/Average interest earning assets	(%)	N/A	14.5	12.7
Interest expense/Average interest bearing liabilities	(%)	N/A	8.4	7.9
Net spread	ppt	N/A	6.1	4.7
Income tax / Pretax income	(%)	N/A	17.1	0.8
Efficiency				
Non-interest expense/Average assets	(%)	N/A	14.4	11.7
Personnel expense/Average assets	(%)	N/A	1.9	2.3
Personnel expense/Operating income	(%)	N/A	29.7	56.2
Personnel expense/Non-interest expense	(%)	N/A	13.2	19.9
Funding structure				
Customer accounts/Total funding base	(%)	28.0	32.9	42.7
Net loans/Total funding base	(%)	87.5	81.4	60.6
Average net loans/Average customer accounts	(%)	N/A	280.9	188.4
Customer accounts/Shareholders' equity	(%)	404.6	667.6	885.4
Other ratios and indicators				
Retail share in loan book	(%)	N/A	61.6	63.2
Personnel expense per employee	(UAH 000s)	N/A	79.9	92.0
Operating income per employee	(UAH 000s)	N/A	269.0	163.6

Sources: Bank data, Investment Capital Ukraine LLC..

UkrSibbank: Quarterly UAS financials – key financials and ratios

Table 38. Key financials and ratios derived from bank's UAS financials

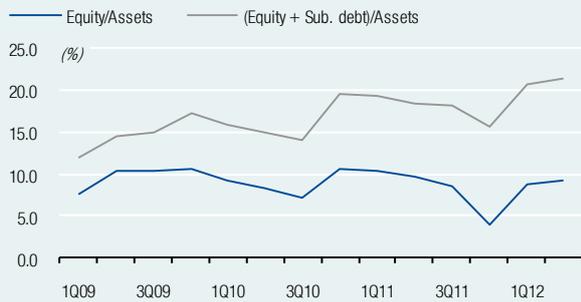
	2Q10	3Q10	2010	1011	2Q11	3Q11	4Q11	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	44,752.3	43,301.0	46,128.2	46,868.4	46,286.0	42,234.6	32,868.2	29,860.7	28,648.4
Cash and cash equivalents	4,783.1	2,829.3	6,530.1	5,656.2	7,368.3	8,911.5	7,531.1	6,013.2	6,255.2
Gross loans	41,405.8	40,984.0	38,699.3	36,934.1	34,787.2	30,065.8	23,370.8	20,714.3	18,253.1
Gross business loans	15,434.3	15,528.5	14,300.9	13,149.6	11,869.9	10,407.7	8,778.1	8,305.3	7,373.1
Gross households loans	25,971.5	25,455.6	24,398.4	23,784.4	22,917.3	19,658.0	14,592.6	12,409.0	10,880.1
Loan loss reserves (LLR)	8,741.4	10,458.4	10,438.5	10,777.4	9,942.6	7,181.3	4,866.8	3,536.5	2,316.9
Deposits	17,293.3	18,001.4	17,867.0	20,629.7	19,920.8	18,930.5	20,701.1	17,181.0	18,328.3
Business deposits	5,055.1	5,701.4	4,933.7	7,966.2	7,561.9	7,238.4	9,322.0	5,872.5	6,982.9
Households deposits	12,238.1	12,299.9	12,933.3	12,663.4	12,358.9	11,692.1	11,379.1	11,308.5	11,345.3
Total equity	3,711.5	3,055.3	4,855.4	4,866.4	4,469.8	3,628.5	1,258.9	2,594.4	2,614.9
Quarterly P&L									
Net interest income	657.5	743.3	748.3	801.7	399.3	566.6	676.5	482.8	502.8
Net commission income	127.8	136.0	146.2	86.3	136.4	139.5	128.2	123.3	127.2
Operating income (before LLP)	827.4	972.5	893.8	926.4	666.8	863.3	1,491.3	598.1	745.3
Operating expense	(476.5)	(454.1)	(1,138.0)	(792.0)	(908.9)	(748.2)	(2,479.4)	(1,002.6)	(833.8)
Loan-loss provisions (LLP)	(1,179.0)	(1,647.2)	(725.4)	(341.8)	(226.1)	(1,201.8)	(765.9)	304.8	100.1
Net income	(545.4)	(794.6)	(1,088.3)	(170.6)	(388.4)	(839.7)	(2,322.7)	34.5	17.7
Last 12-month period P&L									
Net interesting income	2,903.5	2,871.1	2,858.2	2,950.7	2,692.5	2,515.9	2,444.1	2,125.3	2,228.7
Net commission income	516.4	511.2	527.3	496.2	504.8	508.4	490.4	527.5	518.2
Operating income (before LLP)	3,638.7	3,654.3	3,577.8	3,620.1	3,459.5	3,350.3	3,947.9	3,619.5	3,698.0
Operating expense	(1,819.9)	(1,835.2)	(2,514.5)	(2,860.6)	(3,293.0)	(3,587.2)	(4,928.6)	(5,139.1)	(5,063.9)
Loan-loss provisions (LLP)	(4,004.8)	(4,740.8)	(4,785.2)	(3,893.5)	(2,940.6)	(2,495.2)	(2,535.7)	(1,889.0)	(1,562.9)
Net income	(1,675.2)	(2,167.2)	(3,145.2)	(2,598.8)	(2,441.8)	(2,486.9)	(3,721.3)	(3,516.2)	(3,110.2)
Growth rates (%YoY)									
Assets	-12.2	-10.6	-0.5	2.3	3.4	-2.5	-28.7	-36.3	-38.1
Gross loans	-11.6	-12.5	-14.5	-14.8	-16.0	-26.6	-39.6	-43.9	-47.5
Deposits (by businesses)	3.9	37.6	16.7	89.9	49.6	27.0	88.9	-26.3	-7.7
Deposits (by households)	40.8	31.5	30.4	14.5	1.0	-4.9	-12.0	-10.7	-8.2
Deposits (total)	27.6	33.3	26.3	35.3	15.2	5.2	15.9	-16.7	1.5
Total Equity	-29.7	-39.1	-0.9	14.6	20.4	18.8	-74.1	-46.7	-41.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	N/A	N/A	20.7	19.0	17.8	18.5	22.9	16.9	18.7
Equity/Assets	8.3	7.1	10.5	10.4	9.7	8.6	3.8	8.7	9.1
(Equity + Subor. debt)/Assets	15.0	14.1	19.5	19.3	18.3	18.2	15.6	20.8	21.5
Cash & cash equivalents/Liabilities	11.7	7.0	15.8	13.5	17.6	23.1	23.8	22.1	24.0
Current liquidity (R5 by NBU)	N/A	N/A	N/A	82.5	93.4	79.3	67.0	75.7	72.8
Gross loans/Deposits	239.4	227.7	216.6	179.0	174.6	158.8	112.9	120.6	99.6
Net loans/Deposits	188.9	169.6	158.2	126.8	124.7	120.9	89.4	100.0	86.9
Cost-to-income ratio	50.0	50.2	70.3	79.0	95.2	107.1	124.8	142.0	136.9
Net interest margin	7.4	7.6	7.7	8.1	7.5	7.5	8.2	8.3	10.4
ROAA	-3.6	-4.8	-7.0	-5.7	-5.3	-5.5	-8.8	-9.3	-9.3
ROAE	-37.5	-54.5	-79.3	-63.0	-56.6	-55.8	-104.7	-117.7	-123.2
NII/Operating income	79.8	78.6	79.9	81.5	77.8	75.1	61.9	58.7	60.3
Core income/Operating expense	187.9	184.3	134.6	120.5	97.1	84.3	59.5	51.6	54.2
LLR/Gross loans	21.1	25.5	27.0	29.2	28.6	23.9	20.8	17.1	12.7

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

UkrSibbank: Charts on bank's key credit metrics

Chart 88. Bank's capitalisation



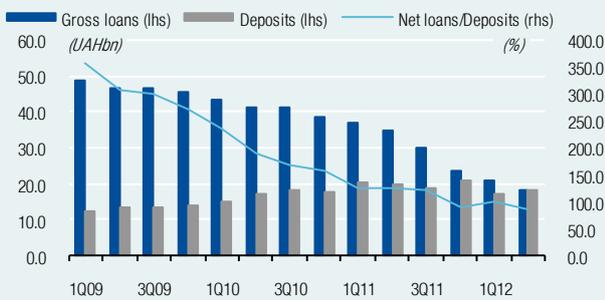
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 89. Liquidity



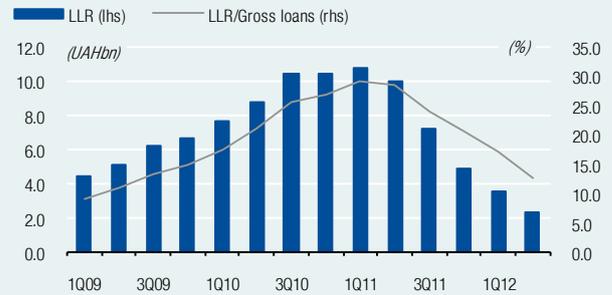
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 90. Loans and deposits



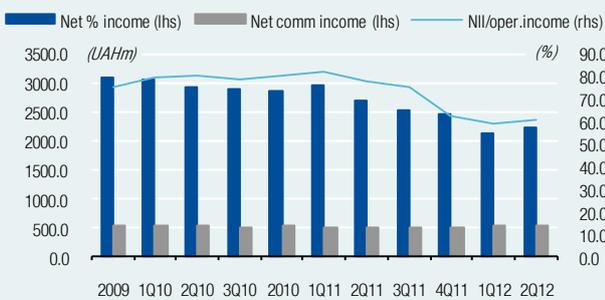
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 91. Loan loss reserves history



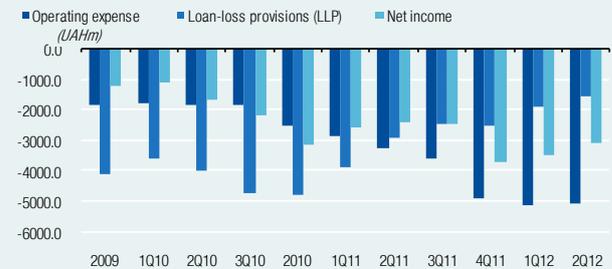
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 92. Income structure (annualised basis)



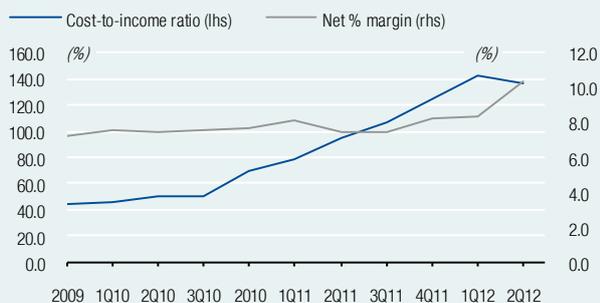
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 93. Expense and net income (annualised basis)



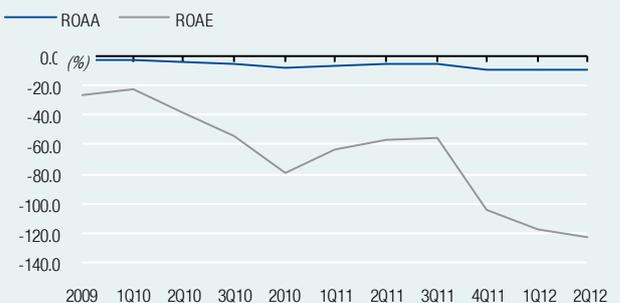
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 94. Financial performance ratios



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

Chart 95. 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

WR/NR/NR NADRA

Ticker(s) in Bloomberg

Nadra Bank's 2Q12 UAS financials did not surprise us with any positive trends, and the bank is still under a cloud of murky assets after the financial crisis. Even now, we question the bank's level of formed loan-loss reserves, declared profitability, and true level of capital. A more or less reliable analysis could be made on IFRS audited financials, which the bank is unwilling to reveal. At end-2Q12, a new chairman of the board was appointed, Dmytro Zinkov, a former chairman of OTP Bank (Ukraine) with quite a successful track record. We have positive expectations for his assignment, although it would be still incredibly hard for Mr Zinkov to engineer a turnaround at the bank and transform it into a bank that accumulates household deposits for corporate lending (here, in our view, DF Group, the bank's owner, is tempted to turn these savings into related party lending). Still, the 2Q12 households' deposits outflow revealed that the bank lacks the ability to attract private funds from the deposits market, and we do not expect such condition to change by end-2Q12.

Capitalisation: Weak. The bank has shown increase in its RCAR of 0.7ppt, to 11.1% as of end-2Q12. Such an increase was made due to the growth of regulatory capital, by 6.4% QoQ, to UAH3.4bn, yet without any obvious reasons.

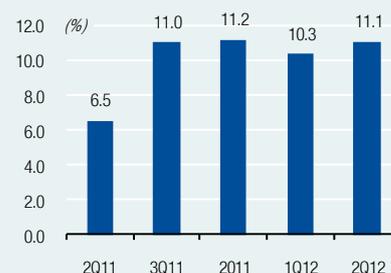
Liquidity: Weak. Cash and cash equivalents decreased by 16.7% QoQ, to a slight 6.3% of the bank's liabilities coverage. The bank also has a small amount of securities on its balance sheet, totaling UAH0.7bn, but we do not have information on their type or origin.

Assets quality: No public data, but also a weak point, in our view. Both the bank's loans to business and households fell during 2Q12, which resulted in a decrease in the total gross credit portfolio of 3.7%, to UAH24.0bn. The bank's loan loss reserves decreased by 11.1%, to an 18.4% credit portfolio coverage.

P&L: No true representation of actual developments. For its 2Q12 net income, the bank showed UAH0.2m, along with a still-negative annualised net interest margin and core income. We believe that a sufficiently high possibility exists that the bank is reporting profit (albeit of marginal size) for the purposes of not diminishing its capital, with loan-loss provisions of affordable amounts.

Bank's funding: A weak point, too. Total client deposits fell 15.1% QoQ, to UAH6.6bn, mostly due to the outflow in corporate deposits, while households' also decreased slightly, to UAH2.6bn. Due-from other banks were without material changes, at UAH10.0bn as of end-2Q12.

RCAR according to UAS



Source: bank data.

Key financials and ratios

	3Q11	2011	1Q12	2Q12
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	24,566	26,739	25,951	24,544
Loans	18,280	20,264	19,920	19,560
Deposits	7,449	8,667	7,764	6,595
Equity	3,980	4,029	4,029	4,029
Net % income	955	(338)	(256)	(390)
Net com income	57	82	137	141
Operating income	2,129	389	(77)	369
PPI	1,367	(371)	(859)	(1,528)
LLP	(1,483)	255	860	1,528
Net income	1	2	2	2
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	11.0	11.2	10.3	11.1
Equity-to-assets	16.2	15.1	15.5	16.4
Loan-to-deposit	245.4	233.8	256.6	296.6
Cash/Liabilities	13.0	11.9	7.8	6.3
ROAA	0.004	0.01	0.01	0.01
ROAE	0.04	0.1	0.1	0.1
Net % margin	4.8	-1.7	-1.2	-1.9
NII-to-op.income	44.8	-87.1	Not appl.	-105.8
Cost-to-income	35.8	195.4	Not appl.	514.5
LLR	24.9	19.5	19.9	18.4
NPLs	N/A	N/A	N/A	N/A
NPL coverage	N/A	N/A	N/A	N/A

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

Sources: Bank data, Investment Capital Ukraine LLC.

Nadra Bank: Key quarterly UAS financials and ratios

Table 39. Key financials and ratios derived from bank's UAS financials

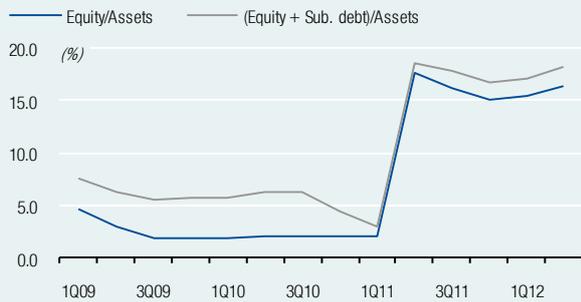
	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	22,852.1	23,093.8	22,907.7	22,448.5	22,485.3	24,566.4	26,739.2	25,950.8	24,544.3
Cash and cash equivalents	878.1	954.2	962.6	695.0	792.7	3,198.1	3,169.0	1,709.7	1,301.1
Gross loans	23,692.2	24,085.7	24,547.5	24,989.6	25,105.3	24,329.1	25,184.1	24,867.3	23,959.6
Gross business loans	8,303.8	8,961.0	9,636.0	10,266.9	10,541.7	9,968.9	11,139.3	10,949.3	10,710.5
Gross households loans	15,388.4	15,124.7	14,911.4	14,722.7	14,563.7	14,360.2	14,044.8	13,918.1	13,249.1
Loan loss reserves (LLR)	4,391.5	4,579.4	5,190.1	5,813.3	5,966.6	6,049.0	4,920.1	4,947.4	4,399.6
Deposits	7,740.8	7,469.0	7,781.8	7,014.6	5,887.3	7,449.1	8,666.9	7,764.2	6,595.4
Business deposits	2,005.6	2,138.9	2,987.8	2,770.7	1,957.3	4,277.4	6,078.4	5,125.1	4,006.3
Households deposits	5,735.2	5,330.1	4,794.0	4,243.9	3,930.0	3,171.7	2,588.5	2,639.1	2,589.2
Total equity	479.3	479.4	479.4	479.6	3,979.8	3,980.3	4,028.9	4,029.2	4,029.4
Quarterly P&L									
Net interest income	332.0	298.0	331.3	92.7	253.9	276.6	(961.5)	175.2	119.7
Net commission income	23.8	10.3	12.2	(23.7)	28.4	40.5	37.0	30.8	32.6
Operating income (before LLP)	1,287.4	288.2	869.8	686.7	305.5	267.2	(870.7)	220.6	751.6
Operating expense	(79.8)	(172.9)	(258.2)	(164.7)	(150.3)	(188.9)	(255.6)	(186.7)	(1,265.6)
Loan-loss provisions (LLP)	(1,195.2)	(194.4)	(611.7)	(639.1)	(154.7)	(77.6)	1,126.5	(33.9)	513.4
Net income	0.2	0.1	0.1	0.1	0.3	0.4	1.2	0.3	0.2
Last 12-month period P&L									
Net interesting income	1,470.5	1,471.1	1,377.0	1,054.0	976.0	954.5	(338.3)	(255.8)	(390.0)
Net commission income	125.8	92.5	70.9	22.5	27.1	57.3	82.2	136.7	141.0
Operating income (before LLP)	2,809.1	2,418.8	2,876.4	3,132.0	2,150.1	2,129.1	388.6	(77.4)	368.7
Operating expense	(771.7)	(667.5)	(739.7)	(675.5)	(746.0)	(762.0)	(759.4)	(781.4)	(1,896.8)
Loan-loss provisions (LLP)	(2,191.8)	(1,612.3)	(2,190.6)	(2,640.4)	(1,599.9)	(1,483.1)	255.1	860.2	1,528.4
Net income	(318.3)	(21.2)	4.7	0.5	0.6	0.9	2.0	2.1	2.1
Growth rates (%YoY)									
Assets	-13.1	-10.8	-7.8	-10.5	-1.6	6.4	16.7	15.6	9.2
Gross loans	-4.6	-4.9	-1.0	3.3	6.0	1.0	2.6	-0.5	-4.6
Deposits (by businesses)	3.5	11.5	81.7	11.9	-2.4	100.0	103.4	85.0	104.7
Deposits (by households)	-30.9	-30.6	-30.3	-33.7	-31.5	-40.5	-46.0	-37.8	-34.1
Deposits (total)	-24.4	-22.2	-8.7	-20.9	-23.9	-0.3	11.4	10.7	14.0
Total Equity	-39.9	-4.2	1.0	0.1	730.4	730.3	740.3	740.2	1.2
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	N/A	N/A	N/A	N/A	6.5	11.0	11.2	10.3	11.1
Equity/Assets	2.1	2.1	2.1	2.1	17.7	16.2	15.1	15.5	16.4
(Equity + Subor. debt)/Assets	6.3	6.3	4.4	2.9	18.5	17.9	16.7	17.2	18.1
Cash & cash equivalents/Liabilities	3.9	4.2	4.3	3.2	4.3	15.5	14.0	7.8	6.3
Current liquidity (R5 by NBU)	N/A	N/A	N/A	N/A	N/A	98.2	72.5	50.2	42.7
Gross loans/Deposits	306.1	322.5	315.4	356.3	426.4	326.6	290.6	320.3	363.3
Net loans/Deposits	249.3	261.2	248.8	273.4	325.1	245.4	233.8	256.6	296.6
Cost-to-income ratio	27.5	27.6	25.7	21.6	34.7	35.8	195.4	-1008.9	514.5
Net interest margin	6.7	6.9	6.7	5.2	4.9	4.8	-1.7	-1.2	-1.9
ROAA	-1.3	-0.1	0.02	0.002	0.003	0.004	0.01	0.01	0.0
ROAE	-65.9	-4.4	1.0	0.1	0.04	0.04	0.1	0.1	0.1
NII/Operating income	52.3	60.8	47.9	33.7	45.4	44.8	-87.1	330.3	-105.8
Core income/Operating expense	206.8	234.3	195.7	159.4	134.5	132.8	-33.7	-15.2	-13.1
LLR/Gross loans	18.5	19.0	21.1	23.3	23.8	24.9	19.5	19.9	18.4

