

Fitch Ratings

Fitch Upgrades Turkiye Garanti Bankasi and Subsidiaries on BBVA Control

Fitch Ratings-London-31 July 2015: Fitch Ratings has upgraded Turkiye Garanti Bankasi's (Garanti) Long-term Issuer Default Ratings (IDRs) to 'BBB' from 'BBB-', Short-term IDRs to 'F2' from 'F3' and National Rating to 'AAA' from 'AA+'. The Support Rating has also been upgraded to '2' from '3'. The ratings have all been removed from Rating Watch Positive. A full list of rating actions is available at the end of this rating action commentary.

The rating action results from the change in control at the bank as a result of Banco Bilbao Vizcaya Argentaria (BBVA; A-/Stable) purchasing an additional 14.89% stake in the bank from Dogus Holding, a transaction announced in November 2014 and completed on 27 July 2015. In so doing BBVA has gained management control of the bank despite holding only a 39.9% stake; Garanti will henceforth be fully consolidated in BBVA's accounts.

Garanti's IDRs, National Rating and Support Rating have been upgraded because Fitch believes BBVA would provide support to its subsidiary, if required. The Support Rating Floor (SRF) has been affirmed and withdrawn, as SRFs are only assigned to banks whose primary source of external support is considered to be the sovereign; this is no longer the case for Garanti.

The Viability Ratings of Garanti and (where assigned) of its subsidiaries are unaffected by this rating action.

KEY RATING DRIVERS

GARANTI IDRS, NATIONAL RATINGS, SUPPORT RATING AND SENIOR DEBT

Garanti's IDRs, National and Support Ratings are now driven by potential support from BBVA, whose Long-term IDR of 'A-/Stable' is driven by its standalone creditworthiness.

Fitch views Garanti as a strategically important subsidiary of BBVA and believes there is high probability it would receive support from the parent. The two-notch difference between the parent's and subsidiary's Long-term IDRs is driven by Garanti's significant management and operational independence, separate branding and BBVA's still minority, albeit controlling, stake. The Stable Outlook on Garanti's IDRs and National Rating reflects the Outlook on BBVA's Long-term IDR.

Garanti's Short-term IDRs have been upgraded to 'F2', the higher of the two possible Short-term IDRs corresponding to its Long-term IDR of 'BBB', reflecting Fitch's view of potential liquidity support from BBVA.

GARANTI BANK S.A. IDRS, NATIONAL RATING AND SENIOR DEBT

Garanti Bank S.A. (GBR) IDRs and Support Rating have been upgraded as a result of the upgrade of Garanti, and reflect the potential support GBR can expect to receive from its parent Garanti. In turn, Garanti's IDRs are based on the potential support it could expect to receive from BBVA.

GBR's Long-term IDR is one notch below that of Garanti, reflecting Fitch's view that it is a strategically important subsidiary of Garanti. Fitch notes that there has been no indication from Garanti that it is considering changing its strategy in Romania as a result of the change in control at the bank. GBR shares Garanti's branding and IT systems and its risk management framework is also aligned with that of its parent. In addition, key management and supervisory board members are drawn from Garanti. One member of GBR's board is a BBVA representative.

GARANTI FAKTORING, GARANTI LEASING IDRS AND NATIONAL RATINGS

The Long- and Short-term IDRs and National Ratings of Garanti Faktoring A.S. (Garanti Factoring) and Garanti Finansal Kiralama A.S. (Garanti Leasing) are equalised with those of the direct parent: Garanti, reflecting Fitch's view that they are core, highly integrated, subsidiaries of the bank. Potential support from BBVA for Garanti Factoring and Garanti Leasing is likely to flow through Garanti, but could also be extended directly. The upgrade of the Short-term IDRs to 'F2' from 'F3' reflects potential liquidity support from BBVA.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR DEBT OF GARANTI

Garanti's IDRs, National and potentially also its Support Rating could be downgraded if i) BBVA's Long-term IDR is downgraded ii) Turkey's sovereign rating and Country Ceiling are downgraded or iii) Fitch believes that BBVA's propensity to support Garanti has weakened. None of these scenarios is currently expected by Fitch.

The notching between Garanti's and BBVA's Long-term IDRs could be narrowed to one notch as a result of increased integration with BBVA which would likely occur in tandem with a further increase in BBVA's ownership stake, in Fitch's view. This could lead to an upgrade of Garanti's Long term IDR subject to Country Ceiling constraints.

IDRS, NATIONAL RATINGS AND SUPPORT RATINGS OF GBR, GARANTI FAKTORING, GARANTI LEASING

Garanti Faktoring's, Garanti Leasing's and GBR's ratings are sensitive to any changes in (i) Garanti's ratings; and (ii) Fitch's view of the propensity of Garanti to provide support in case of need.

In the case of GBR any reduction in Fitch's view of strategic importance of Garanti's Romanian subsidiary to the group may cause a widening of the notching between GBR and Garanti. However, this is not currently expected by Fitch.

The rating actions are as follows:

Turkiye Garanti Bankasi A.S.

Long-term foreign and local currency IDRs : upgraded to 'BBB' from 'BBB-'; off RWP; Stable Outlook

Short-term foreign and local currency IDRs: upgraded to 'F2' from 'F3'; off RWP
National Long-term Rating: upgraded to 'AAA'(tur) from 'AA+(tur)'; off RWP; Stable Outlook
Viability Rating of 'bbb-' unaffected
Support Rating: upgraded to '2' from '3'; off RWP
Support Rating Floor: affirmed at 'BB-' and withdrawn
Senior unsecured Long-term rating upgraded to 'BBB' from 'BBB-'; off RWP
Senior unsecured Short-term rating upgraded to 'F2' from 'F3'; off RWP

Garanti Faktoring A.S. and Garanti Finansal Kiralama A.S.

Long-term foreign and local currency IDRs: upgraded to 'BBB' from 'BBB-'; off RWP; Stable Outlook
Short-term foreign and local currency IDRs: upgraded to 'F2' from 'F3'; off RWP
Support Rating affirmed at '2'
National Long-term Rating: upgraded to 'AAA'(tur) from 'AA+(tur)'; off RWP; Stable Outlook

Garanti Bank S.A.

Long-term foreign currency IDR: upgraded to 'BBB-', from 'BB+'; off RWP; Outlook Stable
Short-term foreign currency IDR: upgraded to 'F3' from 'B'; off RWP
Support Rating upgraded to '2' from '3'; off RWP
Viability Rating: 'b+'; unaffected

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Additional information is available on www.fitchratings.com

Applicable Criteria

Country Ceilings (pub. 28 Aug 2014)

(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=752194)

Evaluating Corporate Governance (pub. 12 Dec 2012)

(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=694649)

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)

National Scale Ratings Criteria (pub. 30 Oct 2013)

(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=988849)

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