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„Bulgarian-American Credit Bank" AD
April 2020

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FINACIAL STRENGHT RATING*	Initial Rating	Review	Review	Review	Review
Date of Rating Committee:	26.07.2016	25.07.2017	26.07.2018	15.04.2019	16.04.2020
Date of Publication:	27.07.2016	26.07.2017	30.07.2018	17.04.2019	17.04.2020
Long-term Rating:	B	B+	B+	BB-	BB-
Outlook:	stable	stable	positive	stable	stable
Short-term Rating:	B	B	B	B	B
Long-term National-scale Rating:	B+ (BG)	BB- (BG)	BB (BG)	BB+ (BG)	BB+ (BG)
Outlook:	stable	stable	positive	stable	stable
Short-term National-scale Rating:	B (BG)	B (BG)	B (BG)	B (BG)	B (BG)

Бележки:
1) Prior to the present publication the credit rating and rating outlook was disclosed to the rated entity or related third party. Following that disclosure amendments in the credit rating and rating outlook have not been executed;
2) During the last 2 years, BCRA Credit Rating Agency AD has not provided ancillary services to the rated entity or a related third party.

"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 the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are fully equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.

At a session of the Rating Committee of BCRA, held on 16.04.2020 a report of the review of the credit rating of the **Bulgarian-American Credit Bank** has been discussed. The session was run by D.Sc. (Econ.) Kiril Grigorov, in his capacity as a Chairman of the Rating Committee. The members of the Rating Committee discussed the grades of numerous credit rating factors and **took the following decision:**

„BCRA – Credit Rating Agency" (BCRA) affirms the ratings of the Bulgarian-American Credit Bank and affirms the outlook, as follows:

- Long-term financial strength rating: **BB-**, outlook: **„stable"**, short-term rating: **B**;
- Long-term National-scale rating: **BB+ (BG),** outlook: **„stable"**, Short-term National-scale rating **B (BG).**

The officially adopted by BCRA Methodology for assigning of a rating to a bank has been used: (https://www.bcra-bg.com/files/bank_methodology_2018_en.pdf)

The users of the rating can find information on the meaning of each rating category, including definition of default in the published Global rating scale on the BCRA's website: (https://www.bcra-bg.com/files/global_scale_en.pdf)

The report has been prepared and the rating - assigned, based on information made available by the rated bank, Bulgarian National Bank, National Statistical Institute, BCRA' database, consultants and other public information sources.

Bulgaria continues the process of joining the euro area according to the Action Plan, which envisages measures aimed at the country's membership in the Banking Union and the corresponding accession of the Bulgarian Lev in Currency Mechanism II (ERM II). By the end of 2019, Bulgaria reported the implementation of all commitments undertaken related to the Plan, except for part of the regulations on the preparation for accession to the Banking Union.

The growth of the Bulgarian economy in the first half of 2019 accelerated to 4.1% on an annual basis. The mainly driven by final consumption with an increase of 6.3% in real terms, compared to 5.8% in the

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corresponding period of 2018. The increase in uncertainties regarding the development of agreements with important trading partners affected the investment decisions of companies. The investments in fixed capital recorded real growth by 0.6% only compared to 8.9% in the first half of 2018. The dynamics in inventories had a limited effect on GDP growth. Accordingly, there was a decrease in imports of goods and services in the country, which in turn, exceeded the reduction of exports, resulting in a positive contribution to GDP of net exports compared to the first half of 2018.

According to the NSI' preliminary estimates for Y 2019, the real GDP growth in Bulgaria reached 3.4% on an annual basis, marking a slight slowdown in the second half of the year - a trend observed in most EU member states.

While the economy grew, the labour market conditions were tightening. Unemployment dropped, reaching 3.8% of the active population over 15 years of age in the fourth quarter of 2019 (compared to 4.3% a year earlier). The employment registered record highs for the age group 20-64. Thus, the active population rose and as a share was at an average of 56.6% in 2019. The labour demand faced problems and labour shortages continue. Hence, as expected, the steady growth of wages retained. In 2019, the average monthly gross salary reached BGN 1,274 (EUR 651 / month), a nominal growth of 11.2%. Despite the rapid growth, wages remain the lowest in the European Union, as does national income as measured by GDP per capita.

In 2019, the average annual inflation rate (measured by the HICP) slightly increased to 3.1%, with the main contribution of the services and food.

The fiscal position of the country is favourable, as the budget balance under the CFP in the last three years is positive (0.1% as a share of GDP for 2018). Following the update of the budget for 2019, approved in July in connection with the increase in defence spending, the projected CFP deficit was increased from 0.5% to 2.1% of GDP, while the medium-term forecast for the period 2020-2022 retains the objectives of a balanced budget balance.

