

**„International Asset  
Bank” AD**  
**March 2017**

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FINANCIAL STRENGTH RATING*	Update	Update
Date of Rating Committee:	07.03.2016	24.03.2017
Date of publication:	08.03.2016	27.03.2017
Long-term rating:	B	B+
Outlook:	positive	stable
Short-term rating:	B	B
National-scale long-term rating:	BB- (BG)	BB (BG)
Outlook:	positive	stable
National-scale short-term rating:	B (BG)	B (BG)

\* 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) upgrades the rating of „International Asset Bank” AD assigning the following ratings:**

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

**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 relative stability as the focus of political parties is directed to coming early parliamentary elections on March 26, 2017 as a result of the resignation of the Prime Minister Boyko Borisov and the return of the mandate to form a government by the political forces to which it was handed over (GERB, BSP and Reformist Bloc). Lack of clarity regarding the possibilities for forming a ruling majority after the conduction of elections has created preconditions for lowering political stability.

The complicated international situation also puts the country in serious trouble. The war in Syria brings Bulgaria to a problem with the refugee wave, which strengthens nationalist and xenophobic attitudes and threatens to further destabilize the political system. Similar mood is also seen among EU member states. Some of them express a negative attitude towards the allocation of quota refugees in the member states and stand its position against this decision. If these disagreements get worse, they may lead to serious conflicts and division within the community.

In 2015, the economy recorded real growth of 3.6% - the highest value reported for the years after the financial crisis, as among the main drivers of growth are domestic consumption and export of goods and services. The marked feature remains in 2016, as the importance of export gradually rises in the background of slowdown in the change of household

consumption and acceleration in import of goods and services across the country by quarters. For the first nine months, the economy recorded a real annual growth of 3.4%.

The main partners of the country in international trade relations as of October 2016 remain the same as in the last two years. From the beginning of 2016 about 68% of export (65% in 2015) and 55% of import (53% in 2015) is carried out with EU countries.

The positive changes at the labour market remain the same. They are observed after 2013 regarding the employment but there is some deterioration in the country's economically active population, which has declined by about 93 000 in the last four years, to 3 278 000 people on average in January-September 2016 (the lowest value since 2005).

In early 2014, deflationary processes are observed which reach their peak in early 2015. Despite some slowdown in the decline of prices at the beginning of 2016, during the second half of the year the deflation remains at levels of about 1.3-1.4% per year.

There is a slight improvement in the state budget of the country in 2015, continuing in 2016, at the end of which there was a significant surplus in the consolidated fiscal program (CFP).

After some decline in government debt at the end of 2015, it rises markedly in March 2016, then rebalanced to a relatively stable level by the end of the year (28.7% of GDP at the end of September 2016).

The level of government debt continues to be a positive factor for Bulgaria among the EU member states.

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

- The assets in the banking system continue to grow for the second consecutive year after reporting a decline in 2014, as a result of the exclusion of CCB data (Corporate Commercial Bank) from the reports of the banking system;
- The sustained growth in the amount of attracted deposits continues;
- After a slowdown in the decline in lending in 2015, in 2016 there is a positive change in the amount of given loans and advance payments to non-financial sector;
- Collapse of non-performing loans;

- At the end of 2016, the banking system continues to report high liquidity and capital adequacy.

The announced results on August 13, 2016, of the asset quality review and stress tests conducted on banks in Bulgaria show that the banking sector is stable, well capitalized and public support with state resources is not needed.

In 2016, there were not any changes in the share capital of International Asset Bank AD (30 306 444 book-entry shares with a par value of BGN 1 each). There are no significant changes in the shareholder structure. The bank's management continues to be two-tier - Supervisory Board and Management Board. During the update period, there is a change in the composition of these bodies - Mrs Romyana Gotseva-Yordanova is included in the Supervisory Board as a new member.

At the end of the period under review, capital adequacy ratios continue to be significantly above the regulatory requirements.

There are no significant changes in the structure of risk-weighted assets, with the largest share continue to be these for credit risk.

The excess of available capital over regulatory requirements is assessed as a favorable rating factor from rating point of view.

In comparison with the end of 2016, the bank continues to report lower values for capital adequacy ratios than those of the banking system and banks from second group.

In 2016, there is a common slight decline in the leverage levels and in the adjusted leverage of the bank. The decrease in these indicators is due to forecasted increase on an annual base of equity compared to assets.

At the end of 2016, the decrease in the ratio of non-performing exposures to the bank's capital base continue, albeit rather slowly. The change is due to the decrease in the net amount of classified exposures and to increased capital base. On a comparative basis, the indicator continues to position itself favorably compared to the sector and the second group of banks, which by the end of 2016, reported values of 42.3% and 37.6%.

Return on equity increases for a third consecutive year, with a substantial increase for the last year

	<b>FINANCIAL STRENGTH RATING</b> <b>„International Asset Bank” AD</b> Long-term/short-term rating: <b>B+ / B (stable)</b> National-scale rating: <b>BB (BG) / B (BG) (stable)</b>
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(10.85% at the end of 2016, 4.81% at the end of 2015). The increase is in line with the achieved financial result for 2016 (BGN 10 344 thousand), whose growth of 144.94% significantly outstrips the equity. In a comparative aspect, the reported as of the end of 2016 value is higher than the average for the sector (10.64%), for the reference group of banks<sup>1</sup> (6.16%) and from this for the banks in the second group (7.83%). In the previous years, the indicator has consistently been positioned at lower than average levels.

