Ukraine
Fixed Income | Banks
Desk Note

February 22, 2013

# Banking sector / Eurobond issuers

## In standstill mode


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**Developments in the money markets in 4Q12 resembled those of 2008/09 – interest rates were elevated and extremely volatile due to macro uncertainties and hryvnia depreciation expectations. Even though the situation has normalized since mid-December and interest rates have dropped to low single-digits, we think the current stability is tenuous and sustainable improvement is only possible after a hryvnia depreciation that looks inevitable in 2013. Quality Eurobond issuers (Ukreximbank, Oschadbank, FUIB and Privatbank) are well-positioned to withstand current challenges and we believe their debt servicing will remain smooth.**

### Sustainable interest rate normalization unlikely until the hryvnia weakens

In 4Q12, businesses and individuals have been reallocating their savings into FX-denominated facilities in anticipation of the hryvnia's depreciation, leading to hiked interest rates on hryvnia facilities. Since the NBU is defending hryvnia stability at all costs, expectations of the hryvnia weakening began fading out in late December and the money market has seen some relief – the overnight (o/n) rate now stands at below 5% while it averaged 26% in October-November. Yet we believe the normalization is not sustainable and the situation will remain tense until the hryvnia sees a moderate depreciation (we expect an end-2013 level of UAH 8.8/USD) that would create a "worst is behind us" perception among businesses and individuals. We expect heightened volatility in interest rates before an exchange rate adjustment occurs and believe that only a more flexible hryvnia can bring long-term improvement on that front.

### Most banks to withstand moderate hryvnia depreciation

The share of FX loans in total lending declined to 37% as of end-2012 from 52% as of end-2009. This implies banks are now much less exposed to exchange rate risks than during the 2008/09 crisis. We project a 9% hryvnia decline will push NPLs up by a reasonable 2-3 pp (from the current 25-30%) over a period of 2-4 years and related loan losses should be fully covered by banks' operating profits.

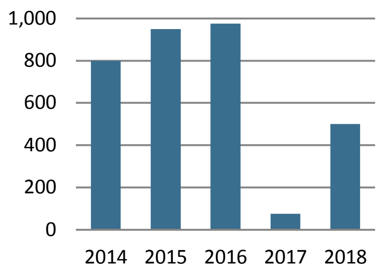
### Private banks' focus remains on loans, state banks to invest in T-bills

Private banks remain desperate for new lending opportunities but are still unprepared to diversify their assets into government securities. Their bond holdings have stayed virtually unchanged at below 5% of total assets over the past year. State banks will continue to purchase the bulk of offered bonds to help the government patch its fiscal gap. Investors already seem to be taking for granted that state banks have in fact been transformed into government financing vehicles. The growth in the share of bonds on state banks' balance sheets does not seem to be negatively affecting Eurobond quotations anymore.

### Focus on four quality issuers, ignore two high-risk banks

We continue to believe that Ukreximbank (EXIMUK), Oschadbank (OSCHAD), FUIB (PUMBUZ) and Privatbank (PRBANK) are quality issuers with very low liquidity and solvency risks. For those with a high risk appetite, we recommend looking at VAB Bank (VABANK), whose owner is clearly committed to support the lender. We see investing in Finance & Credit Bank (FICBUA) and Nadra Bank (NADRA) is related to very high risks. These banks are clearly exposed to liquidity risk (as they have stayed afloat only thanks to the NBU's "regulatory forbearance" approach) and the risk of violating CAR requirements if the hryvnia depreciates even moderately.

**Banking Eurobond maturity, USD mln**

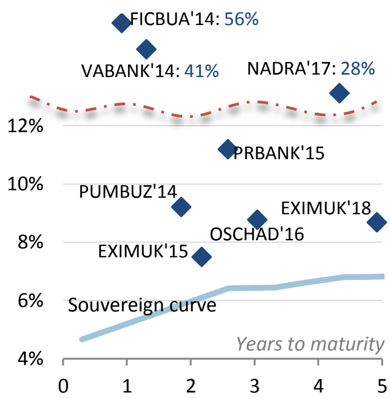



*Source: Concorde Capital*

**Ukraine 5Y CDS**


*Source: Bloomberg*

**Bank Eurobond yield map***




** as of Feb. 20, 2013*
*Source: Bloomberg*

# Banking sector: Stability remains tenuous

**Interest rates subsided but uncertainty remains there**

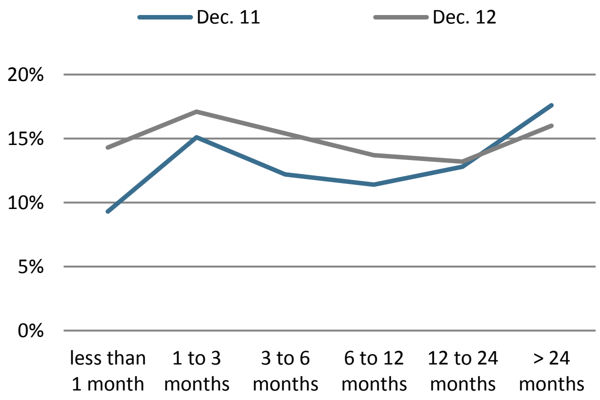
An extended period of low inflation/deflation combined with negative economic growth did not lead the NBU to soften its monetary policy stance. The central bank had maintained tight monetary conditions for most of the last year so as to keep liquidity constrained and prevent large-scale speculations in the FX market. Expectations of hryvnia weakening have been mounting throughout the year and peaked in November – many businesses and individuals believed the NBU and the government would allow for an exchange rate adjustment shortly after the parliamentary election. Nevertheless, the NBU stayed firm in defending the hryvnia at current levels while the market UAH/USD rate has rolled back from a peak of 8.24 in mid-November to 8.12 currently.

Exchange rate stability had its price. Apart from a meltdown in NBU reserves (they were down USD 5.5 bln over Sept.-Dec. to USD 24.5 bln before inching up by USD 0.1 bln in January), the central bank's policy took its toll on commercial banks. O/n interest rates averaged 26% in Oct.-Nov. with peak values reaching 62%. Needless to say, hovering interest rates hurt the banking sector's stability and liquidity issues had then been as acute as during the 2008/09 crisis. The inverted deposit rate curve clearly indicates liquidity is still an issue for banks.

There had basically been just one major reason for persistently high interest rates. Expectations of hryvnia depreciation forced businesses and individuals to convert their savings into foreign currencies. To prevent this reallocation (which eventually hurt UAH liquidity), banks have had to offer high interest rates on hryvnia deposits that are meant to compensate for exchange rate losses.

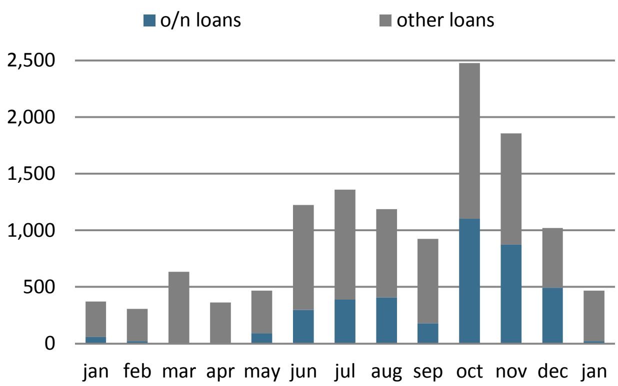
The NBU has made several attempts to ease monetary conditions and inject more hryvnias into the banking sector in 4Q12. That brought quick relief to money markets but an immediate side effect was heightened pressure on the FX market.

