

**Rating Action: DSK Bank PLC**

**Moody's reviews Bulgarian bank ratings**

**DSK Bank's rating also affected by parent bank's downgrade**

Limassol, May 26, 2009 -- Moody's Investors Service has today placed on review for possible downgrade ratings of two Bulgarian financial institutions: DSK Bank AD and First Investment Bank Ltd. This action reflects a review of stresses arising from the current crisis and the increasing convergence between the government's ability to support the banks and its own debt capacity. In the same action, Moody's downgraded DSK Bank's long-term local currency deposit rating due to the downgrade of its parent bank's (OTP Bank of Hungary) ratings.

**RATING ACTIONS ON DSK BANK**

With regards to DSK Bank, Moody's downgraded the bank's long-term local currency deposit rating to Baa2 from Baa1 and placed it on review for further downgrade. It also placed the D+ bank financial strength rating (BFSR, which maps to a Ba1 baseline credit assessment -- BCA) and the Prime-2 short-term ratings on review for possible downgrade. The Baa3/Prime-3 foreign currency deposit ratings were not affected by this action.

Moody's explains that the downgrade of DSK Bank's local currency deposit rating to Baa2 follows Moody's downgrade of OTP Bank (Hungary), DSK Bank AD's parent bank. DSK Bank's deposit ratings incorporate an uplift reflecting a very high probability of support from its parent OTP Bank. Therefore, the downgrade of OTP's BFSR to D+ (mapping to a BCA of Baa3) from C+ (mapping to a BCA of A2) resulted in the downgrade of DSK Bank's deposit rating.

**RATING ACTIONS ON FIRST INVESTMENT BANK**

Moody's placed on review for possible downgrade the D bank financial strength rating, Ba1 long-term local and foreign currency deposit ratings, as well as the Ba1 and Ba2 ratings for senior and subordinated debt assigned to its EMTN programme.

**REVIEW FOR DOWNGRADE**

The review of the Bulgarian banks' BFSR will focus on the likely deterioration of the Bulgarian operating environment and its potential impact on the banks' financial fundamentals. Although currently the system's capitalisation level appears to be adequate, Moody's believes that, with the Bulgarian economy entering recession, the likelihood of corporate defaults is rising and that this is expected to lead to increased losses on the banks' corporate loan portfolios. Moreover, delinquencies in the Bulgarian banks' retail portfolios are also expected to rise, reflecting higher unemployment levels and a likely decline in housing prices -- primarily resulting from reduced foreign investor demand in the country's real estate segment.

"We expect that, the weakened economic conditions in Bulgaria will have an impact on the banks' financial fundamentals, particularly their credit quality, earnings generation and capital levels," says Elena Panayiotou, Moody's lead analyst for the banks. "The review of the BFSRs will focus on assessing the impact of the economic crisis on the banks' financial fundamentals and on their overall creditworthiness," adds Ms. Panayiotou.

"The review of the local currency deposit ratings will look at the extent to which Bulgaria's ability to provide support to its banking system, if needed, is converging with the government's own debt capacity as a result of the ongoing global economic and credit crisis," says Ms. Panayiotou. Moody's has refined its assessment of systemic support available from the Bulgarian state to capture the impact of the erosion of the local economy's underlying credit fundamentals and the low policy flexibility, due to the currency board, on the government's ability to support the banking sector.

Moody's previously used the local currency deposit ceiling (LCDC; Baa1 in the case of Bulgaria) as the main input for its assessment of the ability of a national government to support its banks. Although anchoring the probability of support at the LCDC is appropriate in many circumstances -- regarding the provision of liquidity to a selected number of institutions over a short period of time -- this might overestimate the capacity, and even willingness, of a central bank to support financial institutions in the event of a banking crisis becoming

both truly systemic and protracted. This approach is outlined in the Special Comment entitled "Financial Crisis More Closely Aligns Bank Credit Risk and Government Ratings in Non-Aaa Countries", which was published in May 2009.

Factors that Moody's will consider in its assessment of systemic support include the size of the banking system in relation to government resources, the level of stress in the banking system, the foreign currency obligations of the banking system relative to the government's own foreign exchange resources and changes to the government's political patterns.

#### RATING ACTIONS IN SUMMARY

The detailed rating action are listed below.

DSK Bank:

- long-term local currency deposit rating downgraded to Baa2 from Baa1 and placed on review for further downgrade
- D+ BFSR (mapping to a Ba1 BCA) placed on review for possible downgrade
- Prime-2 short-term rating placed on review for possible downgrade and
- Baa3/Prime-3 long- and short-term foreign currency deposit ratings affirmed

First Investment Bank:

- D BFSR (mapping to a Ba2 BCA) placed on review for possible downgrade
- Ba1 long-term local and foreign currency deposit and senior debt ratings placed on review for downgrade
- Ba2 long-term subordinated debt rating placed on review for possible downgrade

Moody's last rating action on DSK Bank was on 15 January 2009 when it changed the outlook to negative on the D+ BFSR and the Baa1 long-term local currency deposit rating, in line with the change in the credit outlook of the Bulgarian banking system to negative from stable.

Moody's last rating action on First Investment Bank was on 15 January 2009 when it changed the outlook to negative on the D BFSR and the Ba1 long-term local and foreign currency deposit and debt ratings, in line with the change in the credit outlook of the Bulgarian banking system to negative from stable.

The principal methodologies used in rating the banks were "Bank Financial Strength Ratings: Global Methodology" (February 2007) and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" (March 2007), which can be found at [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Credit Policy & Methodologies directory.

DSK Bank AD is headquartered in Sofia and reported consolidated total assets of BGN8.671 billion (EUR4.433 billion) at the end of December 2008.

First Investment Bank LTD is headquartered in Sofia and reported consolidated total assets of BGN4.271 billion (EUR2.183 billion) at the end of December 2008.

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