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income include net interest income and commission income

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

Nadra Bank: Charts on bank's key credit metrics

Chart 96. Bank's capitalisation



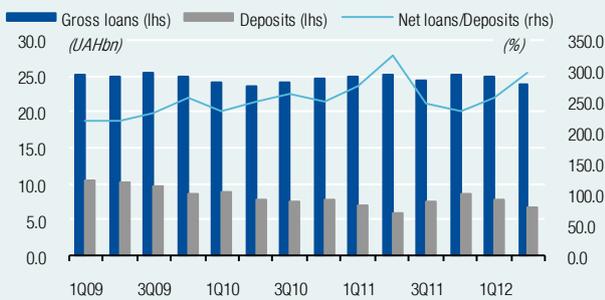
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 97. Liquidity



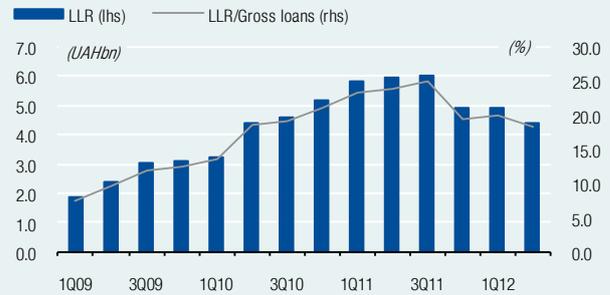
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 98. Loans and deposits



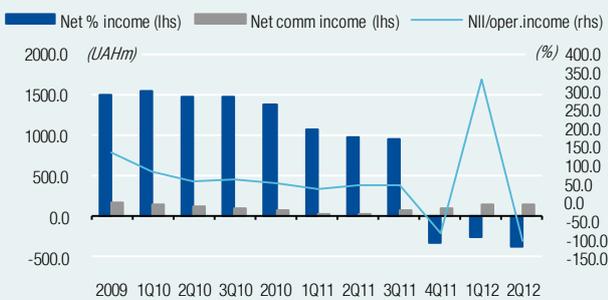
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 99. Loan loss reserves history



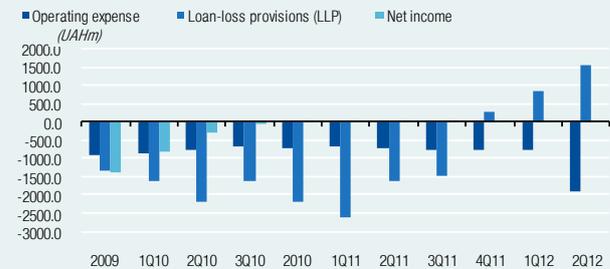
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 100. Income structure (annualised basis)



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

Chart 101. Expense and net income (annualised basis)



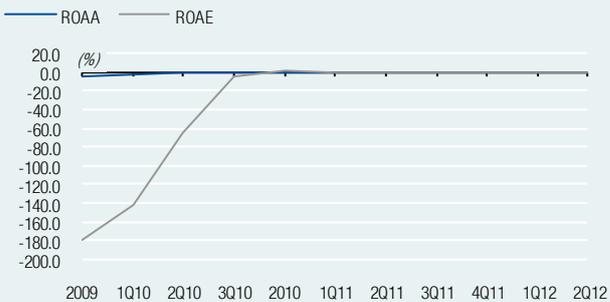
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 102. Financial performance ratios



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

Chart 103. Financial performance ratios



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

Country

Ukraine

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 2Q12 results are quite mixed. On one hand, the bank reported a solid liquidity position along with active expansion claims. On the other hand, its capitalisation is only narrowly above the required minimum level, and its credit portfolio quality remains largely questionable to us.

Capitalisation: Decreased, marginally above required minimum.

During 2Q12, Delta Bank's RCAR fell 1.0ppt, to 10.3% on the back of an increase in risk-weighted assets. With such a capital level, the bank currently has no room for further growth, nor margin of safety for loan loss-reserves formation, and we believe any development in a capital increase is highly desirable.

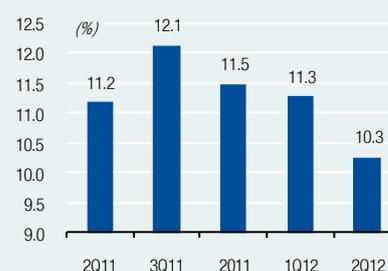
Liquidity: Increased, and adequate. The bank increased its cash and cash equivalents by 34.0% QoQ, to a 14.1% liabilities coverage. Delta Bank also grew its holdings in securities, by 24.5% QoQ, almost to the amount of available cash of UAH3.4bn, and considering the above-mentioned factors, we believe that the bank's current ability to withstand an unforeseen resources outflow is sufficiently strong.

Assets' quality: Still unclear. Delta Bank's gross credit portfolio grew 8.6% QoQ, to UAH20.4bn, with an increase in both the corporate and retail segment, and its loan-loss reserves increased by 3.1%, presenting a 22.1% credit portfolio coverage. From the UAS quarterly financials, we could not definitively assess the bank's credit portfolio quality, and the bank's low capital level leaves room for concerns on whether the current loan-loss provisioning is at an adequate level.

P&L: Fragile profit, but with strong cost efficiency. Delta Bank finished the 2Q12 with UAH25.9m in quarterly net income versus UAH12.0m in 1Q12, decreasing its annualised ROE by 6.4ppt, to 21.4% (due to high UAH0.5bn income declared during 3Q11). The bank's net interest margin grew 1.1ppt QoQ, to a competitive 7.7%, while the cost-to-income ratio increased by 10.3ppt QoQ, to a solid 29.8%, highlighting the bank's effective cost utilisation, considering its diversified POS branch.

Bank's funding: Materially increased during 2Q12. During the second quarter, Delta Bank increased its due-to other banks, by 31.0% to a significant UAH9.9bn, or 37.9% of total liabilities. The clients' deposit base also grew notably, by 12.3% QoQ, to UAH13.4bn, with growth mostly in household deposits, by 13.5%, to UAH10.3bn

RCAR, according to UAS figures



Source: bank data.

Key financials and ratios

	3Q11	2011	1Q12	2Q12
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	18,856	23,216	24,528	29,044
Loans	11,348	13,823	14,430	15,917
Deposits	9,462	10,353	11,909	13,375
Equity	1,442	1,450	2,939	2,924
Net % income	2,499	2,635	1,037	1,367
Net com income	720	696	882	1,027
Operating income	4,541	4,964	3,568	3,651
PPI	1,468	1,816	2,873	2,565
LLP	(942)	(1,103)	(2,038)	(1,735)
Net income	530	469	472	468
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	12.1	11.5	11.3	10.3
Equity-to-assets	7.6	6.2	12.0	10.1
Loan-to-deposit	119.9	133.5	121.2	119.0
Cash/Liabilities	8.1	9.3	13.7	14.1
ROAA	3.3	2.5	2.3	2.0
ROAE	52.1	45.6	27.7	21.4
Net % margin	21.1	18.6	6.6	7.7
NII-to-op.income	55.0	53.1	29.1	37.4
Cost-to-income	67.7	63.4	19.5	29.8
LLR	23.2	23.4	23.3	22.1
NPLs	N/A	N/A	N/A	N/A
NPL coverage	N/A	N/A	N/A	N/A

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

Sources: Bank data, Investment Capital Ukraine LLC.

Delta Bank: Key quarterly UAS financials and ratios

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

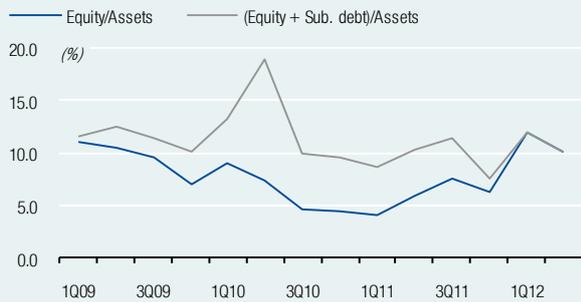
	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	8,154.7	13,070.6	13,798.0	15,330.6	16,368.2	18,855.6	23,216.4	24,527.6	29,043.9
Cash and cash equivalents	2,552.4	2,779.4	2,388.9	1,706.4	1,622.3	1,528.6	2,166.6	2,959.5	3,689.5
Gross loans	4,841.9	10,599.1	12,313.0	11,420.1	13,605.8	14,784.4	18,052.0	18,803.8	20,426.3
Gross business loans	2,279.0	6,744.4	8,237.0	6,014.3	7,588.8	8,327.8	10,109.8	9,987.7	10,896.8
Gross households loans	2,562.9	3,854.7	4,076.0	5,405.9	6,017.0	6,456.6	7,942.1	8,816.0	9,529.5
Loan loss reserves (LLR)	270.4	2,666.0	3,342.3	2,707.2	3,283.8	3,436.7	4,229.3	4,373.3	4,509.5
Deposits	4,992.6	5,626.2	6,728.5	7,826.5	8,745.0	9,461.6	10,353.2	11,909.2	13,374.5
Business deposits	1,246.0	1,152.9	1,135.2	1,277.6	1,525.8	2,000.3	2,192.7	2,790.3	3,028.8
Households deposits	3,746.5	4,473.3	5,593.3	6,548.8	7,219.2	7,461.3	8,160.5	9,118.9	10,345.7
Total equity	594.2	595.5	607.5	620.8	976.5	1,441.6	1,449.5	2,938.7	2,923.5
Quarterly P&L									
Net interest income	(74.3)	2,413.3	666.9	1,706.3	119.0	6.9	803.0	108.0	448.7
Net commission income	162.3	96.3	133.6	161.3	213.6	211.1	110.0	347.2	358.4
Operating income (before LLP)	109.7	2,519.7	816.4	1,886.4	736.2	1,102.2	1,238.9	490.2	819.8
Operating expense	(98.2)	(113.9)	(128.5)	(2,637.9)	(142.4)	(164.1)	(203.7)	(183.9)	(534.9)
Loan-loss provisions (LLP)	(23.2)	(2,396.0)	(676.4)	622.4	(562.8)	(325.0)	(837.5)	(312.6)	(259.9)
Net income	1.0	1.9	11.6	9.5	30.1	479.4	(49.6)	12.0	25.9
Last 12-month period P&L									
Net interesting income	(236.1)	2,217.3	2,939.2	4,712.2	4,905.5	2,499.1	2,635.2	1,036.9	1,366.5
Net commission income	538.6	511.2	522.3	553.5	604.8	719.6	696.0	881.9	1,026.6
Operating income (before LLP)	395.5	2,807.8	3,533.2	5,332.1	5,958.6	4,541.1	4,963.7	3,567.5	3,651.1
Operating expense	(364.0)	(383.2)	(420.0)	(2,978.5)	(3,022.7)	(3,072.8)	(3,148.0)	(694.1)	(1,086.5)
Loan-loss provisions (LLP)	(25.4)	(2,411.3)	(3,089.4)	(2,473.2)	(3,012.8)	(941.8)	(1,103.0)	(2,037.9)	(1,735.0)
Net income	2.9	3.5	14.9	23.9	52.9	530.5	469.3	471.9	467.8
Growth rates (%YoY)									
Assets	47.7	113.8	63.0	135.4	100.7	44.3	68.3	60.0	77.4
Gross loans	22.5	154.8	193.2	182.9	181.0	39.5	46.6	64.7	50.1
Deposits (by businesses)	11.4	-10.0	-32.1	-1.7	22.5	73.5	93.2	118.4	98.5
Deposits (by households)	86.8	93.4	114.7	136.3	92.7	66.8	45.9	39.2	43.3
Deposits (total)	59.8	56.6	57.3	92.2	75.2	68.2	53.9	52.2	67.3
Total Equity	1.8	1.7	3.1	4.8	64.4	142.1	138.6	373.4	199.4
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	N/A	N/A	12.8	N/A	11.2	12.1	11.5	11.3	10.3
Equity/Assets	7.3	4.6	4.4	4.0	6.0	7.6	6.2	12.0	10.1
(Equity + Subor. debt)/Assets	19.0	10.0	9.5	8.7	10.3	11.5	7.5	12.0	10.1
Cash & cash equivalents/Liabilities	33.8	22.3	18.1	11.6	10.5	8.8	10.0	13.7	14.1
Current liquidity (R5 by NBU)	N/A	N/A	N/A	N/A	59.9	52.1	61.6	53.9	63.6
Gross loans/Deposits	97.0	188.4	183.0	145.9	155.6	156.3	174.4	157.9	152.7
Net loans/Deposits	91.6	141.0	133.3	111.3	118.0	119.9	133.5	121.2	119.0
Cost-to-income ratio	92.0	13.6	11.9	55.9	50.7	67.7	63.4	19.5	29.8
Net interest margin	-5.0	39.4	42.7	54.5	47.0	21.1	18.9	6.6	7.7
ROAA	0.0	0.0	0.1	0.2	0.4	3.3	2.5	2.3	2.0
ROAE	0.5	0.6	2.5	3.9	7.6	58.2	41.8	27.7	21.4
NII/Operating income	-59.7	79.0	83.2	88.4	82.3	55.0	53.1	29.1	37.4
Core income/Operating expense	83.1	712.1	824.1	176.8	182.3	104.7	105.8	276.5	220.3
LLR/Gross loans	5.6	25.2	27.1	23.7	24.1	23.2	23.4	23.3	22.1

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

Delta Bank: Charts on bank's key credit metrics

Chart 104. Bank's capitalisation



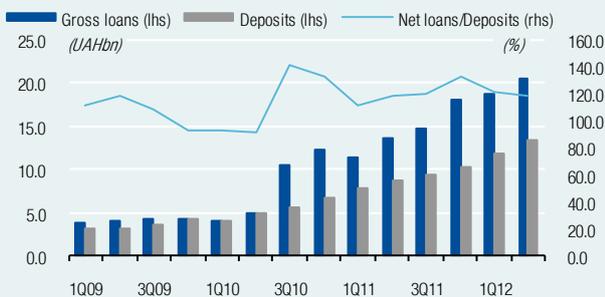
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 105. Liquidity



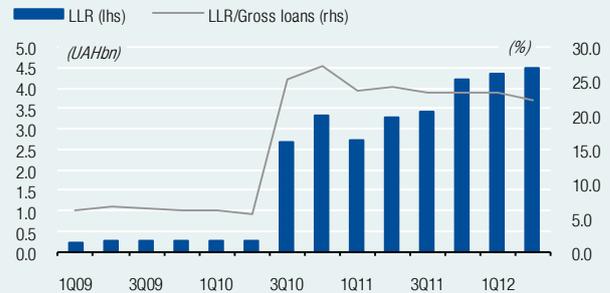
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 106. Loans and deposits



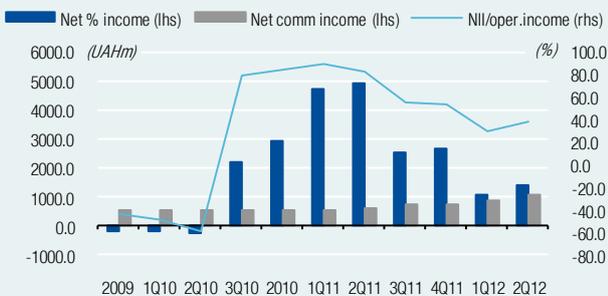
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 107. Loan loss reserves history



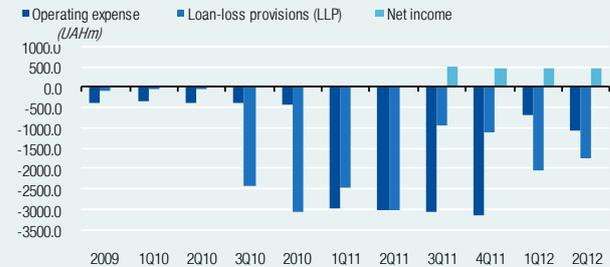
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 108. Income structure (annualised basis)



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

Chart 109. Expense and net income (annualised basis)



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

Chart 110. Financial performance ratios



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

Chart 111. Financial performance ratios



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

Country

Ukraine

Finance and Credit Bank

Sector

Banks: Commercial banking

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

Caa1/NR/NR FICBUA

Finance and Credit Bank revealed quite weak 2Q12 UAS financials, indicating that the bank is on the tipping point of inefficiency of its operations. Its capitalisation remains feeble, and possible credit portfolio quality weakening puts such a level of the bank's capital in question. These issues are also evident in the bank's liquidity and profitability, with still no strong signs of improvement.

Capitalisation: Remains weak. Despite mentions of a capital increase as of end-2Q12, the bank's RCAR changed immaterially, being only slightly above the required minimum of 10% (please see the chart on the right).

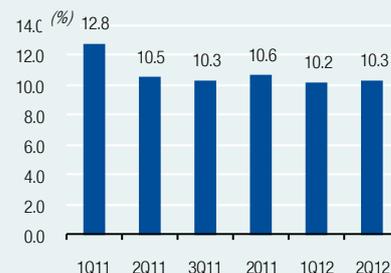
Liquidity: Lower, lacking cash. The bank's cash and cash equivalents decreased during the second quarter by 38.5%, to only a 5.2% liabilities coverage, leaving the bank in a vulnerable position in case of an unforeseen client deposits outflow.

Assets' quality: Possibility of weakening. Due to expansion in the corporate segment, the bank's gross credit portfolio grew by 1.9% QoQ, to UAH20.0bn, while its loan-loss reserves remained unchanged, with only 8.7% loans' coverage. Based on UAS quarterly financials, we cannot judge whether such a level of reserves is adequate, and the 29.1% QoQ increase in the bank's credit operations classified as substandard, to 24.1% of total credit operations, (i.e., with signs of impairment), may lead to the possibility of further weakening of the bank's credit portfolio quality.

P&L: Still without positive trends. Finance and Credit Bank also presented lacklustre 2Q12 P&L figures. For quarterly net income, it showed only a slight UAH0.9m, insignificantly improving its ROE, which is still negative. The bank's net interest margin has frozen at a mere 2.0% level since last year, while its cost-to-income ratio grew by 3.7ppt, to a quite high level of 92.5%.

Bank's funding: Deposits base not a stable source of funding. During 2Q12, the bank's funding base presented a slight fall in clients' deposits, of 1.6% QoQ, to UAH11.3bn, due to a decrease in business deposits, while household accounts were unchanged.

Total assets, according to UAS figures



Source: bank data.

Key financials and ratios

	3Q11	4Q11	1Q12	2Q12
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	21,698	22,007	23,026	22,188
Loans	17,623	17,464	17,858	18,222
Deposits	9,707	10,717	11,483	11,300
Equity	1,861	1,779	1,779	1,780
Net % income	453	383	376	368
Net com income	323	357	372	378
Operating income	941	861	835	798
PPI	203	125	93	60
LLP	(359)	(204)	(247)	(149)
Net income	(131)	(79)	(144)	(81)
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	10.3	10.6	10.2	10.3
Equity-to-assets	8.6	8.1	7.7	8.0
Loan-to-deposit	181.6	163.0	155.5	161.3
Liquid assets	5.6	7.9	9.1	5.2
ROAA	-0.6	-0.4	-0.6	-0.4
ROAE	-6.9	-4.4	-7.9	-4.5
Net % margin	2.4	2.0	2.0	2.0
NII-to-op.income	48.1	44.4	45.1	46.1
Cost-to-income	78.4	85.5	88.9	92.5
LLR	8.9	9.0	8.8	8.7
NPLs	N/A	N/A	N/A	N/A
NPL coverage	N/A	N/A	N/A	N/A

Notes: CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
NII – Net interest income; LLR – loan-loss reserves;
NPL – non-performing loans (impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC.

