

Research Update:

Albaraka Turk Outlook Revised To Stable From Positive As Ambitious Growth Weakens Capitalization; Affirmed At 'BB/B'

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Overview

- Albaraka Turk's rapid loan growth has weakened its capitalization to a barely adequate level.
- We are revising our outlook on the bank to stable from positive.
- At the same time, we are affirming the 'BB/B' and 'trAA-/trA-1' ratings.
- The stable outlook reflects our expectation that the bank's business and financial profile will remain relatively unchanged in the foreseeable future.

Rating Action

On June 30, 2010, Standard & Poor's Ratings Services revised its outlook on Albaraka Turk Katilim Bankasi AS to stable from positive because we believe the bank's loan growth has weakened capitalization. At the same time, we affirmed our 'BB/B' long- and short-term counterparty credit ratings and our 'trAA-/trA-1' long- and short-term Turkey national scale ratings.

Rationale

The outlook revision reflects our opinion that Albaraka Turk has pursued more rapid loan growth than we anticipated, weakening capitalization. Our outlook revision means that the probability of an upgrade is less likely.

The ratings on Albaraka Turk reflect its good track record in Turkey's participation (Islamic) banking market, adequate funding supported by a strong but short-term deposit franchise, and limited market risk. The ratings are constrained by the high-risk operating environment in the Republic of Turkey (foreign currency ratings BB/Positive/B, local currency ratings BB+/Positive/B), the bank's small size and market share, high loan leverage, and above-average credit risk due to its large exposure to small and midsize enterprises.

Albaraka Turk, like most of its peers in the interest-free banking segment, continued to rapidly extend loans in 2009, mainly toward riskier midsize Turkish enterprises. Indeed, loans increased more than 25% last year, despite tough economic conditions. Although the bank's current asset quality indicators are adequate, we believe that this type of rapid growth could result in more problematic loans.

The rapid growth came at the expense of capitalization and the bank's capital adequacy metrics are currently barely adequate, in our view. We do not expect shareholders to inject additional capital in the near term, and we believe that internal capital generation will remain barely adequate to support the bank's projected asset growth.

Albaraka Turk is 56.6% owned and controlled by Bahrain-based Albaraka Banking Group (B.S.C.) (ABG, BBB-/Stable/A-3). It is ABG's largest subsidiary and we classify the bank as strategically important to its parent. Albaraka Turk represented 32.7% and more than 42.7% of total group assets and profits in 2009, respectively. ABG has shown a strong commitment to its subsidiaries, notably through ongoing capital support and risk management discipline. However, we believe that in a worst-case scenario, ABG's capacity to provide extraordinary support to Albaraka Turk is somewhat limited because the subsidiary represents a sizable portion of the group. Therefore, the ratings on Albaraka Turk reflect its stand-alone credit profile (SACP) and do not factor in uplift for extraordinary support. At the same time, we believe that the ownership structure and resulting ongoing support are positive factors that we incorporate into the bank's (SACP).

Outlook

The stable outlook reflects our belief that Albaraka Turk will maintain its asset quality and capitalization at current levels. We could lower the ratings on the bank if it fails to maintain adequate quality and capitalization. An upgrade would require a significant improvement in the bank's capitalization, further diversification of its loan book, and less ambitious balance sheet growth.

Related Criteria And Research

Bank Rating Analysis Methodology Profile, March 18, 2004

Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Albaraka Turk Katilim Bankasi AS		
Counterparty Credit Rating	BB/Stable/B	BB/Positive/B
Long-term Turkey national scale rating	trAA-	
Short-term Turkey national scale rating	trA-1	
Certificate Of Deposit	BB/B	

NB: This list does not include all ratings affected.

Additional Contact:

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