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FINANCIAL STRENGTH RATING	Update	Update	Update
Date of Rating Committee:	12.10.2015	26.10.2016	22.11.2017
Date of publication:	13.10.2015	27.10.2016	23.11.2017
Long-term rating:	B-	B-	B-
Outlook:	stable	in development	stable
Short-term rating:	C	C	C
National-scale long-term:	B (BG)	B (BG)	B (BG)
Outlook:	stable	in development	stable
National-scale short-term:	C (BG)	C (BG)	C (BG)

\* To become familiar with the full rating history, please, see the chart 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 „Investbank” AD the following ratings:

- Long-term financial strength rating **B-**, stable outlook, short-term rating **C**;
- National-scale long-term rating **B (BG)**, stable outlook, national-scale short-term rating **C (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 uses information from the rated Bank, the BNB, the National Statistical Institute, its own database, consultants and other sources of public information.

In 2016, the growth of Bulgarian economy accelerates, from 3.6% in 2015 to 3.9% in 2016. In the first half of 2017, the economy of the country increases by 3.7% compared to the same period of 2016.

The uptrend started after 2013 is reinforced in the reserve assets of the BNB which is a solid buffer for guaranteeing the stability of the currency board.

In 2016, the flow of DFI decreases to 1.4%, reaching the lowest values for the last 5 years. The preliminary data say that the decline in the investment flows continues in the first half of 2017.

The data for the labour market in the first half of 2017 reports record-breaking high indicators for economic activity and employment of the population. Ascending remains the labour income trend. Unemployment ratio reaches its pre-crisis levels (6-7%).

Since June 2017, general average annual change of prices register increasing positive values and reach 0.6% as of the end of September.

The balance on government budget reports improvement. The deficit in the size of 2.3% of GDP in 2015 reduces to 1.2% of GDP as of the end of 2016 (size of 1.9% in the State Budget of the Republic of Bulgaria Act).

The budgetary balance on CFP (Consolidated Fiscal Programme), set out in the draft budget for 2018, is a deficit in size of 1.0% of GDP. The government intends to continue the policy for gradual consolidation and reaching a balanced budget in 2020. In the forecast period there are not planned substantial changes in the tax policy.

The level of the state debt (27.4% of GDP at the end of 2016, 23.6% of forecast GDP as of the end of September 2017) continues to be a positive factor for Bulgaria<sup>1</sup>. The Ministry of Finance expects a fall in the state debt to 22.3% of GDP as of the end of 2018 and reach 20.0% as of the end of 2020.

For the period of updating the banking system in the country is characterized by:

- Retention of substantial share of foreign capital in total capital in the banking system;
- The assets in the banking system continue to increase in the last two completed years and in the first half of 2017;
- In 2016, the ascending trend in the profit remains in the banking system, observed in the previous three years as well. In the mid-2017 the reported profit by the banks reports a substantial move down compared to a year earlier (a decline of 14.6% in nominal value compared to substantial growth of 53.7% as of Q2 2016), as it should be taken in consideration that the indicated is not due to negative trends with regard to the generated income and/or expenses of the bank, and is a result of the circumstance that in the first half of 2016 substantial part of the realized income had a single character (more than 150 mln. BGN are added as a result of the completion of the transaction for Visa Europe);
- In 2016 and first half of 2017, the trend for increasing the attracted funds in the form of deposits retains (exclusive credit institutions);
- After delay in the fall in lending in 2015, in 2016 there is a slight positive change in the size of given loans and advance payments to non-financial sector (0.6% on a yearly basis), and in the first half of 2017 the registered growth accelerates to 3.4% compared to the same period for 2016. The Ministry of Finance

foresees this process to continue in the period 2017-2020;

- The non-performing loans decrease to 12.9% of the gross credit portfolio as of the end of 2016 (14.5% as of 2015). Continuous improvement in the quality of the portfolio is observed in the first half of 2017 (by nearly 2 p.p. in comparison with a year earlier), as the level of non-performing exposures remain relatively high – 12.1% of gross credit portfolio;
- The high levels of liquidity and capital adequacy continue to be reported.

For the favorable status of the banking sector in the past year evidence the held asset quality review and stress tests for sustainability of banks in Bulgaria in 2016. The results announced in August 2016, show that the banking sector is stable, well capitalized, and public support for banks with state resources is not needed. On the other hand, the observed differences at the level of an individual institution require recovery measures with additional capital buffers with three banks (incl. the rated one). According to the expressed statement in the mid-2017 by the governor of the BNB, Dimitar Radev, the plans for increasing the capital are at an advanced stage as the designated banks apply the measures stipulated by the regulator.

