95, Evlogi Georgiev Blvd.
1142 Sofia
phone: (+359 2) 9876363
www.bcra-bg.com

„International Asset Bank" AD

April 2019

Radoslav Marinov, Lead Financial Analyst
r.marinov@bcra-bg.com
Ventseslav Petrov, Financial Analyst
v.petrov@bcra-bg.com
Ivailo Cholakov, Financial Analyst
i.cholakov@bcra-bg.com
Radostina Stamenova, Economic Analyst
stamenova@bcra-bg.com
Kalina Dimitrova, Economic Analyst
k.dimitrova@bcra-bg.com

FINANCIAL STRENGHT RATING*	Update	Update	Review	Review
Date of rating Committee:	07.03.2016	24.03.2017	29.03.2018	09.04.2019
Date of Publication:	08.03.2016	27.03.2017	30.03.2018	10.04.2019
Long-term rating:	B	B+	B+	B+
Outlook:	positive	stable	stable	positive
Short-term rating:	B	B	B	B
Long-term National-scale rating:	BB- (BG)	BB (BG)	BB (BG)	BB (BG)
Outlook:	positive	stable	stable	positive
Short-term National-scale rating:	B (BG)	B (BG)	B (BG)	B (BG)

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

BCRA – CREDIT RATING AGENCY (BCRA) is the third qualified rating agency in the EU, registered under 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 equal with the other ratings, recognized by the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

„Bulgarian Credit Rating Agency" (BCRA) maintains the ratings of "International Asset Bank" and changes the outlook as follows:

- Long-term financial strength rating: **B+,** outlook: from „stable" **to „positive",** short-term rating: **B;**
- Long-term national-scale rating: **BB (BG),** outlook: from "stable" **to „positive",** short-term national-scale rating: **B (BG).**

The officially adopted by BCRA methodology for assigning financial strength ratings to banks is used [1].

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

The Government of the Republic of Bulgaria is committed to speeding up the process of joining the euro area by officially submitting a letter of intent. In August 2018, the Council of Ministers approved an Action Plan including measures for realizing Bulgaria's intentions to join the Exchange Rate Mechanism II and the Banking Union by July 2019.

In 2018, the country's economic growth slowed down to 3.1% (3.6% in 2017). Domestic demand (consumption and investment) contributed positively to GDP dynamics. On the other hand, net exports had a negative contribution to the GDP growth in the first half of 2018.

In 2018, the current account balance reported a surplus of EUR 2 539 million (4.6% of GDP) compared to a surplus of EUR 3 368 (6.5% of GDP) in 2017.

The inflow of foreign direct investment remains weak. According to preliminary data, direct investments in Bulgaria, in 2018 amounted to € 703 million or 2.8% of projected GDP, recording a nominal decrease of 34.5% compared to the previous year.

At the end of December 2018, the country's gross external debt amounted to EUR 32 716 million or 59.3% of the projected GDP. In nominal terms, the debt decreased by EUR 682 million compared to the end of 2017. The relative share of the public sector's

[1] https://www.bcra-bg.com/files/bank_methodology_2018_en.pdf

95, Evlogi Georgiev, floor 1
1142 Sofia
phone:(+359-2) 987 6363
www.bcra-bg.com

external debt fell to 18.7%, while that of the private sector rose to 81.3% of the total external debt.

As of the end of 2018, the BNB's international reserves amounted to EUR 25 072 million and provided 150.5% coverage of the monetary base, a solid buffer used by the central bank to ensure the stability of the currency board.

In 2018, the labour market conditions are tightening along with the growth of the general economic activity. The number of unemployed persons decreased in all age groups, determining the unemployment rate for the population over 15 years of 5.2% on average in 2018 and 6.2% in 2017.

Labour incomes in the economy retain their upward trend. In the first half of 2018, the average gross wage in Bulgaria reached BGN 1 135 in 2018, nominally increasing by 9.5% on a yearly basis.

The average annual inflation rate (measured by HIPC) accelerates to 2.6% in 2018. This value exceeds the Maastricht convergence criterion, which could slow down the country's entry into the Eurozone waiting room by mid-2019.

At the end of 2018, the budget balance was expected to be positive at 0.1% of the projected GDP or lower compared to the previous year (0.8% of GDP). The budget framework for 2019 envisages a deficit under the CFP amounting to 1.0% of GDP based on the budget execution so far we expect 2018 to be the third consecutive year with a deficit projected by law but an actual budget surplus achieved.

