

„Credissimo” EAD

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CREDIT RATING*	Update	Monitoring	Update	Update
Date of Rating Committee:	28.09.2016	16.05.2017	13.10.2017	31.10.2018
Date of Publication:	29.09.2016	18.05.2017	16.10.2017	01.11.2018
Long-term Rating:	BBB-	BBB-	BBB-	BBB-
Outlook:	negative	stable	stable	positive
Short-term Rating:	A-3	A-3	A-3	A-3
Long-term National-scale Rating:	A (BG)	A (BG)	A (BG)	A+ (BG)
Outlook:	stable	stable	stable	positive
Short-term National-scale Rating:	A-1 (BG)	A-1 (BG)	A-1 (BG)	A-1 (BG)

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

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BCRA makes the following corrections in the assigned credit rating of Credissimo EAD:

- **Affirms** the long-term rating: **BBB-**, short-term rating: **A-3**;
- **Upgrades** the long-term national-scale rating: from **A (BG)** to **A+ (BG)** and **affirms** the short-term national-scale rating: **A-1 (BG)**;
- **Upgrades** rating outlook from **stable** to **positive**,

which reflects the opinion about the positive development of the company in the period under review, passed through growth in assets value without deterioration of their quality, improved financial result and preserved good level of all indicators, including very low indebtedness and liquidity.

The officially adopted methodologies of BCRA for assigning financial strength rating to banks (https://www.bcra-bg.com/files/bank_methodology_2018_en.pdf) and corporate credit rating (<https://www.bcra->

[bg.com/files/Corporate_Methodology_2016_en.pdf](https://www.bcra-bg.com/files/Corporate_Methodology_2016_en.pdf)) have been applied.

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

The political situation in Bulgarian remains stable. In 2017, **the economy of the country** grows by 3.6 % (3.9% in 2016) with the main driver the domestic consumption. Final consumption growth accelerated to 4.5% on an annual basis, with positive developments in both private and government spending. Supported by continued income and employment growth, household consumption grows by 4.8%. Positive contribution to the economic growth bring the fixed capital investments - 3.8% (after the registered decrease of 6.6% in 2016). Net exports contributed negatively to the country's GDP growth in 2017.

As of the end of 2017, the **foreign reserves** of the Bulgarian National Bank amount to EUR 23 662 million 46.9 % of GDP, which is a solid buffer used by the Central bank for guaranteeing the stability of the currency board in the country and to avoid potential external shocks.

In 2017, the **FDI flow** continues to decline down to 1.9% of GDP (nominal decline of 12% compared to 2016).

	<p>CREDIT RATING „Credissimo“ EAD Long-term/Short-term Rating: BBB- / A-3 (Outlook: positive) National-scale Rating: A+(BG) / A-1 (BG) (Outlook: positive) October 2018</p>
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The **labour market** data in 2017, report record-high indicators of economic activity and employment of the population. The trend in labour income is also upward. The unemployment rate lowers, almost approaching its pre-crisis levels (5.7 % for the last quarter of 2017).

The average annual price change, measured by the HICP, records rising positive values. For the last six months (September 2017 – March 2018) the inflation reached 1.4%. The accelerated growth in services' and administrative prices has a more significant contribution to the inflation in the country, while the impact of international prices is weakening for the first three months of 2018. The internal factors, which also contribute to the increase in the price index, are the growth in incomes and households consumption.

Public finance indicators are improving, backed by the robust economic activity in recent years. Since 2016, the budget balance under the Consolidated Fiscal Programme (CFP) posted a surplus, in 2017, the tendency is maintained and the budget balance is positive for a second consecutive year. The balance under CFP amounts to BGN 846 million (0.9 % of the GDP) and both the national budget and the EU funds register surpluses. The budget target for 2017 was a deficit amounting to 1.4 % of the GDP, i.e. the balance registers growth of 2.3 p.p. against the forecast.

The CFP for 2018 projects a **budget deficit** amounting to 1.0% of GDP. The government declares its intention to pursue a policy of gradual consolidation and its updated medium-term deficit target amounts to 0.5 % for 2019 and plans to achieve a balanced budget in 2020. No significant changes in tax policy are planned during the projection horizon. The maintenance of a policy for gradual consolidation is a prerequisite for minimizing the negative impact of the fiscal policy on the economic activity.

