

**„International Asset Bank”
AD
March 2015**

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	Initial Rating 13.05.2013r.	Update 12.05.2014r.	Monitoring 11.09.2014r.	Update 24.03.2015r.
FINANCIAL STRENGTH RATING				
Long-term rating :	B	B	B-	B
Outlook :	stable	stable	stable	stable
Short-term rating :	C	C	C	B

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 entirely equal with the other ratings, recognized by the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

BCRA upgrades the long-term financial strength rating assigned to „International Asset Bank” AD from B- to B and the short-term rating from C to B, stable outlook. The officially adopted by BCRA methodology for assigning financial strength ratings to banks is used (http://www.bcra-bg.com/files/file_66.pdf).

To elaborate the report and assign the rating, the information, provided by the rated bank, the BNB, the NSI, BCRA’s database, consultants and other sources of public information is used.

The level of the GDP during 2014 increased by 2.2%¹ by current prices compared to the previous year, and the real growth of the Bulgarian economy over the year was expected to be 1.4%. During 2015, the forecast foresees lower annual growth (within 0.8%), influenced by the lower economic activity of the economic agents, as a result of the effects from the development in the economic and political conditions during 2014, backed up by the unfavourable effects of the long deflation processes.

The registered surplus by the country on the current account during 2014 (EUR 18.8 million) was considerably lower than the reported during 2013

(EUR 543.5 million). The commercial balance of the country also went worse, the deficit increased by EUR 793.7 million to EUR 2 902.4 million during 2014.

The foreign direct investments (FDI) in Bulgaria during 2014 reported a decline of 7.6% compared to 2013.

The unemployment rate dropped by 18.9%, from 13.2% as of the end of 2013 reached 10.7% as of the end of 2014.

During 2014, the government deficit as a percent of the GDP was on double increase and reached 3.7% of the GDP. During 2014, the amount of government debt increased highly from 18.9% to 27.9% of the GDP, and only the foreign government debt increased from EUR 4.0 billion as of December 2013 to EUR 7.1 billion during 2014.

The expectations for economy’s development during 2015 are as follows:

- Retention of the uptrend of the GDP, but at a lower rate;
- The consumption is expected to keep low and increase by lower growth rate compared to the previous year;
- A decline of the growth rate of gross capital formation due to a poor economic activity and decreasing number of the foreign investors in the country;
- A low level of the investments due to the lack of a well-developed capital market and the high corruption levels;
- A drop of the unemployment rate, and this is possible in case there is political stability and

¹ According to the express data of the NSI

deterioration is avoided in the main macroeconomic indicators;

- A decline in the deflation rate, as it is uncertain if the country will change to a situation with low inflation.
- An increase of the government debt in absolute value and as a percent of the GDP, due to the budgetary deficits planned during next upcoming years.

During the period of update, a number of cataclysms were observed in the banking system of the country. At end of June 2014, the risk of its destabilization increased highly. Following the widely spread rumors for a forthcoming bankruptcy and *intensive withdrawal of the deposits*, the banks in the group of „Corporate Commercial Bank“ AD (CCB and CB „Victoria” EAD) fell in a liquidity crisis and were placed under special supervision by the BNB on 20 and 22 June. First Investment Bank was affected by the intensive withdrawal of deposits. The liquidity crisis was prevented through a deposit of state funds collected by issuing five-month state government securities.

On 06.11.2014 the BNB deprived the license of CCB, due to a negative level of the equity in the amount of BGN 3 745 million, and announced that, the restrictions laid to CB „Victoria” to perform as a bank will drop off since December 12th, 2014.

On November 25th, the term of the liquidity aid/support given by the country to First Investment Bank was extended with 18 months, and the amount was brought to BGN 900 million.

The guaranteed amounts of BGN 3.7 billion to the depositors in Corporate Commercial Bank started being paid out since 4.12.2014. The restrictions set to CB „Victoria” EAD to perform as a bank dropped off since 12.12.2014 and the Bank renewed the implementation of its duties to its depositors with own funds. The deposits recovery process in Corporate Commercial Bank recovered, to great extent, the trust on the banking system.

At the end of 2014, the banking sector in Bulgaria was characterized with the following features:

- Provision of funds to finance the activity of the banks mainly through operations at the domestic market.
- Retention of a sustainable growth in the amount of the attracted deposits.

- A considerable decline in the rate of lending.
- A stable uptrend of the net interest margin;
- Interruption of the growth trend of the classified loans.
- An insignificant decline of the assets and interruption of the trend in the profit of the banks.
- High liquidity and very good capital adequacy.

During 2014, there were not changes in the shareholding structure of the Bank or in the composition of the Supervisory Board and Management Board. The paid-in capital of International Asset Bank consists of 30 306 444 dematerialized registered shares with a par value of one lev each.

