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CREDIT OPINION
2 November 2023

Update

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Nurol Investment Bank A.S.

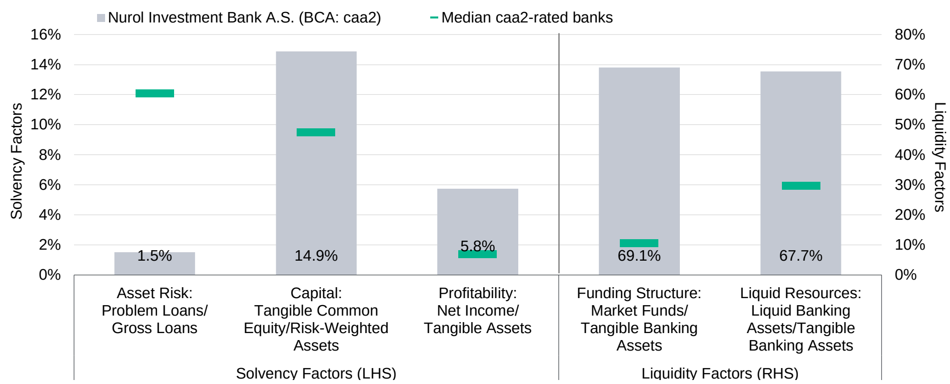
Periodic Update

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 a volatile operating environment

Outlook

Nurol Bank's ratings have a stable outlook, in line with the stable outlook on Turkiye's sovereign rating. The outlook balances resilience of the bank's performance and solvency profile against the persistently weak domestic operating environment.

Factors that could lead to an upgrade

Nurol Bank's ratings could be upgraded driven by a strengthening in its solvency profile, particularly with material reduction in concentration risks. An upgrade could also be driven by a sustained improvement in the domestic operating environment.

Factors that could lead to a downgrade

Nurol bank's ratings could be downgraded due to a higher-than-expected deterioration of asset quality and/or a material decline in capital adequacy ratios and/or liquidity. A downgrade could be driven by a downgrade of the sovereign rating or a further deterioration in Turkiye's operating environment.

Key Indicators

Exhibit 2

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

	06-23 [2]	12-22 [2]	12-21 [3]	12-20 [3]	12-19 [3]	CAGR/Avg. [4]
Total Assets (TRY Million)	27,807.7	17,454.3	7,055.1	4,325.3	3,254.0	84.6
Total Assets (USD Million)	1,066.7	932.4	541.6	582.0	546.8	21.0
Tangible Common Equity (TRY Million)	3,383.1	2,237.3	794.2	491.6	386.5	85.9
Tangible Common Equity (USD Million)	129.8	119.5	61.0	66.1	64.9	21.9
Problem Loans / Gross Loans (%)	0.0	0.0	3.7	2.7	7.4	2.8 [5]
Tangible Common Equity / Risk Weighted Assets (%)	14.9	16.8	15.9	11.1	11.2	14.0 [6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	0.0	0.0	12.6	14.6	38.2	13.1 [5]
Net Interest Margin (%)	13.3	10.5	6.1	6.3	7.7	8.8 [5]
PPI / Average RWA (%)	20.4	21.7	6.8	5.4	4.4	11.7 [6]
Net Income / Tangible Assets (%)	9.4	8.4	2.7	2.5	2.1	5.0 [5]
Cost / Income Ratio (%)	15.8	10.8	21.5	26.5	34.7	21.9 [5]
Market Funds / Tangible Banking Assets (%)	50.1	69.1	53.0	44.6	52.7	53.9 [5]
Liquid Banking Assets / Tangible Banking Assets (%)	61.8	67.7	43.5	19.5	25.3	43.6 [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 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 challenging operating environment.

The "Very Weak +" Macro Profile we assign to Turkiye incorporates the rising pressures on Turkiye's balance of payments position with potential further weakening of the country's foreign-currency reserves and the authorities' increasingly unorthodox measures. Turkiye's macro profile also captures unpredictable policymaking that has resulted in very high inflation, the weak credibility of the central bank, low investor confidence and the banking system's still significant levels of short-term wholesale foreign currency funding and foreign currency deposits, which are equivalent to 45% of total liabilities of the banking sector.

However, recently the central bank increased the policy rate to 30% from 17.5% to move the country's monetary policy a step closer to orthodoxy after a prolonged period of unorthodox policy and macroprudential measures that weakened Turkish banks' profitability. The gradual easing of the macro-prudential measures including the decline in security maintenance ratios for banks to maintain policy normalisation would support the sector's profitability. Nevertheless, sequencing missteps in the return to an orthodox policy environment are a key risk for banks.

Turkiye's macro profile balances these heightened risks stemming from the challenging operating environment against (1) expected real GDP growth rate of 4% in 2023, after strong growth of 5.6% in 2022; (2) the resilience of Turkish banks' performance, particularly the improvements in profitability and resilience in asset quality, against the deterioration in the operating environment; and (3) the improvement in Turkish banks' funding and liquidity profiles since December 2018, with reduced reliance on short-term wholesale foreign funding at USD56 billion at end-February 2023 (December 2018: USD75 billion) and higher foreign currency liquidity (USD97 billion at end-February 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 0.0% as of June 2023 exhibiting a resilient trend in Turkiye's challenging operating environment. We adjust Nurolbank's problem loans to reflect the fact that a material volume of reported problem loans on the bank's balance sheet originates from the bank's non-performing loans asset management business with a track record of collections and collateral volumes above the acquisition values.

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.

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 consumer 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.

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.

In addition, 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.

As of June 2023 loans under close monitoring accounted for just 1% of gross loans, significantly better than the banking sector average for Turkish banks.

