

„Eurolease Auto“ EAD

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CREDIT RATING	Initial Rating
	20.12.2016
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)

* The assigned „negative“ outlook is a result from the applied ceiling of the rating, which is determined by the sovereign rating and outlook (as of the time of reconsideration the rating assigned to the Republic of Bulgaria by BCRA is long-term rating: BBB-(ns), outlook: „negative“, short-term rating: A-3 (ns) – see 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 „Eurolease Auto“ EAD the following ratings:

- Long-term: **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 methodology that BCRA has adopted officially is used for assigning credit ratings to a leasing company (http://www.bcra-bg.com/files/file_197.pdf)

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.

In early 2013, Bulgaria entered into a spiral of political crises, early termination of the mandates of governments and refusal of structural reforms. The early parliamentary elections in late 2014 somewhat restored political stability in Bulgaria and in the medium term it does not seem threatened. In the long term, however, we can not expect the government to proceed with major reforms that would lead to sustainable economic growth.

In October 2015, local elections were held in Bulgaria which do not lead to substantial changes in the political layers.

Subsequently, however, after losing the conducted in November 2016 presidential elections by the candidate of the largest parliamentary represented party (GERB), the resignation of the government and the refusal of the greatest two parliamentary political forces to try to form a government, the possibility of appointing a caretaker government and going early parliamentary elections increases significantly. The political situation at the time of preparing the report can be defined as relatively stable.

The reported real GDP growth for 2015 (3.0%) is almost 2 times higher than the achieved in the past two years - respectively 1.6% for 2014 and 1.3% for 2013. The relatively high growth rate continued in the first half of 2016, as for both quarters are

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reported, respectively 3.0% and 2.9% real growth. Among the main components of GDP, an important role plays the increase in ultimate consumption due to its large share in GDP (77.2% for 2015.).

The main components that contribute to positive changes are, respectively, exports and final consumption, as mainly the rise in 2015 is due to the first, and in the first half of 2016, a significant part of the weight shifted to the domestic consumption which indicates for formation of additional growth factors resulting from the country internal processes.

On the labour market the positive changes, observed after 2013 regarding employment, retain. The economic activity, however, show signs of deterioration intensifying in the half of 2016.

At the beginning of 2014, deflationary processes were observed that reached their peak in early 2015, retained, then even became worse by the mid 2016.

There was a slight improvement in the public budget of the country in 2015 and it continued in 2016 as well.

After some rebalancing of the public debt at the end of 2015 and a subsequent significant increase in March 2016 to July, the size of debt remained almost unchanged.

There is a slight fluctuation in the value of assets of the banking system expressed as a fall in 2014 and an increase in 2015. At the same time, the trend of increase in profit of banks that started in 2013, retains.

At the end of 2015 and the first half of 2016, the banking system reported high liquidity and capital adequacy.

The announced on 13 August 2016 results from the asset quality review and stress tests for resistance of banks in Bulgaria show that the banking sector is stable, well capitalized and public support to banks with funds given by public budget is not necessary.

"Eurolease Auto" EAD was established in 2004, as in its current legal form the company converted to on 29.10.2013 as a result of a decision taken by the Management Board of "Eurohold Bulgaria" AD for merger of "BG Autolease Holding BV" (100% owned by Eurohold Bulgaria AD and a sole owner of the capital of the company as of December 31, 2012) in "Eurolease Group" EAD (100% owned by

"Eurohold Bulgaria" AD). As of 30.06.2016 a sole shareholder is "Eurolease Group" EAD.

"Eurolease Auto" EAD performs activity on acquisition of transport vehicles, machinery and equipment, and any other movable and immovable property and providing them subsequently through all types of leasing transactions to final users.

Eurolease Auto performs its activity through a branch network, which in the middle of the current year consists of 8 branches: Burgas, Varna, Yambol, Sliven, Veliko Tarnovo, Plovdiv, Blagoevgrad, Ruse and Sofia.

