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„Credissimo“ AD

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	Initial Rating 28.08.2015
CREDIT RATING	
Long-term Rating :	BB+
Outlook :	Stable
Short-term Rating :	B

BCRA – CREDIT RATING AGENCY AD (BCRA) is the third qualified rating agency in the EU, registered under Regulation No.1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized in the whole EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

BCRA assigns the long-term credit rating BB+ (outlook: stable) and short-term rating B to „Credissimo“ AD. The officially adopted methodologies of BCRA for assigning financial strength rating to banks (http://www.bcra-bg.com/files/file_66.pdf) and corporate credit rating (http://www.bcra-bg.com/files/file_103.pdf) are applied.

The information for elaborating the credit report and assigning the credit rating is taken from the rated company, NSI, BNB, BCRA's database, consultants, and other sources of public information.

The main regulations governing the companies specialized in lending are the Law on Credit Institutions, the Consumer Loan Law and Ordinance 26 of the BNB on financial institutions. During the period May-August 2014, the latest material changes were made in the legal framework regulating the activity of the companies specialized in lending. With changes in the Consumer Loan Law (CLL), a ceiling on interest rates was established of the offered loans, as well more strict requirements to lenders. A new rule establishes the minimum required paid-in capital in


the amount of 1 000 000 BGN. The taxes and commissions collected so far for approval, lending, absorbing and managing loans were removed. A ceiling was established on overall final cost of loans, requirements for greater transparency in lending were set out.

The key moments in the development of the sector are as follows:

- The number of the companies followed an upward trend during the period from the third quarter of 2012 to the first quarter of 2014. The increase was prompted, on the one side, from enhanced demand for the so called fast loans, and an increasingly common cause for their withdrawal is the payment of public utility services. The tightening in lending conditions by banks also determine the increased demand for loans from non-bank financial institutions.

During the last quarter of 2014 and the first quarter of 2015, the number of the companies decreased by 26, and during the second quarter of 2015, increased by 2, as at the end of June 2015, the number amounted to 150.

- The sum of the assets of the companies in the sector is volatile and does not follow a clear trend. The reasons could be sought in the unstable economic situation, deepening of the crisis since the end of 2011, and remaining generally low consumption. Last but not least, it should be considered the caution of households that is also important to favor smaller sized loans, despite their higher value.

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- The dynamics of the loans followed this of the total assets. For the period 2008-03.2015 the receivables on loans took on average 74.0% of the total assets of the companies, as their share is the biggest in 2008 (93.7%).

- The dynamics of the consumer loans is similar with the dynamics of the loans, but since 2011 they reported a bigger growth than in the total amount of loans. During the period 2010-2014, the registered cumulative growth of consumer loans amounted to 54.4% (6.2% for loans). As a result of higher increase in the amount of the consumer loans, their share in the total amount of the loans increased from 40.1% as of the end of 2010 to 59.3% at the end of 2014.

- The analysis of the balance structure of the companies in the sector says that the borrowing in the form of loans covered the largest part of the assets during the first two years (2008-2009), when it was at level, respectively, 78.8% and 76.9%. Over the next years, it gradually decreased and at the end of 2014 reached 46.1%, and at the end of June 2015, increased by 2 p.p., reaching 48.1%. In absolute value, the borrowing also decreased cumulatively by 45.9% during the period 2008-06.2015, that is an indicator for the increasing capitalization of the companies in the sector.

- The data of the BNB say that the sector generated a net loss only during the first two years, then during the period 2010-2013 realized on average a net profit over 73 million leva year on year. During 2014, the highest level of the financial result in the sector was reported – 107 496 thousand leva, which was an annual growth of 45.6%.

- The non-performing loans in the sector followed an upward trend by 2013, as they increased cumulatively with over 750% during the period 2007-2013.

During 2014, there was a reported decline in the volume of the non-performing exposures – 8.5% year on year that reflected into a decrease of their share in the aggregate credit portfolio to 26.9% (30.2% at the end of 2013). During the first half of 2015, the favourable trend retained, as a result of which their share decreased to 22.8%.

The expectations for the future development of the sector are relatively good, as on the one side, they

are conditioned by opportunities of attracting cheaper resources, growing demand of this type of loans and contraction in “bad” loans, and on the other side, there was a risk from increasing of regulatory requirements and an increase in competition.

„Credissimo“ AD is a registered financial institution by the BNB according to Art. 3, Paragraph 2 in the Law on credit institutions, Registration number 00050. The main activity of the company consists of lending loans with funds not collected through public attraction of bank deposits or other refunds.

Since February 2014, the company has been public and its shares are traded on the Bulgarian Stock Exchange (BSE). The company is the first non-bank financial institution, listed on the BSE.

The company has a one-tier management system, as the management body is the Board of Directors (BD).


The company provides consumer loans from 100 to 1 500 leva within 16 months.

