FFBH
FIRST FINANCIAL BROKERAGE HOUSE

Fibank

Analyst Presentation

May 2020

OVERVIEW

Business Strength	25 years after establishment, the locally-owned **Fibank holds stable Top 5 market position** in a highly competitive and consolidating market of strong foreign rivals.
Franchise	The key business advantages are the **developed relationship with the bank's clients and the strong retail franchise**: best on the market customer service, country-wide network and digital banking leadership.
Financial resilience	Competing with larger, historically cheaper-funded banks, had affected the Bank's profitability and balance sheet quality. Yet, the strong business momentum and the shift in Fibank strategic focus to retail have built **financial strength to cope with NPE issues.**
The COVID-19 challenge	Sheltered by regulatory forbearance measures this year, Fibank aims to avail of the government-supported financial programmes and the expected post-crisis credit demand of the local retail & SME segments and **monetize its expertise, customer reach and cross-selling potential**.
Strategic Focus	The additional capital required for growth, EUR 100m, would be directed to lending expansion with **clear financial targets: ROE>12%, C/I<50%, NPEs<10%.** Despite COVID effect on 2020 earnings, we expect **the Bank to accomplish these goals in slightly extended timeframe.**
Story	**Fibank is the right business platform for new capital to achieve attractive returns** by leveraging well-timed entry (Bulgaria aims to join ERMII in July'20) and market growth potential. The sole **opportunity to get sizable exposure to the Bulgarian banking sector just in the eve of its EBU accession**.

Agenda

1. THE OFFERING
2. SCENARIO ANALYSIS
3. FIBANK STRATEGIC PLANS
4. FORECASTS
5. KEY HIGHLIGHTS

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Offer Parameters and Indicative Dates

Issue type	Ordinary stock
Listing	Bulgarian Stock Exchange
Ticker (BSE/Bloomberg)	5F4 /5F4 BU
Market cap (05/12/20)	EUR 145.1m
Post-deal market cap**	EUR 383.5m
Free Float	15%
Offering Size (min/max)	EUR 10.2m/ EUR 102m
Offer Price	BGN 5 /EUR 2.56
Use of proceeds	Expand lending growth with focus on retail, while keeping stable capital ratios
Rights trading	15 May – 1 June 2020
Subscription period (for right owners after the end of rights trading period)	15 May – 3 June 2020
Auction for the unused rights	10 June 2020
Subscription deadline (for rights purchased at the auction)	25 June 2020
Secondary trading	7 August 2020

Key Company Data*

Fibank, EURm	2019	2020F	2021F	2022F
Net Interest Income	118.0	121.7	135.7	152.9
Total Operating Income	215.1	178.4	213.4	238.7
Net Profit	66.1	16.6	54.5	74.5
ROE	14.8%	3.1%	8.7%	10.8%
Loans/Deposits	66.5%	73.4%	77.1%	81.2%
NIM	3.3%	3.4%	3.5%	3.6%
CET1 Ratio	15.0%	18.4%	17.8%	18.2%
**Issue Price Multiples ** **				
P/E	5.8	23.1	7.0	5.1
P/B	0.8	0.6	0.6	0.5

*Forecasts, based on our baseline scenario **At issue price of BGN 5 and maximum subscription

Source: FFBH

FIBANK AMIDST COVID-19: SCENARIO PLAY

The outbreak of coronavirus pandemic and the looming recession considerably changed the playground for Fibank strategic plans, raising credit risks across the board. The extent of the hit to be taken by the Bank depends mostly on the following key factors:

GDP Growth	Labour Market	Real Estate Prices	Loan payments moratorium	Government anti-COVID measures
where most important is the pace of return to economic growth in 2021	including both employment rate and wage growth	after current market freeze, valuations will be revised across all segments	to alleviate 2020 risk costs and support interest income	will help loan demand, but effect is conditional on macro shock size

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Low Probability Scenario

To accommodate the elevated revel of macro risks, **in addition to our baseline scenario, we have also modeled a negative scenario, where for the current year:**

