Moody's Investors Service

Global Credit Research
Credit Opinion
4 NOV 2008

Credit Opinion: Corporate Commercial Bank AD

Corporate Commercial Bank AD

Sofia, Bulgaria

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Ba3/NP
Bank Financial Strength	D-

Contacts

Analyst	Phone
Elena Panayiotou/Limassol	357.25.586.586
Stathis A. Kyriakides, CFA/Limassol	
Mardig Haladjian/Limassol	

Key Indicators

Corporate Commercial Bank AD

	[1]**2007**	**2006**	**2005**	**2004**	**2003**	**Avg.**
Total Assets (EUR million)	**905.65**	**514.14**	**267.85**	**183.82**	**151.71**	[2]**61.47**
Total Shareholders Equity (EUR million)	**77.25**	**35.50**	**21.93**	**14.58**	**9.35**	[2]**65.93**
Return on Average Assets	**1.67**	**0.86**	**0.99**	**1.29**	**1.20**	**1.20**
Recurring Earning Power [3]	**2.02**	**1.15**	**1.34**	**1.85**	**1.61**	**1.59**
Net Interest Margin	**3.23**	**2.59**	**3.78**	**5.06**	**4.52**	**3.84**
Cost/Income Ratio (%)	**46.57**	**71.55**	**75.08**	**69.11**	**75.40**	**67.54**
Problem Loans % Gross Loans	**0.32**	**0.92**	**--**	**--**	**--**	**0.62**
Equity (%) Assets	**8.53**	**6.91**	**8.19**	**7.93**	**6.16**	**7.54**

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets

Opinion

SUMMARY RATING RATIONALE

Corporate Commercial Bank's (CorpBank) Bank Financial Strength Rating (BFSR) of D-reflects the bank's small presence in Bulgaria as the tenth-largest locally owned bank in the system with around 3% market share in banking assets. Moreover, the rating captures the bank's comfortable capital levels, good liquidity and strong asset quality metrics. Having traditionally focused in corporate banking, the bank's interest rate margins are lower than other banks in the system, and this impacts profitability levels which remain weaker than most of its peers - albeit gradually improving due to increased business volumes. Moreover, the bank has a higher cost of funding compared to its foreign-owned competitors that have been benefiting from access to parental funding at lower costs.

Another major constraint to CorpBank's rating is the high concentration levels evidenced on both sides of the balance sheet, which raise the sensitivity of the institution's funding structure to deposit withdrawals but also elevate the risks associated with the performance of individual borrowers. Moreover, a system-wide feature that constrains upward movement to all Bulgarian banks' ratings is the growing concerns with regard to future credit quality as a result of recent strong credit growth in the developing Bulgarian economy. The ratings are further constrained by Bulgaria's increasingly competitive banking environment which challenges all banks' ability to grow their funding and customer deposit base and continue to fund growth. Moreover, CorpBank's corporate governance assessment is adversely affected by its shareholding structure whereby more than 50% of the bank's share capital is in the hands of one individual and by the key man risk issue, which in our view, is present within the bank. Both factors are captured in the bank's risk positioning assessment and its BFSR.

CorpBank's global local currency (GLC) deposit ratings are set at Ba3/NP and derive from the BCA of Ba3 and Moody's assessment of a low probability of systemic support from the Bulgarian authorities in case of need.

Credit Strengths

- A small but scalable franchise in Bulgaria with good presence in corporate banking

- Good liquidity levels and strong asset quality metrics

- Despite business expansion, capitalization remains at comfortable levels

Credit Challenges

- Funding disadvantage vis-à-vis foreign-owned banks that have access to low-cost funding from parent banks

- Fierce competition combined with CorpBank's higher funding costs compresses interest margins, exerting pressure on profitability

- Sizeable concentration levels on both side of the balance sheet and some corporate governance factors constrain the ratings

- Fast credit growth raises concerns over future performance of loan portfolio as loans start to season and go through an economic cycle

Rating Outlook

All ratings carry a stable outlook.

What Could Change the Rating - Up

The BFSR could be upgraded further if CorpBank eases credit concentrations on both sides of the balance sheet, and expands and diversifies its funding base to support business growth and to achieve further improvements in its profitability levels. Furthermore, positive pressure could be exerted on the rating if the bank makes further inroads in the targeted market segment without unduly elevating its risk profile, while addressing corporate governance matters would ease certain rating constraints.

