

**„EUROHOLD BULGARIA“
AD**

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CREDIT RATING	Initial rating
Date of Rating Committee:	25.07.2017
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Long-term rating :	BBB-
Outlook :	stable
Short-term rating :	A-3
National-scale long-term rating:	A (BG)
Outlook:	stable
National-scale short-term rating:	A-1 (BG)

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BCRA – Credit Rating Agency (BCRA) assigns to Eurohold Bulgaria the following ratings:

- Long-term credit rating: **BBB-**, outlook: „stable“, short-term credit rating: **A-3**;
- National-scale long-term rating: **A (BG)**, outlook: „stable“, national-scale short-term rating: **A-1 (BG)**.

BCRA uses the methodology which is officially adopted for preparing a credit report and assigning a credit rating to group of companies and/or individual companies in the group http://www.bcra-bg.com/files/file_232.pdf.

The report has been prepared and the rating - assigned based on information, provided by the rated company, NSI, BNB, BCRA's database, consultants and other sources of public information.

With full EU membership in 2007, Bulgarian governments lose their main incentive to pursue a reform policy. The country continues to be in a

monitoring regime, with no significant progress in any of Bulgaria's problematic areas in the last years, which are mainly about fighting corruption and improving the functioning of the judiciary.

The political situation at the time of writing the report can be defined as relatively stable.

During 2016, the growth rate of the economy slows down slightly (3.4%), but remains close to the reported a year earlier (3.6% in 2015). Among the groups with the largest contribution remains exports, and household consumption and imports of goods and services slow down to half of the growth rates reported a year earlier.

During 2016, there is some reduction in Direct investment flows (up to 1.5% of GDP), as investments in share instruments amount to barely 37.3% of the reported a year ago, and debt instruments continue to report a low-tide which triples compared to a year earlier.

The positive changes in labour market observed after 2013 remain the same. With the downtrend in unemployment rate in the last 3 years, at the end of 2016, the official registered unemployment rate by the Employment Agency reaches 8.0%.

Despite some slowdown in the fall in prices in early 2016, in the second half and the first two months of 2017, deflation remains at levels of about 1.1-1.4% on average per year as measured by the HICP.

The observed slight improvement in the country's state budget in 2015 remains the same in 2016 as

well.

The state budget balance for 2016 is negative - a deficit of 1.2% of GDP is reported at the end of the year, which is lower than envisaged in the Law on the State Budget of the Republic of Bulgaria (1.9% of GDP).

The level of the state debt continues to be a positive factor for Bulgaria in comparison with the EU indicators. Average leverage ratio in the EU is about 83.3% of GDP as of September 2016, and in the Eurozone it comes to 90.1% of GDP.

The banking sector can be defined as stable – with high levels of liquidity and capital adequacy. The deposit base in the sector continues to grow, and lending shows slowdown in the negative trends. During 2016, the conducted Asset Quality Review (AQR) and Stress Tests (ST) confirm the stability in the system, although for individual participants some adjustments are required.

Eurohold Bulgaria is a holding joint stock company established in 2006, through the merger of Eurohold AD and Starcom Holding AD, being the universal successor of the two merging companies, which cease to exist without liquidation.

The Company is public under the terms and conditions of the Public Offering of Securities Act, with a share capital at the date of incorporation of BGN 50 002 586 BGN, increased multiple times by means of cash contributions. As of 31.12.2016 the registered capital is BGN 127 345 000.

As of 06.02.2017 the last capital increase is registered up to BGN 161 345 000, which is divided into 161 345 000 ordinary, registered, dematerialized shares with the right to one vote, right to dividend and a liquidation quota. All shares are in circulation and are registered for trading in the main market of the Bulgarian Stock Exchange - Sofia, Stocks Standard Segment, **Stock Exchange Code 4EN**. The shares of the company are also listed for trading on the Warsaw Stock Exchange, main market of shares, **Stock Exchange Code EHG**.

The company is registered under UIC 175187337, with headquarters and address of management: Sofia 1592, Iskar area, 43, Christopher Columbus Str.

The scope of activities of Eurohold Bulgaria includes acquisition, management, evaluation and

sale of: participations in Bulgarian and foreign companies, bonds, patents (including granting of licenses for their use by the companies in which the company participates); financing of companies in which it participates.

