

# Fitch Revises Outlook on Turkish Banks to Stable Following Similar Action on Sovereign Ratings

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Fitch Ratings-Istanbul/Paris/London-28 November 2011: Fitch Ratings has revised the Outlook to Stable from Positive on the Long-term (LT) foreign currency (FC) and local currency (LC) Issuer Default Ratings (IDRs) of 15 Turkish banks and financial institutions. This follows similar action taken on the LT FC and LT LC IDRs of the Republic of Turkey announced on 24 November 2011. A full rating breakdown is provided below.

For further information regarding Fitch's revision of Turkey's Outlook to Stable, see the announcement dated 24 November 2011, available at [www.fitchratings.com](http://www.fitchratings.com).

The IDRs and Outlooks of T. C. Ziraat Bankasi A.S., Turkiye Halk Bankasi A.S., Turkiye Vakiflar Bankasi T.A.O. and Turkiye Kalkinma Bankasi A.S. are equalised with those of the Turkish sovereign, reflecting the fact that the banks are state-owned or state-controlled.

The IDRs of Yapi ve Kredi Bankasi A.S. (Yapi Kredi), Turk Ekonomi Bankasi A.S. (TEB) and Denizbank A.S. incorporate potential support from more highly-rated foreign shareholders, namely Unicredit S.p.A. ('A' Rating Watch Negative(RWN)), BNP Paribas ('AA-/RWN) and Dexia ('A+/'Stable). The RWN on Denizbank's 'BBB' Long-term local currency IDR reflects the potential for this rating to be downgraded if Dexia sells the bank to a lowly-rated new owner. However, any downgrade is likely to be limited to one notch, to the level of the bank's 'bbb-' Viability Rating (VR).

The IDRs of Turkiye Is Bankasi A.S. (Isbank), Turkiye Garanti Bankasi A.S. (Garanti) and Akbank T.A.S. (Akbank) are driven by their standalone financial strength, reflected in their 'bbb-' VRs. Isbank, Garanti and Akbank are leading private sector Turkish banks. Together, they control a domestic market share of around 38%. Isbank has traditionally been the largest amongst its peers and this continues to be the case, in terms of assets, equity and branch network size. Akbank's asset quality and capital ratios continue to be the strongest amongst its peers, while Garanti displays the highest profitability ratios.

Given the banks' strong position in the local banking sector, Fitch expects them to benefit from the opportunities arising from medium-term growth in Turkey's economy. Fitch's base case is that GDP growth will slow to 2.2% in 2012 before returning to 4.5% in 2013, close to potential. However, Turkey's operating environment remains volatile and this has the potential to impact the banking sector's performance. Given the close correlation between the performance of the banking sector and the operating environment, there is limited potential for the banks' Long-term IDRs to be revised upwards without similar action being taken on Turkey's sovereign ratings.

Turkey's banking sector is well capitalised, profitable, liquid, and moderate in size in relation to GDP. Non-performing loans are low, the loan/deposit ratio is 99.5% and there is minimal foreign currency lending to households. However, loan growth in the sector has been rapid, up 25% in 9M11 and 32% in 2010. Isbank, Gartanti and Akbank are all expanding lending, particularly to the high margin retail and SME segments. Net interest margins are being compressed, reflecting competition, increased reserve requirements on deposits and the prevailing low interest rate environment in Turkey. Margins for the three banks have tumbled to an average of 2.4% in H111 from 4.2% in 2010.

Retail deposit growth has slowed in the sector but Isbank, Garanti and Akbank remain largely funded by retail deposits, displaying loans/deposits ratios of around 100%. The three banks remain well capitalised. The Fitch core capital/weighted risks ratios of these banks (Isbank: 14.51%, Garanti 15.36% and Akbank: 16.83%) at H111 all support future growth.

All three banks' asset quality indicators are robust. Impaired loan ratios for all three banks are below the 2.9% sector average at end-June 2011 (Isbank: 2.6%, Garanti 2.1% and Akbank 1.7%). Including general and specific impairment reserves, coverage is well in excess of 100% for all three banks

Fitch believes the three banks are well placed to deal with the challenges faced by the sector. Management is versatile and efforts to reprice loans are already resulting in a gradual improvement in margins. The continued opening of branches should boost deposit inflow and the ability of some banks to tap the international capital markets for, albeit modest, amounts of medium-term funding is providing funding diversification. Liquidity ratios are sound, supported by well-diversified and stable retail deposit bases and large portfolios of Turkish government securities, which are repoable with the Turkish Central Bank. Fitch has a high opinion of Turkey's bank regulators, which have been proactive and are proving efficient in ensuring that the country's banking sector remains robust.

