

Global Credit Research - 02 Apr 2015

Donetsk, Ukraine

Ratings

| Category | Moody's Rating |
|-------------------------------------|----------------|
| Outlook | Negative |
| Bank Deposits -Fgn Curr | Ca/NP |
| Bank Deposits -Dom Curr | Caa3/NP |
| NSR Bank Deposits -Dom Curr | Caa3.ua/-- |
| Baseline Credit Assessment | ca |
| Adjusted Baseline Credit Assessment | ca |

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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 |
| Problem Loans / Gross Loans (%) | 20.1 | 27.0 | 30.8 | 35.1 | 40.7 | [4]30.7 |
| Tangible Common Equity / Risk Weighted Assets (%) | 16.6 | 17.2 | 16.7 | 21.7 | - | [5]18.0 |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 63.1 | 75.8 | 84.6 | 91.1 | 113.0 | [4]85.5 |
| 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 / Tangible Assets (%) | 1.6 | 1.0 | 1.5 | 2.2 | -2.7 | [4]0.7 |
| Cost / Income Ratio (%) | 46.1 | 57.7 | 58.2 | 57.1 | 36.2 | [4]51.1 |
| Market Funds / Tangible Banking Assets (%) | 14.4 | 15.5 | 13.2 | 20.2 | 42.1 | [4]21.1 |
| Liquid Banking Assets / Tangible Banking Assets (%) | 27.5 | 29.1 | 39.1 | 37.9 | 20.1 | [4]30.7 |
| Gross Loans / Total Deposits (%) | 106.1 | 111.8 | 93.3 | 109.7 | 225.4 | [4]129.2 |

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

The Caa3 local-currency deposit assigned to First Ukrainian International Bank (FUIB) reflects the expected losses for the bank's depositors in the event of default. The bank's Ca foreign-currency deposit rating is constrained by the respective ceiling for foreign-currency deposits in Ukraine.

FUIB's ca baseline credit assessment (BCA) reflects the very weak liquidity conditions of the bank resulting in a distressed exchange of its bonds in December 2014. 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.

On 4 December 2014 FUIB agreed with its creditors to restructure the bank's \$250 million Eurobonds due on 31 December 2014. Based on the agreed terms, the maturity of the bonds was extended to year-end 2018 with quarterly amortization. The 11% coupon rate remained unchanged. FUIB made a partial redemption of the bonds amounting to \$44.9 million. Although the proposed transaction presumes par-to-par debt exchange, Moody's estimates that the extension of the repayment results in about 35% losses for the bondholders based on the net present value of the amended cash flows.

FUIB'S RATINGS ARE CONSTRAINED BY UKRAINE'S MACRO PROFILE OF "VERY WEAK -"

With almost all of its assets in Ukraine, the bank's risk profile is heavily determined by the country's sharp economic recession in 2014 and the contraction expected in 2015, combined with elevated uncertainties as to the timing and strength of an economic recovery next year due to the country's high susceptibility to geopolitical and external vulnerability risks. The sharp decline in the value of the currency is exerting acute pressure on Ukrainian banks' asset quality and capital buffers. Political uncertainty and the economic crisis have also contributed to significant levels of volatility in the system's deposit base.

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

The bank's deposit ratings carry a negative.

What Could Change the Rating - Up

We consider that upwards rating pressure is unlikely in the near term given that the ratings carry a negative outlook. Improvement in operating environment reflected in upward movement of sovereign ratings could lead to the bank's ratings upgrade.

What Could Change the Rating - Down

A default on its deposits or bonds causing investors higher losses than anticipated, or a downward adjustment of sovereign ratings and respective country ceilings, would result in FUIB's ratings downgrade.

DETAILED RATING CONSIDERATIONS

GEOPOLITICAL TENSIONS NEGATIVELY AFFECT OPERATING ENVIRONMENT IN UKRAINE, PRESSURING THE FUNDAMENTALS OF DOMESTIC BANKS

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 continuing, sharp deterioration in the country's macroeconomic conditions, alongside substantial and persistent volatility in operating environment, will continue to exert acute pressure on Ukrainian financial

institutions financial fundamentals.

