

Global Credit Research - 15 Apr 2014

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/--
Bank Financial Strength	E
Baseline Credit Assessment	caa3
Adjusted Baseline Credit Assessment	caa3
Bkd Senior Unsecured	Caa3

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Key Indicators

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

	[2]12-12	[2]12-11	[2]12-10	[2]12-09	[2]12-08	Avg.
Total Assets (UAH million)	27,751.9	29,804.3	25,648.0	15,918.1	17,789.2	[3]11.8
Total Assets (USD million)	3,447.4	3,720.9	3,219.1	1,987.3	2,317.8	[3]10.4
Tangible Common Equity (UAH million)	4,413.1	4,126.6	3,675.8	2,620.5	3,025.9	[3]9.9
Tangible Common Equity (USD million)	548.2	515.2	461.3	327.2	394.3	[3]8.6
Net Interest Margin (%)	3.8	3.3	3.8	5.8	6.2	[4]4.6
PPI / Average RWA (%)	2.8	2.8	2.9	-	5.6	[5]3.5
Net Income / Average RWA (%)	1.1	2.2	3.3	-	0.7	[5]1.8
(Market Funds - Liquid Assets) / Total Assets (%)	-11.8	-23.7	-15.1	22.9	31.4	[4]0.7
Core Deposits / Average Gross Loans (%)	87.3	109.3	99.2	38.9	46.1	[4]76.2
Tier 1 Ratio (%)	17.6	16.9	18.1	-	18.3	[5]17.7
Tangible Common Equity / RWA (%)	17.2	16.7	21.7	-	18.1	[5]18.4
Cost / Income Ratio (%)	57.8	58.2	57.1	36.2	38.0	[4]49.5
Problem Loans / Gross Loans (%)	27.1	30.8	35.1	40.7	15.3	[4]29.8
Problem Loans / (Equity + Loan Loss Reserves) (%)	69.6	76.8	84.5	104.7	53.7	[4]77.9

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 09 April 2014 Moody's Investors Service has today taken rating actions on 12 Ukrainian banks and one leasing company following the weakening of Ukraine's credit profile reflected in Moody's downgrade on 4 April 2014 of the Ukrainian government bond rating to Caa3 (negative) from Caa2 (negative). The rating action on the financial institutions also follows the related adjustments to the foreign-currency deposit ceiling to Ca from Caa3 and to the foreign-currency bond ceiling to Caa2 from Caa1. Moody's has assigned negative outlooks to all affected banks' ratings. Specifically, Moody's has:

- (1) lowered the baseline credit assessments (BCAs) of 11 Ukrainian banks;
- (2) downgraded the local-currency deposit ratings and local and foreign-currency debt ratings of 10 banks and one leasing company in Ukraine;
- (3) affirmed the local-currency deposit ratings and local and foreign-currency debt ratings and the NSRs of two Ukrainian banks;
- (4) downgraded the National Scale Ratings (NSR) of eight Ukrainian banks and one leasing company.

At the same time, the rating agency has downgraded the foreign-currency deposit rating of twelve Ukrainian banks due to the lowering of the country ceiling on foreign-currency deposit ratings to Ca. Moody's adds that the local-currency bank deposit and bond ceiling of Caa1 remain unchanged. These ceilings cap the maximum ratings that can be assigned to banks and other issuers domiciled in the country.

First Ukrainian International Bank's (FUIB) ratings were affected as follows:

- BFSR of E affirmed, now equivalent to a caa3 BCA (formerly caa2)
- Long-term local-currency deposit rating downgraded to Caa3 from Caa2
- Long-term foreign-currency deposit rating downgraded to Ca from Caa3
- Long-term foreign-currency senior unsecured debt rating downgraded to Caa3 from Caa2
- NSR downgraded to Caa3.ua from B3.ua
- The BFSR and the NSR carry no specific outlook; all the long-term global-scale ratings carry a negative outlook

Rating Drivers

- Exposure to Ukraine's weak and volatile economic environment
- Profitability will weaken as operating environment becomes more challenging
- Weak asset quality
- Satisfactory capital adequacy
- Acceptable liquidity profile
- Established franchise

Rating Outlook

The BFSR and the NSR carry no specific outlook; all the long-term global-scale ratings carry a negative outlook

What Could Change the Rating - Up

An improvement in Ukraine's credit-risk profile could have positive rating implications.