F&C Bank: Key quarterly UAS financials and ratios

Table 41. Key financials and ratios derived from bank's UAS financials

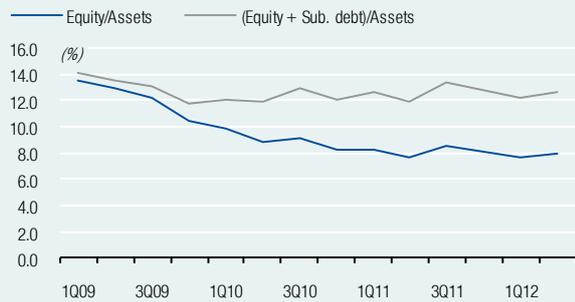
	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	22,202.0	21,707.5	22,366.8	23,176.2	24,410.1	21,698.1	22,006.6	23,026.2	22,188.5
Cash and cash equivalents	2,150.0	2,069.7	2,628.5	1,805.5	3,469.3	1,217.2	1,746.9	1,944.0	1,071.0
Gross loans	18,027.9	18,878.3	18,849.0	19,371.3	19,648.5	19,342.3	19,186.3	19,591.7	19,959.4
Gross business loans	13,527.6	14,542.0	14,651.2	15,273.2	15,651.4	15,405.7	15,339.3	15,806.5	16,223.3
Gross households loans	4,500.3	4,336.3	4,197.7	4,098.2	3,997.1	3,936.6	3,847.0	3,785.2	3,736.1
Loan loss reserves (LLR)	1,349.2	1,368.6	1,529.3	1,495.3	1,593.5	1,719.4	1,721.9	1,733.7	1,737.6
Deposits	8,007.7	8,775.7	10,124.2	10,011.3	11,947.5	9,706.6	10,717.0	11,482.8	11,299.6
Business deposits	2,663.8	2,841.5	3,818.2	3,119.8	4,800.9	2,620.7	3,186.2	3,351.8	3,128.1
Households deposits	5,343.9	5,934.2	6,306.1	6,891.6	7,146.6	7,085.9	7,530.8	8,131.0	8,171.6
Total equity	1,972.6	1,972.9	1,857.5	1,922.6	1,860.3	1,860.6	1,778.8	1,778.8	1,779.9
Quarterly P&L									
Net interest income	118.0	112.1	73.9	89.3	116.1	173.8	3.4	83.0	108.1
Net commission income	62.7	69.1	85.1	66.6	70.0	100.9	119.8	81.3	76.2
Operating income (before LLP)	167.8	192.5	210.3	205.0	220.2	305.6	130.3	178.6	183.8
Operating expense	(167.2)	(171.6)	(201.4)	(175.2)	(179.3)	(182.1)	(199.9)	(180.4)	(176.3)
Loan-loss provisions (LLP)	(32.0)	(20.7)	(167.6)	35.3	(103.2)	(123.2)	(13.4)	(7.2)	(5.1)
Net income	(31.4)	0.2	(134.6)	65.1	(62.3)	0.3	(82.3)	0.0	0.9
Last 12-month period P&L									
Net interesting income	450.7	409.1	436.0	393.2	391.4	453.1	382.7	376.3	368.3
Net commission income	244.6	253.6	276.2	283.5	290.7	322.5	357.2	371.9	378.2
Operating income (before LLP)	680.3	643.7	767.1	775.5	828.0	941.1	861.1	834.8	798.4
Operating expense	(676.0)	(695.4)	(720.7)	(715.3)	(727.4)	(737.9)	(736.5)	(741.7)	(738.8)
Loan-loss provisions (LLP)	(339.2)	(242.9)	(259.2)	(185.0)	(256.3)	(358.7)	(204.5)	(247.0)	(148.8)
Net income	(316.9)	(285.6)	(188.6)	(100.7)	(131.5)	(131.4)	(79.2)	(144.2)	(81.0)
Growth rates (%YoY)									
Assets	26.2	17.7	15.0	13.3	9.9	-0.0	-1.6	-0.6	-9.1
Gross loans	16.3	18.4	13.1	12.6	9.0	2.5	1.8	1.1	1.6
Deposits (by businesses)	33.3	79.7	59.1	46.4	80.2	-7.8	-16.6	7.4	-34.8
Deposits (by households)	19.4	35.5	37.5	40.3	33.7	19.4	19.4	18.0	14.3
Deposits (total)	23.7	47.2	44.9	42.1	49.2	10.6	5.9	14.7	-1.3
Total Equity	-13.8	-12.6	-8.4	-4.1	-5.7	-5.7	-4.2	-7.5	-4.3
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	N/A	N/A	N/A	12.8	10.5	10.3	10.6	10.2	10.3
Equity/Assets	8.9	9.1	8.3	8.3	7.6	8.6	8.1	7.7	8.0
(Equity + Subor. debt)/Assets	11.9	12.9	12.1	12.7	11.9	13.4	12.8	12.3	12.7
Cash & cash equivalents/Liabilities	10.6	10.5	12.8	8.5	15.4	6.1	8.6	9.1	5.2
Current liquidity (R5 by NBU)	N/A	N/A	N/A	N/A	128.1	60.3	70.3	64.1	64.0
Gross loans/Deposits	225.1	215.1	186.2	193.5	164.5	199.3	179.0	170.6	176.6
Net loans/Deposits	208.3	199.5	171.1	178.6	151.1	181.6	163.0	155.5	161.3
Cost-to-income ratio	99.4	108.0	93.9	92.2	87.8	78.4	85.5	88.9	92.5
Net interest margin	2.7	2.4	2.5	2.2	2.1	2.4	2.0	2.0	2.0
ROAA	-1.6	-1.4	-0.9	-0.5	-0.6	-0.6	-0.3	-0.6	-0.4
ROAE	-15.3	-14.3	-9.7	-5.2	-6.9	-7.0	-4.3	-7.9	-4.5
NII/Operating income	66.2	63.6	56.8	50.7	47.3	48.1	44.4	45.1	46.1
Core income/Operating expense	102.9	95.3	98.8	94.6	93.8	105.1	100.5	100.9	101.0
LLR/Gross loans	7.5	7.2	8.1	7.7	8.1	8.9	9.0	8.8	8.7

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

Finance and Credit Bank: Charts on bank's key credit metrics

Chart 112. Bank's capitalisation



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

Chart 113. Liquidity



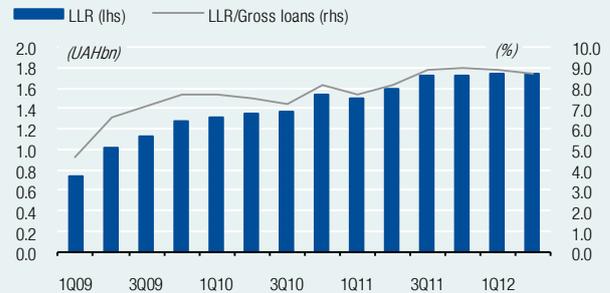
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 114. Loans and deposits



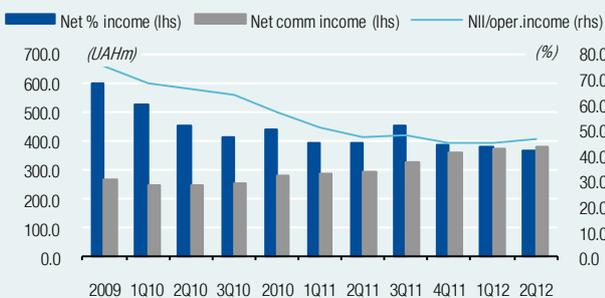
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 115. Loan loss reserves history



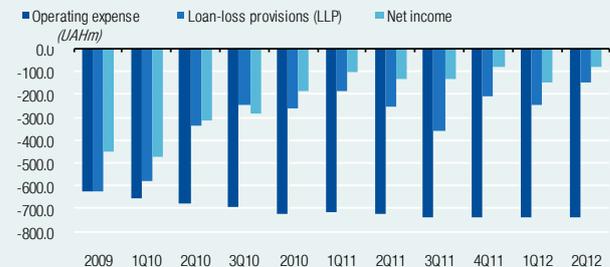
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 116. Income structure (annualised basis)



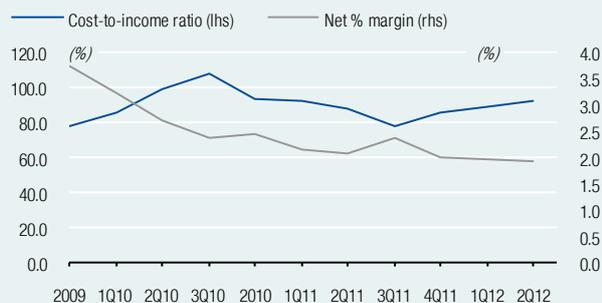
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 117. Expense and net income (annualised basis)



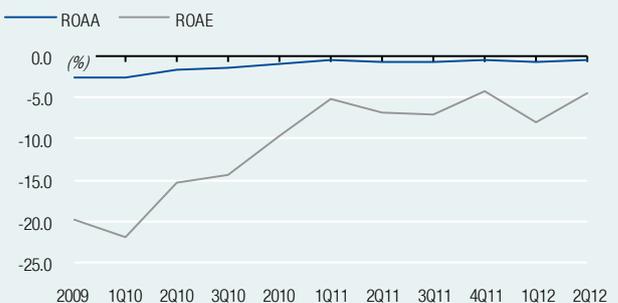
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 118. Financial performance ratios



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

Chart 119. Financial performance ratios



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

Country

Ukraine

Subsidiary Bank Sberbank of Russian Federation

Sector

Banks: Commercial banking

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

B3/NR/NR SBUA

SBRF's 2Q12 UAS financials were sufficiently strong, continuing its positive trend from 2011. Fresh capital and further parental support should support the bank's expansion plans to become a top-10 player by total assets by 2014. We also note the bank's bias towards local funding during 2Q12, although its share of due-to other banks remains at a material 36% share of SBRF's total liabilities.

Capitalisation: Improved, thanks to capital injection. As previously announced by the bank, during 2Q12, SBRF increased its share capital by UAH0.5bn (yet unsubscribed), which boosted its regulatory capital adequacy ratio (R2 by the NBU) by 3.4ppt, to 15.0%, leaving sufficient room for the bank's further expansion in this regard.

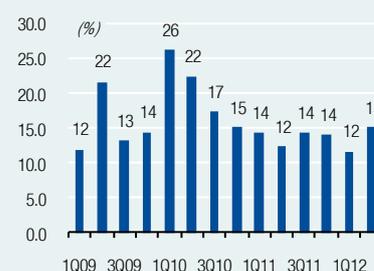
Liquidity: Adequate, with increased cash volume. During 2Q12, SBRF grew its amounts of cash and cash equivalents by 16.4%, to 7.7% of total liabilities, which, along with UAH2.0bn of securities held, or 11.5% total liabilities coverage, points to the bank's currently adequate amounts of liquid assets.

Assets' quality: Stable, with further possible write-offs. SBRF's credit portfolio had a 46.9% QoQ decrease in its reserves, to UAH1.5bn. Despite the gross credit portfolio decrease, in net terms, it rose 3.1%, to UAH15.0bn (mostly through expansion in the business segment), leaving the possibility for more write-offs of NPLs during the current quarter.

P&L: Quite strong performance reported. In its 2Q12 UAS financials, the bank showed net income of UAH96.7m, or 24.4% QoQ growth, with an annualised ROE decrease 0.4ppt to a still-high 15.6%. Net interest margin fell slightly to 6.7%, while the cost-to-income ratio stood at an adequate 58.1% as of end-2Q12. In its 2Q12 UAS financials, the bank showed net income of UAH96.7m, or a 24.4% QoQ growth, aided by a UAH5.0m release of loan-loss provisions after a UAH91.5m charge earlier in the first quarter. The bank's quarterly core income grew 5.0% QoQ, to UAH347.5m; annualised net interest margin fell slightly, to 6.7%, while the cost-to-income ratio stood at an adequate 58.1% as of end-2Q12..

Bank's funding: With more bias toward local funding during 2Q12. The bank's deposit base grew 4.2%, to UAH9.1bn, as the result of a UAH1.0bn increase in household deposits, while business deposits declined UAH0.6bn. Due-to other banks decreased approximately UAH1.1bn, to UAH6.3bn, of which 90.0% are in FX currency, indicating more reliance on local funding, which is converse to other Russian banks.

RCAR, according to UAS figures



Source: bank data.

Key financials and ratios

	2010	2011	1Q12	2Q12
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	10,202	17,345	20,206	20,253
Loans	6,926	13,186	14,564	15,021
Deposits	4,301	7,572	8,745	9,112
Equity	1,754	2,659	2,288	2,872
Net % income	523	792	954	1,042
Net com income	97	120	181	204
Operating income	689	1,048	1,225	1,347
PPI	358	398	504	564
LLP	(133)	(71)	(297)	(225)
Net income	137	364	278	338
Ratios (%)				
Tier 1 ratio	17.9	13.2	N/A	N/A
CAR	24.4	16.2	11.7	15.0
Equity-to-assets	17.2	15.3	11.3	14.2
Loan-to-deposit	161.0	174.1	166.5	164.8
Liquid assets	11.4	10.4	7.4	7.7
ROAA	1.7	2.6	1.7	1.9
ROAE	8.2	16.5	16.0	15.6
Net % margin	9.3	6.9	7.0	6.7
NII-to-op.income	75.9	75.6	77.9	77.3
Cost-to-income	48.1	62.0	58.8	58.1
LLR	21.3	199.8	16.1	9.0
NPLs	22.6	13.3	N/A	N/A
NPL coverage	94.5	96.4	N/A	N/A

Notes: P&L figures and ratios are based on a 12-month, annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
NII – Net interest income; LLR – loan-loss reserves;
NPL – non-performing loans(90+ days overdue)

Sources: Bank data, Investment Capital Ukraine LLC.

SBRF UA: IFRS financials – key financials and ratios

Table 42. Key financials derived from bank's IFRS financial reports

	2004	2005	2006	2007	2008	2009	2010	2011
P&L (YTD) (UAHm)								
Net interest income	42.8	51.4	60.4	80.0	224.0	218.4	522.9	792.1
Net fee & commission income	5.2	7.0	7.8	13.0	30.7	60.1	96.7	120.1
Operating income	54.4	66.7	77.1	99.2	344.4	324.1	688.7	1,047.9
Pre-provision income (PPI)	34.4	40.0	48.8	56.4	197.4	149.3	357.8	398.3
Loan-loss provisions (LLP)	(11.5)	(19.5)	(14.7)	(13.4)	(364.2)	(1,296.7)	(132.6)	(71.5)
Pre-tax income	22.9	20.5	34.0	43.0	(166.8)	(1,147.4)	225.2	326.9
Net income (NI)	17.0	15.1	25.3	31.5	(149.1)	(1,155.5)	136.9	364.1
Balance sheet (UAHm)								
Cash & balances with central bank	30.6	60.3	57.6	174.8	636.7	574.6	1,162.8	1,799.8
Due from banks	101.4	209.3	282.7	0.8	5.0	13.2	5.2	0.0
Loans to customers	396.8	583.0	788.2	1,412.2	3,390.6	3,018.1	6,926.3	13,185.6
Investment securities	41.8	38.5	67.9	35.1	24.7	79.2	1,047.9	1,524.3
Property, equipment and intangible assets	1.8	3.1	14.4	246.6	263.3	348.5	539.3	737.9
Other assets	19.5	10.0	8.6	21.4	96.9	1,848.2	520.9	97.8
Total assets	592.0	904.3	1,219.6	1,890.8	4,417.3	5,881.7	10,202.3	17,345.5
Due to banks	192.7	262.2	298.7	454.2	1,135.0	1,961.1	3,195.8	5,190.1
Due to central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	583.5
Customer accounts	291.6	524.2	738.2	854.1	2,085.2	1,777.0	4,301.4	7,571.8
Wholesale borrowings	0.0	0.0	0.0	159.0	57.1	83.9	359.8	772.8
Subordinated debt	0.0	0.0	35.4	96.1	146.5	471.6	469.7	471.2
Total equity	95.5	107.1	131.2	279.5	946.7	1,563.8	1,754.4	2,658.9
Total liabilities & equity	592.0	904.3	1,219.6	1,890.8	4,417.3	5,881.7	10,202.3	17,345.5

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

Sources: Company data.

Table 43. Key financial ratios derived from bank's IFRS financial reports

	2004	2005	2006	2007	2008	2009	2010	2011
Growth rates (%YoY)								
Assets (%YoY)	54.6	52.7	34.9	55.0	133.6	33.2	73.5	70.0
Loans (%YoY)	43.5	46.9	35.2	79.2	140.1	-11.0	129.5	90.4
Deposits (%YoY)	56.1	79.8	40.8	15.7	144.1	-14.8	142.1	76.0
Equity (%YoY)	21.6	12.2	22.5	113.1	238.7	65.2	12.2	51.6
Net interest income (%YoY)	43.3	20.0	17.6	32.5	179.8	-2.5	139.5	51.5
Net commission income (%YoY)	129.9	35.2	12.1	65.6	136.8	95.8	60.8	24.2
Operating income (%YoY)	59.8	22.7	15.6	28.7	247.1	-5.9	112.5	52.2
Balance sheet ratios								
Liquid assets/Assets (%)	5.2	6.7	4.7	9.2	14.4	9.8	11.4	10.4
Liquid assets/Liabilities (%)	6.2	7.6	5.3	10.8	18.3	13.3	13.8	12.3
Due from banks/Due to banks (x)	0.5	0.8	0.9	0.002	0.004	0.01	0.002	0.0
Current ratio (x)	0.7	0.7	0.8	0.3	0.4	0.2	0.5	0.4
Equity/Assets (%)	16.1	11.8	10.8	14.8	21.4	26.6	17.2	15.3
Gross loans/Deposits (%)	148.3	121.5	115.8	175.3	183.8	268.0	204.7	199.8
Net loans/Deposits (%)	136.1	111.2	106.8	165.3	162.6	169.8	161.0	174.1
Wholesale borrowings/Liabilities (%)	0.0	0.0	0.0	9.9	1.6	1.9	4.3	5.3
Profitability & Earning quality								
ROAA (%)	3.5	2.0	2.4	2.0	-4.7	-22.4	1.7	2.6
ROAE (%)	19.5	14.9	21.3	15.4	-24.3	-92.1	8.2	16.5
Net interest income/Operating income (%)	78.7	77.0	78.4	80.7	65.0	67.4	75.9	75.6

Table 43. Key financial ratios derived from bank's IFRS financial reports

		2004	2005	2006	2007	2008	2009	2010	2011
Net commission income/Operating income	(%)	9.5	10.5	10.2	13.1	8.9	18.6	14.0	11.5
Other income/Operating income	(%)	11.8	12.5	11.5	6.3	26.1	14.1	10.0	12.9
Net interest margin	(%)	9.6	7.5	6.1	6.2	9.2	6.7	9.4	6.9
Cost-to-income ratio	(%)	36.8	40.1	36.7	43.2	27.6	54.0	48.1	62.0
LLP/Operating income	(%)	21.2	29.2	19.1	13.5	105.7	400.0	19.3	6.8
Assets quality									
NPL/Gross loans	(%)	0.6	2.4	5.7	3.4	4.1	43.0	22.6	13.3
NPL coverage	(%)	1,433.8	356.9	138.1	167.0	280.5	85.2	94.5	96.4
LLR/Gross loans	(%)	8.3	8.4	7.8	5.6	11.5	36.6	21.3	12.8
LLP/PPI	(%)	33.5	48.8	30.2	23.8	184.5	868.8	37.1	17.9
Earning power									
Recurring earning power	(%)	7.0	5.3	4.6	3.6	6.3	2.9	4.4	2.9
PPI/Average total capital funds	(%)	39.5	39.5	40.9	27.5	32.2	11.9	21.6	18.1
Interest expense/Interest income	(%)	41.4	44.2	47.4	54.9	44.5	55.4	44.1	47.5
Interest income/Average interest earning assets	(%)	16.4	13.4	11.7	13.7	16.6	15.0	16.9	13.2
Interest expense/Average interest bearing liabilities	(%)	7.7	6.4	5.9	7.4	7.2	7.0	6.5	6.2
Net spread	ppt	8.6	7.0	5.8	6.3	9.4	8.0	10.3	7.0
Income tax / Pretax income	(%)	25.8	26.2	25.6	26.7	10.6	-0.7	39.2	-11.4
Efficiency									
Non-interest expense/Average assets	(%)	6.6	6.3	4.2	3.9	14.8	29.0	5.9	5.4
Personnel expense/Average assets	(%)	1.3	1.2	1.1	1.2	1.6	1.8	2.0	2.4
Personnel expense/Operating income	(%)	11.9	14.0	14.8	18.6	15.1	28.1	23.9	31.0
Personnel expense/Non-interest expense	(%)	20.1	19.9	25.7	30.6	11.1	6.1	34.6	43.9
Funding structure									
Customer accounts/Total funding base	(%)	50.3	58.7	61.3	46.3	47.7	30.3	42.7	43.9
Net loans/Total funding base	(%)	68.4	65.3	65.5	76.6	77.6	51.5	68.7	76.4
Average net loans/Average customer accounts	(%)	140.8	120.1	108.6	138.2	163.4	165.9	163.6	169.4
Customer accounts/Shareholders' equity	(%)	305.4	489.5	562.8	305.6	220.3	113.6	245.2	284.8
Other ratios and indicators									
Retail share in loan book	(%)	9.5	17.9	36.2	42.2	39.1	71.4	14.2	8.4
Personnel expense per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	165.0	134.8	219.2
Operating income per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	587.2	564.9	706.6

Sources: Bank data, Investment Capital Ukraine LLC..