During the period of updating, the shareholding capital of Investbank has no change and its structure hasn't been changed.

In September 2016, Radka Nikodimova resigned the Management Board and, at present, the members of the Management Board are four as follows:

- Plamen Milkov – Chair of the Management Board and Executive Director.
- Zdravka Ruseva – member of the Management Board and Executive Director.
- Vesela Koleva-Dzidzeva – member of the Management Board and Executive Director.
- Emilia Traykova – member of the Management Board.

No changes in the Supervisory Board in the analyzed period.

In 2016, the capital base of the bank reports a weak growth of 0.4%. The trend remains in the first half of 2017, as the bank's capital base increases by 0.7% compared to the end of the previous year. In the total size of risk exposures some volatility is observed, as in 2016 a decrease of 1.9% is reported, and in the first

<sup>1</sup> Maximum possible reference value of Maastricht criteria for convergence is 60%

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half of 2017 there is a 3.0% growth compared to the end of the previous year.

The capital base growth and the fall in risk-weighted assets leads to an increase in total capital adequacy in 2016, while in the first half of the year, the upward trend in risk-weighted assets compared to the capital base contributes to reduction in total capital adequacy (its level is close to the achieved at the end of 2015). Similar dynamics is observed in terms with the capital adequacy of Tier 1 capital.

During the period of updating, the total capital adequacy and capital adequacy of Tier 1 capital continue to be lower than the average values for the banking system and for banks in the second group.

Positively from rating point of view is assessed the circumstance that the maintained by the bank, during the period of updating, levels of capital adequacy continue to be considerably higher than those required by the law.

During the period of updating, the bank continues to maintain higher levels of non-adjusted and adjusted leverage compared to the average for the banking system and the banks in the second group. Significantly higher levels of adjusted leverage for the rated entity compared to the average for the banking system and the banks in the second group are due to the much bigger share which fixed assets take in total assets. At the end of June 2017, the share of fixed assets amounts to 4.9% for Investbank, to 2.2% for the banking system and to 2.4% for banks in the second group.

In 2016 and the first half of 2017, the net amount of the classified exposures grows faster compared to the capital base, which leads to an increase in the ratio of the net classified exposures to the capital base by 3.7 p.p. and by 15.7 pp. On a comparative aspect, the level of the indicator continues to be significantly higher than the average for the banking system and for the banks in the second group.

As a result of the decrease in the profit (by 36.4%) and of slight increase in the average amount of equity (0.3%), the return on equity of the bank decreases by 0.33 p.p. in 2016, from 0.90% at the end of 2015 to 0.57%. The reported value continues to be still much lower in a comparative plan (10.64% for the sector and 7.83% for the second group of banks).

According to the report provided by the bank on 30.06.2017 on the implementation of the action plan in

relation to the results of the completed asset valuation review. The actions taken cover:

- Full reflection of the results of the review and the stress test in the internal analysis of capital adequacy;
- Reflection in reporting of the banks of additional accounting provisions on the basis of an independent audit opinion to be reflected in the balance sheet in 2016;
- Optimization of the asset structure and reduction of risk-weighted assets;
- A capital strengthening plan to keep regulatory capital requirements and buffers at the required level.
- Changes in the internal rules and procedures to ensure improved practices and risk assessment system.

The started in 2015 downtrend in the resource base of Investbank AD is confirmed both in 2016 and in the first half of 2017. In 2016, there is a decrease of 3.10% on an annual basis, and in the first half of 2017 there is a decrease of 3.78% compared to the end of the previous year. For the periods mentioned, the banking system and the banks in the second group continue to realize growths for attracted funds - 5.70% and 10.17% in 2016 and 0.81% and 3.85% for the first six months of 2017.

In the structure of the deposit base of Investbank there are not significant changes in the period under review as it continues to be dominated by the deposits of individuals. On a comparative basis, the share of deposits of individuals in the total resource base of the bank exceeds the average for the banking system and the banks in the second group.

During the period under review, the total amount of deposits from individuals and households and non-credit institutions continue to be dominated by term deposits.

The amount of assets of Investbank AD in 2016 reports a decrease of 2.0% compared to the previous year. For the period under review, the banking system assets increase by 5.2% and those of the banks in the second group by 9.2%. Those trends retain in the first half of 2017, as the assets of the bank decrease by 3.8% compared to the end of the previous year, while those of the banking system and banks in the second group increase by 1.0% and 3.5%.

