

**„Credissimo“ AD**

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CREDIT RATING *	Update 28.09.2016
Long-term rating:	BBB-
Outlook:	negative **
Short-term rating:	A-3
National-scale long-term rating:	A (BG)
Outlook:	stable
National-scale short-term rating:	A-1 (BG)

\* To become familiar with the full rating history, please, see the table at the end of the document;

\*\* The assigned „negative“ outlook is not a result from expectations for deterioration of the indicators of „Credissimo“ AD, and of the applied rating ceiling that is determined by the sovereign rating and outlook (at the time of updating, the assigned rating to Republic of Bulgaria is long-term rating: BBB-(ns), outlook: „negative“, short-term rating: A-3 (ns) – see [http://www.bcra-bg.com/files/rating\\_287.pdf](http://www.bcra-bg.com/files/rating_287.pdf)).

BCRA – CREDIT RATING AGENCY (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 throughout the 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 to „Credissimo“ AD the following ratings:**

- Long-term rating: **BBB-**, outlook: **negative**; short-term rating: **A-3**;
- National-scale long-term rating: **A (BG)**, outlook: **stable**, national-scale short-term rating: **A-1 (BG)**.

The officially adopted methodologies of BCRA for assigning a financial strength rating to banks ([http://www.bcra-bg.com/files/file\\_377.pdf](http://www.bcra-bg.com/files/file_377.pdf)) and a corporate credit rating ([http://www.bcra-bg.com/files/file\\_103.pdf](http://www.bcra-bg.com/files/file_103.pdf)) have been applied.

To elaborate the credit report and to assign the credit rating, BCRA uses information from the rated company, the National Statistical Institute,

the BNB, its own database, consultants and other public information sources.

During 2015, the economy of the country reported a 3.0% real growth, as the greatest contribution has the export of commodities and services sustained by an increase in the ultimate consumption. The reported GDP real growth is nearly twice higher than the achieved for the last two years (1.6% for 2014 and 1.3% for 2013).

The flow of foreign investments reached 3.6% of GDP, after hesitations about 3.1-3.3% over the past three years. A considerable increase in the reinvested profit during the past year and increase in the investments of the share capital are observed. The investors, however, remained cautious, as the investment levels remained considerably lower than the years prior to the crisis.

The favourable changes at the labour market remain – the unemployment ratio (as well as the continuous unemployment as a percentage of the active population) kept their downtrend following 2013. During 2015, the average unemployment rate amounted to 9.2% (11.5% in 2014).

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Since early 2014, deflationary processes have been observed and they reached their peak at the beginning of 2015 and remained the same by the end of the year. According to the EC's winter forecast, the deflation will be maintained in 2016 as well, as the change expected in the price level is to be about - 0.1%. At the end of the year, the EC stipulated the factors contributing for decrease in the price level to be removed and during 2017 the country to transit to a situation of low inflation.

During the period of updating, there haven't been any significant changes in the legal framework regulating the activity of the companies specialized in granting known as „quick loans“.

The key moments in the sector development are as follows:

- The number of the companies in the sector did not change, as of June 2015 their number was 150 (a year later it remained the same);
- During 2015, the amount of assets on a yearly basis continued to increase for a third consecutive year as the reported growth is 7.0%, and only for the first quarter of 2016 it amounted to 2.0% compared to the end of 2015;
- The dynamics of loans remained similar with the assets: during 2015, there was an increase of 5.6%, and a more considerable growth was observed during the first quarter of 2016 – 9.0% compared to the end of 2015. At the end of the last complete year, the loans composed 73.5% of the total assets, and six months later their weight in the assets increased to 78.6%;
- The analysis of the term structure of loans showed that the share of short-term loans (less than 1 year) remained comparatively stable: 21.5% in 2014, 22.2% in 2015 and 23.6% in the middle of 2016;
- Regarding the purpose of their use during the analyzed period the ascending trend retained in the share of the consumer's loans that from 80.2% at the end of 2014 reached 88.1% 18 months later;
- For the second consecutive year in 2015 the borrowings in the form of loans increased as the growth rate (12.0%) exceeded the last year (8.0%). For the first six months of 2016 the increase is in the amount of 1.8% compared to the end of 2015 The cover of assets from borrowing

from loans retained at comparatively low levels – about 48% in 2015, and also in the middle of 2016;

- During the last complete fiscal year, there was a slight decline of 2.2% in the generated aggregate profit, but with a level of nearly 106 million BGN, it highly exceeded the realized results over the years before 2014 and especially for the period 2008-2009 when the net financial result was negative. There was a significant increase in the profit for the first half of 2016 compared to the same period of the previous year: it reached nearly 114 million BGN that is an increase of 81.5% year on year;
- During the period of updating, the downtrend in non-performing loans kept. Their amount reached their peak in 2013, then started to descend. The decline for the last complete fiscal year amounted to 14.8%, exceeding the reported for the previous year (8.5%). For the first half of 2016, a decrease of 7.5% was reported with comparison to the end of 2015, and their volume reached 433.5 million BGN. Their share in total loans had favorable dynamics. It decreased by 5.2 p.p. in 2015 yoy, while in the first six months of 2016 it decreased by another 3.3 p.p., reaching 18.4% of the aggregate loan portfolio
- Besides the business growth for improvement of the companies portfolio, the sales of impaired loans to specialized companies for collecting receivables also contribute, although the Association of the collection agencies in Bulgaria reported a drop during 2015 of debts under “fast” loans as a percent of the total liabilities transferred to the collection companies.

