JSC Silk Bank

Rating report

Issuer

B-

Outlook

Stable

Lead Analyst

Alvaro Dominguez Alcalde

a.dominguez@scoperatings.com

Related research

Scope affirms JSC Silk Bank 'B-' issuer rating with Stable Outlook, May 2025

Table of content

Summary and Outlook

Bank's issuer rating of B- reflects the following assessments:

Business model assessment: Focused (Low). Silk Bank is a niche commercial bank with total assets of GEL 226m (approx. EUR 74m) operating exclusively in Georgia. The bank is currently engaged in a profound strategic transformation of its business model to develop its franchise in the highly competitive retail, consumer banking and micro segments, mainly via digital platforms. The assessment reflects the bank's limited product diversification, albeit increasing, small market share and limited execution track record.

Operating environment assessment: Constraining (High). The assessment reflects the adequate Georgian banking regulations aligned to Basel III standards as well as the good credit fundamentals of the domestic banking sector.

Long-term sustainability assessment (ESG factor): Developing. Silk Bank's strategic initiatives to develop digital capabilities is the main driver of this assessment. The bank launched its digital channels in July 2024 and aims to operate as an innovative digital bank, investing in the development of its digital infrastructure and capabilities.

Earnings and risk exposures assessment: Constraining (-1). The lack of profitability is a constraining factor for the rating. The implementation of the strategic change is still halfway. The bank has been loss making in the period 2022-Q1 2025 and the bank is unlikely to break even before 2026. Silk Bank's asset quality is currently sound, but cost of risk is structurally expected to increase due to its focus on consumer lending. .

Financial viability assessment: Adequate. Silk Bank's capital buffers against minimum requirements have declined materially in the last years but are still adequate. Scope considers that maintaining buffers sufficiently above the minimum requirement levels is a prerequisite given the bank's currently weak operating performance and the material execution risk of the business plan. Liquidity metrics remain above the minimum regulatory requirements. The LCR comfortably stands at 227% but the NSFR of approx. 127% is only at just sufficient levels at Q1 2025. The expected further growth of the loan book will continue to pressure liquidity.

The Stable Outlook reflects Scope's view that the risks to the current rating are balanced.

The upside scenarios for the rating and Outlook:

- A track record of sustained positive earnings
- A successful business diversification through a greater product offering and enhanced customer franchise
- Sustained organic capital generation and strengthened and stable liquidity that is proactively managed and grows in line with the bank's strategy

The downside scenarios for the rating and Outlook:

- A material erosion of capital and/or liquidity buffers
- A material deterioration of asset quality metrics, or a riskier financial profile stemming, for instance, from a higher risk appetite or the ambition to growth faster than expected
- Heightened strategic execution risk which could jeopardise the long-term viability of the bank
- A significant deterioration in the operating environment for Georgian banks and microbanks, which could result from prolonged political uncertainty and tensions

Table 1: Rating drivers

<table>
<tr><th colspan="2">Rating drivers</th><th colspan="30">Assessment</th></tr>
<tr><td rowspan="7">STEP 1</td><td>Operating environment</td><td colspan="6">Very constraining</td><td colspan="6">Constraining</td><td colspan="6">Moderately supportive</td><td colspan="6">Supportive</td><td colspan="6">Very supportive</td></tr>
<tr><td>Low/High</td><td colspan="15">Low</td><td colspan="15">High</td></tr>
<tr><td>Business model</td><td colspan="6">Narrow</td><td colspan="6">Focused</td><td colspan="6">Consistent</td><td colspan="6">Resilient</td><td colspan="6">Very resilient</td></tr>
<tr><td>Low/High</td><td colspan="15">Low</td><td colspan="15">High</td></tr>
<tr><td>Initial mapping</td><td colspan="30">b</td></tr>
<tr><td>Long-term sustainability</td><td colspan="6">Lagging</td><td colspan="6">Constrained</td><td colspan="6">Developing</td><td colspan="6">Advanced</td><td colspan="6">Best in class</td></tr>
<tr><td>Adjusted anchor</td><td colspan="30">b</td></tr>
<tr><td rowspan="4">STEP 2</td><td>Earnings capacity & risk exposures</td><td colspan="6">Very constraining</td><td colspan="6">Constraining</td><td colspan="6">Neutral</td><td colspan="6">Supportive</td><td colspan="6">Very supportive</td></tr>
<tr><td>Financial viability management</td><td colspan="5">At risk</td><td colspan="5">Stretched</td><td colspan="5">Limited</td><td colspan="5">Adequate</td><td colspan="5">Comfortable</td><td colspan="5">At risk</td></tr>
<tr><td>Additional factors</td><td colspan="6">Significant downside factor</td><td colspan="6">Material downside factor</td><td colspan="6">Neutral</td><td colspan="6">Material upside factor</td><td colspan="6">Significant upside factor</td></tr>
<tr><td>Standalone rating</td><td colspan="30">b-</td></tr>
<tr><td>STEP 3</td><td>External support</td><td colspan="30">Not applicable</td></tr>
<tr><td colspan="2">Issuer rating</td><td colspan="30">B-</td></tr>
</table>

