

Rating Action: Moody's changes outlook to negative on Corporate Commercial Bank's Ba3 ratings

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Limassol, April 16, 2013 -- Moody's Investors Service has today changed the outlook to negative on Corporate Commercial Bank's (Corpbank's) deposit ratings, which have been affirmed at Ba3/Not Prime. At the same time, Moody's has lowered the bank's standalone bank financial strength rating (BFSR) to E+, equivalent to a baseline credit assessment (BCA) of b1, from D-/ba3.

The negative outlook and lowering of the bank's BFSR primarily reflect (1) risks generated by Corpbank's rapid credit expansion within the context of Bulgaria's challenging operating environment; (2) modest capitalisation buffers compared to peers; and (3) declining profitability. The affirmation of the deposit ratings also takes into account the bank's increasing importance as the fifth-largest bank in Bulgaria, in terms of deposits, which now results in one notch of uplift from the bank's BCA to the bank's deposit ratings, based on Moody's assumptions of the likelihood of systemic support.

RATINGS RATIONALE

--- RAPID CREDIT EXPANSION IN BULGARIA'S CHALLENGING OPERATING ENVIRONMENT

The primary driver of today's actions is Corpbank's rapid credit expansion within the context of Bulgaria's challenging operating environment. Corpbank's loan book has grown at an annual average rate of 39% over 2010-12, compared with the 3% growth rate for the system over the same period. Moody's says that although the bank's loan-book quality has been resilient thus far, the loans are unseasoned and exposed to the effects of subdued macroeconomic conditions. Moody's expects that GDP will expand by around 1.9% in 2013, well below pre-crisis levels, as foreign direct investment remains weak, while high unemployment levels -- which reached 12.4% in December 2012, up from 6.8% in December 2009 -- will also persist.

--- MODEST CAPITALISATION BUFFERS

As a result of the rapid expansion in Corpbank's loan book, its capitalisation metrics have weakened, with the Tier 1 ratio declining to 8.9% as of December 2012 (2011:10.5%) and a capital adequacy ratio (CAR) of 12.1%, just above the 12% regulatory minimum. The bank's capital metrics are also below those of its local peers, with the Bulgarian banking system's Tier 1 ratio at 15.2% as of end-2012. Although the bank plans to raise additional capital in Q2 2013, Moody's expects that Corpbank's Tier 1 ratio will remain below the system average and provide limited capacity to absorb unexpected losses.

--- DECLINING PROFITABILITY

The third driver of today's actions is the bank's declining profitability, with the return-on-average assets ratio at around 1.2% at FYE2012, compared with 3.1% in 2010. The reduction in profitability stems from (1) compressed interest-rate margins, largely reflecting higher funding costs, as the bank has diversified and lengthened its funding base; and (2) higher loan-loss provisioning requirements, which increased to BGN28.2 million in 2012 (2011: BGN8.8 million). Although Corpbank's asset quality is stronger than those of its peers, the classification of a few large corporate exposures as non-performing during 2012 led to an increase in provisioning expenses that absorbed 31.4% of its pre-provision income. Bulgaria's challenging operating environment indicates that provisioning charges will remain elevated, sustaining the pressure on the bank's net profits.

INCREASING SYSTEMIC IMPORTANCE RESULTS IN A ONE NOTCH OF UPLIFT

Despite the lowering of the bank's standalone BCA, Moody's affirmed the bank's deposit ratings at Ba3/NP, as they now incorporate one notch of systemic support uplift, based on Moody's assumptions of the likelihood of systemic support. The uplift reflects Moody's view of the bank's increasing systemic importance as the fifth-largest deposit-taking institution in Bulgaria, with a 7.3% market share in retail deposits as of December 2012, according to the Bulgarian National Bank.

WHAT COULD MOVE THE RATINGS DOWN/UP

Downward pressure might develop on the ratings if the bank's asset quality, capitalisation and profitability levels were to weaken beyond current expectations. Over the near term, upward pressure on the bank's ratings is limited, as reflected by the negative outlook.

PRINCIPAL METHODOLOGIES

The principal methodology used in this rating was Moody's Consolidated Global Bank Rating Methodology published in June 2012. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Headquartered in Sofia, Bulgaria, Corpbank reported total assets of BGN5.6 billion (EUR2.9 billion) according to its 2012 financial statements.

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