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Tagging Info

Fitch Affirms 4 Turkish Foreign-Owned Banks and Subsidiaries; Assigns Ratings to Finans Leasing

Ratings Endorsement Policy

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Fitch Ratings-London/Moscow-26 March 2015: Fitch Ratings has affirmed the Long-term foreign currency Issuer Default Ratings (IDR) of Denizbank T.A.S. and Finansbank at 'BB+' and 'BBB-', respectively, and of Turk Ekonomi Bankasi A.S. (TEB) and ING Bank A.S. (INGBT) at 'BBB'. The Outlooks on all four banks are Stable.

Parental support drives the IDRs of TEB and INGBT, whereas the IDRs of Denizbank and Finansbank are driven by their intrinsic strength.

The support-driven ratings of Deniz Finansal Kiralama A.S. (Deniz Leasing) and Joint-Stock Company Denizbank Moscow (Denizbank Moscow) have also been affirmed. Fitch has also assigned ratings to Finansbank's leasing subsidiary, Finans Finansal Kiralama (Finans Leasing). The ratings of these entities are support-driven and equalised with those of their parents. A full list of rating actions is at the end of this comment.

KEY RATING DRIVERS - IDRS, NATIONAL RATINGS and SUPPORT RATINGS OF ALL BANKS; SUPPORT RATING FLOOR OF FINANSBANK

The four banks are second-tier Turkish institutions, majority owned by foreign shareholders. They together represented 14% of total Turkish banking sector assets at end-2014. In Fitch's opinion, the subsidiaries are all strategically important to their parents. However, parental support drives the IDRs and National ratings only of TEB and INGBT, whose majority shareholders are BNP Paribas (A+/Stable/a+) and ING Bank N.V. (A+/Negative/a), respectively.

In the case of Denizbank (majority owned by Sberbank of Russia (BBB-/Negative/bbb-) and Finansbank (majority owned by National Bank of Greece (NBG; B-/RWN/b-), the banks' IDRs and National ratings are driven by their intrinsic financial strength, as reflected in their 'bb+' and 'bbb-' Viability Ratings (VR). At its current level, Denizbank's 'BB+' IDR is also underpinned by potential support from Sberbank. TEB's and INGBT's 'BBB' Long-term foreign currency IDRs are capped at Turkey's 'BBB' Country Ceiling. Their 'BBB+' Long-term local currency IDRs also take into account country risks.

Deniz Leasing's, Denizbank Moscow's and Finans Leasing's support-driven IDRs and National Ratings are equalised with those of their parent banks. In Fitch's view this takes into account the close integration with the parents, including sharing risk assessment systems, customers, branding and management resources.

Finansbank's '3' Support Rating and 'BB-' Support Rating Floor reflect Fitch's view that there is a moderate probability of support from the Turkish government, if required, given the bank's position as a second-tier bank.

RATING SENSITIVITIES - IDRS, NATIONAL RATINGS AND SUPPORT RATINGS OF ALL BANKS; SUPPORT RATING FLOOR OF FINANSBANK

TEB's and INGBT's IDRs are sensitive to changes in Turkey's Country Ceiling, although this is not expected at present, given the Stable Outlook on the sovereign ratings. The ratings could also be downgraded if there was a multi-notch downgrade of either BNPP or ING Bank N.V., or a sharp reduction in the respective parents' commitment to their subsidiaries. Neither scenario is anticipated by Fitch.

The Long-term IDRs of Finansbank are sensitive to changes in the bank's VR.
The Long-term IDRs of Denizbank could be upgraded in case of a material strengthening of its standalone profile, reflected in an upgrade of the VR, or an upgrade of Sberbank (currently unlikely, given the Negative Outlook on the parent's ratings). The Long-term IDRs would only come under downward pressure in case of a weakening of both the bank's standalone profile and potential parental support.
The SRF of Finansbank could be downgraded if (i) the Turkish sovereign is downgraded; (ii) the foreign currency position of the bank, or more generally Turkey's external finances, deteriorate considerably, or (iii) Fitch believes the sovereign's propensity to support the bank has reduced. The introduction of bank resolution legislation in Turkey aimed at limiting sovereign support for failed banks could negatively impact Fitch's view of support propensity, and hence the bank's SR and SRF; however, Fitch does not expect this in the short term.
An upward revision of the SRF is unlikely unless there is a marked strengthening of the sovereign's ability to support banks in foreign currency.

