



Fitch Downgrades 18 Turkish Banks on Sovereign Downgrade

[Link to Fitch Ratings' Report: Turkish Banks - Rating Action Report \(https://www.fitchratings.com/site/re/894011\)](https://www.fitchratings.com/site/re/894011)

Fitch Ratings-London-02 February 2017: Fitch Ratings has downgraded the Long-Term Foreign Currency Issuer Default Ratings (FC IDRs) of 18 Turkish banks and their subsidiaries. The Long-Term Local Currency (LC) IDRs of 12 of the banks have also been downgraded, while six have been affirmed. The Outlooks on all of the banks are Stable. A full list of rating actions is available on www.fitchratings.com or by clicking the link above.

The rating actions follow the downgrade of Turkey's Long-Term FC IDR to 'BB+' from 'BBB-' (see 'Fitch Downgrades Turkey's LTFC IDR to 'BB+'; Outlook Stable' dated 27 January 2017 at www.fitchratings.com). The bank downgrades reflect (i) a weakening of the Turkish operating environment, and Fitch's view that it is not appropriate to rate Turkish banks above the sovereign based on their standalone strength; (ii) a reduction in the likelihood that the sovereign will be able to provide support to banks, in case of need; and (iii) the lower Country Ceiling, implying an increase in transfer and convertibility risks.

At the same time, the banks' financial metrics remain largely sound, as reflected in Viability Ratings (VRs) which are mostly at, or close to, the level of the sovereign FC IDR, and the Stable Outlooks reflect limited risks of further downgrades in the near term.

KEY RATING DRIVERS

STATE-OWNED AND DEVELOPMENT BANKS - IDRS, NATIONAL RATINGS, DEBT RATINGS, SUPPORT RATINGS, SUPPORT RATING FLOORS

The downgrades of the FC IDRs of T.C. Ziraat Bankasi A.S. (Ziraat), Turkiye Halk Bankasi A.S. (Halk), Turkiye Vakiflar Bankasi T.A.O. (Vakif), Turkiye Sinai Kalkinma Bankasi A.S.(TSKB), Turkiye Kalkinma Bankasi A.S. (TKB) and Turkiye Ihracat Kredi Bankasi AS (Turk Eximbank) to 'BB+' from 'BBB-', follow the downgrade of Turkey's FC IDR.

The downgrades reflect the government's reduced ability - as reflected in the downgrade of the sovereign's FC IDR - to provide support to the banks. As a result, the banks' Support Rating Floors (SRFs), which underpin their IDRs, have been revised downwards to 'BB+' from 'BBB-'. The banks' Short-Term FC IDRs are downgraded to 'B' from 'F3'. Fitch continues to believe that the Turkish sovereign has a high propensity to support these banks, but that its ability to provide support is only moderate considering its level of net foreign currency reserves. As a result, all six banks' Support Ratings have been downgraded to '3' from '2'.

The SRFs of Ziraat, Halk and Vakif continue to reflect their (i) state ownership (ii) policy roles (Ziraat, Halk) (iii) systemic importance, and (iv) significant state-related deposits. The SRFs of TSKB, TKB and Turk Eximbank reflect (i) the banks' policy roles (ii) majority state ownership (TKB and Turk Eximbank) and (iii) government support of the banks' funding profiles.

In addition to the revision of their SRFs, the downgrade of the FC IDRs of Ziraat, Halk and Vakif are driven by the impact of the weaker Turkish operating environment on their standalone credit profiles - as reflected in the downgrade of their VRs to 'bb+' from 'bbb-'.

The Long-Term LC IDRs of all six banks have been affirmed at 'BBB-' in line with the sovereign's LC IDR, reflecting the stronger ability of the sovereign to provide support in local currency versus in foreign currency.

AKBANK AND ISBANK - SUPPORT RATING FLOORS

The SRFs of Akbank T.A.S. (Akbank) and Turkiye Is Bankasi A.S. (Isbank) have been revised downwards to 'B+' from 'BB-' and their Support Ratings downgraded to '4' from '3'. This reflects the sovereign's modest, and weaker, ability to provide support in FC for the two privately-owned banks. The banks' SRFs continue to take into account their systemic importance and market shares.

FOREIGN OWNED BANKS - IDRS, DEBT RATINGS, SUPPORT RATINGS, NATIONAL RATINGS

The downgrade of the Long-Term FC IDRs of the foreign-owned banks - namely Turkiye Garanti Bankasi A.S., Yapi ve Kredi Bankasi A.S. (YKB), ING Bank A.S. (INGBT), Turk Ekonomi Bankasi A.S. (TEB), Finansbank A.S. (Finansbank), ICBC Turkey Bank A.S., Burgan Bank A.S., Alternatifbank A.S. (ABank), Kuveyt Turk Katilim Bankasi A.S (Kuveyt Turk) and Turkiye Finans Katilim Bankasi AS - reflects the downgrade of Turkey's Country Ceiling to 'BBB-'. Turkey's Country Ceiling reflects transfer and convertibility risks and limits the extent to which support from foreign shareholders can be factored into the banks' Long-Term FC IDRs.