**Banks' deposit yield curve (Dec. 2011 vs. Dec. 2012)**




*Source: NBU*

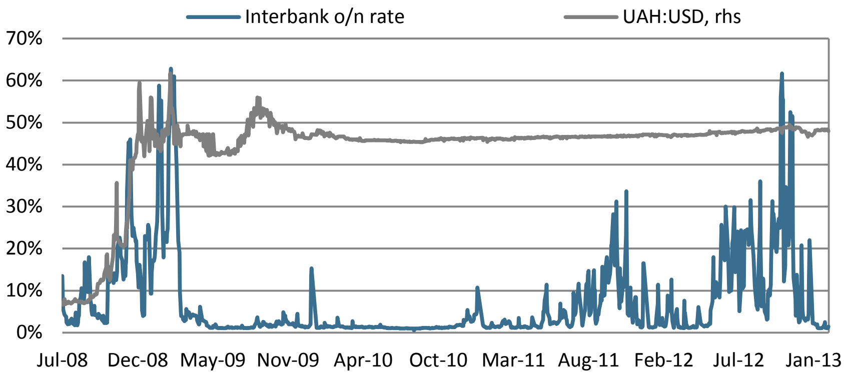
**NBU gross lending to commercial banks in 2012-13, USD mln**




*Source: NBU*

The situation with o/n rates in 4Q12 had a striking resemblance to 2008/09. The interest rate environment then normalized only after the hryvnia underwent a 40% depreciation vs. the US dollar. As soon as the hryvnia weakened, businesses and individuals started reallocating their savings back into higher-yielding, UAH-denominated facilities. Importantly, the situation in 4Q12 was different from that of 2008/09 in at least one major respect – despite all the problems, banks now were continuing to receive a steady inflow of deposits while in 2008/09, they saw outflows on an unprecedented scale.

**O/N rates and UAH:USD rate**




*Source: Bloomberg*

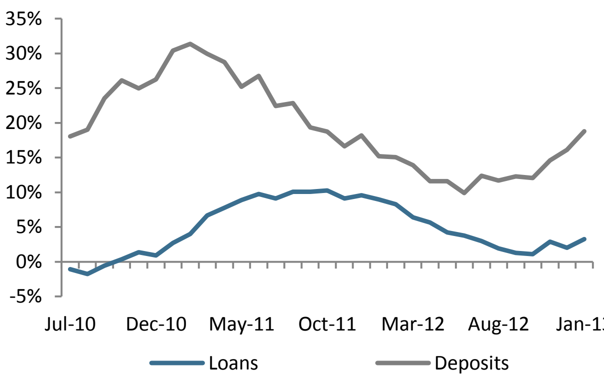
We believe a sustainable normalization of interest rates may come in two different ways:

- The hryvnia remains broadly stable owing to the NBU's tough approach and the expectations of hryvnia weakening fading out;
- The hryvnia depreciates to the extent that the market believes is sufficient to soften imbalances in Ukraine's external accounts and alleviate shortages in the FX market.

We believe the first scenario may bring only temporary and unsustainable relief and we adopt the second one as our base scenario. With Ukraine's current account deficit having exceeded 8% of GDP last year (a historically high number), the hryvnia is substantially overpriced. We stick to our view that the hryvnia will depreciate this year and project an end-2013 rate of UAH 8.8/USD. Until this happens, interest rates will likely stay extremely volatile, thus complicating lending activities.

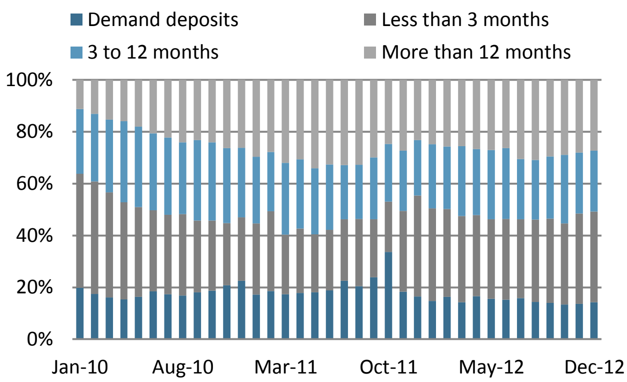
**Deposits will continue to grow robustly, lending to stay muted**
Growing economic uncertainties did not undermine the confidence of the population and businesses in the banking sector. Deposits grew 15.8% yoy in 2012. We project this growth pace will be preserved throughout 2013. The term structure of newly-raised deposits improved slightly – the share of facilities with maturities of more than 3 months increased to 55% in Dec. 2012 from 50% in January.

**Banking sector loans and deposits, chg. yoy**




*Source: NBU*

**Term structures of newly attracted deposits**




*Source: NBU*

The lending growth rate has stayed in positive territory throughout the year, but the trend is uneven across segments. Retail loans declined 6.6% yoy in 2012 while corporate lending added 5.1% yoy. Individuals continue to repay their mortgages and car loans ahead of schedule and newly issued consumer loans still do not offset those repayments. We expect retail loans will stabilize in 2013 while corporate loans should add 6-8%, broadly in line with last year's pace.

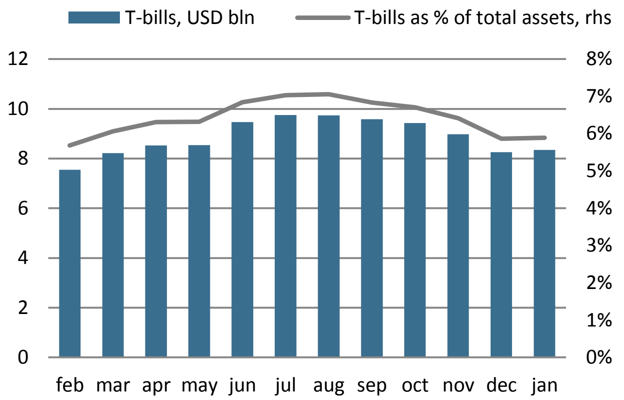
**Bonds to remain key investment tool for state banks**

Even though there's a dearth of new lending opportunities, most banks have abstained from increasing their exposure to bonds. The share of government papers in total assets of private banks declined to 4.2% by end-2012 from 4.5% a year before. Meanwhile, the state banks' exposure to bonds stood at c. 18% at end-2012. Most bond auctions held by the Finance Ministry in 2H12 and early 2013 were fully ignored by private banks and the bulk of demand came from Ukreximbank (EXIMUK) and Oschadbank (OSCHAD). We see two major reasons for private banks ignoring the bond market:

- The interest rates offered by the government are not attractive in the current environment – they are normally limited to 14.3% on 5-year paper and to 8.25% on 3-year paper, broadly in line with what the largest banks pay on deposits.
- The secondary bond market is weak and banks are not able to exchange paper for cash if liquidity issues arise.

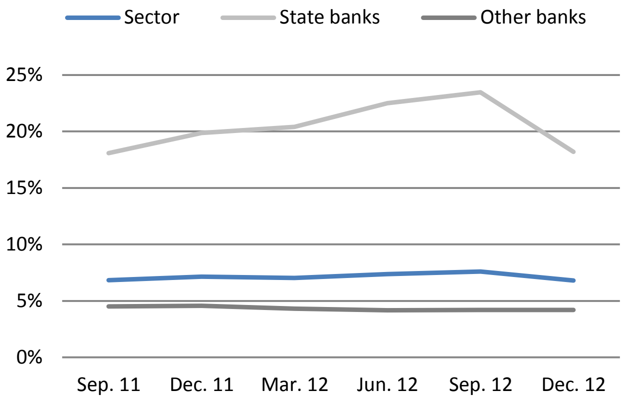
The 2013 state budget envisages the Finance Ministry will raise net USD 5.9 bln via bond placements, up from USD 4.4 bln in 2012. We expect state banks will remain the key buyers of paper. However, state banks also have limited capacity to digest government bonds apparently. The NBU has helped to unload holdings either by purchasing bonds from state banks or by accepting them as collateral for long-term refinancing loans. The central bank's bond holdings increased by USD 2.6 bln in 2012. The above practice in fact implies monetization of the state budget deficit.

**Bank bond holdings, 2012-13**




*Source: NBU*

**Bonds as % of total assets**



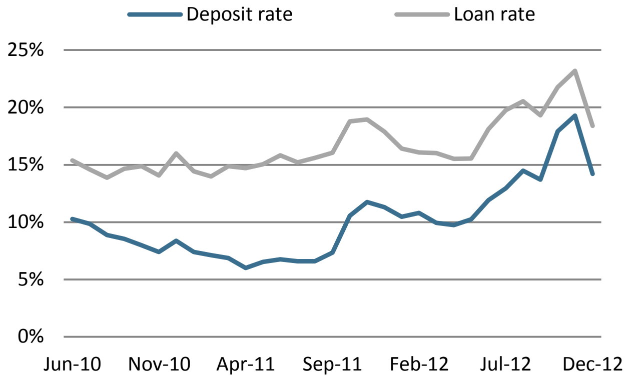

*Source: NBU*

**Core earnings to continue declining on elevated funding costs**

The persistently high cost of funding is negatively affecting banks' earning power - the sector's interest expenses increased by an alarming 15% yoy in 2012. Interest revenue grew by a mere 4% over the period to push the system's net interest income down 8%. Not only do banks have to replace maturing deposits with more expensive ones, but also they have to substitute maturing wholesale funding (relatively cheap) with deposits. It will take time for banks to pass at least a fraction of this increase in costs onto customers.

