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Households Become Key Players on the Banking Market

Bolstered by economic growth, a boost in household incomes, and high level of interest from foreign investors, the Ukrainian banking system is rapidly approaching European standards

Over the last two years, the Ukrainian banking system has seen dramatic change, incited primarily by the spiralling growth of retail banking. Until very recently, the claims by Ukrainian banks that they were running universal banking operations were strikingly at odds with reality. They were, in fact, primarily investment banks servicing a few large corporations and financial-industrial groups which, in turn, often held shares in the same banks. Lately, however, banks have entered a full-fledged battle for household savings. According to the National Bank of Ukraine (NBU), household resources comprise a significant part of the banks' liabilities (rising to 38% in early April). Over the last ten years, household deposits as a percentage of total deposits have surged from 14% up to 57%. Over the past year, household deposits showed a staggering 76% increase, and over the last quarter they grew 5.7%. The principal force behind the soaring level of deposits is the impressive growth in real incomes (20% at an annual, inflation-adjusted average rate).

Household savings have now become a major source of financing for the national economy. The Household Deposit Guarantee Fund of Ukraine, which was set up in 2001 and covers 90% of all deposits, guarantees any depositor 8,000 hryvnias in damages payments in the event of a bank failure. Nevertheless, at the end of March, NBU announced a possible increase in the guaranteed payment of damages up to UAH 50,000, charting a path for them to align the level of damages payments with that of most EU countries.

Nowadays, nearly a third of the Ukrainian banking system is controlled by foreign capital. Indeed, in three out of Ukraine's ten largest banks, foreign capital constitutes a dominant share. However, in defiance of the hopes encouraged by NBU's heightened capitalisation requirements for commercial banks, domestic merger and acquisition activity remains rather subdued. The number of roughly 160 Ukrainian banks which have the right to conduct mergers and acquisitions has remained largely unchanged for several years.

Liability above the rest

It is too early to assume that the arrival of foreign capital, the growing financial muscle of Ukrainian investors, and the rising number of central bank requirements (which concern not only minimum statutory funds, but also the capital adequacy ratio — now 10%, as against 8% under the Basel I accord) have already made the national banking system ultra-reliable.

Rating method

The rating of Ukrainian banks' liability is the product of team work by Expert RA (rating and ranking agency of Expert Ukraine Ltd.) and the Banking Analysis Committee of the Ukrainian Society of Financial Analysts. We define the liability of a bank as its ability to resist the influence of various negative factors. Bank liability rating is not meant to be used to forecast the potential of any bank's default. A bank with high level of liability (resistance) can go bankrupt after being severely affected by an unpredictable host of negative factors, whereas another bank with a satisfactory liability rating may somehow manage to escape these and continue to function.

The rating calculations consisted of three stages. At the first stage, ratios were calculated by a specialist team comprising representatives of NBU and industry associations, analysts of large banks, academics, and Expert RA analysts. Specialists selected the 18 indicators of each bank's performance as of 1 January 2006 (based on NBU's official data) which in their opinion have the largest impact on the bank's liability. On the basis of these factors, ratios were calculated. Each coefficient was assigned a weight (defined by the experts), and had its value range rated on a scale. The rating of the coefficients' value range and their weight-adjustment produced the Integral index.

At the second stage, banks were assigned points for their performance range. Here, a special statistical device was used that allows for simultaneous calculation of a bank's net assets, and the share these constitute of the total assets of the system. In this respect, large banks are more resistant when faced with problems: the NBU is concerned with their survival, and they enjoy easier access to finance from the capital market.

At the third stage, the integral index was corrected by a group of factors, such as: whether a bank made any losses in 2004 (–20 points); whether it has a partnership with any international financial and credit holding companies or bank groups (+20 points); whether it has ever been rated by international rating agencies (+20 points); and whether it has a transparent structure of ownership (+20 points).

For the sake of the ratings' quality, we had to exclude banks whose net assets by 2005 year-end were worth less than UAH 200m; new banks that opened in 2005; banks adjudged to have an insufficiently diversified client base; and banks with questionable performance indicators. A total of 96 banks were rated.

A bank's integral index (II) placed it in one of the three "liability groups" — A, B, or C. Banks that were placed in either of these were automatically assigned a "+" sign. A ratings analyst then made a forecast of the bank's development perspectives and assessed its environment using all available information. In case of a positive forecast, the bank received an additional "+" sign in its rating; and if the forecast was negative, a "+" sign was removed. We expect banks with a "B++" rating to be laying claims soon for a place in group A.

