MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's downgrades Corporate Commercial Bank's deposit ratings to Caa1 from B3; ratings remain on review for further downgrade

Global Credit Research - 29 Jul 2014

Limassol, July 29, 2014 -- Moody's Investors Service has today downgraded the long-term local- and foreign-currency deposit ratings of Corporate Commercial Bank AD (Corpbank) to Caa1 from B3 and left these ratings on review for further downgrade. The bank's standalone bank financial strength rating (BFSR) of E, equivalent to a baseline credit assessment (BCA) of ca and the short-term deposit ratings of Not Prime are unaffected.

The downgrade was prompted by (1) the increased risk of losses to depositors given the uncertainty with regards to when they will regain access to their deposits and the authorities' plan to fully protect uninsured depositors; and (2) the results of an independent audit commissioned by Bulgarian National Bank (BNB) which indicated that Corpbank may incur significant losses, resulting in a larger capital shortfall than previously anticipated.

RATINGS RATIONALE

--- THE INCREASED RISK OF LOSSES TO DEPOSITORS

The downgrade of Corpbank's long-term deposit ratings to Caa1 is driven by increased risk of losses to depositors, which may arise as a result of depositors having no access to their deposits for a prolonged period of time and/or the failure of the authorities' plan to fully protect all deposits. On 15 July, the BNB announced that the bank may remain closed throughout its three-month supervision period, thereby prolonging the period of the bank's deposit freeze. The bank has been closed since 20 June with depositors having no access to their deposits, while the authorities had previously announced the bank will reopen for business on 21 July.

Moody's also notes the continued uncertainty relating to the Bulgarian government's plan to fully protect uninsured depositors. The plan needs to be approved by the Bulgarian Parliament but the political consensus required to enact the required legislation has yet to be reached.

--- AUDIT RESULTS POINT TO A SIZEABLE CAPITAL SHORTFALL

The second driver informing today's action is the preliminary results of the audit commissioned by the BNB, which indicate that Corpbank is likely to incur significant losses and, as a result, experience a larger capital shortfall than previously anticipated. According to the preliminary findings of the audit, data relating to approximately two-thirds of credit files in the bank's loan portfolio was unaccounted for, with a considerable portion of these loans related with the bank's majority shareholder. Moody's expects that as a result of these findings, there will be a larger capital shortfall than previously anticipated, stemming from significantly higher problem loan levels that the current reported NPL ratio of 1.1%. The banking system average for this country was 16.9% as of end-2013.

RATIONALE FOR REVIEW

The review for downgrade reflects Moody's concerns that depositors will suffer losses higher than levels normally associated with a Caa1. The review will assess (1) the size of Corpbank's capital shortfall; and (2) the authorities' ability to protect the uninsured depositors.

WHAT COULD MOVE THE RATINGS UP/ DOWN

Given the review for downgrade, there is limited upwards pressure on Corpbank's ratings. The bank's ratings could be confirmed if the authorities protect the uninsured depositors and restore access to deposits.

Moody's could further downgrade Corpbank's ratings if it concludes that uninsured depositors are likely to suffer losses greater than currently anticipated as a result of a failure by the authorities to implement the current rescue plan, or a policy shift that would ultimately impose losses on uninsured depositors.

The principal methodology used in this rating was Global Banks published in July 2014. 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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