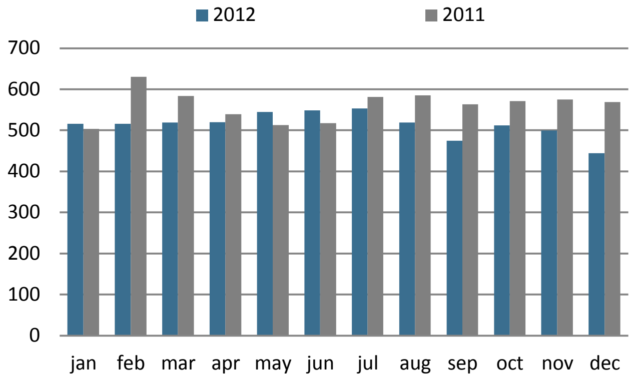
The effect of an interest rate upsurge in banking revenues was immediate and hugely negative. Yet we think the cost of funding will decline swiftly once the interest rate environment normalizes. We estimate banks will re-price up to 50% of term deposits every three months, which means they should be able to decrease the cost of funding considerably after macro-level risks fade out.

**Interest rates on new hryvnia loans and deposits**




*Source: NBU*

**Banking sector monthly net interest income, USD mln**



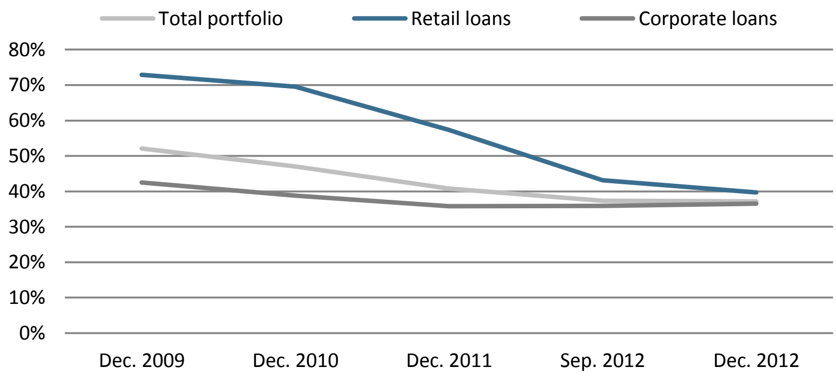

*Source: NBU*

**Limited hryvnia depreciation to have no destructive effect on banks**

The FX structure of banks' loan portfolio is shifting to UAH-denominated facilities. Banks have been prohibited (since 2009) to give out new loans in foreign currencies (except to exporters) while previously issued loans are being repaid. Banks usually use proceeds from repayments of FX loans to return wholesale funding withdrawn in foreign markets. The share of FX loans in the sector now stands at close to 40% for the retail portfolio (vs. 73% at end-2009) and close to 37% for the corporate portfolio (down from 42%).

The improved currency structure of loans makes banks much less susceptible to exchange rate fluctuations. A moderate 9% hryvnia depreciation (to UAH 8.8/USD) that we expect will occur in 2013 should not have a destructive effect on their P&L. We project the hryvnia weakening will add 2-3 pp to NPLs (vs. the current level of 25-30%) over the next 2-4 years. Banks should be able to cover such loan losses with their operating profit.

**Share of FX lending in total portfolio**

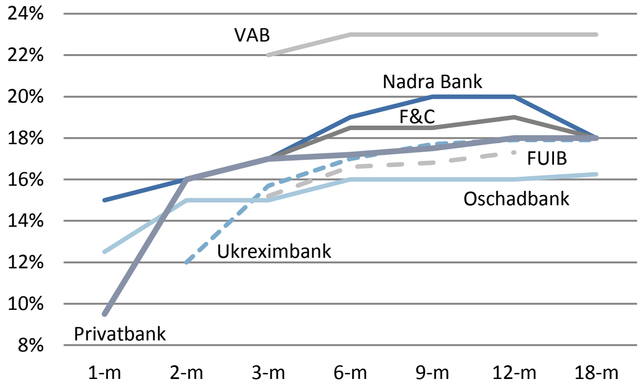



*Source: NBU, Concorde Capital*

## Quality Eurobond issuers relatively immune to macro shocks

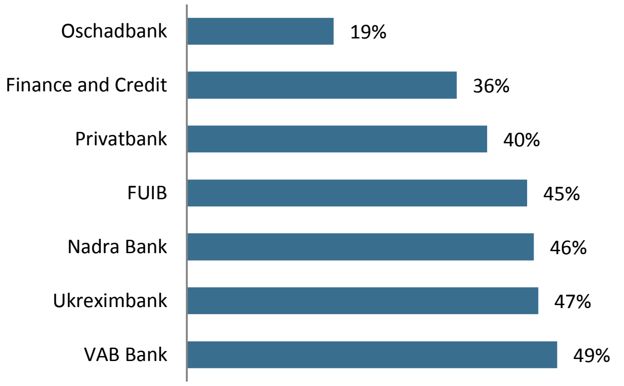
State-owned Oschadbank and Ukreximbank are currently offering relatively low rates on UAH deposits, implying they are feeling well in the current environment. The key explanation for that is, unlike most private banks, they can easily tap NBU refinancing for liquidity management. Privatbank and FUIB also fare well in terms of liquidity and offers deposit rates that are broadly in line with those of Ukreximbank. VAB Bank is apparently experiencing liquidity difficulties as it offers extremely high rates (c. 22%) on 3-month UAH deposits.

**Offered rates on UAH-denominated deposits for individuals**




*Source: Company data*

**FX assets as % of total assets**




*Source: Company data*

Our analysis shows that quality Eurobond issuer banks should not experience problems with capital adequacy in the event of a moderate hryvnia depreciation. Oschadbank, Ukreximbank, Privatbank and FUIB have sufficient margins of safety to withstand hryvnia weakening. At the same time, VAB Bank, Finance and Credit are very close to breaking the NBU minimum CAR requirement of 10% and a 9% hryvnia depreciation will bring their CAR close to the floor.

All analysed banks (except for Nadra Bank) have short open balance sheet positions, i.e. their FX assets are smaller than FX liabilities. This implies that hryvnia depreciation will lead to FX losses for most of them; however, the negative effect is projected to be significant only for Privatbank.

**CAR sensitivity to 9% hryvnia depreciation***

| | CAR, end-2012 | CAR (depreciation) |
|---|---|---|
| Oschadbank (OSCHAD) | 25.4% | 24.9% |
| Ukreximbank (EXIMUK) | 29.2% | 27.9% |
| Privatbank (PRBANK | 10.9% | 10.5% |
| FUIB (PUMBUZ) | 17.6% | 16.8% |
| VAB Bank (VABANK)** | 10.5% | 10.0% |
| Finance and Credit (FIKBUA) | 10.2% | 9.9% |
| Nadra Bank (NADRA) | 11.7% | 11.2% |

** CAR is estimated under the NBU methodology and the floor is 10%. The scenario does not take into account net effect on FX revaluation gain/loss due to open currency position. ** VAB Bank is going to complete capital increase to improve its CAR to 16% Source: Company data, Concorde Capital*

**Open FX position as of end-2012***

| | % of assets | % of regulatory capital | Change in reg. capital due to depreciation |
|---|---|---|---|
| Oschadbank (OSCHAD) | 0% | -1% | 0% |
| Ukreximbank (EXIMUK) | -6% | -27% | -2% |
| Privatbank (PRBANK | -10% | -123% | -11% |
| FUIB (PUMBUZ) | -1% | -10% | -1% |
| VAB Bank (VABANK) | -4% | -41% | -4% |
| Finance and Credit (FIKBUA) | -3% | -27% | -2% |
| Nadra Bank (NADRA) | 21% | 179% | 16% |