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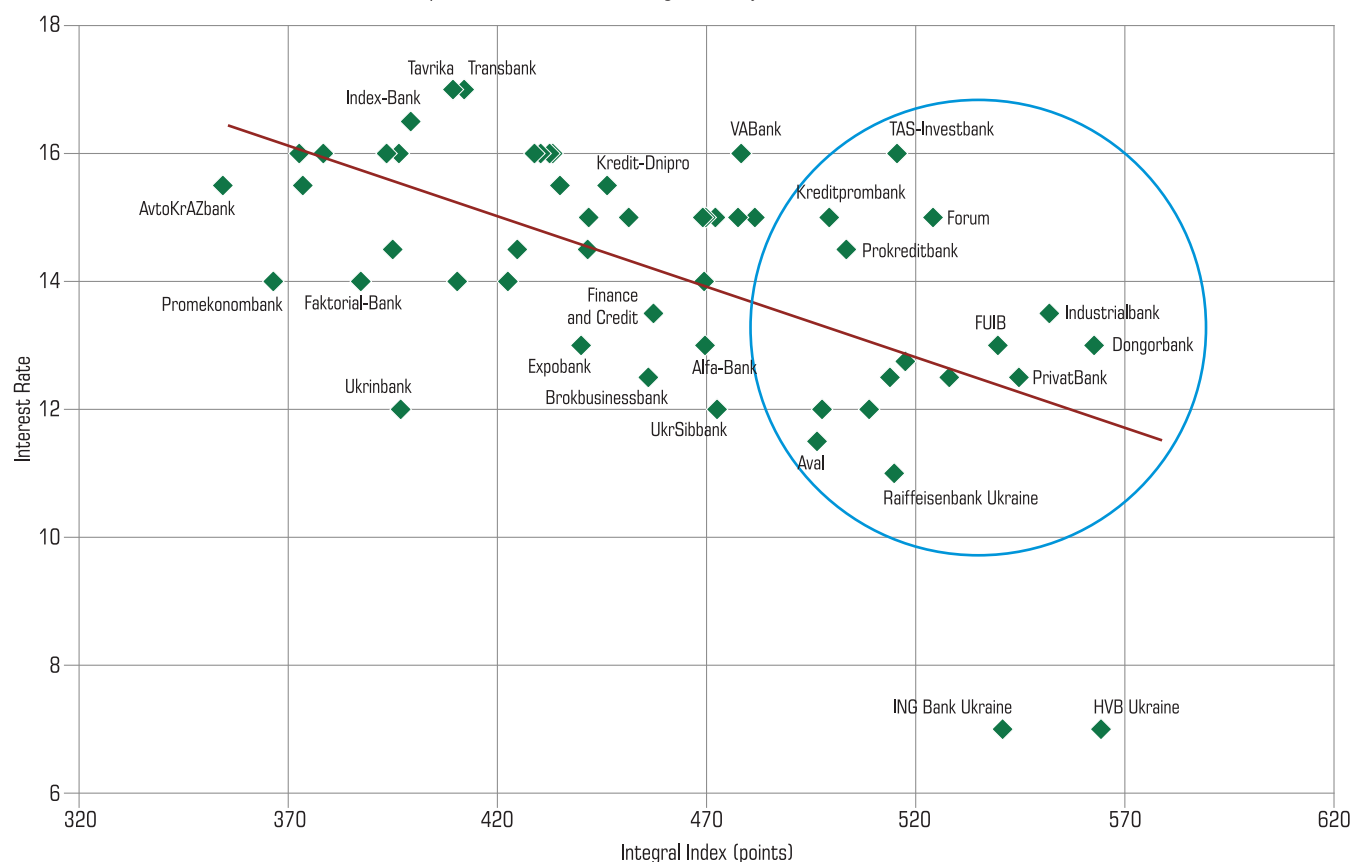
This is not yet the case, despite the absence of any large bank crises last year. Two dozen banks are in the process of liquidation, with Garant and Interkontinentbank being this year's newcomers to the list. Furthermore, the appointment of a provisional administration at Kiev Universal

Bank is basically tantamount, in a Ukrainian context, to its impending liquidation.

Therefore, the liability of the Ukrainian banking system remains one of the core questions. *Expert Ukraine* did its own calculation of Ukrainian banks' liability, based on publicly available information. It turned out

Growth of integral index is accompanied by falling interest rates

Correlation between household indicative UAH deposit rate and value of integral liability index

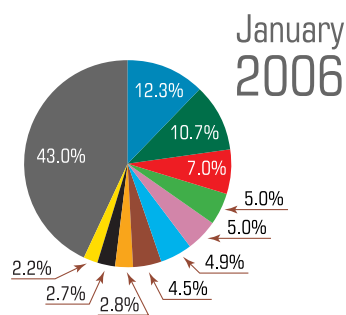


Source: Expert

Over the last ten years, household deposits as a percentage of total deposits have surged from 14% up to 57%

Of the national banking groups, Privat Group has the largest assets

Distribution of assets between Ukrainian banking groups



Legend for January 2006:

- Raiffeisen Group
- Privat Group
- Prominvestbank Group
- UkrSotsbank
- UkrSibbank
- Ukrreximbank
- Oshchadbank
- Nadra
- SCM Group
- Brokbusinessbank
- Other

Source: National Bank of Ukraine; calculations by Expert

that among the top ten banks, four are subsidiaries of foreign banks, another is the state-owned Ukreximbank, and the rest are allegedly connected with financial-industrial groups. The leader is Citibank Ukraine, affiliated with Citigroup, America's largest financial-services company. Its assets at 2005 year-end were valued at \$1.5trln, and its profit amounted to \$24.6bn. The size of its annual revenue is commensurable with half of all Ukrainian banks' assets. With such a thriving parent company, Citibank Ukraine has access to virtually unlimited resources on the inter-bank market, as well as within the financial group.

