

CREDIT OPINION

17 December 2021

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Nurol Investment Bank A.S.

Update to credit analysis

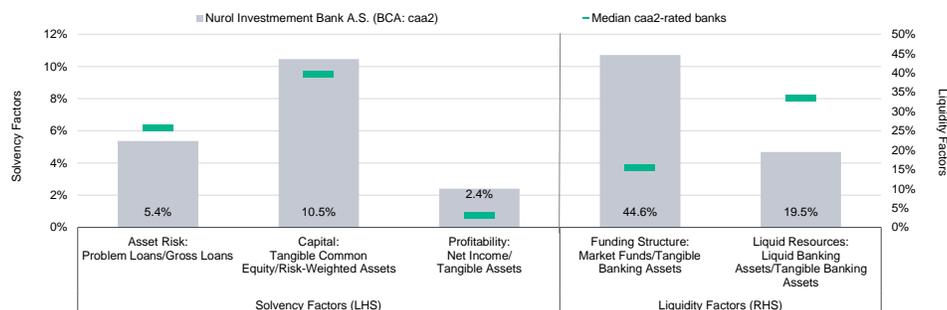
Summary

[Nurol Investment Bank A.S.](#)' (Nurolbank) Caa2 global long-term issuer ratings reflect the bank's caa2 Baseline Credit Assessment (BCA) and an assumption of a low probability of government support, which does not result in any uplift. The bank has been assigned a Counterparty Risk (CR) Assessment of Caa1(cr)/NP(cr) and Counterparty Risk Ratings (CRRs) of Caa1/NP.

The caa2 BCA is supported by the bank's strong profitability. This is counterbalanced by the bank's (1) lack of business diversification, (2) significant concentration risks (borrower and sector), (3) weakening capitalisation and (4) wholesale funding profile.

Exhibit 1

Rating Scorecard - Key financial ratios



Problem loans and profitability ratios are weaker of the three-year averages and the latest reported figures; the capital ratio is the latest reported figure; and the funding structure and liquid assets ratios are the latest year-end figures.

Source: Moody's Investors Service

Credit strengths

- » High profitability

Credit challenges

- » Modest asset quality, constrained by high sector and borrower concentrations
- » Weakening capital adequacy
- » Wholesale funding profile, with relatively modest liquidity coverage metrics
- » Lack of business diversification

Outlook

Nurolbank's ratings have a negative outlook, in line with the negative outlook on Turkey's sovereign rating, reflecting mainly the policy unpredictability, that is the cause of pressure on the exchange rate, volatile international capital flows and high inflation.

Factors that could lead to an upgrade

An upgrade is unlikely, given the current negative outlook. However, the outlook could stabilise following an improvement in the operating environment, stabilisation in the bank's stock of problem loans and a strengthening capitalisation.

Factors that could lead to a downgrade

A downgrade could be driven by a further deterioration in Turkey's operating environment, a higher-than-expected deterioration in the bank's asset quality or a material decline in its capital ratios.

Key indicators

Exhibit 2

Nurol Investment Bank A.S. (Consolidated Financials) [1]

	06-21 ²	12-20 ²	12-19 ²	12-18 ²	12-17 ²	CAGR/Avg. ³
Total Assets (TRY Million)	5,924.9	4,325.3	3,254.0	2,679.5	1,694.2	43.0 ⁴
Total Assets (USD Million)	682.0	582.0	546.8	503.7	446.8	12.8 ⁴
Tangible Common Equity (TRY Million)	567.0	491.6	386.5	240.6	196.6	35.3 ⁴
Tangible Common Equity (USD Million)	65.3	66.1	64.9	45.2	51.9	6.8 ⁴
Problem Loans / Gross Loans (%)	2.4	2.7	7.4	9.0	0.3	4.4 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	10.5	11.1	11.2	10.3	12.3	11.1 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.0	14.6	38.2	60.4	1.6	25.8 ⁵
Net Interest Margin (%)	6.4	6.3	7.6	8.4	7.4	7.2 ⁵
PPI / Average RWA (%)	4.7	5.4	4.3	5.2	4.9	4.9 ⁶
Net Income / Tangible Assets (%)	2.6	2.5	2.1	2.4	3.2	2.6 ⁵
Cost / Income Ratio (%)	24.5	26.5	34.7	30.6	31.8	29.6 ⁵
Market Funds / Tangible Banking Assets (%)	48.2	44.6	52.7	62.8	66.2	54.9 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	28.8	19.5	25.3	26.5	28.1	25.6 ⁵

