FitchRatings

Banks
Islamic Banks
Turkey

Turkiye Finans Katilim Bankasi A.S.

Key Rating Drivers

Support Drives IDRs: Turkiye Finans Katilim Bankasi A.S's (Turkiye Finans) Issuer Default Ratings (IDRs) are driven by potential support from its 67% owner, Saudi-owned The National Commercial Bank (NCB; A-/Stable), reflecting its majority ownership and Turkiye Finans'strategic importance to and integration with its parent.

Intervention Risk: The Long-Term Foreign-Currency (LT FC) IDR is one notch below that of Turkey reflecting our view that, in case of marked deterioration in Turkey's external finances, government intervention risk in the banking sector would be higher than that of a sovereign default. The bank's LT Local-Currency (LC) IDR is one notch above its LT FC IDR, reflecting lower intervention risk in LC. The Stable Outlook reflects that on the sovereign.

Operating Environment: The challenging Turkish operating environment heightens downside risks to the bank's standalone credit profile, given exposure to market volatility and political and geopolitical uncertainty, although short-term risks have partly abated given Turkey's progress in rebalancing and stabilising the economy, and external funding exposure is limited.

Small Participation Bank: Turkiye Finans has a small domestic market share (end-9M19: about 1% of sector assets), limiting its competitive advantages and pricing power, but its position as the second-largest bank (out of six) in the niche participation banking segment (end-9M19: 6% of sector assets) underpins its company profile.

Asset Quality under Pressure: The bank's non-performing financing (NPF) and Stage 2 ratios rose to a high 7.5% and 14%, respectively, at end-9M19, albeit partly inflated by a contraction in financing. Its NPF origination rate was a high 6.7% (annualised). FC financing (end-9M19: 44% of the total) and exposure to SMEs (49%) and the troubled construction sector (12%) heighten risk.

Modest Profitability: Performance is weighed down by high impairments, limited growth and a lack of economies of scale. Operating profit/risk-weighted assets (RWA) was a modest 1.0% in 9M19, despite a reasonable net profit-share margin (5.0%) underpinned by a low cost of deposits (5.1%).

Moderate Core Capitalisation: The Fitch Core Capital (FCC) ratio (end-9M19: 13.3%) is only moderate for the bank's risk profile and given its modest profitability, although the bank's total capital ratio (17.8%) is comfortably above regulatory requirements, supported by FC Tier 2 debt from NCB. Capitalisation is sensitive to likely asset-quality deterioration and potential Turkish lira depreciation.

Deposit-Funded; Limited Refinancing Risk: The financing/deposits ratio (end-9M19: 82%) is solid following repayments of external funding and deposit growth, although a high 68% of deposits are in FC. FC wholesale funding (net of NCB funding) was equal to 4% of total funding.

Rating Sensitivities

IDRs Sensitive to Support: The bank's IDRs are sensitive to changes in NCB's ability and propensity to provide support, a change in Turkey's rating or in Fitch Ratings' view of government intervention risk. A reduction in institutional support would only lead to a downgrade of the bank's ratings if its VR was simultaneously also downgraded.

VR Sensitive to Financial Profile: A VR downgrade could result from a marked weakening in the bank's capitalisation, asset quality or FC liquidity position (if not offset by shareholder support) due to deposit outflows or an inability to refinance maturing external obligations. Near-term upside for the VR is limited given operating environment and asset-quality risks.