SBRF UA: Key quarterly UAS financials and ratios

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

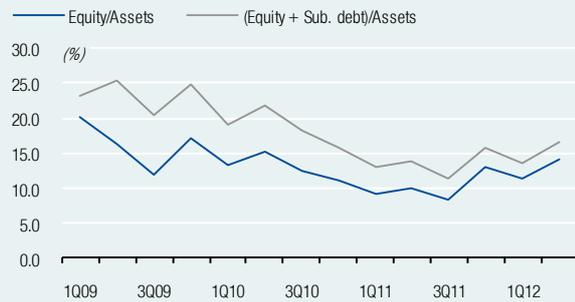
	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	7,096.8	8,394.5	9,924.4	12,477.2	11,838.9	15,118.3	16,932.5	20,206.4	20,252.6
Cash and cash equivalents	378.1	804.4	1,042.0	720.7	923.4	999.8	1,687.3	1,334.4	1,344.3
Gross loans	5,980.8	7,504.5	8,971.7	9,747.3	9,985.8	12,754.5	15,360.2	17,359.9	16,504.9
Gross business loans	4,614.0	6,135.5	7,612.3	8,430.7	8,691.2	11,431.5	13,973.0	15,953.3	15,751.3
Gross households loans	1,366.8	1,369.0	1,359.4	1,316.7	1,294.6	1,323.0	1,387.2	1,406.6	753.6
Loan loss reserves (LLR)	2,117.5	2,297.9	2,453.2	2,497.8	2,551.2	2,660.5	2,708.1	2,795.6	1,484.2
Deposits	3,161.6	4,177.7	4,279.6	5,849.4	6,379.4	6,757.9	7,592.5	8,744.9	9,112.3
Business deposits	1,239.0	1,935.2	1,710.5	2,661.6	2,815.7	2,786.4	3,236.3	3,540.3	2,952.6
Households deposits	1,922.6	2,242.6	2,569.0	3,187.8	3,563.8	3,971.5	4,356.2	5,204.6	6,159.6
Total equity	1,086.6	1,053.9	1,105.2	1,141.6	1,178.1	1,254.2	2,214.9	2,287.5	2,871.7
Quarterly P&L									
Net interest income	151.7	168.0	201.3	212.6	202.2	221.4	249.1	280.9	290.0
Net commission income	24.6	30.3	27.8	27.7	34.1	48.3	48.1	50.2	57.5
Operating income (before LLP)	179.7	264.7	261.0	257.9	238.9	282.3	351.3	352.3	361.3
Operating expense	(103.9)	(59.5)	(110.6)	(127.9)	(149.0)	(165.5)	(208.2)	(197.6)	(211.7)
Loan-loss provisions (LLP)	(1,544.7)	(212.7)	(160.1)	(52.6)	(67.4)	(90.1)	(48.2)	(91.5)	5.0
Net income	(1,500.6)	6.7	18.1	57.0	36.9	52.3	110.8	77.7	96.7
Last 12-month period P&L									
Net interesting income	470.6	535.1	615.0	733.7	784.1	837.5	885.3	953.7	1,041.5
Net commission income	96.8	88.9	99.9	110.5	119.9	137.9	158.2	180.7	204.1
Operating income (before LLP)	514.4	692.1	808.1	963.3	1,022.4	1,040.1	1,130.4	1,224.7	1,347.1
Operating expense	(274.2)	(288.1)	(336.2)	(402.0)	(447.1)	(553.1)	(650.7)	(720.3)	(783.0)
Loan-loss provisions (LLP)	(1,364.3)	(1,296.6)	(1,950.3)	(1,970.0)	(492.8)	(370.2)	(258.4)	(297.3)	(224.8)
Net income	(1,234.5)	(1,053.7)	(1,468.8)	(1,418.8)	118.7	164.4	257.1	277.8	337.6
Growth rates (%YoY)									
Assets	41.0	52.6	60.1	51.1	66.8	80.1	70.6	61.9	71.1
Gross loans	39.7	58.0	85.3	79.2	67.0	70.0	71.2	78.1	65.3
Deposits (by businesses)	9.3	54.5	118.7	143.5	127.3	44.0	89.2	33.0	4.9
Deposits (by households)	138.7	156.2	159.1	165.5	85.4	77.1	69.6	63.3	72.8
Deposits (total)	63.0	96.3	141.3	155.0	101.8	61.8	77.4	49.5	47.9
Total Equity	31.6	61.9	4.1	4.0	8.4	19.0	100.4	100.4	143.8
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	22.4	17.2	15.0	14.3	12.3	14.3	13.9	11.7	15.0
Equity/Assets	15.3	12.6	11.1	9.1	10.0	8.3	13.1	11.3	14.2
(Equity + Subor. debt)/Assets	21.9	18.1	15.9	12.9	13.9	11.4	15.9	13.7	16.5
Cash & cash equivalents/Liabilities	6.3	11.0	11.8	6.4	8.7	7.2	11.5	7.4	7.7
Current liquidity (R5 by NBU)	67.5	71.2	51.8	65.2	74.5	59.2	67.5	52.8	61.9
Gross loans/Deposits	189.2	179.6	209.6	166.6	156.5	188.7	202.3	198.5	181.1
Net loans/Deposits	122.2	124.6	152.3	123.9	116.5	149.4	166.6	166.5	164.8
Cost-to-income ratio	53.3	41.6	41.6	41.7	43.7	53.2	57.6	58.8	58.1
Net interest margin	8.5	8.6	8.7	9.2	8.7	8.0	7.4	7.0	6.7
ROAA	-18.3	-14.1	-17.4	-15.0	1.1	1.3	1.8	1.7	1.9
ROAE	-126.7	-98.0	-135.3	-129.4	10.6	14.1	17.8	16.0	15.6
NII/Operating income	91.5	77.3	76.1	76.2	76.7	80.5	78.3	77.9	77.3
Core income/Operating expense	206.9	216.6	212.7	210.0	202.2	176.3	160.4	157.5	159.1
LLR/Gross loans	35.4	30.6	27.3	25.6	25.5	20.9	17.6	16.1	9.0

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

SBRF UA: Charts on bank's key credit metrics

Chart 120. Bank's capitalisation



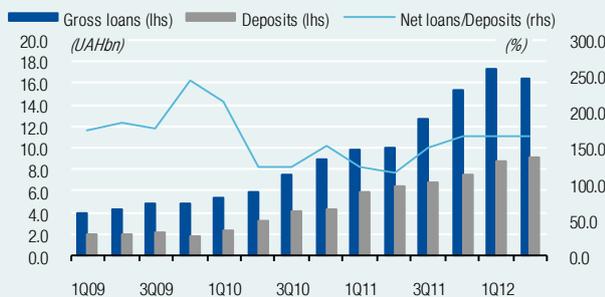
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 121. Liquidity



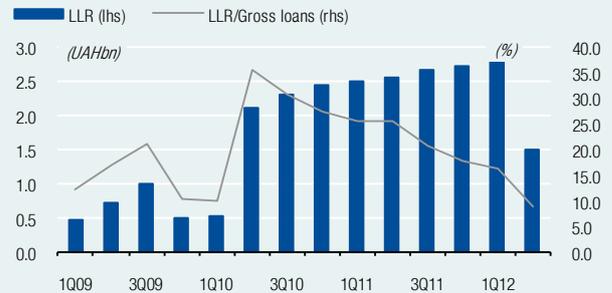
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 122. Loans and deposits



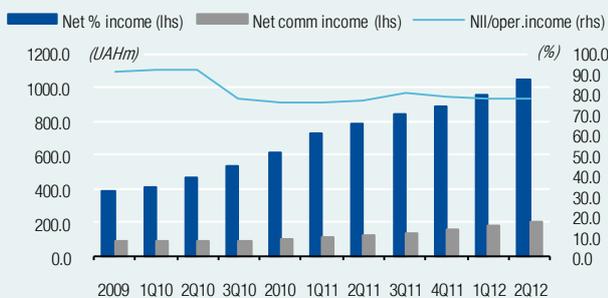
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 123. Loan loss reserves history



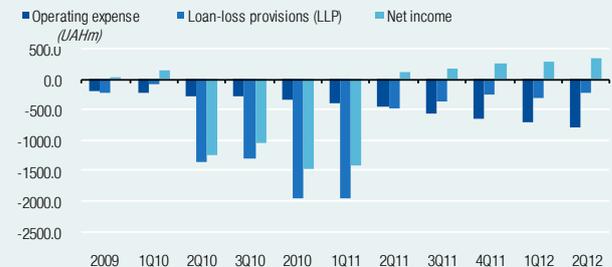
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 124. Income structure (annualised basis)



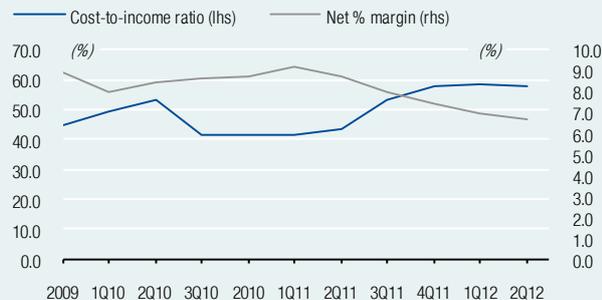
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 125. Expense and net income (annualised basis)



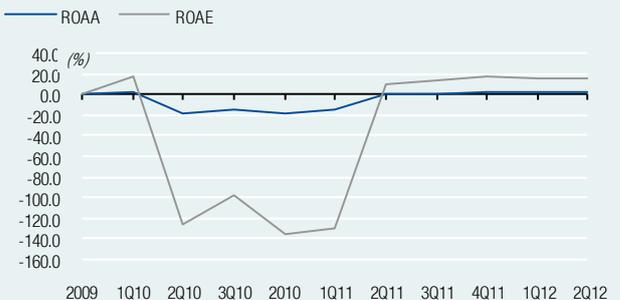
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 126. Financial performance ratios



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

Chart 127. Financial performance ratios



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

Country

Ukraine

VAB Bank

Sector

Banks: Commercial banking

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

B3/NR/NR VABANK

VAB Bank's 2Q12 UAS financials were materially affected by increased loan-loss provisioning, but other lines of the bank's P&L did not reveal material improvements, either. Furthermore, we remain cautious regarding the notably increased share of clients' deposits in the bank's funding, to 69% of total liabilities, versus only 54% two years ago, including household deposits, which were 48% of total liabilities, or UAH5.8bn, as of end-2Q12. The volatility of such resources might place VAB Bank's financial stability in jeopardy, in the event that negative news, or even speculation, arises. Another worrisome point is that the bank has ceased publishing its IFRS audited financials since 2H11, and thus the bank's key issues might be undisclosed in UAS financials.

Capitalisation: Changed insignificantly, still at a narrowly minimum level. The bank's capitalisation increased by 1.0ppt, to 11.4%, because of UAH0.5bn of still-unregistered capital inflow. The capital increase was mostly washed out, however, due to the bank's increased loan-loss provisioning, which we describe below.

Liquidity: Increases with holdings of government debt. VAB Bank materially increased its holdings in securities, by 119.2%, to UAH1.9bn, most of which are likely USD-denominated, government debt. The bank's cash and cash equivalents grew 34.4% QoQ, to 8.0% liabilities coverage, presenting a comparably adequate liquidity cushion as of end-2Q12.

Assets quality: Worsens, increase in LLR reported. During 2Q12, the bank's gross credit portfolio grew materially, by 13.6%, to 8.7bn, mostly because of an increase in the corporate segment, while loans to households fell slightly. Loan-loss reserves grew by a material 32.9% QoQ, to 1.9bn, presenting a 22.6% credit portfolio coverage, and we believe that questions regarding further credit portfolio impairment still remain undisclosed.

P&L: Weak, with material losses. The bank finished the quarter with a significant UAH363.6m net loss, versus a UAH20.4m net loss in 1Q12. The bank's loan-loss provisions increased from UAH22.6m in 1Q12 to UAH448.3m in the second quarter, being the key reason for material losses, which dropped the bank's annualised ROE to a negative figure (please see table below). VAB Bank's net interest margin, as well as its cost-to-income ratio, remained weak, at 1.2% and 138.0%, respectively.

Bank's funding: Further material inflows into clients' accounts. During 2Q12, VAB Bank showed a 48.7% outflow of due-to other banks, to UAH0.6bn, while clients' deposits grew by 21.9%, to UAH8.4bn, with the inflow coming from both the corporate and the households' side.

RCAR, according to UAS



Source: bank data.

Key financials and ratios

	2010	2011	1Q12	2Q12
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	6,010	6,830	11,311	13,244
Loans	3,895	4,878	6,191	6,744
Deposits	4,352	5,009	6,891	8,401
Equity	432	310	912	1,048
Net % income	112	177	96	92
Net com income	60	75	225	248
Operating income	311	417	336	355
PPI	(178)	(119)	(196)	(135)
LLP	(806)	(681)	(285)	(685)
Net income	(823)	(632)	(435)	(723)
Ratios (%)				
Tier 1 ratio	9.2	N/A	N/A	N/A
CAR	15.0	N/A	10.3	11.4
Equity-to-assets	7.2	4.5	8.1	7.9
Loan-to-deposit	89.5	97.4	89.8	80.3
Liquid assets	19.5	10.5	8.2	8.0
ROAA	-13.2	-9.4	-4.7	-6.8
ROAE	-172.5	-169.2	-71.3	-102.5
Net % margin	2.3	3.3	1.4	1.2
NII-to-op.income	36.1	42.6	28.6	25.9
Cost-to-income	157.1	128.6	158.3	138.0
LLR	28.8	24.9	19.3	22.6
NPLs	65.0	58.3	N/A	N/A
NPL coverage	44.4	42.8	N/A	N/A

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

VAB Bank: IFRS financials – key financials and ratios

Table 45. Key financials derived from bank's IFRS financial reports

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

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

Sources: Company data.

Table 46. Key financial ratios derived from bank's IFRS financial reports

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

Table 46. Key financial ratios derived from bank's IFRS financial reports

		2005	2006	2007	2008	2009	2010	2Q11
Net commission income/Operating income	(%)	N/A	22.1	26.6	12.1	10.7	19.4	18.1
Other income/Operating income	(%)	N/A	13.1	19.1	23.0	24.4	44.4	39.3
Net interest margin	(%)	N/A	6.2	1.8	9.2	5.9	2.3	3.3
Cost-to-income ratio	(%)	N/A	76.9	88.1	70.4	89.3	157.1	128.6
LLP/Operating income	(%)	N/A	14.8	9.9	40.2	103.1	258.8	163.5
Assets quality								
NPL/Gross loans	(%)	N/A	N/A	N/A	N/A	39.3	65.0	N/A
NPL coverage	(%)	N/A	N/A	N/A	N/A	38.5	44.4	N/A
LLR/Gross loans	(%)	3.0	2.6	16.4	6.0	15.2	28.8	24.9
LLP/PPI	(%)	N/A	64.1	83.1	135.9	967.1	-453.2	-572.2
Earning power								
Recurring earning power	(%)	N/A	1.4	0.3	3.4	0.8	-2.8	-1.8
PPI/Average total capital funds	(%)	N/A	11.6	2.8	34.4	8.7	-37.3	-31.8
Interest expense/Interest income	(%)	N/A	58.4	78.6	54.9	67.5	85.7	76.5
Interest income/Average interest earning assets	(%)	N/A	14.9	8.5	20.5	18.1	16.2	14.1
Interest expense/Average interest bearing liabilities	(%)	N/A	6.1	5.5	10.3	11.3	11.7	9.1
Net spread	ppt	N/A	8.8	3.0	10.2	6.7	4.5	5.0
Income tax / Pretax income	(%)	N/A	39.1	40.0	10.8	24.3	16.3	20.3
Efficiency								
Non-interest expense/Average assets	(%)	N/A	5.7	2.5	13.3	14.8	21.0	18.3
Personnel expense/Average assets	(%)	N/A	2.0	1.0	3.8	2.9	3.4	3.6
Personnel expense/Operating income	(%)	N/A	34.3	40.2	32.8	37.7	68.4	57.9
Personnel expense/Non-interest expense	(%)	N/A	35.9	39.2	28.7	19.3	16.2	19.5
Funding structure								
Customer accounts/Total funding base	(%)	58.7	57.2	60.5	52.8	45.4	73.1	73.8
Net loans/Total funding base	(%)	52.3	58.3	74.7	83.6	80.3	65.4	71.9
Average net loans/Average customer accounts	(%)	N/A	97.5	114.9	137.6	166.2	124.8	112.6
Customer accounts/Shareholders' equity	(%)	496.4	481.2	626.8	502.7	563.0	1,007.1	1,615.6
Other ratios and indicators								
Retail share in loan book	(%)	N/A	19.5	22.7	30.6	30.3	27.8	27.3
Personnel expense per employee	(US\$ 000s)	N/A	5.0	N/A	13.8	11.6	13.2	N/A
Operating income per employee	(US\$ 000s)	N/A	14.5	N/A	42.0	30.8	19.2	N/A

Sources: Bank data, Investment Capital Ukraine LLC..

VAB Bank: Key quarterly UAS financials and ratios

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

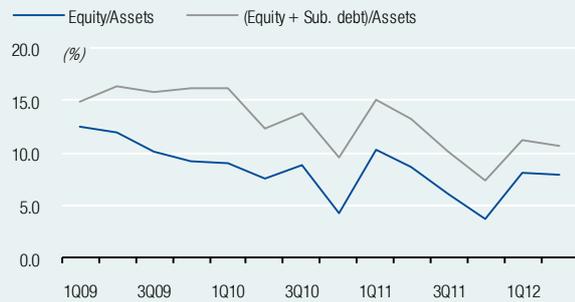
	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	7,116.5	6,785.4	6,661.9	7,293.7	7,736.8	8,698.4	9,128.3	11,311.1	13,244.3
Cash and cash equivalents	878.9	747.9	1,133.8	490.3	681.6	1,127.7	1,178.7	851.8	974.7
Gross loans	5,912.9	5,922.7	5,472.5	6,117.8	6,343.0	6,660.0	6,433.5	7,667.9	8,707.6
Gross business loans	4,228.5	4,271.7	3,947.4	4,512.9	4,580.6	4,701.2	4,537.8	5,824.8	6,991.3
Gross households loans	1,684.4	1,651.0	1,525.1	1,604.9	1,762.4	1,958.9	1,895.7	1,843.2	1,716.3
Loan loss reserves (LLR)	898.4	1,072.0	1,225.4	1,299.1	1,347.1	1,435.1	1,493.7	1,477.2	1,963.7
Deposits	3,538.5	3,834.8	4,356.6	4,609.8	5,041.3	5,441.9	5,436.1	6,890.8	8,401.0
Business deposits	1,036.5	1,009.9	1,261.9	1,298.7	1,368.6	1,239.0	1,087.4	1,622.7	2,569.7
Households deposits	2,502.0	2,824.9	3,094.8	3,311.1	3,672.7	4,202.9	4,348.7	5,268.1	5,831.3
Total equity	536.7	595.1	279.8	747.4	671.5	527.9	332.4	912.0	1,048.4
Quarterly P&L									
Net interest income	8.9	18.8	16.5	24.8	45.4	24.5	22.1	4.1	41.3
Net commission income	27.6	25.8	25.8	27.6	44.0	57.8	60.0	63.1	66.8
Operating income (before LLP)	57.4	165.9	50.8	85.0	96.4	93.1	63.0	84.0	114.4
Operating expense	(108.3)	(113.8)	(226.6)	(117.9)	(144.8)	(157.4)	(124.3)	(106.1)	(101.4)
Loan-loss provisions (LLP)	(77.3)	(173.5)	(205.6)	(75.9)	(48.4)	(98.8)	(115.2)	(22.6)	(448.3)
Net income	(97.8)	(93.4)	(321.8)	(82.4)	(75.9)	(143.6)	(195.5)	(20.4)	(363.6)
Last 12-month period P&L									
Net interesting income	135.7	101.3	61.0	69.0	105.6	111.2	116.8	96.1	92.0
Net commission income	124.1	113.0	105.5	106.8	123.1	155.2	189.4	224.9	247.7
Operating income (before LLP)	299.3	358.2	315.9	359.0	398.0	325.2	337.5	336.5	354.5
Operating expense	(412.2)	(425.2)	(548.0)	(566.5)	(603.1)	(646.7)	(544.3)	(532.6)	(489.2)
Loan-loss provisions (LLP)	(493.0)	(574.3)	(536.3)	(532.2)	(503.3)	(428.6)	(338.2)	(284.9)	(684.8)
Net income	(512.2)	(537.0)	(619.8)	(595.5)	(573.5)	(623.7)	(497.4)	(435.3)	(723.1)
Growth rates (%YoY)									
Assets	2.9	-8.8	-8.2	4.1	8.7	28.2	37.0	55.1	71.2
Gross loans	-0.8	-6.8	-11.1	0.5	7.3	12.4	17.6	25.3	37.3
Deposits (by businesses)	-1.2	-12.6	26.5	35.0	32.0	22.7	-13.8	24.9	87.8
Deposits (by households)	49.0	67.3	60.1	53.0	46.8	48.8	40.5	59.1	58.8
Deposits (total)	29.7	34.8	48.7	47.4	42.5	41.9	24.8	49.5	91.6
Total Equity	-35.4	-20.5	-58.4	18.5	25.1	-11.3	18.8	22.0	56.1
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	14.7	15.2	19.3	15.0	11.5	16.0	12.8	10.3	11.4
Equity/Assets	7.5	8.8	4.2	10.2	8.7	6.1	3.6	8.1	7.9
(Equity + Subor. debt)/Assets	12.3	13.9	9.5	15.1	13.2	10.1	7.5	11.2	10.6
Cash & cash equivalents/Liabilities	13.4	12.1	17.8	7.5	9.6	13.8	13.4	8.2	8.0
Current liquidity (R5 by NBU)	61.2	59.1	86.6	51.7	51.2	64.7	73.4	63.6	58.1
Gross loans/Deposits	167.1	154.4	125.6	132.7	125.8	122.4	118.3	111.3	103.6
Net loans/Deposits	141.7	126.5	97.5	104.5	99.1	96.0	90.9	89.8	80.3
Cost-to-income ratio	137.7	118.7	173.5	157.8	151.5	198.8	161.3	158.3	138.0
Net interest margin	2.3	1.8	1.2	1.3	2.0	2.0	1.9	1.4	1.2
ROAA	-7.1	-7.6	-9.0	-8.6	-8.1	-8.2	-6.1	-4.7	-6.8
ROAE	-79.2	-88.2	-121.4	-110.3	-100.0	-112.0	-87.3	-71.3	-102.5
NII/Operating income	45.3	28.3	19.3	19.2	26.5	34.2	34.6	28.6	25.9
Core income/Operating expense	63.0	50.4	30.4	31.0	37.9	41.2	56.3	60.3	69.4
LLR/Gross loans	15.2	18.1	22.4	21.2	21.2	21.5	23.2	19.3	22.6

