

**International Asset
Bank**
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FINANCIAL STRENGTH RATING *	Update	Update	Review
Date of Rating Committee:	07.03.2016	24.03.2017	29.03.2018
Date of publication:	08.03.2016	27.03.2017	30.03.2018
Long-term rating:	B	B+	B+
Outlook:	positive	stable	stable
Short-term rating:	B	B	B
Nationals-scale long-term rating:	BB- (BG)	BB (BG)	BB (BG)
Outlook:	positive	stable	stable
National-scale short-term rating:	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 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) affirms the following ratings of International Asset Bank (IAB):

- 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 (https://www.bcra-bg.com/files/BFSR_Methodology_2015_en.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.

After the formation of the ruling coalition GERB – the United Patriots in April 2017, the political environment in Bulgaria remains stable. The The Presidency of the Council of the European Union in the first half of 2018 is the main challenge for the country in its international relations.

In 2017, the Bulgarian economy reports 3.6% growth (3.9% in 2016). The main engines of growth of GDP are again the domestic consumption and export of goods and services.

In 2017, DFIs in Bulgaria decrease by 129.5 million euro compared to the previous year and amount to 950 million EUR or 1.9% of GDP of the country. Most of the half (56.5%) investment flows reported in the year are in the form of debt instruments. The investments in share capital report a 70.5% decline of year on year.

The uptrend started after 2013 is reinforced in the reserve assets of the BNB as a result of the improvement on the current account.

The data for the labour market in 2017 report record-breaking high coefficients for employment and economic activity of the population. Ascending remains the trend in labour incomes. Unemployment rate reaches its pre-crisis levels (5.7% in the last quarter of 2017).

In the period 2014-2016 the price level in the country is characterized by the presence of persistent deflation. Since mid-2017 the deflation has been overcome and the average annual growth rate (AAGR) reaches 1.2% (compared to HICP) at the end of the year.

The increasing economic activity leads to improvement in the state of public finance in the country. The balance under the consolidated fiscal programme (CFP) as of the end of 2017 registers a surplus in the size of 845 million BGN or 0.9% of GDP, this is what the preliminary data of the Ministry of Finance indicate.

In the 2018 budget, an aim for a deficit is set on CFPB in the size of 1.0% of GDP. The government plans to continue its policy for gradual fiscal consolidation and for a balanced budget in 2020.

At the end of 2017 the public debt (state and state guaranteed) amounts to 13 054 million EUR, which equals to 25.6% of GDP. Compared to the end of 2016 the share decreases in a nominal value (-6.9%), and as a percentage of GDP, as a result of the payment in 2017 of a large amount of state government securities, issued in the local market and international capital markets (ICM). The level of the debt of sector „State management“ continues to be a positive factor for Bulgaria in a comparative aspect compared to the EU. The country retains its lead position concerning the debt weight among the EU 28 countries members, as before Bulgaria only Estonia and Luxemburg are placed.

During the period of updating, the banking system in the country remains stable and is characterized by a decline in the non-performing loans and retention of the high levels of capital adequacy and liquidity. For the favourable state of the banking sector testify the results in 2016 of asset quality review and stress tests for stability of the banks in Bulgaria (announced in August 2016).

In 2016 there are no changes made in the share capital of IAB (30 306 444 dematerialized shares with a par value of BGN 1 each). For the period of updating, there are no substantial changes in the shareholding structure and management of the bank.

During the period under review, the capital adequacy ratios continue to be substantially over the levels set through the regulatory requirements.

In the structure of risk weighted assets there are not

observed substantial changes as those for credit risk continue to hold the biggest share.

The exceeding of available capital over the normative required is assessed as a favourable factor from rating point of view.

In a comparative aspect as of the end of 2017 the bank continues to report lower values for the capital adequacy ratios than those of the banking system and the banks in the second group.

In 2017 there is a slight increase on a yearly basis in the level of the unadjusted leverage and substantial growth in the adjusted leverage. The exceeding of those indicators is in line of faster-growing increase in assets compared to the equity as the growth of the adjusted leverage is determined by the substantial increase in tangible fixed assets.

At the end of 2017, the decline continues in the ratio non-performing exposures to capital base of the bank. The change is due to the increase in the capital base and decrease of net non-performing exposures. In a comparative aspect the indicator continues to be in a favourable position compared to the sector and the banks in the second group.

After the three-year growth reported in the value of the return on equity in 2017 a decline was observed on an annual basis. In a comparative aspect the reported trend in 2016 turns and the indicator again is below the average for the banking system and the banks in the second group.

During 2017, the uptrend in the resource base of the bank retains and some slowdown is observed.

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

In the period of updating, the trend concerning increase of total assets of IAB remains, with a slow decrease of growth rates.

There are not substantial changes in the assets structure as it continues to be dominated by the net loans. In a comparative aspect their share continues to be lower compared to the average for the system and the average for the banks in the second group.

The share of cash and on current accounts in BNB in the asset structure remains considerable.

In 2017 the gross credit portfolio reports a noticeable growth on a yearly basis. The increase is as a result of the increase in the volumes of almost all groups of loans, the credit exposures to the budget are an

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exception.

The gross credit portfolio continues to be dominated by the loans of companies whose share reports a slight decline on a yearly basis.

The size of the performing loans increases substantially leaving behind the total growth of the credit loan.

The non-performing loans report a slight increase which is related to a decline in their share in total loans reaching the lowest level for the last five years.

The size of arisen new non-performing loans in 2017 increases substantially compared to the last year.

In 2017 IAB reports a slight decrease in the value of return on interest bearing assets maintaining its higher level compared to the average for the banking system and the banks in the second group.

Price of interest liabilities continues decreasing, as the achieved levels by the bank remain substantially

higher than the average.

The bank reports increase in gross interest spread and net interest margin as the trend is opposite to the average for the system and the banks in the second group. The achieved levels, however, remain substantially over the average.

Return on assets reports a substantial decline on a yearly basis as a result of the reduced financial result and increased assets. The bank has been positioned substantially below the average level of the indicator for the banking sector and the banks in the second group.

The liquidity ratios of the bank continue to be at levels above the regulated or recommended by BNB.

During the period of updating, the bank keeps its positions: 15th place by balance sum, by size of credit portfolio and by attracted deposits.

Main financial indicators:

<i>(thousand BGN / %)</i>	2017	2016	2015	2014	2013
Balance sum	1 372 046	1 302 348	1 198 379	1 109 472	971 641
Gross loans	638 244	565 591	567 226	516 269	448 815
Equity	105 900	101 735	89 719	85 496	81 952
Total interest income	34 604	37 411	44 284	43 268	38 614
Net financial result	6 007	10 344	4 223	3 544	1 064
Return on assets	0.45%	0.85%	0.37%	0.35%	0.12%

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In the period of updating International Asset Bank retains its stable financial position.

The assigned rating would negatively be affected by decrease in realized profitability, respectively, difficulties at providing capital for the planned increase, substantial deterioration of the quality of the credit portfolio and of the levels of the liquidity ratios.

Improvement in profitability, further improvement in the quality and diversification of the assets, together with the maintenance of good levels of capital adequacy and liquidity would positively affect the rating.

***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 :	<i>stable</i>	<i>stable</i>	<i>stable</i>	<i>stable</i>	-
Short-term rating :	C	C	C	B	B (under review)