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CREDIT OPINION
22 January 2024

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Nurol Investment Bank A.S.

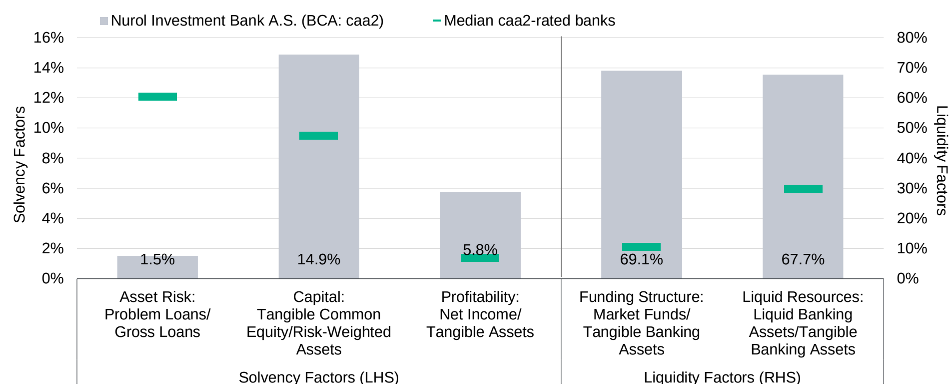
Update following change in outlook to positive

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's caa2 BCA is constrained by concentration risks (borrower and sector) and its high reliance on wholesale funding. The bank's credit profile is supported by the its sound profitability and capital adequacy. We also note that the bank's exposure to auto leasing loans diversifies its loan book concentration risks to some extent as these loans are underpinned by large volumes of small ticket retail loans that are sufficiently collateralised.

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

» Sound capital adequacy and internal capital generation driven by sound margins

» Solid liquidity levels with diversified liquid resources including non-domestic investment grade liquid fixed income securities

Credit challenges

» Lack of business diversification

- » Asset quality is constrained by high sector and borrower concentrations despite increasing levels of indirect retail lending underpinning auto lease portfolio
- » Reliance on wholesale funding in an improving but still challenging operating environment

Outlook

Nurol Bank's ratings have a positive outlook, in line with the positive outlook on Turkiye's sovereign rating and potential improvement in the operating environment, which could be supportive for the bank's credit strength.

Factors that could lead to an upgrade

Nurol Bank's ratings could be upgraded if Turkiye's sovereign ratings or country ceilings, and due to a sustained improvement in the domestic operating environment, leading to stronger credit fundamentals.

The bank's ratings could also be upgraded driven by a strengthening in its solvency profile, particularly with material reduction in concentration risk.

Factors that could lead to a downgrade

Given the positive outlook a downgrade is unlikely.

However, the outlook could return to stable if the outlook on Turkiye's sovereign rating were changed to stable. In addition, we could change the outlook to stable if authorities were to switch back to an unorthodox policy stance, which would inhibit potential improvement in the bank's operating conditions and potential improvement in its credit strength. We could also change the outlook to stable if the bank's resilient performance deteriorates.

Key Indicators

Exhibit 2

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

	09-23[2]	03-22[3]	12-21[3]	12-20[3]	12-19[3]	CAGR/Avg.[4]
Total Assets (TRY Million)	28,412.9	9,215.4	7,055.1	4,325.3	3,254.0	--
Total Assets (USD Million)	1,036.4	628.3	541.6	582.0	546.8	--
Tangible Common Equity (TRY Million)	4,207.2	935.2	794.2	491.6	386.5	--
Tangible Common Equity (USD Million)	153.5	63.8	61.0	66.1	64.9	--
Problem Loans / Gross Loans (%)	--	7.6	7.8	2.7	7.4	6.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.5	12.4	15.9	11.1	11.2	13.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	--	31.4	29.5	14.6	38.2	28.4[5]
Net Interest Margin (%)	15.1	7.2	6.1	6.3	7.7	8.5[5]
PPI / Average RWA (%)	21.6	12.7	6.8	5.4	4.4	10.2[6]
Net Income / Tangible Assets (%)	10.1	6.1	2.7	2.5	2.1	4.7[5]
Cost / Income Ratio (%)	15.1	15.6	21.5	26.5	34.7	22.7[5]
Market Funds / Tangible Banking Assets (%)	52.6	57.8	53.0	44.6	52.7	52.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	53.9	45.7	43.5	19.5	25.3	37.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] Basel III; IFRS. [4] May include rounding differences because of the scale of reported amounts. [5] Simple average of periods for the latest accounting regime. [6] 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 2023, Nurolbank's consolidated assets stood at TRY27.8 billion. Nurolbank's loans and advances to customers were TRY7.3 billion, constituting 26% of total assets.

