FitchRatings

Banks

Turkey
Credit Update

Turk Ekonomi Bankasi

Ratings

Turk Ekonomi Bankasi

Foreign Currency

Long-Term	BB-
Short-Term	B
Outlook	Positive

Local Currency

Long-Term	BB+
Short-Term	B
Outlook	Positive

National

Long-Term	AA(tur)
Outlook	Stable

Individual	C/D
Support	3

Sovereign Risk

Foreign Long-Term	BB-
Local Long-Term	BB-
Outlook	Positive

Financial Data

Turk Ekonomi Bankasi

	31 Dec 04	31 Dec 03
Total Assets (USDm)	3.659.5	3,606.2
Total Assets (TRYm)	4,901.8	4,830.5
Equity (TRYm)	415.5	391.2
Net Income (TRYm)	62.8	68.4
ROA (%)	1.29	1.42
ROE (%)	15.57	18.48
Equity/Assets (%)	8.48	8.10

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Rating Rationale

- The Long-term, Short-term and Support ratings of Turk Ekonomi Bankasi A.S. (“TEB”) reflect its indirect 42.13% ownership by France-based BNP Paribas (“BNPP”, rated ‘AA’/‘F1+’). The Individual rating reflects its good asset quality, solid liquidity and sound capitalisation. These positive factors are balanced by concerns over its growing but still relatively small franchise and a potentially volatile operating environment.
- Profitability declined slightly in 2004, mainly related to the expansion of the branch network. In the first nine months of 2005, operating income rose, thanks to a larger loan portfolio, whereas the increase in operating expenses remained limited, which resulted in improvements efficiency.
- Loan growth accelerated in the first nine months of 2005, mainly in SMEs and retail loans. Historically, TEB has had one of the best asset quality in the Turkish banking sector. Although non-performing loan (“NPL”) amount increased in Q305 from a low base, its NPL ratio still improved to 0.68%, aided by 50% loan growth (2004: 0.87%), with a comfortable reserve coverage at 128% (2004: 103%).
- Turkish government securities increased in 2004 in line with a plan to enhance profitability, but at 9% of total assets at end-Q305 they were still lower than peers, indicating a relatively higher share of earnings from core lending business. Interest-rate risk was lower than that of its peers due to fairly matched repricing periods between assets and liabilities.
- Customer deposits are the main source of funding, though TEB has access to long-term funding from international markets. Although it declined, liquidity remained sound at end-Q305.
- TEB’s regulatory consolidated Tier 1 capital adequacy ratio was 8.02% at end-Q305. Given its risk profile, Fitch Ratings considers this sound. Free capital was also sound at 7% of assets.

Support

- In Fitch’s opinion, BNPP has a very high propensity to support TEB, although its ability to do so might be limited by the transfer risk associated with Turkey. TEB’s Support rating is thus constrained at ‘3’.

Rating Outlook and Key Rating Drivers

- TEB’s Long-term, Short-term and Support ratings are driven by BNPP’s ratings and any upside potential is limited by Turkey’s country ceiling. The Outlooks on the Long-term foreign and local-currency ratings are the same with that of sovereign.
- The key drivers of future upgrades to the bank’s Individual rating would be improvements in profitability and enlargement of its franchise.
- A reduction in the Individual rating would be driven by significant deterioration in asset quality coupled with lower profitability leading to weak capitalisation.

Background

- TEB dates back to 1927 and was acquired by the Colakoglu Group conglomerate in 1981. In February 2005 BNPP acquired 50% of the Colakoglu Group’s subsidiary TEB Financial Investment Company (“TEB FIC”), which owns 84.25% of TEB. Colakoglu Group and BNPP have equal representation on the Boards of Directors of both TEB FIC and TEB, and share managerial responsibilities.
- TEB provides corporate, commercial, retail and private banking services via its 101 domestic branches. TEB’s consolidated subsidiaries abroad include a bank in the Netherlands (TEB NV), and its domestic subsidiaries are engaged in asset management, brokerage, leasing, factoring and insurance.

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