** The difference between FX-denominated assets and liabilities. Source: Company data, Concorde Capital*

# BANK PROFILES

# Ukreximbank (EXIMUK)

**Investment summary**

- Ukreximbank fares well in terms of liquidity as inflows of customer deposits remain robust. The bank is unlikely to face any difficulty in servicing its debt, and its solvency (with NBU CAR of 29%) remains beyond any concern.
- The bank's assets grew 17% in 2012. The lender strengthened its funding mainly via corporate deposits (+60% in 2012) while deploying new cash mainly into bonds, which now stand at an estimated 22% of total assets, up from 21% as of end-2011. At the same time, the bank decreased its net loan book by 6% yoy.
- The bank's key revenues stagnated with net interest income (under UAS) growing a mere 0.8% yoy in 2012 and net fees & commissions declined 1.5%. Operating expenses surprisingly surged 20% yoy over the period lifting Cost/Income up 3.2 pp yoy to 26.6%.
- The bank's loan loss provisions remain elevated, thereby depressing profitability. We expect it will continue allocating nearly all of its operating profit-to-loan loss reserve in 2013.
- In late November, the City of Kyiv sold its UAH-denominated 3-year bond at a total amount of USD 241 mln to Ukreximbank. The yield stood at 15.20-15.25%, well below market rates. Kyiv directed the proceeds to repay its maturing USD 250 mln Eurobond. Ukreximbank's decision to buy the Eurobond was likely at the government's request as the deal helped Kyiv avoid a default on its Eurobond.
- In December, the EBRD raised its Trade Facilitation Program limit to Ukreximbank to USD 170 mln from USD 120 mln previously, which enhanced the bank's lending capacity. On top of that, the bank secured a EUR 100 mln loan agreement with European Investment Bank in January; the money will be used to support SME.
- The bank became the first Eurobond issuer from Ukraine in 2013. In mid-January, it sold a USD 500 mln 5-year Eurobond at 8.75%. We don't rule out the bank may tap Eurobond market one more time this year.

**Bank description**

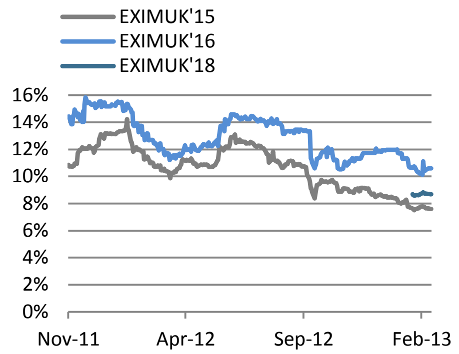
Ukreximbank (Ukraine's Export-Import Bank) is Ukraine's second-largest bank with end-2012 assets of USD 11.0 bln (UAS). Fully owned by the state. Corporates account for 98% of total loan portfolio. Deposits also originate mostly from corporates – their share is about 65%.

**Eurobond parameters**

| | | | |
|---|---|---|---|
| Amount | USD 750 mln | USD 125 mln* | USD 500 mln |
| Maturity | 04/15 | 02/16 | 01/18 |
| Coupon | 8.375%, S/A | 5.793%, S/A | 8.75%, S/A |
| Fitch | B | CCC | B |
| Moody's | B3 | Caa1 | B3 |
| S&P | – | – | – |

** subordinated Eurobond*

**YTM**




*Source: Bloomberg*

**Key financials and ratios, IFRS-based**

| | 1H11 | 1H12 |
|---|---|---|
| Assets, USD mln | 9,907 | 9,356 |
| Assets, yoy | 20% | -6% |
| Net loans, USD mln | 5,375 | 5,188 |
| Net income, USD mln | 7 | 10 |
| ROE | 0.6% | 0.9% |
| Cost/Income | 25% | 23% |
| Cost of risk | 4.7% | 6.1% |
| Equity to assets | 22% | 23% |
| BIS total CAR | 31% | 31% |

*Source: Company data, Concorde Capital*

# Ukreximbank, IFRS

**Income statement, USD mln**

| | 2008 | 2009 | 2010 | 2011 | 1H11 | 1H12 |
|---|---|---|---|---|---|---|
| Net interest income | 309 | 397 | 328 | 396 | 175 | 228 |
| Net fees and commissions | 77 | 41 | 45 | 46 | 22 | 23 |
| Total revenue | 461 | 478 | 469 | 511 | 218 | 322 |
| Operating expense | -182 | -138 | -100 | -124 | -55 | -76 |
| Profit before provisions | 280 | 340 | 369 | 388 | 164 | 246 |
| Net provision expense | -246 | -332 | -336 | -364 | -152 | -194 |
| Net income | 23 | 5 | 16 | 16 | 7 | 10 |

**Balance sheet, USD mln**

| | 2008 | 2009 | 2010 | 2011 | 1H11 | 1H12 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 819 | 608 | 1,354 | 1,258 | 1,905 | 917 |
| Due from other banks | 125 | 217 | 156 | 232 | 447 | 218 |
| Net loans | 4,754 | 5,424 | 5,486 | 5,239 | 5,375 | 5,188 |
| Gross retail loans | 274 | 164 | 139 | 119 | 131 | 106 |
| Gross corporate loans | 4,766 | 5,847 | 6,265 | 6,307 | 6,333 | 6,127 |
| Loans loss reserve | -286 | -587 | -918 | -1,187 | -1,089 | -1,044 |
| Securities | 262 | 295 | 1,345 | 1,808 | 1,200 | 2,105 |
| Other assets | 220 | 527 | 684 | 791 | 980 | 927 |
| Total assets | 6,180 | 7,071 | 9,025 | 9,328 | 9,907 | 9,356 |
| | | | | | | |
| Due to other banks | 2,193 | 2,085 | 1,449 | 1,735 | 1,310 | 1,673 |
| Retail deposits | 1,015 | 1,115 | 1,551 | 1,682 | 1,711 | 1,770 |
| Corporate deposits | 1,141 | 1,384 | 1,942 | 2,032 | 2,459 | 2,018 |
| Subordinated debt | 127 | 389 | 389 | 388 | 388 | 388 |
| Other liabilities | 1,193 | 806 | 1,550 | 1,330 | 1,872 | 1,341 |
| Total liabilities | 5,669 | 5,778 | 6,881 | 7,168 | 7,740 | 7,190 |
| Equity | 512 | 1,293 | 2,144 | 2,160 | 2,167 | 2,166 |
| Total equity and liabilities | 6,180 | 7,071 | 9,025 | 9,328 | 9,907 | 9,356 |

**Financial ratios**

| | 2008 | 2009 | 2010 | 2011 | 1H11 | 1H12 |
|---|---|---|---|---|---|---|
| Assets, yoy | 9% | 14% | 28% | 3% | 20% | -6% |
| Net loans to deposits | 221% | 217% | 157% | 141% | 129% | 137% |
| ROE | 4.6% | 0.5% | 0.9% | 0.8% | 0.6% | 0.9% |
| Cost/income | 39.4% | 28.9% | 21.3% | 24.2% | 25.0% | 23.5% |
| Cost of risk | 5.2% | 6.0% | 5.4% | 5.7% | 4.7% | 6.1% |
| Net interest margin | 6.3% | 7.2% | 5.1% | 5.6% | 5.0% | 6.2% |
| LLR/gross loans | 5.7% | 9.8% | 14.3% | 18.5% | 16.8% | 16.8% |
| Equity to assets | 8% | 18% | 24% | 23% | 22% | 23% |
| BIS total CAR | 11% | 25% | 33% | 31% | 31% | 31% |

*Source: Company data, Concorde Capital*

# Oschadbank (OSCHAD)

**Investment summary**

- The bank grew quickly in 2012 – its assets increased 16.9% over the period. Individuals were the key funding provider to the bank as retail deposits increased 18.3% in 2012. The population's solid trust in state institutions apparently benefited Oschadbank, even though interest rates on its deposits remain relatively low.
- The bank exposure to bonds declined – their share in total assets stood at an estimated 15% at end-2012, down from 19% at end-2011. We project the bank will make sizable investments into government securities in 2013.
- Core earnings continue to grow robustly – net interest income added 9% yoy and net fees and commissions increased 11% yoy in 2012 (under UAS). Loan loss provisions have eaten 77% of the bank's operating profit last year, and we don't expect this share will decrease substantially in 2013.
- The bank's exposure to external debt markets remains limited – USD 700 mln Eurobond and USD 100 mln subordinated debt are the only significant external liabilities.
- Oschadbank's exposure to related party, the state, remained virtually unchanged in 1H12 at 51% of the total loan portfolio (Naftogaz alone accounts for 34% of the total loan book). Related parties provide c. 40% of total interest revenues.
- The bank's insignificant exposure to FX assets (they make up just 19% of total assets) is an important component of its investment case: the lender's credit risks are lower than those of private banks.