Detailed credit considerations

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

As a predominantly domestic bank, Nurolbank's operating environment is heavily influenced by Turkiye's improving but yet challenging operating environment.

The "Very Weak +" Macro Profile we assign to Turkiye reflects unpredictable policymaking that has resulted in very high inflation and large accumulated imbalances in the Turkish economy and the banking sector, such as the foreign-exchange indexed deposit scheme. The unorthodox policy making underpins the weakening institutional and governance strength over the years of Turkiye and its banking sector macro profile.

Following the presidential and general elections held in May 2023 the central bank increased the policy rate to 42.5% from 8.5%, as the country continue to move its monetary policymaking towards a more orthodox stance after a prolonged period of unorthodox policy and macroprudential measures that weakened Turkish banks' profitability. Nevertheless, the 'Very Weak +' macro profile of Turkiye continue to capture the risk of a policy reversal, which diminished since the elections but still remains considerable as well as large and accumulated imbalances in the Turkish economy as a result of a prolonged period of unorthodox policymaking, such as the high volume of foreign-exchange deposit scheme or still very high inflation. In addition, we expect the Turkish economic growth to slow down in 2023, with a real GDP growth rate of 2.5% in 2024 (2023: 4%, 2022, 5.5%).

Against these heightened risks stemming from the challenging operating environment the macro profile takes into account (1) Turkiye's large, diversified and dynamic economy, boosting its banking sector's resilience to macroeconomic shocks as well as (2) the resilience of Turkish banks' performance, particularly the improvements in profitability and resilience in asset quality, against the deterioration in the operating environment. We also note the improvement in Turkish banks' funding and liquidity profiles since December 2018, with reduced reliance on short-term wholesale foreign funding at USD61 billion at end-September 2023 (December 2018: USD75 billion) and higher foreign currency liquidity (USD98 billion at end-September 2023).

Asset quality is constrained by high sector and borrower concentrations, although with increasing levels of indirect retail lending underpinning auto lease portfolio

Nurolbank's problem loans ratio stood at 0%[1] as of June 2023 and its loans under close monitoring (stage 2 loans as per IFRS categorisation) accounted for just 1% of gross loans, significantly better than the banking sector average for Turkish banks, as of June 2023.

Nevertheless, Nurolbank's asset quality is constrained by high borrower concentrations pose a risk of a sudden material increase in problem loans in Turkiye's challenging operating environment. We assess Nurolbank's high borrower concentration on the basis of its top 10 borrowers, which represent multiples of its Tier 1 capital. The bank's top 10 borrowers constitute to 86% and 191% of its total loans and Tier 1 capital, respectively.

Furthermore, the bank's loan book is concentrated with exposure loans to building and construction companies at 29% of gross loans. We believe the construction sector will exhibit a resilient performance in out outlook horizon as housing and construction demand will remain robust, in particular supportive of large construction companies' operations, following the earthquake in February 2023, which adversely affected 10 cities to varying degrees. As such, we adjust Nurolbank's asset quality downwards by three-notches to caa2, from the initial score of b2, reflecting high concentration risks.