With the economy likely to contract by 5.5% this year, following a retrenchment of 6.9 % in 2014, we expect Ukrainian financial institutions' asset quality and capital positions to erode further this year. Capital buffers have already come under significant pressure. In the absence of additional equity injections from shareholders, capital levels will decline further given the anticipated rise in problem loans. Asset quality pressure is exacerbated by the 40% depreciation of the Ukrainian hryvnia against the US dollar between 1 January and 1 March 2015. This is because around 40% of the bank loans in Ukraine are denominated in FC (mostly in US dollar) and a significant portion the FC borrowers have no export revenues to protect themselves against the impact of a weaker currency on debt servicing costs. The steep rise in the cost of funding due to the National Bank of Ukraine's efforts to stabilise the currency is also weighing heavily on interest margins, contributing to banks' losses. According to the National Bank of Ukraine's recent monthly report, the average regulatory capital adequacy ratio (CAR) for Ukrainian banks fell below the 10% minimum in February, declining thereafter to 7.4% at 1 March 2015 (from 15.6% at year-end 2014), illustrating the urgency of recapitalising Ukraine's fragile banking system.

Ukrainian banks' funding and liquidity profiles are also under intense pressure amid the currency crisis and severe social and political tensions. Banks have weathered the substantial withdrawals to date because the National Bank of Ukraine has provided LC liquidity support and issued some controls on withdrawals from foreign currency deposits.

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 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.

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.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard 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

| | |
|-------------------------------|--------------------|
| Macro Factors | |
| Weighted Macro Profile | Very Weak - |

| Financial Profile | | | | | | |
|--|-----------------------|-----------------------------|---------------------|-----------------------|-----------------------------------|----------------------|
| Factor | Historic Ratio | Macro Adjusted Score | Credit Trend | Assigned Score | Key driver #1 | Key driver #2 |
| Solvency | | | | | | |
| Asset Risk | | | | | | |
| <i>Problem Loans / Gross Loans</i> | 26.0% | caa3 | ← → | ca | Expected trend | |
| Capital | | | | | | |
| <i>TCE / RWA</i> | 16.6% | caa1 | ↓↓ | ca | Stress capital resilience | |
| Profitability | | | | | | |
| <i>Net Income / Tangible Assets</i> | 1.4% | caa2 | ↓↓ | caa2 | Loan loss charge coverage | |
| Combined Solvency Score | | caa2 | | ca | | |
| Liquidity | | | | | | |
| Funding Structure | | | | | | |
| <i>Market Funds / Tangible Banking Assets</i> | 14.4% | caa2 | ← → | caa2 | Extent of market funding reliance | |
| Liquid Resources | | | | | | |
| <i>Liquid Banking Assets / Tangible Banking Assets</i> | 27.5% | caa2 | ← → | caa2 | Quality of liquid assets | |
| Combined Liquidity Score | | caa2 | | caa2 | | |

| | |
|--------------------------------------|-------------------|
| Financial Profile | ca |
| Qualitative Adjustments | Adjustment |
| Business Diversification | 0 |
| Opacity and Complexity | 0 |
| Corporate Behavior | 0 |
| Total Qualitative Adjustments | 0 |
| Sovereign or Affiliate constraint | Ca |
| Scorecard Calculated BCA range | caa3 - c |
| Assigned BCA | ca |
| Affiliate Support notching | 0 |
| Adjusted BCA | ca |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency rating | Foreign Currency rating |
|------------------|-----------------------------|---------------------|-------------------------------|-----------------------------|-----------------------|-------------------------|
| Deposits | 1 | 0 | caa3 | 0 | Caa3 | Ca |

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on <http://www.moody's.com> for the most updated credit rating action information and rating history.



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