95, Evlogi Georgiev
1142 Sofia
phone: (+359 2) 9876363
www.bcra-bg.com

# Delta Credit ADSIC

Ivailo Cholakov, Financial Analyst
i.cholakov@bcra-bg.com
Ventzislav Petrov, Financial Analyst
v.petrov@bcra-bg.com
Radostina Stamenova, Economic Analyst
stamenova@bcra-bg.com
Kalina Dimitrova, Economic Analyst
k.dimitrova@bcra-bg.com

| CREDIT RATING | Review | Review |
|---|---|---|
| Date of Rating Committee: | 20.12.2019 | 21.12.2020 |
| Date of Publication: | 21.12.2019 | 23.12.2020 |
| Long-term Rating: | BBB- | BBB- |
| Outlook : | *stable* | ***stable*** |
| Short-term Rating : | A-3 | A-3 |
| | | |
| Long-term National-scale Rating: | A (BG) | A (BG) |
| Outlook: | *stable* | ***Stable*** |
| Short-term National-scale Rating | A-1 (BG) | A-1 (BG) |

*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.*
*3)To become familiar with the full rating history, please see the table at the bottom of the document.*

*BCRA – CREDIT RATING AGENCY (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) 1060/2009 of the European Parliament and of the Council. BCRA assigns credit ratings recognized throughout the EU, and are equal with the other ratings recognized by the European Securities and Markets Authority (ESMA), without any territorial or other limitations.*

At a session of the Rating Committee of BCRA, held on **21.12.2020** a report of the review of the credit rating of **Delta Credit ADSIC** has been discussed. The session was run by D.Sc. (Econ.) Kiril Grigorov, in his capacity as a Chairman of the Rating Committee. Following a discussion on changes in the factors affecting the rating during the review period, the members of the Rating Committee **took the following decision:**

BCRA **affirms** the following ratings to **Delta Credit ADSIC:**

- long-term credit rating: **BBB-**
  **stable** outlook
  short-term credit rating: **A-3**

- long-term national-scale rating: **A (BG)**
  **stable** outlook
  short-term national-scale rating: **A-1 (BG)**

***The officially adopted by BCRA Methodology for assigning of a Corporate credit rating has been used**: (https://www.bcra-bg.com/files/Corporate_Methodology_2016_en.pdf).*

***The users of the rating can find information on the meaning of each rating category, including definitions 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.***

## Operating Environment

### *Sovereign Risk*

The emergence of the worldwide COVID-19 pandemic and addressing the issue turned into one of the main priorities in Bulgaria as well as in all its political and economic partners. The country was in a state of emergency from the 13th of March to the 13th of May 2020 due to the unprecedented crisis, and the government took a number of legislative measures to curb the negative economic impact. The state of emergency was thereafter replaced by an *emergency epidemic situation* by the end of November 2020 at least, along with new socio-economic measures.

RATIONALE

**95, Evlogi & Hristo Georgievi, floor 1**
1142 Sofia

**phone:(+359-2) 987 6363**
**www.bcra-bg.com**

The COVID-19 pandemic and the measures taken to limit the infection have adversely impacted the economic activity in the country. The unprecedented shock undermined the positive dynamics of GDP at the beginning of the year, as real growth slowed to 1.2% on an annual basis in the first quarter, and even more pronounced within the second quarter with a decline of 8.2%. Thus, Bulgaria's GDP fell by 4.2% on average for the first half of 2020, compared to 4% for the same period in 2019. The European Commission projects a decline of 7.2% for Bulgarian GDP in 2020. Household consumption expenditures decreased by 2.4% on an annual basis on average for the first six months of 2020 as a result of the introduced measures for social distancing, rising unemployment and declining disposable income. Collective consumption reported real growth of 3.8% positively contributing to the GDP dynamics during the analysed period. Concurrently, uncertainty and limited demand reflected on the investment decisions of companies, hence, gross fixed capital formation decreased by 8.2% and inventories shrank significantly.