Table 2: Credit ratings

Issuer	Rating type	Credit rating	Outlook
JSC Silk Bank	Issuer rating	B-	Stable

1. Business model

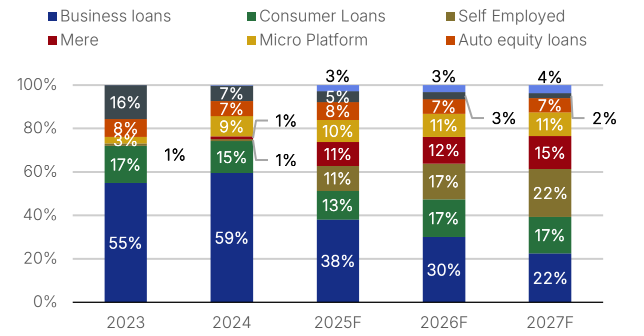
'Focused-Low' business model assessment

Silk Bank is a small domestic bank, albeit growing rapidly, with approx. GEL 226m in total assets as of March 2025 and less than 1% market share in terms of assets and net loans. Its loan portfolio is mainly made of loans to micro and small and medium enterprises (MSME), representing approx. 70% of the loan book, as well as consumer loans (approx. 15%) as of December 2024. The bank launched MERE, its Buy now pay later card in 2024 and launched crypto services in 2025.

The bank is less present across Georgia than most of its competitors, but it intends to become a challenger digital bank, developing digital distribution channels that will contribute to its customer reach. It ambitions to reach 300k active customers and expand internationally in the medium term.

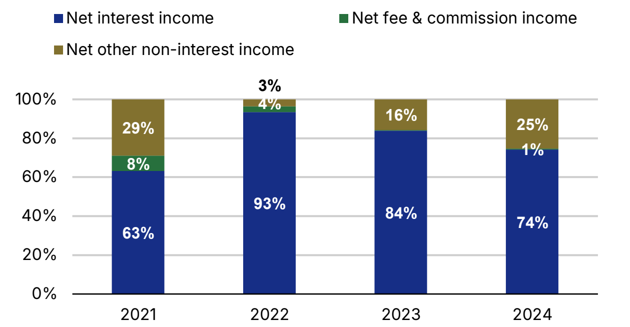
The bank is engaged in a profound transformation of its business model, both in terms of product diversification and customer base. It wants to focus on niche segments, which are currently underserved by domestic banks, such as: i) self-employed and entrepreneurs; ii) Georgian nationals abroad; iii) Micro-enterprises; iv) underbanked population; and v) international visitors.

Figure 1: Silk Bank's expected loan book split by product type (2023-2027F)



Source: Company data, Scope Ratings

Figure 2: Silk Bank's revenues split by type

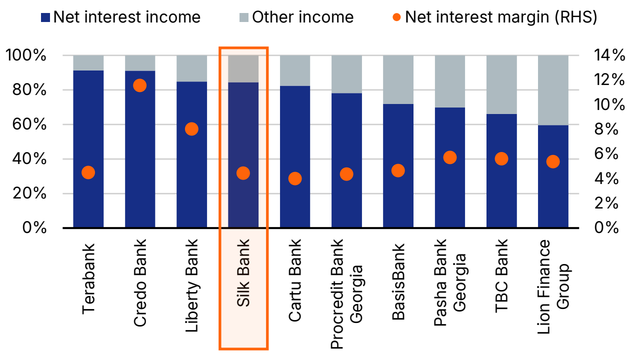


Source: Company data, Scope Ratings

Silk ambitions to develop a business model mainly relying on interest income and wants to attract clients by offering lower fees and commissions than competitors.