The size of the investment portfolio increases in 2016 and decreases in the first half of 2017, as the decline in the first six months of 2017 (2.7%) is lower than the

previous year's growth (6.8%). At the end of the period, the investment portfolio maintains a sustainable relative share of around and slightly over 30% (for the period from 2013), as this share significantly exceeds the average for the banking system (14.7% at the end of 2016 and 14.4% as of June 2017) and of banks in the second group (15.4% for 2016 and 14.8% for June 2017). The registered in 2016 growth in the investment portfolio is mainly due to the increase in investment properties, which grow nearly seven times for the year. The debt instruments continue to be the leading type of investments (with a share of over 80%), as they are composed entirely of government securities. The dynamics in the first half of 2017 continues to follow the processes which are characteristic for 2016 - continuing growth in investment properties (by 4.2% in the first half of 2017).

The started in 2014 uptrend of gross credit portfolio is discontinued in 2016, as a decline of 11.3% in gross credit portfolio is reported and 13.2% in net credit portfolio. The trends are also sustained and in the first half of 2017, as a decrease of 1.9% is reported in gross credit portfolio and of 2.9% in net credit portfolio. Comparatively, in 2016, gross loans of the banking system record a minimum growth of 0.6% and 1.6% for net loans, reinforced with one in the first half of 2017 - growth of 1.9% for gross loans and 2.6% for net loans. The banks in the second group, to which the rated bank belongs, report high growth rates are observed - 3.6% for gross and 5.0% for net loans - for 2016 and 2.0% and 3.1% for the first half of 2017.

Structurally, the bank's gross portfolio lacks changes during the period of updating, and is still dominated by the loans to companies.

In the structure of the corporate loan portfolio, some concentration is still observed by sectors and by the residual amount of loans.

At the end of 2016 and in June 2017, the trend of the depreciation coverage of gross credit portfolio and gross classified loans of the rated bank continues to be significantly lower than the banking system and the banks in the second group, and the share of its non-performing loans in total loan portfolio to exceed the average for the banking system and the banks in the second group.

During the period, the bank has made changes to the Policy on risk exposures assessment and determination of the size of the necessary provisions to cover the depreciation risk as a collective provisions calculation model is introduced.

The anticipated decrease in the interest income compared to income bearing assets leads to a decrease in the value of the return on interest-bearing assets whose annual value decreases by 0.15 p.p. towards the end of 2016 (from 4.52% at the end of 2015 to 4.37%) and by 0.51 p.p. at the end of June 2017 (from 4.65% at the end of June 2016 to 4.14%). Comparatively, the return on the bank's interest-bearing assets continues to be lower than the average for the banking system (4.51% at the end of 2016 and 4.23% as of June 2017), but for the first time for the five completed years, reports exceeding compared to the average values for the banks in the second group (4.24% as of the end of 2016 and 4.01% as of June 2017).

The downturn from 2011 continues in the price of interest-bearing liabilities whose value on an annual basis decreases by 0.94 p.p. at the end of 2016 (from 2.86% at the end of 2015 to 1.92%) and by 0.84 p.p. at the end of June 2017 (from 2.38% at the end of June 2016 to 1.54%). Comparatively, the value of the Bank's interest-bearing liabilities continues to be significantly higher than the average for the banking system (0.67% at the end of 2016 and 0.57% as of June 2017) and for the banks in the second group (0.77% 2016 and 0.61% as of June 2017).

The growth trend of the bank's gross interest rate spread is 2.45% at the end of 2016 (1.66% a year earlier) and 2.60% in the middle of 2017. The sector and the banks from second group are characterized by a low volatility in the values of the indicator, as its levels continue to exceed significantly the reported by the bank. Similar dynamics was observed at the net interest margin.

In 2016, the established trend from 2014 continues and the Bank continues to report a significant increase in the operating financial result during the completed years, as for the last completed year the increase amounts to 93.5%. In the first half of 2017, the bank reports a slight decrease in the realized operating profit on an annual basis (by 1.7%).

In 2016, Investbank generates a net profit of BGN 1 038 thousand, compared to BGN 1 633 thousand BGN for the previous year, which is a decline of 36.4%. This together with the slight increase in assets (by 0.6%) leads to a decrease in the value of the return on assets ratio - from 0.08% at the end of 2015 to 0.05%. This level is still significantly lower in a comparative aspect (1.42% for the banking system and 1.04% for the banks in the second group).

