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TBI BANK EAD

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Rating Committee Date:	08.07.2022	**07.07.2023**
Publication date:	13.07.2022	**13.07.2023**
FINANCIAL STRENGTH RATING:	Initial	**Review**
Long-term rating:	BBB-	**BBB-**
Outlook:	stable	**stable**
Short-term rating:	A-3	**A-3**
Long-term national-scale-rating	A (BG)	**A (BG)**
Outlook:	stable	**stable**
Short-term national scale rating:	A-1 (BG)	**A-1 (BG)**
BOND RATING (ISIN:BG2100004220)*:	Initial	**Review**
Long-term rating:	BBB-	**BBB- (w)**
Outlook:	stable	**-**
Short-term rating:	A-3	**A-3 (w)**

** Bond in the process of issuance at the time of the initial rating*
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 two 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 recognised throughout the EU and are fully equal to 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 07.07.2023, the report on the **financial strength rating review and bond issue rating** of **TBI Bank EAD** was discussed. The meeting was hosted by Dr. Kiril Grigorov, in his capacity as Chairman of the Rating Committee. After a discussion on the main rating factors, the members of the Rating Committee took the **following decision:**

BCRA - Credit Rating Agency affirms the credit ratings of TBI Bank EAD (TBI Bank) and maintains the outlooks related to them:

- Long-term financial strength rating: **BBB- 'stable'** outlook and short-term rating **A-3**
- Long-term national scale rating: **A (BG)** "**stable**" outlook and short-term national scale rating **A-1 (BG)**

and withdraws long-term AT1 bond - ISIN: **BG2100004220** ratings: long-term **BBB-** and A-3 short-term rating.

By confirming the rating levels BCRA expressed its opinion on the bank's strong financial performance, robust growth rates of attracted funds and assets, the maintained throughout the entire analysed period high-profit margins, influencing distinctively high profitability and return indicators, as well as the maintained stable levels of capital adequacy and liquidity, while establishing the bank as one of the leading banks in terms of technology and innovation on the specialised segment of private individuals consumer finance.

The officially adopted BCRA Methodology for assigning a rating to a bank has been used: https://bcra.eu/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://bcra.eu/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, BCRA's database, consultants and other public information sources.

Operating Environment

Sovereign Risk

The economic processes and developments in the country were analysed in detail by BCRA – Credit Rating Agency and were reflected in the unsolicited sovereign rating of Bulgaria. The same applied to Romania, where the rated bank had a branch. Rationales of the current ratings, assigned to Bulgaria and Romania are available on the official website of BCRA:

- Bulgaria: *https://bcra.eu/files/rating_republic_of_bulgaria_apr_2023_en.pdf*
- Romania: *https://bcra.eu/files/rating_romania_jun_2023_en.pdf*

Banking System

A year after Bulgaria became a member of the EU's banking union and the Bulgarian lev became officially part of ERM II, in the beginning of 2023, the target to introduce the euro in Bulgaria on Jan 1st 2024 was recognised as not feasible and it was postponed for at least a year. Bulgaria did not meet the accession criteria mainly due to non-compliance with the price stability requirements and some key commitments taken up upon the ERM II accession were still outstanding too.

The banking sector remained resilient despite the economic turmoil and record high financial performance results were reported in the past three quarters (Q3 2022 – Q1 2023). Based on the increased credit growth and the initiated change in the interest cycle, the net interest income accelerated considerably, contributing to it. Reflecting the economic growth in the country, intense real estate activities and still lower interest rates level, credit growth in the non-financial sector accelerated and as of end of March 2023 reached 12.5% annual increase (11.6% a year earlier). The increased credit risk in the system was set off by the simultaneously decreasing share of the non-performing loans (down to 4.7%) and adequate level revaluation coverage and specific provisions.

