FitchRatings

Banks
Wholesale Commercial Banks
Turkiye

Arap Turk Bankasi A.S.

Update

Key Rating Drivers

Standalone Creditworthiness Drives Ratings: Arap Turk Bankasi A.S.'s (ATB) Issuer Default Ratings (IDRs) are driven by its standalone strength, as reflected by its Viability Rating (VR). The ratings reflect the bank's concentration in the volatile Turkish operating environment, small niche franchise within trade finance, and weakening profitability. It also reflects contained asset-quality risks, only adequate capitalisation and stable, but concentrated, funding.

The Positive Outlook on the IDRs reflects that on the operating environment.

Improving Operating Environment: ATB's operations are concentrated in the improving but challenging Turkish operating environment. The normalisation of monetary policy has reduced near-term macro-financial stability risks and decreased external financing pressures. Banks remain exposed to high inflation, lira depreciation, slowing growth expectations, and multiple macroprudential regulations, despite the recent simplification efforts.

Niche Trade-Finance Bank: ATB is a niche trade finance bank primarily specializing in trade between Turkey and Libya and the wider MENA region. It also offers short-term working-capital loans to large, prime Turkish corporates on a limited basis. The bank has close ties with its largest shareholder, Libyan Foreign Bank (LFB; 62.4%), which provides it with low-cost foreign-currency (FC) funding.

High FC Lending: ATB lends almost exclusively to Turkish corporates, primarily in FC (end-2023: 82%) and short term. However, loans only constitute a moderate 29% of total assets.

Within trade finance, the bank mainly offers letters of credit and letters of guarantee in relation to foreign trade (equivalent to 85% of total assets at end-2023). ATB's underwriting standards compare fairly well with Fitch-rated trade finance peers', although high on-balance-sheet single-obligor concentration, exposure to challenging operating environments and its above-sector-average share of FC loans amid lira depreciation heighten asset-quality risks.

Asset-Quality Risks: ATB's asset quality benefits from the short-term nature of its loan book, and the counter-guarantees against a significant proportion of its Libyan country risk by Turkish banks in its trade-finance operations. The bank's impaired loans ratio was a low 0.1% at end-2023, while Stage 2 loans were negligible. Nevertheless, high FC lending and concentration in the volatile Turkish operating environment heighten asset-quality risks.

Deteriorating Profitability: ATB's operating profit/risk weighted assets (RWAs) fell to 0.8% in 2023 from 3.0% in 2022 driven by higher impairment charges, mainly reflecting Stage 1 charges on non-cash loans as the bank increased credit impairment reserves. ATB's cost-to-income ratio also deteriorated to 77% in 2023 (2022: 56%) as inflationary pressures increased operating expenses. Interest income growth stayed muted, reflecting below-sector-average loan growth, although the net interest margin (NIM; 2023: 6.2%; sector: 4.3%) compares well with peers.

Only Adequate Capitalisation: ATB's common equity Tier 1 (CET1) ratio fell to 17% (net of forbearance: 13.4%) at end-2023 (end-2022: 20.0%), mainly due to RWA growth, driven by the tightening of forbearance measures on the calculation of RWAs. ATB's CET1 ratio is above the sector average (15.1%), but is only adequate given the sensitivity of capital to lira depreciation, as 84% of the balance sheet is FC, and due to the small capital base.

High Parent Funding: ATB is mainly wholesale funded (64% of total non-equity funding at end-2023), similar to other trade finance banks. ATB relies heavily on FC funding from its parent, both directly and indirectly, which accounted for 40%-50% of total non-equity funding at end-2023. This supports the bank's cost of funding but also leads to high concentration, although these accounts have been stable historically.