**Bank description**

Ukraine's #3 bank with total end-2012 assets of USD 10.7 bln (UAS). Boasts the country's largest retail network with 5,860 outlets. Funding is dominated by retail deposits and bank loans (incl. from the NBU), which account for 44% and 28%, respectively, of total liabilities. Corporate facilities make up 95% of the total loan portfolio.

**Eurobond parameters**

| | |
|---|---|
| Amount | USD 700 mln |
| Maturity | 10/16 |
| Coupon | 8.25%, S/A |
| Fitch | B |
| Moody's | B3 |
| S&P | – |

**YTM**


*Source: Bloomberg*

**Key financials and ratios, IFRS-based**

| | 1H11 | 1H12 |
|---|---|---|
| Assets, USD mln | 8,840 | 10,100 |
| Assets, yoy | na | 14% |
| Net loans, USD mln | 5,771 | 6,334 |
| Net income, USD mln | 85 | 80 |
| ROE | 8.2% | 7.3% |
| Cost/Income | 43% | 47% |
| Cost of risk | 2.8% | 3.1% |
| Equity to assets | 24% | 22% |
| BIS total CAR | 33% | 29% |

*Source: Company data, Concorde Capital*

# Oschadbank, IFRS

**Income statement, USD mln**

| | 2008 | 2009 | 2010 | 2011 | | 1H11 | 1H12 |
|---|---|---|---|---|---|---|---|
| Net interest income | 280 | 531 | 522 | 577 | | 269 | 318 |
| Net fees and commissions | 136 | 109 | 114 | 118 | | 59 | 63 |
| Total revenue | 464 | 661 | 659 | 732 | | 346 | 382 |
| Operating expense | -324 | -231 | -252 | -323 | | -148 | -178 |
| Profit before provisions | 140 | 430 | 407 | 409 | | 198 | 560 |
| Net provision expense | -124 | -406 | -303 | -232 | | -90 | -119 |
| Net income | 7 | 14 | 58 | 137 | | 85 | 80 |

**Balance sheet, USD mln**

| | 2008 | 2009 | 2010 | 2011 | | 1H11 | 1H12 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 387 | 524 | 597 | 600 | | 524 | 1,264 |
| Due from other banks | 231 | 132 | 113 | 895 | | 5,771 | 6,334 |
| Net loans | 4,401 | 5,725 | 5,347 | 6,316 | | 590 | 550 |
| Gross retail loans | 924 | 740 | 632 | 559 | | 6,091 | 7,501 |
| Gross corporate loans | 3,617 | 5,501 | 5,535 | 6,805 | | -910 | -1,168 |
| Loans loss reserve | -139 | -516 | -820 | -1,048 | | 1,506 | 1,448 |
| Securities | 2,041 | 502 | 824 | 1,084 | | 340 | 384 |
| Other assets | 261 | 304 | 348 | 351 | | 8,840 | 10,100 |
| Total assets | 7,320 | 7,187 | 7,229 | 9,244 | | | |
| | | | | | | 1,850 | 2,266 |
| Due to other banks | 2,888 | 2,007 | 1,964 | 2,059 | | 3,077 | 3,677 |
| Retail deposits | 1,779 | 1,884 | 2,444 | 3,164 | | 1,048 | 952 |
| Corporate deposits | 493 | 1,206 | 639 | 916 | | 103 | 102 |
| Subordinated debt | 103 | 103 | 103 | 104 | | 611 | 883 |
| Other liabilities | 93 | 66 | 70 | 829 | | 6,689 | 7,880 |
| Total liabilities | 5,356 | 5,266 | 5,221 | 7,071 | | 2,151 | 2,220 |
| Equity | 1,964 | 1,921 | 2,008 | 2,172 | | 8,840 | 10,100 |
| Total equity and liabilities | 7,320 | 7,187 | 7,229 | 9,244 | | 524 | 1,264 |

**Financial ratios**

| | 2008 | 2009 | 2010 | 2011 | | 1H11 | 1H12 |
|---|---|---|---|---|---|---|---|
| Assets, yoy | 122% | -2% | 1% | 28% | | na | 14% |
| Net loans to deposits | 194% | 185% | 173% | 155% | | 140% | 137% |
| ROE | 0.7% | 0.7% | 2.9% | 6.6% | | 8.2% | 7.3% |
| Cost/income | 70% | 35% | 38% | 44% | | 43% | 47% |
| Cost of risk | 3.9% | 7.5% | 4.9% | 3.4% | | 2.8% | 3.1% |
| Net interest margin | 6.3% | 8.1% | 8.3% | 7.9% | | 7.6% | 7.3% |
| LLR/gross loans | 3.1% | 8.3% | 13.3% | 14.2% | | 13.6% | 14.5% |
| Equity to assets | 27% | 27% | 28% | 24% | | 24% | 22% |
| BIS total CAR | 41% | 32% | 36% | 30% | | 33% | 29% |

*Source: Company data, Concorde Capital*

# FUIB (PUMBUZ)

**Investment summary**

- The bank's assets declined 19% last year, mostly driven by decline in corporate call deposits on the liabilities side. Loans added 9.2% yoy last year. Its corporate segment led lending as credit to companies increased 9.5%. FUIB also remains one of the most active players in the retail segment (retail loans were up 7.7%) in the current environment, which supports its strong earnings generating power.
- Deposits shrank considerably as corporate facilities fell 36% last year. We think this was a scheduled return of funds to related companies and outflows to such an extent are unlikely in the future. Retail deposits rose 17.5%, one of the fastest rates among its peers.
- We stick to the view that the bank fundamentally remains one of the strongest among locally owned institutions. It's NPLs (loans overdue by 60 days or more) stood at 18.1% as of end-September but were 96% covered by loan loss reserves. Its NBU CAR of 17.6% (well above the 10% floor) offers a solid buffer against any unexpected losses. A post-merger upsurge in Cost/Income ratio (53% in 2012 vs. 43% in 2011) is our only major concern, but we project that should normalize to slightly below 50% in 2013.
- We don't expect that reshuffles in top management last October will lead to a revision in the bank's strategic plans. The new CEO should closely follow goals set after FUIB's merger with Dongorbank. Those include developing a solid standalone business – with limited involvement in business with related parties – and strengthening of its market position.
- Notably, the bank remains among the most open, transparent and investor-friendly financial institutions, which contributed (along with a higher appetite for emerging market Eurobonds) to its yield tightening since late 2012.

**Bank description**

First Ukrainian International Bank (FUIB) is Ukraine's #9 bank with total end-2012 assets of USD 3.5 bln (UAS) and a market share of 2.5%. Customer deposits account for over 73% of liabilities and 60% of assets are loans. It's fully owned by SCM, Ukraine's largest business group.

**Eurobond parameters**

| | |
|---|---|
| Amount | USD 252 mln |
| Maturity | 12/14 |
| Coupon | 11.0%, Q |
| Fitch | – |
| Moody's | B3 |
| S&P | – |

**YTM**


*Source: Bloomberg*

**Key financials and ratios, IFRS-based**

| | 2011 | 9M12 |
|---|---|---|
| Assets, USD mln | 3,721 | 3,441 |
| Assets, yoy | 16% | n/a |
| Net loans, USD mln | 2,059 | 2,200 |
| Net income, USD mln | 56 | 28 |
| ROE | 10% | 6% |
| Cost/Income | 56% | 69% |
| Cost of risk | 0% | 2% |
| Equity to assets | 16% | 18% |
| BIS total CAR | 27% | n/a |

*Source: Company data, Concorde Capital*

# FUIB, IFRS

**Income statement, USD mln**

| | 2010 | 2011 | 9M12 |
|---|---|---|---|
| Net interest income | 106 | 123 | 104 |
| Net fees and commissions | 28 | 32 | 27 |
| Total revenue | 154 | 173 | 119 |
| Operating expense | -88 | -97 | -82 |
| Profit before provisions | 67 | 77 | 36 |
| Net provision expense | 25 | -8 | -27 |
| Net income | 71 | 56 | 28 |

