



Fitch Downgrades 14 Turkish Banks; Outlook Negative

[Link to Fitch Ratings' Report\(s\): Fitch Downgrades 14 Turkish Banks; Outlook Negative](#)

Fitch Ratings-London-19 July 2019: Fitch Ratings has downgraded the support-driven Long-Term Foreign Currency Issuer Default Ratings (LTFC IDRs) of 12 foreign-owned Turkish banks and their subsidiaries, and two state-owned development banks, Turkiye Ihracat Kredi Bankasi A.S. (Turk Eximbank) and Turkiye Kalkinma Bankasi A.S. (TKYB).

The agency has also downgraded the Long-Term Local Currency IDRs of 22 banks and their subsidiaries. The Outlooks on all banks' Long-Term IDRs are Negative. Viability Ratings (VRs) are not affected as a result of these rating actions. A full list of rating actions is available at www.fitchratings.com or via the link above.

The rating actions follow the downgrade of Turkey's sovereign rating on 12 July 2019 (see "Fitch Downgrades Turkey to 'BB-'; Outlook Negative" at www.fitchratings.com). In Fitch's view, the dismissal of Turkey's central bank governor heightens doubts about the authorities' tolerance for a period of sustained below-trend growth and disinflation that Fitch considers consistent with a rebalancing and stabilisation of the economy, and highlights a deterioration in Turkey's institutional independence and economic policy coherence and credibility.

The downgrades of the foreign-owned Turkish banks' LTFC IDRs to 'B+' from 'BB-' reflects increased risk of government intervention in the banking sector in case of a marked deterioration in Turkey's external finances. We continue to view the risk of intervention that would prevent banks from servicing their FC obligations to be slightly higher than that of a sovereign default, and this result in these ratings being capped one notch below the sovereign LTFC IDR.

The one-notch downgrades of the support-driven LTFC IDRs of state-owned development banks TKYB, to 'BB-', and Turk Eximbank, to 'B+', reflect Fitch's view of the increased risks to the ability of the Turkish authorities to provide timely and sufficient support in foreign currency (FC) given the increased potential for stress in the country's external finances. Turk Eximbank is rated one notch below Turkey, while TKYB is equalised with the sovereign rating due to its small size and high, albeit reduced, proportion of Turkish treasury-guaranteed funding.

The VRs of all banks under review, and of other Fitch-rated Turkish banks, are unaffected following the sovereign downgrade. This reflects our view that VRs are already in the 'b' category and therefore capture higher systemic risk: the highest Turkish bank VRs of 'b+' are still one notch below the sovereign ratings.

KEY RATING DRIVERS

IDRS, SUPPORT RATINGS AND SENIOR DEBT RATINGS OF FOREIGN-OWNED BANKS

Turkiye Garanti Bankasi A.S. (Garanti BBVA; LTFC IDR B+/Negative)

Yapi ve Kredi Bankasi A.S. (YKB; LTFC IDR B+/Negative)

Turk Ekonomi Bankasi (TEB; LTFC IDR B+/Negative)

QNB Finansbank A.S. (LTFC IDR B+/Negative)

ING Bank A.S. (LTFC IDR B+/Negative)

Kuveyt Turk Katilim Bankasi (Kuveyt Turk; LTFC IDR B+/Negative)

Alternatifbank A.S. (Alternatifbank; LTFC IDR B+/Negative)

Turkiye Finans Katilim Bankasi (TFKB; LTFC IDR B+/Negative)

Burgan Bank A.S. (Burgan Bank Turkey; LTFC IDR B+/Negative)

ICBC Turkey Bank A.S. (LTFC IDR B+/Negative)
BankPozitif Kredi ve Kalkinma Bankasi (BankPozitif; LTFC IDR B+/Negative)
Denizbank A.S. (LTFC IDR B+/Negative)

The foreign-owned banks' LTFC IDRs and FC senior debt ratings are downgraded by one notch to 'B+', one notch below the sovereign LTFC IDR. This reflects our view that in case of a marked deterioration in Turkey's external finances, the risk of government intervention in the banking sector would be higher than that of a sovereign default.

In Fitch's view, Turkey's high external funding requirement creates a significant incentive to retain market access and avoid capital controls. Nevertheless, if there were a marked deterioration in Turkey's external finances some form of intervention in the banking system that might impede the banks' ability to service their FC obligations would become more likely, in Fitch's view.

