



IIRA Reaffirms Fiduciary Ratings of Al Baraka Turk; Outlook Revised to ‘Negative’

Manama, November 21, 2018 – Islamic International Rating Agency (“IIRA”) has maintained the foreign and local currency ratings of Albaraka Türk Katılım Bankası A.Ş. (“ALBRK” or “the Bank”) at ‘BB+ / A3’ (Double B Plus / A Three) and at ‘BBB- / A3’ (Triple B Minus / A Three), respectively on the international scale. The national scale ratings have also been reaffirmed at ‘AA-(tr) / A1(tr)’ (Double A Minus / A One).

Outlook on the assigned ratings has been revised to ‘Negative’ from ‘Stable’, reflecting the slowdown in economic conditions facing the Republic of Turkey (“Turkey” or “the country”) and possible implications on the local banking system. Given the banking sector’s significant utilization of foreign currency (“FC”) denominated funding, and increasingly high risk exposure to Turkey’s corporate sector, which carries considerable FC liabilities on its balance sheet, the banking sector is exposed to notable risk. The outlook revision also reflects the weakening observed in the Bank’s asset quality metrics in H1’18. Further, the Bank’s financings classified as ‘under close monitoring’ are also high during this period, indicative of rising credit risk. The outlook may be revised to ‘Stable’ if economic stability indicators improve and no further deterioration is observed in the Bank’s risk metrics. Conversely, material deterioration in asset quality indicators of the bank over the next 2 quarters may call for a downward revision of ratings.

ALBRK operates as a full-fledged participation bank (“PB”) in Turkey through its 223 domestic and one overseas branch network. Nonetheless, the Bank has a well-established franchise in PB in the country, accounting for about 22.4% of segment deposits at H1’18, albeit having reduced over time due to intensifying domestic competition. ALBRK is a majority held subsidiary of Al Baraka Banking Group (“ABG” or “the Group”). As a leading international Islamic banking group with extensive geographical presence spanning across three continents, ABG’s asset base stood at US\$23.3bn as of Q3’18.

The Tier 1 Sukuk issuance amounting US\$205mn during Q1’18, offset the pay-down of Tier 2 capital amounting US\$200mn during the subsequent quarter, in terms of effect on the Bank’s capital adequacy ratio. Following the boost in the regulatory capitalization ratios at end-2017, the ratios depicted contraction as at H1’18. In the backdrop of sharply rising policy rate scenario, the Bank’s internal capital generation may remain suppressed over the next 12 months.

The Bank’s portfolio continues to feature notable concentration both in terms of counterparties, and towards economically sensitive sectors like real estate and construction. Moreover, the Bank’s foreign exchange risk has increased over recent quarters, due to increasing reliance on FC funding coupled with increasing on-balance sheet net FC exposure. Liquidity is adequate in terms of the levels of reserves maintained vis-à-vis obligations.



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IIRA has assigned the Bank an overall fiduciary score of '71-75', reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected. The fiduciary score is an aggregation of scores assigned to the components of asset manager quality, corporate and participation banking governance. Our assessment on the Bank as an asset manager is reflective of elevated risks, and has impacted the overall score. In addition, the Bank may consider enhancing the representation of independent directors on the Board, aligning the Board committee composition in line with global best practices and further provide participation banking specific disclosures.

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

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