**Balance sheet, USD mln**

| | 2010 | 2011 | 9M12 |
|---|---|---|---|
| Cash and cash equivalents | 76 | 79 | 103 |
| Due from other banks | 759 | 849 | 543 |
| Net loans | 1,819 | 2,059 | 2,200 |
| Gross retail loans | 1,624 | 1,816 | - |
| Gross corporate loans | 583 | 606 | - |
| Loans loss reserve | -388 | -367 | - |
| Securities | 382 | 523 | 382 |
| Other assets | 183 | 212 | 0 |
| Total assets | 3,219 | 3,721 | 3,441 |
| | | | |
| Due to other banks | 247 | 192 | 230 |
| Retail deposits | 991 | 1,084 | 1,222 |
| Corporate deposits | 949 | 1,447 | 2,216 |
| Subordinated debt | 84 | 85 | 86 |
| Other liabilities | 1,369 | 1,754 | 1 |
| Total liabilities | 2,692 | 3,116 | 2,814 |
| Equity | 527 | 605 | 627 |
| Total equity and liabilities | 3,219 | 3,721 | 3,441 |

**Financial ratios**

| | 2010 | 2011 | 9M12 |
|---|---|---|---|
| Assets, yoy | n/a | 16% | n/a |
| Net loans to deposits | 94% | 81% | 64% |
| ROE | 14% | 10% | 6% |
| Cost/income | 57% | 56% | 69% |
| Cost of risk | n/a | 0.4% | 1.7% |
| Net interest margin | n/a | 4.5% | 4.9% |
| LLR/gross loans | 18% | 15% | n/a |
| Equity to assets | 16% | 16% | 18% |
| BIS total CAR | n/a | 27% | n/a |

*Source: Company data, Concorde Capital*

# Privatbank

**Investment summary**

- Ukraine's flagship bank boosted its assets 19% in 2012 (under UAS) and corporate loans, which were up 17.9%, drove the growth. On the funding side, growth was supported with steady inflows of retail deposits – they grew an impressive 22.2% over the period. Notably, the bank has virtually zero exposure to bonds, which is unseen within the group of the largest banks.
- P&L-wise, the key highlight is a tiny 1.4% yoy increase in net interest revenue in 2012 (under UAS), implying the bank was strongly hurt by unfavourable interest rate environment. Other types of revenue stagnated or declined slightly.
- Loan quality is fairly high with end-1H12 NPLs (loans overdue by 90 days or more) at just 5% (a likely record low for the local banking sector). We believe such an outstanding loan quality performance is partly due to extensive related-party lending and tough loan recovery policies pursued by the bank.
- Related parties account for 8.1% of the bank's end-1H12 loan book. Yet, we think this share is severely underreported.
- The bank has just reportedly issued a 5-year Eurobond for USD 175 mln with a coupon rate 10.875%.

**Bank description**

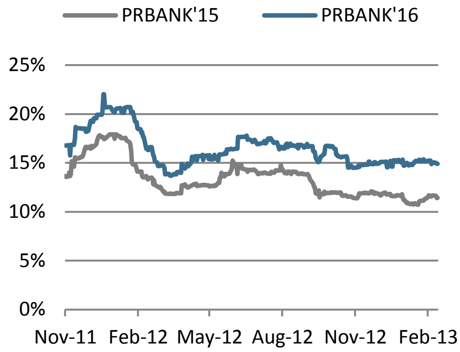
Ukraine's largest bank with an end-2012 market share of 15.3% and total assets of USD 21.6 bln (UAS-based). 92.5%-owned by Igor Kolomoisky and Gennady Bogolyubov (in equal shares). Retail network of 5,860 outlets is Ukraine's second largest. Corporate loans account for 83% of the total book, while retail deposits are key on the funding side (50% of equity and liabilities).

**Eurobond parameters**

| | | |
|---|---|---|
| Amount | USD 200 mln | USD 150 mln* |
| Maturity | 09/15 | 02/16 |
| Coupon | 9.375%, S/A | 5.799%, S/A |
| Fitch | B | – |
| Moody's | B3 | B3 |
| S&P | – | – |

** subordinated Eurobond*

**YTM**




*Source: Bloomberg*

**Key financials and ratios, IFRS-based**

| | 2011 | 1H12 |
|---|---|---|
| Assets, USD mln | 17,688 | 19,237 |
| Assets, yoy | 16% | n/a |
| Net loans, USD mln | 13,483 | 14,462 |
| Net income, USD mln | 197 | 109 |
| ROE | 9.4% | 8.8% |
| Cost/Income | 46.9% | 48.7% |
| Cost of risk | 4.9% | 4.1% |
| Equity to assets | 13.6% | 13.2% |
| BIS total CAR | 16.1% | n/a |

*Source: Company data, Concorde Capital*

# Privatbank, IFRS

**Income statement, USD mln**

| | 2008 | 2009 | 2010 | 2011 | 1H11 | 1H12 |
|---|---|---|---|---|---|---|
| Net interest income | 1,219 | 931 | 780 | 1,261 | 490 | 604 |
| Net fees and commissions | 343 | 242 | 345 | 342 | 208 | 188 |
| Total revenue | 2,290 | 1,599 | 1,328 | 1,688 | 790 | 848 |
| Operating expense | -952 | -631 | -708 | -791 | -353 | -413 |
| Profit before provisions | 1,338 | 968 | 620 | 897 | 436 | 436 |
| Net provision expense | -856 | -706 | -429 | -704 | -313 | -325 |
| Net income | 377 | 171 | 181 | 197 | 117 | 109 |

**Balance sheet, USD mln**

| | 2008 | 2009 | 2010 | 2011 | 1H11 | 1H12 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 1,220 | 1,435 | 2,420 | 2,681 | – | 3,116 |
| Due from other banks | 346 | 510 | 669 | 583 | – | 715 |
| Net loans | 8,841 | 8,340 | 11,266 | 13,483 | – | 14,462 |
| Gross retail loans | 3,139 | 3,019 | 2,519 | 3,158 | – | 3,217 |
| Gross corporate loans | 6,758 | 6,897 | 10,456 | 12,327 | – | 13,394 |
| Loans loss reserve | -1,056 | -1,575 | -1,710 | -2,002 | – | -2,149 |
| Securities | 2 | 6 | 148 | 101 | – | 175 |
| Other assets | 958 | 942 | 810 | 839 | – | 769 |
| Total assets | 11,366 | 11,232 | 15,313 | 17,688 | – | 19,237 |
| | | | | | – | |
| Due to other banks | 1,318 | 1,331 | 1,403 | 1,039 | – | 973 |
| Retail deposits | 4,781 | 4,904 | 7,934 | 9,978 | – | 11,142 |
| Corporate deposits | 2,618 | 2,251 | 2,933 | 3,101 | – | 3,466 |
| Subordinated debt | 173 | 180 | 173 | 178 | – | 176 |
| Other liabilities | 1,200 | 1,057 | 1,090 | 984 | – | 940 |
| Total liabilities | 10,090 | 9,723 | 13,533 | 15,280 | – | 16,697 |
| Equity | 1,277 | 1,509 | 1,780 | 2,408 | – | 2,540 |
| Total equity and liabilities | 11,366 | 11,232 | 15,313 | 17,688 | – | 19,237 |

**Financial ratios**

| | 2008 | 2009 | 2010 | 2011 | 1H11 | 1H12 |
|---|---|---|---|---|---|---|
| Assets, yoy | 2% | -1% | 36% | 16% | – | n/a |
| Net loans to deposits | 119% | 117% | 104% | 103% | – | 99% |
| ROE | 26.1% | 12.2% | 11.0% | 9.4% | – | 8.8% |
| Cost/income | 41.6% | 39.5% | 53.3% | 46.9% | – | 48.7% |
| Cost of risk | 7.4% | 7.1% | 3.8% | 4.9% | – | 4.1% |
| Net interest margin | 13.4% | 10.3% | 7.4% | 9.6% | – | 8.2% |
| LLR/gross loans | 10.7% | 15.9% | 13.2% | 12.9% | – | 12.9% |
| Equity to assets | 11.2% | 13.4% | 11.6% | 13.6% | – | 13.2% |
| BIS total CAR | na | na | 14.9% | 16.1% | – | n/a |