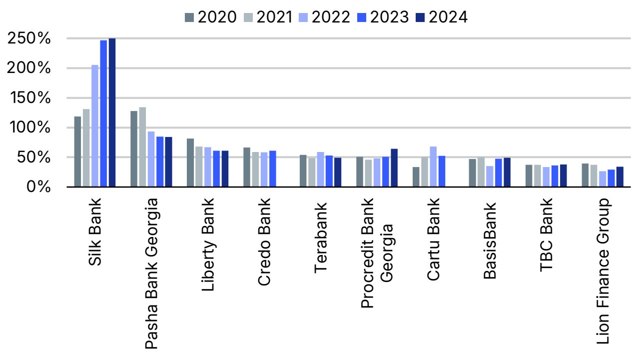
The bank's strategic business goals are: i) achieving stable profitability thanks to rapidly growing loan portfolio and customer base; ii) increasing market share in the micro and retail banking segments; and iii) enhancing financial service accessibility for individuals with limited current usage of banking services. While competing on price, the bank also claims a competitive advantage in its personalised services due to its smaller size, its capacity to address swiftly customers' needs given its streamlined decision-making process.

Figure 3: Revenue profile – peer comparison



Note: Three-year averages based on 2022-2024
Source: SNL, Scope Ratings

Figure 4: Cost to income, peer comparison



Source: SNL, Scope Ratings

2. Operating environment

Focus on Silk Bank's country of domicile: Georgia (BB/Negative)

Economic assessment:

- Georgia is a small emerging economy that still lags regional peers on some economic indicators, despite gradual improvements and reforms in recent years. Between 2014 and 2024, Georgia real GDP grew by 5.3%, more than its neighboring countries. Current social tensions, however, stemming from a political crisis and contested election, raise economic uncertainty and remain an area of attention as they may impact future economic growth. As of 2024, Georgia nominal GDP and GDP per capita amounted to approx. USD 33bn and USD 9K, respectively.
- The Georgian economy is undergoing a strong recovery and has robust medium-run growth potential. Growth in recent years has been well above this trend rate, benefiting from strong services-sector exports, financial inflows, transit trade and arrivals of skilled workers from Russia, Belarus and Ukraine. After very strong real growth in past years and an estimated 9.4% growth in 2024, growth is expected to stay strong at 7.5% in 2025 before moderating to 6.5% in 2026 according to Scope. However, the country's economy is still vulnerable to external shocks due to its small size, high dependence on external financing and high dollarization.
- Scope affirmed the Republic of Georgia at BB but revised the Outlook to Negative in January 2025. The recent outlook change to negative considered the weakening of democratic institutions, the geopolitical risks for Georgia after Russia's full-scale war on neighbouring Ukraine and increased external-sector risks given reduced reserves, exchange-rate volatility and curtailed access to the International Monetary Fund.

Soundness of the banking sector:

- Commercial banks dominate the Georgian domestic financial sector, accounting for more than 90% of assets as of December 2024. Pension funds, insurance companies, MFOs and loan issuing entities (LIEs) together account for less than 10% of total assets.
- As of end of March 2025, 17 banks operate in Georgia. The Georgian banking sector is highly concentrated with the two largest universal banks dominating the domestic market, representing over 75% of both total assets and total lending in the banking sector as of March 2025.
- The domestic banking system is characterised by a moderate level of cost efficiency and improving asset quality indicators. Non-performing loans continue to decline with an average NPL ratio standing approx. at 1.5% as of March 2025.
- The banking sector has traditionally exhibited high profitability, with an average RoE of about 25% since 2022 due to overall lending volume growth and increasing net interest income.
- Georgian commercial banks are on average well capitalised, maintaining satisfactory capital buffers above minimum requirements.
- Georgia's microbanks are subject to more complex and stringent regulatory requirements than MFOs as they have to meet the same capital requirements as domestic commercial banks, with a few exceptions. Georgian microbanks are also subject to main bank liquidity key performance indicators, such as the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).
- We expect Georgian new microbank sector to increase and strengthen the competitiveness of the country's financial sector. It will increase the number of financial products and services available to customers and enhance this niche market to the benefit of entrepreneurs and the self-employed.

