

## TEXIM BANK AD

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FINANCIAL STRENGTH RATING	Initial Rating
Date of Rating Committee:	06.01.2021
Date of Publication:	08.01.2021
Long-term Rating:	BB-
Outlook:	Stable
Short-term Rating:	B
National-scale Long-term Rating:	BB- (BG)
Outlook:	Stable
National-scale Short-term Rating:	B (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.

“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 **06.01.2021** a report on the initial credit rating of the **Texim 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. After detailed discussion on the changes in the condition of the Bank for a five-year period and assessment of all factors determining its rating, the members of the Rating Committee took the following decision:

„BCRA – Credit Rating Agency“ (BCRA) assigns to **Texim Bank AD** the following ratings:

**Long-term financial strength rating BB-**  
**outlook: stable**  
**short-term rating: B.**

**Long-term rating on a national scale: BB- (BG)**

**Outlook: stable**

**Short-term rating on a national scale: 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.**

 <p><b>BCRA</b> CREDIT RATING AGENCY</p>	<p><b>FINANCIAL STRENGTH RATING</b>  <b>Texim Bank AD</b>  Long-term/Short-term Rating: <b>BB- / B</b>  Outlook: <b>stable</b>  National-scale Rating: <b>BB- (BG) / B (BG)</b>  Outlook: <b>stable</b></p>
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## 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 13<sup>th</sup> of March to the 13<sup>th</sup> 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.

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 10<sup>th</sup> 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

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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 web-site:

[https://www.bcra-bg.com/files/rating\\_republic\\_of\\_bulgaria\\_oct\\_2020\\_en.pdf](https://www.bcra-bg.com/files/rating_republic_of_bulgaria_oct_2020_en.pdf)

## **Texim Bank AD**

### **Shareholder Structure and Management**

Texim Bank AD (the Bank) was registered in 1992 with a decision of the Sofia City Court dated 14.09.1992, company file № 24103/1992. It was licensed by the BNB under the decision of the BNB Management Board № 248 dated 11.04.1997 (last updated 2009), and entered in the register of the Financial Supervision Commission under registration № 03-161 of 18.02.1998. The Bank has a universal license for all types of banking transactions in the country and abroad and is a licensed investment intermediary.

Texim Bank AD has been a public company since 2013, when trading of the Bank's shares was admitted to the BSE Main Market, Standard Equities Segment.

The table below lists the **shareholders** of the Bank holding directly or indirectly 5% or more of the voting rights in the general meeting as of 30.06.2020.

**Table 1**

<b>Shareholder</b>	<b>% of voting rights</b>	
	<b>30.06.2020</b>	<b>31.12.2018</b>
Web Finance Holding AD	18.88%	18.88%
Sila Holding AD	8.93%	8.93%
PIC Saglasie AD	6.38%	6.38%
Invest Capital Jsc AD	5.17%	5.17%
Etrade AD	5.10%	5.10%
Datamax AD	4.94%	4.94%
Datamax System Holding AD	4.77%	4.77%
Others	45.83%	45.83%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\* Datamax AD, Datamax System Holding AD and Etrade AD as related parties hold together 14.81% of shares with voting rights from the Bank's capital as of 30.06.2020.

The Bank has a two-tier management system, consisting of a Supervisory Board and a Management Board:

### Supervisory Board:

- Apostol Apostolov - Chairman of the Supervisory Board
- Milen Markov - Deputy Chairman of the Supervisory Board
- Petar Hristov - Member of the Supervisory Board
- Veselin Morov - Member of the Supervisory Board
- Ivelina Shaban - Member of the Supervisory Board.

There was one change in the Management Board (Temelko Stoychev left in March 2020). Currently, it is composed of:

- Igljka Logofetova - Chairman of the Management Board
- Ivaylo Donchev - Deputy Chairman of the Management Board and Executive Director
- Maria Vidolova - Executive Director and Member of the Management Board
- Dimitar Jilev - Member of the Board of Directors

The Bank is represented by its two executive directors.

In the end of 2019, the Bank was the sole owner of Texim Asset Management EAD and Teksim Proekti EOOD.

The organisational and functional structure of the Bank provides the necessary information for monitoring, evaluation and management of key aspects of its activity (including in relation to the risks to which the Bank is exposed). BCRA considers that there are prerequisites for strengthening the positive effects of investments made in recent years, which in turn will lead to enhanced popularity and market share of the Bank.

Texim Bank AD operates through a Head Office and 34 offices in 22 locations. The Bank has established operational partnerships in order to achieve synergy by combining the activities of some of its regional offices together with Pension Insurance Company Saglasie.

During the analysed period (2015 – June 2020), the share capital of Texim Bank AD was not raised, and the financial results remained the main source for the growth of its **equity**, at the background of a gradual decrease in the levels of **capital adequacy** indicators (resulting mainly from increases in risk-weighted assets). In the last reviewed financial years, the last have continued to significantly exceed the regulatory requirements, yet, remained lower compared to the average for the banking system and for the banks of the second group.