Ratings

Foreign Currency	
Long-Term IDR	B+
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB-
Short-Term IDR	B
Viability Rating	b+
Support Rating	4
National	
National Long-Term Rating	AA(tur)
Sovereign Risk	
Long-Term Foreign-Currency IDR	BB-
Long-Term Local-Currency IDR	BB-
Country Ceiling	BB-

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (October 2018)

National Scale Ratings Criteria (July 2018)

Short-Term Ratings Criteria (May 2019)

Related Research

Fitch Ratings 2020 Outlook: Turkish Banks (December 2019)

Turkey (November 2019)

Fitch Revises 20 Turkish Banks' Outlooks to Stable on Sovereign Change (November 2019)

Fitch Revises Turkey's Outlook to Stable; Affirms at 'BB-' (November 2019)

Fitch Affirms 3 Turkish Participation Banks (October 2019)

Analysts

Aurelien Mourgues
+44 20 3530 1855
aurelien.mourgues@fitchratings.com

Cem Emre Bilgin
+44 20 3530 1230
cem.bilgin@fitchratings.com

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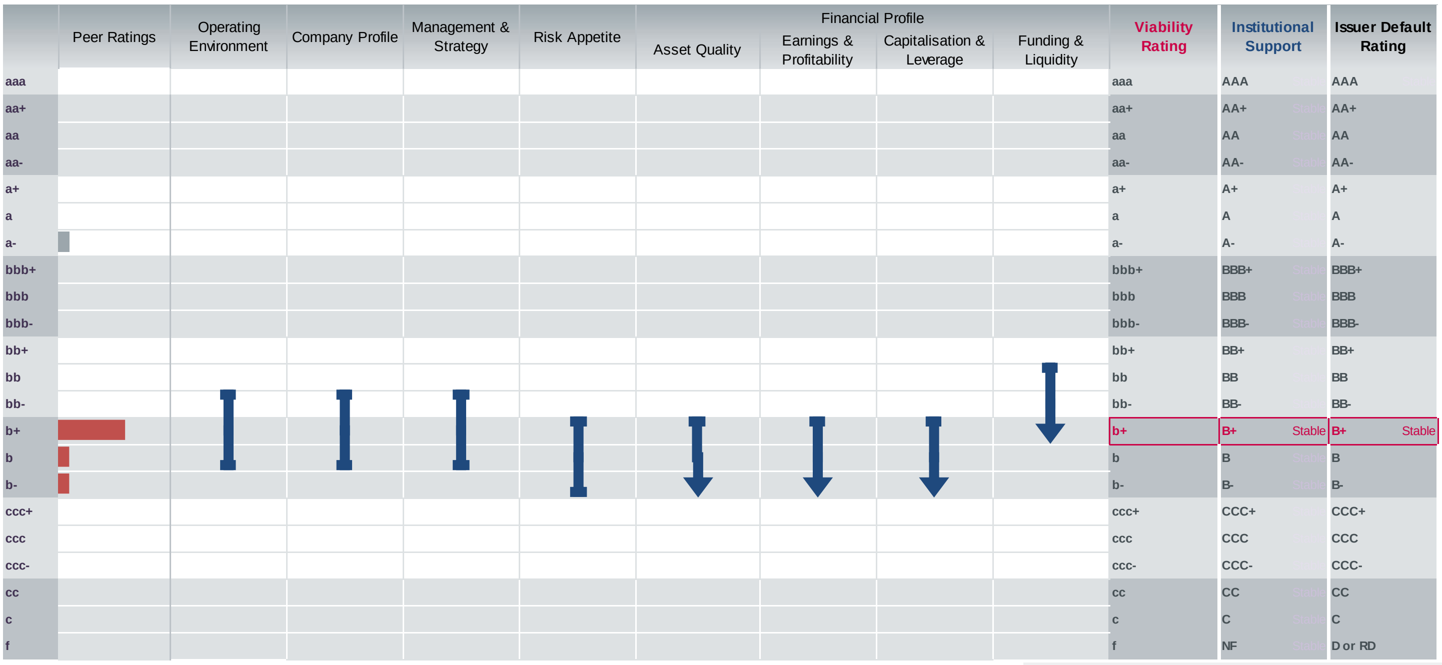
Ratings Navigator – Standalone Assessment

Turkiye Finans Katilim Bankasi A.S.

