

BURGAN FİNANSAL KİRALAMA A.Ş.

Long Term National Credit Rating: **TR A+**
Short Term National Credit Rating: **TR A1**
Outlook: **Positive**

Rating History:

LNTCR: **TR A+** STNCR: **TR A1** Outlook: **Positive** Date:07.11.2014
LNTRC: **TR A+** STNCR: **TR A1** Outlook: **Positive** Date:25.03.2016

Istanbul, 28 April 2017 - The National Long-term Credit Rating TR A+, and the National Short-term Credit Rating of TR A1 of Burgan Finansal Kiralama A.Ş. (Burgan Leasing or the Company hereafter) have been affirmed. The Outlook remains positive. The steadily increasing performance of the Company in recent years and its positive dissociation from the sector through its innovative products have been key factors supporting the ratings. The main shareholder's strength and willingness to support the Company has also been taken into consideration in our rating analysis.

Burgan Leasing Continued to Grow in 2016: Burgan Leasing initiated a rapid expansion period in 2013, and in the following three year period, its assets marked an average 52.3% annual growth from TL509 million to more than TL1.5 billion. In 2016 the company's gross leasing receivables posted 43.5% increase, well above the 20% increase in the leasing sector, and reached TL1.4 billion. Burgan's 2.6% market share in assets and leasing receivables in 2015 rose to 3.1% in 2016 and pushed up its rank in the sector from 12th to 11th. The Management aims to raise the ranking of the Company in 2017. In terms of the transaction volume in USD, Burgan Leasing's volume increased by 24.6% to USD282.6 million in contrast to the 4% contraction of the leasing sector in 2016. On the other hand, the Company could not perform in the same direction in the net profit which increased only by 1.1% in the same period.

Strong Shareholder Structure: According to the unconsolidated financial tables, Burgan Bank A.Ş. (Burgan Bank) the main shareholder of Burgan Leasing, has grown into a TL13.7 billion unconsolidated asset size at year-end 2016 and raised its equity to TL1.0 billion and net income to TL71.7 million. Burgan Bank, which is among the top 20 Turkish banks in terms of asset size, is wholly owned by Burgan Bank KPSC, the second largest commercial bank of Kuwait. Burgan Bank KPSC which is active in the Middle East and North Africa (MENA) in addition to Turkey reported total consolidated assets of US\$23.8 billion, equity of US\$2.8 billion and net period profits of US\$218 million. Burgan Leasing's ratings have been assigned independently from the performance of Burgan Bank. However, it is our understanding that the Burgan Bank KPSC Group has the strength and will to support Burgan Leasing, should there be a need.

The Decline in the Operational Profit of Financial Leasing: Burgan Leasing operates with a high leverage ratio. The operational profit from financial leasing declined by 18.8% to TL16.2 million from TL20.0 million in the previous year due to 60.5% increase in the financial expenditures (rising to TL52.0 million) caused by higher funding costs and higher foreign currency borrowings. On the other hand despite the suspensions of bankruptcy, volatile funding costs and sluggish economic growth due to the failed coup of July 15, Burgan Leasing has been successful in expanding its income from leasing operations by 35.5%, significantly above the peer group average (15.9%) and the sector average (13.5%). Income from leasing operations went up to TL93.0 million in 2016 from TL68.6 million in 2015 and income from derivatives trading turned into positive. Despite these improvements, the operating profit from financial leasing declined due to higher financing costs, the provisions against NPLs, foreign exchange losses and higher operational costs.

Financial Leasing Interest Margin: The leasing interest margin¹ of the sector has been progressively declining in the last four years and further declined to 3.1% from 3.4% in 2016. In the SME and Commercial Institutions segments, which are the main target markets of the Company, the net leasing interest margin fell to 3.2% from 4.2%. The decline in the interest margin was largely due to the difficulty in reflecting the increase in the funding costs to the customers.

Limited Growth in the Net Profit Despite Increase in the Business Volume: The decline in the net leasing margin constrained the net period profits of Burgan Leasing in 2016. The increase in the operational costs which are higher than the revenues from operations limited the increase in net profits by only 1.1%. Consequently, the net profit could not be higher than TL22.5 million.

NPL ratio is Below the Sector Average: In the period of 2012-2016, Burgan Leasing operated with NPL ratios below the sector average. The sluggish economy in 2016 has negatively impacted the business volume of SMEs and commercial companies and increased the credit risk of these segments. Similar to many other companies in the sector, Burgan Leasing also encountered collection problems and its NPLs increased by 54.5% to TL46.8 million. Eventhough the increase in NPLs was higher than the increase in gross leasing receivables, NPL ratio has been 3.3% with a limited increase.

The Company's Highest Credit Risks in the Tourism Sector: The credit risk of the Company increased because the receivables from three tourism companies which are among the top 10 customers have been restructured. But this risk has been mitigated by collateralizing the property of these companies. In terms of risk concentration, the customer having the largest leasing receivables of the Company had 4.9% share and the top 10 customers' share was 22.7% at year-end 2016. The composition of the customer portfolio is 48.9% SME, 48.1% commercial companies and 1% large corporations.

Burgan Leasing's Selected Financial Indicators

(1000 TL)	2012	2013	2014	2015	2016
Total Assets	286.803	508.845	750.655	1.060.279	1.516.544
Assets Growth (%)	-0,3	77,4	47,5	41,2	43,0
Total Leasing Receivables (Net)	250.014	486.367	716.655	956.342	1.368.545
NPL Ratio (%)	3,8	2,5	2,1	3,1	3,3
Total Borrowings	239.975	420.424	585.057	843.486	1.296.578
Equity	40.041	45.988	115.896	138.134	163.159
Equity / Total Assets (%)	14,0	9,0	15,4	13,0	10,8
Leasing Income	20.584	24.395	41.724	68.598	92.985
Net Leasing Income*	8.913	11.067	19.793	34.791	36.592
Net Leasing Interest Margin (%)	4,5	3,3	3,5	4,2	3,2
Net Leasing Operations Profit/Loss**	2.800	2.488	8.892	19.994	16.245
Net Profit	4.712	5.948	12.108	22.237	22.490
ROAA (%)	1,6	1,5	1,9	2,5	1,7
ROAE (%)	14,5	15,8	16,8	20,2	17,5

Net Leasing Income*: interest and commission from leasing operations – interest and commission paid to borrowings +, - foreign exchange profit/loss +, - derivatives profit/loss – Loan Loss Reserves

Net Financial Leasing Margin **: Net Financial Leasing Margin: (Leasing Interest Income-Interest Expenditures)/Av.Gross Leasing Receivables

Net Leasing Operations Profit/Loss * :** Net leasing income – Main operations expenditures

¹Net Financial Leasing Margin: (Leasing Interest Income-Interest Expenditures)/Av.Gross Leasing Receivables