However, on calculating the integral index, it turned out that Citibank Ukraine owed as few as 20 points to its foreign parent, and that it received most of its points for the quality of its own performance. Its success in

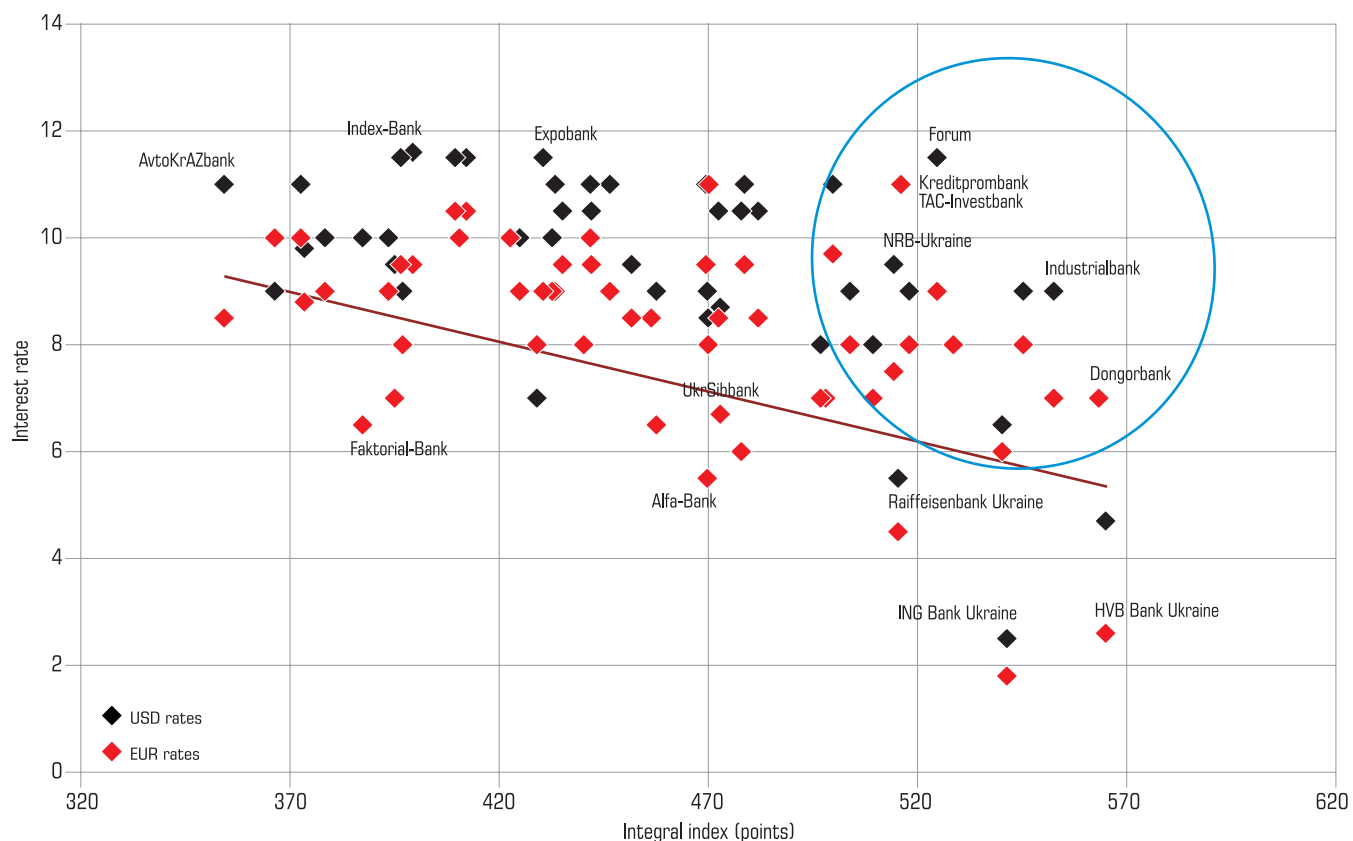
2005 can be attributed to the events of the autumn of 2003, when Citibank Ukraine became the Ukrainian transfer bank of the VISA International payment system, thus servicing all Ukrainian banks. The arrival of Mittal Steel, one of the bank's principal clients, also helped matters. It is highly possible that the former's acquisition of Krivorizhstal would not have happened had it not been for Citigroup's loans. At present, as Mittal Steel Kryviy Rih is just about to launch an ambitious investment program, and is expecting a \$500m syndicated loan, Citibank Ukraine's turnover is likely to skyrocket.

Mittal Steel also has good connections with Holland's ING Group. ING Bank Ukraine, its subsidiary, holds sixth place in our listing of the most reliable banks, and enjoys the highest possible A++ rating. In Ukraine, ING Bank has a business model similar to that of its American colleagues. In the late 1990s, it became the market leader in the field of servicing deposits of companies planning to enter international markets. ING also made a good showing as a Eurobond underwriter. Given the growing number of Ukrainian companies that aspire to tap into international capital markets, ING Bank Ukraine's perspectives look fairly optimistic.

