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Ratings

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Albaraka Turk Katilim Bankasi AS

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Albaraka Turk Katilim Bankasi AS

SACP	b-
Anchor	b+	
Business Position	Moderate	-1
Capital and Earnings	Weak	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

\+

Support	+1
ALAC Support	0
GRE Support	0
Group Support	+1
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
B/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• Good position in Turkey's Islamic (participation) banking segment, albeit small player in the wider domestic banking sector. • More granular deposits base compared to larger peers. • Support provided by majority owner, Al Baraka Banking Group B.S.C.	• Above-average credit risk due to large, albeit declining, exposure to the construction sector and single-party concentration. • Deteriorating capitalization and higher-than-average reliance on Tier 2 instruments for capital build. • High asset liability maturity mismatches in common with the wider Turkish banking system.

Outlook: Stable

The stable outlook on Albaraka Turk reflects our belief that a default remains unlikely over the next 12 months. While we acknowledge that the bank's financial profile, including its capital and liquidity, might suffer from the ongoing economic and financial turmoil, we believe that the current rating already captures these risks. We also consider that the granular nature of Albaraka Turk's deposit base could reduce the risk of a potential erosion of its funding profile.

We could lower the rating on Albaraka Turk if we see evidence of accelerated deterioration in its liquidity or solvency, mainly due to a sharp rise of credit costs and pressure on margins or destabilization of its deposit base.

A positive rating action, though unlikely at this stage, could happen if we consider that, despite the weakening operating environment, Albaraka Turk has significantly improved its asset quality, or that its strategic importance to the parent company has increased, while at the same time risks in the Turkish operating environment have stabilized.

Rationale

The starting point for our issuer credit rating on Albaraka Turk is the bank's 'b+' anchor, which is based on our view of the banking system and operating conditions in Turkey.

Our ratings on Albaraka Turk reflect our view of the bank's relatively minor market position in the highly competitive Turkish banking sector, with only 1.1% and 1.4% market share in loans and deposits, respectively. Its limited franchise is, however, partially offset by its stronger position in the participation banking segment.

Our ratings also reflect the bank's low capitalization and our expectation that it will remain depressed over the next 12-18 months due to weakened internal capital generation. Specifically, we anticipate that Albaraka Turk's RAC ratio (pro forma for updated parameters) will remain around 4% over the next 12-18 months, in line with year-end 2017. This is because its return on average assets is lower than rated domestic peers, largely because of the lower portion of retail lending and higher cost-to-income ratio among rated domestic peers. We expect net intermediation margins to contract slightly, along with loan growth. We expect cost of risk to remain at around 2% of loans in 2018 and 2019, up from about 1.5% in 2017.

While core earnings quality remains adequate, based on the strong share of intermediation and fee income in revenue generation, capital quality is under pressure given the bank's higher-than-average reliance on Tier 2 instruments and depressed bottom-line earnings.

We assess Albaraka Turk's asset quality, with NPLs at 4.7% as of December 2017, to be weaker than peers. This reflect the bank's high exposure to the construction sector, high single obligor concentration, and credit growth that has historically been faster than the system average. The moderation in the bank's credit growth balances against the increasing asset quality risk in Turkey. We expect material asset quality pressure across the Turkish banking sector over the next 12 to 18 months.

We view the bank's funding as average and liquidity as adequate based on its short-term but relatively granular deposit base and adequate levels of liquid assets. Liquidity also benefits from Albaraka Turk's access to the central bank's rediscount credit facility, which was expanded following the recent economic turbulence in Turkey, along with a cut in the reserve requirements for Turkish banks. We anticipate significant pressure on Turkish banks' ability to refinance their foreign debt over the next 12 to 18 months.

We incorporate one notch of uplift in the rating on Albaraka Turk to reflect group support from its parent, Albaraka Banking Group B.S.C. This reflect our view that Albaraka Turk has moderate strategic importance for its parent. We base our view on the likelihood of support, if required, on Albaraka Turk's majority ownership and control by its parent, as well as its significant portion of the group's assets and its close link to its parent's reputation, name, and brand.