Borrower concentration, however, is to some extent reduced when the indirect retail lending portfolio is taken into account. Top 10 borrowers, excluding those that are underpinned by retail loans, stood at 40% of the bank's total loans (86% when all top 10 included). In particular, the bank underwrites material volumes of auto lease loans that are consequently extended to retail consumers by the corporate borrowers. We believe that Nurolbank has strong control over this indirect portfolio in terms legal rights, as well as adminstrative aspects, such as loan and borrower monitoring. In addition. These loans are all collateralised by the vehicles and loan-to-value ratios remain adequate given the high inflation level in Turkiye.

More positively, the bank's predominantly corporate lending focused loan book benefits from exposure to large conglomerates in Turkiye, which exhibited a resilient performance through economic cycles supported in particular by their ability to pass on high inflation to their consumers. Furthermore, given the negligible problem loans balance, the bank's Nurolbank's loan loss reserves to problem loans stood at 18,499x as of June 2023, which is very strong relative to the Turkish banking sector average. In addition, we note that adequate collateralisation levels mitigates this high risks stemming from concentration risks to some extent.

Sound capitalisation, although could come under pressure due to concentration risks

Nurol bank's adjusted tangible common equity (TCE) as a percentage of risk-weighted assets (RWA) stood at a strong level 14.9% as of June 2023, declining from 16.8% as of December 2022. The bank's core capitalisation levels remain healthy and higher than the Turkish banking sector average. We note that Nurolbank's capitalisation will come under pressure if the lira depreciates further materially or concentration risks result in large unexpected losses. We assign a capital adequacy score of caa1 reflecting the sensitivity of capital adequacy to exchange rate fluctuations and its vulnerability against high concentration risks.

In June 2023, Nurolbank's consolidated Basel III capital adequacy ratio (CAR) including the effect of forbearance measures stood at 15.1%, equivalent to a decline of 420bps from 19.3% in December 2022. Decline in capital ratios are driven by the loan growth of 94% since year-end 2022[2].

Solid profitability

The bank's return on assets was robust at 9.4% during the first three months of 2023 higher than the average for the Turkish banking system and higher than the 8.4% reported for full-year 2022.

The bank's margins compare favorably to the Turkish banking sector average supported by the bank's investment banking nature, which allows it to provide agile and timely credit decisions and maintain strong relations with its clients. This allows the bank to maintain high yields on its lending portfolio. Nurolbank's net interest margins stood at 13.3% and 10.5% in the first six months of 2023 and 2022, despite the pressure stemming from macroprudential measures. Despite the lending caps, the bank has extended financing to its clients through the capital markets via investing in corporate money market instruments that were not subject to lending caps. The bank's relatively higher margins are adequate in the context of its higher risk profile, particularly the elevated asset risk.

We expect challenges from the challenging operating environment in Turkiye to be greater for small banks, such as Nurolbank, 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. Nevertheless, we note Nurolbank's ability to maintain wide margins due to its niche business offerings to support the bank's profitability in the outlook period.

Significant reliance on short-term wholesale funding with adequate liquidity coverage

As of June 2023, Nurolbank's reliance on market funds represented 50% of its tangible banking assets.

Nurolbank’s high market funds ratio can be explained by its investment banking license. We consider wholesale funding, by definition, potentially more volatile, and as such, to have 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. We also note that (1) 26% of the bank's market funding, in particular securities issued, are issued to retail clients, which the bank maintains close relations with via its private banking arm and (2) the retail clients have proved to be relatively sticky over a series of economic cycles that are relative short-lived in Turkiye.

Nurolbank’s wholesale funding is mainly split into debt securities issued and funds borrowed, representing 23% and 40%, respectively, of total liabilities as of March 2022. Debt securities issued are all denominated in Turkish lira and mature within one year, with interest rates ranging from 9% to 18.8%. Around 62% of borrowed funds were denominated in foreign currencies as of March 2022.

