

International Asset Bank AD

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FINANCIAL STRENGTH RATING*	Review	Review
Date of Rating Committee:	09.04.2020	12.04.2021
Date of Publication:	10.04.2020	13.04.2021
Long-term rating:	B+	B+
Outlook:	positive	stable
Short-term rating:	B	B
Long-term National-scale rating:	BB (BG)	BB (BG)
Outlook:	positive	stable
Short-term National-scale rating:	B (BG)	B (BG)

***Notes:**

- 1) To become familiar with the full rating history, please, see the table 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 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 **12.04.2021**, a report on the review of the credit rating of **International Asset Bank AD** 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:**

The BCRA – Credit Rating Agency (BCRA) affirms the ratings of the International Asset Bank AD as follows:

- Long-term financial strength rating: **B+**;
short-term rating: **B**;
- Long-term national-scale rating: **BB (BG)**;
short-term national-scale rating: **B (BG)** ;
- **and changes the outlook** from “positive” to “stable”,

thus expressing the opinion for achieved stable financial results, increased capital base and capital adequacy, as well as the necessary improvement of the credit portfolio quality and that of the non-performing loans, improvement of the income structure of assets, which will lead to an improvement of the bank's profitability indicators compared to the average for the banking system in the country.

The officially adopted by BCRA Methodology for assigning a financial strength 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 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 COVID-19 pandemic and the measures taken to limit the infection have adversely impacted the economic activity in the country. The preliminary annual data for 2020 show a decline in Bulgaria's GDP of 4.2% after an increase of 3.7% achieved in 2019. A significant slowdown has been observed in the dynamics of household consumption, lending, the external sector indicators, as well as in inflation processes. In 2020, the unemployment rate rose to 5.1% (from 4.2% a year earlier).

Bulgaria has entered the current crisis with a stable financial position and a low government debt level. The crisis, however, induced an extraordinary revision of the 2020 state budget as early as March due to the expected under execution of revenues and the need to incur additional expenditures. At the end of June, the consolidated cash balance remained positive, amounting to 1.4% of the projected GDP. The estimated balance under the Consolidated Fiscal Program for 2020 is a deficit of BGN 3,5 billion or 3% of 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 fulfill 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 Sovereign Rating assigned by BCRA to the Republic of Bulgaria is available at our official website:

<https://www.bcra-bg.com/en/ratings/bulgaria-rating>

International Asset Bank AD

Shareholder Structure and Management

In 2020, there were no changes in the share capital, shareholder' structure, and participation of the Bank. In the period of review, Alexei Tsvetanov and Emilia Milanova-Tsoncheva became members of the Supervisory Board. The Board consists of the following members:

- Ivan Dragnevski – Chairman;
- Georgi Harizanov – Deputy Chairman;
- Georgi Borislavov Georgiev – member;
- Victor Georgiev Valkov – member;
- Rumyana Lyubenova Gotseva-Jordanova – member;
- Alexei Assenov Tsvetanov – member;
- Emilia Georgieva Milanova-Tsoncheva – member.

There were also changes in the **Management Board**, in which Alexey Tsvetanov was dismissed, and Ivaylo Yonchev, Mario Markov, and Boyka Zagorova were

involved. At present, the Board is composed of:

- Rumen Sirakov – Chairman and Chief Executive Officer;
- Maria Guneva - Deputy Chairman and Executive Director;
- Ivaylo Yonchev - Deputy Chairman and Executive Director;
- Mario Markov - member;
- Boyka Zagorova - member.

The plan for 2020 exceeds the set targets in terms of the value of assets, net loans, deposits, while there is a failure in terms of the net interest income. The net profit realized for the year significantly exceeded the expected one.

The Bank maintains its conservative vision for development throughout the period. In a comparative aspect, the level of the indicator remains significantly above the average for the banking system (by 30.4 pp. at the end of 2020) and the banks in Group II (by 32.7 pp.). The negative position, below the steady declining levels of the system, is for the third consecutive year.