Debt in the general government sector is assessed as a positive factor in comparison with the EU. At the end of the third quarter of 2019, the country's consolidated debt is estimated at 20.6% of GDP, The country has a significantly lower level of government debt than the Maastricht convergence criterion of 60% and is among the three EU countries with the lowest levels, being outpaced only by Estonia and Luxembourg.

For the period of the update, the banking system remains stable. Among the measures of the Action Plan of the Ministry of Finance in the process of the country's accession to the Banking Union were included asset quality review and stress tests of several Bulgarian banks. The results of the ECB's comprehensive assessment showed that in an adverse macroeconomic scenario, in two of the six banks, there was a capital shortfall, the same conclusion being made for both institutions by BNB AQR tests in 2016. At the beginning of 2020, the implementation of the capital plans of the two banks, coordinated with the supervisory authorities, for stabilization of their capital positions is underway.

As of the end of 2019, 24 banks (of which 5 foreign branches) operate at the banking market in Bulgaria, one less than in the previous year. Piraeus Bank Bulgaria AD became part of Eurobank Bulgaria AD. Also, in the first quarter of 2019, DSK Bank EAD acquired the Bulgarian part of the business of Societe Generale Group - Societe Generale Expressbank AD Following the change of ownership and before the final merger, the bank will operate as a separate credit institution at the local market, under the brand of Expressbank AD. The consolidation processes in the system are expected to lead to higher concentration and further restructuring.

Following the significant growth of the profit in the banking system reported in 2018 (42.9%), in 2019 there was a slight decrease of 0.2% or BGN 3 million. The net income from interest and fees and commissions retained its major importance but with slower annual growth, and the value of impairments was 11.9% lower than in 2018. The nominal value of the generated profit remains high - BGN 1,675 million, representing a source of additional capitalization and a reserve for maintaining the stability of the sector. Therefore, the BNB decided to fully capitalize the profit for 2019 as one of the measures to further strengthen the capital of banks in the context of the crisis related to COVID-19.

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Shareholders Structure and Management

In the period of the update, no changes occurred in the shareholding capital of the Bulgaria-American Credit Bank (BACB). In the structure of shareholders had no substantial changes, while the shares of the main shareholders, slightly increased („CSIF“AD and LTBI Holdings LLC).

Shareholder	Share of capital	
	31.12.2019	31.12.2018
CSIF AD	61.56%	61.43%
LTBI Holdings LLC	35.70%	35.49%
Other shareholders	2.74%	3.08%
Total:	**100%**	**100%**

There are no changes in the participation of the bank, as well as in the compositions of the Supervisory and Management Board. The mandate of the SB expires on May 10th 2021 and that of the Management Board on June 6th 2022. In the period of the analysis, the Bank has acquired 100% of the capital of the company established in the same year, namely Paytech OOD.

The management of the bank declares its commitment to steady growth of the business and to retain the diversification of the loan portfolio by increasing the share of individuals and SMEs and funding corporate clients and industrial sectors with attractive indicators, such as energy renewable sources, financing projects, approved for implementation under the EU Operational Programmes and by expanding the range of services and products offered in the retail banking.

Capital Adequacy

In the review period (2019) the risk-weighted assets outpaced the capital base, which resulted in a decrease in the levels of total capital adequacy ratio and adequacy of Tier 1 capital. In comparative terms, the capital adequacy of the rated bank remains lower than the average of the banking system and the Second Group of banks, while they are significantly higher than the regulatory requirements.

In 2019, the indicator *Net classified exposures to Capital base* reduced as a result of the decrease of the non-performing exposures and the increase of the capital base.

At the end of 2019, the value of the non-adjusted leverage was approximately equal to the average of the banks in the second group and remained higher than the average of the banking system. In terms of the adjusted leverage, the bank was recording higher values than the average of the banking system and the banks in the second group and lower than the average for the reference group of banks[1].

The Return on equity has been increasing for a fifth consecutive year to 7.53% in 2019 due to the accelerated growth of the net profit (17.3%) compared to that of the equity (8.1%).

For the last four years, the level of leverage calculated for supervisory purposes has decreased, while was exceeding the minimum requirement throughout the period.

Resources

In the period of the update, for the last five years, the upward trend in the levels of attracted funds remains. In 2019, the total attracted funds (deposits and others) have grown by 18.7% (16.4% for 2018 and 18.1% for 2017). Maintaining these growth rates, the Bank remained above the average level of attracted funds of the banking system for a third consecutive year (8.4% for 2019, 7.2% for 2018 и 6.5% for 2017 respectively).

The deposits are dominating the resource base. In the period of the update, there are no changes in the currency structure, while the share of term deposits decreased. There is a slight increase in the share of corporate clients.

In the analysed period, relatively high concentration is observed in both resource and deposit base.