The budget framework for 2019 envisages a deficit under the CFP amounting to 0.5% of GDP, and the updated mid-term forecast reaffirms the balanced budget objectives in 2020 and 2021.

The low government debt level is assessed as a positive factor in comparison with the other EU countries. As of the end of Q3 2018, the consolidated debt of "General Government" sector amounted to 23.8% of GDP. The country has a significantly lower level of government debt than the Maastricht convergence criterion of 60% and is among the three EU countries with the lowest government debt level, being outpaced only by Estonia and Luxembourg.

In the period under review, the banking system remains stable, marked by a decrease of the non-performing exposures and retained high levels of capital adequacy.

At the end of 2018, 25 banks were operating in the Bulgarian banking market. The consolidation trend of the system continues. At the beginning of the third quarter of 2018, Commercial Bank “Victoria” EAD merged into Investbank AD and the process of the merger of DSK Bank and Societe Generale Expressbank (under the management of the Hungarian ORP Group) has been commenced. The same is the situation of the ownership change of Piraeus Bank Bulgaria, which is to be merged in Eurobank Bulgaria AD in the current year following the decision taken by BNB for preliminary approval of the deal at the end of March 2019.

In 2018, the profit of the banking system increased considerably. It reached BGN 1 678 million in nominal terms and the net revenues from interests, taxes and commissions retained their leading share. The generated profit in the banking system ensures confidence to some extent, as these available funds are a potential source for a capital increase and maintenance the stability in the sector.

In 2018, no changes have been occurring in the share capital, capital structure, participation and composition of the Supervisory and Management Board of “International Asset Bank”.

The Bank has carried out the following actions in order to strengthen its capital position:

- The profits from 2016 and 2017 are transferred to “Reserve” fund;
- In 2017, a Recovery Plan is developed and approved for implementation.

„International Asset Bank“ AD intends to continue capitalising its profit until 2022.

The bank’s strategy envisages retaining its conservative investment policy.

In 2018, the outpaced increase of Risk-weighted assets to Capital Base (CB) and the Tier 1 Capital led to a slight decline in the ratios of capital adequacy and capital adequacy of the Tier 1 Capital. Despite the reported decrease, their levels substantially exceed the regulatory requirements.

In the RWA’s structure, no substantial changes are observed, with the largest share are those for credit risk.

As of the end of 2018, the bank continued reporting lower values of the capital adequacy ratios (total and Tier 1 capital) compared to those of the banking system and Second group banks.

In 2018, the ratio of non-performing exposures to the capital base increased. The change is due to the outpacing growth of non-performing loans. On a

95, Evlogi Georgiev, floor 1
1142 Sofia
phone:(+359-2) 987 6363
www.bcra-bg.com

comparative basis, the bank's ratio exceeds the average of the banking system and the Second group of banks.

In 2018, there is a decline in both the non-adjusted leverage and the adjusted one. These levels are above the average of the banking system and Second Group of banks in a comparative aspect.

After the reported decline in return on equity in 2017, (by 5.09 pp) in 2018, there is an increase of 3.76 p.p. to 9.53% at the end of the year. For the past five years, a higher value of the indicator was registered only at the end of 2016 (10.85%). In a comparative aspect, the reported value is lower than the average of the banking system (by 3.78 p.p.) and slightly lower to that of the Second Group banks (by 0.57 p.p.).

For the last three years, the level of leverage for supervisory purposes is relatively stable and for the whole period covers more than two times the required minimum.

In 2018, the resource base of International Asset Bank AD has been increasing at a relatively equal pace compared to the previous year (growth of 5.5% in 2018, 5.3% in 2017) lagging behind to that of the banking system in 2018 (7.16%).

The structure of the attracted funds remains dominated by deposits.

In 2018, a slight slowdown in the assets increase by 4.9% is obvious (5.4% in 2017). In a comparative aspect, the growth is lower to the average of the banking system.

The assets structure remains dominated by net loans with a share lower both to the average of the banking system and to the Second Group of banks.

The size of the investment portfolio of International Asset Bank AD decreased significantly in 2018. Its share in the assets retained permanently below 10%. In terms of its structure, the portfolio is dominated by investment properties with a share of slightly above 50 %.

In 2018, for a second consecutive year, the upward growth of gross loans remained compared to the average of the banking system. Similar changes are also evidenced in terms of net loans.

The structure of the gross credit portfolio remains dominated by corporate loans.