Anchor: 'b+' for banks operating in Turkey

Our assessment of economic risk in Turkey at '8' reflects the country's moderate per capita income, volatile economy, institutional challenges, sizable current account deficits, and external financing needs. Banks have granular and well-diversified loan books; however, a high share of lending in foreign currency (about 40% of gross loans) in the context of the meaningful devaluation of the lira, which lost 40% of its value against the U.S. dollar in the first three quarters of 2018. Also rapid credit growth in years of fast economic growth, accentuates banks' credit risk. We already see pressure on banks' asset quality, with increasing restructured loans, despite the relatively low reported NPLs. This is expected to deteriorate over the next 12 to 18 months with our forecast of economic slowdown and deleveraging in Turkey.

Our assessment of industry risk in Turkey, at '9', largely reflects relatively low domestic savings, which partly explains why Turkish banks are more reliant on short-term external debt than their peers in other countries. As a result, the industry is more exposed to developments in global capital markets and dependent on maintaining positive investor sentiment. The latter has recently been weakened by the deteriorated relations between Turkey and its Western allies. We also see investors moving away from emerging markets due to quantitative tightening and rate hikes by the U.S. FED. Although we consider that Turkey's bank regulation and supervision, as well as governance, compare favorably with those in many emerging economies, we are concerned about recent measures that have eroded institutional checks and balances and called into question the rule of law. Increasing centralized control by the president brings into question the independence of the central bank, the banking regulator, and the banking system as a whole (particularly state-owned banks). In our view, the profitability of the Turkish banking system will suffer from reduced business volumes, and higher credit and funding costs over the next 12 to 18 months, which could ultimately result in changes in the competitive environment.

Table 1

Albaraka Turk -- Key Figures					
		Year ended Dec. 31			
(TRY mil.)	**2018***	**2017**	**2016**	**2015**	**2014**
Adjusted assets	37,143	36,303	32,764	29,473	22,988
Customer loans (gross)	27,048	25,893	23,301	19,786	16,471
Adjusted common equity	3,064	2,630	2,241	2,036	1,745

Table 1

Albaraka Turk -- Key Figures (cont.)

		Year ended Dec. 31			
(TRY mil.)	**2018***	**2017**	**2016**	**2015**	**2014**
Operating revenues	353	1,578	1,261	1,097	893
Non-intermediation expenses	234	851	713	636	493
Core earnings	105	289	243	320	258

*As of March 31

Business position: Weakened growth prospects in Turkey's banking sector in next 12 months

Our assessment of Albaraka Turk's business position is constrained by its small domestic market share of about 1.4% in deposits and 1.1% in loans on Dec. 31, 2017, in Turkey's highly competitive market. The bank has a relatively small branch network, consisting of 220 domestic branches and one international branch in Iraq. With total assets of Turkish lira (TRY) 36.3 billion (US$9.58billion at TRY3.79 to the dollar) on Dec. 31, 2017, Albaraka Turk is the third-largest player in Turkey's small Islamic or participation banking sector, which accounts for 4.9% of the total banking sector. It has market shares of about 22.2% in loans and 23.6% of deposits in this sector. This has decreased from 25.7% in loans and 27.3% of deposits in 2016, due to the entrance of state-owned banks into the participation banking sector. Relative to domestic peers, Albaraka Turk is less diversified both from a business line and geographic perspective, and a much smaller operator in the banking sector. Larger Turkish banks, notably Garanti and Is Bank, tend to have an overseas presence, which helps mitigate their exposure to the Turkish economy; a factor that Albaraka Turk lacks. Likewise, domestic peers tend to gain a larger share of revenues from non-interest income and from fees and commissions.

Despite its small size, Albaraka Turk has historically shown good resilience to strong competition from its peers as well as conventional players and has maintained its market shares at about 1.5%. Albaraka Turk's business is skewed toward small and midsize enterprises (SMEs) as the bank is a late entrant in the retail segment. However, the bank has been gradually increasing its corporate and retail lending, though this has been on a negative trend over the past 12 months. As of December 2017, 40.3% and 13.5% of its loan book, respectively, comprised corporate and retail loans. This retail lending is primarily composed of housing loans.

