MOODY'S
INVESTORS SERVICE

Credit Opinion: Corporate Commercial Bank AD

Global Credit Research - 03 Aug 2010

Sofia, Bulgaria

Ratings

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

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Key Indicators

Corporate Commercial Bank AD

	[1]**2009**	**2008**	[2]**2007**	**2006**	**2005**	[3]**Avg.**
Total Assets (EUR million)	**1043.73**	**1078.93**	**905.65**	**514.14**	**267.85**	[4]**41.53**
Total Shareholders Equity (EUR million)	**142.79**	**110.00**	**77.25**	**35.50**	**21.93**	[4]**57.83**
Return on Average Assets	**3.15**	**2.08**	**1.67**	**0.86**	**0.99**	**1.75**
Recurring Earning Power [5]	**3.71**	**2.39**	**2.02**	**1.15**	**1.34**	**2.12**
Net Interest Margin	**3.68**	**3.06**	**3.23**	**2.59**	**3.78**	**3.27**
Cost/Income Ratio (%)	**31.86**	**41.28**	**46.57**	**71.55**	**75.08**	**53.27**
Problem Loans % Gross Loans	**0.02**	**0.10**	**0.32**	**0.92**	**--**	**0.34**
Equity (%) Assets	**13.68**	**10.20**	**8.53**	**6.91**	**8.19**	**9.50**

[1] As of December 31. [2] Statement period in which the bank switched to Basel II accounting framework. [3] The average calculations are based on Basel I and Basel II data where applicable. [4] Compound annual growth rate. [5] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a Bank Financial Strength Rating (BFSR) of D- to Corporate Commercial Bank AD (CorpBank), which translates into a Baseline Credit Assessment (BCA) of Ba3.

The D- BFSR mainly reflects CorpBank's small presence in Bulgaria (with a share of approximately 3% of total banking system assets), its adequate capitalisation, and its good liquidity and strong asset quality metrics. Having traditionally serviced a large number of prominent enterprises active in the energy and infrastructure development segment (sectors that typically carry lower risk in Bulgaria), CorpBank has maintain good loan portfolio quality compared with other banks in the Bulgarian banking system. At the same time, however, having focused on the corporate segment, CorpBank's interest-rate margins are lower than those of other Bulgarian banks, especially those banks that have a higher share of retail loans and deposits.

While we acknowledge that CorpBank has displayed favourable performance metrics and appears to be relatively less affected by the economic slowdown than several other banks, we note that upward movement in its rating is constrained by the operating environment in Bulgaria which remains challenging and is expected to affect all banks' business growth and performance over the foreseeable future.

Moreover, a key constraint on CorpBank's rating is its high concentration levels, evidenced on both sides of the balance sheet, which render its funding structure more sensitive to deposit withdrawals and elevate the risks associated with individual borrower performance.

The bank is 30% owned by the State General Reserve Fund (SGRF) of the Sultanate of Oman, which was introduced into the bank's shareholding structure in March 2009. SGRF is a strong strategic investor that participates in CorpBank's capital and has two representatives on its board of directors. Nonetheless, we note that most of CorpBank's shares continue to be controlled by one local businessman, a factor that weighs negatively on CorpBank's risk-positioning assessment. Although it is managed by a team of experienced bankers, "key-man" risk continues to be an issue for CorpBank.

The highly competitive banking system in Bulgaria and the weak economic conditions in the country challenge the local banks' franchise development, and constrain all the banks' ratings. While most banks incurred heavy credit losses due to the effects of the global and domestic economic crisis, we expect that all banks, including CorpBank, will find it difficult to achieve meaningful growth in the short-to-medium term, given the difficulty in attracting good-quality customers without unduly raising their risk profile.

CorpBank's global local currency (GLC) deposit ratings are Ba3/NP and derive from the BCA of Ba3 and Moody's assessment of a low probability of systemic support from the Bulgarian authorities, if needed.

Credit Strengths

- CorpBank has a small franchise solely in Bulgaria, with good market penetration in the energy and infrastructure development segments

- Its capitalisation is adequate, and it has good liquidity and strong asset-quality metrics

- CorpBank benefits from the participation of a new and strong shareholder (SGRF)

Credit Challenges

- The weak economic conditions in Bulgaria challenge the franchise development of all the banks in the banking system

- Although consistently improving, CorpBank's interest-rate margins remain relatively low (compared with other banks in the system)

- Its risk positioning is constrained by sizeable concentrations on both sides of its balance sheet, while some corporate governance factors remain an issue for CorpBank

Rating Outlook

All CorpBank's ratings carry a stable outlook.