Assets Quality

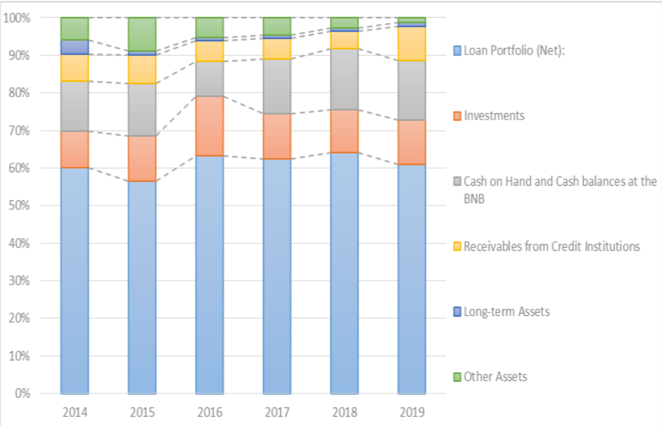
In the review period, *total assets* are registering stable growth and for a third consecutive year retained at levels approximately and above 15% annually. At the end of 2019, the increase was by 17.6% compared to 14.5% in the past year, which is significantly higher than the average of the banking system (8.2% in 2019).

To a great extent, the increase of BACB's assets results of the growth of *credits* at a rate of 12.1%, thus recording 44.1% of the total increase of assets in 2019. Next, in absolute terms are *Receivables from credit institutions*, registering more than a double increase compared to the previous year, as well as *Cash on hand* and *Cash in the current account at the BNB*. The

[1] Municipal Bank, Investbank, International Asset Bank and D Commerce Bank

investments also increased by BGN 35 million structure of assets (21.6% per annum), dominated by loans (net) with 61.4% share, followed by *cash on hand* and *current account at the BNB* with 15.8% relative weight.

Chart № 1: Assets Structure 2015 -2019



The size of ***Gross Loan Portfolio*** was increasing in the overall review period, slightly decelerating the high growth from the previous years - 9.6%, compared to 13.9% for the 2018 year. The growth is still higher but is closer to the average of the banking system (8.8%) in 2019.

In structural terms, the key feature qualifying the bank as a corporate is not changed – a considerable share of *Loans to enterprises* in the loan structure (85% of the loans) retains and is gradually accelerating the growth of retail exposures, with a share already exceeding 10% of the portfolio (12.4%).

BACB maintains a well-diversified corporate credit portfolio by sectors.

The share of non-performing loans in the gross loan portfolio was declining for a sixth consecutive year, however, the level (19.8%) remains by more than 10 pp above the average level of the banking system. The improvement of the indicator in 2019 was due to both the decrease in non-performing loans and the high growth of gross loans. In structural terms, the majority of "inherited" loans continue to stand out - 76.6% of the non-performing loans were granted until 2011, and the share declined compared to the previous year - 83.5%.

At the end of 2019, the coverage of the gross loan portfolio at impairments remained considerably higher than the average level of the banking system and that of the banks in the second group.

The coverage of the classified loans at impairments continues to be much lower than that of the comparative group and has a downward trend.

The share of the 15th biggest credit exposures records slight decline, albeit remain higher and continue to retain certain concentration.

Income Quality

In 2019, the income from interest rates has increased for a fifth consecutive year and the achieved high growth retained – 9.1%, 9.6% for 2018, compared to the decelerated growth of about 2% in the past 2017 and 2016.

Interest expenses declined by 3.6%, compared to 2018 when they have reduced mostly – by 26.4% on an annual basis.

The relative annual growth of fees and commissions recorded increase again at an accelerated pace in 2019, reaching 36.8%, with only that registered in the first of the observed five-year period - 2015, being higher (52.2%).

In 2019, the absolute amount of expenses for fees and commissions remained almost the same compared to the previous year, reporting a small decline of 1.7%.

In each of the past five years, there has been an increase in both *Net interest income* and *Net income from fees and commissions*. The relative changes in the past three years are slighter than those at the beginning of the period. The net interest income registered double lower growth in the last year (11.8%) compared to the one of the previous year (22.1%). However, in the net revenues from fees and commissions, there is an accelerated annual growth to 40.1%, close to the highest value registered in the first year of the analysed period.

In 2019, the operating profit increased by the further 32.7% on annual basis (growth rate of 27.9% in 2018), reaching BGN 22 680 thousand at the end of the year, the highest value in the past five years.

The growth of the financial result declined compared to the operating one but again recorded double-digit rate of 17.3% (after growth of 55.8% in 2018 and 31.6% in 2017). The nominal value amounted to BGN 14,317 thousand at the end of the year, the highest value for the past five years

In 2019, the steady decelerating trend of the Return of the interest-bearing assets remained (for a fourth

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consecutive year) – by 0.10 pp on an annual basis, a specific tendency for the entire banking system.