In our view, Albaraka Turk's management is backed by the expertise and strategic support of its 54.1%-owner, ABG. Although small, its stable market share and good track record of operational performance since its creation support this view. Key strategic plans aim to diversify the bank's loan book by increasing the share of retail lending and limiting the share of loans to the construction industry. The bank reduced its exposure to the latter from 18.3% in 2015 to 16.8% in 2017. We also forecast that Albaraka Turk's lending growth will moderate, converging toward the sector average rate over the next couple of years, which, in our view, would still be high compared with the bank's projected internal capital generation. We take a positive view of the business plan as it represents a shift from the ambitious, high-risk growth strategy the bank has previously pursued.

Table 2

Albaraka Turk -- Business Position					
		Year ended Dec. 31			
(%)	2018*	2017	2016	2015	2014
Loan market share in country of domicile	1.1	1.1	1.3	1.3	1.3
Deposit market share in country of domicile	1.4	1.4	1.5	1.5	1.4
Total revenues from business line (TRY mil.)	N/A	1,578.4	1,260.8	1,097.0	893.3
Commercial banking/total revenues from business line	N.M.	96.5	105.0	130.7	120.9
Retail banking/total revenues from business line	N.M.	(21.1)	(23.3)	(29.2)	(39.2)
Commercial & retail banking/total revenues from business line	N.M.	75.4	81.7	101.5	81.7
Other revenues/total revenues from business line	N.M.	24.6	18.3	(1.5)	18.3
Return on average common equity (%)	13.8	10.5	10.1	15.5	15.1

*As of March 31. N.M.--Not Meaningful. N/A--Not Available.

Capital and earnings: Capitalization has tightened, with a higher-than-average reliance on Tier II instruments

We assess Albaraka Turk's capitalization as weak, with limited internal capital generation prospects over the next 12 to 18 months, given its lower return on average assets compared to rated domestic peers. The bank's regulatory capital adequacy ratio (CAR) as per Basel III stood at 17.1% on Dec. 31, 2017 (up from 13.46% on Dec. 31, 2016, after the conversion of its subordinated sukuk into a Basel III compliant instrument). This is well above the target minimum 8% required by the Turkish regulator and the regulator's recommended level of 12%; it is also above the Turkish average of 16.5%. Of this, 62% comprised Tier 1 instruments, suggesting a larger than average reliance on tier 2 instruments, therefore undermining capital quality in our view. In 1Q2018, ABT issued a tier 1 sukuk of $205 million ($150 million coming from the parent).

Our assessment of Albaraka Turk's capitalization reflects the bank's pre-diversification RAC ratio, which we expect to remain about 4% over the next 12-18 months. The sovereign downgrade in August 2018, as well as our higher assessment of economic risk in Turkey, increased the risk weights we apply to related assets in our RAC model. The latter is somewhat counteracted by the tier 1 sukuk issued in February 2018, which we assess as having intermediate equity content. We expect the bank's credit growth to moderate and progressively converge toward the system average over the next 12 months. The RAC ratio stood at 4.0% on Dec. 31, 2017, a decline of 70 basis points (bps) relative to the previous year. This further declined to 3.5% following the sovereign and BICRA changes as mentioned above. Furthermore, the bank's RAC ratio has declined for the past seven years, from 6.3% in 2011. This ratio is the lowest among rated domestic peers.

The RAC ratio is significantly different from the bank's regulatory CAR, owing to the higher risk weights we apply to most of the asset classes, notably construction and real estate exposures, as well as the exclusion of the bank's subordinated debt from our TAC calculations. Our base-case projections assume that the bank's customer financing will continue to increase at a similar pace to the previous year in 2018 and a slower pace in 2019 due to the expected economic slowdown in Turkey. We also expect that its net intermediation margin will remain at 4% in 2018, and over the forecast horizon. We expect the net cost of risk to trend around 2% over the next 12 to 18 months as the bank progressively builds its reserve coverage ratio, following a sharp increase in NPLs in 2016. We expect its dividend payout ratio to be 20%.

Albaraka Turk's reliance on tier 2 capital is greater than peers': it has US$250 million, issued in November 2015 (the first Basel III compliant Sukuk issued in Turkey). This is considered regulatory capital under Turkish regulations, although we do not take it into consideration in our capital calculations. The other subordinated sukuk issued in 2013 of US$200 million was redeemed early in Q2 of 2018. The bank's quality of capital is weaker than domestic peers, in our view, with Tier 2 instruments accounting for 38% of regulatory capital as of year-end 2017. This is because it has in recent years been using such hybrid issuance to boost its regulatory capital, which puts pressure on our RAC ratio, given the growth in risk assets.