Ratings

Foreign Currency	
Long-Term IDR	B-
Short-Term IDR	B
Local Currency	
Long-Term IDR	B-
Short-Term IDR	B
Viability Rating	b-
Government Support Rating	ns
National Rating	
National Long-Term Rating	BBB(tur)
Sovereign Risk (Turkiye)	
Long-Term Foreign-Currency IDR	B+
Long-Term Local-Currency IDR	B+
Country Ceiling	B+
Outlooks	
Long-Term Foreign-Currency IDR	Positive
Long-Term Local-Currency IDR	Positive
National Long-Term Rating	Positive
Sovereign Long-Term Foreign-Currency IDR	Positive
Sovereign Long-Term Local-Currency IDR	Positive

Applicable Criteria

Bank Rating Criteria (March 2024)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Upgrades 18 Turkish Banks; Places 5 VRs on Rating Watch Positive on Sovereign Upgrade (March 2024)

Fitch Upgrades Turkiye to 'B+'; Outlook Positive (March 2024)

Reduced Risks for Turkish Banks Following Policy Shift (November 2023)

Turkish Banks' Short-Term Debt Still High; Refinancing Pressures Reduced (November 2023)

EMEA Trade Finance Banks: Global Trade Rebound to Boost Results; Geopolitical Tensions Ahead (October 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

ATB's Long-Term IDRs are sensitive to a downgrade of the bank's VR. The VR could be downgraded following a multi-notch downgrade of the operating environment.

ATB's ratings could also be downgraded due to a substantial withdrawal in parent funding, prompting a significant reduction in the bank's FC liquidity, or if the bank's CET1 ratio had a sustained fall to levels not commensurate with the bank's risk profile and small equity size. This could derive from an event risk or from structural profitability weakness debilitating the bank's internal capital generation capacities. ATB's IDRs are also potentially sensitive to a multi-notch sovereign downgrade, but this is not our base case.

The Short-Term IDRs are sensitive to changes in the bank's Long-Term IDRs.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

ATB's Long-Term IDRs are sensitive to a upgrade of the bank's VR.

An upgrade of ATB's VR is primarily sensitive to the strength of the bank's capital buffers (including net of forbearance) and FC liquidity buffers in the context of improving operating environment conditions.

The Short-Term IDRs are sensitive to changes in the bank's Long-Term IDRs.

Other Debt and Issuer Ratings

The bank's National Long-Term Rating of 'BBB(tur)'/Positive reflects our view of the bank's creditworthiness in local currency (LC) relative to other Fitch-rated Turkish issuers'.

Significant Changes from Last Review

Bank's Outlook Revised to Positive

Fitch revised ATB's Long-Term (LT) FC and LC IDRs to Positive from Stable in March following the upgrade and the revision of the Outlooks on Turkiye's LT IDRs to Positive. This reflects our expectation of the positive impact over the medium term of the improving operating environment on the bank's intrinsic credit profile, and particularly its financial and business profile.

National Ratings Revised on Recalibration

Fitch revised ATB's National Long-Term Rating to 'BBB(tur)' from 'A-(tur)' in May. The revision reflects changes in Turkiye's National Rating scale solely driven by the recalibration of Fitch's National Ratings Correspondence Table and is not related to credit quality. The Positive Outlook reflects that on the bank's LTLC IDR.

Sovereign Upgraded, Outlook Revised to Positive

We upgraded Turkiye's sovereign rating to 'B+' from 'B', and revised the Outlook to Positive from Stable in March 2024. The upgrade reflects increased confidence in the durability and effectiveness of policies implemented since June 2023, including greater-than-expected frontloading of monetary policy tightening, in reducing macroeconomic and external vulnerabilities. The revision of the Outlook reflects Fitch's expectation that Turkiye's overall macroeconomic policy stance should be consistent with a significant decline in inflation (albeit inflation is likely to remain significantly higher than at rating peers), and a continued reduction in external vulnerabilities in terms of lower current account deficits and stronger liquidity buffers.

The central bank has increased the policy rate to 50%, a continuation of the tightening cycle begun in June 2023, representing a total increase of 4,150bp. The policy rate was held at its current level in the monetary policy meeting in April 2024.

GDP increased by 4.5% in 2023, having outstripped forecasts due to still-strong consumer spending and fiscal stimulus ahead of the March 2024 elections. Fitch forecasts GDP growth to slow to 2.8% in 2024 and 3.1% in 2025. Inflation was 69.8% at end-April 2024 (end-2023: 65%). We expect the inflation rate to decrease to 40% at end-2024.