The short-term nature of Nurolbank’s wholesale funding increases its susceptibility to shifts in investor sentiment and sensitivity to rising interest rates. We note however that the extent of funding from retail investors mitigates this risk to a certain extent.

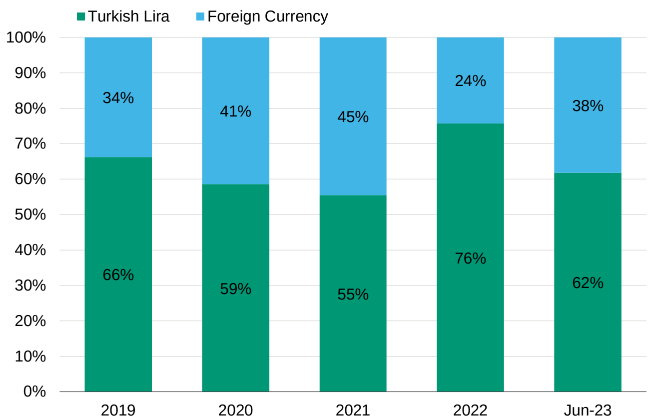
Nurolbank maintains high levels of liquid banking assets, which represented 62% of its tangible banking assets as of TRY27.8 billion. We note that the bank's liquidity is diversified, with considerable exposure to non-domestic investment grade corporate bonds.

Lack of business diversification

While the bank was established in 1999, it only started developing its franchise over the last 10 years following the appointment of the current management team. Following their appointment, the bank has grown significantly with around 30% average annual loan growth since year end 2016. Despite this significant growth, Nurolbank still represents less than 1% of the Turkish banking system, which is highly competitive and fragmented.

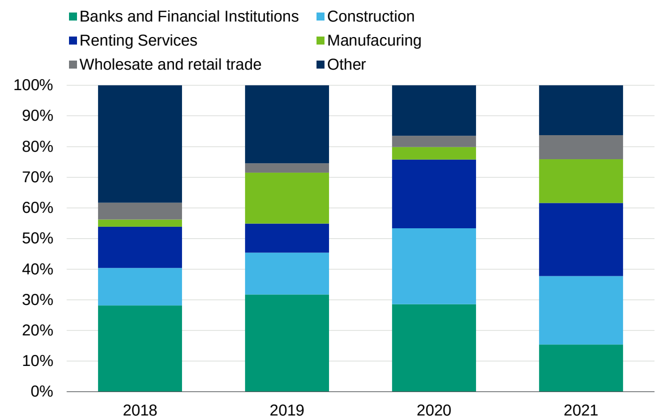
Additionally, the bank has a corporate-focused loan book. During the first half of 2023, Nurolbank reported consolidated net income of TRY1.3 billion, a significant portion of which was generated through the corporate banking business line, driven by the bank's loan-book exposure to corporates at 94% 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: Nurol Investment Bank, Moody's Investors Service