The two other wholly owned foreign banks in Expert Ukraine's top ten are HVB Bank Ukraine (owned by the German HVB

Wholly owned foreign banks have low interest rates

Correlation between household indicative forex deposit rate and value of integral liability index



Source: Expert

Group) and Calyon Bank Ukraine, which both have satellite banks in Ukraine. For the former, a satellite bank came in 2005 as part of HVB's merger with Italian UniCredit (which also owns a Polish bank, Pekao S.A., again with a subsidiary in Ukraine, Bank Pekao Ukraine). At present the Ukrainian subsidiary banks of the Italian-German financial holding company function as separate entities, but their merger looks like a coherent project. Calyon, the French banking group, in spring 2006 acquired Index-Bank as a satellite for its Ukrainian subsidiary. In Ukraine, Calyon and HVB Bank predominantly deal with the allocation of cheap funds, partly coming from abroad.

Unfortunately, the most reliable bank, Citibank Ukraine, does not work with non-corporate clients: its clientele is strictly comprised of institutional investors with turnovers in dollars of at least seven figures. The situation with Calyon Bank Ukraine is more confusing: the bank itself confirmed Expert's inquiry by stating that it does not deal with retail banking. This, however, is at odds with the NBU's estimate that Calyon Bank Ukraine holds UAH 11.4m in household deposits. It also contradicts the advert, posted on the English-language Calyon Group web site, which invites Ukrainian households to open a Kopilka (Penny bank) deposit.

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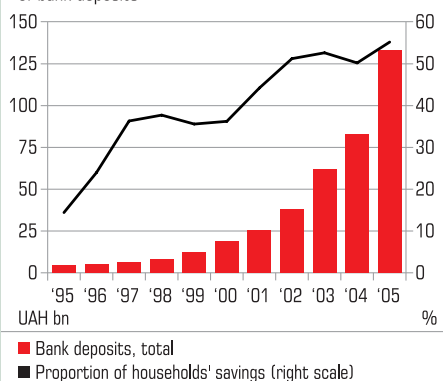
Other foreign banks of category A are happy to embrace Ukrainian households as clients. However, their interest rates are unlikely to attract the later. For instance, HVB Bank Ukraine in April 2006, offered a 7% interest rate on an annual hryvnia deposit, and a 2.6% rate — on a euro deposit. In ING, one would draw a 7% interest on hryvnia deposits, 2.5% — on USD deposits, and a mere 1.8% — on EUR deposits. On average, in Ukrainian banks national currency deposits draw a roughly 15% annual interest, whereas USD and EUR deposits — up to 10%. Foreigners' actions are easily explicable, given that in Europe resources can be obtained even cheaper.

Die-hard oligarchs

Among the 19 banks of rating group A, there are of course the so called 'oligarchic'

Over the ten years, proportion of households' savings as a percentage of total deposits grew from 14% up to 57%

Growth of household savings as a percentage of bank deposits



Source: National Bank of Ukraine

Liability Rating (pi) of Ukrainian Banks (for banks with A and B rating)