The IDRs of Deniz Leasing, Denizbank Moscow and Finans Leasing are sensitive to changes in their respective parents' IDRs.

KEY RATING DRIVERS - VRs
The VRs of all four banks consider their exposure to the volatile Turkish operating environment, which continues to be characterised by uneven economic growth, interest rate and exchange rate volatility and some policy tensions. The ratings also consider the banks' only moderate, but stable, franchises and limited scale, which hinder their cost efficiency, but also their generally reasonable asset quality and performance metrics.
Capitalisation is a key driver of Finansbank's 'bbb-' VR. The bank's Fitch core capital (FCC)/ weighted risks ratio of 12.8% at end-2014 compared favourably with peers and should be further strengthened as a result of the bank's planned IPO in 2015. Capital levels are an important factor offsetting its fairly high risk appetite, ongoing rapid expansion into SME lending (up 45.7% in 2014), high exposure to unsecured retail loans (31.1% of the portfolio at end-2014) and a higher level of non-performing loans compared with both peers and the sector average.

The VR is also supported by the bank's solid pre-impairment operating profit, which provides a reasonable buffer to absorb unexpected credit losses, and by management's established track record in steering the bank through different credit cycles.

Finansbank's VR also reflects Fitch's view of low contagion risk from its parent, NBG. Asset exposures to NBG, or Greece more generally, are negligible, and funding from the parent is limited (end-2014: mainly subordinated debt, TRY2.1bn in total). Despite Greece's prolonged economic crisis, Finansbank has suffered no deposit outflows, no reputational damage, no loss of franchise or loss of market access. This continues to be the case as Finansbank has maintained a stable funding and liquidity position in recent months while NBG experienced outflows.

Denizbank's 'bb+' VR reflects its weaker capitalisation than at peer banks, reflected in its end-2014 FCC/weighted risks ratio of 8.2%, and its recent rapid loan growth. Fitch expects FCC will improve by 50-70bp upon the conversion of TRY550m subordinated loans to core capital, planned for 2Q15. At the same time, the VR is supported by the bank's still limited non-performing loan generation, reasonable profitability and moderate reliance on third-party wholesale funding. Loan growth is likely to be moderate in the near- to medium-term given capital constraints.

US and European sanctions imposed against Sberbank group in 2014 have not yet notably affected Denizbank's performance. Denizbank has been removed from the US sanction list (but not the European Union one). However, prolonged sanctions could limit Denizbank's access to foreign currency funding while also resulting in higher funding costs and disruption to its trade finance business. Fitch assesses the bank's reputational risk in the Turkish market to be limited given its strong local brand and perceived limited reliance on Sberbank.

TEB's 'bbb-' VR considers its consistently sound performance and asset quality track record to date. This reflects the bank's more moderate risk appetite and tighter underwriting standards compared with peers. However, its capitalisation is only moderate and could come under pressure if the pace of loan growth outstrips internal capital generation.

INGBT's 'bb+' VR is one notch lower than those of Finansbank and TEB. This continues to reflect its weaker earnings profile and a funding structure that is still heavily dependent on its parent. INGBT's franchise also lags that of its peers, with a deposit share of around 1.8%, lower than Denizbank (6.1%), TEB (3.8%) and Finansbank (4%).

Impaired loans (NPL) as a percentage of total loans were moderate at TEB, INGBT (both at 2.5%) and Denizbank (3%) at end-2014, but higher at Finansbank (5.3%), reflecting the latter's greater, although declining, exposure to the retail segment. Furthermore restructured loans represent up to 3% of total loans at the four banks. NPL specific reserve coverage is highest at Finansbank (75% at end-2014), which Fitch considers acceptable especially considering the high level of recoveries made by the bank each year, followed by INGBT's 61%, which Fitch considers only moderate. However, the net NPL exposure relative to FCC is low in all cases (under 10% at end-2014) and a high proportion of lending is backed by tangible collateral at all four banks.

Margins have fallen at each of the banks, with the exception of TEB, in recent years, reflecting greater competition and tighter regulation of consumer lending. Pre-impairment profit was close to 2% of average assets at TEB, Denizbank and INGBT in 2014, but almost 3% at Finansbank, reflecting its greater exposure to higher-margin loans.

