



IIRA Reaffirms Fiduciary Ratings of Albaraka Turk

Manama, August 30, 2017 – Islamic International Rating Agency (“IIRA”) has maintained the foreign and local currency ratings of Albaraka Türk Katılım Bankası A.Ş. (“ALBRK” or “the bank”) at ‘BB+ / A3’ (Double B Plus / A Three) at ‘BBB- / A3’ (Triple B Minus / A Three), respectively on the international scale. The national scale ratings have also been reaffirmed at ‘AA-(tr) / A1(tr)’ (Double A Minus / A One). Outlook on the assigned ratings is ‘stable’. While the bank’s asset quality exhibits a weakening trend that could likely put a strain on its growth prospects, our ratings affirmation reflects the expected support from Al Baraka Banking Group B.S.C. (“ABG” or “the group”).

The ratings also reflect the bank’s majority ownership (54.06%) by ABG – a leading Islamic wholesale bank in Bahrain that has a strong franchise and multijurisdictional presence across three continents. In its assessment, IIRA factors the group’s ongoing support to the bank in the form of operational synergies and oversight.

The ratings are constrained by the bank’s increasing non-performing assets coupled with the significant rise in past due but not impaired financings over the last two years and declining provision coverage due to the general economic factors existing in the country. In addition, concentration towards vulnerable sectors of the economy particularly in the construction and real estate activities exposes the bank to both heightened credit and market risks in a difficult economic scenario.

In the context of rising business risk indicators, and given the bank’s future growth and expansion plans, capital reinforcement would be required to maintain risk profile in future periods. As such, future rating action hinges on the bank successfully boosting its recovery measures as planned and capital reinforcement. Liquidity remains adequate in terms of the levels of reserves maintained vis-à-vis obligations. Reliance on wholesale deposits is on the increase; enhanced focus on retail, local currency deposits would improve stability of the bank’s funding base.

ALBRK operates as a participation bank in the Republic of Turkey (“Turkey” or “the country”) through its 212 domestic and one overseas branch network. Given its long operating track record, the bank has depicted strong organic growth thereby gradually gaining market position over the years prior to 2016; yet the scale of operations is relatively small in the local context.

IIRA’s assessment on the bank’s overall fiduciary score remains in the range of ‘76-80’, reflecting strong fiduciary standards with a well-developed governance structure, wherein rights of various stakeholders are considered to be well- defined and protected. However, there still remains room for improvement in terms of increasing independent representation on the Board, aligning the committees’ composition in line with global best practices, and further improving participation banking specific disclosures.



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

For further information on this rating announcement, please contact the undersigned at sabeen.saleem@iirating.com, or alternatively email at iira@iirating.com.

Sabeen Saleem, CFA
Chief Executive Officer

The information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information herein is provided "as is" without any representation or warranty of any kind. IIRA, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) / score(s) mentioned. Rating is an opinion and not a warranty of a rated entity's current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.