The level of the **government debt** as a "government debt to GDP" ratio drops to 23.9 % (against 27.4% at the end of December 2016). The country has a significantly lower level of government debt compared to the Maastricht convergence criterion of 60 %. In a comparative aspect, Bulgaria retains its third position among the Member States at the lowest level of

government indebtedness being outpaced only by Estonia (9.0%) and Luxembourg (23.0%).

The banking system of the country remains stable, characterised by continuous growth in assets base, with a sustained growth in lending and an increase in attracted funds in the form of deposits in the last two years. Liquidity and capital adequacy ratios stay high in line with improvement of assets quality, shrinkage of the ratio of the gross non-performing exposures of 10.2% as of end of 2017 (12.9 % as of end of 2016). The last financial year, 2017, is characterised by a downward trend in the profit growth. The successfully conducted asset quality review and stress tests for sustainability) continued in 2017. The results announced show that the banking sector is stable, well capitalized and support with public resources is not necessary.

Sector Analysis

During the period of update (July 2017 - June 2018), there are no significant changes in the legal framework regulating the activities of the companies specialized in lending, and in particular, "Fast loans".

The number of companies in the sector did not substantially change during the period of the update, and by the end of 2017 is unchanged (157) increased by two in March 2018 (159) and again become 157 as of June 30, 2018.

In 2017, the reported **value of assets** on an annual basis continued to grow for fifth consecutive year, accounting for the highest annual growth (10.1%, BGL 307.3 million) and the reached value of BGN 3 345 million is the highest reported since 2006. During the first six months of 2018, the effect of the growth for 2017 was eliminated after the decrease of total value of assets by 12.3% (BGN 410.0 million) compared to the end of 2017, and the level came close to that as from the end of 2015.

Loan dynamics continues to be similar to that of the assets, and in 2017, there is an increase of 9.5% (after the reported highest growth for the five-year period in the previous year - 14.7%). In the first half of 2018, loans decreased by 11.6% (BGN 318.8 million), the consumer loans reported a higher decrease (18.3%, or BGN 377.4 million).

The changes in the value of assets and loans in the past year can be explained largely by the exit

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from the sector of BNP Paribas Personal Finance EAD (~ 14% of assets and ~ 16% of loans) since the company continues to operate in Bulgaria as a bank branch.

The status of the loans to form the major share of total assets is maintained – 82.2% as of end of 2017 (82.6% as of end of 2016). Запазено е статуквото кредитите да формират основната част от общите активи – 82.2% в края на 2017 г. (82.6% към края на 2016 г.).

The analysis of the term loan structure shows that the share of short-term loans (up to 1 year) remain unchanged at rates of 23-24% (23.2% in 2016, 23.5% in 2017 and 23.7% in mid-2018). The ascending trend in the share of long-term loans (over 5 years), as of 2017, (by 1.7 p.p. on an annual basis) and half a year later (by 3.2 p.p. at the end of the previous year) and their weight at the end of the period reached 47.0%. The increase is at the expense of the weight of medium-term loans (with a term between 1 and 5 years), whose share drops from 34.6% at the end of 2016 to 29.3% at the end of June 2018.

In 2017, for the fourth consecutive year, the borrowings in the sector increase in the form of loans, with a growth rate further slowing down to 3.4% (8.2% in 2016, 12.4% in 2015). For the first half of 2018, the borrowings recorded a decline of 13.3% (BGN 257.3 million) compared to the end of 2017, again taking into account the influence of BNP Paribas Personal Finance EAD bank loans and overdrafts formed ~ 23% of those in the sector. The coverage of borrowings remains at relatively low levels (around 50%), and by the end of 2017, is 47.6% (50.6% in 2016), and by the end of June 2018, to 45.4%. These levels continue to be significantly lower than the reported during the 2008-2009 period (76% - 79%). Withholding of attraction of additional funds and keeping low levels of indebtedness can be seen as an indication of relatively drained growth potential in the sector.

In the last completed year is observed considerable growth of the **generated joint profit** – by 56.7% (44.4% in the previous year), as its level BGL 243.7 million) reaches its highest value for the last five years. In the first half of 2018, the profit increases by 25.1% (9.9% for H1-2016) compared to the respective period of the last year, and reaches BGL 157.3 million, which is 64.5% of

the profit for 2017. Contrary to the growing aggregated profit, in the first six months of 2018, there is a drop in equity (by 13.1%), partly explained again by the impact of the exit of BNP Paribas Personal Finance Branch (~8% of the sector).