The perspectives for the sector are relatively favorable and based on projections for economic growth, rising incomes, purchasing power and consumption, leading to greater confidence of borrowers in terms of their personal finances.

During the period of updating, there haven't been any considerable changes in the shareholding structure of the company.

From February 2014 to April 2016, the company was public and its shares had been traded on the Bulgarian Stock Exchange (BSE). It was the first non-bank financial institution registered on the BSE. On 11.04.2016 General Meeting of Shareholders was held and a decision was taken to withdraw Credissimo AD from the Register of public entities and other issuers of securities of the

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Financial Supervision Commission (FSC). With decision №274-PD from 27.04.2016, the FSC has taken a decision to withdraw Credissimo AD from the Register under Art. 30, Paragraph 1, Point 3, in the Financial Supervision Commission Act. Some of the company withdrawal motives are decline of the administrative weight and reporting expenses and information disclosure, as well as an active market for trading the company shares.

The company has a one-tier management system. The management body of the company is Board of Directors (BD). During the period under the update, by request of one of the BD members, the General Meeting of the Shareholders has taken a decision to discharge him.

On 22.06.2016, a meeting of the Board of Directors of „Credissimo“ AD was held, as one of the taken decisions is related to the election of Mr. Georgi Hristov Karpuzov and Mr. Sokol Radostinov Yankov for executive directors of Credissimo AD with the right to manage and represent the company together.

The company gives consumer loans in the amount from 100 to 2 000 BGN for the period of 18 months.

The strategic goals of the company continue to be:

- Focus on the development and diversification of products offered to its clients;
- Expand markets in which it operates, and maintain a steadily increasing pace of the obtained financial results;
- Development, promotion and enforcement of alternative sales channels.

On 15.06.2016 a regular General Meeting of the Shareholders of "Credissimo" AD was held, and in accordance with Art. 3 of the agenda a decision was taken to allocate the realized profit in 2015 (6.52 million BGN) as follows:

- 4.52 million BGN to be transferred to the Reserve fund of the company;
- 2.00 million BGN to be distributed as a cash dividend to shareholders (0.40 BGN per share).

"Credissimo" AD has no branches or offices in the country because all processes are automated and provided online. The company operates through its head office where all functions are conducted. During the period of updating, the company has

changed its office registered and management address, as the change was prompted by the expansion of its activity.

The company continues to keep the adopted principles of solidarity and social responsibility, and for this purpose it allocates part of its income for charitable causes to help children and young people in disadvantaged position, disabled people, sick people and other groups in need.

During the period of updating, the equity of „Credissimo“ AD did not change and is in the amount of 5 000 thousand BGN.

The dynamics of the equity during the analyzed period is determined entirely by the financial result, during 2015 growth of 47.6% was reported, and for the first six months of 2016, the increase was 1.3% compared to 2015.

During 2015, the downtrend in the non-adjusted leverage kept - it decreased from 1.38 in 2014 to 1.29 in 2015 due to the faster growth in equity compared to assets. Similar is the dynamics of the adjusted leverage. Over the last two complete years the non-adjusted and adjusted leverage of "Credissimo" AD have been characterized by low levels compared to the average for the competitive group.

During 2015, the borrowings of "Credissimo" AD continue to grow with a diminishing pace - 4.1%, compared to 17.8 % in 2014 and 38.4% in 2013. During the first half of 2016, the uptrend of the resource base was interrupted and a 15.6% decline was reported compared to the end of 2015.

During the last complete year, the downtrend trend in the leverage ratio was kept, and the growth in equity (47.6%) exceeded the liabilities (11.1%). Six months later, a slight increase was observed compared to the end of 2015. Comparatively, at the end of 2015 "Credissimo" AD occupied a favorable position compared to the competitive group.

For the period of updating (06.2015 - 06.2016) a significant increase continued in assets and on an annual basis their growth rates amounted to 37.5% (5 691 thousand BGN) at the end of 2015 and 22.1% (3 983 thousand BGN) at the end of June 2016. The amendment at the end of these periods is mainly due to the increase in the net loans that continued to dominate in the asset structure.

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Similarly to the total amount of assets, the gross loan portfolio continued to grow during the period under review as its growth amounted to 31.1%, and for the last complete fiscal year it amounted to 17.8%.