- Gross loan book advances marginally (+3% thanks to Q1)
- Deposits from customers decline 5%
- Total banking income is down 21%
- EUR 78 million provisions are booked
- The year ends with EUR 13 million loss
- NPE ratio increases to 29%

Even under the negative scenario all FIbank capital ratios remain comfortably above regulatory requirements

FIBANK AMIDST COVID-19: NEGATIVE SCENARIO

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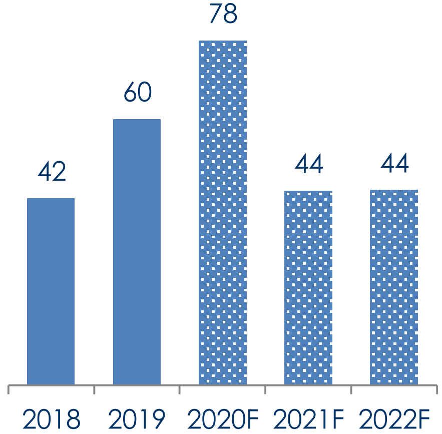
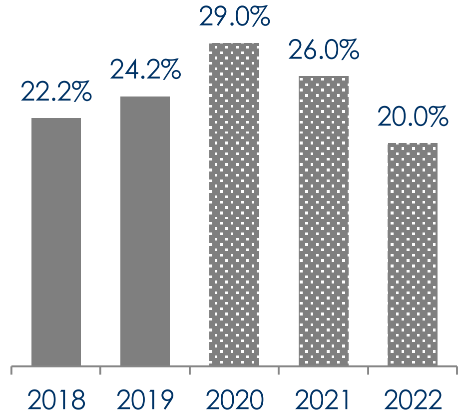
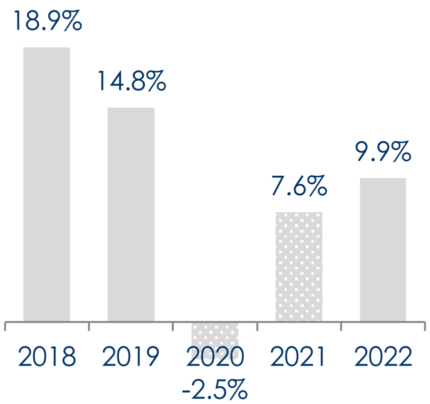
Impairments



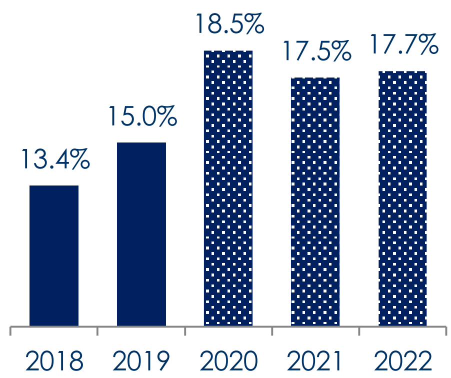
NPE ratio



Return on Equity



CET 1 Adequacy



Highlights

- **Loan book expansion** with the new capital is **postponed for 2021**
- **Interest margin growth remains under pressure** by low credit demand
- Lockdown affects significantly transactional volume and, consequently, **F&C income declines**
- **Higher provisions** over pessimistic GDP forecast add 83 bps in 2020 to the average historical 3-year cost of risk.