Over the period of the update, the downward trend of **non-performing loans** is maintained - by 16.2% (BGN 66.3 million) for the last completed year with a decrease of 12.8% in the previous one.

The improvement of the credit portfolio of the companies is significantly influenced by the **sales of deteriorated loans** to debt collection companies. According to data from a survey of households and business liabilities in 2017, presented by the Association of Collector Agencies in Bulgaria (ACAB), the average amount of non-performing loans in the country decreased by 15% compared to 2016 (from BGN 912 for 2016 to BGN 775). This fact combined with the increase in income reported by the National Statistical Institute is considered as an increased tolerance of the debt “burden” for households. With regard to the structure of the contracting entities, the Association’ data show that the relative stability remains in 2017, with banks continuing to hold the first position, but their share declined from the previous year to 41.6%. "Fast Loans" displaced telecommunication products and account for just over 30% of the debts processed by the collector agencies.

The prospects for the sector are comparatively favourable and are based on predictions for economic growth, increase in income, consumer power and consumption which to lead to greater confidence of loan borrowers with regard to their personal finances. An important factor for development of fast loans industry will continue to be accessibility of the services as a result of information technologies in use and electronic channels for sales. On the other hand, there are indications for intensifying the interest of banks (through related companies or directly) to the specified segment, which create conditions for enhancing the competitive pressure, respectively, for restricting the possibilities for maintaining high profitability.

During the period of update “**Credissimo**” EAD changed its structure in solely-owned joint-stock company. The current owners of the capital are

	CREDIT RATING „Credissimo“ EAD Long-term/Short-term Rating: BBB- / A-3 (Outlook: positive) National-scale Rating: A+(BG) / A-1 (BG) (Outlook: positive) October 2018
	95, Evlogi Georgiev, fl. 1 1142 Sofia

listed as shareholders in the new shareholder - **Credissimo Holding Limited, Malta**, and the equity remains unchanged - BGN 5 mln. The company retains the system and the composition of its management bodies and is managed together and simultaneously by the two Executive Directors - Sokol Yankov and Georgi Karpuzov.

Shareholder	Sep.2018	Sep.2017	2015
Credissimo Holding Ltd, Malta	100.0%	-	-
Kosta Kanchev	-	28.34%	28.33%
Sokol Yankov	-	30.83%	30.83%
Assen Benev	-	22.83%	25.83%
Advenkos EOOD	-	15.00%	15.00%
Novea Asset Management EOOD	-	-	0.01%
Georgi Karpuzov	-	3.00%	-

After the establishment of two new subsidiaries:

- **FD Credissimo DOEEL (Skopje)** (100% participation) - started operating as a financial company as of September 2016, and by the end of 2017 formed a portfolio of BGN 1.3 million;
- **Credissimo Super EAD (100%)** - established in May 2017 with a planned activity to lease financing on used vehicles and formed a portfolio by the end of 2017 with minimum value of BGN 19 thousand. Credissimo Super is established in May 2017 in the previous period of update. In the period of update, two more financial companies are established:

- **Credissimo Romania I.F.N.S.A.** – participation of 99.9%, registered in July 2017 and does not operate in the current year;
- **Credissimo Polska SP.ZO.O.** (100%) – still does not operate;

The expansion of the company's group on three new markets - Macedonia, Romania and Poland, is the distinctive change for the period under review. The management of the company also plans to register and develop two more.

The full ownership of the equity of the subsidiary "**I Trust**" EOOD (non-banking financial institution), dealing with the guarantee transactions and collection of receivables on loans and other forms of financing is preserved.

The **equity** dynamics continues being determined by the financial result and the distributed cash dividends. As a result of the higher profits, in 2017

is reported a growth in equity of 19.6% (4.6% in the previous period). In the first six months of 2018, there is another increase by another 18.7% compared to the end of 2017.

The level of *unadjusted leverage* ratio grows in 2017 to 1.47 (from 1.37 as of the end of 2016), taking into account the higher growth rate of assets (28.0%) compared to equity (19.6%). In the first half of 2018, a decline to 1.33 resulting from an outpaced increase in equity (profit growth including the impact of dividend income - BGN 3.5 million) to the value of assets. Similar is the dynamics of adjusted leverage ratio preserving the values of the indicator (1.41 at the end of 2017 and 1.35 as of June 30, 2018) due to the significant relative value of the long-term assets and intangible assets.

