

Corporate Credit & Issue Rating

New Update

Sector: Banking

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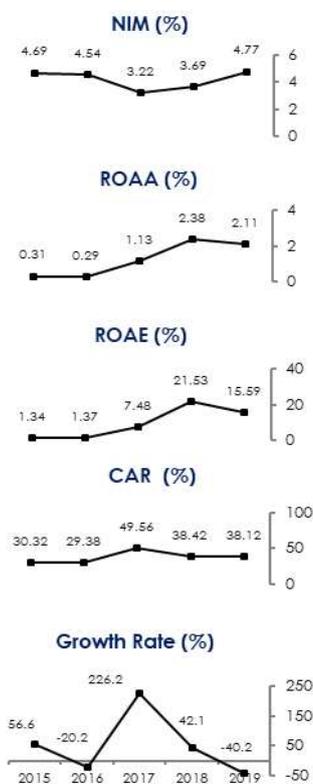
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RATINGS

		Long Term	Short Term
International	Foreign Currency	B	C
	Local Currency	B	C
	Outlook	FC Negative	Negative
		LC Negative	Negative
	Issue Rating	-	-
National	Local Rating	BBB+ (Trk)	A-2 (Trk)
	Outlook	Stable	Stable
	Issue Rating	-	-
Sponsor Support	2	-	-
Stand-Alone	BC	-	-
Sovereign*	Foreign Currency	BB+	-
	Local Currency	BB+	-
	Outlook	FC Negative	-
		LC Negative	-

*Assigned by JCR on April 10, 2020



Kıbrıs Faisal İslam Bankası Ltd.

JCR Eurasia Rating, in its periodic review, has evaluated **Kıbrıs Faisal İslam Bankası Ltd.** in investment-level category on the national scales and affirmed the ratings on the Long Term National Scale as **'BBB+ (Trk)'** and the Short Term National Scale to **'A-2 (Trk)'** with **'Stable'** outlooks.

Kıbrıs Faisal İslam Bankası Ltd. (hereinafter referred to as Kıbrıs Faisal İslam Bank (FİB) or the Bank), the very first bank capitalised by foreign investors in Turkish Republic of Northern Cyprus (TRNC), was founded in October 1982 and commenced operations in March 1983. The Bank offers conventional banking services to the individual and corporate customers to the extent that the TRNC's internationally isolated economic and political position permits. The Bank offers services through its 4 branches in the cities of Nicosia (Lefkoşa), Taşkınköy, Famagusta (Magosa) and Kyrenia (Girne) and had a staff force of 40 as of FYE2019.

The multi-shareholder structure positions the Bank as a 'public company' within the framework of legal regulations. On the other hand, Mr. Bensen SAFA is the majority shareholder since 2013 and held an 85.02% stake as of FYE2019. Following 2013, the Bank underwent a comprehensive restructuring process to enhance the effectiveness of operational, audit and risk management processes.

Key rating drivers, as strengths and constraints, are provided below.

Strengths

- Remarkably above sector average CAR, enabling room for future growths
- High quality equity composition consisting mostly of paid-in capital
- Sufficient collateral and high liquidity levels partially compensating the adverse effects of above sector NPL ratio on asset quality
- Increased income generation capacity together with decreased interest expenses, contributing positively to net interest margin
- Comparatively small-scaled organization structure, enabling comfort in adaption to changing market conditions

Constraints

- Improved but below sector average profitability indicators
- Above sector average NPL ratio
- Short-term weighted and concentrated structure of deposits leading to volatility in deposit base
- Concentration in the loan portfolio
- TRNC's economic and politically isolated international position and relatively limited island economy
- Continuing need for improvement in corporate governance practices

Considering the aforementioned points, the Company's the Long Term National Rating has been affirmed at **'BBB+ (Trk)'**. The continuation of the Company's operational profitability, strong equity level, and the pole position in fiber connection market have been evaluated as important indicators for the stability of the ratings and the outlooks for long and short term national ratings are determined as **'Stable'**. Sustainability of the Company's profitability performance, changes in market share and equity level together with the trend of new infrastructure investments are to be monitored by JCR Eurasia Rating. The macroeconomic indicators at national and international markets, as well as market conditions and legal frame about the sector will be continued to be monitored.

Sponsor Support notes and risk assessments mainly reflect the financial and non-financial positions and assistance capability of the controlling shareholder, Mr. Bensen SAFA, of the Kıbrıs Faisal İslam Bank Ltd., and the systematic support level of the TRNC Banking Sector through sectoral regulations, associations and public institutions. In the light of registered capital increases in 2014 and 2017, a 266.67% paid-capital increase from TRY 6.93mn in 2013 to TRY 29mn in 2019, fulfilling the minimum equity requirement of TRNC Banking Law Draft, and the reorganization and restructuring processes that has been started in 2014 following the change in shareholding structure in which Mr. Bensen SAFA became majority shareholder, it is considered that the Bensen SAFA has the propensity and adequate experience to offer efficient operational and financial support within its financial capacity when liquidity needs arise in the short or long-term perspective. In this regard, JCR Eurasia Rating has affirmed the Sponsor Support Grade as **'2'**, denoting a moderate external support possibility.

Taking into account the Company's equity level, ongoing operations, liquidity reachability and internal resource generation capacity, we, as JCR Eurasia Rating, state the opinion that the Company has reached the level of adequate experience and facilities to manage the incurred risks on its balance sheet regardless of any assistance from the shareholders, if it preserves its current customer level, efficiency and existing macroeconomic level in the market. Within this context, the Stand-Alone grade of the Company has been affirmed at **(BC)** in the JCR Eurasia Rating notation system.