Policy Normalisation Steps

The Central Bank of Turkiye (CBRT) launched a monetary tightening phase and simplification of the policy framework to address high inflation and regulate domestic demand following the May 2023 elections. We expect the simplification process to take time, and therefore expect the regulatory environment to continue to weigh on banks' credit profiles. The change in CBRT governorship in February had a muted response in the markets due to reassurances of policy continuity.

The CBRT abolished the securities maintenance requirement based on loan growth in April 2024, although the monthly growth rate cap remains (excluding certain sectors), and on lira deposit conversion targets in May 2024, as part of the simplification process.

The central bank removed the soft-tier interest rate cap on lending for most loan types, allowing banks to adjust loan pricing due to rising rates. The exporters' access to rediscount loans was enhanced, and the additional 30% mandatory sale of export proceeds on rediscount utilisation was eliminated.

The CBRT also raised the maximum interest rates for cash withdrawals with credit cards and overdrafts. In addition, the Banking Regulation and Supervision Agency increased risk weights for retail loans, decreasing banks' retail lending, and announced higher risk weights for mortgages for those with existing primary residences.

Efforts to increase the share of Turkish lira deposits include terminating the need for banks to maintain long-term local-currency government bonds based on their lira deposit share, raising mandatory reserves for FC deposits, and offering renumeration for Turkish lira mandatory reserves to incentivise LC deposits, slightly reducing lira deposit costs for the sector. On the contrary, the CBRT has recently increased the withholding tax rate on various lira deposit maturities, which may put pressure on the lira deposit costs.

We expect regulatory forbearance on RWAs to remain, including the exchange rate used for capital adequacy calculations. However, the exchange rate that the banks are permitted to use for capital adequacy calculations has been tightened on several occasions (26 June 2023 exchange rate to be used from end-1Q24). This significantly reduced the benefit to banks' reported capital ratios, although at times of relative lira stability, and without threatening the banking sector's reported solvency. Regulatory forbearance also permits the suspension of mark-to-market losses on banks' securities portfolios through equity, and could have a more meaningful effect amid the rising lira interest rates.