The bank's GLC deposit rating is unconstrained by Bulgaria's local currency deposit ceiling (LCDC) and would be upgraded in tandem with the bank's BFSR up to Bulgaria's LCDC. The bank's GLC deposit rating could also be upgraded following an increase in the systemic support assumption. CorpBank's Ba3/NP foreign currency deposit ratings are also unconstrained and would mirror the bank's GLC deposit rating up to the country's foreign currency deposit ceiling.

What Could Change the Rating - Down

The BFSR could be downgraded if there is: (i) a material weakening in the bank's deposit franchise dynamics and overall funding base, and/or (ii) a significant deterioration in the bank's credit quality metrics and profitability levels, and/or (iii) a further increase in funding costs, leading to higher pressure on interest rate margins and profitability levels and/or (iv) a further rise in credit concentration levels

Both CorpBank's foreign and local currency deposit ratings are unconstrained by Bulgaria's respective ceilings and any lowering of these ceilings to an extent that would impact the bank's ratings appears very unlikely at present.

Recent Results and Developments

Results for the six months to June 2008 showed the bank's net income growing by a strong 83% year-on-year to BGN20.44 million (EUR10.47 million). This was mostly due to increased business volumes (loans were up by 19% during the 1H of 2008) and declining-albeit- adequate interest rate margins.

Regulatory capital remained at comfortable levels with Tier 1 and total capital totalling 13.2% and 13.7%, respectively, as at-end June 2008.

DETAILED RATING CONSIDERATIONS

Detailed considerations for CorpBank's currently assigned ratings are as follows:

Bank Financial Strength Rating

Corporate Commercial Bank's (CorpBank) Bank Financial Strength Rating (BFSR) of D-reflects the bank's small presence in Bulgaria as the tenth-largest locally owned bank in the system with around 3% market share in banking assets. Moreover, the rating captures the bank's comfortable capital levels, good liquidity and strong asset quality metrics. Having traditionally focused in corporate banking, the bank's interest rate margins are lower than other banks in the system, and this impacts profitability levels which remain weaker than most of its peers - albeit gradually improving due to increased business volumes. Moreover, the bank has a higher cost of funding compared to its foreign-owned competitors that have been benefiting from access to parental funding at lower costs.

Another major constraint to CorpBank's rating is the high concentration levels evidenced on both sides of the balance sheet, which raise the sensitivity of the institution's funding structure to deposit withdrawals but also elevate the risks associated with the performance of individual borrowers. Moreover, a system-wide feature that constrains upward movement to all Bulgarian banks' ratings is the growing concerns with regard to future credit quality as a result of recent strong credit growth in the developing Bulgarian economy. The ratings are further constrained by Bulgaria's increasingly competitive banking environment which challenges all banks' ability to grow their funding and customer deposit base and continue to fund growth. Moreover, some corporate governance issues are captured in the bank's risk positioning assessment and BFSR.

As a point of reference, the assigned D- BFSR is three notches below the C- outcome generated by Moody's bank financial strength rating scorecard and two notches below the adjusted score of D+. This reflects our assessment that currently a D- rating for the bank better reflects the dynamics of Bulgarian developing banking market and CorpBank's expanding position. The assigned rating also considers the bank's low revenue generation and the likelihood that funding costs will remain high as the bank implements its growth strategy. In addition, the assigned rating considers intensifying competition in Bulgaria that is expected to challenge the bank's targets and exert pressure on interest margins, across the board. Moreover, despite the strong asset quality metrics of the bank, we anticipate some deterioration of the system's asset quality particularly during a down cycle. These concerns are exacerbated particularly given the high borrower concentration levels in the bank's books which elevate the sensitivity of the bank's future performance of asset quality under a weakening operating environment.

Qualitative Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

CorpBank has a relatively small banking franchise in Bulgaria with around 3% share in banking assets. Traditionally a corporate-focused bank, the bank is mainly active in some key economic sectors such as energy production and distribution, infrastructure development, export financing, utilities and infrastructure construction, areas in which the bank aims to expand further. Moreover, a key strategic goal is to make further inroads in the SME segment in Bulgaria, a sector has been supported by EU funding. Additionally, leveraging on its good quality of service and its flexibility as a small and efficient bank, CorpBank aims to tap further the domestic private banking business that currently remains underdeveloped.