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During the period of updating, the downtrend in the value of the indicator current assets indicator to (total liabilities - equity) continues. The decrease is due to the decrease in the value of the current assets that goes faster compared to total liabilities reduced with equity. Comparatively, the value of the indicator continues to be significantly lower than the average for the banking system and for the banks in the second group.

In 2016, the liquidity ratio rises by 1.4 p.p. compared to the end of 2015. In the first half of 2017, an opposite trend is observed - a decline by 2.5 p.p. in the value of the ratio compared to the end of 2016. In comparative aspect, the trend started in 2014 continues and the bank reports lower values for liquidity ratio than the average for the banking system and for the banks in the second group. The Bank continues to report relatively stable levels of the liquidity indicator – since 2012 its value ranges between 32% and 36%.

The value of the indicator total loans ratio to total deposits continues to be significantly lower than the average for the system and for the banks in the second group.

The BNB has recommended the ratio of liquid assets within the meaning of Ordinance 11 to attracted funds from institutions other than credit institutions, individuals and households of at least 20%, by the end of 2016 and in June 2017 the value of the bank's indicator continues to significantly exceed the indicated requirement.

During the period of updating, Investbank maintains its positions in connection with size of assets (12<sup>th</sup>) and gross loans (13<sup>th</sup>) and yields with 1 place regarding attracted deposits (from 11<sup>th</sup> to 12<sup>th</sup>).

In 2016, the development of bank's systems is mainly related to the introduction of new basic information systems.

**FINANCIAL STRENGTH RATING**

„Investbank“ AD

Long-term / short-term rating: **B- / C**

Outlook: **stable**

National-scale rating: **B (BG) / C (BG)**

Outlook: **stable**

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**Main indicators:**

<i>(thousand BGN)</i>	<b>6.2017</b>	<b>6.2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Balance sum	1 843 226	1 985 189	1 916 189	1 955 963	1 923 929	1 676 365	1 370 565
Equity	184 476	186 528	181 542	176 474	183 287	177 989	161 557
Net financial result	693	8 890	1 038	1 633	1 606	452	-725
Return on assets <sup>2</sup>	n/a	0.49%	0.05%	0.08%	0.09%	0.03%	-0.06%
Gross non-performing exposures / Total loans	34.00%	27.04%	28.10%	22.41%	25.79%	38.68%	42.34%
Liquidity ratio	33.38%	33.48%	35.90%	34.47%	35.17%	33.35%	32.10%

*The rating could be positively affected by sustained improvement in the quality of the portfolio, increase in generated profits and profitability indicators, with further decrease of the share of non-performing exposures, increase of their coverage from depreciation, successful realization of the acquired fixed assets (collateral on loans), maintaining stable capital adequacy and liquidity.*

*The rating could be negatively affected by deterioration in the assets quality (incl. increase in the share of overdue loans), considerable reduction of the activity, inability to generate profits, difficulties on realization of acquired assets, negative outcome from lawsuits against the bank, decrease in the capital adequacy and liquidity position of the bank.*

**Rating History:**

*The ratings displayed in the chart are assigned under the previous Methodology for assigning ratings of the ability of insurance companies to pay claims and are not directly comparable with the ratings assigned after the entry into force of the current methodology in September 2015.*

„Investbank“ AD	Initial Rating 4.2009	Monitoring 18.11.2009	Update 03.5.2010	Monitoring 07.12.2010	Update 25.5.2011
<b>FINANCIAL STRENGTH RATING</b>					
Long-term Rating:	BBB-	BBB-	BBB-	BBB-	BB
Outlook:	stable	negative	stable	negative	negative
Short-term Rating:	A-3	A-3	A-3	A-3	B
<b>FINANCIAL STRENGTH RATING</b>	Monitoring 14.09.2011	Update 19.12.2012	Monitoring 10.05.2013	Update 18.12.2013	Update 13.10.2014
Short-term Rating:	B+	B+	B-	C	B-
Outlook:	negative	negative	negative	stable	stable
Short-term Rating:	C	C	C	C	C

<sup>2</sup> The indicator is calculated by the method TTM (Trailing Twelve Months), as its value for the first half of 2017 is not indicated, since in a result of shrinking the profit in the third quarter of 2016 is reported a substantial negative financial result for it, and its impossibility to be compensated by the profits in next quarters (Q2'2017, Q1'2017 and Q4'2017) leads to a negative value of the indicator.