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## NIS Initiates Credit Ratings to Albaraka Türk

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**İstanbul, June 29 2020** – National Investors Derecelendirme A.Ş. (“NIS”) has assigned national scale credit ratings of ‘A+(tr)/A1(tr)’ (A Plus / A One) to Albaraka Türk Katılım A.Ş. (“Albaraka Türk” or “the Bank”). The outlook on the NIS long-term rating is ‘Stable’.

Albaraka Turk is a pioneer in participation banking and is one of the six participation banks in the Republic of Turkey. The Bank held a 1.1% market share in terms of assets within the Turkish Banking Sector and an 18.1% share in the Participation Banking segment at end 2019. Foreign shareholders maintain 62% of the Bank’s shareholding, whereby Al Baraka Banking Group (“ABG”) and Dallah Group collectively hold a majority stake, with Islamic Development Bank also being a prominent shareholder. Albaraka Türk operated with 230 branches spread through Turkey at the end of 2019.

During most of the year 2019, the Bank booked limited growth in financings, as the macroeconomic conditions and high benchmark rates remained non-conductive to growth, and resulted in depressed financing offtake. However, in the last quarter of the year, risk appetite improved following the successive and sharp policy rate cuts by the Central Bank of Turkey (“CBT”) and improved economic activity.

The Bank’s gross impairment ratio increased moderately over prior year as the sector recognized significant increase in asset impairment, with the Bank’s asset quality indicators beginning to converge to sector average in 2019, after posting slightly more adverse trends in 2018. Further, notable decline was observed in stage 2 financings. On a positive note, the Bank has much lower exposure to more vulnerable sectors in the post-COVID 19 environment, such as tourism and transportation. However, with relatively lower provision coverage, high exposure concentration in the financing portfolio as well as noteworthy exposure to real estate, which is susceptible to weakness in the present circumstances, the bank is positioned at the riskier end of the Turkish Banking spectrum in terms of asset quality.

Even though financing growth accelerated vis-à-vis 2018, significant excess liquidity buildup was noted, sourced from rapid deposit growth, and channeled mostly into government securities. As a result, the liquidity profile of the bank reflects adequate buffers and compares favorably to peers.

Capitalization metrics improved as the Bank completed TL450mn cash capital increase. At current levels, the bank’s CAR and tier-1 ratio remain well above regulatory minimum levels. Cognizant of the bank’s plans to issue USD50mn tier 1 sukuk in the second half of the year, IIRA believes that capital buffers would suffice for the ongoing year. However, internal capital generation trends may not be commensurate with an accelerated pace of business as expected, partly stemming from efforts to comply with regulatory asset ratio, and as such pose risk to the capital profile of the bank.

Net earnings fell in 2019, as notable decline in net profit share income, lower trading income and high growth in personnel costs outweighed the positive impact of superior fee income generation and decline in other costs. In the ongoing year, the accelerating volume growth and lower cost of funding, should support operating profitability, which may offset increase in provision buffers expected during the year;



as such overall profitability levels may not be materially lower than prior year although upside potential remains limited.

For further information on this rating announcement, please contact us at **[nistrating.com.tr](http://nistrating.com.tr)**

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