In our view, the local market will continue to offer good growth opportunities for banks; however, we believe that CorpBank's efforts are likely to be challenged by the other larger banks in the system with long-established presence in the corporate segment. The bank's main competitors, which have a wide clientele base and a larger distribution network, also benefit from access to parental funding and the sharing of expertise and know-how from larger Western European banking groups. Moreover, we note that in light of the intense competition in the Bulgarian market for supporting growth, all banks - but particularly those remaining in the hands of local investors - are challenged to grow and attract customer deposits and to build a strong and sustainable funding base in order to support business expansion. CorpBank's ability to strengthen its corporate portfolio and attract good lending opportunities in the SME sector and private banking, will contribute to its franchise dynamics and its BFSR.

CorpBank's weak geographic diversification - with operations solely based in the small Bulgarian market - and the bank's modest revenues sourced from the retail banking, asset management and fiduciary business (compared to those derived from the corporate banking activities) act as a constraint to the bank's franchise value score.

The bank's score for franchise value is D-.

Factor 2: Risk Positioning

Trend: Neutral

CorpBank's overall risk positioning is moderate. The bank's risk management practices are assessed to be of adequate quality, with adequate involvement of the supervisory board in setting up the risk limits and the overall risk appetite of the institution. Although a set of committees are in place to ensure adherence to limits set once a year by the bank's supervisory board, we note that the bank's organisational structure lacks an integrated risk management function responsible for all types of risks (credit, market and operational risk).

Credit risk monitoring carried out by stress analyses ensure better risk control and oversight. However, the rapid credit growth recorded in recent years entails heightened credit risks, which are partly disguised by Bulgaria's economic growth. In common with other banks, CorpBank's loan portfolio has not been through a full economic cycle; thus the effectiveness of credit vetting procedures and the credibility of assumptions used has yet to be tested during an economic downturn. A more immediate constraint on the bank's BFSR arises from its excessive borrower concentrations. As of end-2007, the bank's 20 largest debtors represented over 300% of the bank's Tier 1 capital. Although we note that this is common for small corporate-focused Bulgarian banks, in our view this raises concerns particularly for institutions that operate in the developing Bulgarian economy, whereby credit exposures have not been tested under adverse economic conditions.

CorpBank's risk positioning assessment is also constrained by corporate governance-related factors. Namely, its corporate governance score is negatively impacted shareholding structure whereby more than 50% of the bank's share capital is in the hands of one individual. Although we see no issue with the depth of management which comprises experienced bankers with many years of service in the field, we believe that the bank's corporate governance assessment is impaired by "key man" risk and the lack of succession planning. The composition of the supervisory board comprises three members, two of which are considered to be independent. Hence, we have no concerns as regards board independence or the related-party exposures, which, although present, comprise an acceptable portion of Tier 1 capital.

Market risk appetite is low and hence does not raise significant concerns for the bank.

Similar to other Bulgarian banks, CorpBank's open position to the euro does not generate currency risk, given the introduction of country's currency board. Nevertheless, the bank may experience currency-induced credit risk during the transition process from the Bulgarian leva to the euro. This will depend on the resilience of the currency board and the government's implementation of the transition to the Euro.

CorpBank publishes financial statements under IFRS on a semi-annual basis, and with effect from 30 June 2008 these reports are being made public twice a year. Public financial information and management analysis provide adequate disclosure regarding the bank's financial and business performance but lack important information on borrower concentration risks and detailed disclosure on performance of business lines. Additionally, more detailed public disclosure of ownership information analysis would further improve transparency.

Regarding liquidity management, this is assessed to be of adequate quality. However, the modest diversification of CorpBank's funding base raises concerns particularly in view of the intense competition among banks to attract funds. In particular, we draw the attention to the large concentration levels in the bank's deposit base with the share of the 20 largest depositors comprising a high 51% of overall deposits as at year-end 2007, while the top five comprised 30%. Based on the behavioural analysis performed internally by the bank, however, these funding resources are regarded as rather stable as they are typically renewed in the bank's books, which again partly address some of our concerns.

The score of D reflects Moody's view on the bank's risk positioning.

Factor 3: Regulatory Environment

Please refer to Moody's Banking System Profile for Bulgaria, published in July 2008, to obtain additional comments on the regulatory environment.