We consider this scenario with low probability, while macro gauges at the moment signal soon-to-come economic recovery thus supporting our baseline scenario

Source: FFBH

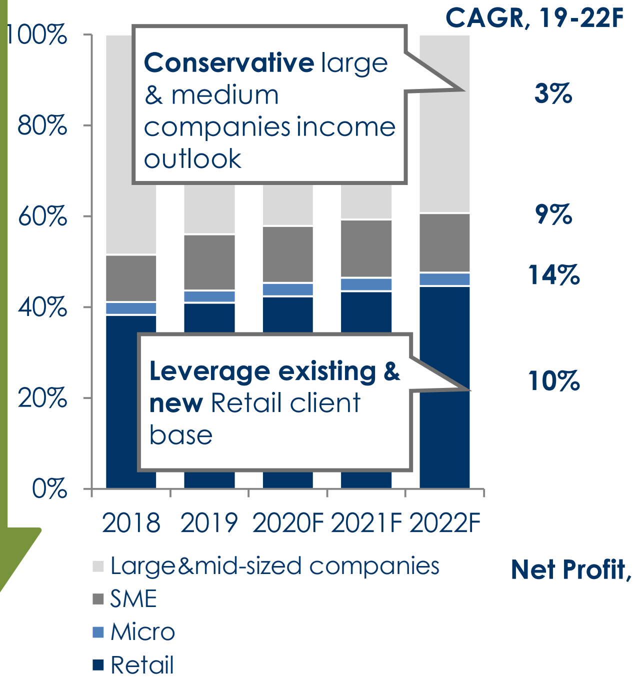
H High Probability Scenario

Keeping strategic focus on SME & Retail
Large & mid-sized companies* loanbook sustained

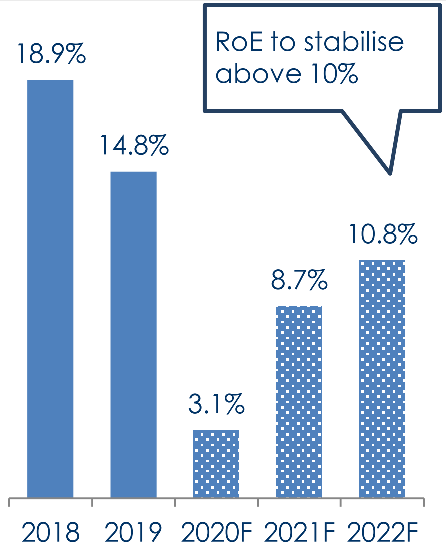
Improving profitability after pandemic year on higher asset base with increased retail orientation

Loan portfolio further de-risked and sufficient capital buffers maintained

Gross interest income by business units, %

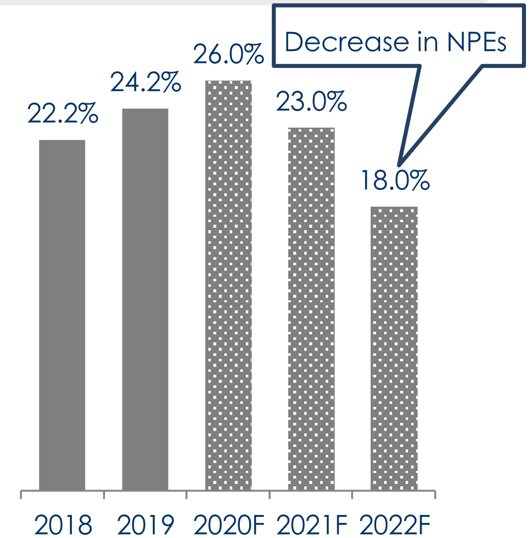


RoE, %



	2018	2019	2020F	2021F	2022F
Net Profit, €m	84	66	17	55	74

NPE Ratio, %



	2018	2019	2020F	2021F	2022F
Cost of risk	1.3%	1.9%	1.5%	1.2%	1.1%

Under Fibank internal classification Large & mid-sized companies are those with>EUR 7.7M turnover or >250 employees; SMEs: ≤EUR 7.7M turnover or <250 employees
Source: FFBH

