



Tagging Info

Fitch Affirms Ratings of Three Bulgarian Banks; Negative Outlook Ratings

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Fitch Ratings-London/Moscow-29 November 2010: Fitch Ratings has affirmed Bulgarian Development Bank (BDB) and First Investment Bank's (FIBank) foreign currency Long-term Issuer Default Ratings (LT IDR) at 'BBB-' and 'BB-', respectively. The two banks' foreign currency Short-term IDRs, Support and Individual Ratings have also been affirmed. Fitch has maintained the Negative Outlooks on the banks' LT IDRs. The agency also affirmed Unicredit Bulbank's (UCB) Support Rating at '2'. Details of all rating actions are available at the end of this comment.

BDB's LT IDR is equalised with that of the Bulgarian sovereign (rated foreign currency Long-term IDR 'BBB-/Negative Outlook). The IDRs and Support ratings thus reflect the high probability of support given the bank's 99.9%-ownership by the Bulgarian government, its core development mandate and function as governmental policy instrument as well as legal framework governing the bank. BDB's Individual Rating takes into account the loan book's weakening asset quality and existing concentrations as well as its small size, short track record and operational risks. This is mitigated by high current capitalisation and limited refinancing and market risks.

FIBank's LT IDR of 'BB-' and Support Ratings of '3' reflect the modest probability of support from the Bulgarian public authorities, if needed, given FIBank's systemic importance. FIBank is the largest domestically-owned bank. FIBank's Individual Rating factors in a weakening of asset quality (although FIBank's NPL ratio has remained superior to that of the system), high borrower concentration and modest internal capital generation. This is balanced by FIBank's strengthening franchise and diversified customer deposit base. Fitch considers that the bank's capital level should be sufficient to absorb a moderate amount of additional loan losses.

The Negative Outlooks on the banks' LT IDRs reflect the Negative Outlook on the Bulgarian sovereign rating.

UCB's Support Rating of '2' reflects the high probability of support, if needed, from UCB's ultimate parent company Unicredit S.p.A (UC, rated 'A'/F1'/Negative). In Fitch's opinion, the bank could also receive support from domestic public authorities given UCB's systemic importance in Bulgaria, although UC would be the first and more likely source of support. UC indirectly owns 92% in UCB through Unicredit Bank Austria AG (rated 'A'/F1'), the holding company for most of UC group's CEE assets. UCB is the largest bank in Bulgaria in terms of total assets and has a solid domestic franchise. The potential for UCB to receive and utilise support is constrained by transfer and convertibility risks, as reflected in Bulgaria's country ceiling of 'BBB+'. A change in the country ceiling could affect UCB's Support Rating. Deterioration in UC's ability and/or willingness to support UCB could also trigger a downgrade.

The global credit shock delivered a welcome moderation in credit growth in the Bulgarian banking system (up 2.9% yoy at end-September 2010 from an average of 40% in the past four years). GDP contracted by 5% in 2009 and growth projections for 2010 and 2011 are modest, at 0.5% and 2.5% respectively. The current account deficit (9.2% of GDP at end-2009) improved during the 9M2010 driven by stronger exports. The non-performing loans in the banking system increased to 10.6% at end-September 2010 from 6.4% at end-2009. Profitability in the sector continues to be significantly negatively affected (down 29% yoy at end H12010) by higher loan impairment charges (up 41% yoy at end H1-2010) as the Bulgarian economy is still contracting. The banks are reasonably capitalised with an average Tier 1 capital ratio of 15.25%, at end September 2010, and are mainly funded with retail deposits. Foreign currency lending is common in the Bulgarian banking sector but is usually provided in euros. Thus FX risks are mitigated as long as the Currency Board Agreement is intact.

The rating actions are as follows:

Bulgarian Development Bank
Long-term IDR affirmed at 'BBB-'; Outlook Negative
Short-term IDR affirmed at 'F3'
Individual Rating affirmed at 'D'
Support Rating affirmed at '2'
Support Rating Floor affirmed at 'BBB-'

First Investment Bank
Long-term IDR affirmed at 'BB-'; Outlook Negative
Short-term IDR affirmed at 'B'
Individual Rating affirmed at 'D'
Support Rating affirmed at '3'

Support Rating Floor affirmed at 'BB-'

UniCredit Bulbank
Support Rating affirmed at '2'

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 13 August 2010, and Short-Term Ratings Criteria for Corporate Finance, dated 2 November 2010, are available at www.fitchratings.com.

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