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## IIRA Reaffirms Fiduciary Ratings of Al Baraka Turk

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**Manama, September 20, 2019**– Islamic International Rating Agency (“IIRA”) has maintained the foreign currency ratings of Albaraka Türk Katılım Bankası A.Ş. (“ALBRK” or “the Bank”) at ‘BB+/A3’ (Double B Plus / A Three) and local currency ratings at ‘BBB-/A3’ (Triple B Minus / A Three), respectively on the international scale. Meanwhile, the national scale ratings have been revised to ‘A+(tr)/A1(tr)’ (A Plus / A One) as a reflection of deterioration of asset quality indicators and eroding capital buffers in the face of a challenging operating environment in the Republic of Turkey (“Turkey” or “the country”), driven by sizable depreciation of the local currency, high inflation, and decelerating economic activity. Outlook on the assigned ratings remains ‘Negative’.

ALBRK operates as a full-fledged participation bank (“PB”) in Turkey through its network of 229 domestic and one overseas branch. As one of the six participation banks in the country, ALBRK has 21.0% share in the total deposits of the PB segment and 1.4% market share in the total banking sector. The bank’s share has been declining over time due to increasing competition in the PB segment, and a cautious stance towards new risk, with the pace of core banking business growth having slowed notably. Impairments have risen in line with market trends, although the pace of increase in NPFs has moderated in Q1’2019. Profitability was adversely impacted in 2018, due to contraction in spreads as deposit costs rose and provisioning expenses increased. Capitalization metrics, albeit being comfortably above the regulatory minimums, would benefit from reinforcement given rising credit risk in the local environment.

ALBRK’s financing portfolio continued to exhibit a marked concentration both in terms of counterparties and economic sectors, particularly towards the real estate and construction segments which is deemed one of the most vulnerable in the country in the current macroeconomic conditions.

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. Key constraints to the score included lower independent representation on the BoD, lagging behind global best practices. Meanwhile, IIRA noted favorably, the establishment of the Centralized Consultancy Committee under Turkish Participation Banks’ Association (TKBB) which is expected to issue standards for the participation banks operating in Turkey, potentially uplifting the participation banking framework in the country.

For further information on this rating announcement, please contact IIRA at [iira@iirating.com](mailto:iira@iirating.com).