

Procedure for sale 100% of the capital of Commercial Bank Victoria EAD and the overall exposure of the sole owner of capital to CB Victoria EAD

By Decision No 1/07.12.2015 of the Assignees in Bankruptcy of Corporate Commercial Bank AD (in bankruptcy), made in relation to Decision No 219/07.12.2015 of the Management Board of the Bulgarian Deposit Insurance Fund, a sale procedure was opened for 100% of the capital of Commercial Bank Victoria EAD ("Bank") and the overall exposure of the sole owner of capital to the Bank ("Sale").

AFA OOD acts as a consultant for the Sale by virtue of an Agreement with the Assignees in Bankruptcy of the sole owner of CB Victoria EAD – Corporate Commercial Bank AD - in bankruptcy.

The Sale procedure will be performed in three stages:

- Stage 1: Submission of Letters of Interest
- Stage 2: Submission of non-binding proposals prepared on the basis of an Information Memorandum
- Stage 3: Due Diligence, submission of binding proposals and concluding a deal

In relation with the Sale, based on information provided by or on behalf of CB Victoria EAD, AFA OOD has drawn and updated the attached marketing document intended to attract investors' interest.

The marketing document is provided solely to inform prospective buyers for the existing investment opportunity. It shall be used only for the purpose of making a decision to submit a Letter of Interest. The responsibility for taking a decision to express interest in the investment opportunity shall be born solely by prospective investors.

The invitation to prospective buyers, interested in the investment opportunity, is to submit their Letters of Interest by 18 April 2016, 14:00h local time (13:00h Central European time) to the attention of:

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The Letter of Interest shall comprise information about the prospective buyer, including:

- principal activities and field of operations;
- financial information for the last three years – financial statements and key financial and non-financial indicators;
- ownership structure, interest in other companies and entities of the financial and non-financial sector;
- experience in banking and/or in the financial sector on the territory of the European Union or the Balkans;
- motives for the interest in acquisition of the Bank;
- declaration and/or information regarding the ability of the prospective buyer to satisfy the requirements of Chapter Three, Section II of BNB Ordinance No 2 on the licences, approvals and permissions, issued by BNB under the Credit Institutions Act, in relation with the acquisition of 100% of CB Victoria EAD shares. The submitted Letters of Interest will be reviewed by the Assignees in Bankruptcy of the sole owner of CB Victoria EAD capital and the prospective buyers, who will be provided with the Information Memorandum of the Bank ("Memorandum"), will be notified by AFA OOD.

The already submitted Letters of Interest shall be regarded as valid at 18 April 2016 unless the prospective buyers explicitly notify AFA OOD for their withdrawal.

The Assignees in Bankruptcy of the sole owner of Bank's capital shall retain the right to provide the Memorandum to one or more persons without a prior notification of any of the marketing document recipients, to not provide justification regarding any decision for submitting or not submitting the Memorandum to any of the prospective buyers that have sent Letters of Interest as well as to change rules and procedures on the Sale without a prior notification of any of the marketing document recipients.

AFA OOD

Consultant for the Sale

INVESTMENT OPPORTUNITY: Acquisition of 100% of the capital of CB Victoria EAD

CB Victoria EAD ("the Bank"), including the total exposure of the sole owner KTB AD (in bankruptcy as from 22 April 2015) to the Bank, is offered in a sale procedure in line with the provisions of the Bank Insolvency Act.

Bank's major characteristics as an investment opportunity include:

- full banking licence;
- Visa International membership licence;
- reorganisation completed in 2015 (branch network and personnel);
- opportunity for penetrating niche market segments;
- experienced team;
- operational and IT infrastructural capacity to perform its activities;
- conservatively provisioned loan portfolio.