Net loans reported similar trends. Their growth during the period of updating amounted to 33.8%, and for the last complete fiscal year amounted to 18.3%.

As a result of the slight increase in the amount of the allocated depreciations in the second half of 2015 a decline was reported in the coverage of gross portfolio with depreciations - from 30.6% at the end of June 2015 reduced to 27.4% at the end of June 2016. During the first half of 2016, the allocated depreciations increased by 23.7%, as their fast growth compared to gross loans led to an increase in the coverage with depreciations of the gross portfolio by 1.8 p.p., reaching 29.2% at the end of the period.

For the period from 7.2015 to 6.2016 are examined by 27.6% more loan applications compared to the previous 12-month period. The average monthly rate of the approved requests amounted to 29.1% (36.3% for the previous 12 months).

The main conclusions that can be made regarding the loan portfolio are:

- At the end of 2015 and June 2016 a considerable increase was observed in the amounts due in the categories with 0 days delay and delays from 181 to 720 days;
- During 2015, the highest declines of the amounts due were observed with legal and adjudged receivables, while for the period 6.2015-6.2016, the only category in which a decline was reported are the adjudged receivables. The decline is determined by the made cessions of deteriorated loans at the beginning and end of 2015;
- As of 12.2015 and 6.2016 the allocated depreciations increased by 16.3 and 24.9% on a yearly basis;
- During the period of updating, the reported during 2015 trend was confirmed. It is shown through decreasing the coverage with depreciations of loans without delays or with a delay up to 180 days, retention of the level of coverage for loans delayed with more than 180

days and increase in the coverage for the legal and adjudged receivables.

During 2015, "Credissimo" generated a net profit in the amount of 7 274 thousand BGN which is higher by 26.2% more compared to the recorded in the previous year.

During 2015, "Credissimo" generated a net profit of 7274 thousand, which is higher by 26.2% compared to the recorded in the previous year.

Since the growth rate of the assets increased faster than the net profit in 2015, the return on assets reported a decline - from 46.4% in 2014 to 40.3% in 2015. In a comparative aspect for the last complete year the company was favorably positioned, as its value is higher than other direct competitors.

During 2015, the ratio of current assets to liabilities regardless equity retained its uptrend, reaching 3.73 (3.29 at the end of 2014) as the growth rate of current assets (26.0%) outpaced short-term liabilities (11.1%). During the first half of 2016 they increased by 20.1%, while the current assets increased by only 10.6%, as a result the index decreased to 3.43.

"Credissimo" has a favourable position compared to the reference group by level of the indicator Current Assets / (Total liabilities - equity) with a value significantly over the average for the group.

Since the relative increase in current liabilities during 2015 (113.5%) was significantly higher than in current assets (26.0%), the current liquidity of "Credissimo" decreased to 3.76 (6.37 at the end of 2014), reaching its lowest level since 2011 until now. In the first half of 2016, however, a slight increase to 4.15 was observed. In a comparative aspect, compared to the competitive group "Credissimo" has a favourable position with values over the average for the last two years.

The quick liquidity reported growth during 2015 for the second consecutive year, reaching 0.42. The increase is due to the faster increase in cash (162.2%) compared to the growth rate of short-term liabilities (113.5%). During the first half of 2016 a decline was observed to 0.38.

The realized amounts by "Credissimo" AD of assets, equity and total revenues rank the company 4<sup>th</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> position compared to the companies included in the competitive group. For

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a variety of the reviewed financial results, the company realizes better values compared to those of the other companies.

	(thousand BGN)	2015	2014	2013	2012	2011
Balance Sum		20 880	15 189	9 651	5 118	3 463
Equity		16 193	10 970	5 804	2 694	1 012
Net Financial Result		6 523	5 166	2 809	1 682	474
Return on equity		36.2%	41.6%	35.2%	34.4%	17.0%
Return on assets (average)		40.3%	46.4%	43.0%	44.6%	18.9%
Current Liquidity Ratio		3.8	6.4	4.2	7.4	7.0

*A negative impact on the rating could have reduction of revenues, deterioration of the loan portfolio, respectively increase of the cost of depreciation and a significant decrease in the financial result of the company.*

*A positive impact on the rating of the company could have sustainable improvement of the financial indicators, increase of the generated profit, an increase of the collection on receivables and improvement and / or implementation of new systems for assessing claims.*

**\*Rating history:**

*The ratings displayed in the chart are assigned under the previous Methodology for assigning a corporate credit rating, respectively with the applied rating scale and are not directly comparable with the ratings assigned after the entry into force of the current methodology on 04.07.2016.*

CREDIT RATING	Initial Rating 28.08.2015	Monitoring 05.07.2016
Long-term rating :	<b>BB+</b>	<b>BB+(under review)</b>
Outlook :	<b>stable</b>	
Short-term rating :	<b>B</b>	<b>B (under review)</b>