MOODY'S

Rating Action: **Moody's assigns first-time Ba2 long-term deposit ratings to TBI Bank; outlook stable**

06 Oct 2023

Limassol, October 06, 2023 -- Moody's Investors Service ("Moody's") has today assigned first time Ba2/NP long- and short-term deposit ratings to TBI Bank EAD (TBI Bank). The outlook on the bank's long-term deposit ratings is stable. At the same time, the rating agency has assigned a ba3 Baseline Credit Assessment (BCA) and Adjusted BCA to TBI Bank, as well as Baa3/P-3 long- and short-term Counterparty Risk Ratings (CRR) and Baa3(cr)/P-3(cr) long- and short-term Counterparty Risk (CR) Assessments.

TBI Bank is predominantly focused on unsecured consumer finance. The bank is headquartered in Bulgaria and additionally predominantly operates in Romania and Greece through branches, on the basis of the single European passport. The bank's total assets were BGN2.4 billion (€1.2 billion) as of June 2023. TBI Bank is fully-owned by 4Finance Holding S.A. (4Finance; corporate family rating B2 stable).

RATINGS RATIONALE

-- ASSIGNMENT OF BCA AND ADJUSTED BCA

TBI Bank's ba3 BCA primarily reflects its robust capital, high profitability and healthy liquidity, but also the high asset risks embedded in its unsecured consumer lending operations, the bank's limited business diversification and the governance risks stemming from 4Finance Group's relatively concentrated private ownership and complex organisational structure.

According to Moody's, TBI Bank's tangible common equity-to-risk-weighted assets ratio stood at 27.0% as of the end of 2022, sufficient to absorb sizeable unexpected losses. The bank also benefits from strong internal capital generation and earnings retention that balances ambitious growth targets and the more limited access to capital compared to publicly listed banks.

The bank's profitability – with a 2022 net income to tangible assets ratio of 3.4% – is also robust driven by high margin on its two main products, general purpose consumer loans and payment plan loans for purchases through merchants, and despite the high cost of risk.

TBI Bank faces high asset risk from its unsecured consumer lending focus to near-prime and prime borrowers, as well as its rapid credit growth (with a compound annual growth rate of 29% in the last 3 years). Cost of risk (loan loss provisions to average gross loans) averaged 5.4% between 2020 to 2022, while problem loans (defined as IFRS 9 stage 3 loans) were also relatively high at 9.4% of gross loans as of the end of 2022.

Somewhat mitigating these credit risks, Moody's notes the small loan tickets driving low borrower concentration and their relatively short-term maturity profile (average of 37 months as of end-2022), which allows the bank to adjust underwriting more quickly. There is also a degree of geographic diversification. According to 4Finance disclosures, TBI Bank's loan portfolio as of June 2023 is sourced mainly from Romania (58%) and Bulgaria (33%), with the balance coming from Greece and purchased online portfolios (from Lithuania). This makeup also drives the bank's overall 'Moderate –' Macro Profile.

The rating agency further notes the bank's limited earnings diversification inherent in its business model as a credit constraint, incorporated in a one notch negative monoline adjustment. Although the bank provides some loans to small and medium enterprises, its consumer lending business makes up more than three quarters of earnings. Therefore, profits may face heightened volatility because of segment-specific risks, including regulatory changes. For example changes to consumer protection regulation, such as interest rate caps, can suddenly challenge the bank's profitability in a given market, which is a key social risk for the bank.

4Finance Group's private ownership and complex legal structure is a governance risk, which is reflected in a one notch negative qualitative adjustment for opacity and complexity. 4Finance is ultimately owned by an individual holding a 29.5% share and a few other private shareholders each holding less than 10%. Board policies may be influenced by the main shareholders and there can be rapid changes in strategy and risk-taking. TBI Bank operates however, within the EU bank regulatory framework and oversight, which mitigates some of these ownership-related risks.

TBI Bank has healthy liquidity, with liquid banking assets at 28% of total banking assets as of the end of 2022, and is predominantly funded by granular retail deposits, the vast majority of which are within the EU deposit guarantee limit. However, TBI Bank is not a relationship bank and pays a premium to attract deposits and could therefore be more vulnerable to shocks in confidence. Market funding reliance is low at 3% of assets as of end-2022, which will increase moderately because of the bank's ongoing compliance with the minimum requirement for own funds and eligible liabilities (MREL).

TBI Bank's ba3 Adjusted BCA does not benefit from parental support uplift because 4Finance's standalone assessment of b2 is lower than the bank's own BCA.

-- ASSIGNMENT OF DEPOSIT RATINGS

TBI Bank's Ba2 long-term deposit ratings reflect the bank's ba3 Adjusted BCA and one notch of rating uplift from the application of Moody's Advanced Loss Given Failure (LGF) that considers the severity of losses faced by the different liability classes in resolution.

For depositors, the rating agency's Advanced LGF analysis indicates a low loss severity in the event of the bank's failure, which reflects the loss absorption provided by the volume of junior deposits themselves, and outstanding and future volumes of debt to satisfy the bank's final MREL targets. In its forward-looking analysis Moody's has considered only the minimum amount of debt that would be needed to meet requirements and maintain growth targets.

Given its limited systemic importance and the application of the EU Bank Recovery and Resolution Directive (BRRD) in Bulgaria, which limits the authorities' flexibility to provide support, TBI Bank's ratings do not benefit from government support uplift because Moody's expects the probability of government support, in case of need, to be low.

The assigned ratings also incorporate TBI Bank's environmental, social and governance (ESG) considerations, as per Moody's General Principles for Assessing Environmental, Social and Governance Risks methodology. TBI Bank has high exposure to governance risk, as mentioned above, reflected in a Governance Issuer Profile Score (IPS) of G-4. TBI Bank also faces high social risks, reflected in a Social IPS of S-4, stemming from heightened risk of regulatory disruption, such as from potential caps on fees and interest rates aimed at protecting the more vulnerable consumer segments. TBI Bank's governance risks drive an ESG Credit Impact Score of CIS-4, which indicates a material impact of ESG factors on the assigned ratings.

RATING OUTLOOK

The stable outlook on the long-term deposit ratings reflects Moody's expectation that the bank's performance and financial profile will remain broadly stable.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

TBI Bank's ratings could also be upgraded in the event of a significant improvement in the operating environments of

Romania and Bulgaria, if asset risk declines materially, and if it diversifies its business profile and governance risks abate.

The bank's deposit ratings could also be upgraded in case the bank issues and maintains substantial additional volumes of MREL debt or its liability structure changes in a way that provides a significantly larger loss-absorbing buffer for depositors.

TBI Bank's ratings could be downgraded if operating conditions deteriorate, leading to asset quality deterioration, and a decline in profitability, that also impacts capital generation and lowers the coverage of credit costs from income; funding volatility and resultant squeeze in liquidity would also place downward pressure on the ratings.

TBI Bank's deposit ratings could also be downgraded following a change in its liability structure that reduces the uplift provided by Moody's Advanced LGF, such as from lower volumes of MREL debt.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.