Both assets and equity maintained their growth in more moderate limits compared to the financial performance, accordingly resulting in profitability indicators rising, which by the end of March 2023 reached: ROA – up to 1.53% (1.23% a year earlier) and ROE – up to 13.59% (10.06% a year earlier). At the same time steady growth in the deposit base supported the solvency of the banking system, which by the end of March 2023 also sustained the high levels of total capital adequacy (21.3%) and liquidity (LCR of 238%).

TBI BANK EAD

Shareholders' Structure and Management

As of the end of March 2023, there were **no changes in the ownership** of the bank, where the sole owner remained TBI Financial Services B.V. (the Netherlands) (brand name until 2021 TBIF Financial Services B.V.). At the end of the ownership chain and majority owner of the parent company of TBI Bank EAD 4finance Group S.A., Luxembourg, was Tirona Limited (Cyprus), the equity of which belonged to Edgars Dupats (29.47%) and a number of minority shareholders with shares of less than 10%. There were no changes in the **subscribed share capital** – BGN 81.6 mln, divided among the same in number ordinary, book-entry shares, with nominal value of BGN 1 each. The share capital was last increased (by BGN 3 mln) in March 2016.

On April 22nd 2022, TBI Bank EAD launched business activities in Greece too via its registered **branch in Athens** upon completion of licensing procedure. The market potential in the neighbouring country has been assessed highly, provided the bank has used entirely digitalised model of business operations.

The bank is holder of cross-border passports for credit operations in Sweden, Denmark, Poland and Lithuania and a deposit-raising license in Germany. Pursuant to the change in the business focus of TBI and 4finance, TBI Bank is currently pivoting solely in Lithuania, where it is acquiring credit portfolios, using automated solution.

Currently, TBI Bank is operating as a universal commercial bank with a full license from BNB. After having started its development with products targeting primarily corporate clients, currently the business activities are reoriented to services to private individuals and small- and medium-enterprises (SME). The bank also provides investment intermediary services.

There was no change in the owned by the bank subsidiaries:

- TBI Money IFN S.A., Romania (99.99%) – consumer finance
- TBI Asset Management and Servicing S.A. (TBI Leasing S.A. and TBI Leasing IFN S.A.), Romania (99.99%) - leasing activity;
- TBI S.A., Bulgaria (100%) - software development and maintenance of electronic trading platforms and services;
- Vivus BG EOOD (4Finance EOOD), Bulgaria (Vivus brand) (100%) - provision of consumer loans.

Other related with the bank parties (sharing the same parent company at the end of the ownership chain) are AS 4Finance (Latvia), Credit Service UA, 4Finance Spain Financial Services SA, 4Finance Holding S.A. (Luxembourg), 4Finance Group S.A. (Luxembourg), 4Finance SA, 4Finance Next EOOD, 4Finance AB (Sweden).

The management structure of TBI Bank is two-tier, consisting of Supervisory Board and Management Board.

The **Supervisory Board** was not changed and currently it is consisting of:

- Ariel Hasson (The Netherlands) - Chairman of the Supervisory Board, independent member
- Gauthier Van Wiedingen (Belgium) - Vice-Chairman of the Supervisory Board, independent member
- Kieran Patrick Donnelly (Ireland) - Member of the Supervisory Board (and Chairman of the Board of Directors of 4finance Holding S.A.).

The **Management Board's** composition was enlarged by one member (as of 30.09.2022 Lukas Tursa) and currently it is consisting of:

- Valentin Galabov (Bulgaria) – Chairman of the Management Board (MB) and Executive Director;
- Alexander Dimitrov (Bulgaria) – Deputy Chairman of the MB and Executive Director;
- Nikolay Spasov (Bulgaria) – MB Member and Executive Director;
- Lukas Tursa (Lithuania) – MB Member and Executive Director;
- Pavels Gilodo (Latvia) – MB Member;
- Denis Gorbunov (Russian Federation) – MB Member

The **Organizational Structure** of the bank did not experience significant changes in the review period and it could be evaluated as adequate to its business activities and profile.

