Fitch Ratings

FITCH AFFIRMS 6 SMALL TURKISH BANKS

Fitch Ratings-London-12 February 2016: Fitch Ratings has affirmed the Long-term foreign and local currency Issuer Default Ratings (IDRs) of six small Turkish banks: domestically-owned Anadolubank A.S. and Sekerbank T.A.S., and foreign-owned Alternatifbank A.S. (ABank), BankPozitif Kredi ve Kalkinma Bankasi A.S. (BankPozitif), ICBC Turkey, and Turkland Bank A.S (T-Bank).

The Outlook on the Sekerbank's ratings has been revised to Negative from Stable and the Outlook on T-Bank is Negative. The Outlooks on the other banks are Stable.

Alternatifbank's leasing subsidiary, Alternatif Finansal Kiralama A.S. has also been affirmed.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS
IDRS, NATIONAL RATINGS AND SUPPORT RATINGS OF FOREIGN-OWNED BANKS
Institutional support drives the IDRs, National Ratings and Support Ratings of ABank (75% owned by Commercial Bank of Qatar, CBQ, A+/Stable) and its leasing subsidiary Alternatif Finansal Kiralama (100% owned by ABank), BankPozitif (69.8% controlled by Bank Hapoalim, A-/Stable), T-Bank (50% owned by Arab Bank group, BBB-/Negative) and ICBC Turkey (92.8% owned by Industrial and Commercial Bank of China, ICBC, A/Stable).

Fitch views ABank and ICBC Turkey as strategically important subsidiaries for CBQ and ICBC, respectively. However, the banks' Long-term foreign currency IDRs are constrained by Turkey's 'BBB' Country Ceiling. CBQ's ability to provide support could be constrained by Qatari regulatory limits in respect of the amount of support banks can extend to their foreign subsidiaries. The ratings of Alternatif Finansal Kiralama are equalised with those of ABank, reflecting its high integration with the parent.

ICBC Turkey's ratings are driven by support from ICBC and the Stable Outlook mirrors that on its parent. This view of support is based on ICBC Turkey's strategic importance to its parent based on its jurisdiction of operation that falls within China's "One Belt, One Road" strategy. ICBC's own ratings are driven by Fitch's expectation of a very high probability of support from the Chinese government, should it be required.

T-Bank is notched down twice from Arab Bank Plc reflecting its only 50% ownership, which could limit the probability of support, in Fitch's view. It also considers its non-core jurisdiction relative to its parent's other strategically important subsidiaries. The remaining 50% stake in T-Bank is owned by Lebanon's BankMed Sal.

Fitch views BankPozitif as being of limited importance to Hapoalim due to its small size and lack of strategic fit, and considers the sale of the bank to be possible (although no sale process has so far been formally initiated). BankPozitif's Long-term IDRs are consequently three notches lower than those of its parent. Fitch could revise its support assumptions should the sale of BankPozitif become more likely.

IDRS, NATIONAL RATINGS AND SUPPORT RATINGS OF DOMESTICALLY-OWNED BANKS

The IDRs and National Ratings of Anadolubank and Sekerbank are driven by their Viability Ratings (VRs). The banks' '5' Support ratings and 'No Floor' Support Rating Floors reflect Fitch's view that support cannot be relied upon either from shareholders, or the Turkish authorities.

VIABILITY RATINGS
The VRs of the six banks reflect their limited franchises, small absolute size (combined assets equal to around 3% of sector assets) and limited competitive advantages. Most offer a mixture of general commercial and retail banking services but with a focus on small and medium-sized companies, an increasingly competitive segment in Turkey. The banks' financial metrics have weakened moderately, but generally remain adequate particularly considering the challenging operating environment.

The historically higher VRs of Anadolubank (bb) and Sekerbank (bb-) relative to peers, reflect their larger and somewhat more established franchises, and notably Sekerbank's regional micro and SME franchise. For Anadolubank, it also considers the bank's track record of generally better asset quality, profitability and capitalisation. The bank's performance weakened in 9M15, mainly due to higher swap costs, but Fitch considers underlying profitability to be reasonable, supported by good cost efficiency; the costs/assets ratio is not out of line with the largest banks' in the sector despite Anadolubank's significantly smaller size.