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

VAB Bank: Charts on bank's key credit metrics

Chart 128. Bank's capitalisation



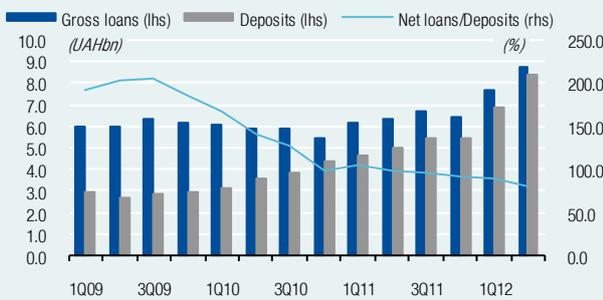
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 129. Liquidity



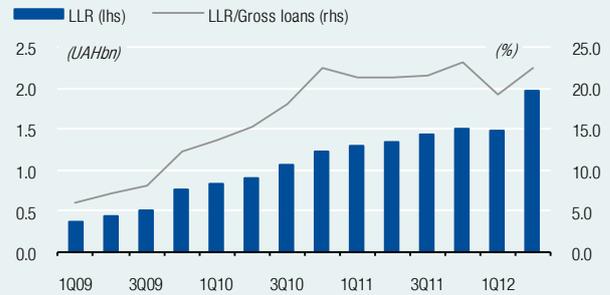
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 130. Loans and deposits



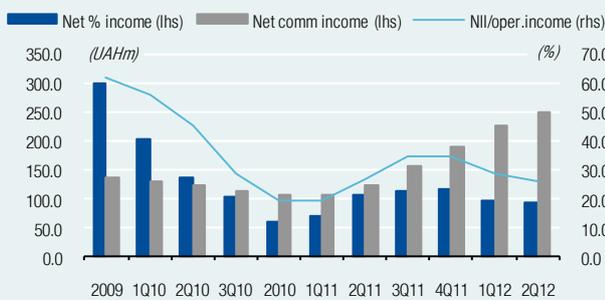
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 131. Loan loss reserves history



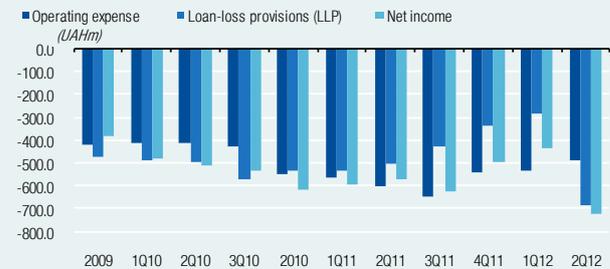
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 132. Income structure (annualised basis)



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

Chart 133. Expense and net income (annualised basis)



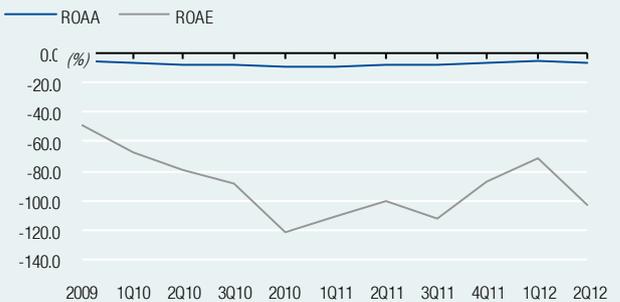
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 134. Financial performance ratios



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

Chart 135. Financial performance ratios



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

Country

Ukraine

Bank Credit Dnepr

Sector

Banks: Commercial banking

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

NR/NR/NR N/A

Ticker(s) in Bloomberg

While the quality of Credit Dnepr Bank's credit portfolio and its capitalisation still do not raise questions, we have some doubts regarding the bank's liquidity. Also, its fragile financial performance bodes ill for bank's credit profile. Nevertheless, we currently do not count the bank among weakest players, with its supportive role in Viktor Pinchuk's business empire.

Capitalisation: Still at a normal level. The bank's RCAR changed insignificantly during 2Q12, at a sufficient 13.1%. As the bank does not have significant expansion claims, nor any material credit portfolio quality issues, we believe that such a level of capital is sufficient in this particular case.

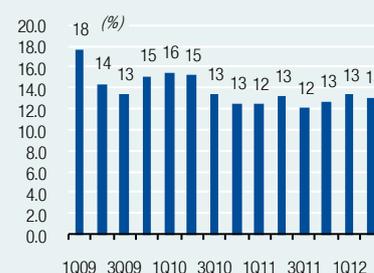
Liquidity: Cash volumes decrease, with structure of liquid assets biased towards securities. Bank Credit Dnepr's cash and cash equivalents fell 20.1% QoQ, to a slight 5.5% of total liabilities, but the bank also materially increased its securities held by more than three times, to UAH0.9bn, or 10.8% relative to its total liabilities. Considering the increase in due-to other banks, as described below, we believe the possibility exists that the bank has already received refinancing from the NBU on these securities, and that such resources are inaccessible for liquidity purposes.

Assets quality: Without signs of impairment. The bank increased its gross credit portfolio by a moderate 4.4% QoQ, to UAH5.9bn, with growth through the corporate segment which amounted to UAH5.4bn. The bank's loan-loss reserves were virtually unchanged, with an 8.3% loan coverage. The quality of the bank's credit operations revealed in its UAS financials also did not uncover any issues with their quality, thus, based on quarterly UAS figures we cannot speak of any obvious unpleasant downside surprises.

P&L: Habitually low. The bank's financial performance was not the key objective for its shareholder, though we were not surprised by seeing the slight UAH0.4m net income for the 2Q12, with the slightly changed annualised ROE at 0.4%. Net interest margin fell by 0.7ppt, to 2.6%, while the cost-to-income ratio increased by 6.9ppt, to a high 92.3% as of end-2Q12.

Bank's funding: Business accounts volatile. During the second quarter of the 2012, clients' deposits fell 8.4% QoQ, to UAH5.3bn, mostly due to the diminishing of business deposits, while household deposits slightly increased, by 3.3% QoQ, to UAH3.6bn. The bank has also materially increased its due-to other banks, by 56.9%, to UAH2.3bn, or to 28.4% of total liabilities, with most of the growth denominated in local currency.

RCAR, according to UAS figures



Source: bank data.

Key financials and ratios

	3Q11	4Q11	1Q12	2Q12
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	7,187	8,556	8,596	8,547
Loans	4,588	5,174	5,118	5,370
Deposits	4,480	5,585	5,775	5,289
Equity	601	600	600	597
Net % income	231	228	217	183
Net com income	54	56	63	69
Operating income	330	333	325	302
PPI	89	65	47	23
LLP	(59)	(65)	(51)	(25)
Net income	1	2	2	2
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	12.1	12.8	13.3	13.1
Equity-to-assets	8.4	7.0	7.0	7.0
Loan-to-deposit	102.4	92.7	88.6	101.5
Liquid assets	7.7	8.3	7.8	5.5
ROAA	0.02	0.03	0.02	0.03
ROAE	0.3	0.3	0.3	0.4
Net % margin	4.4	3.9	3.3	2.6
NII-to-op.income	70.0	68.6	66.6	60.6
Cost-to-income	72.9	80.5	85.4	92.3
LLR	9.3	8.5	8.7	8.3
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 based on 12-month annualised basis; CAR – Capital adequacy ratio (Basel IFRS accounts and NBU R2 UAS accounts); ROAA and ROAE stands for return on average assets and equity respectively
NII – Net interest income; LLR – loan-loss reserves;
NPL – non-performing loans (individually impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC.

Bank Credit Dnepr: IFRS financials – key financials and ratios

Table 48. Key financials derived from bank's IFRS financial reports

	2008	2009	2010
P&L (YTD) (UAHm)			
Net interest income	177.2	125.9	154.2
Net fee & commission income	40.6	46.6	41.2
Operating income	273.3	192.8	220.3
Pre-provision income (PPI)	168.5	77.4	62.1
Loan-loss provisions (LLP)	(61.4)	(64.9)	(31.8)
Pre-tax income	107.1	12.5	30.3
Net income (NI)	80.5	7.9	24.1
Balance sheet (UAHm)			
Cash & balances with central bank	648.8	1,649.2	1,807.8
Due from banks	5.8	7.4	78.1
Loans to customers	3,182.4	3,024.9	3,915.6
Investment securities	5.9	46.8	68.5
Property, equipment and intangible assets	167.6	162.7	172.3
Other assets	27.4	42.5	106.0
Total assets	4,038.0	4,933.5	6,148.3
Due to banks	339.0	956.1	1,194.3
Due to central bank	166.5	478.2	343.8
Customer accounts	2,578.4	2,604.9	3,738.1
Wholesale borrowings	129.7	55.7	0.0
Subordinated debt	62.1	64.4	64.2
Total equity	634.4	700.1	752.2
Total liabilities & equity	4,038.0	4,933.5	6,148.3

Sources: Company data.

Table 49. Key financial ratios derived from bank's IFRS financial reports

	2008	2009	2010
Growth rates (%YoY)			
Assets (%YoY)	N/A	22.2	24.6
Loans (%YoY)	N/A	-5.0	29.4
Deposits (%YoY)	N/A	1.0	43.5
Equity (%YoY)	N/A	10.4	7.4
Net interest income (%YoY)	N/A	-28.9	22.5
Net commission income (%YoY)	N/A	14.7	-11.5
Operating income (%YoY)	N/A	-29.5	14.3
Balance sheet ratios			
Liquid assets/Assets (%)	16.1	33.4	29.4
Liquid assets/Liabilities (%)	19.1	39.0	33.5
Due from banks/Due to banks (x)	0.01	0.01	0.1
Current ratio (x)	0.5	0.9	0.9
Equity/Assets (%)	15.7	14.2	12.2
Gross loans/Deposits (%)	128.4	122.9	110.2
Net loans/Deposits (%)	123.4	116.1	104.7
Wholesale borrowings/Liabilities (%)	3.8	1.3	0.0
Profitability & Earning quality			
ROAA (%)	N/A	0.2	0.4
ROAE (%)	N/A	1.2	3.3
Net interest income/Operating income (%)	N/A	65.3	70.0
Net commission income/Operating income (%)	N/A	24.2	18.7

Table 49. Key financial ratios derived from bank's IFRS financial reports

		2008	2009	2010
Other income/Operating income	(%)	N/A	10.5	11.3
Net interest margin	(%)	N/A	4.0	4.3
Cost-to-income ratio	(%)	N/A	59.8	71.8
LLP/Operating income	(%)	N/A	33.7	14.4
Assets quality				
NPL/Gross loans	(%)	N/A	14.5	10.1
NPL coverage	(%)	N/A	38.4	49.2
LLR/Gross loans	(%)	3.9	5.6	5.0
Earning power				
Recurring earning power	(%)	N/A	1.7	1.1
PPI/Average total capital funds	(%)	N/A	11.6	8.6
Interest expense/Interest income	(%)	N/A	74.6	71.2
Interest income/Average interest earning assets	(%)	N/A	15.8	15.0
Interest expense/Average interest bearing liabilities	(%)	N/A	10.0	8.0
Net spread	ppt	N/A	5.9	7.0
Income tax / Pretax income	(%)	N/A	37.1	20.5
Efficiency				
Non-interest expense/Average assets	(%)	N/A	4.1	3.6
Personnel expense/Average assets	(%)	N/A	1.1	1.2
Personnel expense/Operating income	(%)	N/A	25.4	29.4
Personnel expense/Non-interest expense	(%)	N/A	26.6	32.8
Funding structure				
Customer accounts/Total funding base	(%)	65.9	53.6	61.4
Net loans/Total funding base	(%)	81.4	62.2	64.3
Average net loans/Average customer accounts	(%)	N/A	119.8	109.4
Customer accounts/Shareholders' equity	(%)	406.4	372.1	497.0
Provisioning				
Average net loans/Average assets	(%)	N/A	69.2	62.6
NPL/(Shareholders' equity + LLR)	(%)	N/A	52.7	43.4
LLP/Gross loans	(%)	N/A	2.0	0.8
LLP/(LLR - LLP)	(%)	N/A	57.5	18.4
LLP/PPI	(%)	N/A	83.9	51.2
Dividend payout	(%)	N/A	0.0	0.0
Internal capital growth	(%)	N/A	1.2	3.4
Other ratios and indicators				
Retail share in loan book	(%)	N/A	26.6	15.6
Personnel expense per employee	(UAH 000s)	N/A	62.5	65.5
Operating income per employee	(UAH 000s)	N/A	246.2	222.5

Sources: Bank data, Investment Capital Ukraine LLC..

Bank Credit Dnepr: Key quarterly UAS financials and ratios

Table 50. Key financials and ratios derived from bank's UAS financials

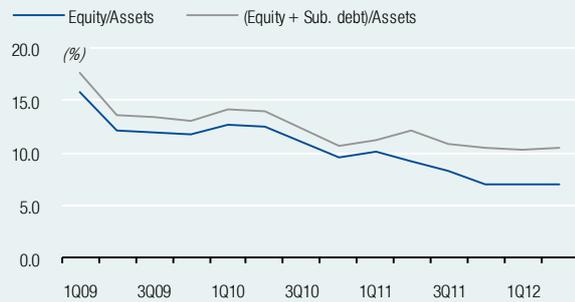
	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	4,572.6	5,174.1	6,036.4	5,717.1	6,493.3	7,186.6	8,555.9	8,595.8	8,546.8
Cash and cash equivalents	176.6	432.3	662.0	656.2	508.6	550.7	712.9	626.8	434.5
Gross loans	3,313.7	3,660.8	4,158.1	4,412.1	4,889.3	5,056.2	5,657.4	5,604.6	5,853.9
Gross business loans	N/A	5,023.9	5,440.4						
Gross households loans	N/A	580.7	413.5						
Loan loss reserves (LLR)	380.4	410.1	416.5	435.1	462.9	468.1	482.9	486.6	483.8
Deposits	2,371.9	2,902.0	3,635.8	3,589.0	4,037.0	4,480.2	5,584.6	5,775.0	5,288.9
Business deposits	573.7	845.8	1,315.4	1,177.4	1,214.3	1,317.5	2,280.9	2,263.6	1,661.7
Households deposits	1,798.2	2,056.2	2,320.4	2,411.6	2,822.7	3,162.7	3,303.6	3,511.4	3,627.2
Total equity	571.7	571.8	577.7	579.4	600.1	600.9	600.0	600.3	597.4
Quarterly P&L									
Net interest income	35.7	53.8	56.8	54.8	67.6	51.9	54.0	43.0	34.3
Net commission income	10.1	9.6	14.2	10.0	14.2	15.4	16.3	17.5	19.5
Operating income (before LLP)	53.4	67.3	79.9	79.0	90.3	80.7	82.8	71.2	67.5
Operating expense	(33.6)	(37.1)	(49.7)	(61.2)	(65.4)	(64.1)	(77.3)	(70.9)	(66.7)
Loan-loss provisions (LLP)	(17.8)	(29.3)	(10.8)	(15.9)	(26.3)	(6.4)	(16.1)	(2.1)	(0.1)
Net income	1.4	1.5	0.4	0.4	0.1	0.6	0.9	0.3	0.4
Last 12-month period P&L									
Net interesting income	115.3	139.9	171.0	201.1	232.9	231.1	228.2	216.5	183.2
Net commission income	52.2	49.2	43.7	43.9	48.0	53.8	55.9	63.4	68.7
Operating income (before LLP)	201.0	223.7	244.0	279.5	316.5	329.9	332.9	325.1	302.3
Operating expense	(124.9)	(133.2)	(151.1)	(181.6)	(213.4)	(240.5)	(268.1)	(277.7)	(279.0)
Loan-loss provisions (LLP)	(23.3)	(71.7)	(68.9)	(73.8)	(82.3)	(59.4)	(64.6)	(50.9)	(24.7)
Net income	51.9	17.9	4.6	3.7	2.4	1.5	2.0	1.9	2.2
Growth rates (%YoY)									
Assets	7.0	11.7	24.9	27.4	42.0	38.9	41.7	50.4	31.6
Gross loans	3.7	7.2	30.1	44.3	47.5	38.1	36.1	27.0	19.7
Deposits (by businesses)	-36.9	-14.6	63.2	102.6	111.7	55.8	73.4	92.3	36.8
Deposits (by households)	49.0	47.4	44.3	39.8	57.0	53.8	42.4	45.6	28.5
Deposits (total)	12.1	21.7	50.6	55.6	70.2	54.4	53.6	60.9	35.6
Total Equity	9.5	2.6	1.5	1.5	5.0	5.1	3.9	3.6	-0.5
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	15.2	13.4	12.5	12.5	13.2	12.1	12.8	13.3	13.1
Equity/Assets	12.5	11.1	9.6	10.1	9.2	8.4	7.0	7.0	7.0
(Equity + Subor. debt)/Assets	13.9	12.3	10.6	11.3	12.1	11.0	10.4	10.4	10.4
Cash & cash equivalents/Liabilities	4.4	9.4	12.1	12.8	8.6	8.4	9.0	7.8	5.5
Current liquidity (R5 by NBU)	50.3	82.2	97.1	95.8	83.8	85.6	86.5	109.2	82.5
Gross loans/Deposits	139.7	126.1	114.4	122.9	121.1	112.9	101.3	97.0	110.7
Net loans/Deposits	123.7	112.0	102.9	110.8	109.6	102.4	92.7	88.6	101.5
Cost-to-income ratio	62.1	59.5	61.9	65.0	67.4	72.9	80.5	85.4	92.3
Net interest margin	2.8	3.3	3.9	4.4	4.8	4.4	3.9	3.3	2.6
ROAA	1.1	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0
ROAE	9.2	3.1	0.8	0.6	0.4	0.3	0.3	0.3	0.4
NII/Operating income	57.4	62.5	70.1	71.9	73.6	70.0	68.6	66.6	60.6
Core income/Operating expense	134.1	141.9	142.0	134.9	131.6	118.4	106.0	100.8	90.3
LLR/Gross loans	11.5	11.2	10.0	9.9	9.5	9.3	8.5	8.7	8.3

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

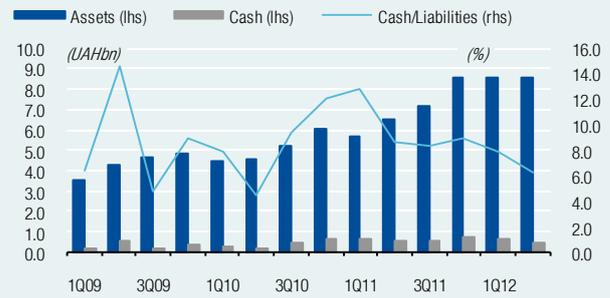
Bank Credit Dnepr: Charts on bank's key credit metrics

Chart 136. Bank's capitalisation



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

Chart 137. Liquidity



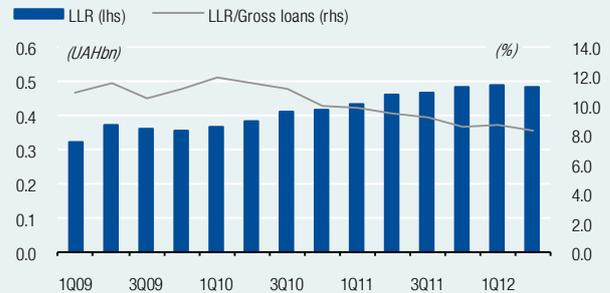
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 138. Loans and deposits



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

Chart 139. Loan loss reserves history



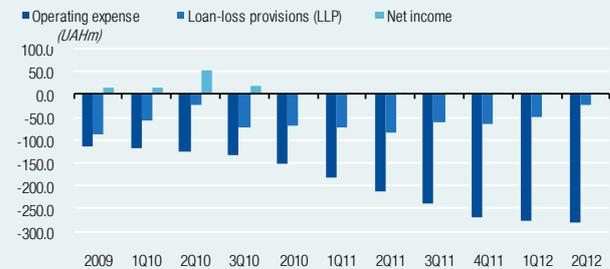
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 140. Income structure (annualised basis)



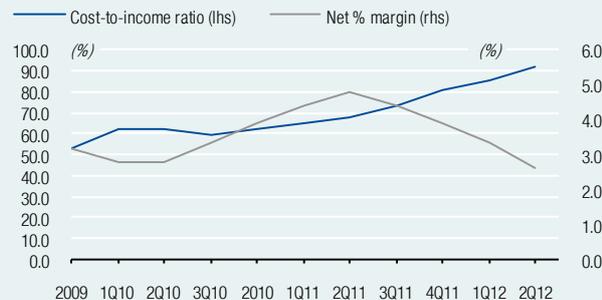
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 141. Expense and net income (annualised basis)



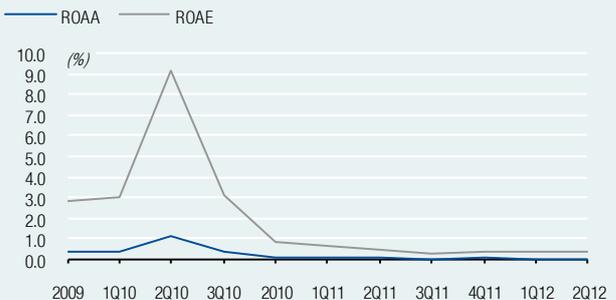
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 142. Financial performance ratios



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

Chart 143. Financial performance ratios



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

Country

Ukraine

Credit Agricole Bank

Sector

Banks: Commercial banking

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

NR/NR/NR N/A

Ticker(s) in Bloomberg

Despite the troublesome 2Q12 for the overall Ukrainian banking sector, Crédit Agricole Bank managed to operate with higher profit in the second quarter relative to the 1Q12, and a further expansion of its credit portfolio. We expect the previously announced merger with CIB CAB to materially strengthen the bank's position in the Ukrainian banking sector, as it also improves its financial performance.