The Bank

- The Bank has been licensed by virtue of Decision No 337 / 02.11.1994 of the Governing Council (GC) of the Bulgarian National Bank (BNB) under the Banks and Lending Act to perform bank transactions in the country and abroad. The most recent update of the licence was by virtue of Decision No RD22-2266 / 16.11.2009 of BNB Governor in line with the requirements of the Law on Amendment and Supplementation (LAS) of the Credit Institutions Act (CIA).
- The sole owner of the Bank is Corporate Commercial Bank AD ("KTB AD"), which was placed under special supervision by the GC of BNB on 20 June 2014 due to insufficient liquidity. On 22 June 2014 the same measure was applied to its subsidiary Crédit Agricole Bulgaria subsequently renamed as CB Victoria.
- On 12 December 2014 the Bank resumed the performance of its obligations to depositors and on 22 December 2014 the restrictions on its banking activities, imposed under the special supervision procedure, were also lifted.
- The new management of the Bank, appointed at the end of 2014, drew an action plan intended mainly to prepare the Bank for attracting investors' interest.

The banking sector in Bulgaria

After the crisis with KTB AD and the revocation of its licence in 2014, in 2015 the banking system showed recovery in the confidence and stable financial indicators as follows:

- high liquidity (36.71%) and capital adequacy (22.28%*);
- increasing profit (20% on an annual basis);
- significant sector concentration (the five largest banks hold 57% market share);
- moderate credit risk;
- growth in loans to households;
- growth in deposits;
- interest rate decrease.

In the beginning of 2016, a review of the quality of the assets in the banking system was launched in Bulgaria with the main objective to contribute to the long-term stability and full compliance with the European supervisory and financial framework. The review is steered by BNB and is performed in direct collaboration with the European Central Bank.

Key financial indicators of the banking sector

mln.BGN%	31.12.2015	31.12.2014 (without KTB AD)	31.12.2013
Total assets of the banking system	87,524	85,135	85,747
Liquid assets of the banking system	27,700	22,219	20,053
Profit of the banking system	898	746	585
Impairment of loans and receivables**	1,100	1,128	1,047
Gross amount of non-performing exposures	11,026	12,560	5,063
Gross amount of loans (excluding those to credit institutions)	54,121	55,590	58,489
Loans to households	18,312	18,290	18,504
Deposits by households	44,407	41,003	39,248
Equity	11,523	10,839	11,164
Total capital ratio	22.28%*	21.95%	16.85%
Tier I capital ratio	20.39%*	19.97%	16.04%
Total equity to total assets ratio (%)	13.17%	12.73%	13.02%
Liquidity ratio (%)	36.71%	30.12%	27.07%

* Data as at 30.09.2015

** Difference in definitions after year 2014

Activities

At present, the Bank possesses the operational capacity required to perform all activities in line with its license for banking operations. After 30 June 2014 its position had been strongly affected by the ownership transition to KTB AD on 12 June 2014 and its subsequent placement under special supervision, which impeded the successful development of CB Victoria EAD to date.

In 2015 the new management of the Bank implemented a reorganisation resulting in a significant optimisation of the operating expenses and the structure of CB Victoria EAD.

Financial position

The financial position of the Bank is a result of the events that led to revocation of the banking licence of its sole owner, namely:

- In the days prior to the placement of KTB, and respectively of CB Victoria, under special supervision, a large number of depositors withdrew their deposits. This trend continued in the period after Bank's operations were restored on 22 December 2014 and resulted in significant decrease in the amounts due to customers.
- In the forth quarter of 2014 and in 2015, specified portions of Bank's credit portfolio were sold in order to provide funds for deposits repayment. This resulted in considerable shrinking of the credit portfolio.
- The Bank maintains a good operational and information infrastructure.
- As at 31 December 2015 the Bank's capital ratios comply with the regulatory requirements, except for the additional capital buffer ratios.