In the completed two last years, non-adjusted and adjusted leverage ratios of the company are characterized by lower levels compared to the average for the **competitive group**¹ and is relatively equal to the three of the five analysed companies.

In the period under review, the funds attracted by Credissimo retain its sources of **funding** unchanged as of the end of the first half of 2017 by using two loans from legal entities - non-banking institutions whose interest rates are improved after the renegotiations of the contracts. Thus, the value of the liabilities decrease by 6.7%. Since 2015, the company does not use bank loans, when it paid off its debts and is not financed by bond loans.

In 2017, the total amount of **liabilities** increases considerably (50.5%, up to BGL 6.5 million), the growth being mainly due to increased trade obligations to the subsidiary "I Trust" EOOD (amount of 5.9 million BGN), which accounted for 62.6% of total liabilities at the end of the year. As of the end of the first half of 2018, the total value of the liabilities decreased by 15.8% compared to the end of 2017. This is a result of the paid tax liabilities and a significant decrease (12.8%) in the trade liabilities.

The changes in liabilities, broken down by the constant increase in equity, led to an increase in the value of the **debt ratio** (to 0.47 from 0.37 a

¹ Includes: „EasyAsset Management“AD; „ProfiCredit Bulgaria“ EOOD; „City Cash“ OOD; „Net Credit“ OOD and „4finance“ EOOD.

	<p>CREDIT RATING „Credissimo“ EAD Long-term/Short-term Rating: BBB- / A-3 (Outlook: positive) National-scale Rating: A+(BG) / A-1 (BG) (Outlook: positive) October 2018</p>
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year earlier) by the end of 2017 and a decrease as of 30.06.2018 to 0.33. In 2017, Credissimo continues to held a favourable position compared to the companies from the competitive group, maintaining the level of the indicator below the average of 1.39 and below of all other companies, except one. In 2017, in a comparative aspect "Credissimo" EAD continues to have a favourable position compared to the companies in the competitive group below the average rate (1.39) and all companies, except one.

In the period under review, June 2017 – June 2018, the trend of **increase in assets** is preserved, reporting higher growth of 28% on an annual basis in '17/'16 compared to 11.4% and 31.0% in Q1'18/Q1'17 compared to 11.4%. The main reason for the growth is the expansion of the loan portfolio of the company - by 29.0% in 2017. (at 16.8% for 2016) and another 7.8% for the six months of 2018.

The structure of the assets remains dominated by the **net value of loans** (over 78%), as an additional effect of the increase in value has the growth in **investment** (by 139.4% - as a result of the established three new subsidiaries - Credissimo Super, Credissimo Polska and Credissimo Romania) and **the increase in cash and cash equivalents** (15.4%).

The gross amount of the **loan portfolio** continues to increase, but with a reported deceleration compared to the previous years. The growth rate of the consumer loans in 2017 is 23.3% after 33.8% in 2016 and 38.0% in 2015 and in the first six months of 2018 the growth rate is barely 1.9%. In the portfolio's structure, an increasing share of "other business-related loans" is accounted for by financing loans to subsidiaries. These dynamics, in line with the plans announced by the company's management, give evidence for the efforts to improve the quality of portfolio, together with the transfer of part of its profitability for the development of new markets and product types.

Over the same period, the downward trend in smaller number of loans is down to 1.8%, 1.5% in the previous 12 months, with a slight increase in the average approval rate of applications to 34% (from 31%). There is a growth in the number of

approved loans and an increase in the average amount of the granted loan amounts, leading to a stable increase in the volume of the loans by 11.1% (also after stable growth in the previous 12 months of 14.6%). In the last three months of the period under review there is a stronger increase in the average amount of the loans granted.

At the end of the first half of 2018, **net loans² with or without delay** of up to 30 days account for 69.3% of the total net loan portfolio, recording a slight decrease (1.8 p.p.) compared to the end of June of the previous year (71.1%), respectively against a rise in the share of the **deteriorated loans**. On the other hand, in the general structure of the latter, the amount of receivables classified in the heavier overdue groups (respectively those with a period of 181 to 720 days by 76.4% and those with over dues over 720 days by 29.0%) increased, which together with the increase of 22.2% in the amount of overdue payments in the period from 31 to 90 days, indicate a general deterioration in the quality of the portfolio as of June 30, 2018. By years of disbursement, in the portfolio as of 30.06.2018, the highest share in the deteriorated loans continues to be those granted in the last two years. At the end of the first half of the year, a significant decrease in the value by the Court receivables (47.6%) and awarded by the Court (55.9%) receivables is obtained as a result of the session of claims in September 2017 and June 2018.