In our view, Albaraka Turk's core earnings quality is adequate, with the bank posting an above-average NIM compared with its peer group, at 4% year-end 2017. However, as with the rest of the banking sector, we see a general decreasing trend, owing to high competition, costlier funding, elevated credit cost, and the effect of tighter regulations on fees and commissions. The sharp hike by the CBT of its main bank funding rate in 2018 may hamper Albaraka Turk's margin in the short term because it will affect distribution to depositors faster than intermediation income from loans. We expect the NIM to remain broadly consistent with 2017 levels for the full year in 2018, at approximately 4.0%. ABT's net income increased by 20.9% in 2017, mainly driven by the high levels of credit growth seen in Turkey over 2017. Albaraka Turk's return on average assets, at 0.79% as of December 2017, is lower than rated domestic peers, largely because a lower portion of its business comes from retail lending. Albaraka Turk also has one of the highest cost-to-income ratios among rated domestic peers at 53.89% as of December 2017, which we expect to reduce gradually as it continues to transform its core banking business.

Table 3

Albaraka Turk -- Capital And Earnings

		Year ended Dec. 31			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	12.3	10.5	9.7	9.8	10.7
S&P RAC ratio before diversification	N/A	4.75	4.67	4.85	5.21
S&P RAC ratio after diversification	N/A	3.74	4.05	4.18	4.42
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net intermediation income/operating revenues	70.9	80.7	81.2	80.8	78.2
Fee income/operating revenues	11.3	9.4	11.6	12.4	14.4
Market-sensitive income/operating revenues	4.2	0.0	3.6	4.8	6.0
Non-intermediation expenses/operating revenues	66.1	53.9	56.6	58.0	55.2
Preprovision operating income/average assets	1.3	2.1	1.8	1.8	2.0
Core earnings/average managed assets	1.1	0.8	0.8	1.2	1.3

*As of March 31.

Table 4

Albaraka Turk Katilim Bankasi AS RACF [Risk-Adjusted Capital Framework] Data

(Mil. TRY)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government and central banks	7,568	0	0	5,157	68
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	1,631	0	0	1,616	99
Corporate	23,052	20,863	91	36,861	160
Retail	3,384	0	0	2,371	70
Of which mortgage	2,893	0	0	1,725	60
Securitization§	0	0	0	0	0
Other assets†	3,086	2	0	5,585	181
Total credit risk	38,720	20,865	54	51,590	133
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	27	0	0	272	1,000
Trading book market risk	--	301	--	452	--
Total market risk	--	301	--	724	--
Operational risk					
Total operational risk	--	1,999	--	2,964	--
(Mil. TRY)		**Basel III RWA**		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		23,165		55,277	100
Total Diversification/Concentration Adjustments		--		14,854	27
RWA after diversification		23,165		70,131	127
(Mil. TRY)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,442	10.5	2,630	4.8
Capital ratio after adjustments‡		2,442	10.5	2,630	3.7

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.TRY--Turkish Lira. Sources: Company data as of Dec. 31, 2017, S&P Global.

Risk position: Asset quality is vulnerable to our forecasted economic slowdown in Turkey

We assess Albaraka Turk's risk position as constrained by the bank's deteriorated asset quality metrics, its relatively high exposure to the construction sector, an industry we consider to be inherently high risk, as well as credit growth that has historically outpaced the system average. Real estate is a concern for the Turkish economy in general, with

CRE vacancy rates at 23% and the average change in inflation-adjusted house prices forecasted to reach 3% in the next three years. The recent moderation in the bank's credit growth and the growing diversification of its lending book contribute to the gradual harmonization of its asset quality risk with the rest of the banking system.

Albaraka Turk has a high single-name concentration compared to domestic peers, which introduces asset quality volatility, as seen recently. At year-end 2017, the largest 20 cash financings stood at 2.8x of total adjusted capital. At the same date, construction and real estate comprised more than 24% of the bank's top 20 on-balance-sheet exposures and 18.3% and 6.6%, respectively, of the bank's cash and non-cash loans. We acknowledge the positive trend since 2012 as the share of lending to this sector has been decreasing. However, we note that this portfolio, as well as the entire financing book, have grown rapidly since 2009 and therefore remain vulnerable to further deterioration in operating conditions. The high share of the construction and real estate segments within problematic loans confirms our view, with construction comprising 15.3% of the bank's top 20 nonperforming assets and 19.4% of the top 20 restructured projects.

