

**„International Asset Bank” AD**  
**April 2020**

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| FINIACIAL STRENGHT RATING *       | Update     | Review     | Review     | Review     |
|-----------------------------------|------------|------------|------------|------------|
| Date of Rating Committee:         | 24.03.2017 | 29.03.2018 | 09.04.2019 | 09.04.2020 |
| Date of Publication:              | 27.03.2017 | 30.03.2018 | 10.04.2019 | 10.04.2020 |
| Long-term Rating:                 | B+         | B+         | B+         | B+         |
| Outlook:                          | stable     | stable     | positive   | positive   |
| Short-term Rating:                | B          | B          | B          | B          |
| Long-term National-scale Rating:  | BB (BG)    | BB (BG)    | BB (BG)    | BB (BG)    |
| Outlook:                          | stable     | stable     | positive   | positive   |
| Short-term National-scale Rating: | B (BG)     | B (BG)     | B (BG)     | B (BG)     |

**\*Notes:**

- 1) To see the full rating history, please see the chart at the bottom of the document;
- 2) 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;
- 3) 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 credit rating agency 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 entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

At a session of the Rating Committee of BCRA, held on **09.04.2020** a report of the review of the credit rating of the **International Asset 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 International Asset Bank and maintains the outlook, as follows**

- Long-term financial strength rating: **B+**, outlook: „**positive**“, short-term rating: **B**;
- Long-term national-scale rating: **BB (BG)**, outlook: „**positive**“, 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](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 definitions of default in the published Global rating scale on the BCRA's website: ([https://www.bcra-bg.com/files/global\\_scale\\_en.pdf](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 according 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 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 back dropped. Unemployment dropped, reaching 3.8% of the active population in the age group of over 15 years 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 economically active persons rose and stood at an average of 56.6% in 2019. The labour demand faced problems and labour shortages continue to worsen. Therefore, 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 prices of 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.

### **„International Asset Bank“ AD**

#### ***Shareholding Structure and Management***

In 2019, no changes occurred in the share capital, shareholders structure, participations and the compositions of the Supervisory Boards and the Management Board of the International Asset Bank AD.

The bank's management aims at achieving sustainable and effective development of International Asset Bank AD by maintaining an adequate balance between risk, capital and profitability.

The Bank intends to continue to adhere to

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|---|--|
|  <p><b>BCRA</b><br/>CREDIT RATING AGENCY</p> | <p><b>FINANCIAL STRENGTH RATING</b><br/> <b>„International Asset Bank” AD</b><br/> Long-term/Short-term Rating: <b>B+ / B (positive)</b><br/> National-scale Rating: <b>BB (BG) / B (BG) (positive)</b><br/> <b>April 2019</b></p> |
| <p><b>95, Evlogi &amp; Hristo Georgievi Blvd. floor 1</b><br/>1142 Sofia</p>  | <p><b>phone:(+359-2) 987 6363</b><br/><b>www.bcra-bg.com</b></p>   |

conservative investment policy and will strive to increase its assets and market share and to digitize and develop state-of-the-art distribution and service channels.

### Capital Adequacy

During 2019, the rapid increase in the capital base (CB) and Tier I capital to risk-weighted assets (RWAs) improved the total capital adequacy ratio and capital adequacy ratio of Tier I capital, which continued significantly exceeding the regulatory requirements.

There are no significant changes in the structure of RWA, with those for credit risk still having the largest share.

In comparative aspect, at the end of 2019, the bank reported lower level of the capital adequacy indicators (total and Tier I Capital) compared to the banking system and the banks in the Group II. A shrinkage of the differences is observed compared to the average for the banks in Group II and to the averages for the banking system.

In 2019, the ratio of non-performing exposures to the capital base has decreased. The change is due to the one-way impact of the growth of the capital base and the decline in non-performing exposures. In comparative terms, the value of the bank's indicator exceeds the averages for the banking system and for the banks in Group II for the second consecutive year.

In 2019, the level of the unadjusted leverage slightly declined, while the adjusted one increased. In comparative aspect, both indicators are over the average of the banking system and the banks in Group II.

After the reported decline in the return on equity indicator in 2017 (by 5.08 pp) and the subsequent increase of 3.76 pp to 9.53% in 2018, at the end of 2019, the bank reached the highest value for the last five years of 12.00%. The value is higher than the average for the banking system (by 0.19 pp) and the banks in Group II (by 2.64 pp).

For the last three years the level of the leverage  $\Sigma$  последните три години нивото на изчислявания за надзорни цели ливъридж е относително стабилно, като през целия период размерът му покрива над два пъти минималното изискване.

### Resources

In 2019, the resource base of International Asset Bank increase by 6.6% YoY compared to 4.8% for the previous year.

