Fitch Ratings

Ukrainian Banks: 2017 Results Dashboard

Solvency Recovers but Legacy Problems Remain – Capital Is Still Needed

Sector Clean-up Advancing Well: The number of Ukrainian banks has almost halved since 2013 following the closure of insolvent banks, while others (mainly foreign- and state-owned banks) have been recapitalised. The process was accelerated by the 2015-2016 asset-quality review, but solvency recovery has been prolonged due to large capital shortfalls. The nationalisation and recapitalisation of the country's largest lender, Privat, reduced systemic risks, but increased state ownership in the sector to 55% at end-2017 (end-3Q16: 32%).

Solvency Ratios Largely Restored: At end-1Q18, most of the largest 25 banks (together representing over 90% of sector assets) were compliant with the standard regulatory capital adequacy requirement of 10%. This will become mandatory again for all banks in 2019 (during 2018: 7%), as the regulatory forbearance which was allowed following the asset-quality review expires.

Problem Assets Relatively High: Impaired loans, which are mostly legacy exposures and include both those more than 90 days overdue and those with a low probability of repayment, represented 56% of loans at end-1Q18. Loan work-outs remain slow, partly constrained by legal aspects of the borrower bankruptcy process, but reserve coverage is reasonable at 86%.

Asset-Quality Review Upcoming: Unreserved impaired loans equalled 52% of sector equity at end-2017, the majority of which are held by state-owned banks (60%, mostly by Ukrexim and Oschad, while Privat's portion is only 6%), followed by foreign-owned banks (32%). In 2018, the National Bank will conduct a new asset-quality review and capital stress test on the largest 25 banks to identify any capital shortfalls that need to be covered by bank owners.

What to Watch

Recapitalisation: We expect the asset-quality review to confirm some recapitalisation needs as individual banks have moderate reserve coverage of restructured exposures (mostly captured in the impaired category). State- and foreign-owned banks should be able to receive additional capital support, if needed. Privately owned banks may have more limited access to new capital and in some cases may be understating loan impairment, in our view.

Neutral Ratings Impact: A strengthening of capitalisation and improvements in reserve coverage of impaired loans at individual banks would support their credit profiles. However, without material improvement in the sovereign credit profile and country risks, bank ratings will remain capped at low levels.

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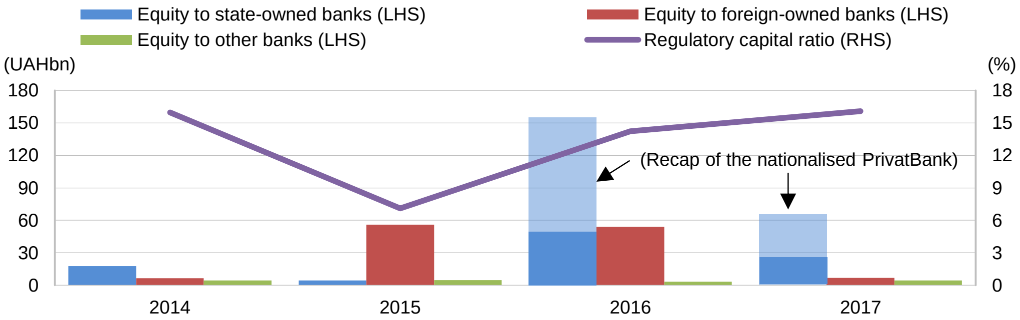
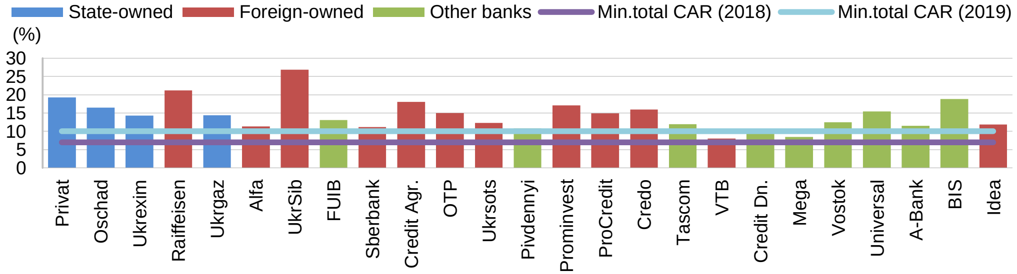
Ukraine: Sector Recapitalisation in 2014-2017



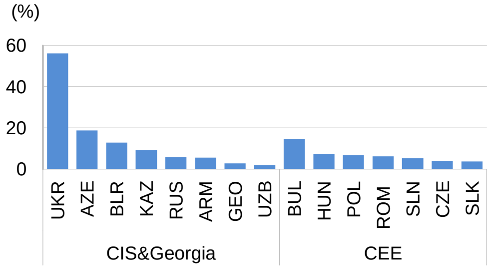
Source: NBU, Fitch calculations

Top 25 Ukrainian Banks: Regulatory Total Capital Adequacy Ratios (End-1Q18)



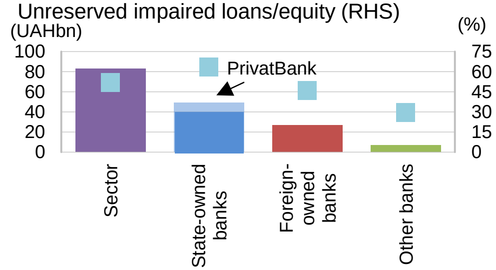
Note: Data for banks which are subject to asset quality review/stress-testing in 2018; together account for 92% of sector assets. Banks are ranked according to asset values at end-2017
Source: NBU, Fitch

Impaired Loans/Total Loans



UKR, ROM: End-2M18 data, UZB: End-3Q17; others - End-2017
Source: National banks and bank regulators, Fitch

Ukraine: Unreserved Impaired Loans[a]



[a] Include impaired interbank and customer loans at end-2017
Source: NBU, Fitch calculations

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