Factor 4: Operating Environment

Trend: Improving

This factor is common to all banks in Bulgaria. The economic stability sub-factor captures the country's economic volatility based on the standard deviation of its nominal GDP growth rate over the past 20 years. The score also takes into account integrity and corruption based the World Bank's Government Effective Index, and also an assessment of the effectiveness of the legal system (based on the ease with which property can be foreclosed). Although the authorities have taken measures to expedite foreclosure, it appears that the process is not applied consistently and delays can still occur. At the same time, the country's weak integrity and corruption scores, and EU reports highlighting corruption in the country have led us to adjust Bulgaria's legal system score to D from C, thereby lowering the country's overall operating environment score to D- from D. For further details, please refer to the Banking System Outlook Bulgaria, published in July 2008.

Quantitative Factors (30%)

Factor 5: Profitability

Trend: Neutral

H1 2008 and FYE2007 financial results showed profitability indicators improving compared to previous years, but remained inferior to those of other Bulgarian banks. This mostly reflects the composition of the bank's balance sheet structure which comprises more liquid but lower-yielding assets. Furthermore, the predominance of corporate loans in CorpBank's book yields relatively lower returns because these companies typically have the ability to shop around. Additionally, in light of the absence of a foreign strategic investor in CorpBank's capital, the bank has no access to parental funding which is reflected in its relatively high cost of funding. During FYE2007, the bank's recurring earning power was approximately 2%, while interest rate margins stood at a low 3.2%.

Fees and commission income and income sourced from foreign exchange activities is relatively low and continues to have a modest contribution to earnings. While this is common for most Bulgarian banks, we highlight the need to diversify their income streams beyond interest-related activities in order to protect earnings from an anticipated interest rate margin compression. This is particularly important in view of the intense competition in the market for attracting customer deposits, particularly during 2008, which partly reflects the global financial conditions.

On the cost side, non-interest expenses are contained at low levels, despite higher infrastructure investments and increasing number of personnel, and comprised a low 1.8% of average assets during FYE2007.

It should be noted that in Moody's calculations for profitability ratios, the bank's risk-weighted assets are adjusted by assigning a 50% risk weighting to government bonds to reflect the government's Baa3 local and foreign currency sovereign debt. Both adjusted and unadjusted profitability ratios produce a B+ score.

Factor 6: Liquidity

Trend: Neutral

CorpBank currently has comfortable liquidity levels that underpin its BFSR. At 60% as at end-June 2008, the net loans-to-customer deposits ratio is the lowest among the Bulgarian rated banks, which provides the bank with room to continue to support its business expansion, at least in the foreseeable future. Moreover, although the size of the loan portfolio almost doubled during the 2007 calendar year (and grew by around 20% during H1 2008), it comprised a relatively low 53% of total assets at end-June 2008, with liquid assets accounting for a high 45% of the total balance sheet in that period.

Moreover, in comparison with other Bulgarian banks CorpBank has been a net interbank placer. As it has no access to parental funding, its funding structure has traditionally relied on customer deposits to finance growth. Hence, at end-June 2008, customer deposits funded a high 87% of total assets, a ratio that is much higher than its foreign-owned peers. On the one hand, we view positively the bank's ability to continue to attract customer deposits and support its business objectives; on the other hand, we once again highlight the large concentration levels in its deposit base that expose the bank to the risk of large deposit withdrawals.

These large deposit accounts are mainly sourced from state-owned companies, accounting for around 40% of total deposits. The average cost on these deposits - at 2.2% during H1 2008 - is significantly lower than the cost on private sector deposits (at 4.1%) and retail deposits (at 6.9%) that accounted for around 24% and 38% of total deposits, respectively, at end-June 2008.

Moody's assessment of the bank's liquidity management systems and procedures, combined with CorpBank liquidity ratios, produces an overall C+ score for liquidity.

Factor 7: Capital Adequacy

Trend: Improving

CorpBank's capital levels have been supported by multiple capital injections over the recent years from its major shareholder and from full profit retention, which kept capitalisation at comfortable levels. Moreover, the bank's capitalisation was strengthened following the May 2007 IPO with the free float of around 16% of the bank's capital. As at end-June 2008, Tier 1 and total capital stood at a high 13.2% and 13.7%, respectively, and were considerably higher than the respective regulatory requirements of 6% and 12%.

Going forward, CorpBank's planned business expansion is expected to put pressure on the bank's capital levels; however, good internal capital generation and continued support from its direct and indirect shareholders is expected to sustain capitalisation at comfortable levels.

We note that CorpBank's risk-weighted assets reflect the adjustment mentioned under the profitability section above. Even so, Moody's bank financial strength scorecard yields a A score for capital adequacy.