#	The place of bank in NBU's ranking on assets	Bank	Rating indicators (points)			Capital adequacy		Structure and quality of assets			
			Rating	Integral indicator	Correction factors sum of points	Shareholders' equity / Net assets	Obtain funds' share in liabilities & shareholders' equity	Liquid assets' share in operating assets	Operating assets' share in assets	Credits' share in assets	
1	31	CITIBANK UKRAINE	A++	586.41	40	12.84%	46.86%	71.10%	55.94%	55.94%	
2	32	HVB BANK UKRAINE	A++	564.99	40	12.10%	30.38%	31.12%	72.67%	72.67%	
3	22	DONGORBANK	A++	563.34	20	14.19%	70.34%	50.73%	60.45%	53.23%	
4	29	INDUSTRIALBANK	A++	552.59	20	19.09%	59.76%	28.78%	71.30%	60.00%	
5	1	PRIVATBANK	A+	545.29	60	11.28%	77.00%	26.24%	78.11%	72.97%	
6	17	ING BANK UKRAINE	A++	541.38	40	8.52%	66.25%	78.62%	55.33%	50.76%	
7	14	FIRST UKRAINIAN INTERNATIONAL BANK	A++	540.24	60	14.04%	67.24%	62.87%	53.54%	52.89%	
8	40	CALION BANK UKRAINE	A++	537.19	40	8.87%	46.82%	22.72%	75.57%	75.47%	
9	6	UKREXIMBANK	A++	528.58	40	10.77%	49.68%	28.85%	74.00%	71.33%	
10	13	FORUM	A++	524.68	60	10.09%	62.80%	38.21%	66.45%	63.38%	
11	4	UKRSOTSBANK	A++	518.03	60	9.83%	78.32%	28.10%	71.20%	67.38%	
12	35	TAS-INVESTBANK	A+	516.04	40	13.14%	50.82%	40.59%	67.52%	65.88%	
13	8	RAIFFEISENBANK UKRAINE	A++	515.36	40	9.34%	49.27%	13.21%	88.71%	85.38%	
14	41	NRB-UKRAINE	A+	514.34	60	12.62%	58.10%	27.26%	78.34%	68.37%	
15	27	MRIYA	A++	509.35	60	11.88%	78.43%	21.72%	77.68%	76.79%	
16	37	PROCREDIT BANK	A++	503.87	60	10.79%	69.41%	15.97%	81.50%	81.50%	
17	16	KREDITPROMBANK	A+	499.77	40	12.19%	60.04%	39.77%	67.13%	62.76%	
18	3	PROMINVESTBANK	A+	498.05	20	9.86%	88.75%	25.16%	78.39%	77.50%	
19	2	AVAL	A++	496.84	60	9.36%	78.75%	40.04%	67.20%	66.10%	
20	9	NADRA	B++	481.92	40	9.68%	60.25%	22.63%	76.44%	72.58%	
21	19	VABANK	B++	478.64	40	12.68%	56.64%	54.77%	57.37%	52.16%	
22	12	UKRPROMBANK	B++	477.88	0	16.33%	78.02%	11.28%	90.31%	90.31%	
23	5	UKRSIBBANK	B++	472.85	60	9.20%	51.82%	15.71%	79.09%	73.70%	
24	26	TAS-KOMMERZBANK	B+	472.44	40	14.00%	71.13%	25.44%	74.98%	71.41%	
25	57	AKTIV BANK	B+	470.13	0	10.77%	74.57%	89.53%	47.21%	41.54%	
26	23	ALFA BANK	B++	469.96	40	9.72%	37.27%	22.13%	74.11%	72.72%	
27	15	KHRESHCHATYK	B	469.75	40	7.68%	78.91%	87.43%	46.31%	42.49%	
28	55	PETROCOMMERCE UKRAINE BANK	B++	469.43	40	7.51%	47.02%	34.53%	71.12%	68.39%	
29	70	UKRGAZPROMBANK	B+	466.33	0	23.07%	57.86%	93.69%	45.54%	45.48%	
30	11	FINANCE & CREDIT	B+	457.59	20	11.32%	71.68%	21.96%	78.71%	72.25%	
31	10	BROKBUSINESSBANK	B+	456.36	20	13.02%	71.30%	34.53%	65.83%	59.05%	
32	20	PIVDENNIY	B+	451.66	20	11.98%	73.74%	19.12%	80.00%	76.50%	
33	25	KREDYT BANK UKRAINE	B+	450.40	40	8.26%	77.42%	18.13%	80.91%	79.53%	
34	33	EXPRESS-BANK	B+	449.26	0	12.60%	80.08%	44.96%	62.87%	61.67%	
35	36	KREDYT-DNIPRO	B	446.47	20	13.23%	79.60%	29.16%	77.22%	65.34%	
36	38	MARINE TRANSPORT BANK	B+	445.53	0	14.02%	64.48%	45.59%	65.56%	63.39%	
37	18	UKRGAZBANK	B+	442.05	0	9.38%	64.35%	51.45%	59.29%	50.29%	
38	52	AGGIO	B++	441.80	40	18.14%	54.12%	41.31%	58.14%	57.19%	
39	43	EXPOBANK	B+	440.23	0	21.29%	56.98%	19.07%	70.84%	70.68%	
40	90	METALLURG	B+	439.18	0	35.03%	63.13%	21.12%	79.34%	75.85%	
41	88	CLEARING HOUSE	B+	437.60	0	21.86%	62.70%	28.71%	72.23%	67.55%	
42	7	OSHCHADBANK	B	436.56	20	8.60%	87.06%	332.98%	21.53%	21.00%	
43	106	INDUSTRIAL & FINANCE BANK	B+	435.77	0	21.80%	56.52%	44.89%	62.92%	62.31%	
44	42	MEGABANK	B++	435.15	20	14.53%	77.50%	27.27%	69.54%	61.73%	
45	65	UKRAINIAN PROFESSIONAL BANK	B+	433.40	0	25.26%	57.97%	58.31%	59.12%	56.40%	
46	24	PRAVEX-BANK	B+	432.67	40	8.45%	85.60%	30.16%	67.18%	67.13%	
47	53	FIRST INVESTMENT BANK	B++	430.67	0	21.09%	62.25%	30.83%	67.59%	59.01%	
48	34	KYIV	B+	430.52	0	10.04%	84.81%	13.94%	81.61%	80.83%	
49	62	ARKADA	B+	429.03	0	22.93%	76.41%	18.13%	76.68%	68.01%	
50	44	UNIVERSAL BANK FOR DEVELOPMENT AND PARTNERSHIP	B+	424.91	0	12.87%	73.17%	46.24%	68.07%	65.82%	
51	28	RODOVID BANK	B+	423.74	0	9.87%	72.90%	26.19%	72.29%	69.68%	
52	47	DIAMANTBANK	B+	422.65	0	19.20%	43.92%	65.46%	51.11%	48.18%	
53	81	NATSIONALNY KREDIT	B+	413.70	0	16.46%	80.42%	20.91%	81.32%	81.32%	
54	96	PRIVATINVEST	B+	412.78	0	22.15%	7.80%	102.62%	42.36%	30.12%	
55	61	TRANSBANK	B++	412.16	0	13.47%	71.07%	26.76%	76.65%	75.55%	
56	48	ZAKHIDINKOMBANK	B+	410.50	0	12.41%	75.65%	14.88%	91.45%	86.32%	
57	49	TAVRIKA	B+	409.48	0	13.88%	72.46%	13.30%	92.45%	87.01%	
58	64	NATIONAL INVESTMENTS	B+	408.39	0	8.38%	64.67%	26.50%	74.90%	67.65%	

