



IIRA reaffirms the ratings of Kuveyt Turk Participation Bank

Manama, June 29, 2020– Islamic International Rating Agency (“IIRA”) has maintained the foreign currency and local currency ratings assigned to 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. National scale ratings have also been reaffirmed at AA(tr)/ A1+(tr)’ (Double A/A One Plus). Outlook on the ratings is ‘Stable’. The previously assessed ‘Positive’ outlook was a function of the bank’s continued superior risk profile within the local banking sector; while the bank remains well-positioned, the sector as a whole is faced with difficult operating conditions, and lessened economic prospects since our previous rating announcement on January 7, 2020.

With the unfolding of the Covid-19 pandemic, IIRA expects contraction in the Turkish economy for the current year as the local operating environment remains adversely affected. A global recession and a marked downturn in international trade has affected emerging markets inflows, putting pressure on the local currency. Depreciation of the Turkish Lira by double digits year-to-date as already witnessed, will burden the corporate sector with pre-existing, high levels of FCY debt, in turn translating into repercussions for banks on the capital front in the medium term, and asset quality in the longer term. Much lower oil prices would however keep inflation in check, and alleviate pressures on the import bill.

Measures taken by the government aim at business continuity for firms and addressing the needs of the most vulnerable segments of the society, equivalent to around 5% of GDP. The Central Bank of Turkey took further measures to improve the liquidity of the banking sector and enhanced credit facilities for exporters. The Banking supervisory authority also relaxed capital calculations. Regulatory measures are likely to enable stability via sustained confidence in the banking sector, while making sufficient liquidity available. However, non-performance is expected to increase in later periods.

After a moderate increase in impairment levels in the year 2019 in tandem with subdued economic activity in the last two years, KTPB posted a decline in non-performance indicators in Q1’2020 as the new impairment inflows were relatively muted and as growth accelerated. Given the challenging operating environment in the backdrop of Covid-19 and expected recessionary conditions, along with TL depreciation, the Bank is expected to witness asset quality deterioration, as would the banking sector in general. Given the scale of the shock, provisioning requirements are likely to be higher in 2020-2021 period, due to new NPF generation and required adjustments to ECL parameters.

The Bank’s healthy internal capital generation has been supporting growth in capital. Capitalization was further strengthened by the USD200mn tier 1 sukuk issuance which was fully subscribed by its main shareholder, KFH in Q3’2019. The Bank posts above-peers capital levels which marks sufficient premium over regulatory minimums. Even under high stress scenarios, the Bank is expected to have adequate capital buffers. The liquidity profile of the bank improved further and also remains strong, as evidenced by LCR and NSFR readings.



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Net income of the bank stood higher in 2019, over prior year. While margin income and fee based revenues grew at a healthy pace, trading gains were the key driver of increased earnings, having arisen from FCY trading. RoAA of 1.2% denotes a premium over the sector average of 1.0%. In the ongoing year, the accelerating volume growth and better cost of funding should support operating profitability, albeit moderated by enhanced provision buffers for stage 1 and stage 2 exposures due to changes in the parameters of ECL model, and a general increase anticipated in non-performance, as well as normalization of trading gains. Any further improvement in profitability is therefore expected to remain range-bound.

KTPB held a deposit market share of 41.0% amongst local Participation Banks at end 2019, denoting a 150bps market gain over prior year. Within the banking sector, KTPB had a 3.4% deposit share, also strengthening from 2.7%, a year earlier. This is an indication of the bank's franchise, with its network of 436 branches spread across the country.

The bank's shareholder structure remains unchanged with Kuwait Finance House KSC ("KFH") being the controlling shareholder. Government entities from Turkey and Kuwait along with Islamic Development Bank are other shareholders. Assigned ratings take cognizance of the shareholders' strength and high probability of sponsor support, in case of need.

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

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