

Delta Credit ADSIC

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CREDIT RATING	Monitoring	Update
Date of Rating Committee:	06.01.2017	05.12.2017
Date of Publication:	11.01.2017	06.12.2017
Long-term rating :	BBB-	BBB-
Outlook :	<i>In development</i>	<i>stable</i>
Short-term rating :	A-3	A-3
National-scale long-term rating:	A (BG)	A (BG)
Outlook:	<i>In development</i>	<i>stable</i>
National-scale short-term rating:	A-1 (BG)	A-1 (BG)

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

BCRA - Credit Rating Agency (BCRA) is the third qualified rating agency in the EU, registered under the Regulation (EC) 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 the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

BCRA assigns to Delta Credit ADSIC the following ratings:

- Long-term credit rating **BBB-**, outlook „**stable**“, short-term credit rating **A-3** ;
- National-scale long-term rating **A (BG)**, outlook „**stable**“, national-scale short-term rating **A-1 (BG)**

The officially adopted methodology for assigning corporate credit ratings is used by BCRA http://www.bcra-bg.com/files/file_103.pdf.

The report has been prepared and the rating – assigned, based on information, made available by the rated company, the NSI, the BNB, BCRA's database, consultants and other public sources.

In 2016, the growth of Bulgarian economy accelerates, from 3.6% in 2015 to 3.9% in 2016. In the first half of 2017, the economy of the country increases by 3.7% compared to the same period of 2016.

The uptrend started after 2013 is reinforced in the reserve assets of the BNB which is a solid buffer for guaranteeing the stability of the currency board.

In 2016, the flow of DFI decreases to 1.4%, reaching the lowest values for the last 5 years. The preliminary data say that the decline in the investment flows continues in the first half of 2017.


The data for the labour market in the first half of 2017 reports record-breaking high indicators for economic activity and employment of the population. Ascending remains the labour income trend. Unemployment ratio reaches its pre-crisis levels (6-7%).

Since June 2017, overall average annual change of prices register increasing positive values and reach 0.6% as of the end of September.

The balance on government budget reports improvement. The deficit in the size of 2.3% of GDP in 2015 reduces to 1.2% of GDP as of the end of 2016 (size of 1.9% in the State Budget of the Republic of Bulgaria Act).

The budgetary balance on CFP (Consolidated Fiscal Programme), set out in the draft budget for 2018, is a deficit in the size of 1.0% of GDP. The government intends to continue the policy for gradual consolidation and reaching a balanced budget in 2020. In the forecast period there are not planned substantial changes in the tax policy.

The level of the state debt (27.4% of GDP at the end of 2016, 23.6% of forecast GDP as of the end of September 2017) continues to be a positive

 <p>BCRA CREDIT RATING AGENCY</p>	<p>CORPORATE CREDIT RATING Delta Credit ADSIC Long-term/ short-term rating: BBB- / A-3 Outlook: stable National-scale rating: A (BG) / A-1 (BG) Outlook: stable December 2017</p>
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factor for Bulgaria¹. The Ministry of Finance expects a fall in the state debt to 22.3% of GDP as of the end of 2018 and reach 20.0% as of the end of 2020.

For the period of updating the banking system in the country is characterized by:

- Retention of the substantial share of the foreign capital in the total capital in the banking system;
- The assets in the banking system continue to increase in the last two completed years and in the first half of 2017;
- Retained uptrend in the profit in the banking system, observed in the previous three years as well. In the mid-2017 the reported profit by the banks reports a substantial move down compared to a year earlier (a decline of 14.6% in a nominal value compared to substantial growth of 53.7% as of Q2 2016), as it should be taken in consideration that the indicated is not due to negative trends with regard to the generated income and/or expenses of the bank, and is a result of the circumstance that in the first half of 2016 substantial part of the realized income have had a single character (more than 150 mln. BGN are added as a result of the completion of the transaction for Visa Europe);
- In 2016 and the first half of 2017 the trend of increase in the attracted funds in the form of deposits is retained (regardless credit institutions);
- After delay in the fall in lending in 2015, in 2016 there is a slight positive change in the size of given loans and advance payments to non-financial sector (0.6% on a yearly basis), and in the first half of 2017 the registered growth accelerates to 3.4% compared to the same period for 2016. The Ministry of Finance stipulates this process to continue in the period 2017-2020;
- The non-performing loans decrease to 12.9% of gross credit portfolio as of the end of 2016 (14.5% as of 2015). The continuous improvement in the quality of the portfolio is