The coverage of the impairment portfolio, as an average, remains unchanged for the period under analysis, in average is at about 33% (with a greater deviation in the first half of 2017 when its level reaches 36.7%). As of June 2018, the levels of coverage of the Court receivables (by 5.2 percentage points to 56.2%) and the awarded by Court receivables (by 9.3 percentage points to also 56.2%) fell.

The Company maintains the practice of **ceding** parts of its loan portfolio, with two such transactions being carried out during the review period - in September 2017. and in June 2018. On the first of these, the company exempted total receivables amounting to BGN 2.6 million, distributed relatively more equally between awarded by Court and overdue over 720 days. In

² Include all loan liabilities, the amount of which is reduced by accrued impairment

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the second transaction the company sold receivables with a total value of BGN 2.9 million, distributed in an approximate ratio of 1 to 2 between awarded by Court, overdue over 720 days and non-judicial, overdue - over 180 days. The accrued depreciation on these portfolios is 69.0% and 61.1%, respectively, and the agreed selling prices are respectively 17.0% and 21.8%.

By type of products, the status quo is preserved, with a major share in the consumer credit portfolio being formed by credissimo plus - over 95% (similar to the previous period), while the remaining four products preserve minimum shares.

During the review period, there is a steady downward trend in the number of **new customers** (starting in June-July 2017), from levels of around 39% then, their share reached a level of about 22% by June 2018.

Without a significant change, the ratio between **one-off repayment loans** and repayment of **loans in installments** is maintained, a ratio of around 30% to 70%. More characteristic is the change in the last twelve months, the products provided with a one-off repayment to the new customers exceed or are equal to those repaid in installments.

In 2017, Credissimo EAD continue to generate a growth in **interest income** (22.4%), confirming the the trend from a previous reporting period (with a growth of 25.3%). The trend is the same in the first six months of 2018, but with a lower growth rate of 13.2% compared to the one reported in the first half of 2017 of 22.6%.

The increase in interest income is due to the simultaneous growth of gross loans, which determines the maintenance of the ratio **Interest income / Gross loans in average annually**, relatively unchanged in the narrow range of 24.5-25.0% over the last three years. Similarly, the **interest income ratio to the average annual balance (net) value of loans** remains unchanged (around 35.5%). In 2017, Credissimo EAD continues to maintain a significantly lower level of the latter indicator compared to the average for the selected competitive group.

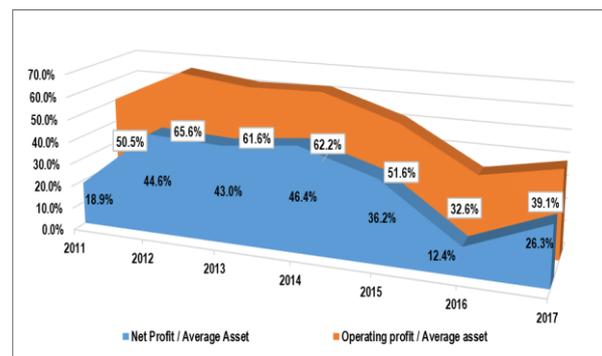
In the period, **interest expenses** continue to account for 49.8% on a yearly basis in 2017 (at 44.0% in 2016) and by 7.8% lower for the first half

of 2018. There is a decrease in the ratio **Interest expense/average amount of interest liabilities** (from 5.2% to 1.8%), the level of which keeps the favorable position significantly below the average for the competitive group (increased to 10.4% from 8.7%). Gradually and permanently until the end of the first half of 2018 the value of the interest spread increases.

The **result**, reported by Credissimo EAD for 2017 (**on an individual basis**), is a net profit of BGN 6 974 thousand, exceeding by over 2.5 times the profit for 2016 (BGN 2,745 thousand) and is the highest value registered by the company in a five-year retrospective plan. The most significant impact on its growth is the increase in earnings under loan guarantee agreements, followed by the increase in the amount of interest income and the effect of a decrease in the amount of revaluations on the loan portfolio. Some of these positive changes are consumed by the overall increase in administrative and operational expenditures (with the largest increase in personnel costs).

For the first half of 2018, the company earned a net profit of BGN 5,790 thousand, which is 35.8% higher than the first half of 2017, as the main source for its growth is the increased **revenues from dividends** (BGN 3.5 million compared to BGN 1.0 million).