Nine foreign-owned banks now have FC IDRs and FC senior debt ratings at the level of their VRs, but also underpinned by shareholder support. The FC IDRs of Alternatifbank, Burgan Bank Turkey and BankPozitif remain driven solely by shareholder support. Fitch's view of support for all foreign-owned banks is based on their strategic importance, to varying degrees, for their parents, integration, roles within their respective groups and, for some, common branding.

All foreign-owned banks' LT LC IDRs are also downgraded by one notch. Their LT LC IDRs are one notch above their LTFC IDRs, reflecting our view of a lower likelihood of government intervention that would impede the banks' ability to service obligations in local currency.

IDRs, SUPPORT RATINGS AND SENIOR DEBT RATINGS OF STATE-OWNED COMMERCIAL BANKS AND DEVELOPMENT BANKS

T.C. Ziraat Bankasi A.S. (Ziraat; LTFC IDR B+/Negative)
Turkiye Halk Bankasi A.S. (Halk; LTFC IDR B+ /Negative)
Turkiye Vakiflar Bankasi A.S. (Vakifbank; LTFC IDR B+ /Negative)
Vakif Katilim Bankasi A.S. (Vakif Katilim; LTFC IDR B+/Negative)
Turkiye Sinai Kalkinma Bankasi A.S. (TSKB; LTFC IDR B+/Negative)
Turkiye Ihracat Kredi Bankasi A.S. (Turk Eximbank; LTFC IDR B+ /Negative)
Turkiye Kalkinma ve Yatirim Bankasi A.S. (TKYB; LTFC IDR BB-/Negative)

TKYB's LTFC IDR has been downgraded by one notch to 'BB-' from 'BB'. The bank's ratings remain equalised with the sovereign, reflecting its small size and still largely treasury-guaranteed funding base.

Turk Eximbank's LTFC IDR has also been downgraded by one notch, to 'B+' from 'BB-'. The bank's ratings reflect Fitch's view of the high propensity of the government to provide support given Turk Eximbank's ownership, policy role and high level of state-related funding. However, Turk Eximbank is rated one notch below the sovereign due to its larger (than TKYB) balance sheet and volumes of foreign funding and risks to the ability of the authorities to provide support in FC.

The Support Rating Floors (SRFs) of the state-owned commercial banks (Ziraat, Vakifbank, Halk, Vakif Katilim), and of privately owned development bank TSKB, have been affirmed at 'B+' despite the sovereign downgrade.

This reflects a degree of rating compression at lower rating levels, and also considers the high government propensity to support these banks given their majority state ownership (except for TSKB), systemic importance (Ziraat, Vakifbank, Halk), policy roles (Ziraat, Halk, TSKB), significant state-related funding, state guarantees in the case of TSKB, and the recent record of support. The one-notch difference between the sovereign rating and those of these banks reflects the limited ability of the authorities to provide support in FC.

The authorities have shown a strong commitment to support the state banks, as indicated by capital

increases in September 2018 and April 2019.

The LTFC IDRs of Halk and Vakif Katilim have been affirmed following the affirmation of their SRFs, which drive their LTFC IDRs.

The LTLC IDRs of the state-owned commercial banks and the development banks have been downgraded to 'BB-' and are equalised with the sovereign rating, reflecting the stronger ability of the sovereign to provide support in LC.

The Negative Outlooks on the banks' Long-Term IDRs mirror those on the sovereign ratings. For Ziraat, Vakifbank and TSKB, which have VRs at the level of their SRFs, the Outlooks on the LTFC IDRs also reflect the potential for their VRs to be downgraded if there were further deterioration in the operating environment or increases in risk appetite that place greater-than-expected pressure on financial metrics (Ziraat and Vakifbank only) .

LONG-TERM LOCAL CURRENCY IDRS AND SUPPORT RATING FLOORS OF AKBANK AND ISBANK

Akbank TAS (LTFC IDR 'B+' /Negative)
 Turkiye Is Bankasi (LTFC IDR 'B+' /Negative)

The LTLC IDRs of Akbank and Isbank have been downgraded to 'B+' from 'BB-' and are now in line with their LTFC IDRs. The LTLC IDRs are underpinned by potential state support and the downgrades reflect the sovereign downgrade.

