MOODY'S INVESTORS SERVICE

Credit Opinion: Corporate Commercial Bank AD

Global Credit Research - 01 Aug 2014

Sofia, Bulgaria

Ratings

Category	**Moody's Rating**
Outlook	Rating(s) Under Review
Bank Deposits	*Caa1/Caa1/NP
Bank Financial Strength	E
Baseline Credit Assessment	ca
Adjusted Baseline Credit Assessment	ca

* Rating(s) within this class was/were placed on review on July 29, 2014

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Key Indicators

Corporate Commercial Bank AD (Consolidated Financials)[1]

	[2]**12-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (BGN million)	**6,740.9**	**5,637.2**	**4,044.4**	**2,702.8**	**2,041.8**	[3]**34.8**
Total Assets (EUR million)	**3,447.5**	**2,882.5**	**2,067.6**	**1,381.9**	**1,044.0**	[3]**34.8**
Total Assets (USD million)	**4,750.5**	**3,800.3**	**2,684.1**	**1,853.9**	**1,497.8**	[3]**33.5**
Tangible Common Equity (BGN million)	**591.0**	**414.0**	**357.5**	**297.7**	**254.7**	[3]**23.4**
Tangible Common Equity (EUR million)	**302.3**	**211.7**	**182.8**	**152.2**	**130.2**	[3]**23.4**
Tangible Common Equity (USD million)	**416.5**	**279.1**	**237.3**	**204.2**	**186.8**	[3]**22.2**
Net Interest Margin (%)	**1.4**	**2.1**	**2.4**	**3.3**	**3.3**	[4]**2.5**
PPI / Average RWA (%)	**2.2**	**2.4**	**2.8**	**4.3**	**4.7**	[5]**3.3**
Net Income / Average RWA (%)	**1.4**	**1.5**	**2.2**	**3.8**	**4.0**	[5]**2.6**
(Market Funds - Liquid Assets) / Total Assets (%)	**-20.3**	**-19.8**	**-26.5**	**-28.0**	**-21.0**	[4]**-23.1**
Core Deposits / Average Gross Loans (%)	**130.3**	**141.6**	**156.4**	**140.9**	**124.8**	[4]**138.8**
Tier 1 Ratio (%)	**11.0**	**8.4**	**10.0**	**11.3**	**12.6**	[5]**10.7**
Tangible Common Equity / RWA (%)	**11.1**	**9.3**	**11.3**	**13.7**	**14.7**	[5]**12.0**
Cost / Income Ratio (%)	**41.0**	**39.7**	**36.8**	**31.5**	**31.9**	[4]**36.2**
Problem Loans / Gross Loans (%)	**1.2**	**0.6**	**0.4**	**0.2**	**0.2**	[4]**0.5**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**8.7**	**4.2**	**2.3**	**0.9**	**1.1**	[4]**3.5**
Source: Moody's						

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

The Caa1 deposit ratings assigned to Corporate Commercial Bank AD (Corpbank), which are on review for downgrade, reflect (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 result 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.

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. The Caa1 also incorporates 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. The rating also takes the preliminary results of the audit commissioned by the BNB which point to sizeable capital shortfall stemming from significantly higher problem loan levels than the current reported NPL ratio of 1.1%, which compares with a system average of 16.9% as of year-end 2013.

Corpbank's standalone bank financial strength rating (BFSR) of E, equivalent to a ca baseline credit assessment (BCA) reflects its inability to continue to operate as an unsupported entity, following a significant acceleration of deposit outflows on 20 June, leading the BNB to place the institution under administrative supervision on the same day.

Rating Drivers

- Tight liquidity following accelerated deposit outflows

- Audit results point to a sizeable capital shortfall

- `Key man' risks and concentrated ownership represented key challenges affecting the bank

- Uncertainty relating to the government's plan to fully protect uninsured depositors

Rating Outlook

The Caa1 deposit ratings are on review for downgrade while the standalone E BFSR, equivalent to a ca BCA has no outlook. The review for downgrade reflects the risk 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 Change the Rating - Up

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.

What Could Change the Rating - Down

Corpbank's ratings could be downgraded further in the event that uninsured depositors 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.

DETAILED RATING CONSIDERATIONS

TIGHT LIQUIDITY FOLLOWING ACCELERATED DEPOSIT OUTFLOWS

Corpbank faces severe liquidity pressures following significant deposit outflows between 18-20 June (of BGN1 billion (EUR511 million) compared to BGN5.5 billion deposits as of end-2013) which led the BNB to place the institution under administrative supervision on 20 June and to suspend its banking operations. Negative press in Bulgaria regarding an alleged dispute involving Corpbank's largest shareholder appears to be the trigger of the deposit outflows which exhausted the bank's 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.

