

Turkey
Credit Analysis

Albaraka Turk Katilim Bankasi A.S.

Ratings

Foreign Currency	
Long-Term IDR	BB-
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB-
Short-Term IDR	B
National	
Long-Term Rating	A+ (tur)
Individual Rating	D
Support Rating	3
Sovereign Risk	
Foreign-Currency Long-Term IDR	BB-
Local-Currency Long-Term IDR	BB
Country Ceiling	BB

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable
National Long-Term Rating	Stable

Watch

Sovereign Foreign-Currency Long-Term IDR	Positive
Sovereign Local-Currency Long-Term IDR	Positive
Country Ceiling	Positive

Financial Data

	31 Dec 08	31 Dec 07
Total assets (USDm)	3,113.7	3,153.2
Total assets (TRYm)	4,749.7	3,664.4
Total equity (TRYm)	635.4	531.3
Operating profit (TRYm)	171.2	105.3
Published net income (TRYm)	136.5	83.6
Comprehensive income (TRYm)	136.5	83.6
Operating ROAA (%)	4.07	3.43
Operating ROAE (%)	29.4	27.1
Equity/total assets (%)	13.4	14.5
Eligible capital/weighted risks (%)	17.79	21.89
Tier 1 ratio (%)	17.70	21.40

Analysts

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Rating Rationale

- The Long-Term Issuer Default Ratings, Support Rating and National Long-Term Rating of Albaraka Turk Katilim Bankasi A.S. (Albaraka Turk) reflect the support the bank can expect to receive from its majority shareholder, Albaraka Banking Group (ABG). The Individual Rating reflects concerns over asset quality and its small size, offset by its good profitability and minimal market risk.
- The company maintained sound operating profitability in 2008 and H109, despite the difficult environment. The contribution of fees and commissions to operating revenue continued to improve, although remained lower than for peers. Despite its small size and recent franchise expansion, Albaraka Turk's cost structure and efficiency measures compare well with the sector. However, Fitch Ratings expects costs to rise due to the construction of new headquarters.
- Following the economic downturn, non-performing loans (NPLs) started to climb and reached 4.1% of total loans in H109. Although asset quality has worsened at Albaraka Turk, it is still better than at its peers; however, the pace of deterioration is faster than at its competitors and Fitch considers that upside risks might be higher. These negative factors are partly explained by the unique features of participation banking, as asset quality problems can be identified earlier than at commercial banks.
- The bank is totally funded by deposits and the management pursues policies to maintain a sufficient level of liquid assets. Although funding stability has been tested, the bank's small size makes it potentially vulnerable to liquidity risks, in part due to the absence of eligible securities that could be pledged for liquidity.
- The regulatory capital ratio decreased to a still moderate 16.1% in H109, mainly due to a hefty cash dividend pay-out. Fitch believes that, for a small bank operating in a volatile market, higher capitalisation would provide better buffers against potential economic downturns.

Support

- Albaraka's primary source of support, were it to run into difficulties, would be its principal shareholder, ABG. Fitch believes that the parent has a high propensity to provide support, but its ability to do so may be limited.

Key Rating Drivers

- Albaraka's IDRs reflect its support from ABG and have a Stable Outlook. This is likely to remain unchanged in the medium term.
- The key driver of any Individual Rating upgrade, although limited, would be a sustained improvement in the operating environment, coupled with greater diversification of lending and funding. Persistent increases in loan impairment charges, leading to substantial capital erosion, might trigger a downgrade.

Profile

Albaraka Turk is the smallest participation bank in Turkey, with a market share of 18.6% in the segment. The bank is a member of the Bahrain-registered ABG, a leading Islamic banking group. It offers corporate and retail finance, leasing and international banking.