MOODY'S INVESTORS SERVICE

Credit Opinion: First Ukrainian International Bank, PJSC

Global Credit Research - 17 Dec 2014

Donetsk, Ukraine

Ratings

Category	Moody's Rating
Outlook	Negative(m)
Bank Deposits -Fgn Curr	Ca/NP
Bank Deposits -Dom Curr	Caa3/NP
NSR Bank Deposits -Dom Curr	Caa3.ua/--
Bank Financial Strength	E
Baseline Credit Assessment	ca
Adjusted Baseline Credit Assessment	ca
Bkd Senior Unsecured	Caa3

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Key Indicators

First Ukrainian International Bank, PJSC (Unconsolidated Financials)[1]

	[2]**12-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (UAH million)	**31,895.8**	**27,555.3**	**29,804.3**	**25,648.0**	**15,918.1**	[3]**19.0**
Total Assets (USD million)	**3,870.8**	**3,423.0**	**3,720.9**	**3,219.1**	**1,987.3**	[3]**18.1**
Tangible Common Equity (UAH million)	**4,844.5**	**4,367.1**	**4,126.6**	**3,675.8**	**2,620.5**	[3]**16.6**
Tangible Common Equity (USD million)	**587.9**	**542.5**	**515.2**	**461.3**	**327.2**	[3]**15.8**
Net Interest Margin (%)	**5.0**	**7.0**	**3.3**	**3.8**	**5.8**	[4]**5.0**
PPI / Average RWA (%)	**4.2**	**4.8**	**2.8**	**2.9**	**--**	[5]**3.7**
Net Income / Average RWA (%)	**1.9**	**1.9**	**2.2**	**3.3**	**--**	[5]**2.3**
(Market Funds - Liquid Assets) / Total Assets (%)	**-11.7**	**-11.8**	**-23.7**	**-15.1**	**22.9**	[4]**-7.9**
Core Deposits / Average Gross Loans (%)	**93.8**	**150.4**	**109.3**	**99.2**	**38.9**	[4]**98.3**
Tier 1 Ratio (%)	**17.1**	**17.5**	**16.9**	**18.1**	**--**	[5]**17.4**
Tangible Common Equity / RWA (%)	**16.6**	**17.2**	**16.7**	**21.7**	**--**	[5]**18.0**
Cost / Income Ratio (%)	**46.1**	**57.7**	**58.2**	**57.1**	**36.2**	[4]**51.1**
Problem Loans / Gross Loans (%)	**20.1**	**27.0**	**30.8**	**35.1**	**40.7**	[4]**30.7**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**57.8**	**69.5**	**76.8**	**84.5**	**104.7**	[4]**78.7**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel I; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel I & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

On 4 December 2014 First Ukrainian International Bank agreed with its creditors to restructure the bank's $250 million Eurobonds due on 31 December 2014. Below are the terms of the restructuring, which are subject to the registration with the NBU (Central Bank). Based on the agreed terms, the maturity of the bonds will be extended to year-end 2018 with quarterly amortization. The 11% coupon rate will remain unchanged. Although the proposed transaction presumes par-to-par debt exchange, Moody's estimates that the extension of the repayment will result in about 35% losses for the bondholders based on the net present value of the amended cash flows.

FUIB ca baseline credit assessment (BCA) reflects the very week liquidity conditions of the bank resulting in a distressed exchange of its bonds. It also reflects the growing negative pressure on the bank's overall credit profile which increases the likelihood that external capital or liquidity assistance will be required, for the bank to honour its contractual obligations and meet regulatory guidelines.

Caa3 rating of the bank's local-currency deposits reflects the expected losses in the event of default. The bank's Ca foreign-currency deposit rating is constrained by the ceiling for foreign-currency deposits in Ukraine.

Rating Drivers

- Challenging operating environment

- Capitalisation is under pressure from rising loan losses

- Liquidity conditions are under stress due to lack of FX funding and deposit outflows

Rating Outlook

All the long-term global-scale ratings carry a negative; the BFSR carries a stable outlook.

What Could Change the Rating - Up

A stabilisation of the ratings outlook is possible in the event of a material improvement of the Ukrainian banks' operating environment.

What Could Change the Rating - Down

We could downgrade FUIB's deposit and debt ratings in the event of default, which would lead to losses for bondholders or uninsured depositors in excess of 35% -- which would not be commensurate with the current Caa3 rating.

DETAILED RATING CONSIDERATIONS

CHALLENGING OPERATING ENVIRONMENT

FUIB's BCA is primarily driven by the high dependence of their businesses on the challenging domestic environment, reflected in the very low sovereign ratings and country ceilings. Almost all of FUIB's business is concentrated in Ukraine, which poses the bank to serious challenges given the weak and volatile operating environment in the country. The difficult economic conditions weigh on the bank's asset quality, profitability and franchise strength. However the negative implications stemming from economic conditions have been less pronounced compared with most Ukrainian banks, reflected in FUIB's better than average financial indicators in the past several years.

The operating environment in Ukraine has been adversely affected by heightened geopolitical tensions between Ukraine and its main trading partner - Russia. The military conflict in the eastern part of Ukraine and uncertainty with regard to its resolution result in disruption to economic output in those regions, thus exerting additional pressure on overall economic activity, the local currency, and depositor confidence. If the conflict persists, these conditions will remain key negative factors for the operating environment and continue to adversely affect the business franchises of domestic banks.