At the end of 2014, the share of the equity of the Bank from the total liabilities and equity was at its lowest level over last 5 years. It exceeded only the levels of CB Victoria and Municipal Bank in the entire banking sector. This was due to the faster growth of the attracted funds, especially of the deposits, compared to the capital's. During the period of update, the capital base of the bank increased faster compared to its risk-weighted assets, which led to growth in the total capital adequacy. The increase of the capital base was due to a change in the regulatory framework which led to falling off of the cutting of the credit risk specific provisions using a standardized method, growth of the BGN equivalent of the issue of permanent hybrid debt capital instrument, the undistributed profit of 2013 and the income of the current year.

As a result of the faster growth of the assets compared to the growth of the equity, the non-adjusted and adjusted leverage levels of the bank continued to grow in 2014.

The indicator Net Classified Exposures to Capital Base improved considerably at the end of 2014. The positive change was due to the decline in the classified exposures, as well as of the considerable growth in the capital base.

During 2014, the return on equity increased nearly three times to 4.52%, reaching the average for the reference group (4.69%)².

During 2014, a sustainable growth was observed

² The reference group includes two banks directly before and two after the rated bank by amount of assets as of 31.12.2014

in the resource base of the Bank (15.2%) with the same levels as these of the previous year (15.8%). The increase was mainly in line of the deposits of individuals and households and non-credit institutions. In the deposit base of the Bank the share of the deposits of individuals increased, and a slight decline in the share of the corporate deposits, of the deposits of financial non-bank institutions and of deposits of credit institutions were observed.

During the period of update, the uptrend in the total assets of the bank kept the same, as the reported growth during 2014 was in the amount of 14.2%. In a comparative aspect by this indicator the rated bank contrasted with the decline of the assets of the banking system during the same period (-0.7%³). Both loan and investment portfolio increased considerably. The Bank continued to have a conservative investment policy due to the unstable investment policy and the investment portfolio was almost entirely dominated by the debt instruments.

During the period under review, the structure of the assets was dominated by loans, as their relative share remained at the same level as of 2013, as continued to be considerably under the average in the banking system. The cash in hand and on bank accounts in the BNB maintained a considerable share in the structure of the assets.

In the structure of the credit portfolio there were not considerable changes and the structure continued to be dominated by the corporate loans. The Bank had a diversified credit portfolio by economic sectors. In regard with the maturity structure by residual term, the middle-term loans had the largest share. In the structure of the credit portfolio by gross loans the exposures in the amount from 1 to BGN 5 million had a prevailing share at the end of 2014.

During 2014, there was a considerable decrease in the amount of the gross classified loans, which together with the growth of the gross credit portfolio led to a decrease of the share of the downgraded credit exposures to a considerably lower level than the average in the banking system. The dynamics of the net overdue loans was similar to the gross overdue loans³.

During 2014, the Net Ratio on generation of overdue occupied a negative level for second consecutive year, and the Gross Ratio on generation of overdue reported its lowest level for the last five

years.

The coverage of the classified loans from depreciations increased highly due to the increase in the amount of the depreciations and the decrease in the classified loans. The coverage of the gross loan portfolio with depreciations increased due to faster growth of the depreciations compared to the growth of the gross credit portfolio.

During 2014, the return on interest-bearing assets continued its downtrend, but by more slow rates. Regardless of the decrease, at the end of the analyzed period the indicator got ahead of the average levels for the banking system.

During 2014, the downtrend of the cost of the interest liabilities continued, but it was still considerably over the average in the banking system.

The Gross Interest Spread marked interruption of the downtrend, but despite the reported growth, it is still far compared to the average levels for the banking system. The trend is similar in the Net Interest Margin.

The leaving behind growth of the financial result towards this of the assets lead to growth of Return on assets Ratio during 2014, but its level remained lower compared to the average in the banking system.

During 2014, the non-interest income and in particular the net income from taxes and commissions increase, but not as a percent of faster growing assets of the Bank.

All liquidity indicators of the Bank are at levels far over the regulated or recommended by the BNB and in general, they continue to improve during the period of update. No negative maturity discrepancy for the period up to one year. The indicator Total Loans to Total Deposits has one of the lowest levels for the banking system, and Current Assets to Total Liabilities minus Equity has one of the highest levels.

At the end of the period under review, the positions of the Bank in the banking sector were as follows: achieved 15th position by Balance Sum, achieved 15th position by amount of credit portfolio and achieved 14th position by attracted deposits.

³ Reported due to removal of the assets of „Corporate Commercial Bank“ AD from the banking system

Main Financial Indicators:

<i>(BGN thousand)</i>	2014	2013	2012	2011	2010
Balance Sum	1 109 472	971 641	849 103	716 712	622 564
Gross Loans	516 269	448 815	413 037	319 647	312 742
Equity	85 496	81 952	80 888	67 447	65 575
Total Interest Income	43 268	38 614	38 207	34 346	37 723
Net Financial Result	3 544	1 064	3 185	1 872	4 418
Return on Assets	0.35%	0.12%	0.42%	0.28%	0.77%