In 2019, the labour market reported record low unemployment (4.2% of the active population over 15 years) and record high employment (54.2%) for the last 15 years. However, market conditions expectedly deteriorated in the course of 2020 mainly as a result of restrictive anti-epidemic measures. In the second quarter of 2020, the unemployment rate was 5.9% (compared to 4.2% a year earlier). According to the data of the Employment Agency, the number of registered unemployed in the age group 15-64 was 63% higher in the quarter compared to the same period of the previous year, reaching 287 000 people.

The HICP average annual inflation slowed sharply in the course of 2020, falling from 3.4% in January to 0.4% in July, and in August for the first time since the beginning of the year reporting a slight increase to 0.6%. The main contributors to the downward dynamics are the collapse in international oil prices and the contraction of private consumption due to the unprecedented health crisis. Concurrently, foods have been consolidating its role as a major inflationary engine, although they have also seen a decline in the rate of price growth.

Bulgaria has entered the current crisis with a stable fiscal position, accumulated reserves and low government debt. The initial budgetary target for 2020 was to achieve a balance but the unprecedented COVID-19 crisis necessitated its extraordinary revision due to the expected revenue shortfalls and the need to incur additional costs. With the April revision, the projected CFP balance was changed to a deficit of BGN 3.5 billion or 3% of the projected GDP. We expect the government debt-to-GDP ratio to rise to approximately 25% in 2020 due to financial needs arising from the anti-crisis fiscal measures and the decline in GDP.

## Banking System

On the 10th of July 2020, the Bulgarian lev was included in the Exchange Rate Mechanism II. In parallel, the ECB's decision to establish close cooperation with the BNB was announced. Starting October 1, 2020, the ECB commenced the direct supervision of the significant institutions in the Republic of Bulgaria. The Bulgarian banks that fulfil the criteria are UniCredit Bulbank AD, DSK Bank AD, United Bulgarian Bank AD, Eurobank Bulgaria AD, and Raiffeisenbank (Bulgaria) EAD.

Currently, the banking sector remains stable. The capital ratios and liquidity of banks are at high levels being supported by the steady growth of the deposit base.

Lending to the non-financial sector has been slowing down in the conditions of uncertainty during the first half of 2020, largely for enterprises. At the same time, under the *Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions* requests from households and enterprises for deferral of liabilities amounting to BGN 8,1 billion or 83.1% of the filed so far were approved as of end-June 2020, or 12.3% of the total gross loans and advances.

The profit generated in 2019 was high, thus, securing additional capitalisation and a reserve for maintaining the stability of the sector. Therefore, the BNB decided to fully capitalise that profit as one of the measures to further strengthen the capital of banks in the context of the crisis related to COVID-19. The reported financial result as of mid-2020 was positive albeit lower by 43.9% on an annual basis. The net income from interests, fees and commissions retained their importance but at an annual decline in both sources. At the same time, the value of the impairments incurred doubled compared to the same period in 2019.

The development of economic processes in the country, including in the context of the pandemic of COVID-19, have been analysed in detail by BCRA - Credit Rating Agency. A Rating Rationale of the

RATIONALE

**95, Evlogi & Hristo Georgievi, floor 1**
1142 Sofia
**phone:(+359-2) 987 6363**
**www.bcra-bg.com**

Sovereign Rating assigned by BCRA to the Republic of Bulgaria is available at our official website: ***https://www.bcra-bg.com/files/rating_republic_of_bulgaria_oct_2020_en.pdf***

***Characteristics of the activity of the special purpose vehicles (SPVs) in Bulgaria***

The special purpose vehicles are companies specialised in rising free resources from the economy by issuing financial instruments and investing the money (or at least a major part of it) into the purchase of certain assets. SPVs could be two types: SPVs specialised in the securitisation of real estate and SPVs specialised in the securitisation of receivables.

Lastly amended on 16 February 2018 and 7 August 2018, the law on special purpose vehicles was not changed in the review period.

Two more companies operate at the **receivables securitisation** market (Compass Receivables Fund and Finance Assistance Management) compared to end-2018, to a total of nine.

