

12 Nov 2020 | Rating Changed Outlook to Stable

## Fitch Revises First Ukrainian International Bank's Outlook to Stable; Affirms IDR at 'B'

---

Fitch Ratings-Moscow-12 November 2020:

Fitch Ratings has revised Joint Stock Company First Ukrainian International Bank's (FUIB) Outlook to Stable from Negative. Its Foreign and Local-currency Long-Term Issuer Default Ratings (IDRs) have been affirmed at 'B'.

### Key Rating Drivers

#### IDRs AND VIABILITY RATING

The revision of the Outlook to Stable reflects Fitch's expectation that FUIB's strong profitability should be sufficient to absorb moderate asset-quality deterioration in the medium term and the bank's capital buffer will remain comfortable, even in light of planned high dividend pay-outs. The impact of the coronavirus pandemic and associated lower economic activity in Ukraine on the bank's financial profile have been limited to date and the asset-quality deterioration has not been as severe as we had expected earlier in the year.

The Long-Term IDRs of FUIB are driven by its standalone strength, as reflected in its Viability Rating (VR) of 'b'. The ratings consider a challenging operating environment in Ukraine and the unseasoned nature of FUIB's portfolio of unsecured retail loans, which was the main driver of the bank's growth in recent years. These risks are counterbalanced by the bank's healthy profitability and capitalisation metrics and a stable funding profile.

FUIB's asset-quality metrics improved in 2020 due to large write-offs of legacy problem loans (amounting to 6% of loan book). Impaired loans (Stage 3 and purchased or originated credit-impaired (POCI), under IFRS 9) declined to 19% of gross loans at end-9M20 from 21% at end-2019 and were adequately reserved by 91% by total loan loss allowances (LLAs). FUIB's Stage 2 loans added another 5% of gross loans at end-9M20, almost equally split between corporate and retail exposures. Our base case assumes that the phasing out of debt-relief measures in September will not result in a rapid increase in FUIB's impaired loans.

The quality of FUIB's corporate loan book is undermined by a large volume of legacy impaired loans that were originated during the crises of 2008-2009 and 2014-2015. The majority of these are

almost fully reserved and only limited recoveries are expected by the bank's management. Payment holidays on loan principal granted by FUIB to its corporate borrowers in 2020 in response to the pandemic were selective in nature and expired at end-September.

Economic activity has been gradually recovering in 3Q20 and according to FUIB's management, the majority of borrowers returned to their payment schedules. Fitch has identified only three potentially high-risk exposures in the bank's 25-largest groups of borrowers (which constituted 47% of gross corporate loans at end-1H20) that are not classified as impaired by the bank. The three high-risk borrowers were equal to a moderate 13% of the bank's Fitch Core Capital (FCC), net of specific reserves.

The quality of the retail loan book is untested, given FUIB's rapid growth in unsecured consumer finance and credit cards in recent years (47% in 2018 and 31% in 2019). Growth moderated in 9M20 to 7% (annualised), affected by the health crisis and weaker demand. Prudent underwriting of the retail lending helped FUIB to maintain its cost of risk below 5% in 9M20. Loans granted payment holidays were not material and these loans were classified as Stage 2, constituting 5% of gross retail loans at end-3Q20 or 6% of FCC, net of specific LLAs.

Profitability is a rating strength for FUIB. Its operating profit to risk-weighted assets (RWAs) was a strong 7.1% in 9M20 (annualised), helped by a wide net interest margin of 13.8%. Payment holidays did not affect the quality of earnings, as interest payments continued during the moratorium on principal payments. Non-interest income declined in 2Q20 because of lower economic activity, but recovered later in 3Q20, driving non-interest income-to-gross revenues to a reasonable 24% in 9M20 (29% in 2019). FUIB's pre-impairment profitability remained solid at 11% of average loans (annualised) in 9M20 and sufficient to absorb increased impairment charges during the same period (2.8% of average loans versus 0.6% in 2019).