Asset quality deteriorated rapidly in 2016, with NPLs more than doubling in absolute terms, as a result of large individual loans becoming delinquent, and the impact of the lira depreciation, which illustrates the lack of granularity in Albaraka Turk's loan book. In 2017 they continued to increase but grow more slowly by around 15%. We saw an increase in credit costs for Albaraka, which was down to the migration of problem loans to lower categories, rather than new problem credits. Though we are likely to see a reversal of this bank specific deteriorating trend over the next 12 to 18 months, credit risk across the system has been elevated significantly by the overheating of the economy, lira volatility, and the high levels of lending growth. Albaraka Turk's gross nonperforming assets ratio was 4.7% as of December 2017(6.6% including TDRs), above the wider Turkish banking system's average of 3.0%, although the latter excludes restructured loans. Its net cost of risk (157 bps as of December 2017) compares favorably with rated domestic peers, although its reserves are low on a relative basis. Albaraka Turk has the lowest coverage ratio of its peer group, at 58% as of the end of 2017. However, Tier 2 capital, which we do not include in our calculation of TAC, provides additional comfort on the level of reserves available to absorb losses.

The NPL ratio as of 1Q2018 is 5.5%, with a further 10% impaired loans in Group 2. The portion of Albaraka Turk's foreign currency denominated lending is high at 48% as of December 2017, higher than domestic peers; it is principally in U.S. dollars (32.7%) and euros (15%). This remains a concern, particularly in view of the Turkish lira's volatility in 2018.

Table 5

Albaraka Turk -- Risk Position

		Year ended Dec. 31			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	17.8	11.1	17.8	20.1	33.8
Total diversification adjustment / S&P RWA before diversification	N/A	N/A	15.4	16.2	17.6
Total managed assets/adjusted common equity (x)	12.1	13.8	14.6	14.5	13.2
New loan loss provisions/average customer loans	(0.0)	1.6	1.2	0.4	0.5
Net charge-offs/average customer loans	N.M.	1.3	0.4	0.5	0.1
Gross nonperforming assets/customer loans + other real estate owned	6.3	6.6	6.4	2.8	3.9

Table 5

Albaraka Turk -- Risk Position (cont.)

		Year ended Dec. 31			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Loan loss reserves/gross nonperforming assets	64.7	40.8	38.7	51.6	44.4

*As of March 31. N/A - Not available. N.M.--Not meaningful. RWA --Risk Weighted Assets.

Funding and liquidity: A stable but short-term deposit base, in line with domestic peers

Given the significantly elevated refinancing risks that we expect Turkish banks to face over the next 12 to 18 months, we draw some comfort from Albaraka Turk's high proportion of core customer deposits in the its funding mix--about 73.1% of its funding base--and its adequate liquid assets (cash, central bank, and securities), which made up 25% of assets on Dec. 31, 2017. As of the same date, the bank's stable funding ratio was 102.8%, one of the highest among rated domestic peers. Our view on its liquidity is also supported by the ratio of broad liquid assets to short-term wholesale funding of 1.4x on Dec. 31, 2017. Albaraka Turk enjoys good access to debt and capital markets abroad. At Q1 of 2018 ABT issued a Tier 1 sukuk of US$205 million, of which US$150 million was from the parent ABG. In 2017, Albaraka Turk secured two murabaha syndicated loans, one worth $213 million and the other worth $101 million. In 2016 two syndicated murabaha loans were secured (a US$458 million facility and a €56 million facility) with a maturity of above one year. In 2015 it issued a Basel III compliant subordinated sukuk (Tier 2, US$250 million with a tenor of 10 years) and a five-year US$350 million sukuk in 2014. It also issued US$200 million of 10-year subordinated debt back in 2013, though this sukuk has been redeemed early as of Q2 2018.