The FCC/weighted risks ratios of TEB (10% at end-2014) and INGBT (9%) are, similar to that of Denizbank, significantly below the market average and ratios of domestically-owned peers. In part, this reflects significant contributions of subordinated debt from parent institutions, which helped to maintain total regulatory capital ratios at 13%-14% at each of the three banks.

Funding at all four banks is sourced primarily from customer deposits. However, wholesale funding has become more significant. At end-2014 the banks' loans/deposit ratios were all in excess of 100%, having risen further year on year to 170% at INGBT, 134% at Finansbank and 125% at TEB. However, Denizbank's loans/deposit ratios fell to a more reasonable 106% at end-2014.

RATING SENSITIVITIES - VRs
An upgrade of the banks' VRs is unlikely in the foreseeable future due to the challenging operating environment in Turkey and the already fairly high level of the banks' ratings.

Downward pressure on VRs could arise in case of increased loan impairment, especially in unsecured retail/SME portfolios and foreign currency loans extended to unhedged borrowers, particularly if this results in a reduction in the banks' capital ratios.

Finansbank's VR is dependent on it continuing to maintain a high level of capital, and a material reduction in the bank's capital ratios would likely result in a downgrade of the VR. NBG is required to dilute its ownership of Finansbank to 60% from the current 99% by end-2015 under its restructuring plan. Finansbank's planned share offering has been postponed in anticipation of more favourable market conditions. Should it go ahead, management estimate that it would have a positive impact of 300bp on the bank's regulatory capital ratios.

A Turkish sovereign downgrade could also lead to a downgrade of the banks' VRs but this is not our base case in light of the Stable Outlook on the sovereign rating.

The rating actions are as follows:

Denizbank, Deniz Finansal Kiralama and Joint-Stock Company Denizbank Moscow
Long-term foreign and local currency IDRs: affirmed at to 'BB+'; Stable Outlook
Short-term foreign and local currency IDRs: affirmed at 'B'
Viability Rating (Denizbank only): affirmed at 'bb+';
Support Ratings: affirmed at '3'
National Ratings: Denizbank and Deniz Finansal Kiralama affirmed at 'AA(tur)'; Stable Outlook and CJSC Denizbank Moscow affirmed at 'AA+(rus)'; Stable Outlook

Finansbank:
Long-term foreign and local currency IDRs: affirmed at 'BBB-'; 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 'AA+(tur)'; Stable Outlook
Support Rating Floor: affirmed at 'BB-'
Senior unsecured long-term debt: affirmed at 'BBB-'

Finans Finansal Kiralama:
Long-term foreign and local currency IDRs: assigned at 'BBB-'; Stable Outlook
Short-term foreign and local currency IDRs: assigned at 'F3'
Support Rating: assigned at '2'
National Rating: assigned at 'AA+(tur)'; Stable Outlook

ING Bank A.S.:
Long-term foreign currency IDR: affirmed at 'BBB'; Stable Outlook
Long-term local currency IDR: affirmed at 'BBB+'; Stable Outlook
Short-term foreign currency IDR: affirmed at 'F3'
Short-term local currency IDR: affirmed at 'F2'
National Long-term rating: affirmed at 'AAA(tur)'; Stable Outlook
Viability Rating: affirmed at 'bb+'
Support Rating: affirmed at '2'

Turk Ekonomi Bankasi:
Long-term foreign currency IDR: affirmed at 'BBB'; Stable Outlook
Long-term local currency IDR: affirmed at 'BBB+'; Stable Outlook
Short-term foreign currency IDR: affirmed at 'F3'
Short-term local currency IDR: affirmed at 'F2'
National Long-term rating: affirmed at 'AAA(tur)'; Stable Outlook
Viability Rating: affirmed at 'bbb-'
Support Rating: affirmed at '2'
Senior unsecured long-term debt: affirmed at 'BBB'/'F3'

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Applicable criteria "Global Bank Rating Criteria", dated 20 March 2015, "Global Non-Bank Financial Institution Rating Criteria", dated 20 March 2015 and "National Scale Ratings Criteria", dated 30 October 2013, are available at www.fitchratings.com.are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Bank Rating Criteria
Global Non-Bank Financial Institutions Rating Criteria
National Scale Ratings Criteria