Key financial indicators of the Bank as per its audited financial statements

BGN'000; %	31.12.2015	31.12.2014	31.12.2013
Total assets	169,232	194,700	407,207
Cash and balances with Central Bank	59,438	27,131	60,817
Loans to customers, gross	111,600	158,765	329,205
Loans to customers, net	58,095	106,370	285,335
Impairment allowances / Gross amount of loans to customers	47.9%	33.6%	13.6%
Reposessed assets	28,381	23,297	25,284
Due to customers	8,085	25,628	247,297
Due to banks	117,089	115,793	91,153
Due to customers / assets	4.8%	13.2%	60.7%
Due to banks / assets	69.2%**	59.5%**	22.4%
Total capital adequacy ratio	26.5%	25.2%	15.0%
((Deficit) / surplus of common equity Tier 1 capital after buffers**	(3,260)	1,444	-
Operating income	6,011	12,257	15,187
Employee benefits expense	(4,173)	(7,265)	(8,240)
Operating expenses, including:	(4,573)	(5,930)	(6,913)
<i>Contribution to the Bank Restructuring Fund***</i>	984	-	-
Gain/(loss) on sale of credit portfolios	485	(602)	-
Net loss	(9,334)	(15,776)	(14,655)

*Amounts due to banks are entirely to KTB AD (in bankruptcy)

**See Table "Basic financial indicators of the Bank after the capital increase and the change of capital instruments", page 4

***Newly established Bank Restructuring Fund by virtue of amendments to the European banking legislation adopted by Bulgaria in 2015

Significant events after the date of the financial statements for 2015

The following events having material impact on Bank's capital and financial structure took place in 2016:

- Following BNB Order of 26 January 2016, by virtue of a decision of 1 February 2016, entered in the Commercial Register on 8 February 2016, the sole owner of Bank's capital increased the share capital by BGN 30,000 thousand.
- By virtue of BNB Order of 18 February 2016, the Deputy Governor of BNB allowed the Bank to include in its Common Equity Tier 1 capital the capital instrument issued directly by the Bank, namely, 30,000 shares at the total amount of BGN 30,000 thousand.
- By virtue of BNB Order of 29 February 2016, the Deputy Governor of BNB allowed the Bank to execute an early repayment to KTB AD (in bankruptcy) under subordinated loan agreements and capital loan agreements with a total amount of the principals of BGN 28,997 thousand, together with the interest accrued, due to the replacement of the Additional Tier 1 instruments and Tier 2 capital instruments with a higher quality capital, namely, instrument in the Common Equity Tier 1 capital of the Bank.
- In execution of BNB Order of 29 February 2016, on 29 February 2016 the Bank made an early repayment of its obligations to KTB AD (in bankruptcy) under subordinated loan agreements and capital loan instruments with a total amount of principal and interest of BGN 29,820 thousand.
- In 2016 (till 12 March 2016) the Bank has paid further liabilities to KTB AD (in bankruptcy) at the amount of BGN 4,018 thousand.

Key financial indicators of the Bank after the capital increase and change of capital instruments

BGN'000%	29.02.2016*	31.12.2015
Total assets	166,156	169,232
Cash and balances with Central Bank	58,239	59,438
Total liabilities, including	123,898	155,979
Attracted funds from financial institutions (KTB(b))	115,161	117,089
Capital instruments, including:	-	29,747
<i>Subordinated term loan</i>	-	18,012
<i>Hybrid instruments</i>	-	11,735
Total equity, including:	42,258	13,253
Registered and paid-in capital	122,091	92,091
Common Equity Tier 1 (CET1)	36,062	9,229
Tier 1 capital after regulatory adjustments (T1)	36,062	18,722
Tier 2 capital after regulatory adjustments (T2)	-	14,362
Common Equity Tier 1 capital ratio (CET1)	29.4%	7.4%
Tier 1 capital ratio (T1)	29.4%	15.0%
Total capital adequacy ratio	29.4%	26.5%
Total amount of capital buffers, BGN'000	6,741	6,869
(Deficit) / surplus of Common Equity Tier 1 capital after buffers	19,517	(3,260)

*Indicators are based on financial statements submitted by the Bank to BNB at 29 February 2016.

Requirements to investors

Only potential investors that meet the requirements of BNB Ordinance No 2 (Chapter Three, Section II), setting the requirements to potential buyers and the approval procedure for bank shares acquisition, are eligible to participate in the procedure.

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Disclaimer

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Prospective investors acknowledge that any costs incurred in the process of the sale will be at their expense.