MOODY'S INVESTORS SERVICE

Credit Opinion: Credit Dnepr Bank

Global Credit Research - 26 Sep 2013

Dnipropetrovsk, Ukraine

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits -Fgn Curr	*Caa2/NP
Bank Deposits -Dom Curr	*Caa1/NP
NSR Bank Deposits -Dom Curr	**Ba3.ua/--
Bank Financial Strength	E
Baseline Credit Assessment	(caa1)
Adjusted Baseline Credit Assessment	(caa1)

* Rating(s) within this class was/were placed on review on September 25, 2013
** Placed under review for possible downgrade on September 25, 2013

Contacts

Analyst	Phone
Armen L. Dallakyan/London	44.20.7772.5454
Elena Redko/Moscow	7.495.228.6060
Yves Lemay/London	44.20.7772.5454

Key Indicators

Credit Dnepr Bank (Consolidated Financials)[1]

	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	**Avg.**
Total Assets (UAH million)	**7,901.0**	**8,287.6**	**6,148.3**	**4,933.5**	**4,038.0**	[3]**18.3**
Total Assets (USD million)	**981.5**	**1,034.7**	**771.7**	**615.9**	**526.1**	[3]**16.9**
Tangible Common Equity (UAH million)	**416.5**	**656.0**	**651.8**	**627.6**	**625.7**	[3]**-9.7**
Tangible Common Equity (USD million)	**51.7**	**81.9**	**81.8**	**78.4**	**81.5**	[3]**-10.7**
Net Interest Margin (%)	**1.6**	**2.9**	**2.8**	**2.8**	**5.6**	[4]**3.1**
PPI / Average RWA (%)	**-0.4**	**1.1**	**2.2**	**2.7**	**6.8**	[5]**2.5**
Net Income / Average RWA (%)	**-4.5**	**0.1**	**0.8**	**0.3**	**3.2**	[5]**0.0**
(Market Funds - Liquid Assets) / Total Assets (%)	**-17.1**	**-7.7**	**-5.7**	**-3.1**	**0.6**	[4]**-6.6**
Core Deposits / Average Gross Loans (%)	**112.1**	**114.9**	**102.1**	**80.0**	**97.1**	[4]**101.2**
Tier 1 Ratio (%)	**8.1**	**12.0**	**18.1**	**23.3**	**17.7**	[5]**15.8**
Tangible Common Equity / RWA (%)	**8.1**	**12.0**	**18.1**	**23.3**	**19.7**	[5]**16.2**
Cost / Income Ratio (%)	**107.2**	**84.6**	**68.2**	**59.4**	**38.2**	[4]**71.5**
Problem Loans / Gross Loans (%)	**23.1**	**14.3**	**22.3**	**14.5**	**11.9**	[4]**17.2**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**128.7**	**80.4**	**96.0**	**52.7**	**47.5**	[4]**81.1**

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

Rating Rationale

On 25 September 2013 Moody's lowered the baseline credit assessments (BCAs), as well as downgraded the deposit, debt and National Scale Ratings (NSRs)of 14 financial institutions in Ukraine.

At the same time, Moody's placed on review for further downgrade these financial institutions' deposit and debt ratings, and NSRs, of 13 banks (2 banks' deposit ratings were at Caa1 level already) and one leasing company.

Credit Dnepr Bank's ratings were affected as follows:

- BFSR downgraded to E from E+, now equivalent to a caa1 BCA (formerly b3)

- Long-term local-currency deposit rating downgraded to Caa1 from B3

- Long-term foreign-currency deposit rating downgraded to Caa2 from Caa1

- NSR downgraded to Ba3.ua from Baa3.ua

- The BFSR carries a stable outlook; all the other long-term global-scale ratings and NSR were placed on review for downgrade

These rating actions were prompted by the weakening of Ukraine's credit profile, as reflected by Moody's downgrade on 20 September 2013 of Ukraine's government bond rating to Caa1 from B3 and the related adjustments to the country's ceilings, mainly (1) the foreign-currency bank deposit ceiling lowered to Caa2 from Caa1; (2) the local-currency bank deposit and bond ceiling lowered to Caa1 from B2; and (3) the foreign-currency bond ceiling lowered to Caa1 from B3.

These ceilings cap the maximum ratings that can be assigned to banks and other issuers domiciled in the country, thereby prompting the downgrades of the 11 financial institutions and one leasing company. The sovereign ratings were also placed on review for further downgrade, which informs our decision to place the financial institutions' debt and deposit ratings on review for further downgrade.

Rating Drivers

- Exposure to sovereign risk constrains the bank's ratings

- Operating environment is likely to pressure franchise development

- Low margins and higher credit losses will continue to pressure profitability

- Weak internal capital generation could require external capital injection

- Sufficient liquidity buffer

Rating Outlook

The BFSR carries a stable outlook; all the other long-term global-scale ratings and NSR are on review for downgrade.

What Could Change the Rating - Up

The last rating action follows the weakening of Ukraine's credit profile, as reflected by downgrades of the sovereign ratings and country ceilings. A confirmation of the sovereign ratings would lead to a confirmation of the bank's ratings, which are currently placed on review.

What Could Change the Rating - Down

A further downgrade of the sovereign ratings would lead to a downgrade of the bank's ratings.