ESG Relevance:

Banks
Ratings Navigator



Institutional Support Assessment

Institutional Support			Value
Parent IDR			A-
Total Adjustments (notches)			-7
Institutional Support:			**B+**
Support Factors (negative)	**Equalised**	**1 Notch**	**2+ Notches**
Parent ability to support and subsidiary ability to use support			
Parent/group regulation		✓	
Relative size		✓	
Country risks			✓
Parent Propensity to Support			
Role in group		✓	
Potential for disposal		✓	
Implication of subsidiary default		✓	
Integration		✓	
Size of ownership stake		✓	
Support track record		✓	
Subsidiary performance and prospects		✓	
Branding			✓
Legal commitments			✓
Cross-default clauses			✓

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive ⇩ Negative

⇳ Evolving ▫ Stable

Significant Changes

Outlook Revised to Stable Following Sovereign Outlook Change

On 12 November 2019, Fitch revised the Outlooks on Turkiye Finans' Long-Term IDRs to Stable from Negative and affirmed the bank's IDRs (see *Fitch Revises 20 Turkish Banks' Outlooks to Stable on Sovereign Change* at www.fitchratings.com).

This followed the revision of the Outlook on Turkey's Long-Term IDR to Stable from Negative, which reflected the lower near-term likelihood of a sharp deterioration in Turkey's external finances, and therefore of government intervention in the banking system. The Outlook revision on the sovereign also reflected an improvement in foreign-exchange reserves, stronger growth, falling inflation and a lower risk of US sanctions. Fitch forecasts GDP growth of 3.1% in 2020 and 3.6% in 2021, compared with 0.1% in 2019.

Short-term risks to banks' standalone profiles have partly abated given Turkey's progress in rebalancing and stabilising the economy. Reduced macro and market volatility and the lower lira interest-rate environment against a backdrop of more supportive global financing conditions could stimulate sector growth, support investor confidence and reduce risks to banks' financial metrics.

TRY46 billion of Sector Loans Are Problematic

Asset-quality pressures remain significant for Turkish banks, as indicated by rising non-performing loans (NPLs), generally high levels of Stage 2 and restructured loans. In addition, in 4Q19, the Banking Regulation and Supervision Agency identified TRY46 billion of sector loans as problematic, including a large portion to the troubled construction and energy sectors. However, some of these could be restructured rather than classified as NPLs. At end-9M19, Turkiye Finans' share of the aforementioned TRY46 billion loans was TRY2.0 billion (7% of gross financing or 0.4x of FCC). The majority were classified as Stage 2 financing at the bank while about one-fourth were already non-performing. The management indicates that 71% of the problematic financing will have fed through to NPF by year-end.

Company Summary and Key Qualitative Assessment Factors

Still Challenging Operating Environment

The challenging Turkish operating environment and exposure to market volatility and political and geopolitical uncertainty continue to heighten risks to Turkish banks' standalone credit profiles, albeit short-term operating environment risks have abated. This reflects the below historical-trend growth outlook, high sector FC lending (end-9M19: 38% of sector loans) - given the sharp lira depreciation - material, albeit declining, sector FC wholesale funding and high deposit dollarisation (52% of customer deposits). Exposure to troubled sectors and segments, such as construction and energy and including lumpy, slowly amortising project finance loans, also heighten credit and seasoning risks.

Niche Participation Bank Franchise

Turkiye Finans' operations are concentrated in Turkey, where it provides Islamic banking products and services to corporate, commercial, SME and retail clients, via a nationwide network (end-9M19: 310 branches), digital and other alternative channels.

The bank's overall small domestic market share (about 1% of sector assets; ranked 14th) limits its competitive advantages and pricing power. However, it has a solid franchise, as the second-largest participation bank (of six), in the niche Islamic banking sector in Turkey, which underpins its company profile. This segment offers reasonable prospects in the medium term, given its current low level of penetration (end-9M19: equal to 6% of total banking sector assets) and strategic importance to the Turkish authorities. Three new state-owned participation banks have been established since 2015.