Over the past five years there has been a trend to gradually reduction of the lease portfolio of the companies operating in the sector. According to the data of Bulgarian Association for Leasing (BAL) as of 30.06.2016 the companies engaged in the sector were about 44. The trend of a gradual decline in lease receivables is observed as such since 2009 as the only exception in this regard is 2013 when a slight growth of aggregate lease portfolio was reported in the sector compared to the previous year by about 1.4%. So, as of 31.12.2015, the aggregate amount of lease receivables amounted to 3 088 668 thousand BGN. The receivables on financial lease cumulatively reports growth of ~ 470% (4.8 bln. BGN) for the period 2005-2008 and a decline of 47.0% (2.7 bln BGN) for the period from 2008-2015 while receivables under operating leases increased during the period (a decline was recorded only in 2010 and 2014). Its cumulative growth from 2005 to 2015 amounts to ~ 300% (72.5 million BGN). The share of receivables on operating lease in total lease receivables for the period 2005-2015 ranges from 1.2% (2008) to 3.8% (2013) as at the end of 2015 it amounted to 3.1%.

The main competitors of "Eurolease Auto" EAD are subsidiaries of the banks operating in the local market, and in this respect the latter have obviously a competitive advantage, which translates into easier access to cheap borrowings to finance its activities. As companies with the largest market share in recent years could be mentioned "Unicredit Leasing" EAD, "Interlease Auto" EAD, "ERB Leasing" EAD.

The market share of „Eurolease Auto“ EAD reports a decline for past few years. In 2011, it was 2.3%, at the end of 2014, it was 1.7%, and as of 31.12.2015, the same was already 1.4%. As of

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30.06.2016 the market share of „Eurolease Auto“ EAD reported a slow growth up to ~1.5%.

The main trends in the financial condition could be summarized as follows:

- A gradually decreasing lease portfolio as the movement in its value does not follow the market one;
- After recording a loss in 2011, 2012 and 2014 (mainly due to a faster rate of decline in revenues compared to the same with expenses) in 2013 and 2015 the company realized a positive financial result as the trend in this regard is to increase in absolute value;
- The reduction of the lease portfolio leads to reduction in operating income, but on account of this, the company manages to improve its profitability;
- Continuous trend of reduction of the banking leverage and bond leverage as their depreciation in the long run follows the already mentioned reduction of the lease portfolio;
- For the period under review, the equity of the company does not report any significant change.

Compared to other competitive companies, the following impresses:

- Gradually, the company manages to improve its profitability and from the lowest level of the values of the coefficient in the comparison group, during the last reporting period, the company shows the best value, although the

reduced over the period absolute values of generated income;

- Values for current liquidity indicator are relatively good, as one of the competitors reports better values than the rated entity;
- The total leverage of the company is lower than the average for the competitive group;
- In almost entire period the company maintains the most favorable values of the average interest rate on the lease portfolio;
- The ratio of net investment in finance lease to the sum of banking and bond loans shows that the rated company has the highest dependence on borrowed funds to finance its activities.

For the period 2016-2018, „Eurolease Auto“ EAD sets the followings aims:

- An increase in lease portfolio by ~60% (compared to growth in banking and bond leverage of ~83%);
- An increase in interest income by ~30% (compared to an increase in interest expenses of ~27%);
- An increase of income before taxation by 94% and net profit by 100%.

The implementation of the aims will provide a possibility to the company to develop normally in next three-year period and to service its credit liabilities.

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Main Financial Data

Financial Indicators, thousand leva	30.6.2016	2015	2014	2013	2012	2011
Income from Interests	2 522	6 254	6 458	6 543	7 950	11 499
Expense for Interests	1 409	3 808	4 091	4 308	5 394	7 851
Net Incomes from Interests	1 113	2 446	2 367	2 235	2 556	3 648
Income from commissions, net	347	594	458	1 077	1 535	2 166
Accounting Profit/Loss	322	1 236	-121	457	-2 082	-257
Net Financial Result	322	1 220	-111	428	-2 059	-406
Assets	73 815	80 414	87 368	88 872	100 443	115 383
Equity	21 378	21 056	19 836	19 947	19 519	21 427
Net investments in financial lease	40 017	50 248	61 111	55 040	61 312	76 221
Funds	1 437	5 565	1 134	656	812	1 807
Financial debts/liabilities	47 913	54 296	59 548	56 486	73 109	81 495