The company has a two-tier management system – Management Board (MB) and Supervisory Board (SB) with the following members:

Supervisory Board (the SB):

- Asen Milkov Hristov – Chairman of the SB;
- Dimitar Stoyanov Dimitrov – Deputy Chairman of the SB;
- „Dar Finance“ EOOD – Independent member of the SB;
- Radi Georgiev Georgiev – Member of the SB;
- Razvan Stefan Lefter – Independent member of the SB.

Management Board (the MB):

- Kiril Ivanov Boshov – Chairman of the MB;
- Asen Minchev Minchev – Member of the MB and Executive Director;
- Velislav Milkov Hristov – Member of the MB;
- Asen Emanuilov Asenov – Member of the MB;
- Dimitar Kirilov Dimitrov – Member of the MB.

As of the date of the last capital increase – 06.02.2017, by BGN 34 mln. paid entirely by the majority shareholder Starcom Holding, the shareholding structure of the company is as follows:

Shareholder	Shares	%
Starcom Holding	97 740 885	60.58%
Dar Finance	24 246 698	15.03%
KJK Fund II Sicav-Sif Balkan Discovery	15 281 400	9.47%
Other legal entities with less than 5% share	18 280 985	11.33%
Other physical persons with less than 5% share	5 795 032	3.59%
TOTAL	161 345 000	100.0%

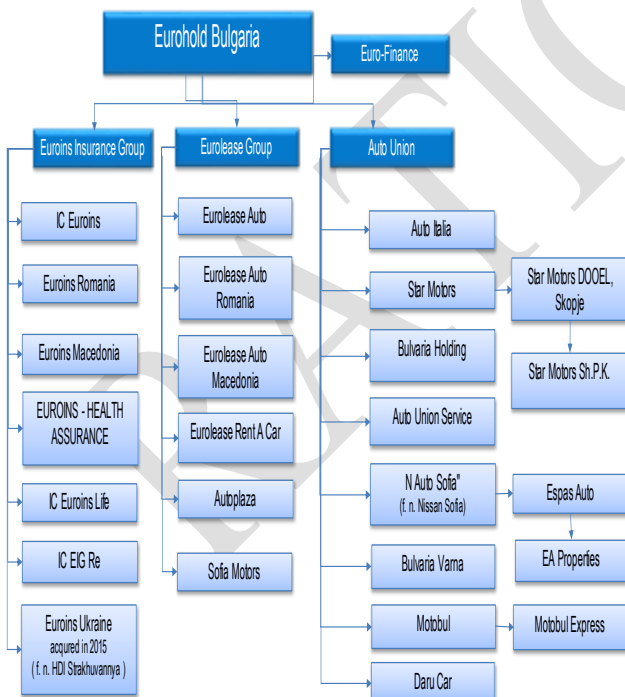
The shareholder with the largest share in Eurohold Bulgaria is Starcom Holding. The Company has a scope of activities identical to Eurohold Bulgaria, including acquisition, management, evaluation and sale of Bulgarian and foreign companies. Initially, it was registered as Bulgarian Holding Corporation. At present, it has capital of BGN 6.9 million, distributed among the following shareholders: Asen Milkov Hristov – 51%, Kiril Ivanov Boshov – 34% and Velislav Milkov Hristov – 15%.

A more considerable change in the shareholding structure of Eurohold Bulgaria during the analyzed five-year period is the acquisition of shares of the company by KJK Fund II Sicav-Sif Balkan Discovery – a specialized investment fund on the Balkans (in 2014, 12% of the shares, bought for 8 million Euro).

As of 31.12.2016 2 946 813 shares of the capital of Eurohold Bulgaria (2.31%) are owned by its subsidiaries.

The organizational structure of Eurohold Bulgaria is shown in the following chart, as the investment portfolio comprises four economic sectors:

- **Insurance** – carried out by the holding Euroins Insurance Group;
- **Trade and repairs of motor vehicles and motorcycles** – carried out through the companies in the holding Auto Union;
- **Leasing** – carried out by the companies in the holding Eurolease Group;
- Activity as **an investment intermediary**, carried out by the owned company Euro-Finance;



The company also carries out **real estate management** – by May 2014 through Auto Union Properties (100% owned by Auto Union), and after the sale of this company (since October 2014), though EA Properties (100% subsidiary of Espas Auto, which is controlled by Auto Union, through its subsidiary N-Auto Sofia, possessing 51% of Espas Auto).

The aims which Eurohold Bulgaria sets in the medium-term are focused on the development of the three subholdings – insurance, automobile and leasing, as well on investment management of the group, through the investment intermediary Euro-Finance.