What Could Change the Rating - Up

We will continue to monitor developments at the national economy level as well as at the bank itself. We believe that continued strong performance through the difficult economic cycle, with good levels of recurring income, strong capitalisation and funding metrics, will support CorpBank's rating prospects.

Moreover, CorpBank's BFSR could be upgraded if it: (i) eases the concentrations on both sides of its balance sheet; (ii) expands and diversifies its funding base to support business growth; and/or (iii) further diversifies its shareholding structure and increases the number of independent directors on its board.

CorpBank's GLC deposit rating is unconstrained by Bulgaria's support rating, and could be upgraded in tandem with the bank's BFSR up to country's rating ceiling. CorpBank's Ba3/NP foreign currency deposit ratings are also unconstrained and could mirror the 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 deterioration in CorpBank's credit quality metrics or its capital levels; (ii) a material weakening in its deposit franchise dynamics and overall funding base; and/or (iii) a further increase in the cost of funds, leading to greater pressure on interest-rate margins and profitability.

CorpBank's foreign and local-currency deposit ratings are unconstrained by Bulgaria's rating ceilings, and these ceilings are unlikely to be lowered to an extent that would impact CorpBank's ratings.

Recent Results and Developments

Results for Q1 2010 showed CorpBank's net income growing by 36% year-on-year to BGN21.1 million (EUR 10.1 million) due to higher net-interest income (up by 23%) and elevated trading income (up by 30%). At the same time, it managed to contain its cost growth, with non-interest expenses increasing by a modest 3% year-on-year.

At the end of March 2010, its Tier 1 and total capital adequacy ratios were a comfortable 11.7% and 13.0%, respectively. On the asset quality front, the non-performing loans (loans 90+ days overdue) comprised a low 0.11% of its total loans.

DETAILED RATING CONSIDERATIONS

Our detailed considerations for CorpBank's currently assigned ratings are as follows.

CorpBank has a BFSR of D-, which reflects its small presence in Bulgaria as the ninth-largest locally owned bank in the system, with around 3% market share in banking assets. At the same time, however, its focus on the corporate segment (with a large share of the loans extended to corporate customers with low-risk profile) means that its interest-rate margins are lower than those of other Bulgarian banks, especially those that have a higher share of retail loans and deposits in their books.

While we acknowledge that CorpBank has displayed favourable performance metrics and appears to be relatively less affected by the economic slowdown than several other banks, we note that upward movement in its rating is constrained by the operating environment in Bulgaria which remains challenging and is expected to affect all banks' business growth and performance over the foreseeable future.

Moreover, additional factors that constrain the bank's rating are: (i) the high concentration levels on both sides of the bank's balance sheet; (ii) Bulgaria's highly competitive banking system, which challenges the ability of every bank to grow its funding and customer deposit bases; and (iii) some corporate governance issues that are captured in the risk-positioning assessment.

The assigned D- BFSR is three notches below the C- outcome generated by Moody's bank financial strength scorecard, and two notches below the adjusted score of D+. This reflects our assessment that a D- rating is currently a better reflection of the dynamics of the developing and challenging Bulgarian economy and CorpBank's position in the market. Moreover, its high borrower concentration and "key-man" risk weigh on its risk-positioning assessment, and position the bank in the D- category. The assigned rating also considers CorpBank's relatively small franchise in Bulgaria and the challenges that lie ahead in growing in the highly competitive banking market dominated by a large number of foreign-owned banks. These banks have traditionally benefited from the know-how of their parent institutions, and enjoyed access to their funding at a low cost.

Qualitative Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

CorpBank has a relatively small banking franchise in Bulgaria and is traditionally a corporate-focused bank. It is mostly active in trade finance, energy production and distribution in Bulgaria, and in the infrastructure development segment. Its niche position in Bulgaria derives from its long-established relationships with its customers, most of which are prominent enterprises active in these sectors.

CorpBank's strategy is to make further inroads in the SME market, which has been supported by EU funding. It also plans to expand its private banking business, an area that remains underdeveloped in Bulgaria. Similar to other Bulgarian banks, we expect CorpBank's growth plans to be challenged by the weakened economic conditions in Bulgaria, which have led to an increase in the unemployment rate and a high number of corporate defaults. The ability of CorpBank's management to defend, and even grow, its market share under these conditions - by attracting good-quality business and without elevating its credit risk profile - will be an important determinant in our assessment of franchise value going forward.

The franchise value score of D- is constrained by the small contribution its retail banking operations, asset management and fiduciary business make to its total profit, as well as its weak geographic diversification, with operations solely focused on the small Bulgarian market.