[1] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments. [2] All figures and ratios are adjusted using Moody's standard adjustments. [3] Basel III - fully loaded or transitional phase-in; IFRS. [4] May include rounding differences because of the scale of reported amounts. [5] Compound annual growth rate (%) based on the periods for the latest accounting regime. [6] Simple average of periods for the latest accounting regime. [7] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Headquartered in Istanbul and having started its activities in 1999, Nurol Investment Bank A.S. (Nurolbank) is a non-deposit-taking institution offering a range of banking services to corporate clients.

As of June 2021, Nurolbank's consolidated assets stood at TRY5.9 billion. Nurolbank's loans and advances to customers were TRY3,951 million, constituting 67% of total assets.

Detailed credit considerations

Nurolbank's BCA is constrained by Turkey's challenging operating environment, reflected in its Very Weak+ Macro Profile

As a predominantly domestic bank, Nurolbank is heavily influenced by the weak Turkish operating environment. Turkey's "Very Weak ±" Macro Profile reflects (1) a continued erosion of policy predictability, the effectiveness of economic policymaking and the rule of law; (2) high external vulnerability and (3) a structurally fragile banking system funding profile.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Turkish banks are highly reliant on short-term wholesale funding in foreign currency, while retail depositors convert a material portion of their local currency deposits into foreign currency (mainly US dollars) to protect their savings from depreciation. Policy uncertainty has resulted in lack of medium term market access for Turkish banks and increases the risk of a sudden shift in depositor behaviour.

We expect a GDP growth of 11% in 2021, and inflation to remain well above central bank's target of 5% (plus or minus 2%). Eroding policy predictability and a devaluating currency will weaken asset quality and capital of Turkish banks.

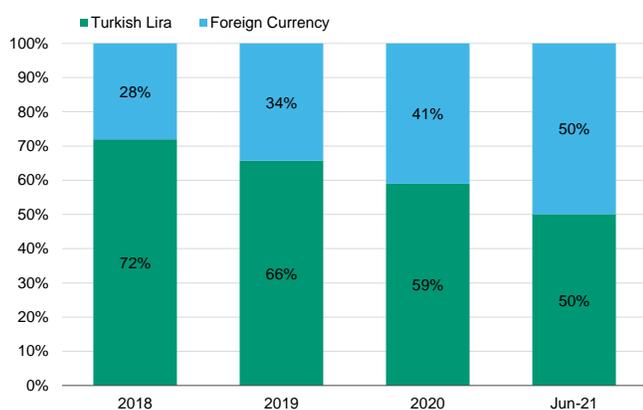
Lack of business diversification

While the bank was established in 1999, it only started developing its franchise over the last few years with the appointment of the current management team. Following their appointment, the bank has grown significantly with around 49% average annual loan growth since year end 2014. Despite this significant growth, Nurobank still represents less than 1% of the Turkish banking system, which is highly competitive and fragmented.

Additionally, the bank has a corporate-focused loan book. During the first six months of 2021, Nurobank reported consolidated net income of TRY76 million, a significant portion of which was generated through the corporate banking business line, driven by the bank's loan-book exposure to corporates at 92% of gross loans. This high reliance on a single business line for its revenue indicates a lack of business diversification, which can hurt its potential to absorb unexpected shocks, creating volatility in earnings. As such, we make a downward adjustment in our assessment of the bank's standalone profile to capture this business concentration on the corporate sector.