The growth lags behind the one of the banking system in 2019 (8.4%) but is higher than the levels of the banks in the Group II, with a registered decline by 0.8%.

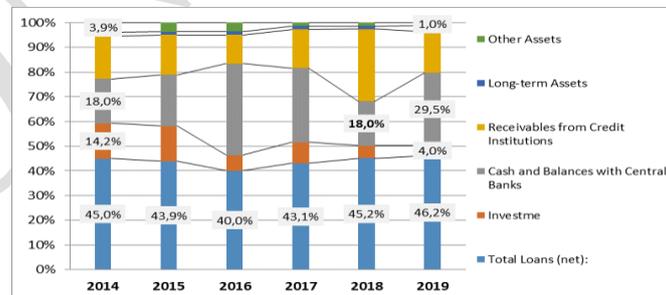
The deposits still dominate the structure of the attracted funds.

### Assets Quality

After a two-year decline in the *growth pace*, at the end of 2019, the assets boosted their rise - slight deceleration of the annual growth – by 2.7 pp, to 7.6%, after the recorded rate of 4.9% in 2018. Thus, the registered growth, albeit having lower value than the banking system, came closer by half pp to the total growth of the system.

*The structure of the assets* is permanently dominated by net loans, which for a third consecutive year slightly increased their share from the lowest level of 40% in 2016 to 46.2% in 2019, the highest registered so far. In a comparative aspect the relative weight continues to be considerably lower than both to the average of the system and the banks in Group II.

Chart № 1: Asset Structure of International Asset Bank AD



The volume of the *investment portfolio* of International Asset Bank AD remained to decline for a second consecutive year and its share retained below 5%. In terms of its structure, the investments properties, which share strongly increased in last three years, is already over 60%.

At the end of 2019, the growth of gross loans registered declining but still outpacing rate compared to the average of the banking system. Similar dynamics are observed in net loans by a decelerating size of impairments.

The gross loan portfolio remains dominated by the loans to companies, which have slightly declining share but still over 80% of total loans.

The Bank has a relatively well-diversified corporate loan portfolio by economic sectors with leading in terms of outstanding loan exposures to the Trade

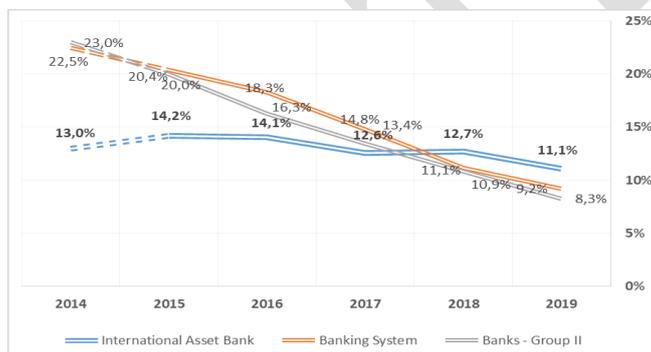
sector with 22.9% share and Manufacturing - 17.4%.

At the end of 2019, the amount of non-performing loans reported a decline in absolute value for the first time in the last five-year period. This is happening after the three-year period (2015-2017) of stagnation and slight increase at about BGN 80 million, followed by a significant growth of over BGN 8.6 million, a 10.7% rate YoY. For the last 2019, the reduction amounted at 4.2 million or 4.7% decline on annual basis and with the significant growth of credits resulted favorably in a decrease of the ratio of non-performing loans to gross loan portfolio to record-low rate of 11.1%. Most part of non-performing loans is formed of those granted until 2014 – being 75% of all non-performing loans.

In terms of the value of the new non-performing loans, in 2019, a decline on annual basis is observed, which resulted in a reduction of the Gross ratio for generation of arrears, which fell down to below 2% (1.67%). On the other hand, the ratio registered a negative value as a result of the lower level of these loans at the end of the period compared to the beginning of the year - minus 0.69% compared to 1.54% for the previous year.

The share of non-performing loans of International Asset Bank in a comparative aspect and for the last 2019, again lags slightly behind the average improvement of the indicator for the banking system, whereupon 2017 including, it had more favourable and lower values:

**Chart № 2:** Share of the classified loans in gross loans for the period 2014 – 2019



The levels of impairment coverage of gross classified loans and the gross loan portfolio, reported by the bank, are close to the averages for the banking system and for the banks in Group II.

The share of top 15<sup>th</sup> loan exposures in the gross loan portfolio remains high in a comparative aspect,

despite the improvement in the last period and continues to indicate for a certain concentration in the indicator.