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Coefficient groups for integrated index calculation

			Indicators of profitability and efficiency							Structural indicators		Net assets (UAH bn)
	Loans' provisions / Loans	Asset's provisions / Assets	Interest income / Credits	Interest income / Interest expense	Net interest income / Net assets	Operating profit / Staff cost	Net profit / Revenues	ROA	ROE	Liquid assets / Total liabilities	Loans / Deposits	
	3.10%	3.12%	8.27%	358.10%	3.39%	503.65%	38.03%	3.06%	23.86%	45.67%	64.24%	1.546
	0.96%	1.30%	9.15%	276.20%	4.28%	451.14%	34.21%	3.11%	25.73%	27.00%	86.77%	1.506
	4.64%	5.17%	15.47%	250.39%	5.08%	491.97%	31.90%	3.57%	25.18%	35.82%	62.18%	2.082
	5.77%	7.44%	17.05%	251.72%	6.45%	248.97%	27.68%	4.07%	21.33%	27.15%	79.40%	1.719
	11.27%	11.91%	15.35%	158.96%	4.55%	214.70%	11.44%	2.36%	20.93%	24.01%	85.46%	20.141
	0.07%	0.33%	6.86%	239.76%	2.03%	438.72%	31.55%	1.96%	23.01%	48.55%	56.66%	2.583
	2.76%	3.75%	11.51%	226.67%	3.47%	168.58%	16.26%	1.57%	11.20%	40.12%	63.05%	3.506
	0.95%	1.05%	5.33%	700.29%	3.48%	255.79%	36.08%	2.77%	31.29%	20.28%	89.14%	0.941
	5.04%	6.32%	10.18%	184.97%	3.49%	130.23%	17.94%	1.82%	16.92%	25.42%	84.93%	9.908
	4.26%	4.61%	13.85%	169.40%	3.71%	161.55%	8.23%	0.88%	8.70%	30.01%	74.90%	3.643
	2.80%	4.40%	12.53%	165.23%	3.43%	86.95%	8.67%	1.12%	11.42%	23.10%	77.76%	10.444
	7.86%	9.05%	13.63%	201.65%	4.81%	871.39%	11.88%	1.29%	9.81%	33.54%	80.64%	1.164
	5.38%	5.61%	8.84%	279.92%	5.10%	402.66%	13.25%	1.25%	13.38%	13.49%	98.25%	6.711
	9.07%	10.24%	14.92%	225.98%	6.11%	412.41%	11.49%	1.48%	11.74%	24.50%	78.44%	0.839
	2.11%	2.35%	14.36%	186.98%	5.23%	174.29%	14.12%	2.06%	17.36%	19.87%	90.47%	1.893
	3.03%	3.17%	15.11%	247.82%	7.54%	110.56%	11.95%	1.98%	18.38%	17.25%	108.01%	1.046
	5.98%	6.26%	10.68%	155.88%	2.50%	131.98%	10.06%	1.02%	8.37%	32.21%	75.70%	2.791
	5.55%	6.33%	13.98%	196.55%	5.60%	149.35%	10.04%	1.59%	16.17%	21.98%	86.36%	13.874
	4.59%	4.86%	13.62%	196.21%	4.56%	59.63%	0.74%	0.10%	1.10%	30.73%	75.50%	18.640
	4.54%	5.29%	12.66%	163.12%	3.70%	73.93%	3.69%	0.46%	4.79%	20.61%	86.46%	5.695
	1.02%	1.54%	13.44%	155.68%	2.53%	77.02%	7.03%	0.65%	5.11%	40.26%	66.83%	2.332
	6.28%	6.35%	16.10%	172.42%	6.48%	242.66%	3.70%	0.61%	3.73%	12.32%	109.21%	3.873
	4.45%	4.65%	10.79%	158.77%	3.05%	49.02%	4.85%	0.54%	5.92%	15.73%	93.36%	10.304
	7.34%	8.39%	11.47%	177.57%	3.81%	76.66%	3.79%	0.50%	3.54%	22.77%	85.23%	1.903
	5.05%	5.23%	16.48%	165.10%	2.76%	485.87%	26.42%	3.54%	32.91%	50.67%	49.81%	0.593
	2.76%	2.98%	7.00%	162.57%	2.00%	54.76%	2.04%	0.14%	1.39%	19.36%	85.84%	2.086