Exhibit 4
Loan book breakdown by sector

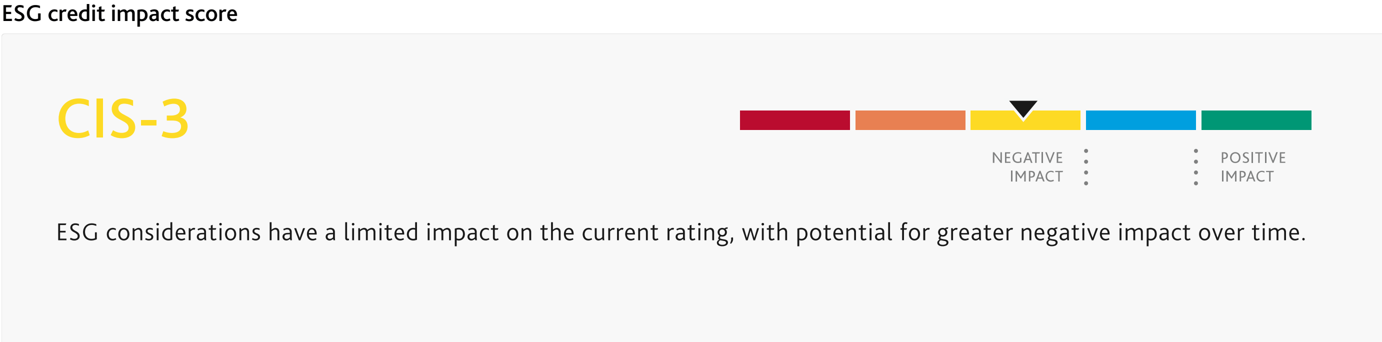


Source: Nurol Investment Bank, Moody's Investors Service

ESG considerations

Nurol Investment Bank A.S.'s ESG credit impact score is CIS-3

Exhibit 5
ESG credit impact score



Source: Moody's Investors Service

Nurol's **CIS-3** reflects the impact of high social risks and moderately negative governance risks on the rating to date. The bank's governance is constrained by the 100% ownership of Nurol Holding, a family-owned holding corporate, which elevates governance risks, as well as high related party lending exposures.

Exhibit 6
ESG issuer profile scores

Source: Moody's Investors Service

Environmental
Nurol faces moderate exposure to environmental risks, primarily because of its exposure to carbon transition risk. The bank faces low physical climate risks because of its limited real estate footprint in areas subject to flooding and other climate risks.

Social
Nurol faces high industrywide social risks related to regulatory and litigation risks, in particular in the area of customer relations. Cyber and personal data risks are mitigated by an adequate IT framework and its focus on digital transformation and cyber security. Nurol's focus on corporate lending mitigates personal data risks to a certain extent.

Governance
Nurol faces moderately negative governance risks reflecting the bank's 100% ownership by Nurol Holding, a family-owned holding conglomerate, and relatively high related party lending elevate governance risks. We note that Nurol has a track record of broadly meeting its annual guidance on financial targets and has timely and adequate financial disclosures.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government Support considerations
We expect a low likelihood of government support for Nurolbank, 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
Nurolbank's CR Assessments are Caa1(cr)/Not Prime(cr)

Counterparty Risk Ratings (CRRs)
Nurolbank's CRR is Caa1 / Not Prime
We consider Turkiye 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 7

Nurol Investment Bank A.S.

Macro Factors							
Weighted Macro Profile	**Very Weak +**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		1.5%	b2	↔	caa2	Single name concentration	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		17.5%	ba3	↔	caa1	Stress capital resilience	
Profitability							
Net Income / Tangible Assets		5.9%	ba1	↔	ba1	Expected trend	Earnings quality
Combined Solvency Score			ba3		b3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		69.1%	caa3	↑	b3	Term structure	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		67.7%	ba3	↓	b3	Additional liquidity resources	
Combined Liquidity Score			b3		b3		
Financial Profile					b3		
Qualitative Adjustments					Adjustment		
Business Diversification					-1		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					-1		
Sovereign or Affiliate constraint					B3		
BCA Scorecard-indicated Outcome - Range					b3 - caa2		
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 8

Category	Moody's Rating
NUROL INVESTMENT BANK A.S.	
Outlook	Positive
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

Endnotes

1 We adjust Nurolbank's problem loans to reflect that all problem loans on the bank's balance sheet as of June 2023 orginates from the bank's non-performing laons asset management business, with a track record of collections and collateral volumes above acquisition values.

2 The BRSA's regulatory forbearance measures related to the use of the 31 December 2022 exchange rate in the calculation of risk-weighted assets and the exclusion of fair value losses on securities through other comprehensive income to support the domestic bank's capital adequacy. The BRSA required Nurolbank to maintain a minumum capital ratio of 12%, in line with large commercial bank in the Turkish banking sector, and as of June 2023 the bank's regulatory capital adequacy ratio remains well above the BRSA's requirements

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