

**„International Asset Bank”
AD
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FINANCIAL STRENGTH RATING	Initial Rating 13.05.2013	Update 12.05.2014
Long-term rating:	B	B
Outlook:	stable	stable
Short-term rating:	C	C

BCRA – CREDIT RATING AGENCY (BCRA) is the third qualified rating agency in the EU, registered under Regulation 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 retains the long-term financial strength rating of „International Asset Bank” AD B and short-term rating C, outlook: stable. The officially adopted by BCRA methodology for assigning financial strength rating 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.

In 2013 GDP of Bulgaria reported a slight growth (a real annual change rate of 0.9%), as compared to 2012 the growth rate registered some acceleration (0.3 p.p.). The growth is due to the export, while the domestic consumption shrank on an annual basis due to the lower consumption of the households. The inflation marked a considerable drop – up to 0.4% (2.3% at the end of the previous year), as since August 2013 deflation is reported every month based on the same month of 2012.

During the analyzed period the economy’s condition in Bulgaria registers a slow and varying recovery, depending strongly on the volume of export, and respectively – mainly by the recovery rates of the EU’s economy, increasing unemployment, low domestic consumption and investment activity, and minimal inflation.

The assets of the banking system continue to increase, but the reported increase of 4.0% in their

size in 2013 is lower compared to the growth for the previous year (7.3%). In 2013 the downtrend in the profit of the banking system for the period 2009-2012 discontinued and a growth of 3.3% was reported.

In the update period the banking system remains stable and well capitalized. The reported Total Capital Adequacy of 16.85% at the end of the year exceeds considerably the regulatory minimum, and the Liquid Assets Ratio, calculated under Ordinance № 11 of BNB, reached to 27.07%.

During the update period consolidation of the banking market in Bulgaria started, and the market share of the foreign banks registered a decline. The examples in this direction in 2013 are the acquisition of MKB Unionbank by the local First Investment Bank, as the two banks merged completely in the first quarter of 2014, as well as the acquisition of Credi Agrikol by Corporate Commercial Bank. This process will continue most likely within next few years.

In 2013 changes did not occur in the shareholding structure of the Bank or in its Supervisory and Managing Boards. The paid-in capital of International Asset Bank consists of 30 306 444 dematerialized shares, with a nominal value of BGN 1 each.

At the end of 2013 the share of equity of the Bank from the sum of the total liabilities and equity is at the lowest level for the last five years, as it exceeds only these of First Investment Bank and Municipal Bank in the entire banking sector. It is due to changes not in the equity, and the highest growth of borrowings, especially of deposits. During the period the capital base of the Bank increased but more slowly compared to its risk weighed assets, which led to decline in the Total Capital Adequacy. The Tier 1 capital increased, partially due to the borrowed amount of 5 mln. USD dollars termless debt-capital instrument, which, in accordance with the regulations of the BNB, joined the Tier 1 capital in the amount of

BGN 7 095 thousand. The Capital Adequacy of the primary capital and Total Capital Adequacy are under the average in the sector but remain over the minimal regulated levels.

In 2013 a significant growth was observed in the resource base of the Bank by 15.8%, mainly in line of the deposits from individuals, households and non-credit institutions. In the deposit base of the Bank the share of the deposits of physical persons and this of financial non-banking institutions increased, a slight decline in the share of corporate deposits and this of credit institutions.

During the period the uptrend of the total assets of the Bank continued. The registered growth for 2013 was 14.4%, compared to just 4.0% for the banking system. Both investment and credit portfolio increased considerably. The Bank continues to have a conservative investment policy due to the unstable economic environment, and the investment portfolio is almost dominated by debt instruments.

The credit portfolio is composed mainly by corporate loans, comparatively well diversified by economic sectors. The quality of the credit portfolio improves along with the cover from depreciations and specific provisions as the Net Ratio generating arrears is negative. The share of the Gross Classified Loans decreased considerably, as well as the share of the loans in the category “loss” of all classified loans.

In 2013 despite the low and still falling price of the interest liabilities the profitability indicators of the

Bank deteriorated considerably, incl. Return on interest bearing assets, Gross Interest Spread and Net Interest Margin. The Gross Interest Spread in the banking system improved during the same period and Net Interest Margin remained almost unchangeable for the system and even improved for the second group of banks. In case of possible improvement in these indicators of International Asset Bank it would be considered favourably from rating point of view.

In 2013, as well as in the previous five years the Return on assets of the Bank is positive, even though close to zero. The operating expenses of the Bank did not register any considerable changes. The non-interest income registered a slight decline as a percentage of the average assets and percentage of the operating expenses.

All liquidity indicators of the Bank are at levels exceeding the regulated or recommended by the BNB and continue to improve during the update period. There is no negative maturity discrepancy for a period within 1 year, and the correlations Total Loans to Total Deposits and Current Assets to Total Liabilities are at one of the lowest levels in the banking system.

At the end of the period under review the Bank still retained its comparative positions in the banking sector despite the considerable growth which reported in the total assets (18th position), granted loans (18th position) and borrowed deposits (17th position).

Main Financial Indicators:

<i>(The sums indicated are in thousand leva)</i>	2013	2012	2011	2010	2009
Balance Sum	971,641	849 103	716 712	622 564	525 797
Gross Loans	448,815	413 037	319 647	312 742	331 933
Equity	81,952	80 888	67 447	65 575	67 773
Net Financial Result	1,064	3,185	1,872	4,418	13,523
Return on Assets	0.12%	0.42%	0.28%	0.77%	2.52%