FitchRatings

Fitch Affirms Three Turkish Foreign-Owned Banks at 'BBB-'

Ratings Endorsement Policy

20 Apr 2012 11:34 AM (EDT)

Fitch Ratings-Istanbul/Paris/London-20 April 2012: Fitch Ratings has affirmed Turkey's Finansbank A.S., Denizbank T.A.S. and Turk Ekonomi Bankasi A.S.'s (TEB) Long-term (LT) foreign currency Issuer Default Ratings (IDR) at 'BBB-'. Russia's CJSC Dexia Bank's (a subsidiary of Denizbank) LT IDR has also been affirmed at 'BBB-'. The ratings have a Stable Outlook. A full list of rating actions is at the end of this comment.

The three Turkish banks are second-tier institutions, majority owned by foreign shareholders. Finansbank and Denizbank's LT foreign currency IDRs are underpinned by their intrinsic financial strength, as reflected by their 'bbb-' Viability Ratings (VRs). TEB's IDRs are driven by potential support from its majority shareholder, BNP Paribas (BNPP; 'A+'/Stable), given TEB's slightly lower VR ('bb+').

Finansbank and Denizbank's VRs are supported by their solid credit metrics, reflected in adequate capital levels, sound risk management and credit underwriting capabilities, solid profitability, expanded franchises and stable deposit funding. TEB's lower VR reflects its lower profitability relative to peers, some pressure on cost efficiency ratios and a slightly weaker franchise.

Fitch expects GDP growth in Turkey to slow considerably in 2012, and this is likely to exert moderate negative pressure on banks' asset quality and performance as loan books season across the sector. Furthermore, the banks face competitive challenges in defending and gaining market shares from the handful of larger banks which dominate the sector.

Finansbank is a larger second-tier bank in Turkey, with a 4.4% deposit market share (Denizbank and TEB each have 3.1% according to unconsolidated Q311 sector figures). Finansbank and TEB are pursuing an expansion-driven strategy, targeting, in particular, the high margin consumer and SME segments, where credit demand remains strong. Denizbank currently also plans to continue its expansion in 2012, mainly in the retail segments, although growth will be mainly aimed at protecting market share, and strategy is likely to be reviewed after the bank's expected sale.

The three banks continued to perform soundly in 2011, although in common with the rest of the sector, performance has been negatively affected by margin compression, driven by historically low interest rates and high reserve requirements. Performance indicators at Finansbank, Denizbank and TEB vary somewhat, reflecting differences in business mix, funding structure and asset quality indicators. Profitability is highest at Denizbank, where the operating ROAE reached 22% in 2011, but Finansbank follows closely with 21%. At TEB, this indicator lagged behind, at 12%.

Impaired loan ratios at Denizbank (2.8% at end-2011) and TEB (2.7%) are in line with the sector average of 2.7%. The ratio is higher at Finansbank (5.5%), reflecting its retail focus. For each of the banks, impaired loan reserve coverage is reasonable, averaging 78%. Capital adequacy ratios are sound, with Fitch core capital/weighted risks ratios at end-2011 of 13% (Finansbank), 11.4% (Denizbank) and 11.6% (TEB).

The three banks' loans/deposits ratios stood at around 120% at end-2011, above the sector average of 101%. However, retail deposits provide the bulk of funding for the three banks and parent funding is minimal, as the banks have been able to access other sources of wholesale funding.

Finansbank's LT IDRs are six notches above those of its owner, the National Bank of Greece ('NBG', 'B-'/Stable), which holds a 95% stake. This large differential reflects Fitch's view that there is limited contagion risk for Finansbank from NBG. Finansbank has no material asset exposure to NBG, or to Greece generally; its borrowings from NBG are limited to subordinated debt issues; and NBG has not sought to withdraw capital or liquidity from its subsidiary. Finansbank's domestic franchise has not been materially affected by NBG's problems, deposit growth was well above the sector average in 2011 and wholesale funding access has been maintained.

