الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA affirms Ratings of the Kuveyt Türk Participation Bank

Manama, May 15, 2023 – Islamic International Rating Agency ("IIRA") has maintained foreign currency and local currency ratings of Kuveyt Türk Participation Bank ("KTPB" or "the Bank") on the international scale at 'BB+/A3' (Double B Plus /A Three) while affirming the national scale ratings at 'AA (tr)/ A1+(tr)' (Double A/A One Plus). Outlook on the ratings remains 'Stable'.

The Bank is the largest participation bank amongst the six participation banks in The Republic of Türkiye ("Türkiye" or "the Country"). In 2022, the bank has maintained its standing as 10th largest within the banking sector and 7th within private banks in terms of total assets, at a standalone market share of 3.4% of sector deposits (2021: 4%) and 33.8% of participation deposits (2021: 35.4% and 38.1%).

Turkish economy posted rapid growth in 2022, partly due to an eased monetary policy, with interest rates persisting well below inflation. In the current year, the economy is likely to slow down, also to be impacted by the twin earthquakes in February. Fiscal deficit remained quite low, and unemployment has declined, however, an expanding current account deficit and high inflation, despite recent decline, remain concerns. Financing of the current account deficit has led to erosion of CBT's gross reserves recently. The banking sector has benefited from both growth and the prevailing economic policies. The profitability of the sector was significantly boosted mainly on account of wider spreads as returns on CPI-linked securities and credits boosted earnings whereas deposit costs remained contained, due to the effects of the foreign currency protected deposit scheme. Asset quality indicators and capitalization buffers depicted notable improvement as well. For the ongoing year, the macroeconomic policies are expected to change at least moderately with tighter conditions expected. Potential rate hikes could decelerate economic activity and pressure asset quality in the sector moderately, along with the expected losses from earthquake-hit cities. In addition, lower yields of CPI-linked assets and narrower margins would also stress profitability prospects. However, given the sizable buffers and recent capital increase for state-owned banks, the banking sector is foreseen to be able to weather the expected stress.

KTPB's asset quality indicators maintained their positive trend during 2022 with gross NPF ratio retreating to 1.6% at year-end. Meanwhile, total ECL coverage was beefed up notably reaching 423.4%, and being at a sizable premium vis-a-vis sector wide average cover. In 2023, asset quality prospects could be negatively impacted from the spillovers of the earthquake, and possible rapid depreciation of Turkish Lira amidst an expected slowing down of the economy and tighter monetary conditions. However, the bank's risk buffers are deemed capable of withstanding such stress. A relatively diversified credit portfolio in terms of obligors and economic sectors, declining share of FCY financings, and significant provisions being maintained would be mitigating factors on this front.

Deposit growth during 2022 exceeded 40%, mainly driven by TL deposits, as customers switched to FCY protected deposit accounts. Ongoing conversion in 2023, enabled the Bank to reach CBT's target of 60% Turkish Lira deposits within the total deposit base. In addition, the funding mix became further diversified with an increasing proportion of retail accounts. LCR and NSFR indicators confirm sound liquidity buffers.

CAR and CET1 ratios improved to 26.4% and 18.6% respectively, driven by the superior profitability trends in 2022. In the absence of regulatory forbearance measures, CAR would decline to around 22% which would still be comfortably above the BRSA minimum threshold of 12%. Going forward, healthy internal capital generation and conservative dividend payments as required by regulatory authorities, will enable the Bank to operate without needing any external capital support, at least over the next 24-months, even under stressed scenarios.

The Bank's net earnings grew 3.4x in 2022. Growth in revenue was broad-based with particularly superior performance in net profit share income as financing yields were further supported by the increasing share of Turkish Lira financings, and as the relatively high share of CPI-linked sukuk, coupled with high inflation boosted returns on the sukuk portfolio. In addition, both successive rate cuts by the Central Bank of Türkiye and newly introduced FCY protected deposit scheme supported the net spread income by moderating the increase in funding costs. Return on average assets improved to 4.5%, persisting above the banking sector average of 3.7% and PB sector average of 3.1%, due to bank specific factors such as a favorable mix of fund sources, strong trading gains, and better asset quality. For the ongoing year, net profit share margins may contract, but the higher volume of earning assets, (albeit with moderation in growth over 2022) and elevated yields of CPI-linked sukuk, will support profitability, as will likely growth in fee income in tandem with rising business volumes.

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