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

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 and the tightened regulatory forbearance[1]reflecting the impact of significant exchange rate deterioration which inflated the bank's risk-weighted assets as more than half of the bank's loan book is foreign-currency denominated, which more than offset the contribution from internal capital generation.

The Banking Regulation and Supervision Agency (BRSA) requires Nurolbank to maintain a minimum total capital ratio of 12%, in line with other banks in the Turkish banking system. As of June 2023, Nurolbank's regulatory capital adequacy ratio excluding the regulatory forbearance measures remain well above the BRSA's requirement.

Nevertheless, the 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 TCE / RWA ratio is weaker than the TCE / RWA ratio of 16.9% of the global caa2 rate banks average.

We note that Nurolbank's capitalisation will come under pressure if the lira depreciates further materially and internal capital generation remains under pressure due to macroprudential measures. We assign a capital adequacy score of caa2 reflecting the sensitivity of capital adequacy to exchange rate fluctuations.

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.

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.

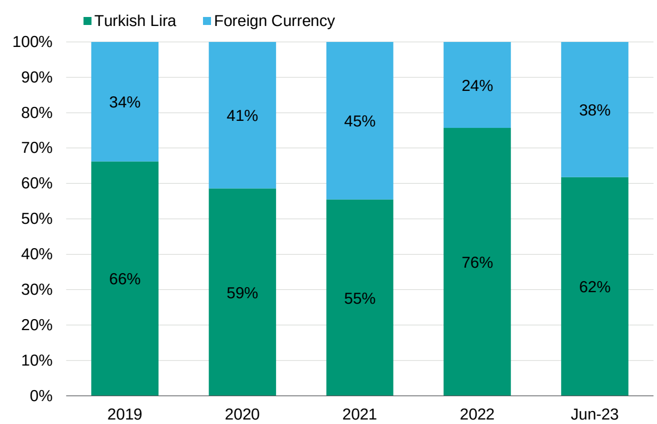
Nurolbank maintains high levels of liquid banking assets, which represented 62% of its tangible banking assets as of TRY27.8 billion. We note that the bank's liquidity is diversified, with considerable exposure to non-domestic investment grade corporate bonds.

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.

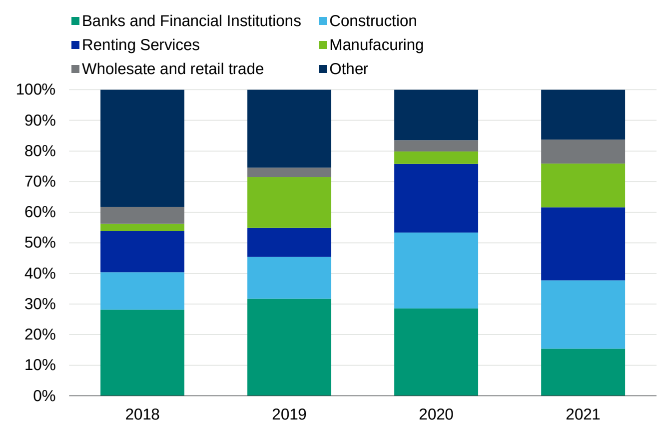
Additionally, the bank has a corporate-focused loan book. During the first half of 2023, Nurolbank reported consolidated net income of TRY1.3 billion, a significant portion of which was generated through the corporate banking business line, driven by the bank's loan-book exposure to corporates at 94%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

Exhibit 5
ESG Credit Impact Score

CIS-3

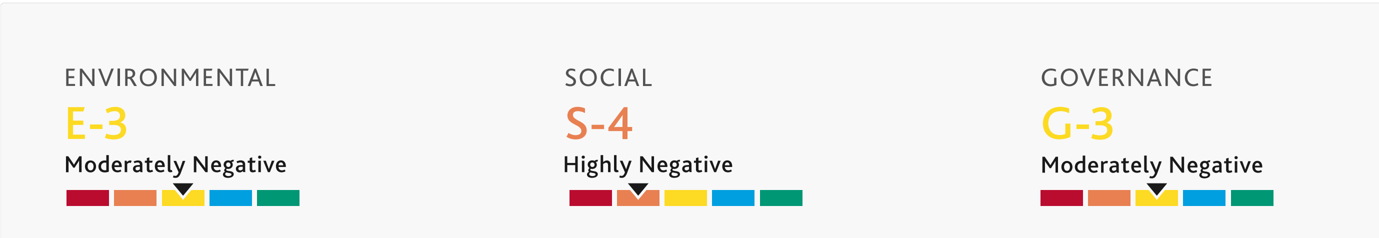
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Nurol's ESG Credit Impact Score is moderately negative (**CIS-3**), reflecting 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 stemming principally from risks related to customer relations and regulatory and litigation risks, requiring high compliance standards. Turkiye's high inflation are eroding living standards, adding to social risk. Industrywide high cyber and personal data risks are mitigated by an adequate IT framework and the bank's focus on digital transformation and cyber security. Nurol's focus on corporate lending mitigates personal data risks to a certain extent. Opportunities from Turkiye's young population and trends towards greater financial inclusion are reflected in the bank's better-than-industrywide exposure to demographic and societal trends, with a neutral-to-low score.

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)	14.9%	b2	↔	caa1	Stress capital resilience		
Profitability							
Net Income / Tangible Assets	5.7%	ba1	↔	b1	Expected trend	Earnings quality	
Combined Solvency Score		b1		caa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	69.1%	caa3	↔	caa1	Term structure		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	67.7%	ba3	↔	b3	Quality of liquid assets		
Combined Liquidity Score		b3		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				B3			
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 8

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

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