At end-9M19, Turkiye Finans' net financing (57% of total assets) was split between corporates (40%), SMEs (49%) and retail borrowers (11%). The bank's share of SME financing is above peer and sector averages. Turkiye Finans relies on net finance income (9M19: 89% of total operating income) and fee income is limited. Funding is a rating strength; the bank is largely deposit-funded (end-9M19: 80% of total funding), including a high share of demand deposits (about two fifths of total customer deposits). Reliance on external FC wholesale funding is limited reflecting its strategy to decrease this funding source in recent years, partly supported by access to group funding.

Closely Integrated NCB Subsidiary

Turkiye Finans' majority (67%) shareholder is Saudi-based NCB. Other shareholders include Boydak Group (22%), which has been under the control of the Savings Deposit and Insurance Fund since September 2016, and Gozde Girisim (Ulker Group) (11%). NCB has previously indicated a willingness to increase its stake in Turkiye Finans.

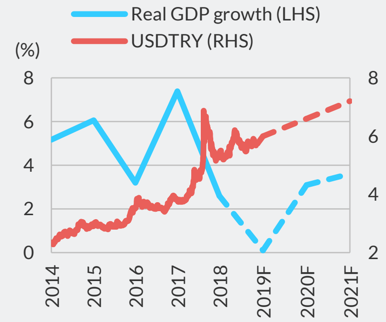
Turkiye Finans is run by local management, but with close oversight from and frequent reporting to NCB, which controls its board of directors. Integration with its parent has increased since the appointment of Turkiye Finans' chief executive from within NCB (November 2016). Turkiye Finans' risk management, policies and corporate governance framework have since been overhauled and are broadly aligned with those of its parent. Turkiye Finans has Tier 2 FC subordinated debt and senior unsecured funding from NCB.

Cautious Growth Appetite

Turkiye Finans has implemented standardised and centralised credit approval models and operations as part of its revamped risk framework. It has reviewed its credit policies, rating and scoring models and implemented risk-based pricing. Overall financing growth has been broadly flat since end-2015, despite the bank de-risking FC financing. The latter fell by 41% in US dollar terms between 2016 and 9M19.

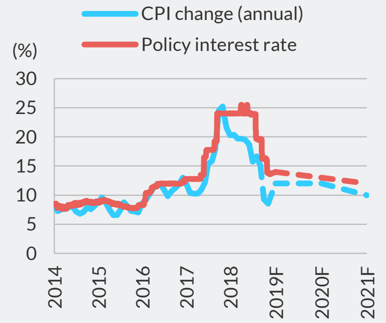
The bank targets healthy and profitable medium-term financing growth, while maintaining its historical focus on the riskier SME segment. However, growth could remain constrained in the short-term given still challenging operating conditions and competitive lending pricing pressures, although the improving economic outlook and sharp lira interest-rate cuts of 2H19 could serve to stimulate growth.

GDP & Exchange Rate



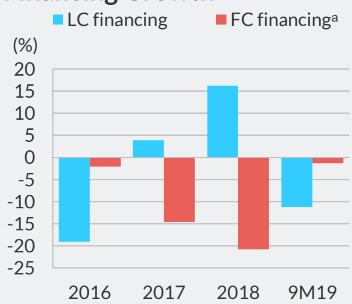
Source: Fitch Ratings, CBRT

Inflation & Interest Rate



Source: Fitch Ratings, CBRT, TurkStat

Financing Growth



[a] FC financing in US dollar terms
Source: Fitch Ratings, Turkiye Finans

Turkiye Finans forecasts financing growth to revive – primarily in LC – in 2020 driven by its expectation of more favourable operating conditions. It plans partly to replace LC financing to medium-sized companies with loans to good-quality corporate and commercial clients and FC export lending. To some extent, this reflects the phasing out of Treasury-backed Credit Guarantee Fund loans (end-9M19: 7.5% of financing). In the retail book, it has introduced new products to support growth in general purpose, credit card and auto loans.