Capital Adequacy

In the five years of analysis, no changes were made in the subscribed share capital of TBI Bank EAD, which amounted to BGN 81.6 million (since the last capital increase in 2016 from BGN 78.6 mln). Thus, the bank's financial performance remained the main source of growth in **equity**, which at the end of March 2023 reached BGN 359.8 mln (compared to 253.3 mln a year earlier), recording annual growth of 42.1%, supported by the high financial results reported at the end of 2022 (BGN120.1 mln). The very high level of ***return on equity*** (40% in 2022) which exceeded more than three times the average for the banking system (12.4%) and close to four times the average for the Group II banks (10.6%) was also the highest in the reference group of banks[1].

In the review period the bank maintained a **steady growth in the capital base** forming clear rapid increase in 2022 of 44.5% (or BGN 82.6 mln in nominal value), followed by additional 8.2% (or BGN 22 mln) in the first three months of 2023 with which by the end of March 2023 the total amount of BGN 290.1 mln was reached. The high amount of the net profit in 2022 influenced the most the capital base growth. Since 2021, the capital base also has included Tier 2 capital, accumulated via subordinated term debt (bond issued in July 2021, ISIN: BG2100007215, for EUR 10 million, at an interest rate of 5.25% and a 10-year repayment term).

TBI Bank's high credit growth in the review period did not cover sufficiently the significant increase in the value of **risk-weighted assets** (RWAs), which reached EUR 1 354.9 mln by the end of March 2023 (after BGN 1 256.1 mln as of end-2021 and BGN 800.8 mln a year earlier) and fed into the **lowered by nearly 2 pp. level of the total capital adequacy** which was at 21.4**%** as of the end of

[1] The reference group of banks included two banks, ranking before TBI Bank EAD and two banks, ranking after TBI Bank EAD in terms of assets as of end of March 2023: Investbank AD, Bulgarian-American Credit Bank AD, International Asset Bank AD and Municipal Bank AD

March 2023 and 21.3% as of end-2022, following the higher 23.2% as of end-2021. Comparatively, regardless of the reported decrease, the level of the TBI Bank's capital adequacy was maintained practically at the same as the averages for the Group II banks levels.

Structure of RWAs remained to the greater extent dominated by the *Credit risk exposures* (over 95% with additional increase in the review period). In the separate subcategories, the *Retail exposures* prevailed in the last three years of the review period (occupying shares in the range of 59-69%). The continuing decrease in the share of the *non-performing exposures* (down to 6.2% as of end-2022, compared to 8.4% as of end-2021 and 9.6% a year earlier) was recognised as characteristic for the analysed period change.

The level of the **ratio of non-performing exposures to the capital base** sustained decrease in a third consecutive year, dropping to 27.9% as of the end of March 2023, after it stood at 32.6% as of end-2021 and 34.8% as of end-2020. The change in the review period resulted from the already mentioned considerable growth in the capital base, which exceeded the growth in the amount of the non-performing loans. In comparison, despite the noted positive changes in the previous three years, the level of the indicator for TBI Bank remained significantly above average for the banking system levels (decreased to 4.6% as of end March 2023, compared to 6.4% as of end-2022 and 9% a year earlier) and the Group II banks (8.2% as of end-2022 and 7.9% as of end-2021).

The standing out throughout the review period continuous growth in the volume of the managed assets (60.2% on annual base as of end-2022) exceeded the rates of growth in the equity and resulted in new increase in the ***unadjusted leverage ratios*** – from 5.29 as of end-2021 to up to 6.25 as of end-2022 and 6.34 as of the end of March 2023. Regardless of the trend direction, the maintained by TBI Bank levels remained considerably below the average for banking system (8.99 as of end-2022) and the Group II banks (8.70 as of end-2022).

The maintained by TBI Bank trend of slow decrease in the level of the **leverage for supervisory purposes** was continued in the analysed period, given the reached at the end of the period (March 2023) coverage exceeded the required minimum four times (4.03) and the leverage level stood at 12.1% (after 12.9% as of end-2022 and 13.9% a year earlier). Regardless of the downward trend, the excess to the required minimum remained significant (3%).