The companies carrying out the activity of securitisation of receivables got their amount of the **managed assets** increased by 3.4% in 2019 (to the value of BGN 150.5 million), which was significantly lower than in 2018 (16.0%), but also slightly higher than the level for 2017 (2.3%). The rise was driven mainly by the increased value of receivables up to 1 year (+8.6%, or BGN 9.2 million), supplemented by an increase in the amount of available cash (+114.6%, or by BGN 1.3 million). A decrease in the value of long-term receivables (-16.9%, or BGN 5.4 million) and a practically unchanged amount of financial assets were observed. Assets remain dominated by securitised receivables portfolios with a share over 90%. The **registered capital** of the companies in the sector increased by 14.5% (21.8% for the previous year), reaching BGN 12.1 million at the end of 2019. The dynamics of **equity** is similar. It increased by 43.0% (75.2% in the previous period) to BGN 79.7 million in the end of 2019 (BGN 55.7 million) emphasising improvements in the financial result of the subsector (total net profit amounted to over BGN 22 million).

In the review period, there was no change in the level of any of the **risks** (systemic or specific) affecting the SPVs activity. The enterprises forming the subsector remain severely limited in their activity and respectively in the achieved results.

It is expected that the economic crisis related to the COVID-19 pandemic will cause a further increase in the portfolio of receivables that companies in the sector will securitise. The effects of the crisis are still difficult to assess, but for the purposes of this assessment, the general trends have been analysed.

---

**Delta Credit ADSIC** is a joint-stock company with a special investment purpose under the specific Bulgarian legislation. Its registered scope of activity includes the investment of funds raised through the issuance of securities in receivables (securitisation of receivables), purchase and sale of receivables and other commercial activities directly related to the purchase and sale and/or securitisation of receivables. In case a license is required for any of the listed activities, the last will be carried out after its receipt.

There were no significant changes in the **shareholder structure i**n the review period except for the inclusion of MF Progress with a share of 7.03% as of end-2019. The amount of the fixed **capital** stood at BGN 1.3 million as of 30.09.2020.

The company has a one-tier **management** structure with Board of Directors (BD). A change in the composition was made at the beginning of the review period: Todorka Georgieva was elected a new member in replace of Nikolay Panayotov (Decision of the GMS of 27.06.2019). Thus, the composition of the Board (with a mandate until 31.03.2022) includes:

- Galia Alexandrova Georgieva – Chair of BD and Executive Director;
- Todorka Stoyanova Georgieva – Deputy Chair of BD;
- Stoyanka Doncheva Petkova – member of BD.

Delta Credit has no participations in other companies and operates only on the Bulgarian market.

In the update period of the credit rating Delta Credit Management EAD is preserved as a **servicing company**, which provides qualified specialists to manage the portfolio of receivables held by Delta Credit ADSIC and all the accompanying activities. The rated company, in practice, does not have own staff.



RATIONALE

The **market** of securitisation of receivables is highly competitive. The company, in terms of characteristics of its portfolio and activity, strongly competes with the companies specialised in the collection of non-performing loans (so-called collection agencies), many of which are foreign companies, and to a lesser extent to the other special-purpose vehicles carrying out securitisation of receivables.

The **structure and quality of the portfolio** remained relatively unchanged during the review period. The structure remained dominated by corporate receivables - with over 65% share in the non-litigation receivables in the last 3 years (2018-9.2020). The company's portfolio shrank by 3.8% on an annual basis as of end-September 2020.

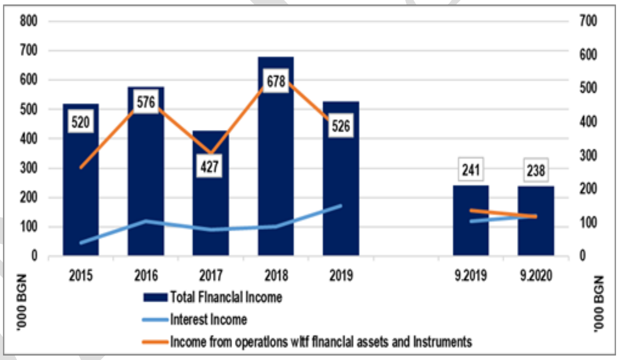
The **characteristics** of receivables are preserved. They are all unsecured, by maturity structure are reported as short-term financial assets available for sale and by currency structure, they are almost entirely denominated in Bulgarian lev.