*Source: Company data, Concorde Capital*

# VAB Bank

**Investment summary**

- The key positive side is that the bank's majority shareholder, key owner of Avangard (AVGR LI) and Ukrlandfarming (which still carries a plan to go public), has clear incentives to be committed keeping the bank safe.
- In late January VAB's EGM approved a USD 88 mln capital increase. If completed, fresh capital will boost bank's equity by 58% from end-2012 level, which substantially mitigates solvency risks for the bank. Its CAR end-2012 of 10.5% will improve to about 16% after the deal closure.
- The bank's assets increased 46% in 2012 with the bulk of new funds deployed into corporate loans, which nearly doubled yoy. We think it's highly likely the new loans were issued mainly to companies related to VAB's controlling shareholder, e.g. Ukrlandfarming.
- VAB Bank remains fundamentally weak – its Cost/Income ratio stood at close to 88% in 2012 and loan loss provisions took the bottom line deeply negative (-USD 29 mln under UAS). More, it is apparently experiencing liquidity problems as it currently offers the highest rates on deposits among the Eurobond issuer banks.
- In mid-December, mass media reports said other banks have abstained from providing liquidity loans to VAB Bank due to a lingering conflict between the current and the former controlling shareholders. As a result, the bank can only tap interbank loans from Finansova Initsiatyva, another lender owned by Oleg Bakhmatyuk. As a positive sign, Bakhmatyuk signalled he is ready to buy the shares of minority shareholders.
- We view the Eurobonds of VAB Bank as risky investment, while it looks like the current yield is enough to compensate for the risk. At least, the bank looks the safest among the three Ukrainian banking junk-Eurobond issuers.

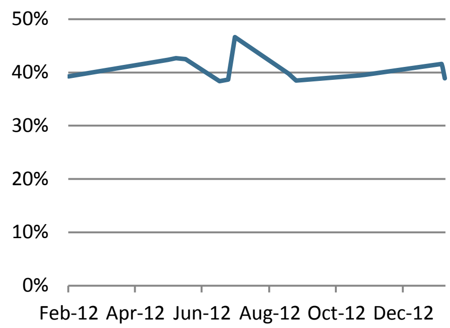
**Bank description**

Ukraine's #18 bank with total end-2012 assets of USD 1.7 bln (UAS). Over 87% of the bank's loans are to the corporate sector while retail deposits dominate liabilities with a 53% share. Oleg Bakhmatyuk (owner of Ukrlandfarming and majority shareholder of Avangard, AVGR LI) gained control over the bank in 2H11.

**Eurobond parameters**

| | |
|---|---|
| Amount | USD 112 mln |
| Maturity | 06/14 |
| Coupon | 10.5%, Q |
| Fitch | – |
| Moody's | Caa1 |
| S&P | – |

**YTM**




*Source: Bloomberg*

**Key financials and ratios, IFRS-based**

| | 1H11 | 1H12 |
|---|---|---|
| Assets, USD mln | 858 | 1,380 |
| Assets, yoy | 2% | 61% |
| Net loans, USD mln | 612 | 879 |
| Net income, USD mln | -15 | -12 |
| ROE | -55% | -25% |
| Cost/Income | 143% | 95% |
| Cost of risk | 2.0% | 3.1% |
| Equity to assets | 5% | 9% |
| BIS total CAR | 8% | 17% |

*Source: Company data, Concorde Capital*

# VAB Bank, IFRS

**Income statement, USD mln**

| | 2008 | 2009 | 2010 | 2011 | 1H11 | 1H12 |
|---|---|---|---|---|---|---|
| Net interest income | 77 | 44 | 13 | 28 | 13 | 6 |
| Net fees and commissions | 19 | 7 | 8 | 11 | 5 | 16 |
| Total revenue | 120 | 67 | 38 | 37 | 22 | 29 |
| Operating expense | -83 | -60 | -60 | -66 | -32 | -27 |
| Profit before provisions | 37 | 7 | -22 | -29 | -10 | 1 |
| Net provision expense | -50 | -69 | -101 | -26 | -7 | -15 |
| Net income | -12 | -47 | -103 | -56 | -15 | -12 |

**Balance sheet, USD mln**

| | 2008 | 2009 | 2010 | 2011 | 1H11 | 1H12 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 88 | 77 | 142 | 135 | 85 | 119 |
| Due from other banks | 2 | 12 | 5 | 27 | 5 | 25 |
| Net loans | 792 | 654 | 490 | 609 | 612 | 879 |
| Gross retail loans | 258 | 233 | 192 | 240 | 223 | 217 |
| Gross corporate loans | 585 | 537 | 496 | 585 | 593 | 894 |
| Loans loss reserve | -50 | -117 | -198 | -216 | -204 | -231 |
| Securities | 15 | 9 | 25 | 50 | 46 | 233 |
| Other assets | 58 | 66 | 94 | 104 | 109 | 123 |
| Total assets | 955 | 818 | 756 | 925 | 858 | 1,380 |
| | | | | | | |
| Due to other banks | 195 | 194 | 15 | 26 | 48 | 65 |
| Retail deposits | 290 | 241 | 386 | 543 | 455 | 733 |
| Corporate deposits | 214 | 129 | 161 | 143 | 174 | 320 |
| Subordinated debt | 20 | 63 | 45 | 43 | 44 | 44 |
| Other liabilities | 137 | 125 | 95 | 95 | 98 | 94 |
| Total liabilities | 855 | 752 | 701 | 851 | 819 | 1,255 |
| Equity | 100 | 66 | 54 | 74 | 39 | 125 |
| Total equity and liabilities | 955 | 817 | 756 | 925 | 858 | 1,380 |

**Financial ratios**

| | 2008 | 2009 | 2010 | 2011 | 1H11 | 1H12 |
|---|---|---|---|---|---|---|
| Assets, yoy | 3% | -14% | -8% | 22% | 2% | 61% |
| Net loans to deposits | 132% | 177% | 90% | 89% | 97% | 84% |
| ROE | -11% | -57% | -173% | -87% | -55% | -25% |
| Cost/income | 69% | 89% | 159% | 177% | 143% | 95% |
| Cost of risk | 5.7% | 8.6% | 13.8% | 3.4% | 2.0% | 3.1% |
| Net interest margin | 9.5% | 6.7% | 3.0% | 7.7% | 7.3% | 2.3% |
| LLR/gross loans | 6% | 15% | 29% | 26% | 25% | 21% |
| Equity to assets | 10% | 8% | 7% | 8% | 5% | 9% |
| BIS total CAR | 16% | 17% | 15% | 16% | 8% | 17% |

*Source: Company data, Concorde Capital*

# Finance and Credit Bank

**Investment summary**

- The bank's operating efficiency deteriorated last year. Its Cost/Income ratio stood a notch below 90% in 2012. With a marginally positive operating profit, the bank considerably cut its loan loss provisions even though its assets remain heavily under-provisioned, according to our estimates.
- We estimate the bank's reliance on NBU refinancing remained virtually unchanged over 2012 – it now accounts for an estimated 1/3 of total funding.
- The bank's major shareholder again failed to deliver on its promise to boost capital by USD 38 mln – in 4Q12 the bank saw an equity injection of a mere USD 13 mln. At the same time, the bank's capital buffer is extremely thin (NBU CAR of 10.2% is marginally above the required minimum of 10%). We continue to believe the bank's financial health is shaky and shareholders should step in to shore up its liquidity and solvency.
- Kostyantyn Zhevago, the bank's controlling shareholder, was re-elected to parliament in October and joined the faction of the ruling Party of Regions, which reduces political risk to the bank.

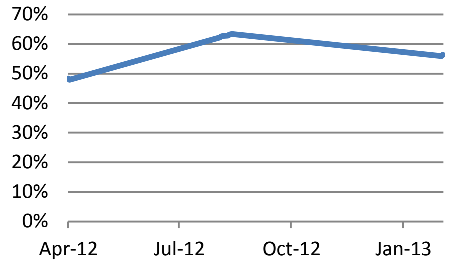
**Bank description**

Ukraine's #14 largest bank with total assets of USD 2.8 bln (UAS) and market share of 2.0% as of end-2012. In terms of lending, the bank is mainly focused on corporates (80% of the total loan book), while the retail segment plays a more important role on the funding side. Retail deposits account for 34% of equity and liabilities while corporate deposits make up 14%.