observed in the first half of 2017 as well (by nearly 2 p.p. in comparison with a year earlier), as the level of non-performing exposures remains relatively high – 12.1% of gross credit portfolio;

- High levels of liquidity and capital adequacy continue to be reported.

For the favorable status of the banking sector in the past year bespeak the results of the held AQR (Asset Quality Review) and stress tests for stability of banks in Bulgaria in 2016. The results announced in August 2016, show that the banking sector is stable, well capitalized, and public support for banks with state resources is not needed.

Operating in this market, the activities of the special investment purpose joint stock companies (SIPJSC) consist in raising free resources from the economy, through the issuance of financial instruments and the use of the money raised (or at least a major part thereof) in the purchase of certain assets . SIPJSC could be two types:

- SIPJSC, specialized in securitization of real estate;
- SIPJSC, specialized in securitization of receivables.


The law requires the size of the capital of the SIPC to be not less than BGN 500 000.

In 2016, the market of SIPC, operating in the sector of securitization of receivables and registered on the Bulgarian Stock Exchange, consists of 8 participants. In January 2017, the General Meeting of Shareholders of Ulpina ADSIC took a decision to discontinue the activity of the company, and with a decision of the FSC No. 195 as of 17.02.2017 its liquidation is allowed and its license was withdrawn. Thus, in the second half of the period under review the number of the companies has been changed to seven.

When performing their activity, the SIPJSC are mainly exposed to the following risks:

- System risks:
 - Political risk;
 - Dependency on market situation;
 - Change in taxation of investments in financial instruments;
 - Foreign currency risk;
 - Inflation risk and a loss of value.

¹ Maximum possible reference value of Maastricht criteria for convergence is 60%

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- Specific risks:
 - Price risk;
 - Dependence on a limited circle of suppliers of receivables and competitive sectors;
 - Credit risk;
 - Advance payment risk;
 - Liquidity risk;
 - Risk of key employees leaving.

Financial condition of the sector:

- Financial result

After a significant drop in the net profit for the sector in 2015, (67.6% on an annual basis), in 2016 an increase of 42.7% is reported. The influence of one of the companies - Capital Management ADSIC is extremely strong, ending the financial year with a high net profit. Excluding the data of this company, the results in the sector are: net profit in three companies, in total, below BGN 100 thousand and a net loss in four companies, in total, around BGN 500 thousand. The combined reading of this data, along with the above-mentioned increase in attracted financial resources over the past year, shows growing difficulties in the sector, an overall drop in profits and a search of opportunities for business expansion as a way to improve the achieved financial results.

Most generalized, the observed changes go with overallly increased in 2016 financial income (BGN 7.2 million compared to BGN 6.6 million in 2015), along with a minimal decrease in financial expenses (from BGN 4.6 million in 2015 to BGN 4.5 million in 2016). The achieved volumes of financial income in the last two years remain considerably below the levels for the period 2011-2014 - about BGN 10 mln.

In the structure of financial revenues with the highest share remains the income from interests (62.6% in 2016) but with a reported decrease (compared to the reported 73.8% for 2015), at the expense of the increasing part of the income from financial assets operations.

In the structure of costs by economic elements as main are retained the costs for hired services and for remunerations as gradually after 2012 the

share of other costs increases, as the main weight is held by costs for depreciation and provisions. In 2016, their share reaches 16%, increasing by 4.5 points compared to the previous year (11.5%). This could be defined as unfavourable development since this is an indicator for deterioration of the portfolios of the special investment purpose companies.