Key economic indicators	2021	2022	2023	2024E	2025F
Real GDP growth, %	10.6	11.0	7.8	9.4	7.5
Inflation, % change	9.6	11.9	2.5	1.1	3.8
Unemployment rate, %	20.6	17.3	16.4	13.9	14.5
Policy rate, %	10.5	11.0	9.5	8.0	8.0
Public debt, % of GDP	49	39	39	36	36
General government balance, % of GDP	-6.0	-2.2	-2.3	-2.3	-2.4

Source: Scope Ratings

Banking system indicators	2019	2020	2021	2022	2023
ROAA, %	2.9	1.4	3.1	3.3	3.6
ROAE, %	20.7	10.5	22.4	22.5	24.3
Net interest margin, %	5.3	4.4	4.8	5.2	5.6
CET1 ratio, %	13.3	12.5	14.3	17.3	22.9
Problem loans/gross customer loans, %	3.5	5.3	3.6	2.9	2.6
Loan-to-deposit ratio, %	120.7	110.2	115.6	99.9	104.3

Source: SNL, Scope Ratings

3. Long-term sustainability (ESG-D)

'Developing' long-term sustainability assessment

We consider Silk Bank's exposure to digital and governance factors to be high, because of the operational risks attached to the bank's objective to operate as challenger digital bank and the highly concentrated shareholding structure and potential influence on the conduct of the strategy.

Digitalisation

Developing digital capabilities is key for Silk Bank which intends to operate as a challenger in digital banking within the Georgian financial sector, mirroring international models of fintechs and digital banks. They aim to distinguish themselves by providing a better customer-service experience, faster approvals and a more digital-friendly approach. The bank has decided to fully digitalise most of its products and services offered to its customers. It has made significant investments to develop its digital infrastructure and capabilities, from processes to systems, tools, platforms and technologies. Silk Bank launched its digital channels in July 2024 and started its marketing campaign in September 2024 which has already begun to reap some fruits, reaching more than 160k application downloads and approx. 72k application users as of January 2025.

Governance

We consider governance issues to be adequately managed. The bank has a two-tier corporate governance structure, with a supervisory board comprising five members, of which three are independent members, including the chairman, and a board of directors comprising top management members of the bank. Two committees, on risk management and audit, report to the bank's supervisory board.

Environment

Sustainability initiatives are part of the new strategy and include an optimised usage of resources and minimal energy consumption. Following the launch of its first ESG reporting, Silk Bank has strengthened its sustainability focus in line with National Bank of Georgia's requirements. The bank intends to spend approx. 5% of its net income on CSR projects focused on environmental sustainability and education.

Social

As of June 2025, Silk Bank operated with a small branch network compared to peers (three branches in total). This light setup reflects its digital strategic focus. There are currently no plans for branch expansion and the bank closed 3 branches in H1 2025 due to efficiency reasons. Silk Bank will, however, increase its headcount in the medium term, specifically in customer facing roles, to cope with the expected rapid growth of the lending book and number of customers.

Figure 5: Long-term sustainability overview table[1]

	Industry level			Issuer level						
	Materiality			Exposure			Management			
	Low	Medium	High	Low	Neutral	High	Weak	Needs attention	Adequate	Strong
E Factor		◇			◇				◇	
S Factor	◇				◇				◇	
G Factor			◇			◇			◇	
D Factor			◇			◇			◇	

Source: Scope Ratings

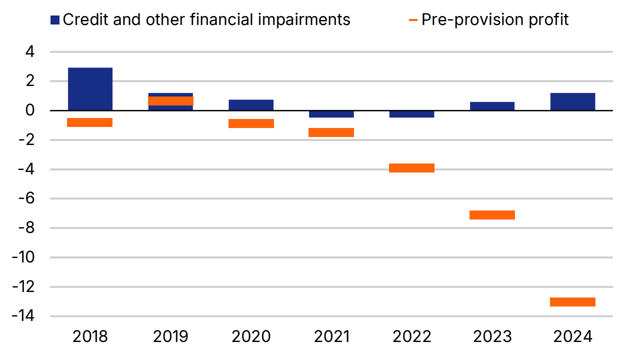
[1] The overview table illustrates how each factor informs our overall assessment. Materiality refers to our assessment of the credit relevance of each factor for the banking industry. Exposure refers to what extent the bank is exposed to risks or benefits from opportunities compared to peers, given its business model and countries of operation. Management refers to how we view the bank's navigation through transitions.

4. Earnings capacity and risk exposures

'Constraining' earnings capacity and risks exposures' assessment

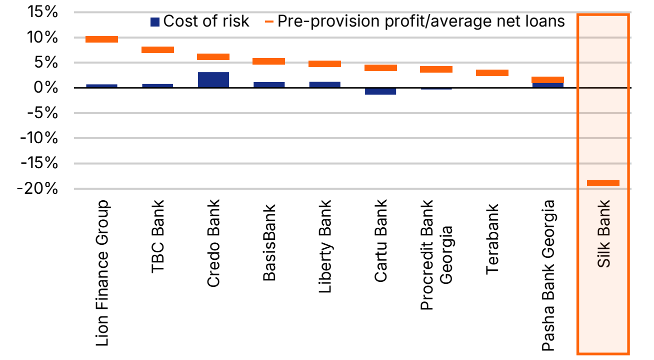
Silk Bank's medium-term plan focuses on strengthening its digital capabilities to increase automation and achieve higher operational efficiency, including synergies within the broader Silk Road Group. Silk Bank was loss making during the period 2022-Q1 2025 and is not expected to break even before 2026. Costs will absorb a large portion of revenues in 2025 and 2026 despite improving its revenues. Its high-cost base reflects ongoing investments into its digital platform, high payroll costs as well as marketing and client acquisition expenses that continue to pressure its profitability.

Figure 6: Pre-provision income and provisions (GEL m)



Source: SNL, Scope Ratings

Figure 7: Pre-provision income and CoR - Peer comparison

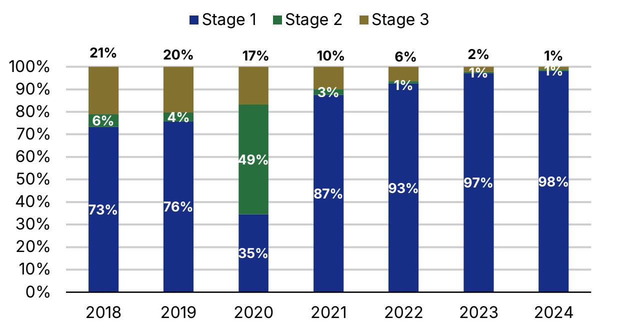


Note: Three-year averages based on 2022-2024.
Source: SNL, Scope Ratings

Silk bank's asset quality is currently sound but its plan to increase the share of unsecured consumer loans, which by nature are higher risk compared to guaranteed or collateralised loans, asset quality will remain an area of attention. On a positive note, the portfolio of consumer loans should remain very granular.

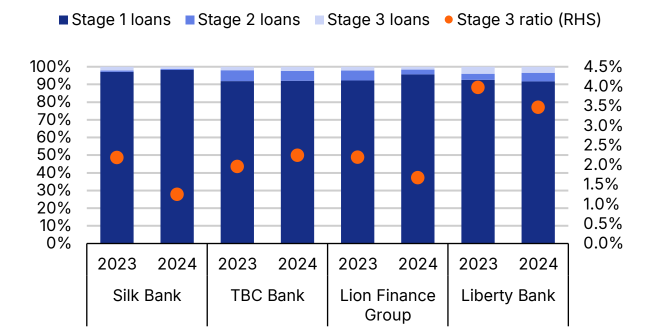
Cost of risk will increase and be slightly higher than peers given the plan to grow not only in consumer and auto loans but also riskier categories of clients such as micro-enterprises and individual entrepreneurs and individual entrepreneurs. Therefore, we expect the bank's ability to generate stable and growing earnings to be a result of the successful implementation of the strategic change, still at halfway.

