الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Maintains Ratings of Kuveyt Turk Participation Bank

Manama, June 22, 2021 – Islamic International Rating Agency ("IIRA") has reaffirmed the foreign currency and local currency ratings assigned to Kuveyt Turk Participation Bank ("KTPB" or "the Bank") at 'BBB-/A3' (Triple B Minus /A Three) and 'BBB/A3' (Triple B/ A Three) respectively, on the international scale. Meanwhile, national scale ratings have been maintained at AA (tr)/ A1+(tr)' (Double A/A One Plus). Outlook on the international scale Rating is 'Negative', reflecting the outlook on the rating of the Republic of Turkey, last updated on June 11, 2021, while IRA's outlook on national scale ratings of KTPB remains 'Stable'.

Despite posting positive growth in 2020, the Turkish economy witnessed exacerbation of imbalances with sizable current account deficit and erosion of CBT reserves triggering significant depreciation. Economic activity is expected to post above-trend GDP growth in the year 2021 owing to base effects, expected recovery in tourism and better external balances. Inflationary pressures have persisted despite the tighter monetary stance, given global food and energy price increases and lagged impact of TL depreciation. In view of the economic and business pressures, Banking Regulation and Supervision Agency (BRSA) enacted forbearance measures for relaxed capital calculations and extended NPL recognition to 180 days from 90 days which shall be valid until end of June 2021. Partly on account of these measures, asset quality indicators in the banking sector did not post any material deterioration, and capital buffers remained within regulatory requirements, despite rapid loan growth, boosted by the loose monetary stance of the Central Bank of Turkey as well as the asset ratio regulation in force.

Assigned ratings of KTPB take cognizance of the strong sponsor support derived from KFH Kuwait Finance House KSC ("KFH") being its sponsor shareholder. Controlled by government entities of Kuwait and with an asset base of USD71bn in assets at the end of year 2020, KFH remains on strong footing, benefiting from the support of Kuwait Sovereign. Other shareholders of the Bank include public sector entities in Turkey and the Islamic Development Bank, adding further support to ratings. Meanwhile, the Bank's risk indicators continue to compare favorably to sector averages.

Total assets of KTPB expanded by 45.1% in 2020, mainly on the back of rapid deposit growth, fueled by depreciation of Turkish Lira and dollarization of deposits. Relative to prior year, asset mix of KTPB shifted more towards investments which was partly due to the asset ratio regulation, effective from May – December 2020, setting a minimum threshold of investment in earning assets. NPF ratio has deteriorated in the year 2020 partly due to classification of one-large file, while the Bank continued to fare better than peers in terms of overall asset quality indicators and higher provisioning cover. Pandemic related NPL inflows are likely to be observed in 2021 with the lifting of forbearance measures; however, cost of credit risk is likely to decline as provisions have been taken proactively in 2020.

The Bank registered robust growth in funding base mainly in FCY and precious metals accounts during 2020, triggered by TL depreciation. The share of current deposits remained well above the banking sector average whereas the diversification of fund sources improved further. With the regulatory credit push, excess liquidity was channeled more towards credit portfolio in line with sector trends so that coverage of funding sources from liquid assets retreated modestly; LCR and NSFR levels nevertheless point to strong liquidity buffers, despite having fallen slightly on a YoY basis.

Steady internal capital generation through retention of profits as well as the USD50m tier-1 capital issuance in 2020, caused capital buffers to remain well above regulatory thresholds, even when adjusted for the 350bps-400bps support from forbearance measures. The Bank has redeemed its USD350mn tier-2 sukuk in February 2021 to avoid phased reduction in eligible capital as required, as remaining term to maturity fell below 5 years. The bank plans fresh issuance to replace the redeemed issue. Going forward, internal capital generation should suffice for anticipated short-term growth whereas the Bank plans to further support capital buffers through fresh capital issuance towards the end of year 2022.

Net earnings depicted healthy growth during 2020 owing mainly to improving net spread income in tandem with sharp reduction in deposit costs. On the other hand, the Bank continued to build provision buffers both for proactive IFRS-9 related provisions for stage 1 & stage 2 assets as well as stage 3 cover. Return indicators of KTPB continued to indicate premium over sector and PB peers. For the year 2021, the profitability outlook will be dampened by weaker profit share margins and an increasing cost base. However, continued growth along with expectations of improvement in fee income and cost of credit risk, will support the bottom line.

For further information on this rating announcement, please contact us at iira@iirating.com