Resources

The last financial year is marked by **high growth in the attracted funds** – with a total growth of 15.9%, ahead of the growth rates of the previous two years (respectively 7.4% for 2019 and 4.9% for 2018). The increase, formed in 2020, is ahead of the reported total for the banking system (8.8%), while the banks in Group II reported a decline of 6.7% of the total deposit base (following the slight downward trend in the value of attracted funds in the previous two years).

The growth of the rated bank is driven, by the significant growth of the corporate deposits (by 40%), while the households' deposits reported a slight decline (by 0.3%). The value of deposits from non-banking financial institutions decreased, while the value of government funds increased by 30.0%.

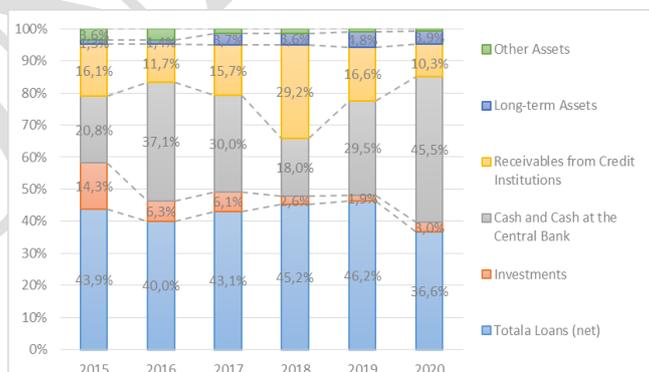
In the review period, the **structure of the deposit base** increased in terms of the share of deposits “on sight” which at the end of 2020, amounted to 61.7% (following the 57.7% at the end of 2019 and 49.3% at the end of 2018). The change is a result of the increased volume of the corporate portfolio, while the time deposits are attracted from individuals (with a share of 67.4% as of the end of 2020). The BGN remains dominating the deposit base, with a share of 65.3% at the end of 2020.

Asset Quality

After two years of declining growth rates, in the last two years - 2019 and 2020, the *value of assets* of International Asset Bank AD again marked an upward growth - to the significant 15.1% in 2020, compared to 7.6% in 2019 and 4.9% in 2018. The achieved growth placed the bank already ahead of the average increase in assets in the banking system, after three years of lower growth compared to that of the average of all banks.

The assets growth was largely driven by the increase in Cash and cash balances at the central bank, which led to significant changes in the structure of assets. Loans have been dominating the assets structure until the end of 2019, however, their relative share decreased from 46.2% (record-high) as of end-2019 to 36.6% at the end of 2020. Thus, the Cash and cash balance at the central bank occupy a leading position in the assets structure, accounting for 45.5% of the bank's assets.

Chart № 1: Asset Structure of International Asset Bank



The size of the investment portfolio of International Asset Bank recorded a significant growth of 78.7%, up to BGN 53.5 million. The relative share of investments, for the third year in a row, remained below 5% - 3.0% at the end of 2020, despite the increase of 1.1 pp. In structural terms, debt instruments, whose share has increased sharply over the past three years and is now 77.7 %, dominate the portfolio. Investment properties reduce their weight to 8.0% of investments, as do equity instruments.

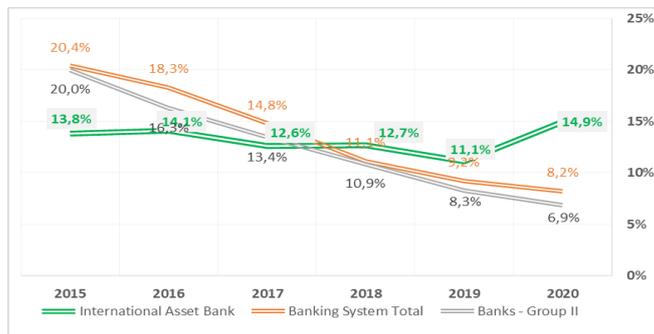
Following the three years of high growth rates, at the end of 2020, the *gross loan portfolio* of the International Asset Bank recorded a relatively strong annual decline of 8.5%. This is a result of the shrinkage of exposures to non-credit institutions, with minimal changes of loans to enterprises (growth of 0.3%) and exposures to individuals (decline of 9.4%).