Capitalisation: Still at a sufficient level. The bank's capitalisation decreased 1.0% QoQ, to 12.5% considering R2 by the NBU, yet was sufficient.

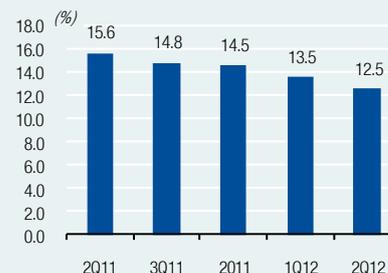
Liquidity: Lower, but still ample. The bank's cash and cash equivalents decreased 30.0% QoQ, to a still strong 14.3% of liabilities coverage.

Assets' quality: Without material changes. During 2Q12, Crédit Agricole Bank notably increased its gross credit portfolio by 12.8% QoQ, to UAH6.3bn, mostly through the corporate segment, up 18.3%, to UAH4b.0n, while household loans increased only slightly. The bank's loan-loss reserves fell 5.7% QoQ, to UAH0.5bn, or to 7.8% of the gross credit portfolio, which were probably dispositions of NPLs (of approximately UAH50m, according to our calculations).

P&L: Profitability decreased due to higher provisions; efficiency improves. Crédit Agricole Bank's 2Q12 net income was UAH3.6m, versus UAH1.2m in 1Q12, decreasing its annualised ROE by 1.7ppt, to 3.3%, primarily because of increased loan-loss provisions, which was the case for many Ukrainian banks in 2Q12. CAB's loan loss provisioning in the second quarter was UAH22.3m, versus only UAH15.1m in 2Q12. The bank's monthly core revenues grew 11.4% QoQ, to UAH137.1m, and the net interest margin fell 0.6ppt, to 5.6%, while the cost-to-income ratio grew 1.2ppt, to 92.8%.

Bank's funding: With a clear shift toward local resources. The clients' deposits base grew 4.7% QoQ, to UAH4.6bn, because of the increase in household deposits, while corporate deposits fell 5.5%, to UAH1.6bn. With a 28.5% YTD fall in due-to other banks and a 48.6% YTD increase in clients' deposits, Crédit Agricole Bank's bias towards local deposits funding can be clearly traced.

RCAR, according to UAS figures



Source: bank data.

Key financials and ratios

	2010	2011	1Q12	2Q12
	IFRS	IFRS	UAS	UAS
Financials (UAHm)				
Assets	5,403	6,944	7,285	7,354
Loans	3,811	5,116	5,042	5,781
Deposits	2,920	3,600	4,380	4,584
Equity	745	805	729	731
Net % income	328	436	318	306
Net com income	104	135	197	221
Operating income	459	594	640	658
PPI	(17)	72	38	47
LLP	(82)	(11)	5	(11)
Net income	(102)	61	38	25
Ratios (%)				
Tier 1 ratio	12.3	10.0	N/A	N/A
CAR	16.9	14.5	13.5	12.5
Equity-to-assets	13.8	11.6	10.0	9.9
Loan-to-deposit	130.5	142.1	115.1	126.1
Cash/Liabilities	8.7	8.3	21.8	14.3
ROAA	-1.8	1.0	0.6	0.4
ROAE	-18.7	7.8	5.0	3.3
Net % margin	6.9	8.4	6.2	5.6
NII-to-op.income	71.5	73.4	49.7	46.6
Cost-to-income	103.6	87.8	94.0	92.8
LLR	11.7	6.8	9.3	7.8
NPLs	9.4	4.4	N/A	N/A
NPL coverage	125.0	153.0	N/A	N/A

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

Sources: Bank data, Investment Capital Ukraine LLC.

CAB: IFRS financials – key financials and ratios

Table 51. Key financials derived from bank's IFRS financial reports

	2009	2010	1Q11	2Q11	3Q11	2011	1Q12
P&L (YTD)	(UAHm)						
Net interest income	251.6	327.8	N/A	209.7	326.5	435.9	104.0
Net fee & commission income	82.1	103.6	N/A	58.6	94.9	135.4	31.6
Operating income	610.4	458.7	N/A	276.1	434.7	593.9	135.0
Pre-provision income (PPI)	162.6	(16.7)	N/A	26.4	55.8	72.3	9.0
Loan-loss provisions (LLP)	(364.4)	(82.2)	N/A	18.6	4.1	(10.9)	(4.6)
Pre-tax income	(202.7)	(99.2)	N/A	45.0	59.7	60.8	4.5
Net income (NI)	(206.5)	(102.0)	N/A	45.7	60.3	60.8	4.5
Balance sheet	(UAHm)						
Cash & balances with central bank	312.3	467.5	N/A	498.9	490.5	577.7	558.3
Due from banks	2,053.3	654.5	N/A	1,176.0	910.2	797.2	1,186.5
Loans to customers	2,822.4	3,811.3	N/A	4,450.5	4,798.1	5,115.8	5,130.4
Investment securities	117.7	20.0	N/A	21.0	23.9	19.9	24.2
Property, equipment and intangible assets	399.3	377.9	N/A	364.6	352.9	351.0	346.4
Other assets	80.5	72.0	N/A	70.8	76.8	82.4	81.0
Total assets	5,785.6	5,403.3	N/A	6,581.8	6,652.5	6,944.0	7,326.8
Due to banks	3,007.0	1,376.2	N/A	1,790.6	1,882.4	2,106.5	1,675.7
Due to central bank	0.0	0.0	N/A	0.0	0.0	0.0	0.0
Customer accounts	2,085.5	2,919.7	N/A	3,589.7	3,570.9	3,599.5	4,380.7
Wholesale borrowings	0.0	0.0	N/A	0.0	0.0	35.3	87.7
Subordinated debt	252.6	251.8	N/A	255.4	256.5	253.1	253.6
Total equity	348.0	744.7	N/A	792.8	807.7	805.0	812.3
Total liabilities & equity	5,785.6	5,403.3	N/A	6,581.8	6,652.5	6,944.0	7,326.8

Sources: Company data.

Table 52. Key financial ratios derived from bank's IFRS financial reports

	2009	2010	1Q11	2Q11	3Q11	2011	1Q12
Growth rates (%YoY)							
Assets (%YoY)	N/A	-6.6	N/A	N/A	N/A	28.5	N/A
Loans (%YoY)	N/A	35.0	N/A	N/A	N/A	34.2	N/A
Deposits (%YoY)	N/A	40.0	N/A	N/A	N/A	23.3	N/A
Equity (%YoY)	N/A	114.0	N/A	N/A	N/A	8.1	N/A
Net interest income (%YoY)	N/A	30.3	N/A	N/A	N/A	33.0	N/A
Net commission income (%YoY)	N/A	26.3	N/A	N/A	N/A	30.7	N/A
Operating income (%YoY)	N/A	-24.8	N/A	N/A	N/A	29.5	N/A
Balance sheet ratios							
Liquid assets/Assets (%)	5.4	8.7	N/A	7.6	7.4	8.3	7.6
Liquid assets/Liabilities (%)	5.7	10.0	N/A	8.6	8.4	9.4	8.6
Due from banks/Due to banks (x)	0.7	0.5	N/A	0.7	0.5	0.4	0.7
Current ratio (x)	0.7	0.4	N/A	0.4	0.4	0.4	0.5
Equity/Assets (%)	6.0	13.8	N/A	12.0	12.1	11.6	11.1
Gross loans/Deposits (%)	160.3	147.9	N/A	138.0	146.1	152.5	126.0
Net loans/Deposits (%)	135.3	130.5	N/A	124.0	134.4	142.1	117.1
Wholesale borrowings/Liabilities (%)	0.0	0.0	N/A	0.0	0.0	0.6	1.3
Profitability & Earning quality							
ROAA (%)	N/A	-1.8	N/A	N/A	N/A	1.0	N/A
ROAE (%)	N/A	-18.7	N/A	N/A	N/A	7.8	N/A
Net interest income/Operating income (%)	41.2	71.5	N/A	N/A	N/A	73.4	73.2
Net commission income/Operating income (%)	13.4	22.6	N/A	N/A	N/A	22.8	23.8

Table 52. Key financial ratios derived from bank's IFRS financial reports

		2009	2010	1Q11	2Q11	3Q11	2011	1Q12
Other income/Operating income	(%)	45.3	5.9	N/A	N/A	N/A	3.8	3.0
Net interest margin	(%)	N/A	6.9	N/A	N/A	N/A	8.4	N/A
Cost-to-income ratio	(%)	73.4	103.6	N/A	N/A	N/A	87.8	87.4
LLP/Operating income	(%)	59.7	17.9	N/A	N/A	N/A	1.8	6.2
Assets quality								
NPL/Gross loans	(%)	133.6	132.8	N/A	128.8	N/A	128.9	N/A
NPL coverage	(%)	11.7	8.8	N/A	7.9	N/A	5.3	N/A
LLR/Gross loans	(%)	15.6	11.7	N/A	10.2	8.1	6.8	7.0
LLP/PPI	(%)	224.2	-491.5	N/A	N/A	N/A	15.1	49.3
Earning power								
Recurring earning power	(%)	N/A	-0.3	N/A	N/A	N/A	1.2	N/A
PPI/Average total capital funds	(%)	N/A	-3.1	N/A	N/A	N/A	9.3	N/A
Interest expense/Interest income	(%)	55.4	50.2	N/A	N/A	N/A	44.0	46.1
Interest income/Average interest earning assets	(%)	N/A	13.9	N/A	N/A	N/A	14.9	N/A
Interest expense/Average interest bearing liabilities	(%)	N/A	6.7	N/A	N/A	N/A	6.5	N/A
Net spread	ppt	N/A	7.2	N/A	N/A	N/A	8.4	N/A
Income tax / Pretax income	(%)	-1.9	-2.9	N/A	N/A	N/A	-0.1	0.0
Efficiency								
Non-interest expense/Average assets	(%)	N/A	10.2	N/A	N/A	N/A	8.9	N/A
Personnel expense/Average assets	(%)	N/A	4.7	N/A	N/A	N/A	4.6	N/A
Personnel expense/Operating income	(%)	43.2	57.2	N/A	N/A	N/A	47.4	47.7
Personnel expense/Non-interest expense	(%)	31.9	45.8	N/A	N/A	N/A	51.0	49.1
Funding structure								
Customer accounts/Total funding base	(%)	36.6	55.2	N/A	55.8	54.8	52.9	60.8
Net loans/Total funding base	(%)	49.6	72.0	N/A	69.2	73.6	75.2	71.2
Average net loans/Average customer accounts	(%)	N/A	132.5	N/A	N/A	N/A	136.9	N/A
Customer accounts/Shareholders' equity	(%)	599.3	392.1	N/A	452.8	442.1	447.2	539.3
Other ratios and indicators								
Retail share in loan book	(%)	N/A	44.7	N/A	N/A	N/A	35.0	N/A
Personnel expense per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operating income per employee	(UAH 000s)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes: NPL– non-performing loans (impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC..

CAB: Key quarterly UAS financials and ratios

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

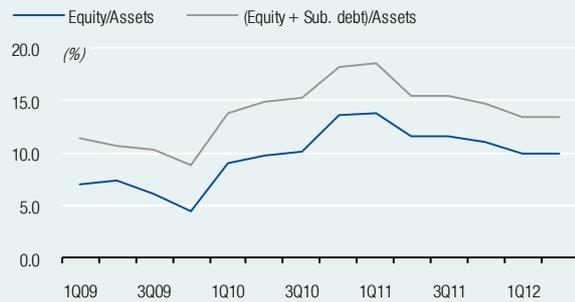
	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	4,940.2	5,053.0	5,332.3	5,309.9	6,499.8	6,603.4	6,891.6	7,284.8	7,354.1
Cash and cash equivalents	884.1	741.6	781.9	526.2	1,486.2	1,046.2	1,110.0	1,426.9	944.4
Gross loans	3,930.1	4,287.1	4,366.4	4,686.0	4,981.2	5,239.8	5,527.7	5,559.0	6,268.9
Gross business loans	2,054.0	2,337.8	2,371.5	2,687.9	2,885.1	3,087.9	3,303.3	3,358.9	3,974.3
Gross households loans	1,876.1	1,949.3	1,994.9	1,998.1	2,096.1	2,151.8	2,224.4	2,200.1	2,294.6
Loan loss reserves (LLR)	705.1	693.3	598.7	586.5	594.4	502.5	459.9	517.2	487.9
Deposits	1,474.4	1,737.0	1,806.5	1,824.7	1,904.5	3,565.6	3,609.8	4,379.8	4,584.0
Business deposits	639.5	804.0	768.0	766.6	795.8	1,469.0	1,255.7	1,710.9	1,616.1
Households deposits	834.8	933.0	1,038.5	1,058.1	1,108.7	2,096.5	2,354.2	2,668.9	2,967.9
Total equity	482.1	514.9	722.2	732.3	751.0	764.2	763.7	728.6	731.1
Quarterly P&L									
Net interest income	58.5	67.5	78.2	74.6	82.8	87.2	76.9	71.3	70.9
Net commission income	30.7	34.8	39.0	35.4	41.8	50.1	53.3	51.8	66.2
Operating income (before LLP)	125.3	145.1	155.5	136.0	153.0	161.0	178.4	147.7	170.6
Operating expense	(123.1)	(118.3)	(189.2)	(134.2)	(132.0)	(142.2)	(195.8)	(131.6)	(140.9)
Loan-loss provisions (LLP)	3.9	8.2	41.8	8.3	(6.3)	(3.1)	29.8	(15.1)	(22.3)
Net income	5.3	35.1	7.5	9.4	16.5	13.0	7.1	1.2	3.6
Last 12-month period P&L									
Net interesting income	260.2	255.9	261.3	278.8	303.1	322.7	321.4	318.2	306.3
Net commission income	149.1	129.5	131.7	139.8	150.9	166.2	180.6	197.0	221.3
Operating income (before LLP)	521.9	523.1	549.2	561.9	589.6	605.4	628.3	640.1	657.7
Operating expense	(909.2)	(682.6)	(573.4)	(564.7)	(573.6)	(597.5)	(604.1)	(601.6)	(610.5)
Loan-loss provisions (LLP)	30.4	15.4	3.9	62.2	52.0	40.8	28.7	5.3	(10.7)
Net income	(365.8)	(147.3)	(23.4)	57.2	68.4	46.4	46.0	37.8	24.9
Growth rates (%YoY)									
Assets	-33.8	-17.5	-5.4	0.9	31.6	30.7	29.2	37.2	13.1
Gross loans	9.8	24.6	29.7	35.2	26.7	22.2	26.6	18.6	25.9
Deposits (by businesses)	15.7	29.7	30.0	22.9	24.4	82.7	63.5	123.2	103.1
Deposits (by households)	-2.5	12.5	29.9	27.2	32.8	124.7	126.7	152.2	167.7
Deposits (total)	4.6	19.9	29.9	25.3	29.2	105.3	99.8	140.0	148.3
Total Equity	-12.6	39.2	192.9	54.2	55.8	48.4	5.8	-0.5	-2.6
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	N/A	N/A	N/A	N/A	15.6	14.8	14.5	13.5	12.5
Equity/Assets	9.8	10.2	13.5	13.8	11.6	11.6	11.1	10.0	9.9
(Equity + Subor. debt)/Assets	16.0	16.4	19.4	18.3	14.8	15.5	14.8	13.5	13.4
Cash & cash equivalents/Liabilities	19.8	16.3	17.0	11.5	25.9	17.9	18.1	21.8	14.3
Current liquidity (R5 by NBU)	N/A	N/A	N/A	N/A	47.4	N/A	51.1	73.3	44.9
Gross loans/Deposits	266.6	246.8	241.7	256.8	261.6	147.0	153.1	126.9	136.8
Net loans/Deposits	218.7	206.9	208.6	224.7	230.3	132.9	140.4	115.1	126.1
Cost-to-income ratio	174.2	130.5	104.4	100.5	97.3	98.7	96.2	94.0	92.8
Net interest margin	7.1	7.6	7.2	7.0	7.2	7.1	6.6	6.2	5.6
ROAA	-6.7	-2.8	-0.5	1.1	1.2	0.8	0.7	0.6	0.4
ROAE	-93.0	-34.3	-4.3	9.3	10.1	6.3	6.1	5.0	3.3
NII/Operating income	49.8	48.9	47.6	49.6	51.4	53.3	51.2	49.7	46.6
Core income/Operating expense	45.0	56.4	68.5	74.1	79.1	81.8	83.1	85.6	86.4
LLR/Gross loans	17.9	16.2	13.7	12.5	11.9	9.6	8.3	9.3	7.8

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income..

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

CAB: Charts on bank's key credit metrics

Chart 144. Bank's capitalisation



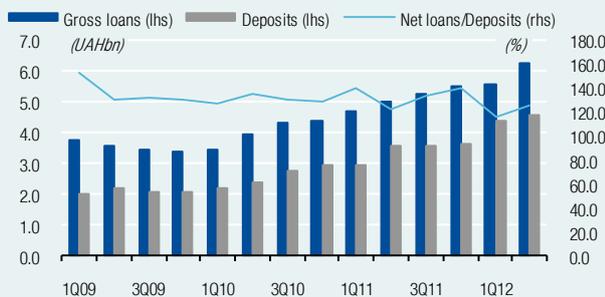
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 145. Liquidity



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

Chart 146. Loans and deposits



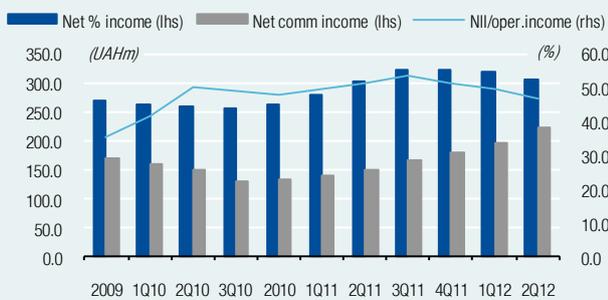
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 147. Loan loss reserves history



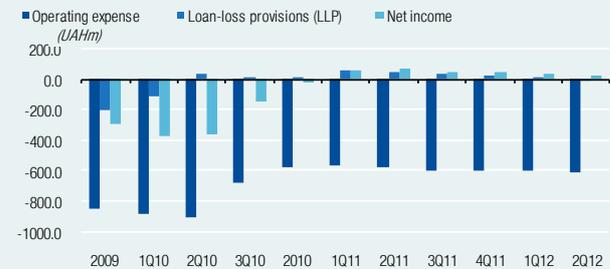
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 148. Income structure (annualised basis)



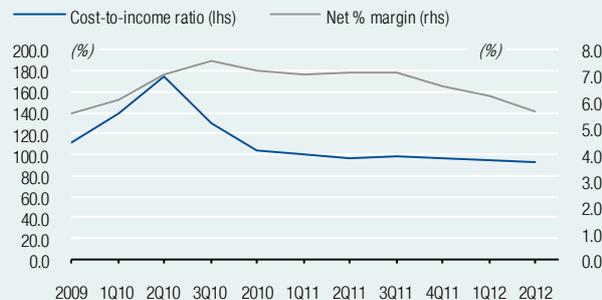
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 149. Expense and net income (annualised basis)



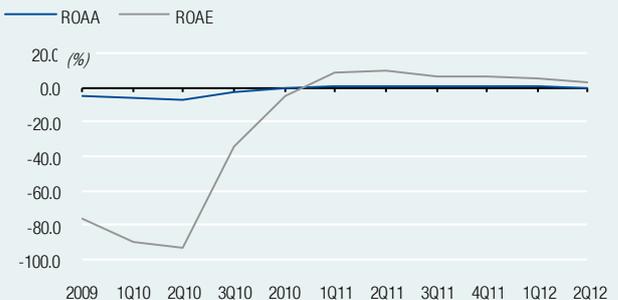
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 150. Financial performance ratios



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

Chart 151. Financial performance ratios



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

Country

Ukraine

Megabank

Sector

Banks: Commercial banking

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

NR/NR/NR N/A

Ticker(s) in Bloomberg

Megabank's 2Q12 UAS results were without material changes, with neither a contraction nor expansion of business. While the bank's capital and assets quality seemed to be strong, a decrease in its core revenues and low net interest margin still raise question marks on the bank's effectiveness and amount of related party transactions.