The central bank did, however, explicitly state that it will provide the necessary liquidity support to enable the issuer to meet its obligations in full.

AUDIT RESULTS POINTS TO A SIZEABLE CAPITAL SHORTFALL

The preliminary audit results commissioned by BNB 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. We expect 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 Bulgaria was 16.9% as of end-2013.

`KEY MAN' RISKS AND CONCENTRATED OWNERSHIP REPRESENTED KEY CHALLENGES AFFECTING THE BANK

In the past, the bank had been challenged by `key man' risk stemming from the concentrated ownership within the bank. Around 50.7% of Corpbank's shares were controlled by a Bulgarian company which is owned by a local prominent businessman, who was the chairman of the five-member supervisory board. The State General Reserve Fund of the Sultanate of Oman, which controlled around 30.4% of the bank's shares and had two representatives on the board, has been the second-largest shareholder and a strategic investor in the bank since 2009.

In April 2013, Russia's Bank VTB JSC (deposits Baa2; negative, BFSR D-/BCA ba3; negative) acquired a 9% stake in the bank and was the third-largest shareholder with no representation on the board. Despite Corpbank's ability to attract foreign investors, the dominance of one shareholder in the bank's ownership structure and the limited number of independent board directors are key factors that weigh negatively on our assessment of the bank's risk positioning.

Global Local Currency Deposit Rating (Joint Default Analysis)

The Caa1 ratings incorporate our view of a high probability of systemic support, resulting in a three-notch uplift from the bank's baseline credit assessment. However, the ratings remain on review for downgrade, reflecting (1) 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 result of an independent audit commissioned by BNB which indicated that Corpbank may incur significant losses, resulting in a larger capital shortfall than previously anticipated. On 11 July, the government indicated its willingness to protect the bank's uninsured deposits (with the exception of those of the major shareholder), by transferring those to the bank's subsidiary, Credit Agricole (Bulgaria), that will be fully nationalised. This plan, however, needs to be approved by the Bulgarian Parliament but the political consensus required to enact the required legislation has yet to be reached, exposing the aforementioned plan to continued uncertainty.

Foreign Currency Deposit Rating

Corpbank's foreign-currency deposit ratings of Caa1/Not Prime ratings are at the same level as the local-currency deposit ratings, and are unconstrained by Bulgaria's foreign-currency deposit ceiling of Baa2.

SOURCE OF FACTS AND FIGURES CITED IN THIS REPORT

Unless noted otherwise, data related to system-wide trends is sourced from the central bank. Bank-specific figures originate from the bank's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the documents entitled "Financial Statement Adjustments in the Analysis of Financial Institutions", published on 19 December 2013.

ABOUT MOODY'S BANK RATINGS

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognise the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the GLC rating for a bank, the JDA methodology also factors in the rating of the support provider, Moody's assessment of the probability of government support for the bank in case a stress situation occurs and the degree of dependence between the issuer rating and the systemic support indicator.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. An Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be reminded that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt obligations may also be constrained by the country ceiling for foreign currency bonds and notes, however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Corporate Commercial Bank AD

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (70%)						**D-**	
Factor: Franchise Value						**E**	**Weakening**
Market share and sustainability					**x**		
Geographical diversification					**x**		
Earnings stability					**x**		
Earnings Diversification [2]					**x**		
Factor: Risk Positioning						**E**	**Weakening**
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**	**Neutral**
Economic Stability					**x**		
Integrity and Corruption				**x**			
Legal System			**x**				
Financial Factors (30%)						**C**	
Factor: Profitability						**C**	**Weakening**
PPI % Average RWA (Basel II)			2.47%				
Net Income % Average RWA (Basel II)			1.73%				
Factor: Liquidity						**E+**	**Weakening**
(Market Funds - Liquid Assets) % Total Assets				12.00%			
Liquidity Management					x		
Factor: Capital Adequacy						**B+**	**Weakening**
Tier 1 Ratio (%) (Basel II)		9.80%					
Tangible Common Equity % RWA (Basel II)	10.56%						
Factor: Efficiency						**A**	**Neutral**
Cost / Income Ratio	39.20%						
Factor: Asset Quality						**A**	**Weakening**
Problem Loans % Gross Loans	0.72%						
Problem Loans % (Equity + LLR)	5.09%						
Lowest Combined Financial Factor Score (9%)						**E+**	
Economic Insolvency Override						**Neutral**	
Aggregate BFSR Score						**D**	
Aggregate BCA Score						**ba2**	
Assigned BFSR						**E**	
Assigned BCA						**ca**	

[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.

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