The loans to enterprises remain to dominate the structure of the gross loan portfolio, reporting an increased share of 88.5% of all loans.

The Bank has a relatively well-diversified corporate loan portfolio by economic sectors with leading in terms of residual loan exposures to the Trade sector with 19.5% share and Manufacturing - 16.7%. The share of loans to HORECA increased also to 15.2% at the end of 2020.

The size of the non-performed loans marked a significant increase of 23.1% at the end of 2020, compared to 2019. This happened after the decrease in absolute value in the previous year for the first time, followed by three years of stagnation and a slight increase. The increase in the last year, combined with the significant decline in loans, is adversely reflected in an increase of the ratio of non-performing loans to the gross loan portfolio to a relatively high historical peak of 14.9%.

Chart № 2: Share of classified loans in gross loans for the period 2015 – 2020



More than half of the non-performing loans are formed by those granted before 2014 – 61.4% of all non-performed loans.

Regarding the amount of new non-performing loans granted in 2020, there is a significant annual increase, which in turn reflected in an increase in the *gross ratio for arrears*, which reached 5.38% (the lowest level of 1.68% in 2019). The *net ratio for generating arrears* registered a positive value for the first time. This is a result of the higher amount of granted loans at the end of the period compared to the beginning of the year - 2.88%, compared to minus 0.69 %.

The *coverage of non-performing (classified) loans from impairments* reported a sharp decrease in 2020 and amounted to 44.0%, compared to 56.9% in 2019. The factor that reflects the one-way reduction is the decrease in impairments together with an increase in non-performing exposures. Thus, the bank

significantly lags behind the average level of the banking system coverage of non-performing loans, stopping the upward trend from the previous two years.

The share of the 15th biggest loan exposures in the total gross portfolio registered an increase in the past period, while it remained high in comparative terms and witnessed some concentration.

Income Quality

In 2020, International Asset Bank AD reported a slight increase in the amount of annual operating profit by 2.5% (compared to 39.4% growth in the previous year), as a result of the reduction of operating expenses, and weaker reductions in net interest income (by 11.3%) and non-interest income (by 5.2%).

The net financial result of the bank for 2020 is a profit of BGN 13,505 thousand, which is a decrease of 8.0% compared to the result in the previous year, and in the medium-term trend is close and affirms the historically highest profit levels achieved by the bank.

The high financial result for the second year in a row leads to the preservation of the value of the indicator Return on assets of 0.83% (against 0.97% for 2019), an amount exceeding the reduced return of the average of the banking system - 0.69% (at 1.53% for 2019).

In most of the indicators of the *bank's profitability*, positive changes are observed in the analysed period. In addition to the improvements in some of the indicators of return on assets, the traditional lag is preserved namely in those of profitability of interest-bearing assets, gross and net interest margin. Most of the indicators reduced the lag, in the presence of objective factors for their specific interpretation in the different periods, such as strong growth of assets, reduction of interest-bearing assets, net interest, and non-interest income and others in the last financial year.

Liquidity

According to the level of **liquidity coverage for supervisory purposes**, the Bank retains the characteristic position for the entire period of analysis (2016-2020), with levels significantly exceeding the minimum required liquidity coverage. In the last year, there has been an additional increase in the level of the indicator as a result of the increased value of the liquidity buffer.