Factor 8: Efficiency

Trend: Neutral

CorpBank's good efficiency levels reflect the low cost structure of its operations and its elevated business volumes. The bank's cost-to-income ratio totalled 47% during FYE2007, and was of the lowest among Bulgarian-rated banks. Costs grew by a modest 10% during 2007 and comprised a low 1.7% of average assets. Going forward, we anticipate some pressure on costs due to higher infrastructure investments; however, this should be compensated by increased business volumes and eventual productivity gains.

CorpBank scores C for efficiency.

Factor 9: Asset Quality

Trend: Neutral

Given its origins as a start-up bank relatively recently, CorpBank was never burdened by legacy problems loans, and maintains good asset quality levels that underpin its rating. As at end-June 2008, non-performing loan (NPL) balances (defined as loans overdue by more than 90 days) comprised a negligible 0.11% of total loans and those were well-covered by loan loss reserves (LLRs)

CorpBank has one of the lowest ratios of NPLs to total loans in the Bulgarian banking system; however, we recognise that this ratio is viewed in the context of a still-developing market economy and fast-expanding domestic credit portfolio that has not been tested under a downcycle. In our view, higher levels of delinquencies are, to some extent, anticipated as loans start to mature but we do draw attention to our concerns about the rapid credit growth evidenced at all Bulgarian banks. These concerns are aggravated by CorpBank's high borrower concentration levels, which, although well-covered by collateral, elevate the sensitivity of the bank's credit portfolio quality to the future performance of these clients.

In general, in our view, the rapid pace at which loans are underwritten by Bulgarian banks puts strain on their risk management systems and elevates their risk profiles. This is also a growing concern as the levels of country's consumer indebtedness rises and gradually converges to the EU standards. Such concerns about asset quality act as a constraint on all banks' ratings. Managements' ability to maintain a clean loan portfolio and sustain asset quality metrics at strong levels once loans season and go through an economic cycle will be a key future rating driver.

The bank's score for asset quality is B+.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns long- and short-term global local currency (GLC) deposit ratings of Ba3/Not-Prime to CorpBank . The ratings do not incorporate any external support and hence are set at the same level as the bank's Baseline Credit Assessment of Ba3.

The introduction of the currency board in Bulgaria in 1997 has reduced the probability of complete systemic support. As a result, Moody's assesses the probability of systemic support in the case of CorpBank as low, based on the bank's small size as it ranks tenth in terms of assets with a share of around 3% of banking system assets

Notching Considerations

Ratings for any future junior obligations of CorpBank should be notched off the fully supported deposit rating, i.e. its GLC deposit rating, because Moody's believes that there is no legal authority mechanism in place for Bulgarian bank regulators to impose losses on subordinated creditors outside of a liquidation scenario.

Foreign Currency Deposit Rating

CorpBank's foreign currency deposit ratings of Ba3/NP are unconstrained by Bulgaria's foreign currency deposit ceiling.

Rating Factors

Corporate Commercial Bank AD

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (70%)						**D**	
Factor: Franchise Value						**D-**	**Neutral**
Market Share and Sustainability			**x**				

Geographical Diversification					**x**		
Earnings Stability					**x**		
Earnings Diversification [2]							
Factor: Risk Positioning						**D**	**Neutral**
Corporate Governance [2]				**x**			
- Ownership and Organizational Complexity	--	--	--	--	**--**		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management			**x**				
- Risk Management				x			
- Controls	x						
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information				x			
Credit Risk Concentration	**--**	**--**	**--**	**--**	**--**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management				**x**			
Market Risk Appetite	**x**						
Factor: Operating Environment						**D**	**Improving**
Economic Stability					**x**		
Integrity and Corruption				**x**			
Legal System			**x**				
Financial Factors (30%)						**B**	
Factor: Profitability						**B+**	**Neutral**
PPP % Avg RWA		2.57%					
Net Income % Avg RWA	2.01%						
Factor: Liquidity						**C+**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets	-49.77%						
Liquidity Management				x			
Factor: Capital Adequacy						**A**	**Improving**
Tier 1 ratio (%)	12.32%						
Tangible Common Equity % RWA	14.00%						
Factor: Efficiency						**C**	**Neutral**
Cost/income ratio			64.40%				
Factor: Asset Quality						**B+**	**Neutral**
Problem Loans % Gross Loans		0.84%					
Problem Loans % (Equity + LLR)	4.61%						
Lowest Combined Score (9%)						**C+**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C-**	
Assigned BFSR						**D-**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information
[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral