

# Credit Rating Announcement



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11<sup>th</sup> September 2015

## CI Affirms Ratings of Burgan Bank; Removes 'Negative' Outlook

**Capital Intelligence (CI)**, the international credit rating agency, today announced that it has affirmed the Financial Strength Rating (FSR) of Burgan Bank A.Ş. (Burgan Bank Turkey, or BBT) based in Istanbul, Turkey, at 'BB', in light of overall sound asset quality and good coverage, a sound capital base and the access to and use of medium/long-term (MLT) funding. Ratings are constrained by tight liquidity and continued low profitability.

At the previous review cycle a 'Negative' Outlook was added to the FSR rating because of deteriorated liquidity, but it was observed that CI had an 'expectation that the Bank's new ownership and management will engineer some remedy to [liquidity] and other constraining factors'. While that expectation has not yet materialised in respect of liquidity, improvements in other areas (asset quality, capital and profitability) are sufficient to warrant a return of the Outlook from 'Negative' to 'Stable'. The Support Rating remains at '2' in view of the demonstration of support and the very high expectation of support from the Bank's majority shareholder.

For the same reasons, the Long-Term Foreign Currency Rating is affirmed at 'BB' and the Short-Term Foreign Currency Rating at 'B', both with a 'Stable' Outlook.

BBT is one of the smaller banks in the large Turkish banking sector; it is a corporate, commercial bank and SME bank. In December 2012, it was acquired by Kuwait's Burgan Bank S.A.K. With the current ownership came an adjustment in strategy, whereby the Bank is de-emphasising efforts to obtain retail lending business and emphasising its core strategy designed to retain its corporate/commercial character.

Despite a high non-performing loan (NPL) net accretion rate in both 2014 and the first half of this year, asset quality remains very sound, with a low NPL ratio, adequate coverage by loan-loss reserves and a strong effective coverage ratio. The latter is the result of a solid capital base, including a strong Basel III capital adequacy ratio (CAR). In 2014, the Kuwaiti parent injected Tier 1 Capital, following its subscription of a subordinated debt issue in 2013, and continues to support the Bank through long-term financing.

Because of its previous ownership, the Bank has established good working relationships with supranational institutions which provide MLT funding for the Bank's SME borrowing customer base, and it has recently deepened those relationships. As a result, the Bank has one of the best MLT funding profiles in its peer group. The existence of that funding source ameliorates a liquidity profile which is nonetheless extremely tight. Recent rapid loan growth has been financed partly by sound deposit growth, but also partly by a shift in the asset mix through a significant reduction in the stock of Turkish government securities. The result has been that BBT posts loan-based liquidity ratios among the highest in the sector (although those ratios are exacerbated somewhat by a sizeable stock of leasing receivables included in the loan portfolio), a modest liquid asset ratio, and a negative net liquid asset ratio.

One benefit of the recent robust loan growth, coupled with the changed asset mix, has been an improved net interest income. At the same time, revived capital markets have boosted the Bank's asset management fees and brokerage commissions, providing healthy increases in the Bank's gross income. Costs remain under control, and despite the high NPL net accretion rate, the cost of risk has been declining. The combination of these factors has turned around the Bank's profitability picture after two years of net losses. While profitability ratios still lag those of BBT's peers, the improvements have been substantive.

Burgan Bank S.A.K. was established in 1977 and is the emirate's third-largest conventional commercial bank by assets. It is a part of the Burgan Bank Group and is a subsidiary of KIPCO, one of the Middle East's largest holding companies. Burgan Bank Group operates banks in Algeria, Iraq, Jordan, Tunisia and in Kuwait through its flagship Burgan Bank, whose shares are listed on the Kuwait Stock Exchange.

As of year end 2014, Burgan Bank had total assets of (equivalent) USD26.7 billion and shareholders' equity of (equivalent) USD3.3 billion.

Originally established in 1989 as an investment bank, BBT posted total assets at year end 2014 of TRY9.4 billion (USD equivalent 4.0 billion), ranking it as number 24 of the country's 51 banks by total assets. At year end it operated 58 branches (2013: 60) and employed a staff of 1,214 (2013: 1,124).

#### CREDIT RATINGS

Foreign Currency		Financial Strength	Support	Outlook	
LT	ST			FC	FSR
BB	B	BB	2	Stable	Stable