Capitalisation: Changed slightly, though still strong. The bank's RCAR decreased 0.4ppt, to a still-excessive 18.5%.

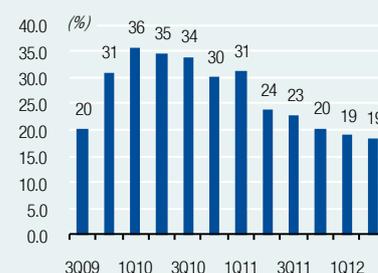
Liquidity: Unchanged, sufficient. The bank's cash and cash equivalents grew 3.3% QoQ, to 10.1% of total liabilities.

Assets' quality: Stable, with no signs of erosion. Megabank's credit portfolio did not undergo material changes during 2Q12, with a slight growth in both corporate and households loans, to UAH3.1bn and UAH0.6bn, respectively. The bank's loan-loss reserves increased 3.9% QoQ, presenting a slight 5.8% of credit portfolio coverage, and the quality of credit operations did not lead to conclusions of possible impairment.

P&L: With diverse dynamics. The bank's net income grew by almost 2x QoQ, to UAH3.5m as of 2Q12, improving its annualised ROE by 0.4ppt, to 1.2%. Such a result was achieved with materially decreased loan-loss provisions of 57.3%, to UAH8.2m, while the bank's quarterly core revenues fell 4.7% QoQ, to UAH59.2m. The net interest margin decreased 0.3ppt, to a slight 3.2%, while the cost-to-income ratio grew 0.9ppt, to 77.5%.

Bank's funding: Substitution of corporate funds for households'. Total deposits fell slightly, but with material changes in their structure. While corporate deposits fell 15.2% QoQ, to UAH0.9bn, such an outflow was compensated for by household deposits, which grew 9.9%, to UAH1.6bn.

RCAR, according to UAS figures



Source: bank data.

Key financials and ratios

	3Q11	4Q11	1Q12	2Q12
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	4,206.6	4,540.0	4,673	4,664
Loans	2,825.2	3,224.3	3,388	3,423
Deposits	2,275.2	2,277.8	2,488	2,473
Equity	649.4	651.2	658	661
Net % income	115.9	121.5	121	120
Net com income	109.6	110.9	115	118
Operating income	247.6	251.1	265	263
PPI	60.9	56.7	62	59
LLP	(57.0)	(52.6)	(55)	(48)
Net income	3.0	3.5	5	8
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	22.9	20.4	18.9	18.5
Equity-to-assets	15.4	14.3	14.1	14.2
Loan-to-deposit	124.2	141.6	136.1	138.4
Liquid assets	14.7	9.4	11.2	10.1
ROAA	0.1	0.1	0.1	0.2
ROAE	0.5	0.5	0.7	1.2
Net % margin	3.9	3.8	3.5	3.2
NII-to-op.income	46.8	48.4	45.6	45.6
Cost-to-income	75.4	77.4	76.6	77.5
LLR	5.7	5.4	5.7	5.8
NPLs	N/A	N/A	N/A	N/A
NPL coverage	N/A	N/A	N/A	N/A

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

Sources: Bank data, Investment Capital Ukraine LLC.

Megabank: IFRS financials – key financials and ratios

Table 54. Key financials derived from bank's IFRS financial reports

	2009	2010	2011
P&L (YTD)			
	(UAHm)		
Net interest income	83.7	120.7	145.2
Net fee & commission income	84.1	92.2	104.4
Operating income	165.5	209.7	257.7
Pre-provision income (PPI)	12.7	47.2	60.8
Loan-loss provisions (LLP)	(29.4)	(43.1)	(50.5)
Pre-tax income	(16.7)	4.1	10.3
Net income (NI)	(15.9)	0.7	9.3
Balance sheet			
	(UAHm)		
Cash & balances with central bank	129.0	328.9	422.4
Due from banks	408.8	104.0	263.1
Loans to customers	2,284.9	2,641.7	3,098.1
Investment securities	156.4	52.4	2.6
Property, equipment and intangible assets	148.3	166.1	175.3
Other assets	10.8	49.3	52.0
Total assets	3,138.3	3,342.4	4,013.6
Due to banks	433.4	368.5	427.4
Due to central bank	315.1	46.0	0.0
Customer accounts	1,405.0	1,819.0	2,285.9
Wholesale borrowings	136.1	172.9	448.9
Subordinated debt	229.5	314.2	211.6
Total equity	606.7	613.2	633.5
Total liabilities & equity	3,138.3	3,342.4	4,013.6

Sources: Company data.

Table 55. Key financial ratios derived from bank's IFRS financial reports

	2009	2010	2011
Growth rates (%YoY)			
Assets	(%YoY) 5.8	8.0	20.1
Loans	(%YoY) -0.5	13.1	17.3
Deposits	(%YoY) -28.0	29.5	25.7
Equity	(%YoY) 88.1	0.9	3.3
Net interest income	(%YoY) -20.5	44.1	20.3
Net commission income	(%YoY) -8.4	9.5	13.3
Operating income	(%YoY) -17.5	14.4	22.9
Balance sheet ratios			
Liquid assets/Assets	(%) 12.6	9.8	10.5
Liquid assets/Liabilities	(%) 15.7	12.1	12.5
Due from banks/Due to banks	(x) 0.2	0.3	0.6
Current ratio	(x) 0.8	0.5	0.6
Equity/Assets	(%) 19.6	18.3	15.8
Gross loans/Deposits	(%) 174.0	153.4	144.3
Net loans/Deposits	(%) 166.3	145.2	135.5
Wholesale borrowings/Liabilities (%)	(%) 5.5	6.3	13.3
Profitability & Earning quality			
ROAA	(%) (0.5)	0.0	0.3
ROAE	(%) (3.4)	0.1	1.5
Net interest income/Operating income	(%) 45.7	57.6	56.3
Net commission income/Operating income	(%) 45.9	44.0	40.5

Table 55. Key financial ratios derived from bank's IFRS financial reports

		2009	2010	2011
Other income/Operating income	(%)	8.4	(1.5)	3.1
Net interest margin	(%)	3.2	4.5	4.7
Cost-to-income ratio	(%)	93.3	77.5	76.4
LLP/Operating income	(%)	16.0	20.6	19.6
Assets quality				
NPL/Gross loans	(%)	2.6	6.5	5.4
NPL coverage	(%)	169.7	81.7	112.9
LLR/Gross loans	(%)	4.5	5.3	6.1
LLP/PPI	(%)			
Earning power				
		0.4	1.5	1.7
Recurring earning power	(%)	2.6	7.7	9.8
PPI/Average total capital funds	(%)	77.4	68.9	60.6
Interest expense/Interest income	(%)	14.1	14.5	11.9
Interest income/Average interest earning assets	(%)	11.3	10.3	7.3
Interest expense/Average interest bearing liabilities	(%)	2.8	4.2	4.6
Net spread	ppt	4.6	83.2	9.1
Income tax / Pretax income	(%)			
Efficiency				
		6.9	6.7	6.9
Non-interest expense/Average assets	(%)	2.1	2.3	2.4
Personnel expense/Average assets	(%)	35.3	35.9	34.8
Personnel expense/Operating income	(%)	31.3	34.8	35.2
Personnel expense/Non-interest expense	(%)			
Funding structure				
		45.6	54.6	57.0
Customer accounts/Total funding base	(%)	75.8	79.2	77.3
Net loans/Total funding base	(%)	139.6	154.4	139.8
Average net loans/Average customer accounts	(%)	231.1	296.6	360.8
Customer accounts/Shareholders' equity	(%)			
Other ratios and indicators				
Retail share in loan book	(%)	28.6	22.5	18.5
Personnel expense per employee	(UAH 000s)	41.4	50.4	65.4
Operating income per employee	(UAH 000s)	117.5	140.1	187.9

Notes: NPL– non-performing loans (impaired loans)

Sources: Bank data, Investment Capital Ukraine LLC..

FUIB: IFRS financials – key financials and ratios

Table 56. Key financials derived from bank's IFRS financial reports

	2005	2006	2007	2008	2009	2010	2011	1Q12	2Q12
P&L (YTD) (US\$m)									
Net interest income	24.1	42.9	72.0	136.1	127.4	126.2	122.7	29.3	65.9
Net fee & commission income	13.9	17.1	27.1	32.1	19.2	19.6	32.5	7.7	16.5
Operating income	42.1	64.3	106.4	195.4	159.0	162.7	173.0	40.5	89.8
Pre-provision income (PPI)	16.2	30.0	54.4	117.7	98.2	93.2	76.1	15.5	35.5
Loan-loss provisions (LLP)	(5.8)	(13.1)	(14.8)	(103.2)	(162.4)	(21.3)	(8.1)	(8.7)	(13.1)
Pre-tax income	10.5	16.8	38.2	7.5	(56.1)	71.5	68.5	6.6	22.1
Net income (NI)	6.9	11.3	28.0	15.3	(54.3)	54.4	56.4	5.5	17.6
Balance sheet (US\$m)									
Cash & balances with central bank	16.1	27.2	112.1	99.1	95.7	125.5	342.2	235.0	184.9
Due from banks	194.7	168.9	112.4	113.6	296.2	336.8	585.4	208.0	321.3
Loans to customers	360.2	676.1	1,675.9	1,902.1	1,418.1	1,408.7	2,055.8	2,095.2	2,142.2
Investment securities	20.0	70.6	122.8	33.5	6.2	212.8	522.9	464.0	413.4
Property, equipment and intangible assets	52.2	90.2	173.8	144.5	123.3	120.3	174.8	171.5	172.7
Other assets	4.0	12.1	44.2	24.9	47.7	18.1	39.8	35.7	36.0
Total assets	647.1	1,045.0	2,241.2	2,317.8	1,987.3	2,222.2	3,720.9	3,209.3	3,270.5
Due to banks	53.3	53.5	71.6	62.6	29.9	160.7	65.2	63.0	60.8
Due to central bank	0.5	0.0	0.0	66.8	245.2	174.4	127.2	127.2	127.1
Customer accounts	380.5	501.1	832.2	863.5	727.0	1,005.8	2,531.3	2,023.6	2,092.2
Wholesale borrowings	109.0	291.4	817.2	806.5	560.5	402.6	293.6	283.1	271.0
Subordinated debt	0.0	0.0	0.0	0.0	27.8	27.8	85.3	85.5	85.7
Total equity	94.9	182.6	482.7	451.2	375.7	434.8	604.9	614.0	617.7
Total liabilities & equity	647.1	1,045.0	2,241.2	2,317.8	1,987.3	2,222.2	3,720.9	3,209.3	3,270.5

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

Sources: Company data.

Table 57. Key financial ratios derived from bank's IFRS financial reports

		2006	2007	2008	2009	2010	2011	1Q12	2Q12
Growth rates (%YoY)									
Assets	(% YoY)	61.5	114.5	3.4	-14.3	11.8	67.4	40.4	48.8
Loans	(% YoY)	87.7	147.9	13.5	-25.4	-0.7	45.9	43.6	43.4
Deposits	(% YoY)	31.7	66.1	3.8	-15.8	38.4	151.7	97.8	82.3
Equity	(% YoY)	92.3	164.4	-6.5	-16.7	15.7	39.1	39.2	37.2
Net interest income	(% YoY)	78.3	67.7	89.1	-6.4	-0.9	-2.8	31.7	46.9
Net commission income	(% YoY)	23.4	58.5	18.5	-40.2	1.8	65.8	32.0	40.1
Operating income	(% YoY)	52.8	65.5	83.7	-18.6	2.3	6.3	26.3	38.3
Balance sheet ratios									
Liquid assets/Assets	(%)	2.6	5.0	4.3	4.8	5.6	9.2	7.3	5.7
Liquid assets/Liabilities	(%)	3.2	6.4	5.3	5.9	7.0	11.0	9.1	7.0
Due from banks/Due to banks	(x)	3.2	1.6	0.9	1.1	1.0	3.0	1.1	1.7
Current ratio	(x)	0.9	1.0	0.9	2.0	1.4	1.0	14.4	1.1
Equity/Assets	(%)	17.5	21.5	19.5	18.9	19.6	16.3	19.1	18.9
Gross loans/Deposits	(%)	140.1	206.3	235.0	234.6	170.4	95.7	103.5	120.1
Net loans/Deposits	(%)	134.9	201.4	220.3	195.1	140.1	81.2	103.5	102.4
Wholesale borrowings/Liabilities (%)	(%)	33.8	46.5	43.2	34.8	22.5	9.4	10.9	10.2
Profitability & Earning quality									
ROAA	(%)	1.3	1.7	0.7	-2.5	2.6	1.9	2.1	2.2
ROAE	(%)	8.2	8.4	3.3	-13.1	13.4	10.8	11.0	11.2
Net interest income/Operating income	(%)	66.8	67.6	69.7	80.1	77.6	70.9	71.5	72.6

Table 57. Key financial ratios derived from bank's IFRS financial reports

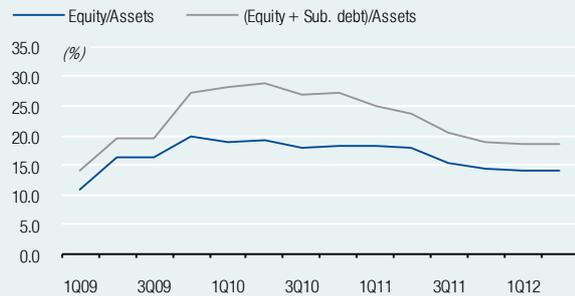
		2006	2007	2008	2009	2010	2011	1Q12	2Q12
Net commission income/Operating income	(%)	26.6	25.5	16.4	12.1	12.0	18.8	18.9	18.8
Other income/Operating income	(%)	6.6	6.9	13.9	7.8	10.4	10.3	9.6	8.6
Net interest margin	(%)	5.8	5.1	6.9	6.8	6.9	4.8	5.4	6.0
Cost-to-income ratio	(%)	53.4	48.9	39.8	38.3	42.7	56.0	57.6	57.9
LLP/Operating income	(%)	20.4	13.9	52.8	102.1	13.1	4.7	4.1	5.9
Assets quality									
NPL/Gross loans	(%)	N/A	N/A	N/A	N/A	24.3	20.2	N/A	18.3
NPL coverage	(%)	N/A	N/A	N/A	N/A	73.4	75.0	N/A	80.4
LLR/Gross loans	(%)	N/A	N/A	6.3	16.9	17.8	15.1	14.8	14.7
LLP/PPI	(%)	43.7	27.3	87.7	165.5	22.8	10.6	9.7	14.0
Earning power									
Recurring earning power	(%)	3.5	3.3	5.2	4.6	4.4	2.6	2.8	3.0
PPI/Average total capital funds	(%)	21.6	16.3	25.2	23.7	23.0	14.6	14.6	15.6
Interest expense/Interest income	(%)	49.2	57.2	55.7	57.3	54.8	59.3	59.4	58.3
Interest income/Average interest earning assets	(%)	11.3	11.9	15.5	15.8	15.2	11.8	13.3	14.3
Interest expense/Average interest bearing liabilities	(%)	6.0	7.5	9.7	10.1	9.1	7.3	8.6	9.2
Net spread	ppt	5.4	4.4	5.8	5.7	6.1	4.4	4.7	5.1
Income tax / Pretax income	(%)	32.8	26.6	-103.7	3.2	23.9	17.7	16.6	16.5
Efficiency									
Non-interest expense/Average assets	(%)	6.3	4.7	8.5	10.8	4.8	4.1	4.7	5.4
Personnel expense/Average assets	(%)	1.7	1.5	1.6	1.3	1.6	1.8	N/A	N/A
Personnel expense/Operating income	(%)	22.5	23.5	19.1	18.0	20.2	30.1	N/A	N/A
Personnel expense/Non-interest expense	(%)	27.0	32.4	19.3	12.4	32.3	43.1	N/A	N/A
Funding structure									
Customer accounts/Total funding base	(%)	48.7	37.8	38.4	37.0	45.6	68.3	63.3	64.3
Net loans/Total funding base	(%)	65.7	76.1	84.5	72.1	63.9	55.4	65.5	65.8
Average net loans/Average customer accounts	(%)	117.5	176.4	211.0	208.8	163.1	97.9	116.7	112.2
Customer accounts/Shareholders' equity	(%)	274.5	172.4	191.4	193.5	231.3	418.4	329.6	338.7
Other ratios and indicators									
Retail share in loan book	(%)	13.0	23.5	28.7	28.2	24.6	25.0	25.5	26.0
Personnel expense per employee	(UAH 000s)	7.5	8.9	11.4	10.9	13.1	13.4	N/A	N/A
Operating income per employee	(UAH 000s)	33.2	37.6	59.7	60.7	64.9	44.7	N/A	N/A

Notes: NPL – non-performing loans, calculated loans with 60 plus days overdue.

Sources: Bank data, Investment Capital Ukraine LLC..

Megabank: Charts on bank's key credit metrics

Chart 152. Bank's capitalisation



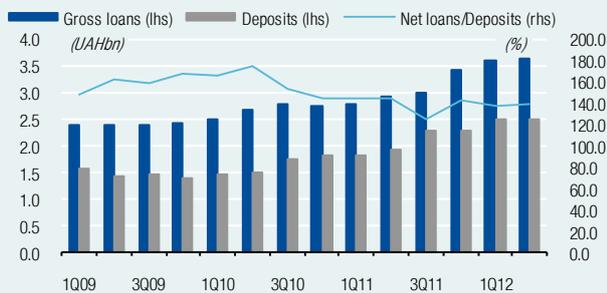
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 153. Liquidity



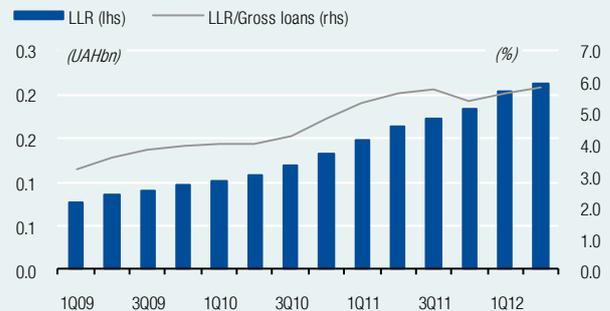
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 154. Loans and deposits



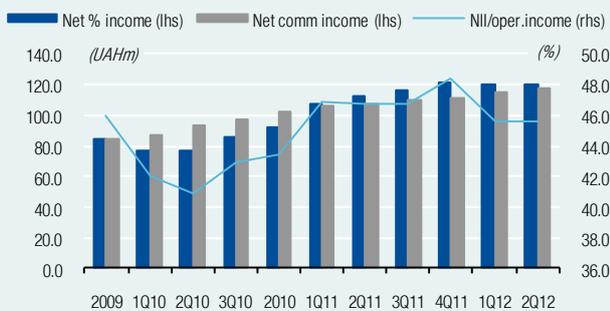
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 155. Loan loss reserves history



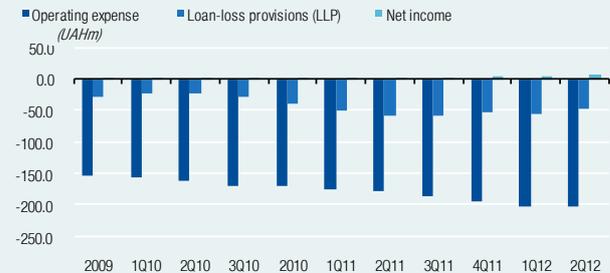
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 156. Income structure (annualised basis)



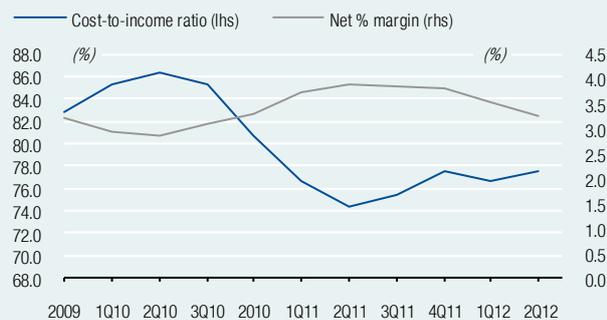
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 157. Expense and net income (annualised basis)



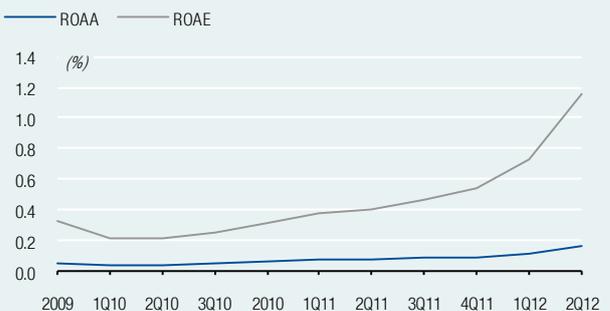
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 158. Financial performance ratios



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

Chart 159. Financial performance ratios



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

Country

Ukraine

ProCredit Bank

Sector

Banks: Commercial banking

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

NR/NR/B N/A

Ticker(s) in Bloomberg

ProCredit Bank's increased loan-loss provisioning during 2Q12 may be a reflection of Ukraine's overall economic slowdown, with solvency issues having arisen in many SMEs, at which the bank is primarily targeted. We are fairly confident, however, that the higher NPLs are currently adequately reserved, and the bank's capitalisation leaves it an ample safety cushion in case of further credit portfolio erosion. As of today, we see no material issues in ProCredit Bank's UAS financials, although we expect that the bank's profitability might be also under pressure during the 2H12.

