



Fitch Affirms First Investment Bank AD at 'BB-'; Downgrades VR to 'b' Ratings Endorsement

Policy

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Fitch Ratings-London/Moscow-01 March 2012: Fitch Ratings has affirmed First Investment Bank AD's (FIBank) Long-term Issuer Default Rating (IDR) at 'BB-' with a Stable Outlook, and removed it from Rating Watch Negative (RWN). At the same time, FIBank's Viability Rating has been downgraded to 'b' from 'b+'. A full list of rating actions is at the end of this comment.

The affirmation of FIBank's Long-term IDR, its Support Rating of '3' and Support Rating Floor of 'BB-', reflects Fitch's view that there remains a moderate probability of support from the Bulgarian authorities in case of need. The ratings were placed on RWN in December 2011, pending a review of the authorities' willingness to support the bank. This review was undertaken because of concerns that weaknesses in FIBank's corporate governance could undermine the propensity of the authorities to provide support.

Following discussions with the Bulgarian National Bank, Fitch understands that the propensity of the authorities to support FIBank, as a systemically important bank, remains strong. FIBank is the fifth-largest bank in Bulgaria, with an 8% market share in assets and loans, and the second-largest retail deposit taker with a 14% market share.

In assessing the probability of support, Fitch also views favourably the country's low government debt (Fitch forecasts to be under 17% of GDP at end-2011), significant available fiscal reserves (7% of GDP at end-October 2011) and the relatively small size of FIBank's balance sheet (total assets equal to 7% of GDP). Fitch also notes that the bank's uninsured liabilities, in respect to which the authorities would take the decision on support, comprised a low proportion of non-equity funding at end-2011. Furthermore, a majority of the uninsured liabilities are customer deposits, which Fitch understands have primarily been placed by domestic clients.

The downgrade of the VR reflects increasing signs of weakness in the bank's asset quality. Renegotiated loans, where the original terms of the loans were changed, not necessarily because of a delay in repayment, increased significantly as of end-2011 compared to end-2010, and Fitch understands that loans to the majority of the largest 20 borrowers have now been rolled over or renegotiated. The loan book remains highly concentrated (with the largest 20 exposures equal to more than 3x equity) and illiquid, with limited amortisation of the largest loans in 2011. Loans extended in H111 to finance a metals plant acquisition still comprised about 0.7x bank-only equity at end-2011. Exposures overdue by more than 90 days were a moderate 5.8% of total gross loans on an unconsolidated basis at end-2011 (reflecting Fitch's view of widespread loan renegotiating), while watch loans (overdue between 30 and 90 days) stood at 9.5%.

Weak corporate governance and moderate capitalisation also continue to weigh on the VR. In Fitch's view, the risk of related-party or relationship lending is high, due to the incomplete disclosure of the shareholder structure, the majority shareholders' other interests in capital-intensive businesses (in particular, tourist infrastructure) and the quite high-risk nature of some loan exposures. The bank-only Fitch core capital ratio was 10.3% at end-2011, but unreserved loans overdue by 30 days or more slightly exceeded core capital.

At the same time, the VR is supported by the strong retail deposit franchise, the virtual absence of refinancing risk and the bank's currently comfortable liquidity.

FIBank is majority owned by two Bulgarian businessmen, who each directly control a 29% stake. A further 27% is held by three offshore companies, and the remaining shares are widely held on the Sofia stock exchange.

The rating actions are as follows:

Long-term IDR: affirmed at 'BB-', removed from RWN, Outlook Stable

Short-term IDR: affirmed at 'B'

Viability Rating: downgraded to 'b' from 'b+'

Support Rating: affirmed at '3', removed from RWN

Support Rating Floor: affirmed at 'BB-', removed from RWN

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Global Financial Institutions Rating Criteria' dated 16 August 2011, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria

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