Factor 2: Risk Positioning

Trend: Neutral

We consider CorpBank's risk positioning to be moderate. Its 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. Several committees are in place to ensure that CorpBank adheres to the limits set once a year by its supervisory board. Credit-risk monitoring is carried out using stress testing to ensure risk control and oversight.

CorpBank has managed to protect the quality of its loan portfolio in recent quarters. On the one hand, this reflects the profile of its corporate clients, a large portion of which are prominent names in the field of energy production and infrastructure development (segments that are relatively low risk). On the other hand, it also reflects the prudent risk-management practices that CorpBank has in place. At the same time, however, we note that exposures to the higher-risk segments (such as construction and real estate) grew during 2009 and accounted for 21% of CorpBank's loan portfolio at year-end 2009, compared with around 17% at year-end 2008.

Meanwhile, a key constraint on its BFSR continues to be its excessive borrower concentration. As of the end of March 2010, we estimate that its 20 largest funded and unfunded credit exposures represented almost 340% of its Tier 1 capital. Although we note that this is a common situation for small corporate-focused Bulgarian banks, it does raise concerns particularly because Bulgarian banks currently face a challenging local operating environment.

In terms of the bank's corporate governance, we view positively the introduction of the SGRF of the Sultanate of Oman as a new major shareholder in March 2009. Although SGRF is not considered to be active investor, it is a strong long-term strategic investor that participates in CorpBank's capital and has two representatives on the five-member supervisory board. With the introduction of the new shareholder, the scope of competences of the supervisory board has been extended. Nonetheless, , we note that CorpBank's shares continue to be majority owned by one individual, which weighs negatively on its risk positioning. In our view, "key-man" risk remains an issue for this bank.

The supervisory board has five members, two of which we consider to be independent. We therefore have no concerns about board independence or related-party exposure, which, although present, comprises an acceptable portion of Tier 1 capital.

Market risk appetite is low and does not raise significant concerns for CorpBank.

CorpBank publishes financial statements under IFRS semi-annually. Public financial information and management analysis provide adequate disclosure regarding CorpBank's financial and business performance, but lack important information about borrower concentration risks and detailed disclosure as to the performance of the business lines. In our view, a more detailed public disclosure of the above-mentioned issues would improve transparency at CorpBank.

Moody's assesses CorpBank's liquidity management to be adequate. However, the modest diversification of its funding base raises some concerns, particularly in view of the high concentration and the considerable amount of deposits from state-owned companies. We estimate that non-bank customer deposits fund a high 79% of total assets (at the end of March 2010), while the top-five largest depositors comprise a sizeable 21% of its total deposits.

According to management, these deposits are relatively stable and reflect the long-term relationships that CorpBank has with these customers; at the same time, we note that a high reliance on this funding type raises the risks of deposit withdrawal and elevates the costs on its overall funding base. This is because these accounts are relatively more expensive compared with other retail deposits or funds attracted by other foreign-owned banks from their parents.

CorpBank scores D for risk positioning.

Factor 3: Regulatory Environment

Please refer to our latest Banking System Outlook for Bulgaria for additional comments about the regulatory environment.

Factor 4: Operating Environment

Trend: Weakening

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 on data from the World Bank and also an assessment of the effectiveness of the Bulgarian legal system (based on the speed of the property foreclosure process). 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, Bulgaria's low integrity and corruption scores, and the 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. Please refer to Moody's most Banking System Outlook on Bulgaria for additional comments on the operating environment.

Quantitative Factors (30%)

Factor 5: Profitability

Trend: Improving

FYE2009 results showed that CorpBank's recurring earning power and return on average assets were adequate at 3.7% and 3.2%, respectively, (compared with 2.4% and 2.1% for FYE2008). This was mainly achieved on the back of a controlled 10% growth in operating expenses, while in terms of revenue, CorpBank managed to expand its net-interest income by 33% (year-on-year), foreign exchange income by 23%, and fees and commissions income by 60%.

The increase in credit volumes during 2009 (up by 21%) was the main reason behind the growth in interest and fee income. While we view positively CorpBank's ability to outpace the systemic credit growth in 2009 (which totalled a modest 4%), at the same time we highlight our concerns regarding its relatively fast credit expansion, particularly in a period of economic recession domestically. CorpBank's prudent risk-management policies partly mitigate our concerns over the quality of these loans, once these become more seasoned. At the same time, however, we note that cautious risk monitoring may be needed, particularly with regards to loans extended in the sectors that are of higher risk (such as construction and real estate), which accounted for a sizeable 21% of total loan portfolio at year-end 2009, compared with 17% at year-end 2008.

