Corporate Credit Rating

☐New ☒Update

Sector: Banking
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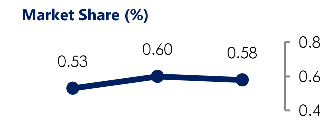
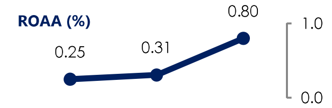
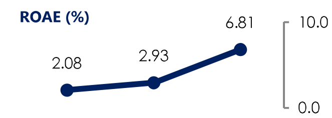
RATINGS

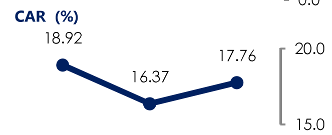
			Long Term	Short Term
International	Foreign Currency		BBB	A-3
	Local Currency		BBB	A-3
	Outlook	FC	Stable	Stable
		LC	Stable	Stable
	Issue Rating		-	-
National	Local Rating		A- (Crt)	A-1 (Crt)
	Outlook		Stable	Stable
	Issue Rating		-	-
Sponsor Support			2	-
Stand-Alone			B	-
Sovereign*	Foreign Currency		BBB	A-3
	Local Currency		BBB	A-3
	Outlook	FC	Stable	Stable
		LC	Stable	Stable

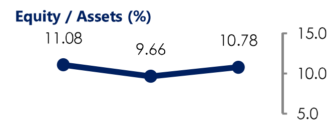
*Assigned to Republic of Croatia by JCR-ER on December 11, 2020

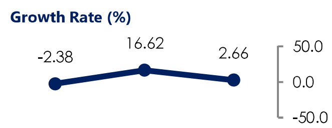












KentBank d.d.

JCR Eurasia Rating affirmed the ratings of **KentBank d.d.** (referred to as "the Bank" or "KentBank") as **'A- (Crt)'**, on the long-term national scale and **'A-1 (Crt)'** on the short-term national scale with **'Stable'** outlooks, maintaining the investment grade. International Local and Foreign Currency ratings of the Company are affirmed as **'BBB/Stable',** reflecting the sovereign credit rating of Croatia.

KentBank is a retail bank operating in Croatia with 15 branches. The Bank was initially founded as Stedionica Brod in 1998, later took form of Banka Brod d.d. in 2002. KentBank serves its retail and corporate clients as a deposit collecting credit institution and continues its efforts in increasing digital penetration.

Croatian Banking Sector is concentrated and skewed, with largest 2 and 5 banks comprising more than 45% and 80% of the system's assets. In this market with 20 banks, KentBank is positioned in the small-asset size segment. The Bank has been improving its net interest margin, maintaining its asset quality and reducing the funding costs via greater access to demand deposits, though the pandemic and its unprecedent impact on real economy and financial markets induced headwinds and volatilities to the Croatian economy and disturbed the trends in the banking system, similar to the rest of the world. The measures taken by the supervisors and in particular Croatia National Bank (CNB) facilitated liquidity conditions and helped banks preserve their reported asset quality and lending standards. As noted in our previous report, the operating and provision expenses, along with the structural challenges in the Sector continue to pose as challenges looking forward.

The Bank is currently fully owned by Turkey-based conglomerate Süzer Holding. The Holding has investments in various fields including finance, construction, real estate development, energy and tourism. The Bank's total workforce is approximately 200.

Strengths	Constraints
• Reasonable interest margin despite of contracting interest rates in the system and Eurozone • Adequate deposit base with low cost accounts supporting profitability • Significant liquidity and high liquidity coverage, further supported with macroprudential measures • Moderate loans-to-deposit level • High provision coverage of impaired loans, reducing downside risks from existing non-performing exposures • Strong and proven support from the parent Süzer Holding	• Deteriorating macroeconomic conditions weigh on cash flow origination and debt-service performance due to uncertainties induced by Covid-19 pandemic • Secular downward trend in interest rates, pressurizing profitability • Competitive and asymmetrically concentrated market structure dominated by large banks • Relatively lower nominal capital base considering the fragmented market structure with high capitalization at the top-end, despite confirming with regulations, • Limited returns on assets and equity, despite improvements in the recent periods

Considering the mentioned drivers, the Bank's the Long-Term National Rating has been affirmed as **'A- (Crt)'**. KentBank's rating outlook is affirmed as "Stable" as per the periodic revision. This is a result of the Bank's stand alone credit profile, shareholder support and the macroeconomic background shaped mainly by the pandemic. While we expect a certain pressure on the provision expenses and potential difficulties in loan origination due to risk management concerns, KentBank's ample liquidity and adequate capitalization should shoulder potential downside risks in the economy.

KentBank d.d.'s Sponsor Support Rating has been determined by considering the financial strength and willingness of support of Süzer Holding A.Ş., the sole owner of the Bank. In this context, we note Süzer Group's financial and operational positions and the capital injections realized in the previous years, and therefore consider that the Holding has the willingness to supply liquidity and equity within its financial capability when financial needs arise in the short or long term and has the sufficient experience to provide operational support to the Bank when required. Regarding the above factors, JCR Eurasia Rating has assigned the Bank's Sponsor Support Note as **"2"** denoting adequate external support.

The Stand-Alone rating of the Bank is determined as **"B"** considering its significant liquidity, strong capital adequacy ratio, slightly muted profitability indicators, and market position. This Stand-Alone note indicates that the Bank is expected to be able to manage its balance sheet risks successfully even if the shareholders or public authorities do not provide any assistance.

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