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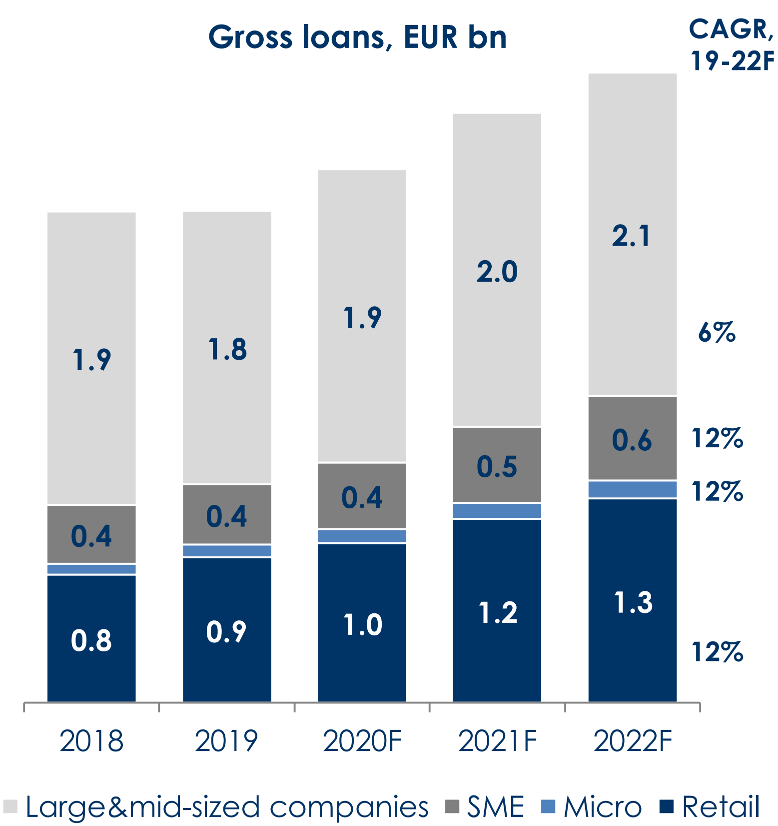
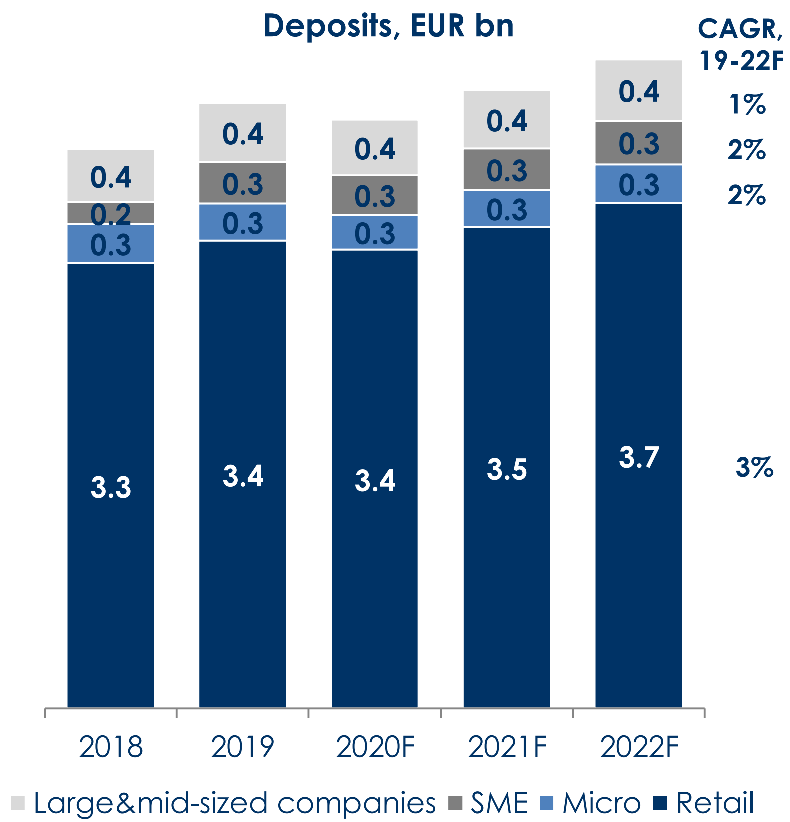
GROWTH BY BUSINESS LINE - FOCUS ON HIGHER NIM, LOWER RISK