In Fitch's view, the bank's growth targets and the effectiveness of its risk-management framework could be affected by changes in economic cycles, lira volatility and potential regulatory forbearance.

Volatility Heightens Market Risk

Interest-rate and exchange-rate volatility increase market risks for the bank. Turkiye Finans is exposed to profit-sharing risk as its liabilities reprice faster than its assets, as per the sector. However, the bank's high share of monthly amortising financing (end-9M19: 72% of total financing), facilitates fairly swift repricing, while short-term profitability should also benefit from the recent sharp fall in lira interest rates. Profit-sharing risk was equal to a moderate 7% of equity at end-9M19, based on the regulatory shock of a +500bp/-400bp change in lira rates and +/-200bp change in FC rates.

Structural FC risk is mitigated by the bank's policy to match assets and liabilities by currency and tenor and to hedge remaining mismatches. At end-9M19, Turkiye Finans maintained a small short open FC position (2% of equity).

Credit risk in the securities book comprises Turkish sovereign risk as securities are largely composed of government sukuk. The securities portfolio is limited (end-9M19: 9% of total assets), but the bank is exposed to mark-to-market losses through equity as securities are largely (94%) held at fair value through other comprehensive income. However, revaluation losses have been limited to date.

Summary Financials and Key Ratios

	30 Sep 19	31 Dec 18	31 Dec 17	31 Dec 16
	9 months - 3rd quarter	Year end	Year end	Year end
	(TRYth)	(TRYth)	(TRYth)	(TRYth)
	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement				
Net financing & dividend income	1,408,882.0	1,746,003.0	1,451,436.0	1,509,540.0
Net fees and commissions	105,656.0	126,792.0	135,780.0	143,011.0
Other operating income	77,115.0	143,295.0	102,191.0	145,629.0
Total operating income	1,591,653.0	2,016,090.0	1,689,407.0	1,798,180.0
Operating costs	843,679.0	990,799.0	876,512.0	825,699.0
Pre-impairment operating profit	747,974.0	1,025,291.0	812,895.0	972,481.0
Financing & other impairment charges	498,666.0	455,230.0	355,238.0	603,454.0
Operating profit	249,308.0	570,061.0	457,657.0	369,027.0
Other non-operating items (net)	0.0	0.0	0.0	0.0
Tax	49,676.0	124,701.0	82,285.0	72,833.0
Net income	199,632.0	445,360.0	375,372.0	296,194.0
Other comprehensive income	104,625.0	-71,595.0	25,939.0	-6,028.0
Fitch comprehensive income	304,257.0	373,765.0	401,311.0	290,166.0
Summary Balance Sheet				
Gross financing	30,224,835.0	31,654,968.0	27,753,513.0	28,177,692.0
- Ow impaired	2,273,874.0	1,732,682.0	1,414,992.0	1,394,324.0
Financing loss allowances	1,444,483.0	1,566,756.0	1,002,992.0	857,194.0
Net financing	28,780,352.0	30,088,212.0	26,750,521.0	27,320,498.0
Interbank	5,095,054.0	1,435,300.0	307,436.0	561,766.0
Islamic derivatives	259,692.0	293,990.0	162,406.0	172,081.0
Other securities & earning assets	4,639,562.0	2,603,063.0	4,038,853.0	3,696,483.0
Total earning assets	38,774,660.0	34,420,565.0	31,259,216.0	31,750,828.0
Cash and due from banks	8,361,252.0	8,598,464.0	6,084,201.0	5,668,857.0
Other assets	3,272,295.0	3,594,342.0	1,660,407.0	1,342,200.0
Total assets	50,408,207.0	46,613,371.0	39,003,824.0	38,761,885.0
Liabilities				
Customer deposits	36,984,622.0	26,813,933.0	21,817,580.0	20,408,045.0
Interbank and other ST funding	4,788,903.0	10,971,766.0	6,228,717.0	5,486,701.0
Other LT funding	1,562,006.0	1,988,060.0	5,083,790.0	6,949,667.0
Trading liabilities & islamic derivatives	130,210.0	426,045.0	284,314.0	385,032.0
Total funding	43,465,741.0	40,199,804.0	33,414,401.0	33,229,445.0
Other liabilities	2,323,756.0	2,098,625.0	1,549,855.0	1,894,183.0
Pref. shares and hybrid capital	n.a.	n.a.	n.a.	n.a.
Total equity	4,618,710.0	4,314,942.0	4,039,568.0	3,638,257.0
Total liabilities and equity	50,408,207.0	46,613,371.0	39,003,824.0	38,761,885.0