The downgrades of the banks' Long-Term LC IDRs to 'BBB-' from 'BBB' reflect Fitch's view that continued parental support

for the banks would become more uncertain in a sovereign default scenario.

The Stable Outlooks mirror that on the sovereign rating and the limited likelihood of a change in the Country Ceiling in the near term.

The affirmation of the 10 banks' Support Ratings at '2' reflects Fitch's view that the banks' parents continue to have a strong propensity to provide support, given the subsidiaries' ownership structures, strategic importance, integration and, in some cases, common branding.

VR OF ZIRAAT, HALK, VAKIF, GARANTI, YKB, TEB, FINANSBANK, AKBANK, ISBANK; IDRS AND SENIOR UNSECURED DEBT RATINGS - AKBANK, ISBANK

The VRs of these nine banks have all been downgraded to 'bb+' from 'bbb-' as a result of the weaker operating environment and the negative impact this has on the prospects for their asset quality and performance and the sufficiency of capital and liquidity buffers. Fitch does not assign VRs to any Turkish banks above the sovereign FC IDR due to their concentrated operations in the Turkish market and typically high exposure to the Turkish sovereign.

Of these banks, only Akbank and Isbank, which are privately-owned, have IDRs driven solely by their VRs. The downgrades of their IDRs and senior unsecured debt ratings are driven by the downgrade of their VRs.

BANK SUBSIDIARIES

The IDRs of the banks' subsidiaries are equalised with those of their respective parents, reflecting their strategic importance to and integration with their shareholders. Downgrades of parent ratings have therefore been reflected in downgrades of subsidiary ratings.

The affected subsidiaries are: Garanti Faktoring A.S., Garanti Finansal Kiralama A.S. (Garanti Leasing), Yapi Kredi Faktoring A.S., Yapi Kredi Finansal Kiralama A.S. (Yapi Kredi leasing), YapiKredi Yatirim Menkul Degerler A.S. (YK Investment), Finans Finansal Kiralama A.S. (Finans Leasing), Alternatif Finansal Kiralama AS (ALease), AK Finansal Kiralama A.S. (Aklease), Ak Yatirim Menkul Degerler AS (Ak Investment), Akbank AG, Is Faktoring A.S., and Is Finansal Kiralama A.S. (Is Leasing).

SUBORDINATED DEBT RATINGS - VAKIF, ISBANK, ABANK, KUYEY TURK, YKB

Vakif's and Isbank's subordinated debt ratings have been downgraded to 'BB' from 'BB+', driven by the downgrade of their VRs, which serve as anchor ratings for the subordinated debt ratings.

The downgrades of the subordinated debt ratings of ABank, Kuveyt Turk and YKB to 'BB+' from 'BBB-' reflect the downgrade of the respective banks' FC IDRs. In Fitch's view, support from the banks' owners would also likely extend to subordinated creditors, but the subordinated debt ratings are one notch lower than senior debt ratings to reflect weaker recovery prospects in case of default.

NATIONAL RATINGS

The affirmation of all banks' and subsidiaries' National Ratings with Stable Outlooks reflects Fitch's view that the creditworthiness of the banks relative to each other and to other Turkish banks has not changed materially as a result of the sovereign rating action.

RATING SENSITIVITIES

The IDRs and debt ratings of all the entities covered in this commentary are sensitive primarily to further changes in the sovereign ratings and further weakening of the operating environment.

In addition, the following factors could result in rating downgrades: (i) for foreign-owned banks: a marked weakening of the ability or propensity of parent institutions to provide support; (ii) for Akbank and Isbank: a significant weakening of their standalone credit profiles, as reflected in their VRs; (iii) for Ziraat, Vakif and Halk: IDRs would be downgraded only in case of both weaker sovereign support prospects and a downgrade of the banks' VRs; (iv) for subsidiaries: a change in their parents' ratings or a change in the ability or propensity of parent banks to provide support.

Upgrades of any of the banks' IDRs are unlikely without an upgrade of the Turkish sovereign.

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016) (<https://www.fitchratings.com/site/re/884128>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1018523&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiT0VQUTVEWE9MRkdJSEJQTEdFskswTVRLVkpSVEg5UUVVIRTFIVE5USSlsmV4cCI6MTQ4NjcwTc3MSwidXNlckkljoxMTY0MzQ2fQ.5M3SIR11Y9i5y6emajybyqWdX8-R95spOvYxNKvTGZ68)

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