Capitalisation: Decreased, but still strong. During 2Q12, the bank's RCAR fell 0.7ppt, to 15.3%, presenting a still more-than-sufficient level of capitalisation.

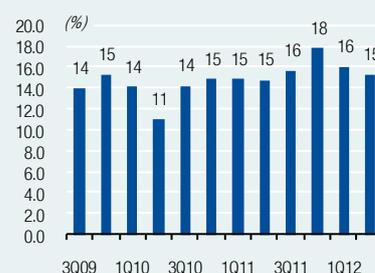
Liquidity: Changed slightly, though still at a sufficient level. The bank's cash and cash equivalents decreased immaterially during 2Q12, showing a 10.0% liabilities' coverage which, as we believe, is an adequate level.

Assets' quality: Still without cause for alarm. During the 2Q12, ProCredit Bank's credit portfolio changed immaterially; gross loans increased 2.9%, to UAH1.8bn, mostly because of growth in the corporate segment, while retail fell slightly. Loan-loss reserves fell by 2.7%, presenting a still-low 5.5% of the credit portfolio.

P&L: Strong, but with an increase in provisioning. According to ProCredit Bank's 2Q12 UAS financials, the bank revealed a net loss of UAH0.9m, versus UAH5.2m in net income for the 1Q12, decreasing its annualised ROE by 6ppt, to 7.4%. This was mostly the result of increased loan-loss provisioning, to UAH20.7m, versus UAH4.1m a quarter earlier, while monthly core revenues grew 8.1%, to UAH78.3m. The net interest margin changed immaterially, to a high 12.6% as of end-2Q12, while the cost-to-income ratio grew by 2.3ppt, to 75.0%.

Bank's funding: Household accounts still the foundation. The bank's clients' deposits funding fell slightly due to a decrease in corporate deposits, which fell 4.1% QoQ, to UAH0.4bn, while household deposits still represented the main share of the bank's local funding, amounting to UAH1.1bn as of quarter-end, or 50.8% of the bank's liabilities.

RCAR, according to UAS figures



Source: bank data.

Key financials and ratios

	3Q11	4Q11	1Q12	2Q12
	UAS	UAS	UAS	UAS
Financials (UAHm)				
Assets	2,573	2,405	2,453	2,411
Loans	1,822	1,648	1,648	1,701
Deposits	1,510	1,531	1,592	1,574
Equity	262	271	266	265
Net % income	250	252	247	240
Net com income	68	70	72	74
Operating income	336	342	340	337
PPI	104	105	93	84
LLP	(87)	(78)	(43)	(55)
Net income	14	22	35	20
Ratios (%)				
Tier 1 ratio	N/A	N/A	N/A	N/A
CAR	15.7	17.8	16.0	15.3
Equity-to-assets	10.2	11.3	10.8	11.0
Loan-to-deposit	120.7	107.6	103.6	108.1
Liquid assets	16.0	15.4	10.7	10.0
ROAA	0.5	0.9	1.4	0.8
ROAE	5.1	8.7	13.4	7.4
Net % margin	12.5	12.8	12.7	12.6
NII-to-op.income	74.4	73.6	72.5	71.2
Cost-to-income	69.0	69.2	72.6	75.0
LLR	9.3	6.2	5.8	5.5
NPLs	N/A	N/A	N/A	N/A
NPL coverage	N/A	N/A	N/A	N/A

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

Sources: Bank data, Investment Capital Ukraine LLC.

ProCredit Bank: IFRS financials – key financials and ratios

Table 58. Key financials derived from bank's IFRS financial reports

	2007	2008	2009	2010	2011
P&L (YTD)	(US\$m)				
Net interest income	38.3	45.7	28.8	26.1	35.5
Net fee & commission income	6.3	7.2	4.6	6.6	8.2
Operating income	46.0	56.4	36.9	34.4	45.2
Pre-provision income (PPI)	8.1	6.1	2.7	2.1	16.3
Loan-loss provisions (LLP)	(3.4)	(8.2)	(13.8)	(8.5)	-12.7
Pre-tax income	4.8	(2.1)	(11.1)	(6.3)	3.6
Net income (NI)	3.0	(2.0)	(8.0)	(6.1)	2.9
Balance sheet	(US\$m)				
Cash & balances with central bank	35.4	34.8	34.1	25.4	28.0
Due from banks	7.8	0.0	37.2	6.2	37.9
Loans to customers	379.3	357.4	255.2	233.3	208.6
Investment securities	0.1	0.1	0.1	3.2	0.0
Property, equipment and intangible assets	21.3	14.5	11.9	11.0	10.1
Other assets	10.2	4.7	7.9	8.7	9.6
Total assets	454.0	411.6	346.5	287.9	294.2
Due to banks	17.0	0.1	0.0	0.0	0.0
Due to central bank	0.0	0.0	0.0	0.0	0.0
Customer accounts	220.6	175.0	150.1	174.0	190.5
Wholesale borrowings	164.5	197.3	147.2	71.1	58.3
Subordinated debt	10.8	14.0	23.3	14.0	14.1
Total equity	39.4	23.4	24.4	27.4	30.2
Total liabilities & equity	454.0	411.6	346.5	287.9	294.2

Sources: Company data.

Table 59. Key financial ratios derived from bank's IFRS financial reports

		2007	2008	2009	2010	2011
Growth rates (%YoY)						
Assets	(%YoY)	N/A	-9.3	-15.8	-16.9	2.2
Loans	(%YoY)	N/A	-5.8	-28.6	-8.6	(10.6)
Deposits	(%YoY)	N/A	-20.7	-14.2	15.9	9.5
Equity	(%YoY)	N/A	-40.4	4.1	12.5	9.9
Net interest income	(%YoY)	N/A	19.1	-36.8	-9.4	35.8
Net commission income	(%YoY)	N/A	14.3	-35.1	42.5	23.5
Operating income	(%YoY)	N/A	22.6	-34.7	-6.7	31.3
Balance sheet ratios						
Liquid assets/Assets	(%)	7.8	8.5	9.8	8.8	9.5
Liquid assets/Liabilities	(%)	8.5	9.0	10.6	9.8	10.6
Due from banks/Due to banks	(x)	0.5	0.0	N/M	N/M	N/M
Current ratio	(x)	0.5	0.7	1.0	0.4	0.6
Equity/Assets	(%)	8.7	5.7	7.0	9.5	10.3
Gross loans/Deposits	(%)	176.4	211.8	179.9	146.4	119.9
Net loans/Deposits	(%)	172.0	204.2	170.0	134.1	109.5
Wholesale borrowings/Liabilities (%)	(%)	39.7	50.8	45.7	27.3	22.1
Profitability & Earning quality						
ROAA	(%)	N/A	-0.5	-2.1	-1.9	1.0
ROAE	(%)	N/A	-6.5	-33.4	-23.3	10.0
Net interest income/Operating income	(%)	N/A	81.0	78.3	76.0	78.6
Net commission income/Operating income	(%)	N/A	12.7	12.6	19.2	18.1

Table 59. Key financial ratios derived from bank's IFRS financial reports

		2007	2008	2009	2010	2011
Other income/Operating income	(%)	N/A	6.4	9.1	4.8	3.3
Net interest margin	(%)	N/A	12.3	8.9	9.8	14.5
Cost-to-income ratio	(%)	N/A	89.2	92.7	93.8	63.9
LLP/Operating income	(%)	N/A	14.6	37.4	24.7	28.2
Assets quality						
NPL/Gross loans	(%)	0.8	1.0	6.5	10.4	10.0
NPL coverage	(%)	303.7	369.8	85.1	80.9	86.6
LLR/Gross loans	(%)	2.5	3.6	5.5	8.4	8.7
Earning power						
Recurring earning power	(%)	N/A	1.4	0.7	0.7	5.6
PPI/Average total capital funds	(%)	N/A	19.4	11.3	8.2	56.6
Interest expense/Interest income	(%)	N/A	44.0	47.6	44.8	28.0
Interest income/Average interest earning assets	(%)	N/A	21.9	16.9	17.7	20.1
Interest expense/Average interest bearing liabilities	(%)	N/A	9.0	7.4	7.3	5.3
Net spread	ppt	N/A	12.9	9.5	10.4	14.9
Income tax / Pretax income	(%)	N/A	3.9	27.7	4.6	19.4
Efficiency						
Non-interest expense/Average assets	(%)	N/A	13.9	12.9	13.2	14.8
Personnel expense/Average assets	(%)	N/A	5.9	4.5	5.6	5.7
Personnel expense/Operating income	(%)	N/A	45.6	46.3	51.2	36.4
Personnel expense/Non-interest expense	(%)	N/A	42.9	34.8	42.0	38.3
Funding structure						
Customer accounts/Total funding base	(%)	48.8	42.7	43.5	60.7	65.0
Net loans/Total funding base	(%)	83.9	87.2	74.0	81.4	71.2
Average net loans/Average customer accounts	(%)	N/A	186.2	188.4	150.7	121.2
Customer accounts/Shareholders' equity	(%)	560.2	746.3	615.2	633.9	631.6
Provisioning						
Average net loans/Average assets	(%)	N/A	85.1	80.8	77.0	75.9
NPL/(Shareholders' equity + LLR)	(%)	6.6	9.8	44.5	54.0	45.7
LLP/Gross loans	(%)	N/A	2.2	5.1	3.3	5.6
LLP/(LLR - LLP)	(%)	N/A	162.5	1230.2	66.0	180.8
LLP/PPI	(%)	N/A	134.8	509.3	396.6	78.1
Dividend payout	(%)	N/A	0.0	0.0	0.0	0.0
Internal capital growth	(%)	N/A	-5.2	-34.1	-24.8	10.5
Other ratios and indicators						
Retail share in loan book	(%)	N/A	3.4	3.8	3.4	3.7
Personnel expense per employee	(US\$ 000s)	N/A	11.9	11.4	16.2	12.3
Operating income per employee	(US\$ 000s)	N/A	26.1	24.7	31.6	33.7

Sources: Bank data, Investment Capital Ukraine LLC.

ProCredit Bank: Key quarterly UAS financials and ratios

Table 60. Key financials and ratios derived from bank's UAS financials

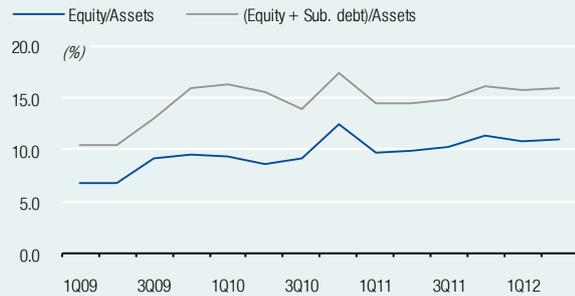
	2Q10	3Q10	2010	1011	2Q11	3Q11	2011	1Q12	2Q12
Balance sheet figures (UAHm)									
Assets	2,686.2	2,496.3	2,403.7	2,474.6	2,589.7	2,572.7	2,404.8	2,452.6	2,411.4
Cash and cash equivalents	251.4	267.2	232.6	260.8	344.5	369.4	329.5	319.7	215.5
Gross loans	2,188.7	2,157.7	2,054.2	2,167.5	2,168.3	2,009.3	1,757.5	1,749.4	1,799.5
Gross business loans	907.5	926.9	992.2	1,142.0	1,174.5	1,067.6	955.4	1,026.8	1,091.2
Gross households loans	1,281.2	1,230.8	1,062.0	1,025.5	993.8	941.7	802.1	722.6	708.3
Loan loss reserves (LLR)	248.0	255.3	150.9	250.5	225.6	187.7	109.4	101.2	98.4
Deposits	1,440.3	1,413.9	1,406.6	1,448.9	1,486.1	1,509.7	1,531.1	1,591.5	1,573.8
Business deposits	262.9	298.4	343.4	351.3	373.8	437.0	417.1	447.8	429.5
Households deposits	1,177.4	1,115.5	1,063.1	1,097.6	1,112.2	1,072.7	1,113.9	1,143.7	1,144.3
Total equity	229.4	228.8	300.9	241.1	256.0	261.7	271.2	265.7	264.8
Quarterly P&L									
Net interest income	46.4	51.5	60.0	61.3	65.6	62.9	62.1	55.9	58.9
Net commission income	11.7	14.6	16.8	14.6	17.3	18.9	19.3	16.5	19.3
Operating income (before LLP)	63.2	70.2	81.8	79.0	86.9	87.9	88.4	77.0	83.7
Operating expense	(65.7)	(65.2)	(59.5)	(55.5)	(58.5)	(58.1)	(64.7)	(65.9)	(64.0)
Loan-loss provisions (LLP)	6.7	(5.2)	(16.3)	(39.3)	(8.5)	(22.6)	(7.7)	(4.1)	(20.7)
Net income	3.3	(0.6)	0.8	(7.9)	14.9	5.7	9.6	5.2	(0.9)
Last 12-month period P&L									
Net interesting income	196.9	197.2	204.6	219.2	238.4	249.8	251.9	246.6	239.9
Net commission income	46.2	50.2	53.5	57.7	63.2	67.5	70.0	71.9	74.0
Operating income (before LLP)	266.8	265.1	276.6	294.1	317.9	335.6	342.2	340.3	337.1
Operating expense	(272.0)	(271.5)	(258.3)	(245.9)	(238.6)	(231.6)	(236.8)	(247.2)	(252.7)
Loan-loss provisions (LLP)	(13.2)	(8.0)	(27.9)	(54.1)	(69.3)	(86.7)	(78.1)	(43.0)	(55.2)
Net income	(15.3)	(11.1)	(12.5)	(4.4)	7.3	13.5	22.3	35.4	19.5
Growth rates (%YoY)									
Assets	-7.4	-15.7	-15.4	-9.3	-3.6	3.1	0.0	-0.9	-6.9
Gross loans	-7.4	-7.9	-10.1	-2.9	-0.9	-6.9	-14.4	-19.3	-17.0
Deposits (by businesses)	22.7	16.8	52.7	49.1	42.2	46.4	21.5	27.5	14.9
Deposits (by households)	29.2	19.0	9.1	5.5	-5.5	-3.8	4.8	4.2	2.9
Deposits (total)	27.9	18.5	17.2	13.6	3.2	6.8	8.8	9.8	11.3
Total Equity	16.5	-15.0	10.9	-5.6	11.6	14.4	-9.9	10.2	3.4
Key ratios (%)									
Capital adequacy ratio (R2 by NBU)	11.0	14.2	14.8	14.8	14.8	15.7	17.8	16.0	15.3
Equity/Assets	8.5	9.2	12.5	9.7	9.9	10.2	11.3	10.8	11.0
(Equity + Subor. debt)/Assets	15.6	14.0	17.4	14.6	14.4	14.9	16.2	15.7	15.9
Cash & cash equivalents/Liabilities	10.2	11.8	11.1	11.7	14.8	16.0	15.4	14.6	10.0
Current liquidity (R5 by NBU)	73.3	46.9	42.7	42.7	47.4	51.3	62.2	64.2	53.9
Gross loans/Deposits	152.0	152.6	146.0	149.6	145.9	133.1	114.8	109.9	114.3
Net loans/Deposits	134.7	134.6	135.3	132.3	130.7	120.7	107.6	103.6	108.1
Cost-to-income ratio	101.9	102.4	93.4	83.6	75.1	69.0	69.2	72.6	75.0
Net interest margin	8.5	8.9	9.7	10.7	11.9	12.5	12.8	12.7	12.6
ROAA	-0.5	-0.4	-0.5	-0.2	0.3	0.5	0.9	1.4	0.8
ROAE	-6.0	-4.5	-4.9	-1.7	2.8	5.1	8.7	13.4	7.4
NII/Operating income	73.8	74.4	74.0	74.5	75.0	74.4	73.6	72.5	71.2
Core income/Operating expense	89.4	91.1	99.9	112.6	126.4	137.0	136.0	128.9	124.2
LLR/Gross loans	11.3	11.8	7.3	11.6	10.4	9.3	6.2	5.8	5.5

Notes: P&L ratios are based on 12-month annualized basis; ROAA – Return on average assets; ROAE – Return on average equity; NII – Net interest income; Core income includes net interest income and commission income

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

ProCredit Bank: Charts on bank's key credit metrics

Chart 160. Bank's capitalisation



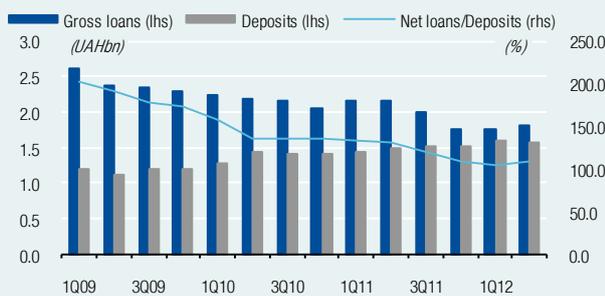
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 161. Liquidity



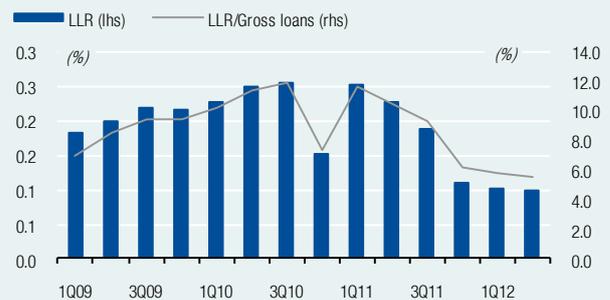
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 162. Loans and deposits



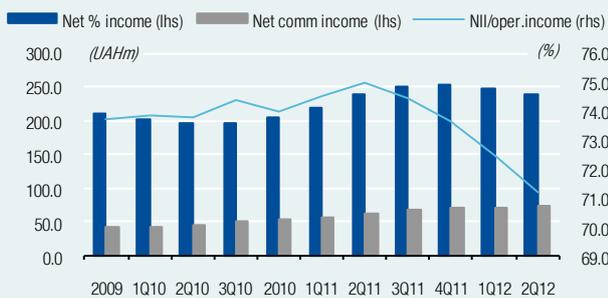
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 163. Loan loss reserves history



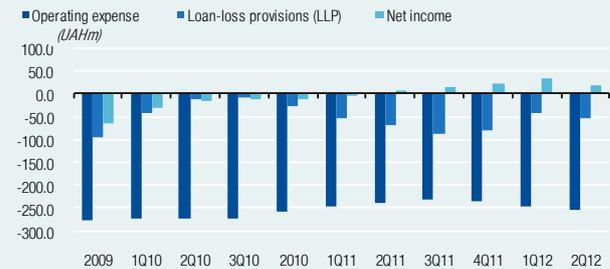
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 164. Income structure (annualised basis)



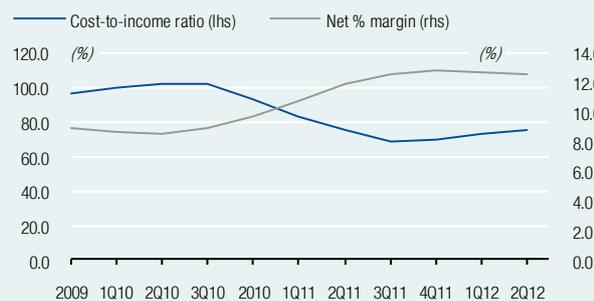
Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 165. Expense and net income (annualised basis)



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

Chart 166. Financial performance ratios



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

Chart 167. Financial performance ratios



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

Disclosures

ANALYST CERTIFICATION

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

EQUITY RATING DEFINITIONS

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

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

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

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

DEBT RATING DEFINITIONS

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

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

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



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