Summary Financials and Key Ratios (Cont.)

	30 Sep 19	31 Dec 18	31 Dec 17	31 Dec 16
	9 months - 3rd quarter	Year end	Year end	Year end
	(%)	(%)	(%)	(%)
	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Ratios (annualised as appropriate)				
Profitability				
Operating profit/RWA	1.0	1.7	1.7	1.2
NFI/average earning assets	5.0	5.2	4.7	4.7
Non-financing expense/gross revenues	53.0	49.1	51.9	45.9
Net Income/average equity	6.0	10.8	9.7	8.4
Asset quality				
Impaired financing ratio	7.5	5.5	5.1	5.0
Growth in gross financing	-4.5	14.1	-1.5	-6.1
Financing loss allowances/impaired financing	63.5	90.4	70.9	61.5
Financing impairment charges/average gross financing	2.0	1.3	1.1	1.9
Capitalisation				
Fitch Core Capital ratio	13.3	12.4	14.3	12.0
TCE ratio	9.0	9.1	10.2	9.2
CET 1 ratio	13.0	12.0	14.3	12.1
Basel leverage ratio	6.9	7.0	7.4	6.6
Net financing loans/FCC	18.3	3.9	10.4	15.1
Funding & liquidity				
Financing/customer deposits	81.7	118.1	127.2	138.1
LCR	308.3	282.0	194.9	136.3
Customer deposits/funding	85.3	67.4	65.9	62.1
NSFR	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions

Key Financial Metrics – Latest Developments

The peer average in the attached charts is made up of local banks with broadly comparable market shares to Turkiye Finans (ranging from 0.4% to 2.3% of total assets). All banks (except Vakif Katilim) have a high exposure to small and medium-sized borowers. Only two (Kuveyt Turk and Vakif Katilim) are participation banks. The peers are as follows: Kuveyt Turk Katilim Bankasi A.S (VR: b+), ING Bank A.S. (b+), Anadolubank A.S. (b+), Odea Bank A.S. (b) and Vakif Katilim Bankasi AS (b-).

Asset Quality under Pressure

Turkiye Finans' NPF ratio rose to a fairly high 7.5% at end-9M19 (sector average: 5.0%), due to its high NPF origination rate (9M19: 6.7%; annualised) and the impact of operating environment pressures notably on its SME (end-9M19: 49% of financing) and construction (12%) exposures.

The bank's asset-quality metrics have historically underperformed the sector, due to its relatively higher exposure to the riskier SME segment and, in recent years, muted financing growth. Metrics should also be considered in light of regular NPF sales/write-offs (equal to 1.6% of gross financing annually between 2016 and 9M19) and sound collections (over a fourth of average NPFs annually). The largely monthly amortising repayment structure of Turkiye Finans' overall financing portfolio means asset-quality problems should feed through quickly.

Credit risk is heightened by high reported Stage 2 financing (end-9M19: 14% of gross financing; of which over half is restructured) and high FC financing (44%), given that not all FC borrowers are likely to be fully hedged against the lira depreciation. The bank calculates the migration rate from the Stage 2 category to NPF to have been 7% between 9M18 and 9M19. At end-9M19, FC financing was split between working capital (and other) loans (65%), export loans (21%) and project finance (14%). FC financing includes riskier FC-indexed loans (equal to 9% of total financing); these are being phased-out across the sector due to a change in regulation.