Resources

In the period under review, TBI Bank reported an **extremely high annual growth in attracted funds** of 63.7% at the end of 2022 and additional 9.2% in the first quarter of 2023.The largest part of the increase (61.1% and 10.6% in the same periods respectively) was formed by the attracted household deposits (reaching in nominal value BGN 1,521.7 mln by the end of March 2023, after BGN 1,375.5 mln at the end of 2022 and BGN 854.0 mln a year earlier). Here, the strongest influence had TBI Bank's strategy to offer attractive on the local market interest levels on deposits, as well as its deposit-raising capabilities in the retail segment using various channels independently (branch network, online platforms) on all three of the markets (Bulgaria, Romania, Germany) on which it operated attracting funds. The funds attracted from **corporate clients** remained of lower importance for the resource base, and in the first half of 2023 they even marked an overall decrease (of 11.8%), which, however, came after a very significant growth in 2022 (108.5%). The review period is characterized by the newly introduced amount of **deposits treated as subordinated financial liabilities**, the volume of which reached BGN 68.8 mln at the end of March 2023 and their share in the total amount of deposits - 3.9% (2.5% at the end-2022, given they were standing at zero a year earlier). Subordinated financial liabilities formed by **issued bonds** retained the value of about BGN 20.0 mln.

The said levels of annual growth in the resources attracted in 2022 considerably exceeded the reported by the banking sector increase of 16.2% and 12.2% by the Group II banks, where the assessed bank traditionally maintained notably higher growth compared to the average for the sector in the period: 2019 – 2022 inclusive (a trend carried over to the first quarter of 2023).

The structure of TBI Bank's deposit portfolio remained **very strongly dominated** by funds attracted from households, the share of which remained around 85-86% in the review period too. By this criterion, the assessed bank is significantly ahead of the levels in the banking system as a whole (59%) and the Group II banks (55%). A characteristic change in the structure of the deposit portfolio was the increased amount of funds attracted from **financial institutions other than credit institutions.** The share of the latter in the total deposits amounted to 5.2% as of end-2022. Another significant change is the greatly increased amount of deposits from **banks**, the value of which more than doubled on annual basis as of end-2022 (reaching BGN 31.7 million), and by the end of March 2023 it expanded further by 88.5%.

As already noted, a new source of financing was used - issued by TBI Bank subordinated bonds. To date, the first part of the issue, in the amount of EUR 10 mln, has been placed, for the period of ten years, maturing on 30.07.2031, at an interest rate of 5.25% (determined according to the proposals of the investors within an interest range defined by the Issuer as of the date of the offer).

The issue was the first for the bank and has been traded on the Bulgarian Stock Exchange (BSE) - ISIN code: **BG2100007215** (stock code: **TBIA**). The issued bonds were ordinary interest-bearing, registered, book-entry, non-convertible, subordinated, non-collateralised, freely transferable with nominal value of EUR 100 000 each and the issue met the Tier 2 capital criteria of the Regulation on Prudential Requirements.

On 04.07.2023, a second bond issue for EUR 10 mln as well was introduced for trading on the BSE, with ISIN code: **BG2100005235** (stock code: **TBIB**), issued on 09.09.2023, with maturity date on 09.06.2026, but at the considerably higher interest rate of 9.00%.

A specific for TBI Bank feature was preserved in the review period – attraction of significant part of the deposits by **non-resident** parties (reflecting the large part of TBI Bank’s deposit-raising business activities conducted in Romania and given that, depositors originating in that country are treated as non-residents in the BNB reporting). As of end-2022, 46.3% (38.2% a year earlier) of the deposits belonged to that sub-segment, and their share remained high in the first three months of 2023 - 44.9%. The high shares of non-resident deposits were characteristic both for deposits by households (42.9% at the end of March 2023) and by non-financial enterprises (62.9% at the same date).