	1.03%	1.45%	15.93%	146.84%	2.17%	78.12%	7.91%	0.65%	8.49%	46.07%	48.36%	3.125
	1.86%	2.84%	13.38%	198.42%	4.63%	72.55%	7.65%	1.17%	15.55%	28.76%	80.10%	0.541
	12.79%	17.42%	21.18%	215.25%	5.60%	291.99%	29.44%	3.23%	14.02%	55.18%	58.82%	0.384
	2.95%	3.23%	11.61%	129.67%	1.96%	95.93%	2.85%	0.34%	3.01%	20.30%	84.87%	4.319
	2.39%	4.03%	10.42%	105.42%	0.32%	94.47%	4.51%	0.41%	3.14%	26.44%	68.70%	4.655
	6.55%	6.74%	12.60%	164.94%	4.00%	115.97%	8.19%	1.15%	9.64%	17.92%	89.65%	2.184
	4.68%	6.52%	11.97%	165.59%	3.98%	135.33%	3.77%	0.56%	6.75%	16.80%	91.12%	1.923
	2.06%	2.52%	16.71%	168.46%	4.25%	66.48%	6.53%	1.20%	9.50%	33.13%	72.29%	1.433
	10.16%	12.72%	13.40%	174.94%	4.09%	142.23%	14.65%	1.74%	13.17%	27.32%	79.28%	1.004
	11.15%	11.74%	11.04%	265.05%	4.71%	118.17%	14.62%	1.83%	13.06%	35.52%	75.33%	0.973
	5.25%	6.19%	20.28%	150.21%	3.52%	90.66%	5.07%	0.72%	7.69%	35.29%	58.18%	2.313
	2.20%	2.41%	12.93%	217.38%	4.05%	29.67%	2.63%	0.29%	1.61%	30.85%	73.47%	0.605
	4.39%	4.56%	13.22%	173.26%	4.08%	234.95%	16.02%	2.02%	9.48%	20.40%	106.75%	0.711
	9.86%	10.96%	15.88%	263.41%	8.15%	59.32%	23.90%	4.20%	11.98%	26.32%	119.12%	0.263
	4.83%	6.17%	16.99%	322.05%	8.26%	198.97%	8.59%	1.25%	5.73%	26.54%	86.45%	0.283
	19.18%	24.71%	26.54%	257.98%	3.60%	28.30%	2.05%	0.22%	2.60%	79.13%	23.17%	9.022
	2.81%	5.47%	19.22%	231.86%	7.05%	175.28%	9.96%	1.61%	7.40%	39.72%	87.63%	0.201
	1.65%	2.36%	15.12%	156.73%	3.43%	50.15%	4.41%	0.69%	4.75%	23.54%	76.64%	0.800
	4.10%	5.53%	16.40%	163.52%	3.71%	157.05%	8.20%	0.96%	3.82%	46.01%	75.27%	0.429
	3.66%	3.90%	12.70%	148.78%	2.87%	35.18%	5.19%	0.93%	11.00%	23.27%	77.10%	2.068
	12.78%	15.54%	19.96%	169.57%	5.32%	243.39%	8.75%	1.34%	6.35%	26.21%	74.21%	0.534
	3.83%	4.20%	13.96%	170.68%	4.84%	199.90%	7.47%	1.10%	10.98%	12.85%	91.31%	1.393
	4.52%	5.75%	12.93%	307.34%	6.17%	135.69%	7.66%	1.44%	6.30%	18.20%	89.01%	0.455
	6.01%	12.11%	11.98%	180.34%	3.82%	313.62%	3.79%	0.46%	3.60%	38.47%	80.45%	0.665
	2.01%	2.23%	8.83%	132.20%	1.52%	160.71%	7.05%	0.62%	6.27%	22.16%	81.56%	1.801
	12.65%	14.20%	17.13%	187.17%	4.13%	95.45%	12.99%	1.61%	8.38%	41.53%	59.81%	0.633
	2.91%	3.33%	15.48%	209.11%	6.75%	49.60%	4.84%	0.92%	5.61%	20.34%	97.24%	0.326
	21.06%	24.89%	39.47%	208.99%	6.70%	163.58%	17.89%	3.72%	16.78%	57.15%	39.60%	0.222
	3.90%	4.06%	14.19%	197.23%	5.45%	47.87%	5.80%	0.83%	6.16%	24.23%	89.26%	0.459
	10.55%	10.89%	14.78%	162.35%	5.41%	545.87%	11.87%	2.31%	18.65%	15.56%	98.68%	0.610
	9.36%	10.61%	18.77%	168.37%	7.31%	153.14%	7.02%	1.35%	9.76%	14.98%	106.02%	0.594
	3.55%	4.86%	14.17%	170.56%	4.10%	133.33%	7.66%	0.95%	11.39%	23.40%	79.74%	0.447