In Fitch's view, Dexia ('A+'/Negative/VR 'f'), which holds a 99.8% stake in Denizbank, is likely to remain supportive of its subsidiary prior to sale, notwithstanding its own weak financial position. Denizbank's LT local currency IDR and Support Rating continue to reflect this potential support, although the Rating Watch Negative on these ratings reflects the potential for them to be downgraded should the bank be sold to a more lowly-rated owner.

TEB almost doubled in size in February 2011 when it merged with Fortis Bank A.S., a move driven by BNPP's decision to consolidate its banking assets in Turkey. Both BNPP and TEB's local Turkish partner, the Colakoglu Group, are supportive of growth and would be likely to provide further capital if required. TEB is viewed as a strategic investment for both of its core shareholders. BNPP and Colakoglu jointly control TEB Holding, which holds a 55% stake in TEB, and BNPP separately holds an additional 40% stake in the bank.

Upside potential for Finansbank and Denizbank's ratings is limited in the near term, given that these banks' VRs are already above those of the Turkish sovereign's LT IDRs ('BB+'/Stable), and the banks' LT IDRs are at the Turkish Country Ceiling ('BBB-'). The banks' VRs could be downgraded if asset quality deteriorates markedly as loan books season and GDP growth slows, although this is currently not Fitch's base case expectation.

TEB's LT IDRs are constrained by Turkish country risks, and could only be upgraded if Turkey's sovereign ratings and Country Ceiling go up. TEB's VR could be upgraded to the level of Finansbank and Denizbank if management is able to demonstrate that integration of the merged banks is delivering the expected synergies and improvement in franchise, resulting in better efficiency and greater self sufficiency in funding.

CJSC Dexia Bank's LT foreign currency IDR is aligned with that of Denizbank given the high level of integration between the two banks, and CJSC Dexia Bank's small size relative to its parent. However, CJSC Dexia Bank could suffer a multi-notch downgrade, once Denizbank's owners change, should these decide to sell the Russian subsidiary.

The rating actions are as follows:

Finansbank:
Long-term foreign and local currency IDRs: affirmed at 'BBB-' with Stable Outlook
Short-term foreign and local currency IDRs: affirmed at 'F3'
Viability Rating: affirmed at 'bbb-'
Support Rating: affirmed at '3'
National Rating: affirmed at 'AAA(tur)' with Stable Outlook
Support Rating Floor: affirmed at 'BB-'
Senior unsecured long-term debt: affirmed at 'BBB-'

Denizbank:
Long-term foreign currency IDR: affirmed at 'BBB-' with Stable Outlook
Long-term local currency IDR: 'BBB', maintained on Rating Watch Negative
Short-term foreign and local currency IDRs: affirmed at 'F3'
Viability Rating: affirmed at 'bbb-'
Support Rating: '2' maintained on Rating Watch Negative
National Rating: affirmed at 'AAA(tur)' with Stable Outlook

Turk Ekonomi Bankasi:
Long-term foreign currency IDR: affirmed at 'BBB-' with Stable Outlook
Long-term local currency IDR: affirmed at 'BBB' with Stable Outlook
Short-term foreign and local currency IDRs: affirmed at 'F3'
National Long-term rating: affirmed at 'AAA(tur)' with Stable Outlook
Viability Rating: affirmed at 'bb+'
Support Rating: affirmed at '2'
Subordinated loan participation notes: affirmed at 'BBB-'

CJSC Dexia Bank:
Long-term foreign and local currency IDR: affirmed at 'BBB-' with Stable Outlook
Short-term foreign and local currency IDR: affirmed at 'F3'
National Long-term rating: affirmed at 'AA+(rus)' with Stable Outlook
Support Rating: affirmed at '2'

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuers, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Global Financial Institutions Rating Criteria' dated August 2011, 'National Ratings Criteria' dated January 2011, 'Rating Financial Institutions Above the Local Currency Sovereign Rating' dated December 2011 and 'Rating Foreign Banking Subsidiaries Higher than Parent Banks and Parent Bank Holding Companies' dated June 2011 available at www.fitchratings.com.

Applicable Criteria and Related Research:
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