Burgan Bank would like to indicate that Capital Intelligence rating agency has affirmed Burgan Bank Turkey Rating as follows:

Quote:

CI Affirms Ratings of Burgan Bank Turkey; FSR Outlook Lowered To 'Negative'

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 very sound coverage – as well as of the Bank's access to and use of MLT funding. Ratings are constrained by tight liquidity and high dependence on interbank funding, weakening capital ratios, high gross exposure to Forex-denominated assets and liabilities and net losses reported in two successive years, owing largely to a high cost structure.

Due to deterioration in liquidity in 2013, but with an expectation that the Bank's new ownership and management will engineer some remedy to that and other constraining factors, the FSR Outlook was lowered to 'Negative' from 'Stable.' In fact, Q1 2014 figures indicate a significant improvement in liquidity, but there remains much progress to be made in the areas of cost control and asset quality. The Support Rating remains at '2' in view of the very high expectation of support from its strong majority shareholder Kuwait's Burgan Bank S.A.K. 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 a corporate, commercial bank and SME bank previously owned (2007 to 2012) by EFG Eurobank Ergasias of Greece. In December 2012, it was acquired by Kuwait's Burgan Bank. Following the injection of capital by its former parent, the Bank spent several years making use of the resultant liquidity by increasing its loan book. With the current ownership came an adjustment to that strategy, whereby both loans and government securities were increased last year.

Unfortunately, the timing of that change coincided with a year which saw a meagre increase in customer deposits and a concomitant increased dependence on interbank deposits. The result was a significant deterioration in the Bank's liquidity, including the peer group's highest net loans to stable funds ratio and its lowest net liquid asset ratio. However, the Bank's maturity gap is relatively modest compared to its peers, owing to the Bank's extensive access to MLT funding and to the support extended by Burgan Bank S.A.K. in the form of subordinated debt.

In 2013, the Bank improved its overall asset quality significantly, as a large stock of non-performing loans (NPLs) was sold and the gross loan portfolio grew at a very robust pace. While restructured and rescheduled loans became a slightly larger percentage of gross loans, that share still compares favourably to that displayed at other Turkish banks. Moreover, coverage by loan-loss reserves (LLRs) improved once again and the effective NPL coverage ratio moved up so that it is now close to the very sound average ratio posted by the peer group. The one area of asset quality of concern is the high gross exposure to Forex-denominated assets and liabilities – although on a net basis exposure is sound and well within regulations.

Despite a reduction in profitability at the gross income level, that profitability remains reasonably sound. However, the Bank's high cost structure typically dampens profitability at the operating level and for two consecutive years the cost of risk has nullified BBT's small operating profit to result in a net loss. In 2013, that loss was exacerbated by fair-value adjustments through equity, resulting in a decrease in capital.