CorpBank's interest-rate margins were an adequate 3.8% during FYE2009, and, despite growing, remained below the margins of other Bulgarian banks, particularly those that have a higher share of retail loans in their books. Moreover, this reflects the composition of the bank's balance sheet, which comprises a larger proportion of liquid, but lower-yielding, assets.

Note that our profitability ratio calculations adjust CorpBank's risk-weighted assets 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 an A score.

Factor 6:Liquidity

Trend: Neutral

CorpBank has comfortable liquidity levels that support its BFSR. As of the end of March 2010, its ratio of net loans to customer deposits was 84%, one of the lower ratios among Bulgarian banks. At the same time, the loan portfolio comprised a low 69% of total assets (at the end of June 2010), while liquid assets accounted for an adequate 22% of the total balance sheet for that period.

On the funding side, CorpBank has no access to parental funding, so unlike most of its peers it has traditionally relied on customer deposits to finance growth. At the end of Q1 2010, customer deposits funded a high 79% of its total assets, a ratio that is higher than those of its foreign-owned peers. As noted above, CorpBank's deposit base is highly concentrated, which raises the sensitivity and the risks of a large deposit outflow. According to CorpBank's management, these deposits are stable and typically roll over in its books when they mature, which partly mitigates our concerns.

Moody's assessment of CorpBank's liquidity management systems and procedures, combined with its liquidity ratios, gives it an overall C+ score for liquidity.

Factor 7: Capital Adequacy

Trend: Neutral

CorpBank's capital levels have been supported by multiple capital injections in recent years from its major shareholder and from full profit retention, which has kept capitalisation comfortable. Its capitalisation was strengthened following the May 2007 IPO, with the free-float of around 16% of its capital. At the end of Q1 2010, its Tier 1 capital was a high 11.66%, and its total capital was 13.01%, considerably higher than the respective regulatory requirements of 6% and 12%.

We view positively the introduction of SGRF as the second-largest major shareholder in CorpBank's capital structure. In our view, SGRF is a strong strategic investor that is expected to continue to support CorpBank's business growth.

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 an A for capital adequacy.

Factor 8: Efficiency

Trend: Improving

CorpBank has good efficiency levels that reflect the low-cost structure of its operations. Its cost-to-income ratio was 32% at year-end 2009, one of the lowest among Bulgarian-rated banks. Also, non-interest expenses rose by a modest 10% during 2009, comprising a low 1.7% of average assets. Going forward, we expect some cost pressure from higher-priced infrastructure investments; however, it should be offset by increased business volumes and eventual productivity gains.

CorpBank scores A for efficiency.

Factor 9: Asset Quality

Trend: Neutral

CorpBank maintains good loan portfolio quality, which is one of its main strengths. Although non-performing loan (NPL) balances (loans 90+ days overdue) increased fourfold in Q1 2010, it comprised a negligible 0.11% of total loans as the end of Q1. At the same time, loan loss reserves (LLRs) more than fully covered the problematic assets.

CorpBank has one of the lowest ratios of NPLs to total loans in the Bulgarian banking system. However, we believe that this ratio should be viewed in the context of an expanding credit portfolio in a volatile and challenging operating environment, with the Bulgarian economy being in recession since the H1 2009. These concerns are aggravated by CorpBank's high borrower concentration, which, although well-covered by collateral, elevates the sensitivity of its credit portfolio quality to the future performance of these clients.

The ability of CorpBank's management ability to continue to maintain a clean loan portfolio, and to sustain good asset-quality metrics is an important driver for the bank's ratings.

CorpBank's score for asset quality is A.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns long-term and short-term global local currency (GLC) deposit ratings of Ba3/Not-Prime to CorpBank. The ratings do not incorporate any external support and are therefore set at the same level as the BCA 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 a low probability of systemic support in the case of need, based on the bank's small size (it ranks ninth in terms of assets, with a share of around 3% of total 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 there is no legal authority mechanism in place for Bulgarian bank regulators to impose losses on subordinated creditors outside 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	Weakening

Economic Stability					x		
Integrity and Corruption				x			
Legal System			x				
Financial Factors (30%)						**B+**	
Factor: Profitability						**A**	**Improving**
PPP % Avg RWA - Basel II	4.21%						
Net Income % Avg RWA - Basel II	3.56%						
Factor: Liquidity						**C+**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets	-34.51%						
Liquidity Management				x			
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 ratio (%) - Basel II	11.92%						
Tangible Common Equity / RWA - Basel II	15.03%						
Factor: Efficiency						**A**	**Improving**
Cost/income ratio	39.90%						
Factor: Asset Quality						**A**	**Neutral**
Problem Loans % Gross Loans	0.15%						
Problem Loans % (Equity + LLR)	0.72%						
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