What Could Change the Rating - Down

A deterioration in the bank's operating environments, further deterioration in Ukraine's credit risk profile and/or a weakening of the banks' standalone financial fundamentals could exert downward pressure on the ratings.

DETAILED RATING CONSIDERATIONS

EXPOSURE TO UKRAINE'S WEAK AND VOLATILE OPERATING ENVIRONMENT

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.

PROFITABILITY WILL WEAKEN AS OPERATING ENVIRONMENT BECOMES MORE CHALLENGING

FUIB reported a net income of UAH554.8 million for 2013, twice bigger than in 2012. This resulted in a RoA of 1.8%. However we expect the bank's profitability to come under pressure in the short-to-medium term as economic conditions deteriorate, leading to higher problem loans and limited business volumes.

WEAK ASSET QUALITY

FUIB's problem loans (defined as individually and collectively impaired loans under IFRS) accounted for 20% of total loans as of YE2013, down from 27% at YE2012. Loan loss reserves of 11.1% as of YE2013 will have to increase in the near-term to cover all expected credit losses, especially as economic conditions continue to weaken.

SATISFACTORY CAPITAL ADEQUACY

The bank's capital position is adequate, with a Basel 1 Tier 1 ratio and total Capital Adequacy Ratio of 18% and 21%, respectively, at YE2013 according to the bank's IFRS report. This provides a reasonable cushion against higher loan loss changes that we expect to occur in the near-to-medium term. A key challenge for FUIB's capital adequacy may be a further material weakening in Ukraine government's credit quality to which the bank has a sizable exposure (government bonds accounted for about half of the bank's Tier 1 equity at YE2013).

ACCEPTABLE LIQUIDITY PROFILE TO DATE

FUIB is predominantly funded by customer accounts and deposits. The bank doesn't have to make any significant repayments on international debt till 2014 due to the restructuring agreements reached in 2009. The largest repayment of international debt on bank's Eurobonds in the amount of \$252,488 million (less than 10% of liabilities as at YE 2012) is due in December 2014. As of YE2013 liquid assets accounted for about a quarter (about 17% excluding government bonds) of the bank's total assets. This cushion of liquidity, coupled with moderate funding concentration renders acceptable liquidity profile.

ESTABLISHED FRANCHISE

In 2011 FUIB finished its merger with Dongorbank and as a result improved its market shares and regional coverage. The bank is focused on corporate and SME lending, which collectively account for 72% of its loan portfolio as at YE2013. FUIB has established relationships with a number of large companies with relatively good credit quality. Merger with Dongorbank allowed the bank to acquire new corporate and retail customers and diversify its franchise. Although the bank has developed its retail lending, its contribution to net income still remains moderate.

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)

The rating is based on FUIB's caa2 standalone credit strength and does not factor any external support.

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]	--	--	--	--	--		
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
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	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
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)		3.35%					
Net Income % Average RWA (Basel I)	2.64%						
Factor: Liquidity						C-	Neutral
(Market Funds - Liquid Assets) % Total Assets	-16.87%						
Liquidity Management					x		
Factor: Capital Adequacy						A	Neutral

Tier 1 Ratio (%) (Basel I)	20.66%						
Tangible Common Equity % RWA (Basel I)	21.85%						
Factor: Efficiency						C	Neutral
Cost / Income Ratio			57.71%				
Factor: Asset Quality						E	Neutral
Problem Loans % Gross Loans					30.98%		
Problem Loans % (Equity + LLR)					76.97%		
Lowest Combined Financial Factor Score (9%)						E	
<i>Economic Insolvency Override</i>						Neutral	
Aggregate BFSR Score						D-	
Aggregate BCA Score						ba3	
Assigned BFSR						E	
Assigned BCA						caa3	

[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.



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