Financing is reasonably diversified by borrower. At end-9M19, the top 25 cash exposures were equal to about 19% of financing (1.3x of FCC).

Riskier exposures to construction (12%) and energy (6.5%) are below sector average, but nonetheless heighten credit risk. At end-9M19, a high 33% of construction financing was classified as Stage 2, of which over three-fourths was restructured. The construction portfolio mainly relates to development financing (about two-thirds of total construction financing, with the remainder comprising financing of contractors), which have come under pressure from the lira depreciation, the drop in real-estate prices and shallow – albeit recovering – housing sales. The bank has limited shopping mall exposures.

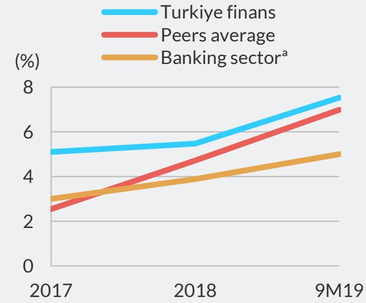
Total reserves coverage of NPFs was a low 64% at end-9M19 and specific reserves coverage a weaker 53%. This partly reflects the bank's focus on largely collateralised SME financing. Reserves coverage of Stage 2 exposures is also low (4%).

Modest Profitability

Turkiye Finans' profitability is below sector average and has been weighed down by asset-quality pressures, a focus on cleaning up financing over growth in recent years and its below-average cost efficiency. Performance also reflects a lack of economies of scale (9M19: cost/income ratio of 53%, sector: 36%), although the bank's strategy is to optimise costs, partly through digitalisation.

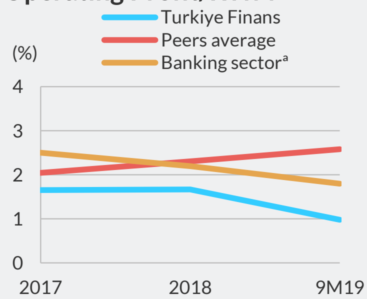
The bank's operating profit/RWA deteriorated to 1.0% in 9M19 (2018: 1.7%), reflecting muted financing growth, a small contraction in the net profit-share margin and a rise in impairments, which absorbed a high 67% of pre-impairment operating profit (2018: 44%). Its net profit-share margin is reasonable (9M19: 5.0%) – although it would be lower adjusted for FC swap costs (equal to TRY196 million, or 70bp (annualised) of average earning assets). It is underpinned by a low cost of deposits (5.1%) due to a high share of demand and FC deposits (end-9M19: 39% and 68% of total deposits, respectively) and risk-based loan pricing.

Impaired Financing Ratio



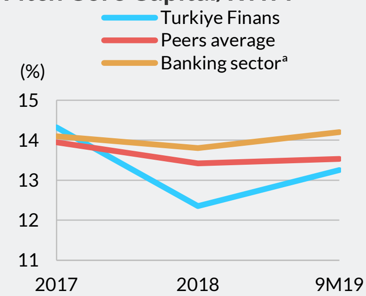
[a] Unconsolidated basis
Source: Fitch Ratings, Turkiye Finans

Operating Profit/RWA



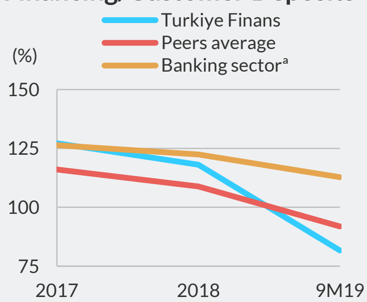
[a] Unconsolidated basis
Source: Fitch Ratings, Turkiye Finans

Fitch Core Capital/RWA



[a] CET1 ratio; unconsolidated basis
Source: Fitch Ratings, Turkiye Finans

Financing/Customer Deposits



[a] Unconsolidated basis
Source: Fitch Ratings, Turkiye Finans

Moderate Core Capitalisation

The FCC ratio (end-9M19: 13.3%) is only moderate for the bank's risk profile, modest profitability and asset-quality pressures including high Stage 2 loans. Net unreserved NPFs were 18% of FCC at end-9M19. However, pre-impairment profit provides a moderate buffer to absorb losses through the income statement (9M19: equal to 3.1% of average loans, annualised) and regulatory capital ratios are comfortably above minimum requirements.