LOAN GROWTH DRIVEN BY RETAIL AND SME WITH LARGE & MID-SIZED COMPANIES LENDING STABLE



OVERALL EXPECTATIONS FOR STEADY 2% GROWTH IN ATTRACTED FUNDS



Source: FFBH

Fibank Baseline Scenario: Strategic Plans (3)

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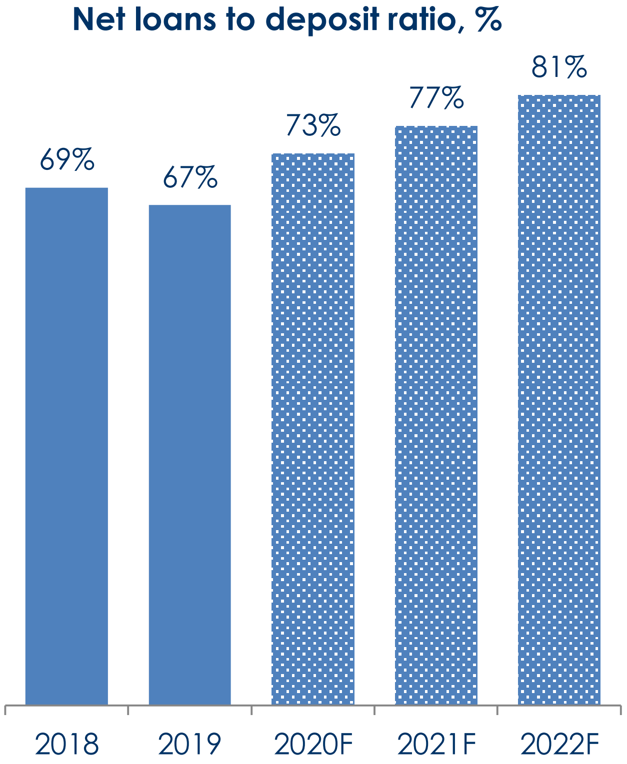
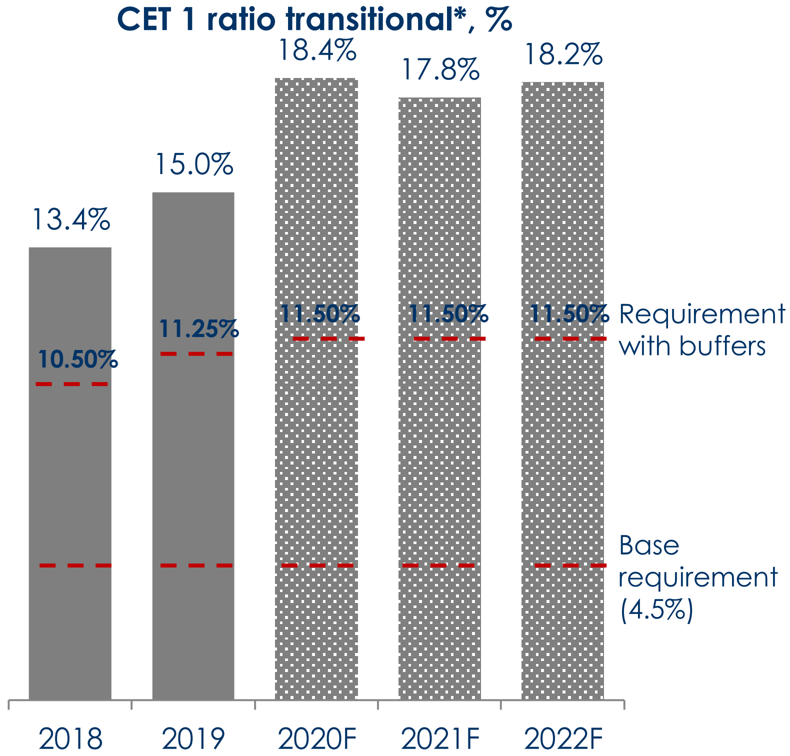
CAPITAL AND STABILITY RATIOS TO REMAIN ROBUST AND FULFILL ALL REGULATORY REQUIREMENTS