	FINANCIAL STRENGTH RATING „International Asset Bank” AD Long-term/short-term rating: B+ / B (stable) National-scale rating: BB (BG) / B (BG) (stable) April 2021
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The growth of the attracted funds, formed in the review period, and not transferred to increase the loans and investments leads to high liquidity levels. The level of the ratio of **total loans to total deposits** has decreased, and the value of 38.4%, reached at the end of 2020, is already significantly below the average levels for the sector of about 70%. The Bank reports a significant increase in the value of current assets held (by 39.1% annually), formed by a significant increase in cash and cash balances at the central bank. Thus, in structural terms, the latter already has a highly dominant share in current assets of 81.6% at the end of 2020 (64.0% a year earlier).

Size and Systems

Apart from the general adjustments in the positioning of banks in the system under the influence of ongoing consolidations in the sector, in the review period, the International Asset Bank AD did not change its position in terms of assets held. The bank moved ahead one place in the ranking of attracted deposits (ahead of BACB at the end of 2020) and moved one position back in terms of the size of the loan portfolio (left behind TBI Bank and close to D Commerce Bank).

The Bank has sufficient information products and systems to securely and reliably maintain databases and provides stable service of key processes. The management declares to retain the investments in improving the quality, capabilities, and security of the bank's IT infrastructure.

In the period of the annual review, the International Asset Bank AD maintains a stable financial condition. The capital adequacy indicators are increasing and their levels remain significantly above the regulatory requirements, with reported improvement in the structure of the capital base. Deposits retain their dominant share in the structure of attracted funds. The loan portfolio declined for the year, and its quality deteriorated to some extent in terms of the ratio of non-performing exposures to the gross loan portfolio. Operating profit and net financial result with slight changes remain close to the relatively achieved high values. Liquidity ratios remain at good levels.

Negative impact on the rating could have the decline of realized profitability, respectively, difficulties in the provision of the necessary capital to reach the planned growth, additional deterioration of the quality of loan portfolio and a considerable decrease in the levels of the capital adequacy and liquidity, as a result of the adverse effect of the COVID 19 Pandemic on

bank's clients.

A positive impact on the Bank's rating could have the following: an increase of the profitability indicators, improvement in the loan quality and diversification of assets while maintaining good levels of capital adequacy and liquidity.

Main Financial Indicators:

(BGN'000; %)	2020	2019	2018	2017	2016
Balance Sum	1 780 961	1 547 567	1 433 238	1 372 046	1 302 348
Gross Loans	697 963	763 156	700 026	638 244	565 591
Equity	142 388	128 867	114 206	105 900	101 735
Total Interest income	30 717	33 362	31 890	34 604	37 411
Net financial result	13 505	14 681	10 369	6 007	10 344
Total capital adequacy	21.91%	17.20%	16.15%	17.56%	18.17%
Net interest margin	2.16%	2.36%	2.14%	2.19%	1.90%
Return on Assets (RoA)	0.83%	0.97%	0.74%	0.45%	0.85%
Gross non-performing loans / Total loans	14.95%	11.11%	12.71%	12.59%	14.07%
Net coefficient of overdue generation	2.88%	-0.69%	1.54%	0.16%	0.25%
Liquidity coverage ratio (LCR)	1 102%	917%	524%	827%	641%

***Rating History:**

FINANCIAL STRENGTH RATING*	Update	Review	Review	Review	Review
Date of Rating Committee:	24.03.2017	29.03.2018	09.04.2019	09.04.2020	12.04.2021
Date of Publication:	27.03.2017	30.03.2018	10.04.2019	10.04.2020	13.04.2021
Long-term rating:	B+	B+	B+	B+	B+
Outlook:	stable	stable	positive	positive	stable
Short-term rating:	B	B	B	B	B
Long-term National-scale rating:	BB (BG)				
Outlook:	stable	stable	positive	positive	stable
Short-term National-scale rating:	B (BG)				

The ratings in the table below are assigned according to the previous Methodology for assigning a financial strength rating to a bank and are not directly comparable to the ratings assigned after the new Methodology has entered into force 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 (under review)	08.03.2016
Outlook:	stable	stable	stable	stable	-	B
Short-term rating:	C	C	C	B	B (under review)	positive