Figure 8: Asset quality – loan staging (2018-2024)



Source: Company data, Scope Ratings

Figure 9: Asset quality - peer comparison



Source: SNL, Scope Ratings

5. Financial viability management

'Adequate' financial viability management assessment

Silk Bank's buffers against minimum capital requirements have eroded materially in the last years but are still adequate. The bank's is not able to generate capital organically driven by ongoing investments into its digital transformation. We also expect Silk Bank's capital ratios to reduce further as excess capital is needed to fund the rapid expansion of the loan book. As of Q1 2025, capital buffers adequately ranged between 7-13 p.p.

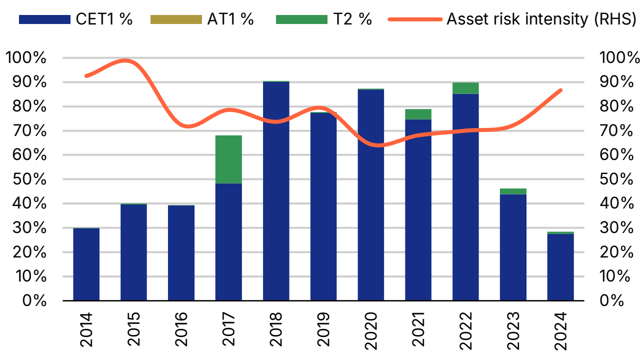
The bank's aims to maintain adequate buffers above its minimum capital requirements in the medium term which is a prerequisite given the bank's limited size, albeit increasing, and the material execution risk of the business transformation. Shareholder or other external support in the form of capital injections may allow to maintain sufficient buffers and are a key part of the bank's strategic plan.

Silk bank received a GEL 14m (approx. EUR 5m) recapitalization by the bank's three shareholders in 2024 which injected another GEL 18m (approx. EUR 6m) in 2025 to address capital pressures. As the strategy is to transform the bank into a profitable and self-sustained business unit, we do not factor potential extraordinary shareholder support as a source of rating uplift.

Silk Bank's very comfortable liquidity has steadily declined in recent quarters, reflecting the rapid growth of its loan book. Silk Bank widely meets its liquidity requirement, with a combined liquidity coverage ratio (domestic and foreign currency) of approx. 227% as of Q1 2025 (vs 479% in Q1 2024), well above the 100% minimum ratio required by the National Bank of Georgia. Scope expects Silk Bank's current liquidity metrics to continue declining over the medium term but remaining sufficiently above regulatory minimum requirements.

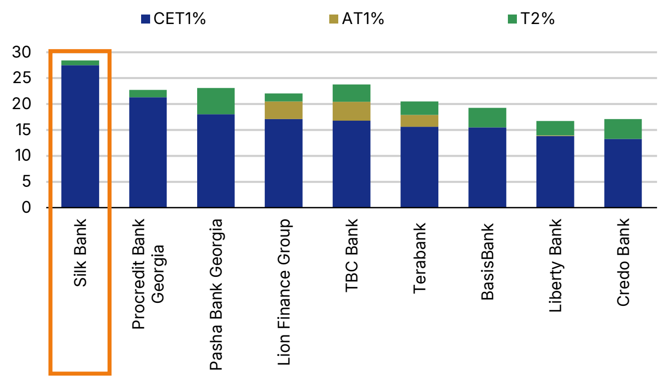
Silk Bank plans to fund the rapid growth of its loan book with growth of its customer deposits which will likely put pressure on net interest margins and therefore limit the bank's ability to generate higher revenues in the short term. The growing diversification of the customer and funding base will help to mitigate refinancing risk resulting from concentrated single name deposits seen in the past. The bank is on track to become self-funded, but we also draw comfort from the ability to draw on intra-group funding while this goal is not yet fully met.

