

**„Investbank” AD**

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|----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------|
| <b>FINANCIAL STRENGTH RATING</b> | Initial Rating<br>4.2009 | Monitoring<br>18.11.2009 | Update<br>03.5.2010      | Monitoring<br>07.12.2010 | Update<br>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                    |
| <b>FINANCIAL STRENGTH RATING</b> | Monitoring<br>14.09.2011 | Update<br>19.12.2012     | Monitoring<br>10.05.2013 | Update<br>18.12.2013     | Update<br>13.10.2014 |
| Long-term Rating:                | B+                       | B+                       | B-                       | C                        | B-                   |
| Outlook:                         | negative                 | negative                 | negative                 | stable                   | stable               |
| Short-term Rating:               | C                        | C                        | C                        | C                        | C                    |

BCRA – Credit Rating Agency (BCRA) is the third qualified rating agency in the EU, registered under the Regulation (EC) 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 limitations.

**BCRA upgrades the long-term financial strength rating of “Investbank” AD to B-, the short-term rating C and stable outlook remain the same. BCRA’s officially adopted Bank Financial Strength Rating Methodology has been applied [http://www.bcra-bg.com/files/file\\_66.pdf](http://www.bcra-bg.com/files/file_66.pdf).**

The report has been prepared and the rating – assigned, based on information, made available by the rated bank, the Bulgarian National Bank, the National Statistical Institute, BCRA’s database, consultants and other sources of public information.

As of the time of elaborating the report, the economy of Bulgaria continued to be under the effects of the European financial and economic crisis, and the economic activity was still weak. In 2013 the uptrend of the domestic consumption discontinued as it remained low due to the increasing unemployment rate and uncertainty in the expectations of the business and the households with regards to the exit of the economy from the crisis. The slow recovery of the economic growth of Bulgaria is also determined by the influence of external factors. Despite the basic trade partner, the EU, emerged from the recession, the economy growth for 2013 was just about 0.1%<sup>1</sup>, and in

total the Eurozone registered a drop of 0.4%. During the last year the economy of Bulgaria registered a slow and fluctuating recovery, which highly depended on the volume of export, predominantly, by the recovery rates of EU’s economy, the increasing unemployment, low domestic consumption and investment activity, and minimum inflation.

The assets of the Bank continue to increase, but in 2013 the reported increase in their size by 4.0% on an yearly basis was lower compared to the growth reported during the past year (7.3%). During the first half of 2014, the assets in the sector increased by 1.6%. In 2013, the downtrend in the profit of the banking system discontinued in the period 2009-2012, and an increase of 3.3% was reported. During the first half of 2014, the generated profit in the sector was by 2.1 % higher compared to the same period of the past year.

The sustainable growth of the attracted deposits maintained in the banking system. In 2013, an increase was reported of 8.7% on an yearly basis, and during the first half of 2014 - 3.0% compared to the end of 2013. At the same time, in 2013, the increase in lending continued to retard, as the growth is 1.12 % on an yearly basis, while during the first six months of 2014 there was a certain growth and the total loans increased by 3.4% compared to the same period of the past year. The uptrend discontinued in the classified loans.

At the end of the first quarter of 2014 there was an attempt to destabilize the banking system in the country. In June 2014 after widespread rumors of impending bankruptcy and increased withdrawal of deposits, the banks from the group of Corporate

<sup>1</sup> By data of Eurostat.

Commercial Bank (Corporate Commercial Bank and Commercial Bank "Victoria") were in a liquidity crisis and placed under a special supervision by the Bulgarian National Bank. At the same time, the media distributed information about deterioration of the financial position of First Investment Bank (FIBANK). The liquidity crisis of the bank was prevented by a deposit of government funds raised by an issue of five-month government securities. Currently, the banking system remain relatively stable, though there is a lack of clarity regarding the condition and future development of the banks in the group of Corporate Commercial Bank.

In 2013 and at the beginning of 2014 there were significant changes in the legal framework related to the banking activity. Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 was adopted, as well as Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

During the update period the Supervisory Board of the Bank maintained without a change. The Management Board has three members after Tsanko Kolovski was discharged. One of the main aims of the management is the improvement of credit portfolio quality. In this relation, a series of measures were taken during the period which include an adoption of new rules and procedures. In addition, a great number of changes were made in the organizational structure with the aim to optimize the risk management and improvement of the Bank's financial indicators. In the shareholding structure there were no changes in the analyzed period.

In 2013 the capital base of the bank increased by 34.6% predominantly in line of the shareholding capital's increase in March. Due to the anticipating growth of risk-weighted assets, however, the total capital adequacy registered a drop of 1.22 p.p., as the reached level is lower than the average for the banking system. During the first half of 2014, the total capital adequacy ratio improves considerably which in large part is due to a regulatory change – a discontinuation of the practice to allocate specific provisions for credit risk. The value of the indicator gained by the Bank is higher compared to the average in the banking system.

