

Rating Action: First Investment Bank AD

Moody's changes outlook on Bulgaria's banking system to negative

Rating outlook of four Bulgarian banks also changed to negative

Limassol, January 15, 2009 -- Moody's Investors Service has today changed the credit outlook for Bulgaria's banking system to negative from stable. This outlook expresses Moody's expectations for the fundamental credit conditions in the Bulgarian banking system over the next 12 to 18 months.

Moody's has also changed to negative from stable the outlook on the Bank Financial Strength Ratings (BFSRs) and long-term local currency deposit ratings of the following two Bulgarian banks: DSK Bank PLC and Raiffeisenbank (Bulgaria) EAD. Additionally, the outlook on all ratings of First Investment Bank and MKB Unionbank has been changed to negative from stable. The outlook on all ratings of International Asset Bank has also been changed to stable from positive. See below for a detailed list of the ratings affected.

"The change in the credit outlook on Bulgaria's banking system and the outlook on the ratings of individual banks, reflects the weakening operating environment in Bulgaria and expectations that it will have a severe impact on the banks' financial fundamentals, mainly profitability and asset quality," says Elena Panayiotou, a Moody's Analyst, and lead analyst for Bulgarian banks.

Moody's expects the domestic economic growth and activity to slow down significantly in the short-to-medium-term, mostly due to anticipated lower levels of foreign direct investment in the country -- mainly in the construction and the real estate sectors -- a reflection of the global financial conditions which affects investor behaviour. "Moreover, the performance of the export industry and the tourism sectors is expected to deteriorate further, while private consumption is also likely to decline. Subsequently, such weakening economic conditions in Bulgaria are likely to have an impact on the growth prospects and the financial performance of banks operating in the country," adds Ms Panayiotou.

Furthermore, Moody's notes that the financial difficulties faced by the foreign parents of Bulgarian banks in their home countries -- mainly operating in Western European markets -- is expected to impact the level of funds channelled from the parent banks to their Bulgarian subsidiaries but also elevate the costs of these funds. Moreover, fierce competition for customer deposits in Bulgaria is likely to continue to put further pressure on the banks' funding costs, their interest rate margins and hence their profitability levels.

The rating agency notes that the rapid credit expansion that has been taking place in Bulgaria over the recent years, together with the rising levels of consumer indebtedness in the country, has raised concerns about the future performance of the banks' credit portfolios once loans start to season and go through an economic cycle. As Bulgaria's economic environment is expected to weaken and unemployment levels to increase further, Moody's believes that the banks' asset quality metrics will deteriorate, exerting a downward pressure on the banks' earnings, capital cushion and therefore their ratings.

Moody's will continue to closely monitor the ongoing economic crisis and, depending on the severity and longevity of the crisis and on the degree of potential problems in troubled sectors, may downgrade ratings of those Bulgarian banks that exhibit weakened financial strength, particularly in terms of asset quality and profitability.

The change in outlook to negative from stable applies to the following issuers and ratings:

DSK Bank AD

- D+ BFSR

- Baa1 long-term local currency deposit rating

Raiffeisenbank (Bulgaria) EAD

- D+ BFSR

- Baa1 long-term local currency deposit rating

First Investment Bank AD

- D BFSR
- Ba1 long-term local and foreign currency deposit ratings
- Ba1 long-term senior unsecured debt rating
- Ba2 long-term subordinated debt rating

MKB Unionbank AD

- D- BFSR
- Ba1 long-term local and foreign currency deposit ratings

The change in outlook to stable from positive applies to the following issuer and ratings:

International Asset Bank AD

- E+ BFSR
- B1 long-term local and foreign currency deposit ratings

Moody's previous rating action on DSK Bank and Raiffeisenbank (Bulgaria) was on 30 September 2008, when it changed the outlook on the short-term and long-term foreign currency deposit ratings of Baa3/Prime-3 to stable from positive, in line with a similar change in Bulgaria's ceiling for such instruments. Moody's last rating action on First Investment Bank AD (Bulgaria) was on 16 September 2008 when the agency confirmed the issuer's ratings which had been placed on review for possible downgrade, following the short-lived run on customer deposits experienced by the bank during the second week of May that was prompted by rumours about the bank. Moody's previous rating action on International Asset Bank was on 24 April 2007, when it placed a positive outlook on all the bank's ratings. Moody's previous rating action on MKB Unionbank was on 31 July 2007, when it first assigned ratings to the bank. No further rating action has been taken on this institution since then.

The principal methodologies used in rating the banks covered by this press release are "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found on www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating these banks can also be found in the Credit Policy & Methodologies directory.

At the end of September 2008, DSK Bank had total assets of BGN8.766 billion (EUR4.482 billion); Raiffeisenbank (Bulgaria) had total assets of BGN7.160 billion (EUR3.661 billion); First Investment Bank had total assets of BGN 4.229 billion (EUR2.162 billion); MKB Unionbank had total assets of BGN1.410 billion (EUR721 million); and International Asset Bank had total assets of BGN555 million (EUR284 million). All banks are headquartered in Sofia, Bulgaria.

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