

Kuveyt Turk Katilim Bankasi A.S

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F3

Local Currency

Long-Term IDR	BBB+
Short-Term IDR	F2

National Long-Term Rating	AAA(tur)
Viability Rating	bb-
Support Rating	2

Sovereign Risk

Long-Term Foreign-Currency IDR	BBB-
Long-Term Local-Currency IDR	BBB
Country Ceiling	BBB

Outlooks

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

Financial Data

Kuveyt Turk Katilim Bankasi A.S

	30 Sep 12	31 Dec 11
Total assets (USDm)	9,823	7,699
Total assets (TRYm)	17,681	14,714
Total equity (TRYm)	1,616	1,440
Operating profit (TRYm)	242	246
Published net income (TRYm)	196	193
Operating ROAA (%)	2.02	2.01
Operating ROAE (%)	21.1	18.2
Internal capital generation (%)	14.8	12.7
Fitch core capital/weighted risks	11.8	13.1
Tier 1 ratio (%)	11.3	12.8

Related Research

[Fitch Upgrades Turkey to Investment Grade \(November 2012\)](#)

[Turkey \(November 2012\)](#)

[2013 Outlook: Turkish Banking Sector \(December 2012\)](#)

[EM Banking System Datawatch \(November 2012\)](#)

[Turkish Participation Banks \(March 2011\)](#)

Analysts

Banu Cartmell
+44 20 3530 1109
banu.cartmell@fitchratings.com

Levent Topcu
+90 212 284 7819
levent.topcu@fitchratings.com

Key Rating Drivers

Support-Driven IDRs: Kuveyt Turk Katilim Bankasi A.S's (Kuveyt Turk) IDRs, Support and National Long-Term Ratings reflect the likelihood of support from its majority shareholder, Kuwait Finance House (KFH; 'A+'/Stable). Fitch considers Kuveyt Turk as a strategically important subsidiary of KFH given the parent's committed focus on Turkey, Kuveyt Turk's significant size relative to the group and its integration with the parent.

Growth Appetite: Kuveyt Turk has been through a rapid growth period and doubled its asset size (in US dollar terms) since end-2009. The bank follows a long-term strategic plan to become one of the 10 largest banks in Turkey by 2018. The upper echelons of the Turkish banking system are highly competitive, and the main long-term challenge for Kuveyt Turk will be to increase balance sheet diversification while remaining profitable and competitive. The bank has maintained satisfactory asset quality, profitability, liquidity and efficiency ratios.

Sound Core Profitability: Kuveyt Turk's sound margins and profitability are a key strength in a competitive environment. Its ability to perform favourably relative to peers will depend on it sustaining its core profitability through its planned expansion cycle, with an increased focus on fee-generating businesses. Efficiency metrics are good compared with the Turkish banking system and peers. Operating return on equity (ROE) has consistently been maintained around 20%, in line with sector averages.

Concentration in Construction: Exposure to the construction industry accounted for a considerable 25% of total loans at end-H112, mainly driven by off-balance sheet exposures. Kuveyt Turk's loan book concentration in the construction sector may expose the bank to a higher credit risk in case of sector related problems. However, the relatively high share of state-related construction business provides some buffer against potential sector specific volatilities.

Good Asset Quality: The non-performing loans (NPL) ratio of 2.3% at end-9M12 was better than its peers and the sector average; and reserve coverage is also good. The cost of risk has been stable at around a reasonable 1.0% over the last three years. However, Kuveyt Turk's rapidly growing loan book needs to be tested through the credit cycle.

High Liquid Assets: Liquid assets comfortably covered 45% of customer deposits in 9M12. The primary funding source was diversified retail deposits. Fitch's core capital ratio was just a moderate 11.8% at end-9M12, but this should be viewed in conjunction with the support from the parent.

What Could Trigger a Rating Action

Constrained by Country Ceiling: A change in KFH's ability and/or willingness to support Kuveyt Turk could affect the latter's IDRs and Support Rating. In addition, its Long-Term Foreign-Currency IDR is constrained by Turkey's Country Ceiling of 'BBB'. A change in the Country Ceiling would be reflected in Kuveyt Turk's IDRs.

Managing Growth a Challenge: An upgrade of the VR would require successful progress in executing rapid organic growth plans, reflected in continued sound performance, capitalisation and diversified funding. A downgrade could be driven by a substantial worsening of asset quality that would hurt capitalisation and overall credit metrics.