The structure of the portfolio achieved in the previous review period with a lower level of **concentration by groups** of receivables has been preserved. The share of receivables over BGN 500 thousand decreased further to 28.6% as of 30.09.2020 (31.8% a year earlier) and was composed by one receivable. An increase was reported in the value of receivables in the range of BGN 100 to 500 thousand, which led to a new increase in their share in the portfolio, reaching 34.9% as of 30.09.2020 (27.5% a year earlier and 25.7% at the end of 2018). With this, the latter group becomes the leader in terms of value, and the number of receivables has increased by one.

The relatively high **concentration** in the portfolio of the 15 largest regular receivables is preserved, where receivables from six companies formed 97.7% of the regular receivables in the company's portfolio as of 30.09.2020 (95.1% a year earlier). The concentration in overdue receivables was further reduced, as the share of the 15 largest receivables dropped to 14.5% by the end of September 2020 (23.0% as of September 30, 2019). In litigation claims, the concentration remained relatively low (the largest 15 had a share of 16.1% as of 30.09.2020, compared to 11.7% a year earlier).

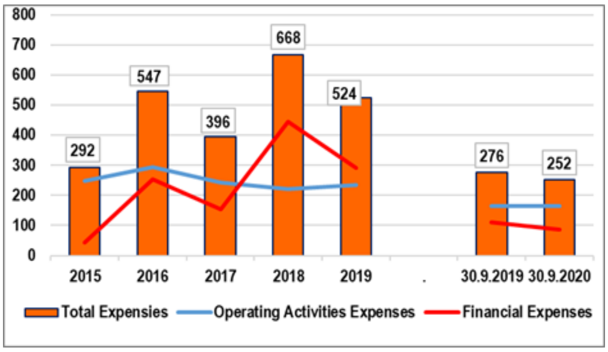
The **write-offs** remained relatively low (BGN 61 thousand for 2019, mainly extinguished by prescription). The ratio of *written-off receivables in the current year* to the *sum of current financial assets and litigation receivables* amounted to 1.1% in 2019 (0.5% for 2018 and 1.3% for 2017).

In the review period, the company's **revenues** remained dominated by those realised from operations with financial assets and instruments - 71.5% for 2019 (81.8% for 2018 and 71.9% for 2017), and the rest came mainly from interest income. The figure below shows the maintained trend of increasing interest income, better expressed in the review period, and the volatile changes in income from operations with financial assets, which reported a decrease for 2019.




The total amount of revenues for 2019 decreased by 22.4% (after an increase of 58.8% in the previous year), due to the reduced amount of positive differences from operations with financial assets and instruments (by 31.6%, after an increase of 79.2% in 2018, significantly affected from a positive revaluation).

For the nine months of 2020, the total revenues remained practically unchanged, with an increase in interest income (by 14.3%), which was offset by a decrease in income from operations with financial assets (by 13.2%).



**95, Evlogi & Hristo Georgievi, floor 1**
1142 Sofia
**phone:(+359-2) 987 6363**
**www.bcra-bg.com**

The **expenditures** of the company decreased by 21.6% (after the more significant increase from 2018 by 68.7%), mainly due to the reported lower amount of negative revaluation of receivables on the owned securitised portfolios. Interest expenses are formed entirely on the servicing of the bond loan and did not change during the review period. Expenditures on written-off receivables remained insignificant.

**Return on equity** remains low and also the lowest compared to the companies in the reference group[1].

The value of current assets (comprising the whole portfolio of receivables) continued to decline during the review period, significantly exceeding the current liabilities. Thus, the indicator of **Current liquidity** (equal to the fast liquidity[2]) posted a high value.