LOAN TO DEPOSIT RATIO TO REACH 81%



CET1 RATIO TO STAY ABOVE REQUIREMENTS



Source: FFBH

*EUR 102m capital increase assumed in 2020

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KEY ASSUMPTIONS

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- **Lending recovery in H2 2020 and subsequent growth**
  - COVID squeeze of credit demand to be partially offset by government efforts to pour liquidity to the most affected sectors – SME and retail – via several financial assistance programs for a total of EUR 2.3bn. Fibank is probably best positioned to capture this demand and already received the first allocation.
- **Increase in interest income** on stabilization of interest margins and expanding loan book.
  - **Margins supported by increase of loans to deposit ratio and portfolio restructuring** towards more profitable market segments – retail and SME
- **Fees & Commissions increase after temporary decline in 2020:**
  - in line with the overall growth of lending and deposit base
  - increased card services on higher percentage of internet trade in COVID-19 environment
  - higher fees on loan renegotiation with clients benefiting from the moratorium on bank payments
- Efficient cost management to **reduce administrative expenses** in 2020 and onwards:
  - ➢ 2019 had AQR-related consultancy fees, which are to be eliminated in 2020;
  - ➢ Optimisation of labour cost due to immediate need for digitalisation of services. Furthermore, the crisis would reduce the upward pressure on wages;
  - ➢ Branch network reduction with increased online banking activity.
- **Despite COVID-19 related potential issues we expect cost of risk to fall below 2019 level** based on 2 main reasons:
  - ➢ the AQR increased significantly bank's NPE's and provisioning in 2019 due to the difference between AQR methodology and current risk framework. A number of NPE-classified **loans are to be reclassified back to PE by end of 2020, which would reintegrate provisions.**
  - ➢ **Moratorium on bank payments** – all loans under the moratorium would be performing and would not need any provisioning. With the economy going back to growth in 2021, borrowers should have regained part of their financial strength.

Source: FFBH

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KEY ASSUMPTIONS (cont'd)

- **Despite slight increase of NPE ratio**, FIBank continues to execute action plan for decreasing NPE's through exposure/collateral sale/write-offs and the reclassification of loans to performing (see above note for cost of risk)
- **The forecast excludes any positive one-off effects from sale of Repossessed assets and Investment property**, e.g. sale of the remaining part of Kremikovtzi plot at the price/sq.m of the 2018 deal could yield EUR 25m profit
- CET 1 remains well above requirements despite slight decline to 17.8% in 2021. **Increase to 18.2% in 2022 with sale of NPEs and gradual deployment of new capital into business.**

	2018	2019	2020F	2021F	2022F	CAGR 19'-22'
Gross loans growth, incl.	**11.7%**	**0.2%**	**8.3%**	**10.6%**	**6.9%**	**8.6%**
SME	16.7%	2.3%	10.0%	15.0%	11.2%	12.0%
Micro	15.8%	16.5%	10.0%	15.0%	11.2%	12.0%
Large & mid-sized companies	10.4%	-6.7%	7.0%	7.0%	3.2%	5.7%
Retail	12.0%	13.6%	10.0%	15.0%	11.2%	12.0%
Avg Interest Rate on Loans	5.7%	5.0%	4.8%	4.8%	4.8%	n.a.
Deposits growth	**9.3%**	**8.3%**	**-2.8%**	**5.0%**	**5.0%**	**2.3%**
Cost of funding	0.8%	0.7%	0.6%	0.6%	0.6%	n.a.
NIM (IE assets base)	**3.8%**	**3.3%**	**3.4%**	**3.5%**	**3.6%**	**n.a.**
NPE ratio	**22.2%**	**24.2%**	**26.0%**	**23.0%**	**18.0%**	**n.a.**
NPE coverage ratio	53.1%	32.8%	34.0%	39.7%	33.4%	n.a.