The ratio of net classified exposures to capital base in 2013 decreased due to the increase of the capital

base. As of 09.2014 it continued to decrease. The leverage levels in 2013 increased on an yearly basis and are higher than the average in the sector. During the first half of 2014 the adjusted leverage reported a slight decline, but both indicators remained above the average in the banking system. The return on equity maintained a negative trend and is significantly lower compared to the sector.

In 2013 the resource base of "Investbank" increased by 24.7%, significantly outpacing the sector (4.5%). This dynamics is determined solely by the deposit base: the deposits of individuals grew by 21.6%, while these of non-credit institutions - by 31.4%. This development continued during the first half of 2014, when the resource base of the bank grew by 9.2% on an yearly basis, compared to 1.6% in the sector. The deposits of individuals continued to dominate the deposit base, as their share increased slightly in 2013, and during the first half of 2014 reported a slight decline. With regard to the currency structure, the resource base continues to be dominated by deposits in leva and its share increases gradually. From the perspective of the term structure, after the reported growth in 2012, the share of the term deposits decreased in 2013, also as of 09.2014 compared to 12.2013.

The bank's assets in 2013 increased more rapidly than the average growth rate in the system (22.3% compared to 4.0%). The same trend maintained during the first half of 2014 compared to the end of 2013, when the balance sum of the bank grew by 8.9 %, compared to 1.6% in the sector. The structure of the assets registered a decline of the credit portfolio's share at the end of 2013 (8.9 p.p.). As of 09.2014 the share of net loans increased slightly, as well as the share of the investment portfolio. It is formed predominantly by government securities that increased gradually over the analyzed period.

In 2013 the credit portfolio of the bank registered a decline by 1.1%, whereas in the banking system there was a weak growth (1.1%). During the first half of 2014, however, the bank increased its gross loans by 19.6% compared to the end of 2013, whereas the sector increased hardly by 1.9%. The credit portfolio growth during the first half of 2014 was predominantly in line of the company's loans that registered a growth of 28.2% compared to the end of 2013.

At the end of 2013 there was a decline in the classified loans by 9.7%, which led to a slight decline in their share in gross portfolio. This trend was deepened during the first half of 2014, but, despite the share of the classified loans in the portfolio of „Investbank“ maintained higher than the average in the banking system.

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|---|--|
|  | <b>FINANCIAL STRENGTH RATING</b><br><b>„Investbank“ AD</b><br><b>B- (outlook: stable)</b><br><b>13.10.2014</b> |
|   | <b>95, Evlogi Georgiev, fl. 1</b><br><b>1142 Sofia</b>   |

The downtrend in gross interest spread and net interest margin maintained during the analyzed period, as the levels reported by the bank are significantly lower than both the average in the banking system, and the second group of banks. Considerably less favorable in a comparative aspect are the levels of return on assets. The Bank reported a minimum net profit in 2013 (452 thousand leva) and for the nine months of 2014 (82 thousand leva), and at the level of operating result, the Bank registered a loss.

In 2013 „Investbank“ registered a weak decline in current assets<sup>2</sup> to liabilities ratio, that were decreased by equity. A more significant decline was observed as of 09.2014, which was determined by the downtrend of funds and receivables from financial institutions compared to the end of 2013. The liquidity ratio changed slightly at the end of 2013 on a yearly basis and in the middle of 2014. Its level remained higher than the average in the sector. The Bank continued to maintain a low level of the indicator Total loans / Total deposits<sup>3</sup>.

The position of "Investbank" in the banking system by assets is characterized by an improvement: at the end of 2013 the Bank moved up from 14th to 13th position, and as of 06.2014 the Bank occupied the 12th position. The credit portfolio also improved from the 15th to the 13th position. As of 06.2014 the Bank occupied the 11th position by deposits, one position higher compared to 12.2013.

During the update period some reorganizations and changes were implemented in the organizational structure of the bank, as well as with regard to the management team. The transparency of reporting and quality of information submitted by the Bank has been improved. When assigning the rating, the measures taken to improve the risk management and credit portfolio quality are taken into consideration. New documents are adopted and new systems are introduced with the aim to improve the operational efficiency.

#### Main Financial Indicators:

| <i>(thousand leva)</i>                        | <b>9.2014</b> | <b>2013</b> | <b>2012</b> |
|---|---------------|-------------|-------------|
| Balance Sum                                   | 1 729 364     | 1 676 365   | 1 370 499   |
| Loans and advance payments to clients (gross) | 871 327       | 728 977     | 737 336     |
| Shareholding Capital                          | 131 266       | 131 266     | 119 362     |
| Net Interest Income                           | 191           | 3 617       | 9 456       |
| Net profit                                    | 82            | 452         | -725        |
| Return on assets                              | -0.07%        | 0.03%       | -0.06%      |
| Gross Ratio on generation of overdue payments | 5.23%         | n/a         | 30.30%      |
| Net Ratio on generation of overdue payments   | -5.18%        | -7.39%      | -12.70%     |

<sup>2</sup> Cash and cash balance with central banks + receivables from financial institutions.

<sup>3</sup> Regardless credit institutions.