DETAILED RATING CONSIDERATIONS

Detailed considerations for CDB's currently assigned ratings are as follows:

EXPOSURE TO SOVEREIGN CREDIT RISK CONSTRAINS THE BANK'S RATINGS

Credit Dnepr Bank's standalone credit assessment of b3 is in line with Ukraine's B3 sovereign rating due to the linkage between the bank's credit profile and sovereign credit risk. This reflects the bank's (1) sizeable exposure to Ukraine's government bonds, which accounted for around 20% of the bank's Tier 1 capital at YE2012; and (2) geographical concentration in Ukraine's weak and volatile operating environment. The negative outlook assigned to Credit Dnepr Bank's deposit ratings is in line with the negative outlook on Ukraine's government debt ratings.

OPERATING ENVIRONMENT IS LIKELY TO PRESSURE FRANCHISE DEVELOPMENT

With total assets of UAH7.9billion, Credit Dnepr Bank is a medium-sized local player headquartered in Dnepropetrovsk region. Credit Dnepr Bank is predominantly a corporate bank, with loans granted to corporate and SME customers comprising 93% of the bank's loan portfolio as at year-end 2012. The bank's market share is limited, at around 0.75% for lending and 1% for deposits.

Credit Dnepr bank is beneficiary owned by Mr. Viktor Pinchuk and his family members. Mr. Pinchuk - a well-known Ukrainian businessman - is the founder and main owner of EastOne Group Ltd., an international investment advisory company based in London, and the beneficiary owner of Interpipe Group, one of the world's largest producers of metal pipes and steel wheels.

Because Credit Dnepr Bank's business is concentrated in Ukraine, the bank is exposed to its home market macroeconomic and financial challenges. The weak operating environment is likely to constrain Credit Dnepr Bank's business development and exert negative pressure on the bank's financial metrics. During 2012, the bank's gross loans were flat. In the medium-term we do not expect material changes in the bank's franchise strength.

HIGHER LOAN LOSS RESERVES ARE REQUIRED

According to Credit Dnepr bank's audited IFRS report, individually impaired loans stood at 22% of its loan portfolio at year-end 2012. Loan loss reserves accounted for 8.8% of gross loans, according to the audited IFRS report at year-end 2012. While we consider the bank's asset quality to be stronger than the average for the Ukrainian banks, we still believe that the bank will need to increase its loan loss reserves to cover all expected credit loss stemming from (1) difficult economic conditions, (2) high exposure to FX loans (about 50% of the loan book); and high borrower concentration.

LOW MARGINS AND HIGHER CREDIT LOSSES WILL CONTINUE TO PRESSURE PROFITABILITY

Credit Dnepr bank posted a large net loss of UAH239.5 million for 2012, according to its audited IFRS report. This loss, which resulted to a RoA of -3.03%, was mainly driven by a nearly six-fold increase in loan loss provisions. The bank's earnings were also pressured by growing funding costs and operating expenses. Weakening operating environment will likely continue to exert negative pressure on Credit Dnepr bank's profitability in the short-to-medium term.

WEAK INTERNAL CAPITAL GENERATION COULD REQUIRE EXTERNAL CAPITAL INJECTION

Credit Dnepr Bank reported a Tier 1 ratio (under Basel 1) of 8.1% at YE2012, down from 12% a year earlier and driven by the large losses. The bank's total capital adequacy ratio (CAR) is supported by subordinated capital and was higher at 14.1% at YE2012. The bank's shareholder plans to inject certain amount of funds into equity by September 2013. The exact amount is being negotiated. Nevertheless, we still expect the bank's capital to come under pressure from weak internal capital generation in the medium-term, requiring further capital injections in the near-to-medium term.

SUFFICIENT LIQUIDITY BUFFER

Credit Dnepr bank's liquidity position is adequate, supported by high level of liquid assets and growing deposits. Its customer accounts increased by almost 11% in 2012 and accounted for 80% of total liabilities. Credit Dnepr Bank's funding base mainly comprised customer accounts and remained well-balanced between corporate and retail funds. We would like to note, that the bank's retail deposits, which we consider as more stable source of funding, are growing; whereas deposits from legal entities are decreasing. In response to challenges in the Ukrainian operating environment, the bank has adopted a more conservative approach to liquidity management, maintaining a sufficient liquidity cushion which represented more than 30% of total assets at year-end 2012.

Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metrics.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns Caa1/Not Prime global local currency (GLC) deposit ratings to CDB, based on the bank's caa1 standalone credit assessment.

National Scale Rating

Moody's assigns a Ba3.ua National Scale Rating to CDB. National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks.

Foreign Currency Deposit Rating

CDB's foreign currency deposit rating of Caa2 is in line with the sovereign ceiling for Ukraine.

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

Credit Dnepr Bank

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						**D-**	**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+**	**Weakening**
Economic Stability					**x**		
Integrity and Corruption					**x**		
Legal System				**x**			

Financial Factors (30%)						**D**	
Factor: Profitability						**E+**	**Neutral**
PPI % Average RWA (Basel I)				0.97%			
Net Income % Average RWA (Basel I)					-1.22%		
Factor: Liquidity						**B**	**Neutral**
(Market Funds - Liquid Assets) % Total Assets	-10.17%						
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Weakening**
Tier 1 Ratio (%) (Basel I)	12.73%						
Tangible Common Equity % RWA (Basel I)	12.72%						
Factor: Efficiency						**E**	**Weakening**
Cost / Income Ratio					86.68%		
Factor: Asset Quality						**E**	**Neutral**
Problem Loans % Gross Loans					19.89%		
Problem Loans % (Equity + LLR)					101.68%		
Lowest Combined Financial Factor Score (9%)						**E**	
Economic Insolvency Override						**Neutral**	
Aggregate BFSR Score						**D-**	
Aggregate BCA Score						**ba3**	
Assigned BFSR						**E**	
Assigned BCA						**caa1**	

[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.

© 2013 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.