Capital has remained strong with FCC-to-RWAs at 19% at end-9M20, despite high distribution of dividends in 2Q20 amounting to UAH2 billion (or 5% of end-2019 RWAs). Regulatory Tier 1 and total capital ratios stood at 14.5% and 18.7%, respectively, at end-9M20, comfortably above the regulatory minimums of 7% and 10%, respectively. FUIB's dividend policy anticipates a 50% pay-out ratio starting from 2021, while retained earnings should be sufficient to maintain healthy capital buffers.

FUIB's funding profile is dominated by customer accounts at 91% of liabilities at end-9M20, almost equally split between corporate and retail clients. Corporate deposits are volatile and highly dependent on related parties (forming almost half of total corporate balances at end-9M20), while retail deposits have remained stable over time. The bank's liquidity buffer (cash and short-term interbank placements) was robust, at 30% of total customer deposits, net of repayments of

short-term interbank debt. Unpledged sovereign debt securities added another 21%, but are considered a reliable source of liquidity, as local repo limits can be tight.

#### NATIONAL RATING

FUIB's National Long-Term Rating of 'AA-(ukr)' reflects the bank's creditworthiness relative to Ukrainian peers'. The revised Outlook reflects the bank's resilient financial profile.

#### SUPPORT RATING AND SUPPORT RATING FLOOR

FUIB's Support Rating of '5' and Support Rating Floor (SRF) of 'No Floor' reflect Fitch's opinion that support from the Ukrainian authorities cannot be relied upon in case of need, due to the bank's limited market share and systemic importance. FUIB was added to the National Bank of Ukraine's (NBU) list of systemically important banks in 2019. This effectively means the gradual implementation of additional capital, liquidity and other regulatory buffers over the current regulatory minimum levels starting in 2020, while the bank cannot rely on extraordinary support from authorities, as stated by the NBU. Support from the bank's private shareholders is also not factored into the ratings.

#### RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A marked weakening of FUIB's capitalisation either due to a return to aggressive loan expansion or through material asset-quality deterioration, with FCC declining below 13%, or regulatory capital ratios falling below a 1% buffer over the minimum levels.
- Significant weakening of earnings, including operating profit-to-RWAs declining to 2% or below.
- FUIB's impaired loan trends rising to historical levels, edging closer to a four-year average of 30%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Upgrade of FUIB's ratings is currently unlikely, and would require an upgrade of Ukraine's sovereign ratings, as well as notable improvements in the operating environment.

#### Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in

a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

#### REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

#### ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

JOINT STOCK COMPANY FIRST UKRAINIAN INTERNATIONAL BANK; Long Term Issuer Default Rating; Affirmed; B; Rating Outlook Stable  
; Short Term Issuer Default Rating; Affirmed; B  
; Local Currency Long Term Issuer Default Rating; Affirmed; B; Rating Outlook Stable  
; Local Currency Short Term Issuer Default Rating; Affirmed; B  
; National Long Term Rating; Affirmed; AA-(ukr); Rating Outlook Stable  
; Viability Rating; Affirmed; b  
; Support Rating; Affirmed; 5  
; Support Rating Floor; Affirmed; NF

#### Contacts:

Primary Rating Analyst

Artem Beketov,

Associate Director

+7 495 956 9932

Fitch Ratings CIS Ltd

Business Centre Light House, 6th Floor 26 Valovaya St.

Moscow 115054

Secondary Rating Analyst

Konstantin Alekseenko,

Associate Director

+7 495 956 2401

Committee Chairperson

Mahin Dissanayake,

Senior Director

+44 20 3530 1618

Media Relations: Louisa Williams, London, Tel: +44 20 3530 2452, Email:

[louisa.williams@thefitchgroup.com](mailto:louisa.williams@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

### **Applicable Criteria**

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub. 08 Jun 2020\)](#)

### **Additional Disclosures**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Status](#)

[Endorsement Policy](#)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER

PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports

are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

---

**ENDORSEMENT POLICY** - Fitch's approach to ratings endorsement so that ratings produced

---

outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.