The indicators for the **indebtedness** of Delta Credit have been practically unchanged in the last five analysed years, as the level of *leverage* (around 0.60) continues to be one of the best in the reference group of companies.

During the review period, the company did not attract additional borrowed funds, and the external financing comprised only of **its obligations under the bond issue.** Maintained revenue levels provided sufficient funds for timely debt service.

***Negative impact on the assigned rating*** *could have a low collection of litigation receivables, reduction of revenues, devaluation of the portfolio of receivables and generation of negative operating results, which would decapitalise the company.*

***Positive impact on the Company's rating*** *could have the following: improvement in the collection and provision of rhythmic receipts on the receivables, lowering the concentration in the portfolio, increasing the generated profit and sustainable improvement in the financial indicators, including maintaining and improving the levels of liquidity and leverage.*

RATIONALE

[1] The group includes four competing companies: EOS Matrix, Debt Collection Agency, Macroadvance and Frontex International.

[2] The values of the fast and current liquidity indicators coincide throughout the period under review, as the company does not report inventories.

| | |
|---|---|
| **95, Evlogi & Hristo Georgievi, floor 1**<br>1142 Sofia | **phone:(+359-2) 987 6363**<br>**www.bcra-bg.com** |


**Main Financial Indicators:**

| *Indicator* | *30.9.2020* | *2019* | *2018* | *2017* | *2016* | *2015* |
|---|---|---|---|---|---|---|
| Assets | 5 415 | 5 543 | 5 443 | 5 422 | 5 418 | 5 431 |
| Total revenues from operations | 245 | 531 | 682 | 439 | 590 | 309 |
| Net Financial Result | -9 | 7 | 14 | 43 | 43 | 16 |
| Return on Equity | - | 0.32% | 0.64% | 1.95% | 1.95% | 0.74% |
| Current Liquidity | 21.83 | 15.10 | 20.77 | 25.22 | 25.08 | 21.13 |
| Immediate Liquidity | 0.08 | 0.05 | 0.10 | 0.70 | 0.96 | 0.71 |
| Leverage | 0.60 | 0.61 | 0.60 | 0.59 | 0.59 | 0.60 |
| Financial Leverage | 1.38 | 1.38 | 1.38 | 1.36 | 1.36 | 1.38 |

***Rating History***

| CREDIT RATING | Monitoring | Update | Update | Update |
|---|---|---|---|---|
| **Date of Rating Committee:** | **06.01.2017** | **05.12.2017** | **20.12.2018** | **20.12.2019** |
| **Date of publication:** | **11.01.2017** | **06.12.2017** | **21.12.2018** | **20.12.2019** |
| **Long-term Rating :** | **BBB-** | **BBB-** | **BBB-** | **BBB-** |
| **Outlook :** | *in development* | *stable* | *stable* | *Stable* |
| **Short-term Rating :** | **A-3** | **A-3** | **A-3** | **A-3** |
| | | | | |
| **Long-term National-scale Rating:** | **A (BG)** | **A (BG)** | **A (BG)** | **A (BG)** |
| **Outlook:** | *in development* | *stable* | *stable* | *Stable* |
| **Short-term National-scale Rating:** | **A-1 (BG)** | **A-1 (BG)** | **A-1 (BG)** | **A-1 (BG)** |

| CREDIT RATING | Initial Rating *<br>30.06.2016 | Monitoring<br>05.07.2016 ** |
|---|---|---|
| **Long-term rating :** | **BBB-** | **BBB-** |
| **Outlook :** | ***Stable*** | ***Under review ***** |
| **Short-term rating :** | **A-3** | **A-3** |

* *The initial rating is assigned under the previously used Methodology for assigning of a corporate credit rating; therefore, it is not comparable directly to the ratings, assigned following the entry into force of the updated Methodology as of July 2016.*

*** The outlook status "under review" is placed due to changes entered into force in the Methodology for assigning corporate credit rating, applied by BCRA. (See: https://www.bcra-bg.com/files/Corporate_Methodology_2016_en.pdf ).*

RATIONALE