**Eurobond parameters**

| | |
|---|---|
| Amount | USD 95 mln |
| Maturity | 01/14 |
| Coupon | 10.5%, S/A |
| Fitch | – |
| Moody's | Caa1 |
| S&P | – |

**YTM**




*Source: Bloomberg*

**Key financials and ratios, UAS-based**

| | 2011 | 2012 |
|---|---|---|
| Assets, USD mln | 2,754 | 2,822 |
| Assets, yoy | -2% | 2% |
| Net loans, USD mln | 2,186 | 2,306 |
| Net income, USD mln | -10 | 0 |
| ROE | -4% | 0% |
| Cost/Income | 86% | 98% |
| Cost of risk | 1.0% | 0.1% |
| Equity to assets | 8.1% | 8.4% |
| NBU CAR | 10.6% | 10.2% |

*Source: Company data, Concorde Capital*

# Finance and Credit Bank, UAS

**Income statement, USD mln**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Net interest income | 77 | 55 | 48 | 31 |
| Net fees and commissions | 34 | 35 | 45 | 52 |
| Total revenue | 103 | 97 | 108 | 98 |
| Operating expense | -81 | -91 | -92 | -96 |
| Profit before provisions | 22 | 6 | 16 | 2 |
| Net provision expense | -80 | -33 | -26 | -2 |
| Net income | -58 | -24 | -10 | 0 |

**Balance sheet, USD mln**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Cash and cash equivalents | 193 | 330 | 219 | 201 |
| Due from other banks | 7 | 10 | 17 | 3 |
| Net loans | 1,926 | 2,175 | 2,186 | 2,306 |
| Gross retail loans | 605 | 527 | 481 | 457 |
| Gross corporate loans | 1,481 | 1,840 | 1,920 | 2,068 |
| Loans loss reserve | -160 | -192 | -216 | -219 |
| Securities | 84 | 101 | 120 | 109 |
| Other assets | 226 | 193 | 213 | 203 |
| Total assets | 2,437 | 2,809 | 2,754 | 2,822 |
| | | | | |
| Due to other banks | 1,023 | 1,057 | 928 | 807 |
| Retail deposits | 574 | 792 | 943 | 1,110 |
| Corporate deposits | 301 | 480 | 399 | 424 |
| Subordinated debt | 33 | 107 | 130 | 130 |
| Other liabilities | 252 | 140 | 132 | 116 |
| Total liabilities | 2,183 | 2,576 | 2,532 | 2,586 |
| Equity | 254 | 233 | 223 | 236 |
| Total equity and liabilities | 2,437 | 2,809 | 2,754 | 2,822 |

**Financial ratios**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Assets, yoy | 2% | 15% | -2% | 2% |
| Net loans to deposits | 220% | 171% | 163% | 150% |
| ROE | -20.1% | -9.8% | -4.4% | 0.2% |
| Cost/income | 78% | 94% | 86% | 98% |
| Cost of risk | 3.9% | 1.5% | 1.1% | 0.1% |
| Net interest margin | 3.6% | 2.6% | 2.1% | 1.3% |
| LLR/gross loans | 7.7% | 8.1% | 9.0% | 8.7% |
| Equity to assets | 10.4% | 8.3% | 8.1% | 8.4% |
| NBU CAR | 12.3% | 12.8% | 10.6% | 10.2% |

*Source: Company data, Concorde Capital*

# Nadra Bank

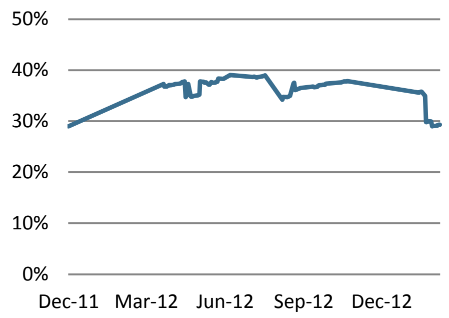
**Eurobond parameters**

| | |
|---|---|
| Amount | USD 75 mln |
| Maturity | 06/17 |
| Coupon | 8.0%, S/A |
| Fitch | WD |
| Moody's | WR |
| S&P | – |

### Investment summary

- Dmytro Firtash, the bank's majority shareholder, is rapidly expanding his business in Ukraine's energy sector and industry, and the bank is becoming an increasingly important complementary element among his assets. His interest in developing the bank seems to be growing.
- The bank remains fundamentally weak: net interest income stood at a mere USD 33 mln in 2012 (under UAS) and its profit before provisions was negative at USD 89 mln. Nadra showed a USD 68 mln reversal of its loan loss reserve in 2012, but we think it's a bit premature.
- The bank continues to rely heavily on refinancing loans from the NBU – their share stood at an estimated 40% of total liabilities. Nadra's assets declined 3.5% over 2012. Retail deposits remained little changed over 9M12 before they surprisingly spiked 19.6% qoq in 4Q12. The public trust in the bank is still very weak.

**YTM**




*Source: Bloomberg*

**Bank description**

Ukraine's #10 largest bank with end-2012 assets of USD 3.5 bln (UAS) and a market share of 2.5%. Relies heavily on interbank loans: 41% of end-2012 liabilities (mainly loans from the NBU), while deposits accounted for 37%. Retail loans make up 49% of loan portfolio. Bailed out by Dmytro Firtash in 2011 who now holds 90% of the bank via Centrogas Holding.

**Key financials and ratios, UAS-based**

| | 2011 | 2012 |
|---|---|---|
| Assets, USD mln | 3,347 | 3,465 |
| Assets, yoy | 16% | 4% |
| Net loans, USD mln | 2,536 | 2,674 |
| Net income, USD mln | 0 | 0 |
| ROE | 0.1% | 0.0% |
| Cost/Income | 150% | 162% |
| Cost of risk | -1.0% | -2.3% |
| Equity to assets | 15% | 15% |
| NBU CAR | 11.2% | 11.7% |

*Source: Company data, Concorde Capital*

# Nadra Bank, UAS

**Income statement, USD mln**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Net interest income | 77 | 174 | -42 | 33 |
| Net fees and commissions | 34 | 9 | 10 | 19 |
| Total revenue | 78 | 370 | 63 | 143 |
| Operating expense | -80 | -93 | -95 | -232 |
| Profit before provisions | -2 | 277 | -32 | -89 |
| Net provision expense | -173 | -276 | 32 | 73 |
| Net income | -175 | 1 | 0 | 0 |

**Balance sheet, USD mln**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Cash and cash equivalents | 42 | 121 | 397 | 241 |
| Due from other banks | 65 | 47 | 116 | 75 |
| Net loans | 2,718 | 2,431 | 2,536 | 2,674 |
| Gross retail loans | 2,013 | 1,873 | 1,758 | 1,656 |
| Gross corporate loans | 1,092 | 1,210 | 1,394 | 1,571 |
| Loans loss reserve | -387 | -652 | -616 | -554 |
| Securities | 54 | 54 | 74 | 65 |
| Other assets | 234 | 225 | 224 | 410 |
| Total assets | 3,112 | 2,877 | 3,347 | 3,465 |
| | | | | |
| Due to other banks | 1,070 | 1,063 | 1,254 | 1,213 |
| Retail deposits | 861 | 602 | 324 | 387 |
| Corporate deposits | 206 | 375 | 761 | 707 |
| Subordinated debt | 118 | 67 | 53 | 90 |
| Other liabilities | 797 | 709 | 450 | 563 |
| Total liabilities | 3,052 | 2,817 | 2,842 | 2,961 |
| Equity | 59 | 60 | 504 | 504 |
| Total equity and liabilities | 3,112 | 2,877 | 3,347 | 3,465 |

**Financial ratios**

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Assets, yoy | -22% | -8% | 16% | 4% |
| Net loans to deposits | 255% | 249% | 234% | 244% |
| ROE | -117.4% | 1.0% | 0.1% | 0.0% |
| Cost/income | 102% | 25% | 150% | 162% |
| Cost of risk | 5.5% | 8.9% | -1.0% | -2.3% |
| Net interest margin | 0.1% | 6.5% | -1.6% | 1.2% |
| LLR/gross loans | 12.5% | 21.1% | 19.5% | 17.2% |
| Equity to assets | 1.9% | 2.1% | 15.1% | 14.6% |
| NBU CAR | na | na | 11.2% | 11.7% |

*Source: Company data, Concorde Capital*

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