Fitch Revises FIBank's Outlook to Negative; Affirms IDR at 'BB-' Ratings

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Fitch Ratings-London/Milan-19 September 2008: Fitch Ratings has today changed Bulgaria-based First Investment Bank's (FIBank) Outlook to Negative from Stable. Its other ratings are affirmed at Long-term Issuer Default (IDR) 'BB-' (BB minus), Short-term IDR 'B', Individual 'D', Support '5' and Support Rating Floor 'No Floor'.

The Outlook change reflects the challenges that FIBank is facing in the current market environment in terms of attracting new long-term funding and capital at an acceptable cost and refinancing its existing obligations in full. As a result, FIBank's prospects in terms of both profitability and market share could well be negatively impacted.

"In the event that FIBank is unable to refinance its existing obligations in full, consisting primarily of a EUR185m one-year syndicated loan with a one-year put/call option maturing in October 2008, and/or attract new funding and capital on suitable terms, the bank will be unable, or at the very least severely limited, in its ability to grow its balance sheet", says Lindsey Liddell, Director in Fitch's Financial Institutions Department, "This, in turn, will dampen FIBank's profitability and therefore also its internal capital generation, and will likely lead to an erosion of its market shares."

Fitch comments that the bank's market shares and performance ratios have already shown some signs of weakening in H108. These trends follow a EUR200m Eurobond repayment in January 2008, combined with market conditions that have deterred FIBank from tapping the capital markets for the new long-term funding and capital it needs to grow its balance sheet. As a result, the bank has been forced to curb loan growth (just 1% in H108 from 62% in 2007) in order to maintain sufficient liquidity. FIBank's liquidity is adequate but should be viewed in light of the bank's upcoming financing needs and contractually short-term customer deposit base. The need to hold sufficient liquidity has become even more acute following the small run on customer deposits experienced by the bank in May 2008, which, although fairly swiftly reversed, saw customer deposits fall by 5.6% overall in H108. However, the customer deposit base has risen since end-June 2008 and is above its end-2007 levels, although Fitch notes that the bank is pricing at the higher end of the market.

FIBank's ratings reflect the bank's good franchise, diversified customer deposit base, acceptable risk management framework and solid fee income. Additionally, asset quality ratios remain acceptable and market risk is limited. However, the ratings also consider the bank's still-high borrower concentration.

Downward rating pressure would result from FIBank's inability to refinance obligations and grow its balance sheet and the negative impact this would have on its performance indicators and market shares. Ratings upside is limited in the medium term.

Founded in 1993, FIBank was the sixth-largest bank in Bulgaria by total assets at end-H108. It had market shares of 6.2% and 6.9% of banking sector assets and deposits, respectively. It is the largest remaining Bulgarian-owned bank. Ultimate control of the bank is in the hands of its two founding shareholders, individuals with significant interests in tourism and real estate. FIBank is partially listed on the Sofia Stock Exchange. It has a small subsidiary bank in Albania.

A credit update on FIBank will be available shortly on the agency's subscription website, 'www.fitchresearch.com' under Financial Institutions/Banks/Summary Pages.

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