After forming the three subholdings, the endeavors are directed to strengthening the market position of the companies in the subholdings and development of existing business with the following main strategic aims:

- To have stable growth in market shares in all sectors and markets in which the group operates;
- To maintain a strategy for expanding the group in the area;
- To reach a loyal and diversified client basis.

To implement its strategy the management has elaborated current aims and development policies focused on improvement of integration, profitability and financial condition of the group.

During the analyzed five-year period (2012-2016), the balance sum in the individual report of Eurohold Bulgaria marks a sustainable ascending change intensifying considerably in the last two years when the most substantial growth rates are reported, as, structurally, investments in subsidiaries have a major share of assets (over 90% at the end of 2016). Identical is the change in financial results – the beginning of the period (2012) starting with a considerable loss and reported profits in the last three years as the highest is the size formed in 2016.

The investment changes for the period would be summarized as:

- A considerable increase in investments in companies from Euroins Insurance Group, obtained as a result of:
 - acquisition of the business of Interamerican – General and Life Insurance in Bulgaria by the

Dutch company Achmea B.V. in 2013, taking insurance business of QBE in Bulgaria and Romania (a contract signed at the end of 2013), acquisition of Bulgarian and Ukrainian business of HDI from the Dutch company TALANX International in 2015 and 2016;

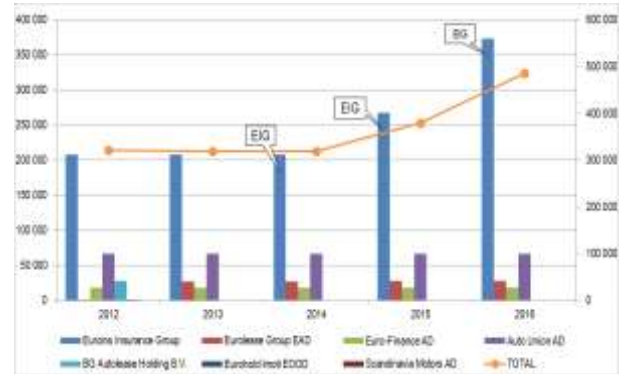
- increase in the capitals of insurance companies in the last two years (mainly due to requirements of the national insurance regulatory authorities);

- Restructure of the owned companies in the sector Trade and Repairs of new motor vehicles (2013-2014) in the current structure of Auto Union that includes termination of participation in Auto 1, sale of the shares in Eurotruck, and increase in the capitals of some of the subsidiaries in the automotive subholding.
- Aggregation of investments in the leasing sector in the established company in 2012 Eurolease Group with a merger of the Dutch subsidiary BG Autolease Holding B.V. (former name Vivotek B.V.), acquisition of Autoplaza by Auto Union (2013) and acquisition of Sofia Motors (12.2016), with the capital increase of the holding (by 500 thousand BGN in 2015) and of the subsidiary Eurolease Auto – Macedonia (352 thousand BGN in 2016);
- sale of the investment in Eurohold Imoti, then (and after the sale of Auto Union Properties) real estate management, Eurohold Bulgaria carries out solely through EA Properties (a subsidiary of Espas Auto, in which Auto Union controls via possession of 51%, through its subsidiary N Auto Sofia.

The equities of these holdings are shown in the table below:

Company	BGN	Nominal
Euroins Insurance Group	390 954	1 BGN
Auto Union	40 004	500 BGN
Eurolease Group	27 241	1 BGN
Euro-Finance	14 100	1 BGN

And the change in investments in the following chart, which shows that the main part of the investments made in the period are in the insurance sector.



The share of investments in Euroins Insurance Group as of 31.12.2016, amounts, in total, to 76.9% of their total size, and in Auto Union to 13.8%, which determines both companies as major from a methodological view point, in the analysis of Eurohold Bulgaria.

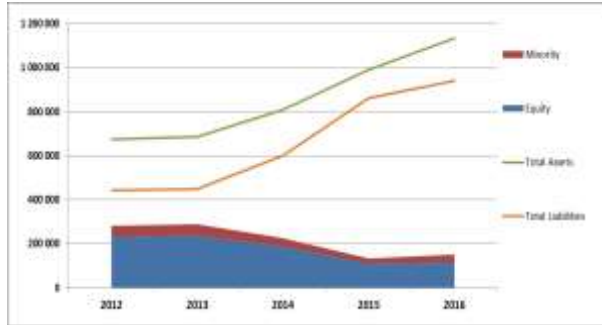
In the structure of liabilities of Eurohold Bulgaria at the end of 2016 *Debts on bond loans* takes a major share, which arises in the last year and is formed by the exposures on two issues unsecured, medium-term eurobonds (EMTN Programme), issued on the Irish Stock Exchange – respectively for 47 million EUR and 45 million PLN.

