# Turkey's Akbank posts strong results

Turkish lender Akbank beat FY17 earnings estimates with a 24% YoY rise in profit, driven by loan growth and better margins

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## The main profit drivers

• AKbank reported strong FY17 earnings, beating consensus with net profit of TRY6.0bn, up 24% YoY. Its main profit drivers were loan growth and improved margins.

• Asset quality remained strong but seems to have peaked. The non-performing loans ratio fell 20bp YoY to 2.1% (well inside the sector average of 3.0%), though the Group II Loan ratio doubled to 5.4%, which would have been 2.4% but for the Otas loan. While gross NPL inflows of TRY659m were the highest in six quarters, the net number was a much more manageable TRY400m, as collections remained robust.

• The cost of risk is still very low at 49bp. The total coverage ratio remains ample at 156%, while capitalisation is also solid (Tier 1 ratio: 14.2%, one of the strongest in the sector and up 110bp YoY).

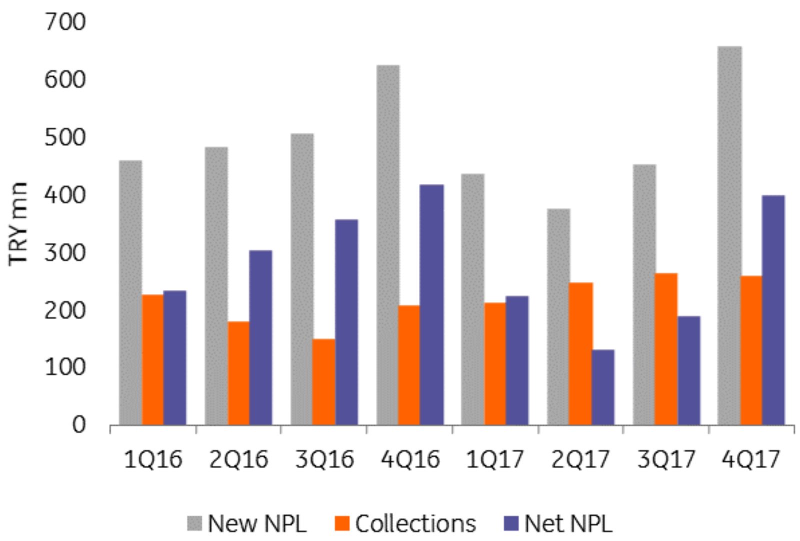
• We note that loan growth was concentrated in Turkish Business Banking, while the modest growth in FX loans (+1%) meant that loan growth was 17% YoY (just above deposit growth of 16%).

• We also note that the TRY loans/deposits ratio has risen from 124% to 140% since 4Q16. This has undone much of the previous good work undertaken to rebalance the funding position, which was inevitable as the economy moves away from reliance on FX loans while depositors simultaneously seek shelter in USD deposits. The Credit Guarantee Fund (CGF) accelerated this phenomenon. A corresponding drop in the FX ratio to a very strong 73% left the headline number little changed at a healthy 104%.

## Earnings in detail

- AKBNK reported a 24% YoY increase in FY17 net profits to TRY 6.0bn. Net interest income rose 33% YoY to TRY11.3bn as loan volumes improved 17%, with volumes stabilising following the CGF-induced growth spurt of 1H17. Net interest margins increased 5bp (after swaps) to 3.47%, bouncing back sharply in Q4 as AKBNK increased lending rates to offset higher funding costs (a function of the dollarisation of the Turkish deposit base, higher wholesale funding costs and higher CBRT liquidity charges). Fees & Commissions enjoyed another solid year, rising 15% to TRY 3.0bn, while the adjusted cost/income ratio remained extremely competitive at just 35.0%.
- In a sign that the benign backdrop for Turkish asset quality metrics may be changing as growth slows and CGF books mature, the cost of risk rose from 28bp in 2Q17 to 79bp in Q4. Moreover, while the headline NPL ratio fell back 20bp YoY to 2.1%, much better than the sector average of 3.0%, gross NPL inflows increased by 75% in the second half compared to the first, to TRY659m in Q4 and the Group II Loan ratio doubled QoQ to 5.4% following the reclassification of the Otas loan (2.4% excl. Otas). Coverage also declined from 170% to 156% QoQ. The numbers consistently show a modest decline in asset quality from a very strong base, which is a theme we expect to see spread across the sector in 2018.
- Looking across business lines, NPL ratios in the Business sector were unchanged YoY at 1.2%, while they improved markedly in the Consumer and Credit Cards segments to 3.9% and 7.7% respectively. This mirrors trends across all these segments for the Turkish banking sector as a whole.

