MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time deposit ratings of Baa2 to J&T Banka, a.s.; outlook stable

23 Jan 2023

Frankfurt am Main, January 23, 2023 -- Moody's Investors Service (Moody's) has today assigned Baa2/P-2 long- and short-term bank deposit ratings as well as Baa1/P-2 long- and short-term Counterparty Risk Ratings (CRR) to J&T Banka, a.s. (JTB), all in domestic and foreign currency. Concurrently, the rating agency has assigned a ba1 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as Baa1(cr)/P-2(cr) long- and short-term Counterparty Risk Assessments to JTB. The outlook on the bank's long-term deposit ratings is stable.

RATINGS RATIONALE

-- ASSIGMENT OF BCA

JTB's ba1 BCA reflects the bank's activities as pure corporate lender with a high proportion of foreign-currency lending, foremost specialized structured financings, which gives the bank a somewhat higher risk profile compared with other rated Czech banks. In assigning the bank's BCA, Moody's has considered JTB's geographical footprint, with Czech Republic being its core market, but also taking into account its extensive cross border financings within the European Union and beyond. JTB's BCA is constrained by its rather undiversified business model because of its high reliance on corporate lending in terms of revenues.

JTB's asset risk is high, due to the large share of complex, structured financings particularly entailing single borrower and industry concentration risks. The rating agency's assessment also considers the bank's above-average level of problem loans and weak reserve coverage; as well as the risks associated with the bank's significant derivative exposure owed to the high share of foreign-currency lending.

JTB's core capitalization has recently strengthened, benefiting from a €120 million capital injection by the bank's sole shareholder J&T Finance Group SE (JTFG). The capital increase funded the bank's growth during 2022 and ensured JTB maintained a sound buffer above the 10.35% regulatory required minimum as of year-end 2022, with a Common Equity Tier 1 ratio of close to 14% post capital injection, according to Moody's estimates. Nevertheless, JTB's capitalization remains vulnerable due to the above-peer-average share of unprovisioned problem loans and its exposure to Russia and Ukraine.

The bank's sound level of profitability is well supported by both its strong franchise in the high-margin corporate business and strong operating efficiency, with a cost-to-income ratio of 47%. The bank's large derivative exposure to hedge foreign-currency risk, however, causes some volatility in bottom-line profitability.

JTB's funding profile benefits from a large customer deposit base, of which around 80% are gathered from retail customers, with a high share of term deposits. Market funding is marginal but likely to increase moderately to comply with the bank's minimum requirement for own funds and eligible liabilities (MREL).

A highly defensive loan-to-deposit ratio of around 60% and a Net Stable Funding ratio of above 130% underline that the bank's relative strength is its liquidity profile, even considering Moody's expectation of a decline in the bank's pool of liquid assets over the next two years, although from a high level.

The assigned ratings also incorporate JTB's environmental, social and governance (ESG) considerations, as per Moody's General Principles for Assessing Environmental, Social and Governance Risks Methodology. Moody's assessment of JTB's exposure to governance risks is neutral to low, reflected in a Governance Issuer Profile Score (IPS) of G-2. This assessment is supported by an appropriate financial strategy and risk management with solid capitalization, despite business model induced concentrations and higher than peers' asset risk, as well as a credible and experienced management. While JTB is ultimately owned by two individuals through JTFG, its parent holding, which represents a highly concentrated ownership structure, the bank does not have sizable transactions with its beneficial shareholders or companies affiliated with them.

-- ASSIGNMENT OF DEPOSIT RATINGS

JTB's Baa2 long-term deposit ratings reflect the bank's ba1 BCA. Moody's assess the probability of affiliate support from JTFG as high, which, however, does not translate into any uplift from JTB's BCA. Consequently, JTB's Adjusted BCA is ba1. Although it is Moody's view that JTFG would support the bank in case of need - as recently demonstrated - given the bank's strategic importance to the group, the bank cannot rely on the level of such support given the multiple point of entry (MPE) resolution strategy approach applied to the group and the capacity of JTFG. The parent's and JTB's respective intrinsic financial strengths are considered similar.

The bank is subject to the EU Recovery and Resolution Directive (BRRD), which Moody's considers an operation resolution regime; its Advanced Loss Given Failure (LGF) analysis takes into account the severity of losses faced by the different liability classes in resolution. The bank's long-term deposit ratings incorporate Moody's expectation of JTB's future loss absorbing debt issuances to comply with its final MREL targets. This results in two notches of rating uplift, indicating a very low loss given failure for depositors. Further, because of the bank's small market share in the domestic banking system, Moody's assumes a low probability of support from the Government of Czech Republic (Aa3 Negative), which does not result in any additional rating uplift for the bank's long-term deposit ratings, taking into account the bank's small market share in the domestic banking system and constrains under the BRRD on governments to provide support to ailing banks.

OUTLOOK

The outlook on JTB's long-term deposit ratings is stable, reflecting Moody's expectation of a steady performance of financial fundamentals over the next 12-18 months despite more difficult operating conditions.

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

An upgrade of JTB's long-term deposit ratings could be prompted by an upgrade of its BCA or because of a higher rating uplift resulting from Moody's Advanced LGF analysis.

Upward pressure on JTB's BCA could be exerted by an improvement in solvency indicators, achieved by (but not limited to) a sustained strengthening of its risk-weighted core capitalization, a significant de-risking of its loan book following a material reduction of concentration risks and a scale-back of its derivative exposure upon reduction of its currency mismatch. Alternatively, JTB's BCA could be upgraded if the bank substantially diversifies its business and customer lines without taking undue strategic and operational risks as a result of such a shift.

Any additional volume of subordinated instruments following the issuance of bail-in able debt, implying higher protection for senior creditors and a lower loss-given-failure in a resolution, could lead to additional uplift for the deposit ratings.

A downgrade of JTB's deposit ratings could be triggered by a downgrade of its BCA; and a reduction in the volume of deposits or subordinated instruments in the liability structure of the bank, which could imply a possible higher loss-given-failure in a resolution as a result of Moody's Advanced LGF analysis.

JTB's BCA could be downgraded in case of a material scale-back of the bank's liquid assets beyond its current targets, and significant increase in market funding. A significant inflow of problem loans and material erosion of its capital base, also as a result of higher-than expected losses related to its Russian subsidiary, could also exert negative pressure on the BCA.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/api/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.

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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_1288235.

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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