Albaraka Turk's loan-to-deposit ratio has been about 100% over the past five years and was 105.8% as of year-end 2017. This compares favorably with the average of 115% for the Turkish banking system. However, like peers, Albaraka Turk's funding is mainly short term, leading to high asset-liability mismatches. On a positive note, about half of the bank's customer deposits are covered by Turkey's Savings Deposits Insurance Fund's guarantee scheme, implying that these are more stable. Owing to Albaraka Turk's more granular deposit base, this is significantly more than conventional Turkish banks. Likewise, the bank relies on significantly less short-term wholesale funding than its domestic peers, with such funding accounting for only 16.8% of its funding base as of year-end 2017 (up from 11.7% at the end of 2016) relative to a domestic peer group average of 18.8%. We expect the bank to maintain its current funding and liquidity metrics in the coming 12 months.

Table 6

Albaraka Turk -- Funding And Liquidity

		Year ended Dec. 31			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	75.0	73.1	72.3	75.0	78.7
Customer loans (net)/customer deposits	105.7	105.8	106.4	98.4	100.7
Long term funding ratio	90.4	84.4	89.1	92.3	89.0
Stable funding ratio	108.8	102.8	112.7	120.4	109.3
Short-term wholesale funding/funding base	10.5	16.8	11.7	8.3	11.9
Broad liquid assets/short-term wholesale funding (x)	2.2	1.4	2.3	3.7	2.2
Net broad liquid assets/short-term customer deposits	18.2	10.7	25.1	32.0	19.4
Short-term wholesale funding/total wholesale funding	42.0	62.7	42.3	33.0	56.0

Table 6

Albaraka Turk -- Funding And Liquidity (cont.)					
		Year ended Dec. 31			
(%)	2018*	2017	2016	2015	2014
Narrow liquid assets/3-month wholesale funding (x)	3.6	3.8	3.6	6.7	10.4

*As of March 31.

Support: One notch of uplift over the SACP for group support

The long-term rating on Albaraka Turk is one notch above its SACP, because we view the bank as having moderate strategic importance for its parent, Al Baraka Banking Group B.S.C. (BB/Negative/B). We base our view on the likelihood of support, if required, on Albaraka Turk's majority ownership and control by its parent. Albaraka Turk accounts for a significant portion of the group's assets, over 30%, and is closely linked to its parent's reputation, name, and brand.

We classify the Turkish government's potential to support the country's banking sector as uncertain. Regardless, we view Albaraka Turk as having low systemic importance within the Turkish banking system. As a result, we do not incorporate into the ratings any notches of uplift for extraordinary government support from the Turkish authorities.

National Scale Ratings and Issue Credit Ratings

We rate Albaraka Turk's senior and subordinated sukuk issues through various SPVs as follows: Bereket Valik Kiralama A.S. at B and Albaraka Sukuk Ltd. at 'CCC-'. The latter is notched down from its SACP. The 'CCC-' rating on the subordinated sukuk trust certificates reflects the three-notch deduction from Albaraka Turk Katilim Bankasi A.S.' (the sukuk's sponsor) SACP of 'b-': two for subordination and a further notch for the clause of mandatory write-down at the point of non-viability. Albaraka Turk's senior issue ratings (through Bereket Valik Kiralama A.S.) is at 'B', as it's at the same level as the bank's ICR.

We set ABT's national scale long-term rating at 'trBBB+' in line the relevant mapping table. ABT's national scale short-term rating is 'trA-2'.

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012

- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	**8**	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	**b+**	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of October 11, 2018)

Albaraka Turk Katilim Bankasi AS		
Issuer Credit Rating		B/Stable/B
Turkey National Scale		trBBB+/--/trA-2
Issuer Credit Ratings History		
17-Aug-2018		B/Stable/B
04-May-2018		B+/Stable/B
17-Aug-2016		BB-/Stable/B
17-Aug-2018	*Turkey National Scale*	trBBB+/--/trA-2
29-Jun-2018		trA+/--/trA-1
04-May-2018		trA-/--/trA-2
17-Aug-2016		trA+/--/trA-1
Sovereign Rating		
Turkey		
Foreign Currency		B+/Stable/B
Local Currency		BB-/Stable/B
Turkey National Scale		trAA+/--/trA-1+
Related Entities		
Al Baraka Banking Group B.S.C.		
Issuer Credit Rating		BB/Negative/B
Jordan Islamic Bank		
Issuer Credit Rating		B+/Stable/B

Ratings Detail (As Of October 11, 2018) (cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.