The presence of a significant share of non-resident deposits has also determined the **heterogeneous currency structure** of the banking resources. Deposits in leva and euro keeping relatively equal volumes, decreased in the review period (to about 30%), under the influence of an increased share of deposits in other currencies (other than US dollars), the total volume of which at the end of 2022 reached 32.9% (after 26.1% a year earlier), and by March 2023 was already up to 34.7%. The trend has been formed primarily due to the dynamic growth in TBI Bank’s deposit-raising business in Romania, where the funds attracted are mainly in local currency (Romanian lei). As far as the bank has funded its local lending operations directly by deposits in local currency, the formed atypically high for a Bulgarian commercial bank foreign currency total share of 40.3% in the resource base has not introduced additional exchange rate risk

The typical for TBI Bank’s structure of resources, **dominated** by the strongly pronounced share of **term deposits** in them (ranking before the deposits “payable on demand"), was also preserved in the review period as it stood at a level of over 80%. Approximately half of the "payable on demand" positions were held by households, while the remainder was in its turn distributed almost equally among deposits by financial institutions, various banks and corporate clients.

The deposit portfolio of TBI Bank preserved another characteristic feature - the maintained **high share of guaranteed deposits** - over 80% in the last five years. In the review period, the relatively high share of **renewed deposits** (by volume and by number), as well as of the **newly opened deposits by existing customers** (both tending to around 80%) was preserved.

In the bank's resource coverage, there was **no concentration observed**

Assets Quality

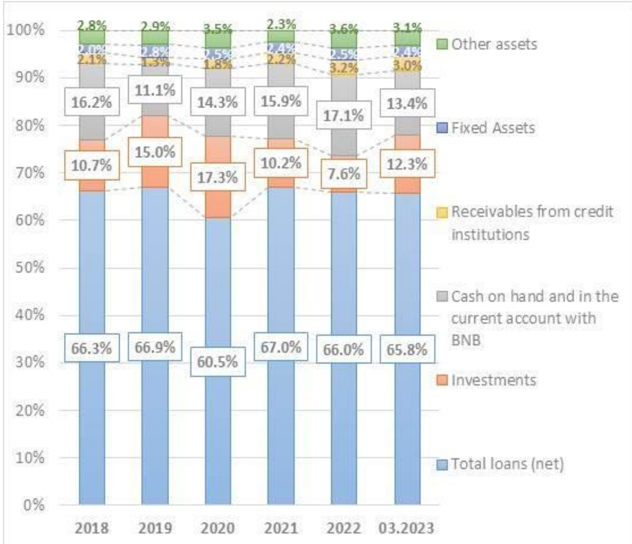
Following previous strong and increasing consecutive annual growth records, in the review period the **total amount of assets** of TBI Bank EAD marked outstanding annual growth of 60.2% as of end-2022. This trend was continued in the beginning of this year, and for the first quarter of 2023 the growth on an annual basis, compared to the same prior-year period reached 65.0% (and 8.9% only for the three months of 2023).

The **Bank's asset structure** was characterised by the following processes and features:

TBI BANK EAD

Rating: Long-term / short-tern (Outlook)
Financial strength: **BBB- / A-3** (**stable**)
National-scale rating: **A (BG) / A-1 BG)** (**stable**)
July 2023

Chart 1: Assets structure of TBI Bank (%)



- Relatively high share of ***loans*** in the total assets, stabilising at levels around and slightly over 65% - fully in line with the business profile of the bank, specialised in the segment of loans to private individuals (consumer lending).
- Maintained relatively stable share of ***investments*** - between 10% and 15%, already very close to the average for the banking system, following the lower values, recorded at the beginning of the analysed period.

  The sum of the weights of loans and investments as an income earning part of the assets stabilised slightly below 80% within the entire review period – 78.1% at the end of March 2023. This on average was around 10 p.p. above the banking system average, which was also an important part of the prerequisites for the Bank's high profitability indicators.

- Relatively low total share of **Cash** and **Receivables from credit institutions,** carrying potential for pressure on the bank's liquidity – within 15%-20% range in the most years of the analysed period and 16.5% towards its end.