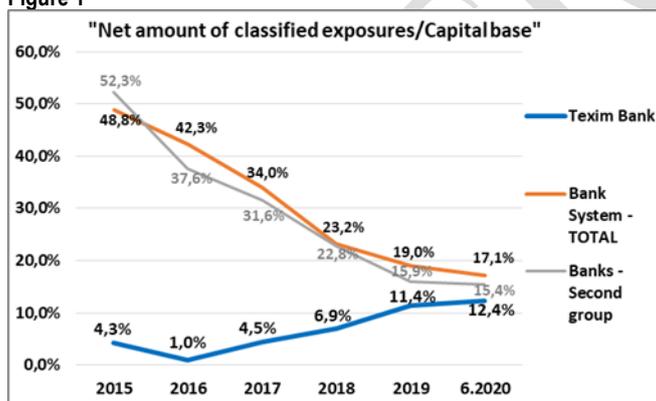
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The Bank is currently in the process of **increasing its capital base** through successfully issued convertible bonds in the amount of BGN 22 million. This amount is included in the Tier 2 capital of the Bank in accordance with the permission received from the BNB (30.09.2020). Thus, at the end of September 2020, the total capital adequacy significantly improved (to 26.29%, and Tier 1 capital adequacy to 16.16%), which has been taken into account for rating purposes and as far as it has been concerning changes of the indicators, where it is incorporated.

The **leverage** (both the unadjusted and the adjusted leverage ratio) of the Bank has been gradually increasing over the whole review period. The annual dynamics of the indicators have been determined by the significant growth of assets (total and adjusted), especially in the last two years (2018-2019), which has not been compensated by corresponding increases in the equity and the adjusted equity.

Over the analysed period, the **net impaired exposures to capital base ratio** of Texim Bank significantly decreased at the end of 2016 (to the very low level of 1.0%), followed by a gradual increase. The indicator reached 11.4% at the end of 2019 and 12.4% as of June 2020. The ratio still remains below the average for the banking system and for the banks of the second group (with a downward trend throughout the review period).

Figure 1



The **return on equity** (ROE) has low values that slightly changed over the analysed period due to the relatively small profits generated. The achieved values are significantly lower than the averages for the banking system and for the banks of the second group.

The **leverage for supervisory purposes** of the Bank decreased to 10.4% as of 2019 (compared to 12.1% a year earlier) and to 9.9% at the end of June 2020

remaining significantly above the minimum required 3.0%. The decrease was in line with the outpacing increase in the total exposure compared to the Tier 1 capital.

Texim Bank AD maintains a stable upward trend in **borrowed funds**, especially in the last three years (2018-2020, unfinished). The highest registered increase was in 2018 - by 45.3% on an annual basis - followed by 21.3% in 2019 and another 5.4% for the first six months of 2020. The deposit base increases with the contribution of all types of attracted funds. The significant increase observed in the second half of the analysed five-year period was driven mainly by deposits from non-credit institutions growing by 57.7% YoY for 2018 and by 31.2% for 2019. Household deposits also maintained high growth rates reaching 45.3% in 2018 and 21.3% in 2019. The **currency structure** of deposits is dominated by the Bulgarian lev. Regarding the **term structure**, there was a gradual upward tendency in the share of demand deposits and a respective decrease in the share of time deposits (to 43.0% by the end of 2019; 76.8% at the end of 2015). The share of **guaranteed deposits** has been volatile, but predominantly around 60%.

There is a moderate concentration in the deposit base of the Bank.

The total assets of the Bank increased at significantly higher rates than the average for the banking system in the last five years, as the cumulative growth amounted to 106.1%. The largest annual hike was in 2018 (37.1%), and in 2019 the assets grew by 20.4%. Being a bank with a relatively small size for the banking system in the country, it is normal Texim Bank to maintain growth higher than the average for other comparable groups of banks.

The ratio of **Net Loans to Total Assets** has been increasing throughout the period - from a very low value at the beginning of the period, 33.0%, to 49.1% in the last 2019. Yet, it remained lower than the average for the banking system (54.9%).

**Investments** have also been increasing, as their growth was the highest in 2018 - 51.3%, continued in 2019 - by 10.4%, and in H1 2020 - by 2.9%. As a result, the share of the investment portfolio was relatively high - 22.0% at the end of the period - remaining in second place in the structure of the assets. In comparative terms, this share of investments significantly exceeded the average for the banking system (13.0%).

The investment portfolio consists mainly of debt and equity securities, as the share of government securities

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amounted to 28.4% at the end of the period. Corporate securities have a traditionally high weight in this portfolio - over 20% on average and 20.9% as of June 30, 2020, in particular.

Compared to the beginning of 2015, the gross loans increased three and a half times (253%). The growth solely for 2019 reached 21.6%, and it slightly decelerated for the first half of 2020 - by 4.6%.

Corporate loans dominated the loan structure over the entire period.

At the end of the period, *Trade, Transport and Real Estate Activities* were the leading economic sectors in the structure of the loan portfolio.

