

**„International Asset  
Bank” AD**  
**March 2016**

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FINANCIAL STRENGTH RATING	Update* 07.03.2016
Long-term Rating:	<b>B</b>
Outlook:	<b>positive</b>
Short-term rating:	<b>B</b>
National-scale long-term rating:	<b>BB- (BG)</b>
Outlook:	<b>positive</b>
National-scale short-term rating:	<b>B (BG)</b>

\* To become familiar with the full rating history up to now, 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 entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.

„BCRA – CREDIT RATING AGENCY“ (BCRA) assigns to “International Asset Bank” AD the following ratings:

- Financial strength long-term rating: **B**, outlook: „**positive**”, financial strength short-term rating: **B**;
- National-scale long-term rating: **BB- (BG)**, outlook: „**positive**”, national-scale short-term rating: **B**.

BCRA’s officially adopted Bank Financial Strength Rating Methodology has been applied ([http://www.bcra-bg.com/files/file\\_66.pdf](http://www.bcra-bg.com/files/file_66.pdf)).

To elaborate the credit report and to assign the credit rating, BCRA used information from the rated Bank, the BNB, the National Statistical Institute, BCRA’s database, consultants and other sources of public information.

The political situation at the time of preparation of the report is characterized by momentary stability. The existence of disagreements in the ruling coalition

during the parliamentary sessions causes problems when considering and voting on important issues. There is social unrest because of ambiguity and disagreement with what is happening in political circles, as well as readiness for rapid response in the form of protests.

In October 2015, local elections were held in Bulgaria which did not lead to significant shifts in political layers, while at the same time the position of GERB strengthens at level of local government in the country.

The country reported an increase in real economic growth rate which does not fall below 2.8% in 2015 – respectively, 3.3% for Q1, 2.8% for Q2, 3.0% for Q3 compared to the same quarters of 2014, and according to flash estimates of NSI, the growth for the last quarter is expected to be around 3.1% compared to the same of 2014.

After the drop observed in the interest of foreign investors after 2012, in 2015 the flow of investments in the country increased by 0.290 billion euro compared to the previous year (up to 1.575 billion euro).

In 2015, the favorable changes in the labor market remain - the unemployment rate (as well as the continuous unemployment as a percentage of the active population) maintain its trend of decline after 2013.

In 2015, the observed deflationary processes in 2014 retained due to a decline in the international

petroleum prices, weak economic activity in the region and within the country, as well as internal economic developments in the major trading partners of Bulgaria.

A slight improvement in the budgetary imbalance in the country was observed in 2015.

The government debt increased significantly in 2014 due to political and economic instability in the country and the ensuing increase in the budget deficit, but in the second half of 2015 this development was suspended.

At the time of preparation of the report, the banking sector in Bulgaria is characterized by the following features:

- Maintaining sustainable growth in the amount of deposits;
- A significant decline in lending;
- A permanent trend of increasing net interest margin;
- Discontinue the uptrend of the classified loans;
- Fluctuation in the value of assets of the banking system expressed in a decline in 2014 and an increase in 2015.
- The uptrend of bank profits continues.

In 2015, there were not changes in the shareholding structure of the bank or the composition of the Supervisory and Management Boards. The paid-in capital of International Asset Bank consists of 30 306 444 dematerialized shares with a par value of one BGN each.

At the end of the period under review, the capital adequacy indicators continued to exceed considerably the regulatory requirements.

With view of the forthcoming revaluation of the assets of the banks in 2016, the excess of the current equity above the statutory required equity is considered to be a favourable factor.

In a comparative perspective, at the end of 2014 and at the end of September 2015<sup>1</sup>, the bank continues to report lower values for the indicators of the capital adequacy of these of the banking system and the

<sup>1</sup> At the time of the preparation of the report, at the website of the BNB there hasn't been published any information about the capital adequacy indicators of the banking system and separate groups of banks at the end of 2015.

banks of the second group.

In 2015, there were not significant changes occurred in the leverage levels (non-adjusted and adjusted) of the bank.

At the end of 2015, there was a significant decline in the ratio of overdue exposures to capital base of the bank. The change is in line of considerable decrease in the net classified exposures. In a comparative perspective, the indicator continues to occupy a favourable position towards the sector and the second group of banks.

The return on equity increased for second consecutive year, as at the end of 2015 it amounted to 4.81% (4.24% at the end of 2014). The increase refers to a faster growth of the financial result compared to the equity. In a comparative perspective, the reported value is lower than the average for the banking system (8.11%) and for the reference group of banks (5.98%)<sup>2</sup>, and higher than the average for the banks of the second group (3.92%).