Sources: National Bank of Ukraine. Stock Market Infrastructure Development Agency. Securities and Stock Market State Commission; calculations by Expert

banks, set up to service the informal financial-industrial groups of the oligarchs. Highest-ranked of these, in third place, is Dongorbank, a bank in which 94.4% of stock belongs to Rinat Akhmetov. It should be noted that we did not in our rating account for political risks which, in the aftermath of the parliamentary election, we consider to be a less relevant factor for Ukrainian banks, especially for the likes of Dongorbank. This bank, in conjunction with System Capital Management (SCM) controls a number of enterprises in the eastern parts of Ukraine. These holdings ensure the bank's stable development and lend it enhanced liability. Dongorbank also has a satellite bank, the First Ukrainian International Bank (FUIB), which also received an A++ rating. The former shareholders of FUIB (now fully controlled by Akhmetov via SCM) were the EBRD and Fortis, a European financial holding company.

Another "oligarchic" bank is Industrialbank. It services Zaporizhstal, one of Ukraine's largest metallurgical complexes.

necessary step as the bank was issuing euronotes which were later listed on the Luxembourg Stock Exchange. Nowadays, PrivatBank remains a financial centre of the unofficial Privat Group that, according to different estimates, comprises 2,000–3,000 companies in the non-financial sector, as well as several banks. PrivatBank also has a large network of branches which, due to their running costs, negatively affects its performance — especially when compared to the banks without such a network. Besides, Privat group's business is not focused on the metallurgical industry to the extent of Rinat Akhmetov's and Aleksandr Shneider's banks. Ultimately, the title of Ukraine's largest bank requires a degree of liability, at least in order to preserve macroeconomic stability.

This title is now contested by several financial groups. The acquisition of Ukrainian banks by foreign investors could change the picture significantly in the nearest future. Thus, the merger of Aval's and Raiffeisen Ukraine's assets (announced last

Second echelon

It should not be automatically assumed that the banks of group B have a far lower degree of liability than banks of group A. Nadra, VABank, Ukrprombank, UkrSibbank were a mere 20–30 points short of breaking into group A. For instance, Kharkiv-based UkrSibbank, with such a highly potent investor as BNP Paribas, could have maintained its indicators of liquidity and solvency as well as assets quality in just a slightly worse condition than those of Dongorbank.

Ukrprombank's indicators also look optimistic: early in 2006, it was firmly placed amid Ukraine's largest banks in the NBU ranking. Moreover, its 16.33% capital adequacy was one of the highest among Ukraine's largest banks. In principal, Ukrprombank is one of the few banks of group B whose integral index (unadjusted for correction factors) was robust enough for the bank to be set for a transition into group A. Ukrprombank is held back by its non-transparent ownership structure, which cost it 20 rating points. The bank is a limited liability company, and its website reveals the following ownership structure: 34% of stock belongs to ABC Ltd., 34% — to KB Neftyanoi Ltd., and remaining 32% — to Ukrpromservice Ltd. However, given that even such large banks as Brokbusinesbank, PrivatBank, Pravex-Bank and UkrSibbank disclose the identities of their owners, Ukrprombank does little more than the minimum required by law.

Retail sets the pace

A portrait of a typical Ukrainian, present-day bank might look like this: a bank with a few low-maintenance branches, small volume of retail operations, and with a stable and reliable source of funds replacement. From banks of group A, only Aval and PrivatBank stand out — household funds constitute almost half of their liabilities. These two banks are exceptions from the rule whereby in Ukraine, the more a bank depends on household funds, the more risk-prone the indicators of its performance get. Evidently, the rule does not apply to the veterans of the banking sector with long-established clienteles. A low efficiency in retail banking is a standard situation for a country with a fairly low level of welfare provision. However, the social context changes quickly, and the banks cannot fail to see this. A result of that is intensifying competition in retail banking, a niche consolidated five years ago by two or three banks. Today, the pace of retail banking is set by as many as 15–20 financial institutions. In case there is a fall in household income (which is highly unlikely), "oligarchic" banks have better chances of remaining in the market. ■

The Ukrainian banking sector today is very attractive

for investors. Every acquisition of a bank leads to

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ratio, or P/BV)

Both are controlled by Aleksandr Shneider and Vasily Khmelnytsky. In March 2006, they made a lame attempt to expand their banking operations by having one of their group's affiliated structures increase to 7.8% a share in Kiev's Khreshchatyk Bank. They have, moreover, for a long time been indirectly in control of another Kiev-based bank, Express-Bank.

PrivatBank also received the highest liability rating, and is positioned in group A. It has for several years been the leader in the NBU's assets ranking. At the beginning of 2006, it controlled 10% of assets in the Ukrainian banking system, and was a top player in the deposits market. Contrary to official data on its ownership structure, which indicates that PrivatBank has several institutional owners, the bank itself revealed that 62% of its stock (directly or indirectly) belongs to Igor Kolomoysky and Gennady Bogolubov. This disclosure was a

autumn) could have resulted in the creation of Ukraine's largest bank, with assets worth more than UAH 25bn. However, in a swift change of plans, Austrian group Raiffeisen Int. decided to put Raiffeisen Ukraine up for sale and avoid the merger costs.

The Ukrainian banking sector today is very attractive for investors. Every acquisition of a bank leads to a rise of its placement ratio (capitalization-to-equity ratio, or P/BV). Whereas Mriya and Aval banks were sold with 1.6 and 3.2 placement ratios respectively, after the sale of UkrSibbank the multiplier was over 6. The most expensive bank so far remains Index-Bank, whose 98% stake was acquired by Credit Agricole S.A. with a 7.19 placement ratio. Chances are that the sale of Raiffeisen Ukraine will be even more lucrative than that of Aval (\$1.03bn), allowing Raiffeisen Int. to fetch enough to make the deal profitable.