Source: FFBH

Fibank Baseline Scenario - Income Statement Forecast

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EURm	2018	2019	2020F	2021F	2022F	CAGR 19'-22'
Net Interest Income	128	118	122	136	153	9.0%
F&C income	48	53	46	60	66	7.9%
Total Operating Income	190	215	178	213	239	3.5%
Admin Expenses	-103	-107	-94	-94	-97	-3.2%
Pre-provision Income	120	134	70	105	126	-1.9%
Impairments	-42	-60	-52	-44	-44	-10.1%
Net Profit	84	66	17	55	74	4.1%
(NII+NFC)/ Avg. TA	3.9%	3.5%	3.2%	3.7%	3.9%	n.a.
Cost / Income	46.3%	44.4%	57.4%	47.3%	43.4%	n.a.
Cost of Risk	1.3%	1.9%	1.5%	1.2%	1.1%	n.a.
RoE	18.9%	14.8%	3.1%	8.7%	10.8%	n.a.
RoA	1.8%	1.4%	0.3%	1.0%	1.3%	n.a.

Source: FFBH

Fibank Baseline Scenario - Balance Sheet Forecast

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EURm	2018	2019	2020F	2021F	2022F	CAGR 18'-22'
Net Loans	2 825	2 954	3 169	3 494	3 863	9.4%
Repossessed & Inv. Assets	535	572	572	429	322	-17.5%
Total Assets	4 723	5 215	5 196	5 460	5 761	3.4%
Deposits	4 101	4 440	4 317	4 533	4 759	2.3%
Equity	416	482	601	656	730	14.8%
Net Loans/Deposits	68.9%	66.5%	73.4%	77.1%	81.2%	n.a.
NPE ratio	22.2%	24.2%	26.0%	23.0%	18.0%	n.a.
90DPD Ratio	13.0%	12.0%	13.0%	11.0%	10.0%	n.a.
CET1 Ratio	13.4%	15.0%	18.4%	17.8%	18.2%	n.a.

Source: FFBH

KEY HIGHLIGHTS

1. • The Bank operates in a stable economy, which by all forecasts should recover to pre-COVID condition in 2021. **The key business drivers for the Bank - disposable income and consumption – are to reverse to growth as early as Q3 this year.**

2. • Domestic market champion with **leading market shares across all key segments. Strong business fundamentals and retail franchise** are the right growth platform for new capital.

3. • Large client base, serviced by broad distribution network and rapidly advancing digital offering- **important assets to outperform the market in retail sales. Years of investments in digital banking clearly pay off** with COVID change in lifestyle.

4. • **Profitable revenue mix** with serious track record of growth within a highly competitive universe

5. • **Improving asset quality with clear NPE strategy**, while keeping stable capital position

6. • **Management team** with proven track record and realistic strategic outlook

7. • **Mid-term targets – RoE >12% and NPE<10% are well-reasoned.** With coronavirus pressure on earnings, their achievement falls outside the horizon of our forecasts, however the uptrend in the Bank's performance could be easily followed to value accretion.

8. • **Current market price reflects not only COVID-related de-rating of banking stocks, but also local market liquidity discount** and could not be considered a proper measure of Fibank share value

9. • Yet, **the strengthened capital base will definitely reduce the risk premium the market attaches to the stock, while delivering to the shareholders the planned RoE improvement** over the next years

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CONTACT DETAILS

FIRST FINANCIAL BROKERAGE HOUSE	
2 Enos Str. 1408 Sofia BULGARIA	T. +359 2 460 64 00
Stoian Nikolov General Manager	T. +359 2 460 64 24 M. +359 888 619 325 E. stoian.nikolov@ffbh.bg
Nadejda Dafinkicheva General Manager	T. +359 2 460 64 21 M. + 359 882 024 138 E. dafinkicheva@ffbh.bg
Veselin Radoychev Director Capital Markets	T. +359 2 460 64 61 M. +359 898 347 306 E. veselin.radoychev@ffbh.bg