The Bank has a relatively well-diversified corporate credit portfolio by economic sectors.

While for the period 2015-2017, the bank retained a relatively constant level of non-performing loans (annual growth of around 1%); in 2018 their value grew sharply - by 10.7% on an annual basis. Due to the above increase, their share in gross loans accounted for slightly higher than the average for the banking system and for Second group banks.

A large part of non-performing loans is formed by loans that have been lent until 2014.

With regard to the amount of new non-performing loans, in 2018, there was a significant decrease on an annual base, which in turn led to a decrease in the *Gross Ratio of Generation of Arrears*. On the other hand, the *Net Ratio of Generation of Arrears* was growing as a result of the increase of net overdue loans.

The registered coverage levels of depreciation of gross classified loans and gross loan portfolio are close to the average for the banking system and for the Second group banks.

In 2018, International Asset Bank reported an increase in the amount of its operating profit (by 24.1% on an annual basis), as a result of the growth of net interest income (by 15.9%) and non-interest income (by 8.6%). The effect was partially mitigated by the increase in operating expenses (by 6.8%), which was mainly due to the increase in personnel costs (by 10.6%).

The net financial result of the Bank for 2018 is a profit of BGN 10,369 thousand, which exceeds the profit for the previous year (BGN 6,007 thousand) by 72.6%.

The improved financial result for 2018 led to an increase in the value of the Return on Asset, to 0.74%, however, remained below the average for the banking system and below that for the second group of banks.

The liquidity coverage over the past three years is characterized by a significant excess over the minimum required liquidity coverage.

In terms of the indicator, current assets to total liabilities minus equity in 2018 registered is a slight increase on an annual basis. Over the last three years, the value is steadily set at about 50%. In a comparative aspect, the bank retains its favourable position to the average levels of the banks in the reference group[2].

The ratio total loans to total deposits also registered a slight increase in 2017, with a benchmark level close

[2] Investbank, Municipal Bank, Bulgarian-American Credit Bank and Commercial D Bank

95, Evlogi Georgiev, floor 1
1142 Sofia
phone:(+359-2) 987 6363
www.bcra-bg.com

to the average for the banks in the reference group.

During the period of update, International Asset Bank AD, without significantly changing its positioning vis-à-vis other banks in the system, moves one position ahead (up to 14th) by balance sum, loan portfolio size and attracted deposits. The change is a result of the merger of UBB and Cibank.

Main Financial Indicators:

(BGN '000. / %)	*2018*	*2017*	*2016*	*2015*	*2014*
Balance Sum	1 438 893	1 372 046	1 302 348	1 198 379	1 109 472
Gross Loans	700 026	638 244	565 591	567 226	516 269
Equity	114 206	105 900	101 735	89 719	85 496
Total Interest Income	31 890	34 604	37 411	44 284	43 268
Net Financial Result	10 369	6 007	10 344	4 223	3 544
Return on Assets	0.74%	0.45%	0.85%	0.37%	0.35%

In the period of the update, *International Asset Bank AD maintains a stable financial position. Capital adequacy levels remained significantly above regulatory requirements, with reported improvements in the capital base structure (further increase in Tier 1 capital). In the structure of the attracted funding, deposits retain the largest share. The credit portfolio is growing, while its quality is close to that of the banking system and the banks in the Second group. Operating profit and the net financial result are also rising. Liquidity indicators stood at good levels. „*

A negative impact on the rating *could have a decrease in profitability, respectively a difficulty in providing the necessary capital for the growth planned, further deterioration in the quality of loan portfolio and a significant decrease in the levels of the liquidity indicators.*

Improved yield, further improvements in asset quality and diversification, along with good levels of capital adequacy and liquidity, would have ***a positive impact on the rating****.*

****Rating History:***
The ratings in the chart are assigned under the preceding Methodology for assigning a financial strength rating to banks and are not directly comparable with the ratings assigned after the entry into force of the current methodology in September 2015.

FINANCIAL STRENGTH RATING	**Initial Rating**	**Update**	**Monitoring**	**Update**	**Monitoring**
	13.05.2013	**12.05.2014**	**11.09.2014**	**24.03.2015**	**08.09.2015**
Long-term rating :	**B**	**B**	**B-**	**B**	**B (under review)**
Outlook :	***stable***	***stable***	***stable***	***stable***	**-**
Short-term rating :	**C**	**C**	**C**	**B**	**B (under review)**