There are no changes in the legal framework of the activities of these companies for the period of updating.

Delta Credit ADSIC is a joint stock special investment purpose company under Art. 3 of the Special Purpose Entity Act (SPEA).

The Company's scope of activity is investment of funds raised through issuance of securities, in receivables (securitization of receivables), sale/purchase of receivables and other commercial activities directly related to the sale/purchase and / or securitization of receivables, as a license is required for any of these activities, it will be carried out after receiving it.


As of 30.06.2017, the equity of the company amounts to 1 mln. and 300 thousand BGN – without a change for the period of credit rating update, and the changes in the shareholding structure cannot be defined as substantial.

The company has a one-tier management system and during the period under review there is no changes in the Board of Directors which as of 30.06.2017 consists of:

- Galya Aleksandrova Georgieva – Chair of the Board of Directors and Executive Director;
- Nikolay Belinov Panayotov – Deputy Chairman of the Board of Directors and independent member;
- Stoyanka Doncheva Petkova – member of the Board of Directors.

After expiration of the previous mandate of the Board of Directors (31.01.2017r.), the same is renewed for another five-year period, without changes in its composition.

Having in mind the change in the legal framework and the requirements of Art.107 of the Independent Financial Audit Act that came into force (as of 02.12.2016), with a decision of the General

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Meeting of Shareholders as of 28.06.2017 the Audit Committee with a mandate by 28.06.2022, incl the following elected members:

- Stoyanka Doncheva Petkova;
- Krasimir Georgiev Bogdanov;
- Radoslava Nikolova Peneva.

Delta Credit ADSIC has no participations in other companies and operates only in the Bulgarian market.

During the period of updating of the credit rating Delta Credit ADSIC keeps its service company – Delta Credit Management (without changes since its establishment), which has specialists with many years of experience and qualification in the financial sphere – lending and management of loans, business with public companies, development of software products. Delta Credit ADSIC relies entirely on its service company for management of acquired receivables and all related activities, and, practically, do not have its own staff.

In the market of securitization of receivables the company is in a sharp competitive struggle with the other special investment purpose companies, carrying out securitization of receivables, and with companies specialized in collecting non-performing loans (the so called collection agencies), incl. the substantial number of new participants entered in the market the last 4-5 years, among which there are many foreign companies. Having in mind the specifics of its activity, Delta Credit ADSIC defines for its direct competitors companies specialized in collecting receivables, not the other ADSIC.

During the analyzed period the company has not included in its portfolio new, substantial receivables. Exceptions are such from the public sector (health care institutions) and a small portfolio of commodity loans acquired by a bank.

The total revenues in 2016 and 2017 on the corporate receivables portfolio acquired at the end of 2015 with funds from the issued bond issue are substantial (37.4% compared to the nominal value and 46.8% compared to the price of aquisition) and provide a positive cash flow from operating activities.

However, overall, the quality of the portfolio deteriorates and at the end of the first half of 2017. 53.7% of the amount of receivables are in the two

most hazardous groups – the fourth (overdue over 180 days) and „in-court and judged receivables”.

In the structure by residual amount reduce the receivables in the group to BGN 1 000 and in the group from BGN 100 to BGN 500 thousand, as the concentration of receivables remains high in the amount of over BGN 100 thousand (just over 43% as of 30.06.2017, 51% as of 31.03.2016).

By maturity structure, all receivables in the portfolio are reported as short-term financial assets available for sale and as currency structure are almost entirely in BGN.

The largest 15 regular, overdue and in-court and judged receivables form a share of 51.9% of the portfolio as of 30.06.2017, which is a slight decrease from the level of 53.5% at the beginning of the same year.

In the period of updating, the amount of financial revenues (90% in 2016 compared to the previous year) and costs (with a total increase of 87% in 2016) increase substantially. The first is formed by substantial revenues on acquired portfolio of corporate receivables in 2015, and the increase in the costs is the result of interests on the bond loan.