Exhibit 3

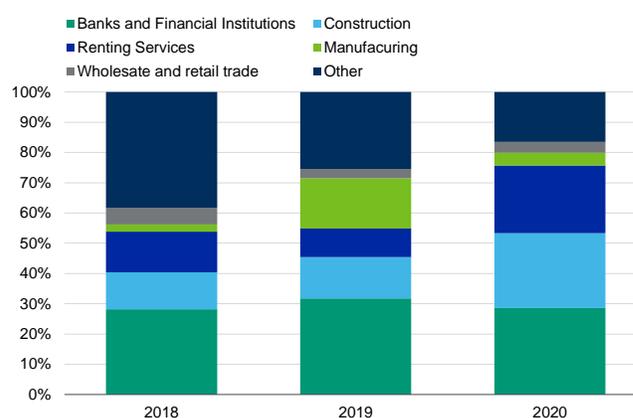
Loan book breakdown by currency



Source: Nuro Investment Bank, Moody's Investors Service

Exhibit 4

Loan book breakdown by sector



Source: Nuro Investment Bank, Moody's Investors Service

Modest asset quality, constrained by high sector and borrower concentrations

Nurobank's gross nonperforming loan (NPL) ratio dropped to 2.4% as of June 2021, slightly below the banking system average of around 3.5%. Nurobank's NPL ratio declined from 2.7% as of year-end 2020 and is significantly lower than 7.4% reported at year-end 2019. The decline in the NPL ratio in the first six months of 2021 was driven mostly by the reduction in stock of NPLs as a result of collections and loan growth of around 10%. Historically strong NPL ratio can be explained by significant loan growth (around 40% annually on average since year end 2014), which reduces the NPL ratio (with a denominator effect).

Furthermore, as of June 2021, loans under close monitoring accounted for just 3% of gross loans, significantly better than the banking sector average for Turkish banks. Nurobank's specific stage 3 coverage ratio was satisfactory at 100% as of June 2021.

Nurobank's asset quality is constrained because of high sector and borrower concentrations, which pose a risk of sudden and significant increase in NPLs on the back of a weak operating environment. We assess Nurobank's high borrower concentration on the basis of its top 20 borrowers, which represent more than 500% of its Tier 1 capital. Additionally, among the top borrowers, there are material equity financing transactions that are relatively risky and weigh on the bank's standalone risk profile.

We expect the currency depreciation and high inflation to exert some pressure on Nurobank's asset quality next year, which is likely to be manageable.

Weakening capitalisation

Nurobank's capitalisation levels declined in the first six months of 2021 reflecting the impact of significant exchange rate deterioration which inflated the bank's risk-weighted assets because half of its loans are foreign-currency denominated. The adjusted tangible common equity as a percentage of risk-weighted assets stood at a modest 10.5% as of June 2021, representing a 60 basis points decline from December 2020.

The Banking Regulation and Supervision Agency (BRSA) requires Nurobank to maintain a minimum total capital ratio of 12%, in line with other banks in the Turkish banking system. As of June 2021, Nurobank's regulatory consolidated capital adequacy ratio was 16.3%, also reflecting a decline of 80 basis points in the first six months of 2021.

We expect Nurobank's capital buffers to remain moderate. Because of the expanding nature of the Turkish banking market, coupled with Turkish lira sharp ongoing depreciation (almost 50% this year), Nurobank will likely face longer-term challenges.

High profitability

The bank's return on assets was strong at 2.6% during the first six months of 2021 compared with the 1% average for the Turkish banking system and slightly above the 2.5% reported for full-year 2020.

The bank's bottom line profitability grew by 30% to TRY76 million compared to 2020. This increase was due to a combination of factors. Firstly, Nurobank's net interest income and net fees and commissions increased in first six months of 2021 as economic activity gained momentum following the pandemic. In addition the bank's provisioning expenses were lower by 64% in the first six months of 2021 compared to the same period a year earlier.

We expect challenges from the difficult operating environment in Turkey to be greater for small banks, such as Nurobank, which lack diversification in funding and scale. The bank's future profitability in a volatile environment will depend upon its ability to source modest cost funding, control operating expenses and improve net interest margins while preserving risk discipline.

