

**„Investbank” AD**

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FINANCIAL STRENGTH RATING	Initial Rating 4.2009	Monitoring 18.11.2009	Update 03.5.2010	Monitoring 07.12.2010	Update 25.5.2011
Long-term Rating:	BBB-	BBB-	BBB-	BBB-	BB
Outlook:	stable	negative	stable	negative	negative
Short-term Rating:	A-3	A-3	A-3	A-3	B
FINANCIAL STRENGTH RATING	Monitoring 14.09.2011	Update 19.12.2012	Monitoring 10.05.2013	Update 18.12.2013	
Long-term Rating:	B+	B+	B-	C	
Outlook:	negative	negative	negative	stable	
Short-term Rating:	C	C	C	C	

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**BCRA downgrades the long-term financial strength rating of „Investbank” AD to C, retains the short-term C, and changes the outlook to „stable“. BCRA uses the officially adopted methodology for assignment of bank financial strength rating ([http://www.bcra-bg.com/files/file\\_66.pdf](http://www.bcra-bg.com/files/file_66.pdf)).**

To elaborate the report and assign the rating, the information, provided by the rated bank, the BNB, the NSI, BCRA’s database, consultants and other sources of public information is used.

Since the beginning of 2013 the political environment is destabilized. Under the pressure of the civil protests, the government resigned in February, then a new temporary one was formed. After the early parliamentary elections held in May, a new National Parliament was elected and a new government was formed, which works without a stable parliamentary support and under high public pressure.

The economy of Bulgaria as of the time of preparation of the report continued being under the impact of the effects of the European financial and economic crisis. There is still a weak economic activity. In 2012 the domestic consumption registered a growth, but it remained low due to the continued high unemployment rate and uncertainty in the expectations

of both the business and households related to the exit from the crisis.

The main factors which define the functional environment in which the banks in Bulgaria operate as of the time of preparation of the rating report are as follows:

- an uncertain state of the economy: by data of the NSI the annual real change rate of GDP for 2012 (0.8%) is lower compared to the past year (1.8%), and as of 06.2013 the value of the indicator is negative (-0.2%);
- the direct foreign investments increased slightly in 2012 (12.5%), but as of the middle of the year of 2013 they registered a decline of 37.3% on a yearly basis;
- the banking system retained its uptrend in the amount of the borrowings;
- retention of a relatively low rate of the credit growth in 2012 and insignificant decline as of the end of the nine-month period of 2013;
- discontinuation of the ascending trend of the non-regular loans;
- a slight increase of the assets and decline of the profit of the banks.

In March 2013 „Investbank“ increased its capital twice within six months. 11 904 762 shares are issued, registered and paid entirely by Adil Said Ahmed Al Shanfari, who entered the bank as a shareholder during the past increase of the capital in August 2012. After the registration of the new shares Adil Said Ahmed Al Shanfari owns 31.74% of the capital of the bank (24.93% before that). The major shareholder is „Festa Holding“ AD.

During the analyzed period (09.2012-09.2013) changes have occurred in the management bodies of the bank.

In March 2013 Romyana Rahneva was dismissed as a representative of „Chernomorsko zlato“ AD from the Supervisory board, and Dimitriika Andreeva as a representative of the shareholder Adil Said Ahmed Al Shanfari was elected for a new member. In July 2013 a decision was taken for electing Radka Nikodimova as an executive director and member of the Management Board. Changes were initiated with regard to important manager positions, as well as to the management method with the aim to improve the overall performance of the bank. During the period measures were taken for optimization of the network through transformation of the ineffective places, reorganization of the structures and optimization of the personnel's number.

As a result of the increase of the shareholding capital, as well as the increased premium reserve referring to the issue of new shares, the equity of the bank registered a growth of 48.8% in 2012. Besides the tier I capital registered a decline which is min. (below 1%) mainly in line of considerably larger specific provisions for credit risk, allocated by the bank. As of 09.2013 the tier I capital increased by 43.1% compared to the end of 2012 in line of the increased shareholding capital as well as two issues of hybrid bonds in the total amount of BGN 39 210 thousand. As a result of this dynamics the capital adequacy of the bank decreased in 2012, whereas as of 09.2013 an increase was observed to a level which is close to the average for the banking system. The ratio of the net overdue exposures to the capital base increased in 2012 on a yearly basis, then as of September 2013 it improved. Besides its level remains higher than the average for the banking system. The leverage levels also retained higher compared to the average for the sector. The return on equity reported an increase as a result of the improved financial results and the reported level as of 09.2013 is higher than the average for the sector.