Internally, *debt securities* dominated the **investment** structure, increasing from over 80% of the investment portfolio in the recent years to 90.8% for the last period included in the analysis. Leading among them were *Government securities* with an increased weight of up to 90% in the debt instruments for the previous year – 2022 and 95% at the end of the first quarter of 2023. As of end of March 2023, they consisted mainly of Bulgarian government bonds – 24.2% out of all sovereign debt holdings, Romanian (24.7%) and USD treasury bonds (27.8%). I*nvestments in subsidiaries,* amounting to BGN 16.4 mln (10.3% of the investments for 2022) were in the subsidiaries described above, which are almost entirely owned by the bank

The growth in the assets of TBI Bank, including in the last year of the review, was driven to the greatest extent by the **growth in *the loans*** - with an increase of 56.3% for 2022 in the gross loan portfolio. The amount of the increase for the same year represented about two-thirds of the total amount of the increase in the assets. In the first quarter of 2023, the amount of loans continued to expand closely to the growth rate in the assets (8.9% for the three months), marking a 9.4% increase in the gross loans (57.4% on annual basis). At the end of March 2023, their volume already **exceeded BGN 1.6 bln** (BGN 1,639 mln).

Structurally, following the established profile of the bank, the dominance of *retail exposures* was confirmed for third year, standing already at over 80% of the loans, with the bank's specific profiling of these loans - entirely consumer. Another main characteristic of the bank's credit portfolio and activity was that it was realised not only on the local market, but with increasing growth rates, in Romania as well, and since the past year – 2022, it already has operated in Greece. In Romania, the bank has operated through its own branch and its subsidiaries, complementing the range of services offered in a country with a target market over two and a half times larger than the local. Exposures to non-residents (for now mainly in Romania) represented over 60% (64.7%) of all loans. This share was larger for *corporate loans* (93.9% in 2022) than for individuals (59.2%), with the specific positioning of the bank's business lending in the construction entrepreneurship sector and real estate investments. This predetermined the leading position of the *Real Estate Operations* in the ***sector structure*** of the bank's business loan portfolio - with nearly 60% (59.1%) relative share in it.

In the past year - 2022 and in the beginning of 2023, the bank recorded a relatively weaker improvement in the share of the loans classified as **non-performing**, as on the one hand an increase of 27.0% in the amount of these exposures was registered for the year, but on the other hand, a favourable decrease in their ratio to gross loans - down to below 10% was recorded for the first time in the period under review (**9.23**%, as a result of the very strong growth in the gross loan portfolio). This recovery stood out less compared to the strong one, realised in the previous year, when along with the decrease in the amount of delinquent exposures (12.4%), their level as a share in the gross loans dropped considerably - by more than 6 pp. (11.4% for 2021). However, in the first quarter of 2023, despite the strong increase in the total amount of the loan portfolio, the share of the non-performing exposures in it increased by 0.7 pp. to *9.91%* as a result of their stronger growth (17.4%) only in the first three months of the year. Despite the drop of this ratio below 10% for the last period, its value remained in an unfavourable comparison to the reference group, standing at about 5 pp. higher, provided the levels in the banking system as whole stood at 4.7% and 5.1% for the Group II banks at the end of the period. *The analysis of this indicator also took into account the specific lending profile of the bank - prevailing uncollateralized short and medium-term consumer loans with a fast decision-making process, where, given the strong competition on this market niche, it is normal to register a higher level of loan deterioration compared to the universal type of banks or the averages for the banking system. In the context of this distinction, the increased opportunities to offset the indicated impact of the risk from credit deterioration through higher yield in this portfolio are considered and accepted*. Following the above-noted minimum improvement in the quality of the loan portfolio for the last period, positive changes were also recorded in the traditionally studied indicators, reflecting its structural characteristics - *gross and net ratio* of *delinquency and non-performance*, as well as in the impairment coverage of the loan portfolio. The ***coverage of the gross loan portfolio from impairments,*** supported by the growth in impairments for the period, retained relatively high level, which remained more than two times higher than the average for the banking system and the referent Group II banks. The coverage of non-performing loans also maintained relatively high values.

