



IIRA Announces its international and national scale ratings of Kuwait Turkish Participation Bank

Istanbul/ Bahrain, October 05, 2008 – IIRA has assigned its international scale ratings of BB+/ A-3/ Stable for foreign currency long term and short term obligations and BBB-/ A-3/ Stable for local currency long term and short term obligations of Kuwait Turkish Participation Bank. IIRA has also assigned its National scale ratings of A- (tr) (A minus) and A-2 (tr) (A two) to medium to long term and short term obligations of Kuwait Turkish Participation bank. The outlook for all the ratings is stable

The above ratings indicate a strong parent, Kuwait Finance House as well as strong shareholders like the General Directorate of Foundations. When market conditions forced postponement of a planned IPO in February 2008, the shareholders added YTL 200 million in new equity to support growth. This was second capital increase from the shareholders after May 2007 increase in which shareholders added YTL 69 mn of equity capital. KTPB has strong management and improving asset quality. Though the historical data suggest asset quality problems with NPLs including loss reserves standing at 17% during 2004, improvements are reflected with 2007 problem assets almost approximating the industry average at 4.3% of gross loans. As a percentage of economic capital, problem assets remained 24.3% by 2007. Non performing assets net of loss reserves were YTL 39.7 million compared with core profits of YTL 85.6 million. Reserves coverage of the non-performing loans was adequate at 67.4% at year end. Separately reported, delinquent lease rental receivables totaled YTL 14.2 million. Exposure to market risk is minimal owing to nominal trading book exposure and largely matched currency positions.

Capital is adequate to meet the current capital charge on current risk weighted assets with CAR at 14.7% in 2007 exceeding the regulatory requirement of 12%. However, management's plans for expansion in assets and branches warrant additional capitalization. The ratio is low when compared with peers like Albaraka and Bank Asya holding CAR of 21.7% and 17.2% in 2007.

The assets are mostly concentrated in customer loans. While it is good for profitability, the bank should consider the liquidity implications of the same. By the year end 2007, loans to deposits ratio was 101.7% suggesting excess utilization. High loan to deposit is partially mitigated with the presence of equity capital of YTL 550 mn, availability of funding lines and liquid assets (cash, placements with FIs and quoted investments) which remained 22% of the total liabilities. Shorter maturity Gap also exhibited high funding needs and 1-3 month maturity GAP adjusted for stickiness in deposits amounted to -14.3%.

Core earnings measured against average assets increased to 2.5% in 2007, up from 1.7% in 2006. By 2007 return on average asset (ROAA) and return on average equity (ROAE) improved to 2.0% and 19.9% from 1.5% and 16.0% in 2006. Increase in profitability is represented by growth in assets specifically retail assets, increase in fee based income and Improvement in efficiency and productivity.

The ratings are constrained by the relatively small size of the bank forcing it to assume a price taker status in the market. KTPB advances constitute 1.37% of the banking industry advances. The management is taking initiatives to increase the market share by focusing on branch expansion and market penetration.

IIRA will continue to monitor progress on capital expansion, quality of asset growth, and indigenous growth in core profitability (ability of the bank to fund expansion through retained earnings) since these factors have substantial bearing on credit standing of the KTPB.

For further information on this rating announcement, please contact Mr. J. M. McMullen (Senior Vice President-Ratings) or Mr. Umer Zuberi (Assistant Vice President) at +973-17211606 or fax no +973 17211605.

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