

„Investbank” AD

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FINANCIAL STRENGTH RATING	Update	Update	Monitoring
Date of Rating Committee:	29.11.2019	18.11.2020	29.03.2021
Date of Publication:	03.12.2019	19.11.2020	30.03.2021
Long-term rating:	B-	B-	B
Outlook:	negative	stable	stable
Short-term rating:	C	C	C
Long-term national-scale rating:	B- (BG)	B- (BG)	B (BG)
Outlook:	negative	stable	stable
Short-term national-scale rating:	C (BG)	C (BG)	C (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) 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 **29.03.2021** a report on the review of the credit rating of **Investbank 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) assigns the following ratings to **Investbank AD**:

- **Upgrades** the **long-term** financial strength rating to **B** and affirms the **short-term** rating **C**;
- **Upgrades** the **long-term** national-scale rating to **B (BG)**, and affirms the **short-term** national-scale rating **C (BG)**

and affirms the outlook as „stable”,

appraising the achieved positive and enhanced changes from the previous review period – steady financial results, increase of the capital base and capital adequacy and strengthening the improvement

of the quality indicators of the loan portfolio and non-performing loans.

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.

Capital Base and Capital Adequacy

In 2020, the **capital base** retained the positive upward trend, started in 2018 and at the end of 2020, the posted increase is 8.4%. It is a result of the share capital rise that was made twice in the previous year. In the Q1 of 2020 the capital raised by BGN 1,960 thousand and in the second quarter by another 21,945 thousand, thus it reached BGN 155,572 thousand and the capital base – BGN 239,246 thousand.

The total **risk-weighted assets** increased by 6.3% at the end of 2020. The outpacing increase of the capital base resulted in an **increase of total capital adequacy** by 1.9 pp. – up to a level of 19.95%.

In the monitored period, the maintained decelerating trend of the net amount of classified exposures (by 18.8% annually in 2020), together with the increase of the capital base led to a new improvement in the ratio of **net classified exposures to capital base** to 58.8% at the end of 2020, compared to 78.6% at the end of 2019 and 83.7% at the end of 2018.

Resources

At the end of 2020, the **attracted funds** of Investbank AD increased by 17.1% on an annual basis (after a decrease of 12.7% in 2019), which was formed to a greater extent by an increase in the value of attracted funds from corporate clients (by 58.2%) and to a lesser extent, from the increased deposits of individuals and households (by 3.2%).

Asset Quality

The **amount of assets** of Investbank AD also recorded a significant increase of 15.9%, following a decrease in 2019 by 10.5%, reaching BGN 2,200 million. This is largely due to the growth of the gross **loan portfolio** - by 19.1% for the year. The fact is highlighted due to the period of constant shrinkage of loans in the period 2016 to the end of 2019.

Non-performing loans, following their most significant growth realised in the first half of 2019 (reaching the highest value of their share in the gross loan portfolio of below 40%), marked a continuous improvement (reported quarterly) throughout the following period - with a decrease to 30.2% at the end of 2019, 27.8% - as of June 30, 2020 (since the last review period), falling to 20.4% - the lowest value of the entire period of analysis and rating history of the bank, for the monitoring period - end of 2020. The level remains significantly higher than the average for the banking system - 8.2% as of December 31, 2020. Hence, the

positive trend and degree of improvement are assessed positively from a rating point of view.


Income Quality

The other observed indicators in the monitored period also report a stabilization.

The reported net financial result for 2020 (according to preliminary non-audited data) is closed and slightly above that in 2019. We are not taking into account the impact of the extraordinary factors from the past two years – the high amount of impairments in 2017 and the profit realized from the purchase of the Victoria Commercial Bank in 2018, resulting respectively in a big loss in the first year and a high profit, in the second.

The levels of the *gross interest spread and net interest margin* are declining, and despite the general decelerating trend for the system, they remain significantly lower than the average of the banking system and Group II banks, affected by the lower levels of the return on *interest-bearing assets*. The indicator, *price of interest-bearing liabilities* is declining as well but at a faster pace, compared to the average of the banking system and the average for the Group II banks (significantly lagging in the previous years).

Most of the profitability indicators registered positive changes in the last analysed period, and in comparative terms most prominent are the net non-interest income, operating expenditures and average amount of assets. The indicators related to the financial result, such as return on assets, gross and net interest margin, etc., are traditionally lagging but witnessing a clear downward trend.