There have been tendencies of enlarging of the average term in the term structure of credits, and of increase of the residual amounts.

Texim Bank AD maintains a relatively low amount and relative share of non-performing loans (NPL).

*The gross non-performing loan ratio* was below 5% over the entire five-year analysed period, as compared to also decreasing but higher average values for the banking system in the country (from 20% to 9.0%).

*The coverage of the gross loan portfolio with impairments* throughout the period varied within 1-3% and was significantly lower than the average for the banking system in the country (5.45% for 2019). This could be explained by the much lower level of NPLs, respectively the related need to set aside impairments.

At the end of 2019 and the middle of 2020, *the share of the 15 largest credit exposures* (including performing and non-performing) indicated a relatively high concentration in the loan portfolio, which, however, is typical for banks with a smaller size and with a predominantly corporate loan portfolio.

The indicators for **Gross interest spread** and **Net interest margin** reported from the Bank in the review years have exceeded significantly the averages for the banks of the second group and for the banking system, yet, converging.

The level of the indicator **Operating profit to Average assets** remained significantly lower than the average for the banking system and for the banks of the second group in the end of 2019.

During the period under review, the Bank posted positive financial results. The operating result, in

particular, saw stable upward trends after 2017 owed to increased operating revenues, accompanied by a smaller growth in operating expenses.

The relatively small profits generated over the years have led to relatively low values of the **Return on Assets** (ROA), with the exception of 2016, when ROA amounted to 0.35%. During the rest of the period, its value was below 0.1%.

For the period 2015 – June 2020, the share of **Equity in Total Liabilities** declined permanently from 19.3% at the end of 2015 to 10.0% at the end of June 2020 (down by 9.3 pp.) in line with the faster increase in total liabilities compared to equity. Following this trend, at the end of the period, Texim Bank AD already reported a lower value of the indicator compared to the average for the banking system (12.6% at the end of 2019 and 12.8% at the end of June 2020) and the average for the banks of the second group (11.9% and 13.4%, respectively).

The value of the **loan to deposit ratio** in the last five years has been maintained relatively low: from 48.3% (2015) to 62.9% (2017). It decreased thereafter and amounted to 44.3% at the end of June 2020 - a new lowest value for the Bank. The ratio was traditionally the lowest in the reference group<sup>1</sup> of banks and significantly lower compared to the banking system.

In the period 2013-2017, **the liquidity ratio** followed a general downward trend. The **liquidity coverage for supervisory purposes** (which has been applied since H2 2018), saw an overall improvement generated by the observed sustained increase in the value of the liquidity buffer. The level of the indicator is well-above the minimum required liquidity coverage (100%), and at the end of the period, the coverage of the minimum requirement was over four times.

In the last three years, the Bank positioned in the last place in the banking system (First and Second Group of Banks) by the size of assets, outstanding credit and deposits. By the first and the third of the three indicators, Texim Bank reported values very close to those of the previous Tokuda Bank by the end of the period.

<sup>1</sup> The reference group includes the four banks before Texim Bank AD by size of assets.

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*Texim Bank AD demonstrated significant improvement in the analysed indicators and rating factors over the considered five-year period. Especially in the last year, there was a marked growth in attracted funds and assets, an increase of the capital base and adequacy, while the non-performing loan ratio remained low. Some of the profitability indicators of the Bank achieves higher in comparative terms values, and for those included the net amount of profit, a lag is found compared to the reference groups, but with a tendency to reduce the differences. We believe that the key to the future development of the activity will be the anticipatory achievement of the positive effects of its growth before the growth of the necessary resources.*

**Positive impact on the Bank's rating could have the following:** a steady increase in the operating result, generating profit and profitability indicators; maintaining a stable level of capital adequacy while keeping the good quality of assets and liquidity.

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

**Main financial indicators:**

	(BGN'000; %)	6.2020	2019	2018	2017	2016	2015
Balance sum		380 063	363 236	301 649	220 005	198 739	176 167
Gross loans		170 158	178 273	146 599	107 985	93 000	58 511
Equity		37 978	38 184	36 343	35 629	35 148	34 062
Total interest income		5 331	10 985	8 505	7 107	6 672	7 041
Net financial result		76	298	159	120	659	120
Total capital adequacy	According to Ordinance 8 (repealed)	-	-	-	-	-	24.60%
	According to CRD IV	15.44%	15.55%	18.70%	19.80%	21.40%	-
Net interest margin		3.56%	3.82%	4.30%	4.50%	4.70%	4.80%
Return on assets		0.07%	0.09%	0.06%	0.06%	0.35%	0.07%
Gross classified exposures / Total loans		3.86%	3.49%	3.35%	4.30%	2.50%	4.60%
Net coefficient of overdue generation		0.19%	0.93%	0.24%	2.62%	-0.69%	-0.96%
Liquidity ratio		-	-	-	0.276	0.254	0.324
Liquidity coverage ratio		417%	433%	229%	-	-	-