In 2015, the uptrend of the resource base of the bank continues, as a slowdown is observed. The increase refers to deposits of individuals and households that continue to dominate the structure of deposits.

During the period under review, the uptrend in the total assets of the bank retains, as the reported growth for 2015 is 8.0% (14.2% for 2014). There is a slowdown in the growth rate of the assets, which in the previous four years was ~ 15%. In a comparative perspective, the growth of the bank's assets continues to be faster than the banking system (2.8%) and the banks of the second group (3.2%).

In 2015, the structure of the assets continues to be dominated by net loans, as their share continues to be considerably below average for the banking system and the banks of the second group.

A significant share in the structure of the assets continues to be occupied by cash and demand deposits in the BNB.

In 2015, the value of the investments increased keeping the adopted conservative investment policy, and their structure remains dominated by debt securities which consist of predominantly Bulgarian securities.

In 2015, the size of the credit portfolio registered a

<sup>2</sup> The reference group includes two banks ranked before and two after the rated bank by size of the assets as of 31.12.2015r.

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lower annual growth of the achieved in the prior year. Regardless of the delay of the growth rate, the bank reported a higher value compared to the banks of the second group while the banking system reported a decrease for second consecutive year.

In the second and third quarter of 2015, the serviced loans increase, while for the same periods, non-performing loans report a decline. In the last quarter of the year, there was a change in the indicated trends as the serviced loans recorded a slight decrease, while the non-performing increased significantly. During this period, there has been a substantial increase in accumulated depreciations, as a result the coverage with depreciations of non-performing loans and overall portfolio. In comparative terms, the coverage from depreciations of the non-performing loans of the bank is higher than the banking system and the banks of second group, and of the overall portfolio is lower.

In 2015, the tendency to lower the value of the indicator Return on interest-bearing assets was suspended, as in comparative terms it is still higher than the average values for the banking system and the banks of the second group.

The tendency to lower the value of the cost of interest liabilities after 2011 retains. In comparative terms, it is still above the average values for the banking system and the banks of the second group.

The Gross interest spread continues to increase for a second consecutive year. In a comparative aspect, its value is still far from the average values of the banking system and the banks of the second group.

The trend in the Net Interest Margin is analogical.

The operating expenses of the bank reported a considerable growth and at the end of the year reached the highest value throughout the past five years. The increase refers to a reported growth in the

administrative expenses.

The coverage of the operating expenses of the non-interest income increased considerably in 2015. The increase is in a result of realized revenues with a single character. Eliminating the influence of these incomes, the indicator would have a value close to the past years.

The Ratio Return on assets is at the level of 0.37% at the end of 2015, reporting an increase of hardly 0.02 p.p. year on year. In a comparative aspect, the value of the indicator is considerably lower than those of the banking system (1.05%) and the banks in the second group (0.52%).

At the end of 2015, the indicator Operating costs to Net Interest Income reported an insignificant growth as its value continues to be two times higher than the average for the banking system and the banks in the second group.

For the period from 2011 to 2015 the values of the indicator Operating result to Average Assets are higher than the indicator depreciation costs to Average Assets, which is an indicator for the capacity of the bank to realize a positive financial result. The positive trend for increasing the difference between the operating result and depreciation costs, as at the end of 2015 the highest value was reported for the past five years.

All liquidity indicators of the bank are at levels far over the regulated or recommended by the BNB and continue to improve during the period of updating.

At the end of the period under review, the positions of the bank in the banking sector are: 14<sup>th</sup> position by balance sum (15<sup>th</sup> at the end of 2014), 15<sup>th</sup> position by size of credit portfolio (the same position was taken during the previous year) and 15<sup>th</sup> position by deposits (14<sup>th</sup> at the end of 2014).

### **Main Financial Indicators:**

<i>(thousand BGN / %)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance Sum	1 198 379	1 109 472	971 641	849 103	716 712
Gross Loans	567 226	516 269	448 815	413 037	319 647
Equity	89 719	85 496	81 952	80 888	67 447
Total Interest Income	44 284	43 268	38 614	38 207	34 346
Net Financial Result	4 223	3 544	1 064	3 185	1 872
Return on Assets	0.37%	0.35%	0.12%	0.42%	0.28%

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**\*Rating History:**

The ratings showed 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 as of 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
Short-term Rating :	B	B	B-	B	B (under review)
Outlook :	<i>stable</i>	<i>stable</i>	<i>stable</i>	<i>stable</i>	-
Short-term Rating :	C	C	C	B	B (under review)