The *price of the interest liabilities* also recorded a decline, which is marking the overall analysed period. In the past year, it reduced slighter – by 0.11 pp (0.35 pp for 2018). For the past year, the decrease is a result of both the reduction of interest expenses (only by 3.6 pp, compared to 26.4% decrease for the previous year) and the increase in interest liabilities by 14.9% (13.8% - 2018). Almost the same rates of decline of the *price of interest-bearing liabilities* compared to the *return on interest-bearing assets* in the last year reflected in an insignificant decline (below 0.01 pp) in the level of gross interest spread. The spread remains at the same level as in the previous year - 3.31% (3.30% in 2018), indicating obstruct in the growth of the indicator throughout the analysed period.

The same tendency maintains in the level of the *Net interest margin* – deviations after the second decimal place of the annual interest rates – 3.268% for the past year, 3.274% for 2018 (by 0.006 pp decline).

The *Return on assets* increased slightly – by 0.02 pp yearly, reaching 0.95% at the end of the year due to the outpaced growth of the profit compared to that of the average assets. In comparative terms, the level of the indicator remains considerably lower than the average of the banking system (1.53% at 1.66% for 2018) and less than the average of banks in the second group (1.13%, 1.21% for 2018.), taking into account that for both compared groups the ratio decreased in the past year.

The value of the ratio *Operating profit* to *Average value of assets* remained significantly lower (by 0.87 pp and 0.47 pp) compared to the average levels of the banking system (2.34%) and the banks in the second group (1.87%).

Liquidity

In 2019, the downward trend of the ratio *Equity to Total liabilities* remained, whereas the recorded decline amounted at 1.1 pp (1.3 pp for 2018) on un yearly basis. In comparative terms the level of the indicator is lower by 0.8 pp compared to the average of the banking system, and is already at approximately the same level compared to the banks in the second group (with a minimum difference of 0.1 pp), having reported excess (by 1.0 pp) in the previous year.

In 2019, for a third consecutive year, growth in the size of current assets was observed in both of Cash and Cash balances at the central banks and the receivables from Credit institutions, are doubled, recorded decline of 2.3% in the previous year. The recorded value of the current assets reported at the end of the year is the highest for the past five years.

The liquidity level for supervisory purposes reported a slight decrease in the past three years, but throughout the period (2016-2019) significantly exceeded the minimum requirements.

Size and Systems

As of the end of 2019, the BACB moved up two positions in the ranking by the size of assets and deposits to 13th place and by one position ahead to 11th place according to the size of gross credits. In terms of the size of assets, the BACB outpaced the International Asset Bank, which was positioned ahead in the previous year.

In 2020, the systems in process of implementation are the following: New electronic banking system; update of the corporate website; update of the microsites for online loan application; BORICA New generation system; selection of a regulatory reporting solution (FINREP, COREP); Introduction of a new information system for collection and processing of information and reports at the BNB under the Law on Payment Services and Payment Systems (LPSPS).

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Man financial Indicators:

(BGN ‘000; %)	*2019*	*2018*	*2017*	*2016*	*2015*
Balance Sum	1 670 726	1 420 303	1 240 099	1 072 892	1 017 537
Gross Loans	1 108 642	1 011 311	887 697	806 712	693 595
Equity	197 730	182 960	176 285	168 171	161 944
Total Interest Income	46 716	42 803	39 064	38 098	37 117
Net Financial Result	14 317	12 202	7 830	5 952	814
Total Capital Adequacy	15.25%	16.14%	18.35%	19.17%	21.44%
Net Interest Margin	3.27%	3.27%	3.01%	3.03%	2.59%
Return on Assets	0.95%	0.93%	0.67%	0.57%	0.09%
Gross Classified Exposures / Total Loans	19.81%	23.25%	29.12%	36.50%	43.61%
Net ratio of accumulated impairments	-2.01%	-3.71%	-7.03%	-2.07%	-12.67%
Liquidity	-	-	26.61	24.10	32.34
Liquidity Coverage	183%	192%	-	-	-

*In the review period, the **„Bulgarian American Credit Bank“ AD** continues to report improvement of the business operations and the achieved results, where in part of the indicators in addition to the preservation of the positive trends their acceleration is observed.*

***Further positive impact** on the rating of the Bulgarian American Credit Bank could have the stable improvement of the portfolio quality, maintenance and increase of the accumulated profit and the income indicators and at the same time steady levels of the capital adequacy and liquidity are retained.*

***The rating could be negatively affected** by further deterioration of the credit portfolio’s quality and considerable decrease of the levels of the capital adequacy and liquidity indicator, as a result of the adverse effects of the COVID 19 pandemic on the bank’s customers.*