„Credissimo“ AD does not have branches or offices in the country, as all the processes are automatic and online. The company operates through its head office in which all functions are concentrated.

According to the solidarity and social responsibility principles adopted by the company, the company grants a part of each paid off loan for charity.

The company is a founder and a member of the Responsible Non-Banking Lending Association (RNLA) – a non profit private company in a private favour (registered by Sofia City Court on 29.04.2014), including a group of non-bank lending companies with unified rules for consumer protection. Constantin Krastev (one of the members of the Board of Directors of „Credissimo“) is elected as a Deputy Charman of the Management Board of the Association.

At the end of 2010, the equity of the company amounted to 1 000 thousand leva. The amount of unpaid capital is 300 thousand leva, as the sum was paid in 2013. In November 2013, the General Meeting of Shareholders held an extraordinary session and took a decision to increase the equity with 1 500 thousand leva. During 2014, the equity was increased again in the amount of 2 500 thousand leva. Thus, at the end of 2014, the equity

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of the company amounted to 5 000 thousand leva and remain unchanged as of the date of preparation of the credit rating as well.

The dynamics of equity of “Credissimo“ depend fully on the financial result. The Equity increased from 838 thousand leva in 2010 to 13 557 thousand leva as of 06.2015, as the cumulative change of this period is growth of more than 1 500%.

Due to outstripping growth of equity compared to this of the assets, the leverage levels – adjusted and non-adjusted, of the company followed a downtrend following.

The borrowings of the company followed a stable uptrend during the analyzed period as the cumulative growth for 2010-06.2015 came to 450%.

From the ratios of the liabilities to equity of the company it is obvious that it finances its decreasing part of the activity with borrowed funds: the ratio increased only in 2011 when it reached its highest level (2.42), then a clearly marked downtrend followed until reaching 0.33 at the end of June 2015.

For last five complete years (2010 – 2014) the size of the assets increased considerably as from 2 126.0 thousand leva reach 15 189.0 thousand leva. The tendency remained the same and during the first half of 2015, as the reported growth compared to 2014 amounted to 2 859.0 leva or 18.8%.

During the entire period, the structure of the asset is dominated by the share of the Net loans, that varies within the boundaries from 75.5% to 86.7%. during the first semi-annual period of 2015 there were not considerable changes in the structure of the assets, the net loans continue to have the biggest share, followed by Funds and Other Assets (8.20%).

The gross size of the credit portfolio increased over the entire five-year period as its cumulative growth total up to 854.9%. Its increase is mainly due to the growth in consumer loans.

The size of the depreciations increased considerably during the five-year period. The outstripping growth rate of depreciations compared to the gross portfolio, determines the

increase of the indicator for covering gross portfolio as its value reached 30.06% at the end of June 2015.

Together with the increase of gross credit portfolio there was an increase also in the gross deteriorated loans.

With the aim at decreasing the disposal at a credit risk „Credissimo“ AD has signed a contract with a foreign legal entity for guarantying of the receivables on given loans. As of 30.06.2015, the share of the loans on which guaranty of receivables came to 60.5%. the increase of the guaranteed loans, on one side, is due to the circumstance that new loans are mainly lend against a guaranty, and on other side, of the performed during the first quarter of 2015 cession, in the amount of 1 124.3 thousand leva, in which non-guaranteed receivables were only included.

„Credissimo“ realized a positive net financial result during the analyzed period that increased from 53 thousand leva in 2010 to 5 762 thousand leva in 2014. For the first semi-annual period of 2015, the company generated a net profit in the amount of 2 587 thousand leva.


The return on assets followed similar dynamics – after comparably low levels in 2010 and 2011 (respectively 2.8% and 17.0%), over the following years there was a growth and the values of the ratio stabilized about 39%-42%.

The indicator Current Assets / (Total liabilities – Equity) reported an increase over each of the last five years, as from 132.6% at the end of 2010 reached 333.7% at the end of June 2015.

The Ratio of Total Assets / Equity decreased after 2011 reaching 96.8% at the end of June 2015.

The company reported volatile values of the current and quick liquidity parameters, at the end of June 2015 their values were respectively 336.6% and 41.8%.

The values of the assets, equity and total income realized by „Credissimo“ AD placed the company on the second position among the members of Responsible Non-Banking Lending Association in 2012 and 2013. For a variety of the financial indicators under observation, the company realized better values compared to these of the other members of RNLA.

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<i>(thousand leva)</i>	06.2015	2014	2013	2012	2011	2010
Balance Sum	18 048	15 189	9 651	6 319	3 463	2 126
Equity	13 557	10 970	5 804	2 694	1 012	838
Net Financial Result	2 587	5 166	2 809	1 682	474	53
Return on Equity	23.2%	61.6%	66.1%	90.8%	51.2%	6.5%
Current Liquidity Ratio	336.6%	637.5%	419.6%	738.9%	702.6%	213.8%

RATIONALE