Next as a share in the liabilities is the reported *Debts on subordinated liabilities* in the amount of 53 695 thousand BGN (incl. to shareholders 30 120 thousand BGN and to other companies 23 575 thousand BGN).

Last by weight in the structure of liabilities is *Short-term loans from financial institutions* – 44 965 thousand BGN and *Debts on long-term loans from financial institutions* – 24 643 thousand BGN.

The main part of company's income is generated from financial operations (and nearly the entire part of income from financial operations come from income from investment operations), followed by income from interests and other financial income. The main part of costs (about 77%) is interest costs.

The consolidated assets of the company increase at a constant pace, as of 31.12.2016 they exceed 1 billion BGN, as particularly substantial are the increases in the last three years, respectively for 2014 – 17.58%, for 2015 – 22.54% and for 2016 – 14.62%.



As of 31.12.2016, on consolidated basis, the company reports a positive current financial result in the amount of 10 224 thousand BGN (8 474 thousand BGN for the owners of the parent company), after the high size of loss for 2015 of 81 121 thousand BGN (64 558 thousand BGN for the mother company) and a loss of 17 961 thousand BGN (15 402 thousand BGN for the parent company) for 2014.

Eurohold Bulgaria reports losses in three of the five reviewed financial years, as there is considerable deterioration of the results in 2014 and 2015, brought to depletion of the undistributed profit of

82 174 thousand BGN at the beginning of the analyzed period and transforming it at the end of 2016 to collected, uncovered loss in the size of 44 659 thousand BGN.

The main impact on the result of the rated company causes the results of insurance subholding, and they, from their side, are influenced, to a great extent, by the activity of Euroins Romania Insurance-Reinsurance, reported a net loss for 2015 in the amount of 80 838 thousand BGN and net profit for 2016 in the amount of 6 792 thousand BGN.

The company performed a recovery programme, enforced by the Romanian regulatory authority in October 2015, due to the results shown when reviewing the balance sheets of the insurance sector, incl. capital support and changes in the reinsurance policy for transferring more risk in the international insurance markets. With a Decision No. 359/14.03.2017 of the Romanian insurance regulatory authority, successful completion of the company's recovery programme is approved.

The change in the main economic indicators of Eurohold Bulgaria is shown in the following two tables:

Main financial data:

On individual report basis

<i>Indicator</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
Assets	534 908	390 534	349 821	335 761	334 311
Income (incl. financial income)	16 928	7 678	7 845	4 851	872
Net Financial Result	2 309	407	1 665	-767	-5 119
Net Income Profitability	13.64%	5.30%	21.22%	-15.81%	-587.0%
Equity Profitability	0.84%	0.15%	0.61%	-0.28%	-1.87%
Financial Leverage	0.56	0.16	0.16	0.09	0.13
Solvency Ratio	1.07	2.35	3.62	4.31	4.59
Interest Coverage Ratio	0.23	0.07	0.34	-0.18	-1.17
Current Liquidity Ratio	0.15	0.03	0.05	0.92	0.14
Quick Liquidity Ratio	0.004	0.003	0.005	0.012	0.004
Leverage	0.48	0.30	0.22	0.19	0.18

CREDIT RATING
EUROHOLD BULGARIA

Long-term / short-term credit rating:

BBB- / A-3 (outlook: **stable**);

National-scale long-term rating/ national-scale short-term rating:

A (BG) / A-1 (BG) (outlook: **stable**);

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On consolidated basis

<i>Indicator</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
Assets	1 134 514	988 939	783 271	686 967	675 398
Income /incl. financial income/	1 058 824	918 219	577 945	588 559	494 368
Net Financial Result	8 474	-64 558	-15 402	2 278	-9 212
Net Profitability	0.80%	-7.03%	-2.66%	0.39%	-1.86%
Equity Profitability	10.12%	-76.54%	-8.99%	1.22%	-5.07%
Financial Leverage	2.80	1.92	0.90	0.54	0.76
Solvency Ratio	0.08	0.10	0.30	0.41	0.41
Interest Coverage Ratio	0.01	-0.11	-0.03	0.01	-0.02
Current Liquidity Ratio	1.07	0.95	1.15	1.11	1.04
Quick Liquidity Ratio	0.13	0.10	0.17	0.12	0.08
Leverage	0.90	0.89	0.72	0.65	0.66