

Summary:

Albaraka Turk Katilim Bankasi AS

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Summary:

Albaraka Turk Katilim Bankasi AS

SACP	b+		+	Support	+1	+	Additional Factors	0
Anchor	bb+			ALAC Support	0		Issuer Credit Rating <div style="background-color: yellow; padding: 10px; text-align: center;"> BB-/Stable/B </div>	
Business Position	Moderate	-1		GRE Support	0			
Capital and Earnings	Weak	-1		Group Support	+1			
Risk Position	Moderate	-1		Sovereign Support	0			
Funding	Average	0						
Liquidity	Adequate							

Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Good operational track record and growth potential in Turkey's Islamic (participation) banking segment. • Resilient core operating performance. • Support provided by majority owner, Al Baraka Banking Group B.S.C. 	<ul style="list-style-type: none"> • Above-average credit risk due to large, albeit declining, exposure to the construction sector and single-party concentration. • Deteriorating core capitalization and higher-than-average reliance on Tier 2 instruments for capital build. • High asset liability mismatches, in common with the wider Turkish banking system.

Outlook: Stable

The outlook on Turkey-based Albaraka Turk Katilim Bankasi (Albaraka Turk) is stable, reflecting our expectation that the financial profile of the bank is likely to remain unchanged over the next 12 months despite the pressure in its operating environment.

We could lower the ratings if the bank's asset quality indicators deteriorate further in the current difficult operating environment. We believe the bank's profit margins are sufficient to absorb a continued moderate rise in nonperforming financings (NPFs) and associated cost of risk. If nonperforming assets were to sharply increase over the forecast period, we would review the bank's capacity to absorb losses while maintaining adequate profitability. A weaker assessment of the Turkish banking environment, which we currently view as on a negative trend, might not necessarily imply a downgrade of Albaraka Turk as we could revise our assessment of its asset quality and risk management. Additionally, Tier 2 capital, which we do not include in our calculation of total adjusted capital (TAC), provides comfort on the level of reserves available to absorb losses. This mitigates the pressure on Albaraka Turk's regulatory capitalization despite the potential asset quality deterioration in the system.

On the other hand, an upgrade could follow if the parent were to significantly strengthen the bank's capitalization through Tier 1 instruments as well as turn around asset quality trends.

Rationale

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

In our view, Albaraka Turk's business position is moderate, mainly reflecting the bank's relatively minor market position in the broader Turkish banking sector, though it holds a stronger position in the participation banking segment. We assess the bank's capital and earnings as weak, reflecting its RAC ratio of 4.7% as of year-end 2016, and we expect it to reduce to around 4.0% over the next 12-18 months. We expect net interest margins to reduce slightly, along with more subdued loan growth, increasing funding costs, and elevated cost of risk over the forecast period.

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. We assess Albaraka Turk's risk position as moderate, constrained by the bank's deteriorating asset quality metrics and its high exposure to the construction sector, high single obligor concentration, and credit growth that is faster than the system average. The recent moderation in the bank's credit growth is supportive of a stabilization of the bank's asset quality risk, in our view. 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 last year's attempted coup, along with a cut in the reserve requirements for Turkish banks. The combination of these bank-specific factors with the anchor translates into a stand-alone credit profile (SACP) of 'b+' for Albaraka Turk.

We incorporate one notch of uplift in the rating on Albaraka Turk to reflect group support from its parent the Albaraka Banking Group B.S.C., in accordance with our group rating methodology. Although the outlook on Albaraka Banking Group is negative, the rating on Albaraka Turk would not be affected if we downgraded the parent by one notch. This

is because there is currently a two-notch difference between the rating on the parent and its Turkish subsidiary.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, July 27, 2017
- 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: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 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

Related Research

- Banking Industry Country Risk Assessment: Turkey, July 17, 2017
- Turkey Foreign And Local Currency Ratings Affirmed; Outlook Remains Negative, May 5, 2017

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-

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