## New NPLs and Recoveries

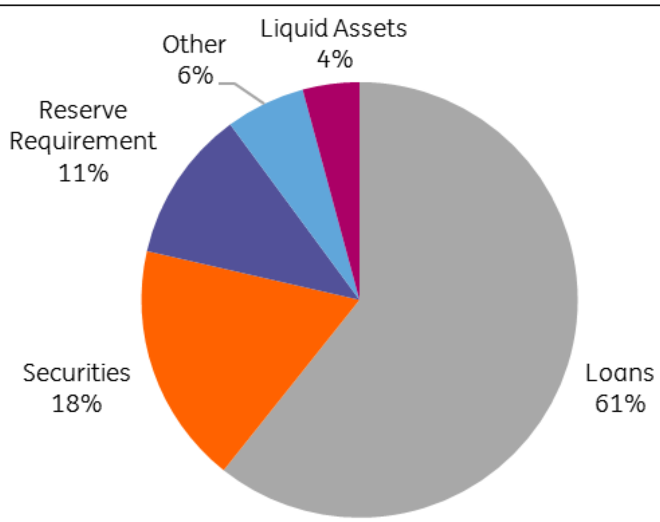



Source: Company data, ING

- Turning to liquidity and capitalisation, the loans/deposits ratio was maintained at a strong level of 104% (sector average: 120%), while the bank unsurprisingly showed more stretched liquidity metrics in TRY than in FX, which is a feature common to the sector. Not only have TRY deposits been declining as depositors switch to USD, but the demand for TRY loans has increased as a result of the CGF. In AKBNK's case, the loans/deposits ratio in TRY was 140% (up from 124% a year ago and from 133% in Q3), while in FX it is 73% (down from 83% in FY16). Meanwhile, the Tier 1 ratio rose 110bp YoY to 14.2%, one of the strongest numbers in the sector. This was boosted by the fact that CGF loans attract a 0% risk weighting. The Tier 1 ratio was actually down 30bp QoQ, following the CGF's exhaustion over the summer.

- As for the loan book, we find it interesting to look at the main growth areas, which help us to identify the segments in which the bank sees the greatest opportunities. The headline 17% YoY overall growth of the book to TRY209bn masks the divergence between loan classes. While TRY denominated loans grew by 24% YoY, their FX counterparts rose just 1% in USD terms due to lack of demand. Within the TRY book, Business Banking loans increased 33% (Corporate +31%, Commercial +37%, Other Business +28%), while Retail loans rose by just 9% (Consumer +9%, boosted by 20% growth in the unsecured lending book, and Credit Cards +8%). By contrast, within the FX bucket, Corporate loan shrinkage of 5% was offset by a 12% increase in Commercial loans. All this suggests that our thesis that Turkey's large corporates represent the healthiest part of the economy continues to hold good. Business loans accounted for 79% of AKBNK's total loan book, up from 75% in the prior-year period.

## Asset Profile (FY17)




Source: Company data, ING

## 2018 guidance

- We note that AKBNK's assets and liabilities remain reasonably well matched by currency, although the lack of TRY funding remains a concern. On the asset side, FX securities comprised 52% of total, while FX loans accounted for 38% of total loans. Meanwhile, FX deposits made up 54% of total deposits, up from the recent low of 47% at end-3Q16, as re-dollarisation continued.

- For 2018, AKBNK is assuming great GDP growth of around 4.5% and CPI inflation of about 9.0%. Loans and deposits should both grow at 13-15%, one percentage point faster than the sector. The bank expects NIM to fall back slightly to 3.5%, the loans/deposits ratio to remain anchored below 105% and NPLs to be stable at 2.1%. If this guidance pans out, it would mark a year of relative stability following the turbulence the sector has experienced since 2016.