Figure 10: Capital profile



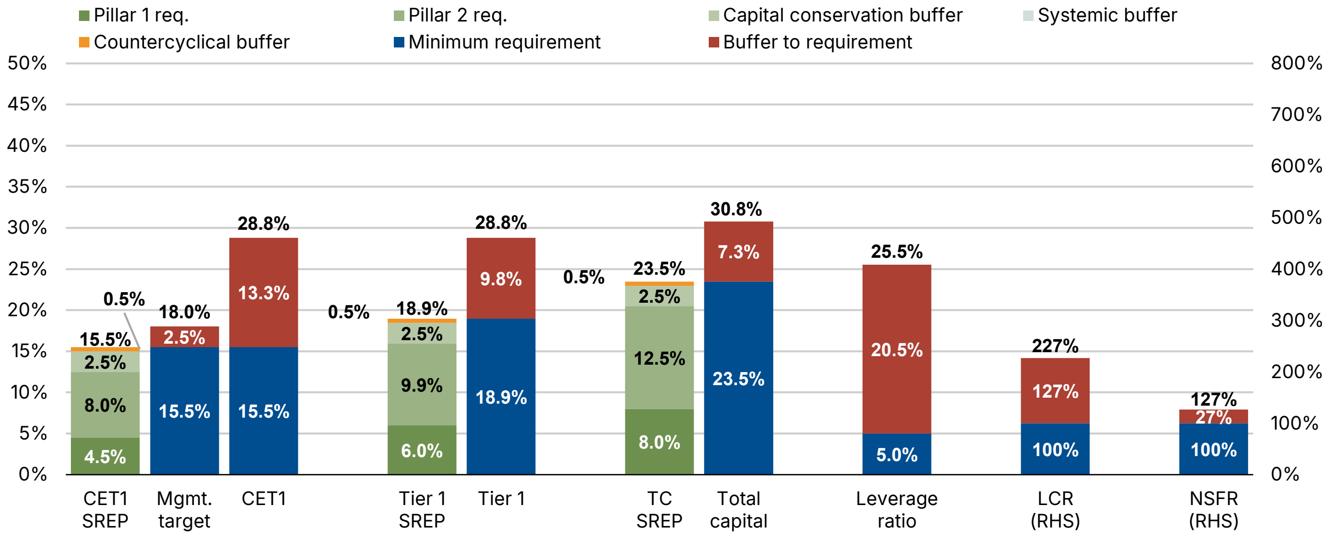
Source: SNL, Scope Ratings

Figure 11: Capital profile – peer comparison (YE 2024)



Source: SNL, Scope Ratings

Figure 12: Overview of distance to requirements as of Q1 2025



Source: Company data, Scope Ratings

Appendix 1. Selected financial information – JSC Silk Bank

	2020Y	2021Y	2022Y	2023Y	2024Y
Balance sheet summary (GEL'000)					
Assets					
Cash and interbank assets	6,802	16,417	12,363	54,107	32,909
Total securities	41,902	40,845	32,185	27,214	24,463
of which, derivatives	NA	NA	NA	NA	NA
Net loans to customers	10,943	14,938	18,797	55,240	125,473
Other assets	27,847	25,427	24,411	30,528	40,182
Total assets	**87,494**	**97,627**	**87,756**	**167,089**	**223,027**
Liabilities					
Interbank liabilities	12,500	23,258	10,027	298	4,134
Senior debt	0	0	0	0	0
Derivatives	NA	NA	NA	NA	NA
Deposits from customers	9,406	9,575	14,238	98,648	148,326
Subordinated debt	0	2,501	2,879	2,879	2,132
Other liabilities	2,635	888	3,622	6,047	6,591
Total liabilities	**24,541**	**36,222**	**30,766**	**107,872**	**161,183**
Ordinary equity	62,953	61,405	56,990	59,217	61,844
Equity hybrids	0	0	0	0	0
Minority interests	0	0	0	0	0
Total liabilities and equity	**87,494**	**97,627**	**87,756**	**167,089**	**223,027**
Core tier 1/ common equity tier 1 capital	49,016	49,632	48,511	53,096	52,965
Risk-weighted assets	56,341	66,480	57,240	120,853	193,115
Income statement summary (GEL'000)					
Net interest income	4,285	3,334	3,441	4,130	6,517
Net fee & commission income	268	414	89	17	49
Net trading income	267	1,323	39	702	2,071
Other income	0	0	0	0	0
Operating income	**4,820**	**5,071**	**3,569**	**4,849**	**8,637**
Operating expenses	-5,565	-6,263	-7,583	-11,955	-22,020
Pre-provision income	**-745**	**-1,192**	**-4,014**	**-7,106**	**-13,383**
Credit and other financial impairments	-744	485	469	-592	-1,207
Other impairments	0	0	0	0	0
Non-recurring income	0	0	167	74	116
Non-recurring expense	-146	-309	0	0	0
Pre-tax profit	**-1,635**	**-1,016**	**-3,378**	**-7,624**	**-14,474**
Income from discontinued operations	554	42	-11	480	105
Income tax expense	11	55	-537	-149	2,953
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	0	0	0	0	0
Net profit attributable to parent	**-1,070**	**-919**	**-3,926**	**-7,293**	**-11,416**