Significant reliance on short-term wholesale funding with relatively modest liquid coverage

As of June 2021, Nurobank's reliance on market funds represented 48% of its tangible banking assets. This is not covered by liquid banking assets, which represented just 29% of the tangible banking assets. Nurobank's high market funds ratio can be explained by its investment banking license, whereby it cannot collect deposits. We consider wholesale funding, by definition, potentially more volatile, and as such, it has higher refinancing risks. Although the headline refinancing risk is higher, the bank's significant shorter-tenor loans provide some buffer over and above the liquid assets and partially mitigates that risk.

Nurobank's wholesale funding is mainly split into debt securities issued and funds borrowed, representing 30% and 57%, respectively, of total liabilities as of June 2021. Debt securities issued are all denominated in Turkish lira and mature within one year, with interest rates ranging from 9% to 19.9%. Around 70% of borrowed funds were denominated in foreign currencies as of June 2021. The short-term nature of Nurobank's wholesale funding makes it susceptible to shifts in investor sentiment and sensitive to rising interest rates.

ESG considerations

In line with our general view for the banking sector, Nurobank has a low exposure to environmental risks. See our [Environmental risk heatmap](#) for further information.

Overall, we expect banks to face moderate social risks. This includes considerations in relation to the rapid and widening spread of the coronavirus outbreak, given the substantial implications for public health and safety and deteriorating global economic outlook, creating a severe and extensive credit shock across many sectors, regions and markets. See our [Social risk heatmap](#) for further information. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage due to product misselling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking

services increasing information technology cost, population concerns in several countries impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base.

Governance is highly relevant for Nurobank, as it is to all entities in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for Nurobank we do not highlight any particular governance issues given its appropriate risk management framework which is commensurate with its risk appetite. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Government Support considerations

We expect a low likelihood of government support for Nurobank, reflecting the bank's marginal market share in the Turkish banking system, resulting in no uplift to the bank's issuer ratings.

Counterparty Risk (CR) Assessments

Nurobank's CR Assessments are Caa1(cr)/Not Prime(cr)

We consider Turkey a jurisdiction with a nonoperational resolution (non-ORR) regime. For non-ORR countries, the starting point for the CR Assessments is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support uplift as applied to deposit and senior unsecured debt ratings.

Counterparty Risk Ratings (CRRs)

Nurobank's CRR is Caa1 / Not Prime

We consider Turkey a jurisdiction with a non-ORR regime. For non-ORR countries, the starting point for the CRRs is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support uplift as applied to deposit and senior unsecured debt ratings.

Rating methodology and scorecard factors

Exhibit 5

Nurol Investment Bank A.S.

Macro Factors							
Weighted Macro Profile		Weak - 100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	5.4%	b3	↓	caa2	Single name concentration	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	10.5%	b3	↔	caa1	Expected trend		
Profitability							
Net Income / Tangible Assets	2.4%	ba1	↓↓	b1	Expected trend		
Combined Solvency Score		b2		caa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	44.6%	caa1	↔	caa1	Term structure		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	19.5%	b3	↔	b3	Stock of liquid assets		
Combined Liquidity Score		caa1		caa1			
Financial Profile							
				caa1			
Qualitative Adjustments				Adjustment			
Business Diversification				-1			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				B2			
BCA Scorecard-indicated Outcome - Range				caa1 - caa3			
Assigned BCA				caa2			
Affiliate Support notching				0			
Adjusted BCA				caa2			
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating	
Counterparty Risk Rating	1	0	caa1	0	Caa1	Caa1	
Counterparty Risk Assessment	1	0	caa1 (cr)	0	Caa1(cr)		
Senior unsecured bank debt	0	0	caa2	0	Caa2	Caa2	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
NUROL INVESTMENT BANK A.S.	
Outlook	Negative
Counterparty Risk Rating	Caa1/NP
Baseline Credit Assessment	caa2
Adjusted Baseline Credit Assessment	caa2
Counterparty Risk Assessment	Caa1(cr)/NP(cr)
Issuer Rating	Caa2
NSR Issuer Rating	B1.tr
ST Issuer Rating	NP

Source: Moody's Investors Service

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CLIENT SERVICES

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EMEA	44-20-7772-5454