The period is characterized by a significant increase in the ratios of net and operating earnings to average value of assets.



On a consolidated basis, a more significant impact on the 2017 accounts only the results reported by "I Trust" EOOD. The consolidated result of "Credissimo" EAD for 2017 is a net profit of BGN 9 791 thousand. (BGN 7,318 thousand), recording an increase of 33.8% compared to the previous year. The increase in total assets is

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28.8% (to BGN 30.9 million) and the total value of liabilities increases by 31.2% (up to BGN 3.2 million).

The achieved higher financial result is reflected in recovered part of the value lost in the previous year from the level of **return on assets**, reaching up to 26.3% after the registered decline of 12.4%, while the positive trend continues in the first half of 2018.

In 2017, the decrease from the previous year in the value of the ratio of **current assets to liabilities minus equity**, whose value at the year end is 2.73 (3.36), which level is close to the lowest in five-year retrospective plan. The change results from the faster increase in liabilities (50.5%) compared to that of the current assets (22.1%), but it should be considered the fact that 62.6% of total liabilities are to the subsidiary "I Trust" EOOD. In the first half of 2018 this trend changes, with the value of the indicator at the end of the period reaching 3.51 (3.08 as of 30.06.2017), being mainly due to a decrease in the amount of the liabilities to the subsidiary.

Credissimo EAD is positioned favorably compared to the reference group by level of the **current assets / (Total liabilities - equity)** indicator with values for the last two years significantly exceeding the average for the group.

Over the review period, a relatively high increase in **current liabilities** in 2017 (52.3%), which outpaced that of the short-term assets, lead to a decline in the **current liquidity**³ of the company to 2.77 (3.45 at the end of the previous year). In assessing this change, again the high burden of

the obligations to the subsidiary "I Trust" EOOD should be taken into account. In the first half of 2018, under the influence of one-way effects of growth in short-term assets and a decrease in the value of short-term liabilities, the value of the indicator recovers its lost value to 3.57, which is higher than the end of 2016 (3.45).

The **immediate liquidity** follows a similar dynamic during the review period, with a decline of 0.25 in 2017. (by 0.13 pp) and follows a similar dynamics during the review period, with a fall of 0.25 in 2017 (by 0.13 percentage points) and an increase in the first half of 2018 to 0.34, which is 0.04 p.p. lower than that, as of the end of 2017. Determining for the dynamics of the indicator is the above mentioned change in short-term liabilities. **Cash and cash equivalents** are unchanged as of the end of 2017 and increase in the first six months of 2018 by 15.4%.

Over the past two years, in a comparative aspect, Credissimo EAD remains positioned below the average level of the **current liquidity** ratio for the competitive group, with lower levels reported by only one of the companies.

During the review period, the company did not change its **positions** compared to the group of analyzed companies, the third largest in terms of assets, the second in equity and the third in total revenues (this significantly shortening the gap with the previous positioned company). In general, for most of the financial indicators reviewed, the company achieved better values than those of the other companies.

In negative aspect, the rating would be affected by the decrease in income, additional deterioration of the Loan portfolio, respectively the continuing increase of costs for impairments and the considerable decline of the financial result.

Positive influence would have the sustainable improvement in financial indicators, increase in generated profit, improvement of portfolio quality and collection rates on receivables and improving and/or introducing new systems for assessing account receivables.

³ The current and fast liquidity values coincide, as the company does not hold inventories

	CREDIT RATING „Credissimo“ EAD Long-term/Short-term Rating: BBB- / A-3 (Outlook: positive) National-scale Rating: A+(BG) / A-1 (BG) (Outlook: positive) October 2018
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Main Financial Indicators

	(thousand BGN.)	6.2018	2017	2016	2015	2014	2013
Balance Sum		32 051	29 762	23 250	20 880	15 189	9 651
Gross Loans		34 924	33 081	26 995	21 392	18 162	11 138
Equity		24 051	20 262	16 938	16 193	10 970	5 804
Interest Spread		11.4%	22.7%	19.7%	13.0%	64.8%	82.3%
Net Financial Result		5 790	6 974	2 745	6 523	5 166	2 809
Return on Assets (average annual)		20.5%	26.3%	12.4%	36.2%	46.4%	43.0%
Current Liquidity Ratio		3.6	2.8	3.5	4.2	6.7	4.3

*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 as from 04.07.2016.

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