In 2016, the trend of increasing in the bank's resource base remains the same, the rate is very close to the previous year. The increase is mainly due to the growth of deposits of individuals and households and to a lesser extent than non-credit institutions' deposits.

The structure of the attracted funds continues to be mainly formed by deposits.

During the period under review, the trend for increasing the total assets of the bank remained the same, as the reported growth for 2016 year is 8.7% (8.0% in 2015). The growth in the last year is similar to the growth in 2015, while for the previous three years the reported levels were over 14%. On a comparative basis, the growth of the assets of the rated bank continues to grow faster than the banking system (5.2%) and is slightly below the banks from the second group for 2016 (9.2%).

In 2016, the structure of assets continued to be dominated by net loans, with a reported decline in their relative share, which remains to be considerably below the average, for both the banking system (53.4%) and the banks in the second group (53.6%).

The share remains considerable of cash-in-hand and on current accounts at BNB in the structure of assets, which, during the period of updating increases by 16.3 p.p. compared to the end of 2015, and the increase of their value amounted to 93.8%.

In 2016, the value of investments decreased by 52.0% on an annual basis. The main reason is in the realization of a substantial part of the owned government bonds by the bank. The conservative investment policy of the bank and the structure of its investment portfolio remain dominated by government securities, as those in currency different than BGN and EUR are only 0.7% of them.

<sup>1</sup> The banks which by balance sum are positioned 2 places before and after the rated bank.

In 2016, the gross loan portfolio has a minimal decrease compared to the previous year, with a reported growth in the previous two years. The decrease is due to decreases in the volume of credit exposures to the budget and to non-credit institutions, as the effect to a large extent is mitigated by an increase in exposures to companies and retail exposures. In a comparative plan, for 2016 the banking system and banks from second group reported an increase in credit portfolios of respectively 0.64% and 3.58%.

The gross loan portfolio continues to be dominated by the loans of the companies, whose share increases by 3.4 p.p. annually.

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

In 2016, the size of regular loans reported a slight decrease on an annual basis, while non-performing exposures show a slight increase (significantly lower than the realized in 2015). On a comparative basis, for the banking system and the banks in the second group there is an opposite trend for non-performing loans - a decrease of 9.7% and 15.8% in 2016. The share of non-performing loans for International Asset Bank continues to be below the levels of the banking system (18.3%) and second group of banks (16.3%).

Structurally, in the volume of non-performing exposures, those monitored reduce, while non-performing and loss-treated loans increase.

The size of the occurred in 2016 new non-performing loans is significantly lower than 2015, and for the last five years, a lower level is observed only in 2014.

In 2016, the value of return on interest-bearing assets ratio decrease significantly (by 0.96 p.p.), as the discontinued trend in 2015 recovered. On a comparative basis, the Bank has a position below the average level of the indicator for the banking system (4.51%), but remains above the average for the banks in second group (4.24%).

In the period from 2012 to 2016 the constant trend in decreasing of the cost of interest bearing liabilities sustain, as for the last year there is a decrease of 0.64 p.p. for the last year. On a comparative aspect, the level is significantly above the average value for the banking system - 0.67% and over the average value for the banks in the second group - 0.77%.

The started from 2014 trend of increasing of gross interest spread is interrupted, with a reported

decrease of 0.33 p.p. annually. In a comparative basis, its value remains far from the average values for the banking system - 3.84% and for the banks in the second group - 3.47%. A similar trend is observed for net interest margin.

The return on assets ratio is at the level of 0.85% at the end of 2016, with a reported substantial increase of 0.48 p.p. annually. The increase is due to the faster-growing net profit compared to the increase assets. In a comparative aspect, the value of the indicator, despite the high increase, remains considerably below the average for the banking system (1.42%) and below the average for the banks in the second group (1.04%), which on an annual basis increase by 0.37 p.p. and 0.52 p.p.

In the period from 2012 to 2016, the values of the indicator Operating result / Average assets ratio are higher than the indicator Depreciation Costs / Average Asset Value, which is an indicator of the Bank's ability to achieve a positive financial result. The positive trend to increase the difference between the operating

result and the depreciation costs remains, and at the end of 2016, the highest value for the last five years is reported.

All liquidity ratios of the bank are at levels above the regulated or recommended by BNB and they continue to improve over the period of updating.

At the end of the period under review, the bank's positions in the banking sector are: 15th by balance sum, 15th by size of loan portfolio and 15th by attracted deposits. The change is observed only in the taken position by balance sum - a one-position lag compared to 2015, as the rated bank is overtaken by Municipal Bank, where there is a higher increase in assets.

#### Main Financial Indicators:

(thousand BGN / %)	2016	2015	2014	2013	2012
Balance sum	1 302 348	1 198 379	1 109 472	971 641	849 103
Gross Loans	565 591	567 226	516 269	448 815	413 037
Equity	101 735	89 719	85 496	81 952	80 888
Overall Interest Income	37 411	44 284	43 268	38 614	38 207
Net Financial Result	10 344	4 223	3 544	1 064	3 185
Return on assets	0.85%	0.37%	0.35%	0.12%	0.42%

#### \*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
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)