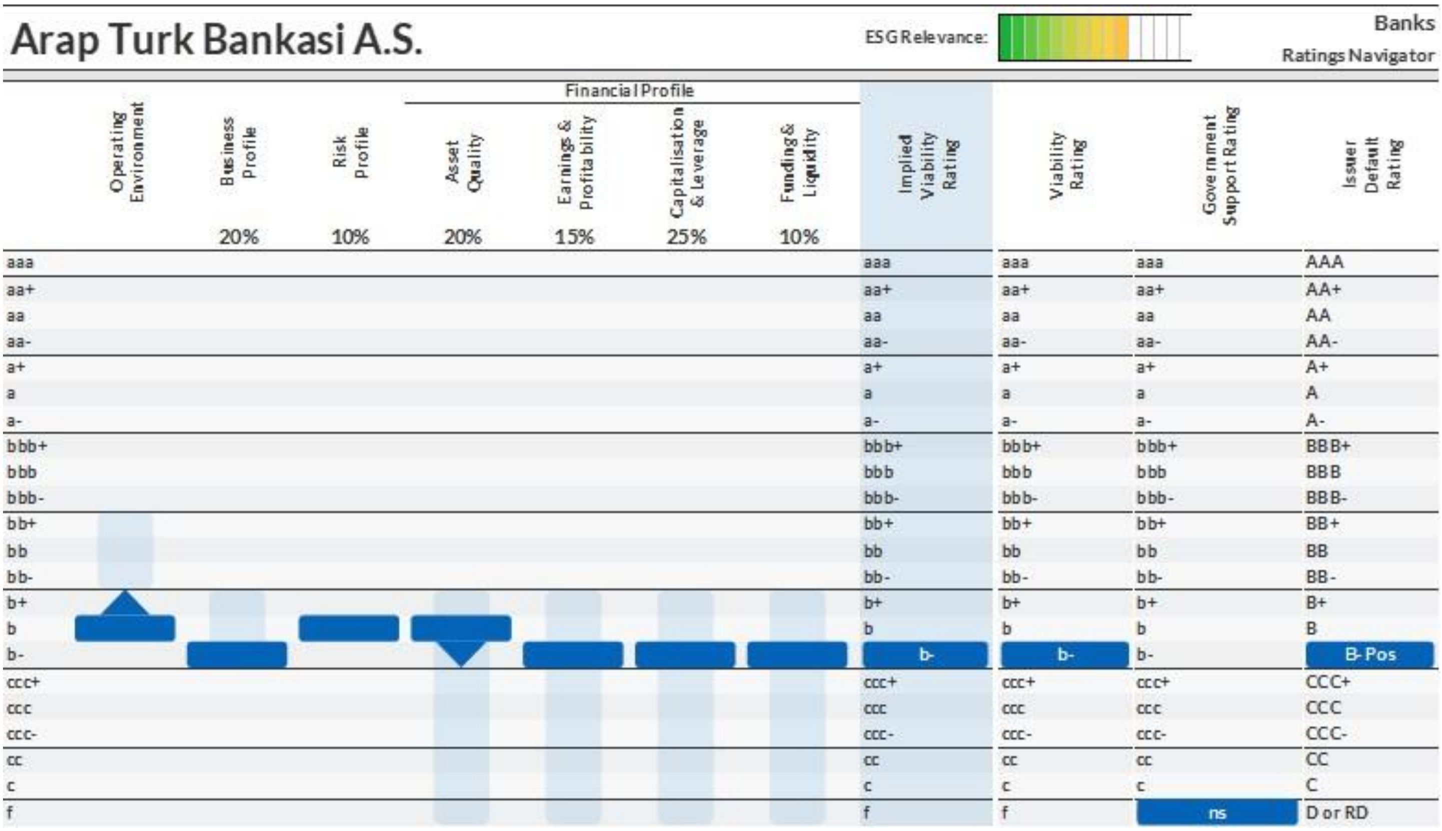
The authorities have announced that Turkish banks will begin to apply hyperinflationary accounting as of 1 January 2025. Reported profitability metrics will be much weaker adjusting for this, although CPI linkers provide some hedge.

FX-Protected Lira Deposit Scheme

FX-protected lira deposits accounted for 14% of sector deposits, or 25% of sector lira customer deposits, as of 19 April. The authorities have signalled their intention to reduce FX-protected deposits (USD70.1 billion in April), although this hinges on the sustained improvement in inflation and lira depreciation expectations. The CBRT has recently decreased the mandatory reserve requirement for FX-protected deposits to 25% (previously 30%). The requirement remains at 10% for longer maturities. The mandatory reserve requirements weigh on the cost of these deposits for banks.

The authorities have abolished new FX-protected deposits converted from standard lira deposits, another signal of their intention to reduce and phase out the scheme.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of ‘b’ for Turkish banks is lower than the category implied score of ‘bb’, due to the following adjustment reasons: sovereign rating (negative) and macroeconomic stability (negative).

Financials

Summary Financials

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	12 months	12 months	12 months	12 months	12 months
	(USDm)	(TRYm)	(TRYm)	(TRYm)	(TRYm)
	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement					
Net interest and dividend income	21	633	533	367	247
Net fees and commissions	5	144	109	70	55
Other operating income	1	40	30	15	10
Total operating income	28	816	672	452	311
Operating costs	21	628	375	208	170
Pre-impairment operating profit	6	188	297	244	142
Loan and other impairment charges	3	86	14	28	11
Operating profit	3	103	283	216	131
Other non-operating items (net)	0	0	0	0	0
Tax	-2	-60	67	53	30
Net income	6	163	215	163	101
Other comprehensive income	6	167	295	22	3
Fitch comprehensive income	11	330	511	185	104
Summary balance sheet					
Assets					
Gross loans	152	4,480	4,184	3,139	2,036
– Of which impaired	0	4	3	4	8
Loan loss allowances	1	21	11	14	19
Net loans	151	4,459	4,174	3,125	2,018
Interbank	44	1,297	890	1,659	873
Derivatives	—	—	—	—	—
Other securities and earning assets	186	5,490	4,562	3,462	1,942
Total earning assets	382	11,246	9,626	8,246	4,833
Cash and due from banks	107	3,158	1,926	1,666	833
Other assets	40	1,173	677	293	195
Total assets	529	15,577	12,229	10,205	5,861
Liabilities					
Customer deposits	158	4,642	3,580	2,380	1,337
Interbank and other short-term funding	252	7,436	4,160	3,108	2,079
Other long-term funding	28	831	2,281	3,162	1,147
Trading liabilities and derivatives	—	—	—	—	—
Total funding and derivatives	438	12,908	10,021	8,651	4,563
Other liabilities	16	467	336	193	122
Preference shares and hybrid capital	—	—	—	—	—
Total equity	75	2,202	1,872	1,362	1,177
Total liabilities and equity	529	15,577	12,229	10,205	5,861
Exchange rate		USD1 = TRY29.46475	USD1 = TRY18.71515	USD1 = TRY13.341	USD1 = TRY7.42605