	FINANCIAL STRENGTH RATING Investbank AD Long-term/Short-term rating: B / C <i>Outlook: stable</i> Long-term/Short-term national-scale rating: B (BG) / C (BG) <i>Outlook: stable</i>
	95, Evlogi Georgiev Blvd., floor 1 1142 Sofia


In the period under review, **Investbank AD** maintains a relatively stable financial condition, reports an increase in the capital base and improvement of the part of indicators for income quality. The Bank has reported stable positive trends in the asset quality, such as, a decrease of non-performing loans in the portfolio, which, however, remain at a high level compared to the system and at a low level of impairments coverage.

Positive impact on the Bank's rating could have the following: a steady increase in the operating result and the generated profit; which lead to high levels of impairments and continuous improvement of the loan portfolio, as well as the successful realization of the acquired fixed tangible assets (as collaterals).

Negative impact on the assigned rating could have: a shrinkage in or realisation of a negative operating and/or financial result; a decrease in the profitability; a significant deterioration in the quality of the loan portfolio, as a result of the adverse effects of the COVID 19 pandemic on the bank's clients and deterioration in the levels of the capital adequacy and liquidity indicators.

Main Financial Indicators:

	(000'BGN; %)	2020	2019	2018	2017	2016	2015
Balance Sum		2 200 670	1 898 475	2 122 039	1 954 129	1 916 189	1 955 963
Gross loans		930 668	781 145	850 164	878 351	877 994	989 726
Equity		246 608	188 094	180 266	152 187	181 542	176 474
Total interest income		29 789	34 448	43 476	53 558	63 963	70 559
Net financial result		2 200	2 089	22 647	-29 333	1 038	1 633
Total capital adequacy	according to Regulation 8 (repealed)						21.41%
	according CRD IV	19.93%	19.55%	18.66%	16.58%	19.14%	
Net interest margin		1.76%	1.90%	2.15%	2.39%	2.07%	1.32%
Return on assets (RoA)		0.11%	0.10%	1.10%	-1.55%	0.05%	0.08%
Gross non-performing loans / Total loans		20.44%	30.16%	31.50%	29.28%	28.11%	22.41%
Net overdue ratio		-8.32%	-5.53%	1.70%	1.64%	3.29%	-0.67%
Liquidity ratio – according to Regulation 11 (repealed)					37.47	35.90	34.47
Liquidity ratio – by Maturity ladder (%)		36.84	34.47	42.71			
Liquidity coverage		286%	444%	440%	538%	479%	

 BCRA CREDIT RATING AGENCY	FINANCIAL STRENGTH RATING Investbank AD Long-term/Short-term rating: B / C <i>Outlook: stable</i> Long-term/Short-term national-scale rating: B (BG) / C (BG) <i>Outlook: stable</i>	
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**Rating history:*

FINANCIAL STRENGTH RATING*	Update	Update	Update	Update	Update
Date of Rating Committee:	12.10.2015	26.10.2016	22.11.2017	28.11.2018	29.11.2019
Long-term rating:	B-	B-	B-	B-	B-
Outlook:	stable	in development	stable	stable	negative
Short-term rating:	C	C	C	C	C
Long-term national-scale rating:	B (BG)	B (BG)	B (BG)	B- (BG)	B- (BG)
Outlook:	stable	in development	stable	stable	negative
Short-term national-scale rating:	C (BG)	C (BG)	C (BG)	C (BG)	C (BG)

The ratings displayed in the table below 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 entered into force in September 2015.

FINANCIAL STRENGTH RATING *	Initial rating 4.2009	Monitoring 18.11.2009	Update 03.5.2010	Monitoring 07.12.2010	Update 25.5.2011
Long-term rating:	BBB-	BBB-	BBB-	BBB-	BB
Outlook:	stable	negative	stable	negative	negative
Short-term rating:	A-3	A-3	A-3	A-3	B
FINANCIAL STRENGTH RATING *	Monitoring 14.09.2011	Update 19.12.2012	Monitoring 10.05.2013	Update 18.12.2013	Update 13.10.2014
Long-term rating:	B+	B+	B-	C	B-
Outlook:	negative	negative	negative	stable	stable
Short-term rating:	C	C	C	C	C