Both the banks' LTLC IDRs and LTFC IDRs are now in line with their VRs. The Negative Outlooks on their IDRs reflect the potential for further deterioration in the operating environment, which could place greater pressure on the banks' financial metrics.

The affirmation of the 'B' SRFs of Akbank and Isbank, two notches below the sovereign LTFC IDR (at the level of the domestic systemically important bank (D-SIB) SRF for Turkish banks), reflects their systemic importance, but also their private ownership and the Turkish authorities' limited ability to provide support in FC, if needed.

SUBORDINATED DEBT RATINGS

The subordinated notes ratings of YKB, Kuveyt Turk, Garanti and Alternatifbank are notched down once from their IDRs and have been downgraded by one notch in line with the downgrades of their anchor ratings. The notching in each case includes one notch for loss severity and zero notches for non-performance risk (relative to the anchor ratings).

SUBSIDIARY RATINGS

Ak Yatirim (LTFC IDR 'B+' /Negative)
 Ak Finansal Kiralama (LTFC IDR 'B+' /Negative)
 Alternatif Finansal Kiralama AS (LTFC IDR 'B+' /Negative)
 Deniz Finansal Kiralama (LTFC IDR 'B+' /Negative)
 Joint-Stock Company Denizbank Moscow (LTFC IDR 'B+' /Negative)
 Garanti Faktoring (LTFC IDR 'B+' /Negative)
 Garanti Finansal Kiralama (LTFC IDR 'B+' /Negative)
 Is Finansal Kiralama (LTFC IDR 'B+' /Negative)
 QNB Finans Finansal Kiralama A.S. (LTFC IDR 'B+' /Negative)
 Yapi Kredi Finansal Kiralama (LTFC IDR 'B+' /Negative)
 Yapi Kredi Faktoring (LTFC IDR 'B+' /Negative)
 Yapi Kredi Yatirim Menkul Degerler (LTFC IDR 'B+' /Negative)
 Ziraat Katilim Bankasi (LTFC IDR 'B+' /Negative)

Subsidiary ratings are equalised with those of parent banks, reflecting their strategic importance to, and integration within, their respective groups. The downgrades of the LT IDRs of the subsidiaries of foreign-owned banks (Alternatifbank, Denizbank, Garanti, QNB Finansbank and YKB), and of the LTLC IDRs of the subsidiaries of Akbank, Isbank and Ziraat, mirror the rating actions on their respective parents.

RATING SENSITIVITIES

FOREIGN-OWNED BANKS

The LT IDRs, Support Ratings and senior debt ratings of foreign-owned banks could be downgraded if Fitch believes the risk of government intervention in the banking sector has increased materially. The Negative Outlooks on these banks reflect the potential for a further deterioration in Turkey's external finances, which could increase the risk of such intervention. A sovereign downgrade would be likely to lead to downgrades of these banks.

STATE-OWNED COMMERCIAL AND DEVELOPMENT BANKS

The IDRs and senior debt ratings of Ziraat, Halk, Vakifbank, Vakif Katilim, TSKB, Turk Eximbank and TKYB could be downgraded if Fitch concludes that the ability of the sovereign to provide support has weakened. However, the ratings of Ziraat, Vakifbank and TSKB would only be downgraded if their 'b+' VRs were also lowered.

AKBANK AND ISBANK

The LTFC IDRs and senior debt ratings of Akbank and Isbank are sensitive to any changes to their VRs. The banks' LTLC IDRs are underpinned by state support at the 'B+' level, and so would only be downgraded if both our assessment of support weakened and the VRs were downgraded.

SUBORDINATED DEBT RATINGS

Subordinated debt ratings are primarily sensitive to changes in banks' anchor ratings, namely the Long-Term IDRs for YKB, Garanti, Kuveyt Turk and Alternatifbank.

These ratings are also sensitive to a change in notching from the anchor ratings due to a revision in Fitch's assessment of the probability of the notes' non-performance risk or of loss severity in case of non-performance.

SUBSIDIARY RATINGS

The ratings of these entities are sensitive to changes in the Long-Term IDRs of their parents.

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For the respective analytical contacts, see the associated Rating Action Report.

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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)

Short-Term Ratings Criteria (pub. 02 May 2019)

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Dodd-Frank Rating Information Disclosure Form

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