### Income Quality

During 2019, International Asset Bank registered an increase in the operating profit, as a result of the growth of the net interest income (by 15.5%) and the non-interest income (by 10.0%), and the slight reduction of the operating expenses (by 0.7%), with a minor rise in the personnel expenses (3.3%), as well.

The net financial result is a profit at the amount of BGN 14 681 thousand, which exceeds the profit for the previous year by 41.6% (BGN 10 369 thousand).

The improved financial result for 2019 results in an increase in the value of the Return on Assets indicator, to 0.97%, which, however, remains below the average level for the banking system and below that for the Group II of banks.

### Liquidity

The liquidity coverage of the bank in the last three years is characterized by a significant excess over the minimum required liquidity coverage.

In terms of the ratio current assets to (total liabilities minus equity), there is a slight decline on an annual basis in 2019. For the last four years the value of the indicator has been permanently established at a level of about 50%. In a comparative aspect, the bank continues to position itself favourably compared to the average value of the banks in the reference group.

The ratio total loans to total deposits reported a slight increase in 2019 and in a comparative aspect is below the average of the banks in the reference group.

### Size and Systems

During the period of update, International Asset Bank AD does not change its positioning compared to the other banks in the system (14th position) by balance sum and by the value of the deposit base, while by the size of the loan portfolio the bank moves one position ahead (up to 13 place).

In 2019, the bank continued to invest in the improvement of the IT infrastructure and updating the applications, a mobile banking application was put into operation, and new information security systems as well.

**Main Financial Indicators:**

| (хил.лв.; %)                             | 2019      | 2018      | 2017      | 2016      | 2015      |
|--|-----------|-----------|-----------|-----------|-----------|
| Balance Sum                              | 1 547 567 | 1 433 238 | 1 372 046 | 1 302 348 | 1 198 379 |
| Gross Loans                              | 763 156   | 700 026   | 638 244   | 565 591   | 567 226   |
| Equity                                   | 128 867   | 114 206   | 105 900   | 101 735   | 89 719    |
| Total Interest Income                    | 33 362    | 31 890    | 34 604    | 37 411    | 44 284    |
| Net Financial Result                     | 14 681    | 10 369    | 6 007     | 10 344    | 4 223     |
| Total Capital Adequacy                   | 17.20%    | 16.15%    | 17.56%    | 18.17%    | 18.71%    |
| Net Interest Margin                      | 2.36%     | 2.14%     | 2.19%     | 1.90%     | 2.11%     |
| Return on Assets                         | 0.97%     | 0.74%     | 0.45%     | 0.85%     | 0.37%     |
| Gross Classified Exposures / Total Loans | 11.11%    | 12.71%    | 12.59%    | 14.07%    | 13.82%    |
| Net ratio на генериране на просрочия     | -0.69%    | 1.54%     | 0.16%     | 0.25%     | 2.53%     |
| LiquidityRatio – по отменена Наредба 11  |           |           | 43.54     | 44.30     | 42.99     |
| Liquidity Coverage                       | 917%      | 524%      | 827%      | 641%      |           |

*In the **period of update**, International Asset Bank AD maintains a stable financial position. The reported capital adequacy indicators are increasing and their levels remain significantly above the regulatory requirements, with registered improvements in the structure of the capital base. Deposits are retained in the structure of attracted funds with the largest share. The loan portfolio is growing, while its quality is close to the average for the system and the banks in Group II. Operating profit and net financial result increase. Liquidity ratios remain sound.*

*The **rating could be negatively affected** by a decrease in the realized profitability, respectively difficulties in providing the necessary capital for the planned growth, further deterioration of the quality of the loan portfolio and a significant decrease in the levels of capital adequacy and liquidity indicators as a result of adverse effects from the COVID 19 pandemic on the bank's customers.*

*Increasing profitability, further improvement in the quality and diversification of assets, along with maintaining good levels of capital adequacy and liquidity would have a **positive impact on the rating**.*

**\*Rating History:**

*The ratings in the chart are assigned under the preceding Methodology for assigning a financial strength rating to banks and are not directly comparable with the ratings assigned after the entry into force of the current methodology in September 2015.*

| FINANCIAL STRENGTH RATING | Initial rating | Update     | Monitoring | Update     | Monitoring          | Update     |
|---------------------------|----------------|------------|------------|------------|---------------------|------------|
|                           | 13.05.2013     | 12.05.2014 | 11.09.2014 | 24.03.2015 | 08.09.2015          | 07.03.2016 |
| Long-term rating :        | B              | B          | B-         | B          | B<br>(under review) | B          |
| Outlook :                 | stable         | stable     | stable     | stable     | -                   | positive   |
| Short-term rating :       | C              | C          | C          | B          | B<br>(under review) | B          |