In 2012 the resource base of „Investbank“ increased by 5.1%, compared to a growth of 7.8% for the banking system. To a great extent the increase is due to the growth of the deposits of individuals, which increased by 9.1%. For the nine-month period of 2013 the resource base continued increasing, more quickly (16.9%) compared to the average rate for the banking system (3.0%). This period features with a quicker increase of the deposits from non-credit institutions (26.9% compared to the end of 2012) in comparison with this of the individuals and households (10.0%). With regard to the currency structure the uptrend of the share of the deposits in BGN retains, and from a point of view of the maturity, the structure continued to be dominated by the term deposits.

In 2012 the assets of „Investbank“ registered a growth of 9.3%, which outpaced slightly the growth rate of the assets in the banking system (7.3%). The credit portfolio (net loans) increased inconsiderably (below 1%), as its share shrinks slightly. The increase of the assets is in line mainly of the investment portfolio, whose share increased by 2.4 p.p, and also in line of the receivables from banks which increased nearly four times. For the nine month period of 2013 the assets of the bank registered a growth of 15.3%, which exceeded considerably the registered from the banking system (2.9%) for the same period. The main component – the credit portfolio – shrunk slightly (below 1%), as its share in the assets continued to decrease. A significant growth was observed with the investments (48.4%). The investment portfolio retains dominated by the government securities, whose volume increased by 8.0% in 2012 and by more 57.2% for the nine-month period of 2013.

The classified loans decreased by 10.8% in 2012, and as of September 2013 – by more 4.9%. Despite all their share in the gross portfolio of the bank remains higher compared to the average for the banking system. A favourable factor is the increase of the coverage from depreciations and specific provisions of the classified exposures, as well as of the gross portfolio, as the last mentioned is at a little better level compared to the sector as of 09.2013. The high concentration in the portfolio by size of the loans retained. The Bank takes measures for improving the management quality of the credit risk.

The return on interest bearing assets continued to follow a descending trend parallel with the banking system, as its levels are lower in a comparative aspect. The rate of the interest liabilities follows a similar trend, where the bank levels are higher compared to the average for the sector. The levels of gross interest spread and net interest margin are decreasing and are considerably more unfavourable.

In 2011, as well as in 2012 „Investbank“ realized a net loss but considerably smaller in size (BGN 725 thous., compared to BGN 4 993 thous. for 2011). It reflected into the increase of the return on assets but it is still negative at the end of 2012. For the nine-month period of 2013 an improvement was observed – the bank generated a net profit in the amount of BGN 1 704 thousand and ,respectively, positive return on assets (0.79%), which is higher compared to the average for the sector during this period (0.64%).

	<b>FINANCIAL STRENGTH RATING</b> <b>„Investbank“ AD</b> <b>C (outlook: stable)</b> <b>18.12.2013</b>
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As of the end of 2012 the indicator *Current assets*<sup>1</sup> / (*Total liabilities - Equity*) registered an increase of 4.3 p.p. in line of the outpacing growth of the current assets compared to this of the liabilities which are decreased with equity. At the end of the nine-month period of 2013 the indicator registered a slight decrease which is due to the growth of the liabilities. Its values remain lower compared to the average for the sector. The Liquidity Ratio increased for 2012, as well as of 09.2013, as its level is more favourable in a comparative aspect. The bank continued to maintain lower levels compared to the system of the ratio of the gross loans to deposits<sup>2</sup>.

The position of „Investbank“ in the banking system by amount of the assets improved: at the end of 2012 the bank moved up from the 15<sup>th</sup> position to the 14<sup>th</sup> position, and as of 09.2013 reached to the 13<sup>th</sup> position. By amount of the credit portfolio the position remains without any change – the 15<sup>th</sup>. By amount of the deposits as of 12.2012 the bank occupied the 13<sup>th</sup> position, as well as a year earlier, and as of September 2013 it moved up by one position (12).

During the update period the realized projects and new products in the field of the mobile payments, ATM and POS networks expanded.

<sup>1</sup> Cash and cash balance with central banks + receivables from financial institutions.

<sup>2</sup> Regardless credit institutions.

**Main Financial Indicators:**

<i>(BGN thousand)</i>	<b>9.2013</b>	<b>9.2012</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Balance Sum	1 580 551	1 336 811	1 370 499	1 253 657	1 202 374
Loans and advance payments to clients (gross)	714 618	720 222	737 336	740 025	721 079
Shareholding capital	131 266	119 362	119 362	89 600	89 600
Net Interest Income	4 752	10 723	9 456	18 818	28 269
Net Profit	1 704	-10 364	-725	-4 993	1 744
Return on assets	0.79%	-0.67%	-0.06%	-0.40%	0.16%
Gross Ratio on generation of overdue payments	15.5%	11.3%	30.3%	23.2%	19.7%
Net Ratio on generation of overdue payments	-3.7%	-10.8%	-12.7%	17.4%	14.0%