As a result of the positive financial result for 2016, (and as of the first half of 2017), the company improves its profitability indicators, which, however, remain substantially below the values for all companies included in the competitive group.

Liquidity also has been improved, as its values remain at levels more favorable than the average for the competitive group.

The total leverage has insignificant decrease, after substantial increase for 2015 as a result from the issued bond issue.

The following circumstances affect substantially the rating:

- The risk of non-payment of all liabilities (interests and principal) on the issued in December 2015 bond issue is covered for the entire term of the bond issue with a signed insurance contract "Bond Loan" (full insurance premium paid).

CORPORATE CREDIT RATING

Delta Credit ADSIC

Long-term/ short-term rating: **BBB- / A-3**

Outlook: **stable**

National-scale rating: **A (BG) / A-1 (BG)**

Outlook: **stable**

December 2017

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The insurance policy is issued by IC Euroins with a long-term rating of the ability to pay claims BBB-, outlook "in development".

- The company realizes a positive financial result and substantial growth in revenues on the portfolio during the period under review;

- The shareholding structure of the company includes companies with positive reputation and stable financial condition.

Main Indicators

<i>Indicator</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
Assets	5 418	5 431	2 429	2 268	2 272
Financial Revenues	576	303	274	521	510
Net Financial Result	43	16	18	55	102
Profitability on equity	1.95%	0.74%	0.83%	2.49%	4.55%
Quick Liquidity	25.08	21.13	9.53	36.40	78.34
Current Liquidity	25.08	21.13	9.53	36.40	78.34
Immediate Liquidity	0.96	0.71	0.09	0.65	2.83
Total Leverage	0.59	0.60	0.10	0.03	0.01
Financial Leverage	1.36	1.38	0.00	0.00	0.00

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The main activity of Delta Credit ADSIC is the investment of cash in receivables. In recent years, the sector of trade and collection of receivables has been characterized by the entry of a significant number of new participants, which leads to increased competition.

During the period under review, the company's activities are characterized by increased revenues and costs, as the faster growing increase in revenues leads to an increased financial result. This determines the improvement in the values of profitability on equity and the ratio of capitalization of assets.

The liquidity is improved, as the values of the indicators current, quick and immediate liquidity remain the highest compared to the achieved by the companies from the competitive group.

The total leverage of the company has an insignificant decrease and despite the significant increase in 2015 (issued bond loan) remains at a relatively low level compared to the competitors.

The cash flow remains positive and by some increase in the revenues. The portfolio of securitized receivables is with a nominal value that is significantly higher than the balance value, and the acquired receivables in 2015 have a high level of collection in 2016 and 2017.

The rating could be negatively affected by low collection on court and assigned receivables, a possible future decrease in the revenues, devaluation of the acquired portfolios of receivables and realization of negative results, which would decapitalize the company. The rating would also be affected by a change of the rating of IC Euroins, in his capacity of the issuer of an insurance policy "Bond loan" covering the risk of non-payment of the obligations on this loan by Delta Credit ADSIC.

The rating could be positively affected by: improvement of the collection on receivables of the old portfolios and regular revenues on receivables from the new (acquired after November 2015), decline in the concentration in the receivables portfolio, increase in the generated profit and stable improvement of the financial indicators, incl. retention of stable levels of liquidity and leverage.

Improvement and/or introduction of new systems for assessment of receivables and expanding the scope of reporting would have a positive effect on updating the rating.

Rating History

CREDIT RATING	Initial rating * 30.06.2016	Monitoring 05.07.2016r**
Long-term rating :	BBB-	BBB-
Outlook :	stable	Under review **
Short-term rating :	A-3	A-3

* The initial rating is assigned under the previous Methodology for assignment of a corporate credit rating and is not directly comparable with the ratings assigned after the entry into force of the current methodology since July 2016.

** The status "under review" is due to changes that have come into force in the Methodology for assignment of a corporate credit rating of BCRA – Credit Rating Agency (see <http://www.bkra-bg.com/>).