

Rating Action: Moody's downgrades Corporate Commercial Bank's deposit ratings to B3 from B1; ratings on review for further downgrade

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Limassol, June 24, 2014 -- Moody's Investors Service has today downgraded the long-term local and foreign-currency deposit ratings of Corporate Commercial Bank AD (Corpbank) to B3 from B1 and placed these ratings on review for further downgrade. Moody's also downgraded the bank's standalone bank financial strength rating (BFSR) to E, equivalent to a baseline credit assessment (BCA) of ca, from E+/b2. The bank's short-term deposit ratings of Not Prime remain unaffected by this action.

The downgrades were prompted by the announcement on Friday 20 June by the Bulgarian National Bank (BNB) that it had placed Corpbank under administrative supervision, suspending the bank's payments and transactions, and lifting the rights of the shareholders.

RATINGS RATIONALE

Downgrade of Corpbank's deposit ratings to B3 from B1 and review for further downgrade

Moody's downgrade of the long-term deposit ratings, and the placement of these ratings on review for further downgrade, is driven by the negative credit implications of the current suspension of banking operations at Corpbank. The action reflects Moody's judgment of the balance of risks between two possible outcomes. In the first instance, the bank returns quickly to normalised operations, with some support from the Bulgarian authorities and/or its shareholders to stabilise its liquidity position and address any capitalisation needs. In the second scenario, a comprehensive solution is not reached quickly and the bank's uninsured depositors potentially suffer material losses corresponding to deposit ratings much below the current B3 level. The B3 ratings currently capture the event of default, as banking operations are now frozen, but assumes very limited losses.

The balance of risk between the two aforementioned outcomes is unclear at this juncture, as is the basis for depositor withdrawals that triggered BNB's decision to place the institution under administrative supervision. Accordingly, the review, which could be of short duration, will focus on the likely outcome of the regulator's action and how it may impact the deposit freeze and the risk of potential losses to depositors. On Sunday 22 June, the BNB announced that Corpbank will remain closed until 21 July while an independent audit is conducted. At the same time the authorities also indicated their willingness to provide both liquidity and capital support and to ensure that the bank's obligations are met in full.

In the past, Corpbank had been challenged by high borrower concentration levels and 'key man risks' stemming from its concentrated ownership (with 50.7% of shares controlled by a Bulgarian company, which is ultimately owned by a local businessman). Negative press in Bulgaria regarding an alleged dispute involving Corpbank's largest shareholder appears to be the trigger of the recent acceleration of deposit outflows. These outflows exhausted the bank's previously solid liquidity buffers—with liquid assets (defined as the sum of cash, balances with banks and liquid securities) representing 30% of total assets at end-December 2013.

Downgrade of Corpbank's standalone BFSR to E from E+

Moody's says that the downgrade of Corpbank's standalone BFSR to E (no outlook), equivalent to a BCA of ca, reflects the bank's inability to continue to function as an unsupported entity, following a significant acceleration of deposit outflows on Friday 20 June leading to the appointment of an administrative supervisor the same day.

WHAT COULD MOVE THE RATINGS UP/ DOWN

Given the review for downgrade, there is limited upwards pressure on the bank's ratings in the short term. The bank's ratings could be affirmed if Corpbank's financial stability is quickly restored, including the restoration of full access to deposits in the coming days and the normalisation of banking operations. Thereafter, a sustained period of uninterrupted operations providing assurance that the problems that caused this incident have been addressed and will not recur could place upward pressure on the ratings.

The risk of a prolonged deposit freeze, potentially leading to material losses for the bank's depositors, would likely

cause a rating downgrade by more than one notch at the conclusion of the review.

The principal methodology used in this rating was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Headquartered in Sofia, Bulgaria Corpbank had total assets of BGN7.3 billion (EUR3.7 billion) as of March 2014.

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