We note that Ukraine's economically active eastern regions have provided a significant contribution to the country's GDP, and accounted for a substantial part of banking sector assets and liabilities. In July 2014, the regulator (the National Bank of Ukraine or NBU) restricted operations for banks in those territories affected by the military conflict and not controlled by Ukrainian government. In May 2014, the NBU banned local banks from operating in Crimea.

Against the background of weak economic conditions and heightened geopolitical tensions, the Ukrainian hryvna has devalued against the US dollar by over 50% in the past one year, resulting in elevated volatility in local banks' liquidity profiles, thus negatively affecting borrowers' ability to service their foreign-currency-denominated loans.

CAPITALISATION IS UNDER PRESSURE FROM RISING LOAN LOSSES

FUIB's total CAR ratio (under Basel 1 rules) amounted to 18.1% at end-Q3 2014, down from 21.23% at YE2013 as the bank reported losses in the first 9 months of 2014 stemming from increased loan loss provisions. The bank's net losses for the period stood at UAH212 million, resulting in an annualized ROA of -0.8%. We expect the bank's capital adequacy to remain under pressure from rising loan loss charges. According to the bank NPLs (90+ days overdue) accounted for 18.9% of the gross loans at end-Q3 2014. We understand that a significant part of the problem loans have been restructured and are not classified as NPLs. Loan loss reserves, which accounted for 16.3% of the gross loans as of end-Q3 2014, will likely continue to rise significantly in the next 12 to 18 months, pressuring FUIB's profitability and capitalisation.

LIQUIDITY CONDITIONS ARE UNDER STRESS DUE TO LACK OF FX FUNDING AND DEPOSITS OUTFLOW

Like other Ukrainian banks FUIB's liquidity conditions are under stress stemming from lack of FX funding and ongoing deposits outflow. The downward pressure on UAH exacerbates FX funding conditions for commercial banks. Whilst the restructuring of the $250 million Eurobonds, including maturity extension, will reduce the risk re-default on the bonds in the near term, the bank's liquidity will remain under stress as over 50% of the customer deposits are denominated in FX as of end-Q3 2014, according to the bank's regulatory reports.

Unless noted otherwise, data in this report is sourced from company reports and our Banking Financial Metrics. All figures are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the documents entitled " Financial Statement Adjustments in the Analysis of Financial Institutions " published on 19 December 2013.

Global Local Currency Deposit Rating (Joint Default Analysis)

Caa3 rating of the bank's local-currency deposits reflects the expected losses in the event of default.

National Scale Rating

FUIB is rated Caa3.ua by Moody's on Ukraine's national rating scale. National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issuers and issuers within a country, enabling market participants to better differentiate relative risks.

Foreign Currency Deposit Rating

Moody's assigns a Ca foreign currency deposit rating to FUIB. The rating is constrained by the country foreign currency deposit ceiling for Ukraine.

Foreign Currency Debt Rating

Moody's assigns a Caa3 global foreign currency debt rating to FUIB's senior unsecured obligations.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

First Ukrainian International Bank, PJSC

Rating Factors [1]	A	B	C	D	E	Total Score	Trend

Qualitative Factors (70%)						**E**	
Factor: Franchise Value						**D-**	**Neutral**
Market share and sustainability				**x**			
Geographical diversification				**x**			
Earnings stability					**x**		
Earnings Diversification [2]							
Factor: Risk Positioning						**E**	**Neutral**
Corporate Governance [2]					**x**		
- Ownership and Organizational Complexity				x			
- Key Man Risk				x			
- Insider and Related-Party Risks					x		
Controls and Risk Management				**x**			
- Risk Management				x			
- Controls				x			
Financial Reporting Transparency			**x**				
- Global Comparability	x						
- Frequency and Timeliness					x		
- Quality of Financial Information				x			
Credit Risk Concentration					**x**		
- Borrower Concentration					x		
- Industry Concentration	x						
Liquidity Management					**x**		
Market Risk Appetite			**x**				
Factor: Operating Environment						**E+**	**Neutral**
Economic Stability					**x**		
Integrity and Corruption					**x**		
Legal System				**x**			
Financial Factors (30%)						**C-**	
Factor: Profitability						**B+**	**Neutral**
PPI % Average RWA (Basel I)	3.96%						
Net Income % Average RWA (Basel I)		1.96%					
Factor: Liquidity						**C-**	**Neutral**
(Market Funds - Liquid Assets) % Total Assets	-15.75%						
Liquidity Management					x		
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio (%) (Basel I)	17.18%						
Tangible Common Equity % RWA (Basel I)	16.84%						
Factor: Efficiency						**B**	**Neutral**
Cost / Income Ratio		54.01%					
Factor: Asset Quality						**E**	**Neutral**
Problem Loans % Gross Loans					25.97%		
Problem Loans % (Equity + LLR)					68.03%		
Lowest Combined Financial Factor Score (9%)						**E**	
Economic Insolvency Override						**Neutral**	
Aggregate BFSR Score						**D-**	
Aggregate BCA Score						**ba3**	
Assigned BFSR						**E**	
Assigned BCA						**ca**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
[2] - A blank score under Earnings Diversification or Corporate Governance indicates the risk is neutral.