Capitalisation remains sensitive to further lira depreciation (due to the inflation of FC RWAs). The total capital ratio (17.8%) is supported by USD250 million of FC Tier 2 debt from NCB, which acts as a partial hedge against lira depreciation. At end-9M19, Fitch estimated that a 10% depreciation of the lira would have decreased the bank's total capital ratio by about 40bp.

As an Islamic bank, Turkiye Finans can reduce the risk weighting of assets directly financed by participation accounts (Islamic deposits) by 50% on the basis of the 'profit-sharing concept' and the implicit transfer of risk. This resulted in significant uplift (about 250bp; bank estimate) to its total capital adequacy ratio at end-9M19. The bank's leverage (9M19: equity/total assets of 9.2%; sector: 10.9%) is, therefore, lower than at most conventional banks, although it compares well with large local Islamic bank peers.

Deposit-Funded; Limited Refinancing Risk

Turkiye Finans is largely deposit-funded. The deposit base is granular (end-9M19: retail deposits/total deposits of 73%) and concentration is limited. Deposits are short term, as for the sector, and almost entirely due within three months. A high 39% comprised demand deposits at end-9M19 and the remainder participation accounts. The financing/deposits ratio is sound (end-9M19: 82%) and has improved due to muted financing growth in recent years and the rapid increase in deposits, particularly in FC, in 9M19, as per the sector. FC deposits accounted for an above-sector-average 68% of deposits at end-9M19.

Reliance on FC wholesale funding is moderate, mitigating refinancing risk. It is likely to remain limited given the bank's deposit funding strategy and appetite for short-term LC sukuk issuance (end-9M19: 5% of total funding; almost all held by retail investors).

FC wholesale funding fell to 9% of total funding at end-9M19, or a low 4% net of parent funding, following repayments of some lumpy maturing debt. It comprises bilateral borrowings (5% of total funding), USD250 million of long-term subordinated debt (maturing in 2025) from NCB (3%) and Malaysian ringgit sukuk issuances (USD87 million equivalent due in 1H20). Refinancing risk is heightened by operating environment pressures and potential market volatility but the presence of NCB mitigates refinancing risks.

At end-1H19, the bank had sufficient FC liquid assets to cover foreign FC wholesale funding falling due within 12 months, plus just under a third of FC deposits. FC liquidity mainly comprises unpledged FC government sukuk, FC placements at foreign banks, cash and reserves under the reserve option mechanism. The largely monthly amortising nature of financing also supports the bank's liquidity position. Nevertheless, FC liquidity could come under pressure in case of prolonged market closure or large FC deposit outflows.

Environmental, Social and Governance Considerations

Turkiye Finans Katilim Bankasi A.S.

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Turkiye Finans Katilim Bankasi A.S. has 1 ESG rating driver and 5 ESG potential rating drivers

- Turkiye Finans Katilim 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 which, in combination with other factors, impacts the rating.
- Turkiye Finans Katilim 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.
- Turkiye Finans Katilim Bankasi A.S. has exposure to 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 but this has very low impact on the rating.
- Turkiye Finans Katilim Bankasi A.S. has exposure to operational implementation of strategy but this has very low impact on the rating.
- Turkiye Finans Katilim 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.
- Turkiye Finans Katilim Bankasi A.S. has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

			Overall ESG Scale
key driver	0	issues	5
driver	1	issues	4
potential driver	5	issues	3
not a rating driver	3	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
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	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	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	Company Profile; Financial Profile	1

Governance (G)

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

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

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

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 ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.