The IDRs and National ratings of certain subsidiaries of Isbank, Garanti and Akbank are equalised with those of their parents, reflecting close integration and strategic importance. Turkiye Sinai Kalkinma Bankasi A.S. (TSKB) is strategically important to Isbank which holds a 50.1% stake in the bank. TSKB's ratings reflect the support it could expect to receive from Isbank, if required.

Rating actions are as follows:

**T. C. Ziraat Bankasi A.S., Turkiye Halk Bankasi A.S., Turkiye Vakiflar Bankasi T.A.O., Turkiye Kalkinma Bankasi A.S.:**

Long-term foreign currency (LTFC) IDR: affirmed at 'BB+'; Outlook revised to Stable from Positive

Long-term local currency (LTLC) IDR: affirmed at 'BB+'; Outlook revised to Stable from Positive

Short-term (ST) FC and LC IDR: affirmed at 'B'

Support Rating: affirmed at '3'

Support Rating Floor: affirmed at 'BB+'

National Long-term Rating: affirmed at 'AA+(tur)'; Outlook Stable

Viability Rating: 'bb+' unaffected

Individual rating: 'C/D' unaffected

**Denizbank A.S.**

LTFC IDR: affirmed at 'BBB-'; Outlook revised to Stable from Positive

LTLC IDR: 'BBB', RW changed to Negative from Evolving

ST FC and LC IDR: affirmed at 'F3'

Support Rating: '2', maintained on RWN

National Long-term Rating: affirmed at 'AAA(tur)'; Outlook Stable

**Yapi ve Kredi Bankasi A.S. (Yapi Kredi), Turk Ekonomi Bankasi A.S. (TEB):**

LTFC IDR: affirmed at 'BBB-'; Outlook revised to Stable from Positive

LTLC IDR: affirmed at 'BBB' Outlook revised to Stable from Positive

ST FC and LC IDR: affirmed at 'F3'

Support Rating: affirmed at '2'

National Long-term Rating: affirmed at 'AAA(tur)'; Outlook Stable

**The Viability Ratings and Individual Ratings of Denizbank, Yapı Kredi and TEB, listed below, are unaffected.**

**Yapi ve Kredi Bankasi A.S. and Denizbank A.S.**

Viability Rating: 'bbb-' unaffected

Individual Rating: 'C' unaffected

**Turk Ekonomi Bankasi A.S.**

Viability Rating: 'bb+' unaffected  
Individual Rating: 'C/D' unaffected

**TEB's subordinated debt issue rated by Fitch is affirmed at 'BBB-'****Turkiye Is Bankasi A.S., Turkiye Garanti Bankasi A.S., Akbank T.A.S.:**

LTFC IDR: affirmed at 'BBB-'; Outlook revised to Stable from Positive  
LTLC IDR: affirmed at 'BBB-'; Outlook revised to Stable from Positive  
ST FC and LC IDR: affirmed at 'F3'  
Viability Rating: affirmed at 'bbb-'  
Individual Rating: affirmed at 'C'  
Support Rating: affirmed at '3'  
Support Rating Floor: affirmed at 'BB'  
National Long-term Rating: affirmed at 'AAA(tur)'; Outlook Stable  
Senior unsecured debt: affirmed at 'BBB-'

**Turkiye Sinai Kalkinma Bankasi A.S.**

Long-term foreign and local currency IDR: affirmed at 'BB+'; Outlook Revised to Stable from Positive  
Short-term foreign currency and local currency IDR: affirmed at 'B'  
National Long-term rating: affirmed at 'AA+(tur)'; Outlook Stable  
Support Rating: affirmed at '3'  
Individual Rating: 'C/D' unaffected

**Is Yatirim Menkul Degerler A.S.**

National Long-term rating: affirmed at 'AAA(tur)'; Outlook Stable

**Is Finansal Kiralama A.S.**

Long-term foreign and local currency IDR: affirmed at 'BBB-'; Outlook Revised to Stable from Positive  
Short-term foreign currency and local currency IDR: affirmed at 'F3'  
National Long-term rating: affirmed at 'AAA(tur)'; Outlook Stable  
Support Rating: affirmed at '2'

**Garanti Finansal Kiralama A.S.**

Long-term foreign and local currency IDR: affirmed at 'BBB-'; Outlook Revised to Stable from Positive  
Short-term foreign currency and local currency IDR: affirmed at 'F3'  
National Long-term rating: affirmed at 'AAA(tur)'; Outlook Stable  
Support Rating: affirmed at '2'

**Ak Finansal Kiralama A.S.**

Long-term foreign and local currency IDR: affirmed at 'BBB-'; Outlook Revised to Stable from Positive  
Short-term foreign currency and local currency IDR: affirmed at 'F3'  
National Long-term rating: affirmed at 'AAA(tur)'; Outlook Stable  
Support Rating: affirmed at '2'