The revision of the Outlook on Sekerbank to Negative from Stable reflects pressures on asset quality in the context of the bank's weaker capitalisation. Non-performing loans (NPLs), defined as loans overdue by 90 days, were broadly flat in 9M15. However, the bank sold off 1.2% of its loan book in 9M15 and restructured 'watch' list loans were equal to a further 5% of gross loans at end-9M15, up slightly versus end-2014. Furthermore, the NPL origination rate rose to 2.1% in 9M15 (annualised) from 1.1% in 2014 and interest income accrued but not received rose to a high 14% of gross interest income (9M14: 4%). Such trends could be indicative of an underlying deterioration in asset quality, in Fitch's view, particularly considering growth in regulatory group 2 'watch' list loans in 9M15, which could migrate to the non-performing category as loans season.

At the same time, Sekerbank's capitalisation has weakened due to the depreciation of the Turkish lira. Capital ratios should be considered in light of the bank's weaker internal capital generation capacity (ROE of 3.5% in 9M15 and budgeted to remain subdued in 2016), moderate NPL coverage and the expected negative impact of Basel III capital requirements on the bank's capital ratios. The bank is currently seeking a capital injection from new strategic or existing shareholders but the timing and amount remains uncertain. In the event that the bank is unable to attract new capital, it plans to manage loan growth to ensure it does not breach the recommended 12% total capital adequacy ratio set by the BRSA.

The affirmation of ICBC Turkey's VR reflects its limited franchise and weak performance. However, the latter has been exacerbated by a period of stagnation pending the bank's sale, and performance should start to pick up as loan growth resumes. Fitch views positively the improved prospects for the bank's franchise thanks to its new owner and particularly the benefits this can bring in terms of capturing potential trade flows between China and Turkey. The availability of cheap, long-term funding from its parent enables ICBC Turkey to pursue its strategy of offering long-term foreign currency (FC) loans to large corporates, although this also gives rise to significant potential credit risks.

The 'b+' VR of A-bank reflects its weak Fitch Core Capital (FCC) ratio of 7.4%, which is significantly below peers'. The bank's capitalisation should also be considered in light of a high level of FC lending, which is higher than both peers and the sector average. However, the bank is budgeting for a USD50m capital injection from CBQ in 1Q16 and internal capital generation is also reasonable, despite having weakened. In addition, the bank's total capital ratio is more in line with peers (13.5%) and is set to benefit from USD250m of planned new subordinated debt issuance in 1H16.

T-bank's 'b+' VR is constrained by its high risk appetite, as evidenced by above sector average loan growth in recent years (albeit slowing to below the sector average in 9M15), and the bank's ensuing weak asset quality. Consequently, Fitch considers the bank's capital ratios to be moderate. This is offset by its reasonable funding base and decent liquidity position.

BankPozitif's 'b+' VR reflects frequent changes in the bank's, the bank's only moderate capitalisation and reliance on wholesale funding as its sole source of funding, due to the absence of a deposit license. Refinancing risk is mitigated in part by access to parental funding and committed lines.

Asset quality has deteriorated mildly across the banks due to lira depreciation, slower economic growth and loan book seasoning. While the average NPL ratio for the banks fell to 4.3% at end-3Q15 from 4.8% at end-2014, this should be considered in light of loan growth (up around 20% on average in 9M15) and NPL sales. Furthermore, the level of NPL generation (net of recoveries) accelerated at most of the banks in 9M15, albeit to a still moderate 2.0%-2.5%. A high level of FC and FC-indexed lending (around 30%-40% at most of the banks; exception BankPozitif; 70%) also heightens credit risk, particularly considering that borrowers are smaller companies and as such will typically be less well hedged.

FCC ratios fell at all banks in 9M15 as a result of weaker internal capital generation and lira depreciation. Capital remains sensitive to potential further NPL growth, given the sensitivity of the banks' target customer segments to economic performance, while the ratio of net NPLs to FCC is fairly high at Abank, Sekerbank and T-bank. In addition, the implementation of Basel III capital requirements could necessitate further capital strengthening measures at some banks.

Funding and liquidity ratios are generally reasonable. The foreign-owned banks should be able to rely on liquidity support from parent institutions in case of need. In the case of the domestically owned banks, Anadolubank has some reliance on short-term FC repo funding from international banks (comfortably covered by available FC liquidity), while Sekerbank primarily sources longer-term wholesale funding from international development institutions.

RATING SENSITIVITIES
IDRS, SRs, SRFs, NATIONAL RATINGS AND DEBT RATINGS
The ratings of ABank and ICBC Turkey could be downgraded in case of multi-notch downgrades of their respective parents. The ratings of Alternatif Finansal Kiralama are sensitive to those of Abank.

The Negative Outlook on T-Bank's ratings reflects that on Arab Bank, and a downgrade of the parent would likely result in a downgrade of the subsidiary. A material change in Fitch's view of support available to the bank from its parents would also result in rating action.

