

Fitch Changes FIBank's Outlook to Stable; Affirms IDR at 'BB-'

Fitch Ratings-London/Milan-20 May 2008: Fitch Ratings has today changed Bulgaria-based First Investment Bank's (FIBank) Outlook to Stable from Positive. 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 Fitch's view of the currently more challenging operating environment for FIBank, which makes it less likely for its Long-term IDR to be upgraded in the short-to medium-term. The general increase in funding costs, both internationally and domestically, coupled with expected modest lending growth for 2008, might result in margin pressure, weaker operating profits and, ultimately, lower internal capital generation.

FIBank's ratings reflect the bank's good franchise, improvements in business diversification, acceptable capitalisation and risk management framework. However, FIBank's ratings still consider some borrower concentration, lower profitability than best performing domestic peers' and a small capital base in absolute terms.

FIBank's Q108 net profit increased by almost 50% yoy, although this strong performance might be difficult to maintain throughout the year. Net interest revenue, the largest contributor to operating revenues, was sound and net interest margin stable over 2007, mainly supported by higher interest rates charged on loans while lending volumes were broadly stable compared to end-2007.

The bank's asset quality is still healthy, with non-performing loans (i.e. overdue by more than 90 days) forming less than 2% of total loans and a coverage ratio that comfortably exceeds 100%. Because of the expected lower asset growth, asset quality ratios might deteriorate.

Since early 2008 the bank has successfully managed to attract local currency customer deposits, thanks to competitive pricing. Funding from customers accounted for 66% of the bank's total funding at end-March 2008. The remainder was primarily in the form of long-term funding from international markets. The bank also successfully repaid EUR200m of Eurobonds in Q108. Interbank funding remains marginal in FIBank's funding strategy.

FIBank's capitalisation is at an acceptable level. Its Tier 1 and total regulatory capital adequacy ratios stood at 9.8% and 14%, respectively, at end-March 2008. To support capitalisation, the bank did not distribute any dividend for 2007 while the total capital ratio was supplemented by BGN96m hybrid securities that qualify as Tier 2 capital under local regulation.

Founded in 1993, FIBank was the sixth-largest bank in Bulgaria by total assets at end-2007. At end-Q108, it had markets shares of 7% and 8% in assets and deposits, respectively. The ultimate control of the bank lies with its two founding shareholders, who have significant interests in the tourism and real estate sectors. FIBank is listed on the Sofia Stock Exchange. It recently set up a 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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