The share of the 15 largest credit exposures amounted to 6.18% of the gross credit portfolio, which was a very low value (not only in comparative terms), but it also signified complete lack of concentration by loan amount, unlike banks with a similar smaller in size and predominantly corporate credit portfolios.

Income quality

The main analysed indicators of TBI Bank's quality of income stood significantly higher than the average for the banking system in the country and the referent Group II banks, largely due to the specific business model which the bank have used in its operations and which has differed from the traditional for the Bulgarian market universal type of banking. TBI Bank have specialised in the higher income segment of retail banking. However, in terms of return on assets and interest rate spreads, the trends observed both in the banking system as a whole and for the assessed bank have been unidirectional (downward) since 2019.

Accordingly, the **main source of income of the assessed bank was the net interest income**, which maintained high and increasing growth rates, based on rapidly increasing interest income and despite the outpacing growth rate of interest expenses (due to their much lower nominal values). The dynamics of *net fee and commission*s *income* was similar, recording annually double growth in the past two years. As part of the bank's **non-interest income**, in past year's income, it was complemented by the similar in volume (and even higher) dividend income, the contribution of which to the 2022 record high operating result as well as net financial result/profit was significant. Thus, the reported **operating profit** in 2022 amounted to BGN 198.7 mln - more than two and a half times higher than that, realised in 2021 (BGN 78.1 mln) - with new, record-high within the analysed period interest and fee and commission income, supported by said dividend income, as well as by a lower operating expense expansion. As a consequence of this, the **net financial result** of TBI Bank for the past year - 2022 was more than four times higher than the prior-year one - **BGN 120.1 mln[2] profit** (compared to BGN 28.5 mln in 2021), which was a considerable jump compared to the annual profits for the analysed five-year period (averaging about BGN 30 mln), regardless the increase in impairment costs. The current net financial result, at the end of *March 2023* also represented a record-high for this period of the year net profit of *BGN 20.4 mln* (compared to BGN 10.9 mln in the same prior-year period) or 87.7% annual growth rate.

The bank's outstanding financial performance also had a strong impact on the *main analysed income quality indicators*, which were significantly and several times higher compared to the referent groups, mainly due to the specific business model deployed by the bank in its operations, which has differed from the traditional for the system universal type of banking. TBI Bank has specialised in the higher-income segment of retail banking, characterised by a relatively lower

[2] According to unaudited annual financial statement of TBI Bank EAD

amount of the granted loans and shorter maturity terms. With regards to *return on assets* and *interest spreads*, though, the trends observed both in the system and for the analysed bank have been downward throughout the period under review since 2018. However, a change was observed in most of the banks' and the system-wide indicators in the past year – 2022, and in the beginning of 2023, with a clear reversal of the downward trend, and for the first time in almost 10 years, a slight increase in the said indicators was observed (in contrast to a continued slight decrease from very high levels for rated bank), as well as a slight, for now, increase in the price of interest-bearing liabilities (in line with the general increase in interest rates on a global scale).

Liquidity

Out of the traditionally studied liquidity indicators, the *Share of the equity in total liabilities indicator*'s downward trend from very high levels, starting from over 20% at the beginning of the period (2018) to 18.3% was confirmed on the latest reporting date in the annual analysis (31.03.2023). This resulted from the outpacing very strong growth in the total liabilities despite the high growth in the equity too. These indicator levels remained favourably higher relative to the averages in the banking system throughout the entire period, despite the noted decrease reported by the rated bank, but with shrinking to up to four pp average difference.

TBI Bank has implemented centralized liquidity management system aimed to optimise funding costs and efficiency by using a proprietary cash flow forecasting model. Apart from keeping sufficient liquidity reserves in the form of cash, cash equivalents and government bonds to deal with unexpected outflows, the bank intentionally limited large exposures on the liability side.