BankPozitif's Long-term IDRs are sensitive to changes in the ratings of Bank Hapoalim and in the bank's strategic importance to its parent. Significant progress with the bank's sale would likely result in BankPozitif being placed on Rating Watch.

Sekerbank and Anadoloubank's Long-term IDRs are sensitive to changes in their VRs. A purchase of a majority stake in either bank by a higher rated institution could result in an upgrade of its ratings.

VRs

The VRs of all six banks could be downgraded in case of a significant deterioration in asset quality that put pressure on capital ratios and performance. A sharp tightening of liquidity could also result in pressure on the banks' VRs.

Upside potential for the VR of Anadolubank is limited, given its current high level, while that of Sekerbank's IDRs is under greater downward pressure, as reflected in the Negative Outlook on the Long-term IDR.

An improvement of the franchises of ICBC Turkey and T-bank without a corresponding sharp increase in risk appetite or weakening of underwriting standards could result in upside potential for the banks' VRs. A track record of successful implementation of its new strategy could also help to support an upgrade of ICBC Turkey's VR.

An upgrade of ABank's VR depends on a strengthening of its core capital ratios along with a proven track record of successfully executing its new corporate strategy.

Bank Pozitif's VR has limited upside potential given its specific niche franchise and could be downgraded in case of further weakening of the bank's capital adequacy or escalation of refinancing risk.

The rating actions are as follows:

Alternatifbank A.S.
Long-term FC IDR affirmed at 'BBB'; Stable Outlook
Long-term LC IDR affirmed at 'BBB+'; Stable Outlook
Short-term FC IDR affirmed at 'F2'
Short-term LC IDR affirmed at 'F2'
Viability Rating affirmed at 'b+'
Support Rating affirmed at '2'
National Long-term Rating affirmed at 'AAA(tur)' Stable Outlook
USD250m senior notes guaranteed by Commercial Bank of Qatar affirmed at 'A+'

Alternatif Finansal Kiralama A.S.
Long-term FC IDR affirmed at 'BBB'; Stable Outlook
Long-term LC IDR affirmed at 'BBB+'; Stable Outlook
Short-term FC IDR affirmed at 'F2'
Short-term LC IDR affirmed at 'F2'
Support Rating affirmed at '2'
National Long-term Rating affirmed at 'AAA(tur)' Stable Outlook

Anadolubank A.S.
Long-term FC and LC IDRs affirmed at 'BB' ; Stable Outlook
Short-term FC and LC IDRs affirmed at 'B'
Viability Rating affirmed at 'bb'
Support Rating affirmed at '5'
Support Rating Floor affirmed at 'No Floor'
National Long-term Rating affirmed at 'AA-(tur)' ; Stable Outlook

BankPozitif Kredi ve Kalkinma Bankasi A.S.
Long-term FC and LC IDRs: affirmed at 'BBB-'; Stable Outlook
Short-term FC and LC IDRs affirmed at 'F3'
Viability Rating affirmed at 'b+'
Support Rating affirmed at '2'
National Long-term Rating affirmed at 'AA+(tur)' ; Stable Outlook

Senior unsecured debt: affirmed at 'BBB-'
Senior unsecured debt issued out of Commerzbank International S.A.: affirmed at 'BBB-'

Sekerbank T.A.S.
Long-term FC and LC IDRs affirmed at 'BB-'; Outlook revised to Negative from Stable
Short-term FC and LC IDRs affirmed at 'B'
Viability Rating affirmed at 'bb-'
Support Rating affirmed at '5'
Support Rating Floor affirmed at 'No Floor'
National Long-term Rating affirmed at 'A+(tur)'; Outlook revised to Negative from Stable

ICBC Turkey A.S.
Long-term FC IDR affirmed at 'BBB'; Stable Outlook
Long-term LC IDR affirmed at 'BBB+'; Stable Outlook
Short-term FC IDR affirmed at 'F2'
Short-term LC IDR affirmed at 'F2'
Viability Rating affirmed at 'b+'
Support Rating affirmed at '2'
National Long-term Rating affirmed at 'AAA(tur)' Stable Outlook

Turkland Bank A.S.
Long-term FC and LC IDRs affirmed at 'BB'; Negative Outlook
Short-term FC and LC IDRs affirmed at 'B'
Viability Rating affirmed at 'b+'
Support Rating affirmed at '3'
National Long-term Rating affirmed at 'AA-(tur)'; Negative Outlook

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Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501
Global Non-Bank Financial Institutions Rating Criteria (pub. 28 Apr 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865351