Source: Fitch Ratings, Fitch Solutions, ATB

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.8	3.0	3.7	2.9
Net interest income/average earning assets	6.2	5.9	6.0	5.1
Non-interest expense/gross revenue	76.9	55.9	46.0	54.5
Net income/average equity	8.5	14.2	12.9	9.0
Asset quality				
Impaired loans ratio	0.1	0.1	0.1	0.4
Growth in gross loans	7.1	33.3	54.1	0.6
Loan loss allowances/impaired loans	591.4	311.8	331.0	224.1
Loan impairment charges/average gross loans	1.4	-0.1	0.3	-0.3
Capitalisation				
Common equity Tier 1 ratio	17.0	20.0	24.0	26.0
Tangible common equity/tangible assets	14.0	15.3	13.2	20.0
Basel leverage ratio	8.1	7.7	10.3	10.7
Net impaired loans/common equity Tier 1	-0.8	-0.4	-0.7	-0.9
Funding and liquidity				
Gross loans/customer deposits	96.5	116.9	131.9	152.3
Liquidity coverage ratio	293.8	273.9	411.3	256.9
Customer deposits/total non-equity funding	36.0	35.7	27.5	29.3
Net stable funding ratio	N/A	N/A	N/A	N/A

Source: Fitch Ratings, Fitch Solutions, ATB

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	b+
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	B+/ Positive
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Negative
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Negative
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Government Support

The bank's 'no support' Government Support Rating (GSR) reflects Fitch's view that support from the Turkish authorities cannot be relied upon, given the bank's small size and limited systemic importance. In addition, support from ATB's shareholders, while possible, cannot be relied upon given the political situation in Libya.

Environmental, Social and Governance Considerations

FitchRatings **Arap Turk Bankasi A.S.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Arap Turk Bankasi A.S. has 1 ESG rating driver and 4 ESG potential rating drivers

- Arap Turk Bankasi A.S. has exposure to operational implementation of strategy which, in combination with other factors, impacts the rating.
- Arap Turk Bankasi A.S. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Arap Turk Bankasi A.S. has exposure to board independence and effectiveness, ownership concentration, protection of creditor/stakeholder rights, legal /compliance risks, business continuity, key person risk, related party transactions but this has very low impact on the rating.
- Arap Turk Bankasi A.S. has exposure to organizational structure, appropriateness relative to business model, opacity, intra-group dynamics, ownership but this has very low impact on the rating.
- Arap Turk Bankasi A.S. has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	1	issues	4
potential driver	4	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	4	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness, ownership concentration, protection of creditor/stakeholder rights, legal /compliance risks, business continuity, key person risk, related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure, appropriateness relative to business model, opacity, intra-group dynamics, ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ESG Relevance Management Strategy score of '4' reflects increased regulatory intervention in the Turkish banking sector, which hinders the operational execution of management strategy, constrains management ability to determine strategy and price risk and creates an additional operational burden for banks. This has a moderately negative credit impact on the bank's rating in combination with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on ATB, either due to their nature or to the way in which they are being managed by the bank. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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