



Ratings of Kuveyt Turk Reaffirmed

Manama, February 28, 2019—Islamic International Rating Agency (IIRA) has reaffirmed the foreign currency and local currency ratings of Kuveyt Turk Participation Bank (“KTPB” or “the Bank”) at ‘BBB-/A3’ (Triple B Minus /A Three) and ‘BBB/A3’ (Triple B/ A Three) respectively, on the international scale. At the same time, national scale ratings have been reaffirmed at AA(tr)/ A1+(tr)’ (Double A/A One Plus).

As the largest participation bank in Turkey, KTPB has been gaining market share in recent years, with a defined strategy of growth through continued reinforcement of capital, indicating the bank’s growing business potential and strong franchise. The bank’s ratings derive strength from prominent and financially strong shareholders including the Kuwait Finance House, Islamic Development Bank and two state level entities of Kuwait and Turkey. Outlook on the assigned ratings is ‘Stable’, given the foreign ownership and maintained global risk profile of the bank’s international shareholders, as well as the superior risk indicators of KTPB, vis-à-vis local peers.

Driven by subpar readings on the macroeconomic front, and sharp depreciation of the Turkish Lira in 2018, asset quality concerns for the sector overall remain elevated. Further economic activity has been decelerating and business growth in the banking sector has been trending lower. KTPB’s performance reflects some of these developments in the economy, however it continues to fare better vis-à-vis overall sector and PB peers, particularly on the asset quality front, with relatively low net impairment and high provision cover. IIRA will be closely monitoring emerging asset quality trends.

The bank has been maintaining healthy and sustainable deposit growth with a highly dispersed deposit base. Given the expected decline in financing growth, the competition for deposits should ease. Overall liquidity position is deemed adequate as reflected by strong Basle III liquidity ratios and lower than peers’ financings to deposit ratios.

Barring any macroeconomic shocks, KTPB’s capitalization buffers are expected to be sufficient to allow for business growth till after 2020, once the economic activity picks up momentum. We deem that the current buffers are healthy and parent support is likely in case of unexpected erosion in capitalization levels.

We note the positive trend in KTPB’s profitability until Q3’2018, and full year results are also expected to post strong overall earnings growth. However, the pace of growth is likely to have begun to moderate in Q4’2018 and is expected to continue to taper lower in 2019, with expectations of a persistent economic slowdown.

For further information on this rating announcement, please contact IIRA at iira@iirating.com.