



IIRA assigns 'Positive' outlook to National Scale Ratings of Kuveyt Turk Participation Bank

Manama, January 07, 2020– Islamic International Rating Agency (“IIRA”) has affirmed 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. Meanwhile, national scale ratings have been reaffirmed at AA(tr)/ A1+(tr)’ (Double A/A One Plus).

The outlook on the national scale ratings has been revised to ‘Positive’ from ‘Stable’ indicating the bank’s strong franchise evident through business cycles, enabling it to gain market share notably, in a challenging operating environment. Moreover, ongoing sponsor support as demonstrated by tier 1 sukuk issuance fully funded by the main shareholder, and increasing earnings (on a bank-only basis) in the foreground of a sector wide drop in profits, support the revision of outlook.

KTPB’s ownership structure remained unchanged since our prior review with majority shareholder being Kuwait Finance House KSC (“KFH”) at 62.2%. Meanwhile, a further 27.7% is controlled by government bodies of Turkey and the State of Kuwait. The Islamic Development Bank also holds a 9.0% stake in the bank. The presence of strong shareholders is considered a credit positive, further reinforced by continued financial backing provided by KFH.

Despite the relative stabilization of the local currency in the current year, Turkish economy has been restrained severely throughout most of 2019 by the repercussions of the sharp devaluation in currency mid-2018. Economic activity has been muted, registering contraction as of first nine months, inflation remained high until September, with interest rates having hovered well above historical levels. However, starting from July 2019, the Central Bank of Turkey cut the benchmark rates by 12pps in four consecutive meetings leading to a sharp drop in financing rates. There has since been steady acceleration in credit offtake which is expected to reflect onto economic activity. The most significant development in banking sector through 2019, has been the elevation in nonperformance, whereby the aggregate NPF ratio of the sector is expected to reach 6% as of year-end, before retreating in the upcoming year in tandem with higher volume growth and improved economic activity.

As a result of constraining operating environment with slowed credit offtake, KTPB’s asset composition displayed a shift towards larger holdings of liquid assets during 2019. Excess available liquidity should enable the bank to fund accelerated financing growth in the next year, as demand picks up. In the ongoing year, KTPB’s gross impairment ratio increased further, yet the bank maintains lower than peer impairment ratios and net impairment levels are still relatively benign. However, asset quality trends will be closely followed going forward, given the constraining operating environment.

KTPB’s capital buffers are deemed healthy to withstand moderate asset quality shocks and total CAR remains above both the banking sector and PB sector averages. Recent shift of the asset mix towards government securities and bank’s practice of not paying cash dividends are also considered prudent in

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the face of current macro-economic conditions. Meanwhile, capital of the bank was strengthened via USD200mn in tier 1 sukuk issuance which was fully subscribed by its main shareholder KFH. IIRA opines that the parent support is quite likely, should there be a need for further capital strengthening.

Following very strong net earnings growth in the prior year, the bank continues to fare well on the profitability front albeit consolidated net income contracted slightly due mainly to surging provision charges. The bank's performance on the profitability front has been much better vis-à-vis banking sector and PB peers. For the year 2020, healthy financing growth coupled with narrower spreads, maintained strong performance on the fee income generation and reduction in provisions should result in an improvement in net earnings vis-a-vis 2019.

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

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