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JCR Eurasia Rating,
 via periodic review affirmed
Banka Kombetare Tregtare Sh.A.’s
 Long Term National Rating of
‘AAA (Alb)/Stable’
 and
 assigned International Long Term FC and LC ratings of **‘BB+/Stable’**

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RATINGS

		Long	Short
International	Foreign Currency	BB+	B
	Local Currency	BB+	B
	Outlook	Stable	Stable
	Issue Rating	BB+	B
National	National Rating	AAA (Alb)	A-1+ (Alb)
	Outlook	Stable	Stable
	Issue Rating	AAA (Alb)	A-1+ (Alb)
Sponsor Support		2	-
Stand Alone		AB	-

Sector: Banking
 Report Date: 25/09/2020

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JCR Eurasia Rating, during periodic review, affirmed **Banka Kombetare Tregtare Sh.A.’s Long Term National Credit Rating** as **‘AAA (Alb)’** and **Short Term National Credit Rating** as **‘A-1+ (Alb)’** with **‘Stable’** outlooks on both ratings. The Bank’s **Long Term International Local and Foreign Currency Ratings** are assigned as **‘BB+’**, reflecting the country ceiling of Turkey (**BB+**) where the principal shareholder is located and one notch higher than the rating of country of residence, Albania (**BB**).

Banka Kombetare Tregtare Sh.A. (BKT) maintains its established position as the largest bank in the Albanian banking sector, and has a leading position in terms of core banking size indicators; assets, investment securities, deposits and net profit. BKT’s principal location of operation is Albania, and the Bank owns a subsidiary, BKT Kosovo, operating in the latter country. The Bank is owned by one of Turkey’s leading conglomerates Çalık Group, the Bank has a stable management structure. BKT has 62 branches located in the country in which head office is located, and 26 branches in Kosovo. In addition to physical office network, BKT continues to invest in IT infrastructure to streamline its digital banking operations.

As the largest Bank in Albanian banking system, BKT has access to a wide deposit and customer base, supporting revenue generation capacity and liquidity position. On the other hand, due to negative effects of the pandemic and headwinds in the economic outlook, the Bank slowed down its lending as margins were suppressed. Instead BKT shifted its assets to higher yielding, corporate and banking sector Eurobonds government securities. This serves to support the net interest margin, and hedge against the Euroisation trend in the system via acquisition of hard-currency denominated assets. The Bank has sound capitalization, both as a consolidated entity and on a stand-alone basis for Albanian and Kosovar operations. Owing to conservative lending activities, BKT stands differed from the system with respect to asset quality as underpinned by lower NPL ratios. While the potential extension of the pandemic’s reach could pressurize the emerging markets and thus effect BKT’s retail loan portfolio, the Bank’s capital base and loan book is expected to stay resilient. In this perspective, **JCR-ER** affirmed the Bank’s **Long-term National Rating** at **‘AAA (Alb)’**. The Long Term International LC and FC ratings of the Bank are assigned as **‘BB+/Stable’** reflecting sovereign rating of Turkey (**BB+**) and the Bank’s internal capitalization & liquidity position. Furthermore, the ongoing EU accession process of Albania, interlinkages of the Albanian Banking system with Eurozone banking system via direct equity exposure are evaluated. In this regard, BKT’s International LC and FC ratings are assigned at one notch higher than Albania’s sovereign rating (**BB**).

Two major shocks affected the Albanian economy in rapid succession, the earthquake of November 2019 and the global pandemic of Covid-19. The earthquake caused great physical and humanitarian damages while the pandemic disrupted supply chains, decimated demand and significantly increased uncertainties across the world. Due to rapidly declining risk appetite, emerging countries experienced sizable portfolio outflows, straining balance of payments. Coupled with the sharp fall in tourism revenues, Albanian economy faced economic shocks on several fronts. As a result, policy makers responded with further easing and stimulative actions, though the Government of Albania applied for and received a funding package of USD 190mn for emergency support. On the fiscal side, emphasis is on isolating the cash flow disruptions due to lockdowns & reduced spending on companies. On the other hand, conflicts in the political sphere and sharp divisions between the government and the opposition are further risk factors which could undermine progress with the EU accession negotiations. In this regard, high public debt stock, significant level of unemployment, size and prevalence of informal economy underpin the main challenges in the country. In addition to these factors, the euroization is an important phenomenon, resulting in limited monetary policy effectiveness. On the other hand, authority’s rapid response to the pandemic, via easing impaired loan provisions, suspension of repayments and state-guaranteed funding facilities support the macro outlook.

As a major player in the Sector and systemically important bank, **BKT** is considered to have the resources and tools to service its obligations without resorting to external support from shareholders. On the other hand, given the Bank’s internal resource generation capacity and ultimate shareholder’s strong financial position, Çalık Group’s willingness to lend operational support and supply capital, if such necessities arise is deemed at a resilient level. In this regard, Sponsor Support grade is affirmed as **(2)** and a Stand-Alone grade is affirmed as **(AB)** based on JCR Eurasia Rating’s notation scale.

For more information regarding the rating results, you may visit our internet site <http://www.jcrer.com.tr> or contact our analysts **Mr. Özgür Fuad ENGİN, CFA**.

JCR EURASIA RATING
General Manager