Source: Company info, Scope Ratings

Appendix 2. Selected financial information – JSC Silk Bank

	2020Y	2021Y	2022Y	2023Y	2024Y
Funding and liquidity					
Net loans/ deposits (%)	116.3%	156.0%	132.0%	56.0%	84.6%
Liquidity coverage ratio (%)	236.0%	355.0%	239.4%	656.3%	289.8%
Net stable funding ratio (%)	188.0%	181.0%	167.5%	159.8%	122.5%
Asset mix, quality and growth					
Net loans/ assets (%)	12.5%	15.3%	21.4%	33.1%	56.3%
Problem loans/ gross customer loans (%)	16.7%	9.9%	6.4%	2.2%	1.3%
Loan loss reserves/ problem loans (%)	67.9%	78.2%	72.1%	124.4%	149.0%
Net loan growth (%)	-16.8%	36.5%	25.8%	193.9%	127.1%
Problem loans/ tangible equity & reserves (%)	3.2%	2.6%	2.2%	2.1%	2.6%
Asset growth (%)	6.8%	11.6%	-10.1%	90.4%	33.5%
Earnings and profitability					
Net interest margin (%)	7.3%	5.1%	5.1%	4.1%	4.1%
Net interest income/ operating income (%)	88.9%	65.7%	96.4%	85.2%	75.5%
Net fees & commissions/ operating income (%)	5.6%	8.2%	2.5%	0.4%	0.6%
Cost/ income ratio (%)	-115.5%	-123.5%	-212.5%	-246.5%	-254.9%
Impairment on financial assets / pre-impairment income (%)	99.9%	-40.7%	-11.7%	8.3%	9.0%
Loan loss provision/ average gross loans (%)	-4.8%	3.4%	2.1%	-1.2%	-1.4%
Return on average assets (%)	-1.3%	-1.0%	-4.2%	-5.7%	-5.9%
Return on average equity (%)	-1.7%	-1.5%	-6.6%	-12.6%	-18.9%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	87.0%	74.7%	84.8%	43.9%	27.4%
Tier 1 capital ratio (%, transitional)	87.0%	74.7%	84.8%	43.9%	27.4%
Total capital ratio (%, transitional)	87.3%	79.0%	90.5%	46.3%	28.3%
Leverage ratio (%)	64.0%	57.0%	59.4%	32.0%	24.0%
Asset risk intensity (RWAs/ total assets, %)	64.4%	68.1%	65.2%	72.3%	86.6%

Source: Company info, Scope Ratings

Lead Analyst

Alvaro Dominguez Alcalde
a.dominguez@scoperatings.com

Team Leader

Marco Troiano, CFA
+39 02 3054 4993
m.troiano@scoperatings.com

Related research

Georgia: microbank law to enhance financial-sector competitiveness and support growth, February 2025

Applied methodologies

Financial Institutions Rating Methodology, January 2025

Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts
scoperatings.com

Disclaimer