On all the markets where it is present, TBI Bank funded its activity predominantly by small, term deposits (more than 90% of deposits are protected by the Deposit Guarantee Fund), thus maintaining a stable and highly diversified funding base from the three markets, used as funding channels: Bulgaria, Romania and Germany. In addition, the bank's business model has been concentrated in short- and medium- term assets, which allowed maintaining a favourable (almost matching) maturity structure of assets and liabilities, and further mitigation of the liquidity risk.

The values of the **liquidity coverage ratio for supervisory purposes** remained at high levels throughout the entire analysed period where the coefficient reached its highest value of 403% at the end-2022 and respectively the coverage of the minimum required level recorded slight decline as of end of March 2023 – to 376%.

Size and systems

TBI Bank EAD is part of the Group II banks, according to the segmentation applied by the BNB.

At the end of the past year – 2022, the bank occupied the *14th* position in the banking system (Group I and Group II banks) in terms of *asset size*, moving one position up compared to the ranking in the end of 2021 – by overtaking the Commercial Bank D. TBI Bank's continued strong growth in the first quarter of 2023 saw it moving up two more positions, to *12th* in the ranking, at the *end of March 2023* (by overtaking International Asset Bank and Municipality Bank).

In the ranking by the *size of the loan portfolio,* as a result of the very strong loan portfolio growth throughout the year, TBI Bank gained another position to the top and already occupies **10th position**, where it found itself ahead of four banks, larger in assets size within the same period – Bulgarian-American Credit Bank, International Asset Bank and Municipality Bank. Overtaken in this ranking for the year was Bulgarian-American Credit Bank.

In terms of the *deposit portfolio size*, corresponding to the ranking by asset size, TBI Bank moved one position up and occupied *14th* position, as it overtook Commercial Bank D.

BCRA
est. 2002

TBI BANK EAD

Rating: Long-term / short-tern (Outlook)
Financial strength: **BBB- / A-3** (**stable**)
National-scale rating: **A (BG) / A-1 BG)** (**stable**)
July 2023

*During the period under review, **TBI Bank EAD** reported sustainability by achieving even higher results from its business activities, with increased growth rates of attracted funds and assets. In a year of recovered high yields and reported record-high net profits in the banking system, TBI Bank also achieved very high operating and net profits, validated in the first quarter of 2023 with stabilised quality of the loan portfolio and confirmation of the significant comparative advantage by most of the income quality indicators.*

*The rating of TBI Bank can be **positively impacted** by acceleration of the loan portfolio quality improvement process, preservation of Bank's high growth rates, including the profit expansion rates, while maintaining stable levels of capital adequacy and liquidity.*

*The rating could be **negatively affected** by: possible significant shrinking in the operating and net profits, decline in the returns, slowing down or interruption of the loan portfolio quality improvement process in case potential unfavourable sector influences on the economic environment as whole occur due to the war in Ukraine*

Key Indicators

(BGN' 000)	*03.2023*	*2022*	*2021*	*2020*	*2019*	*2018*
Balance Sum	2 282 477	2 096 750	1 309 017	1 029 984	876 035	745 072
Gross Loans	1 639 357	1 498 821	958 728	715 265	658 011	558 474
Equity	359 807	335 595	247 458	220 479	202 338	185 798
Net Interest Income	68 838	240 172	176 703	155 122	147 487	121 269
Net Financial result	20 443	120 087	28 518	16 261	37 800	25 407
Total Capital Adequacy	21.41%	21.34%	23.17%	19.78%	17.18%	21.03%
Net Interest Margin	16.17%	16.89%	17.29%	18.64%	20.70%	22.98%
RoA	7.12%	7.39%	2.43%	1.71%	4.68%	3.46%
Gross classified Exposures / Total Loans	9.91%	9.23%	11.37%	17.40%	16.28%	16.20%
Net coefficient of generation of due payments	1.77%	3.46%	-2.61%	3.15%	3.82%	9.03%
Liquidity coverage ratio	376%	403%	319%	283%	243%	232%