

FITCH AFFIRMS FIRST INVESTMENT BANK AD AT 'BB-'; OUTLOOK STABLE

Fitch Ratings-London/Moscow/Barcelona-14 September 2011: Fitch Ratings has affirmed Bulgaria-based First Investment Bank AD's (FIBank) Long-term Issuer Default Rating (IDR) at 'BB-', with a Stable Outlook. A full list of rating actions is at the end of this release.

The affirmation of the bank's IDRs and Support Rating reflect Fitch's view of the moderate probability of support from the Bulgarian public authorities, if needed. This view is based on the fact that FIBank is the largest Bulgarian-owned bank, and at end-H111 was the second-largest bank in the system in terms of retail deposits.

The bank's 'b+' Viability Rating reflects its not strong corporate governance, large loan concentrations, potential weaknesses in underlying asset quality and moderate capitalisation. The rating also considers the strong retail deposit franchise, the virtual absence of refinancing risk and the agency's expectation that the Bulgarian operating environment will gradually improve.

FIBank is majority owned by two Bulgarian businessmen, (Mr Tzeko Minev and Mr Ivaylo Mutafchiev), who each control a 29% stake. A further 27% is held by three offshore companies, where nominal and beneficial owners are not publicly disclosed. In Fitch's view, the risk of related party or relationship lending is high in light of the incomplete disclosure of the shareholder structure, the majority owners' other interests in capital intensive businesses (in particular, tourist infrastructure), the generally possibly not strong corporate governance and the quite high risk nature of some loan exposures. However, reported related party loans were a low 5.9% of Fitch core capital in the end-H111 IFRS accounts.

Non-performing loans (NPLs, loans past-due over 90 days) comprised 4.9% of the total book (on an unconsolidated basis) at end-H111, which is considerably lower than the Bulgarian banking system average of 13.5%. However, other indicators suggest potentially weaker underlying asset quality. Watch loans - loans overdue between 30 and 90 days - equated to a high 8% of total gross loans at end-H111. This ratio has remained broadly flat in recent quarters, suggesting significant loan renegotiating, although the bank reported a drop in the level of renegotiated loans as of end-H111. The ratio of accrued interest to total interest income was 12.6% in H111, suggesting some weakness in underlying loan performance. Impairment reserves were a moderate 2.8% of loans, which provided 51.1% coverage of NPLs, but only 20.5% coverage of NPLs and watch loans, combined.

FIBank has high borrower concentration, in part reflecting its focus on corporate lending, with the largest 20 borrowers accounting for 267% of equity at end-H111. During H111, FIBank added long-term exposures, in total equal to 71.3% of equity, relating to the acquisition of a metals plant in Bulgaria.

FIBank's strong retail deposit franchise is a rating positive. While in the past deposits have been collected at above market interest rates, rates have been falling recently, reflecting declining funding costs. Performance has improved in H111 largely due to increasing revenues from the growing loan book. This has supported the bank's cost to income ratio, although this remains weaker than at peers.

FIBank's capitalisation is moderate given the risk concentrations and low reserve coverage, with Fitch core capital and regulatory Tier 1 ratios of 9.9% and 10.2% at end-H111, respectively. The Tier 1 ratio is only just above the level recommended by the Bulgarian Central Bank. The bank issued a EUR20m hybrid instrument in March 2011, which qualifies as Tier 1 capital. However, the positive impact on the Tier 1 ratio was fully offset by the loans issued for the metals plant acquisition, and Fitch cannot exclude the possibility that the two transactions were related.

The rating actions are as follows:

Long-term IDR: affirmed at 'BB-'; Outlook Stable

Short-term IDR: affirmed at 'B'

Viability Rating: affirmed at 'b+'

Individual Rating: affirmed at 'D'

Support Rating: affirmed at '3'

Support Rating Floor: affirmed at 'BB-'

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Additional information is available on www.fitchratings.com

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

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