

## Structured Finance

### Rating

#### Covered Bonds (Preliminary Report)

New  Update

**Publishing Date:**  
June 16, 2020

**Head of Group:**  
Zeki M COKTAN  
[zeki.coktan@jcrer.com.tr](mailto:zeki.coktan@jcrer.com.tr)  
**Senior Chief Analyst:**  
Orkun INAN  
[orkun.inan@jcrer.com.tr](mailto:orkun.inan@jcrer.com.tr)  
+90 212 352 56 73

### Türkiye Halk Bankası A.Ş. Covered Bonds

Type of Securities	Mortgage Covered Bonds
Programme	"TRY15 bn Capital Markets Board (CMB) Issue Ceiling"
Issuer	Türkiye Halk Bankası A.Ş.
Registration	Merkezi Kayıt Kuruluşu A.Ş.
Swap Counterparties	None (no swap)
Cover Monitor	KPMG Türkiye Bağımsız Denetim ve SMMM A.Ş.
Specific Applicable Law	The CMB Communiqué Serial: III, No: 59.1 named "Covered Bonds"
Outstanding Covered Bonds - TRY - on May 26, 2020 Issued at par in single issuance	TRY 1,000,000,000 5-year maturity maturing on December 7, 2023
Covered Bonds to be issued	Up to TRY 15,000,000,000 Terms to be determined
Principal Payment	Soft bullet
WAL of CBs	TBD
Cover Pool Assets on May 26, 2020	First Lien Mortgage Loans: TRY23,528,467,475 Government Bonds: TRY75,579,028
Nominal Overcollateralization	47.53% (committed: 2%)
WAL of CP	3.45 years
Number of Borrowers	249,707
Number of Mortgage Loans	251,585
CB & CP Interest Type Fixed / Floating	CB: TBD / CP: Fixed
CP Cut-off Date	May 26, 2020

## RATINGS

Covered Bonds to be issued under "TRY15 bn Capital Markets Board Issue Ceiling" by "Türkiye Halk Bankası A.Ş."		Long Term	Short Term	
International Local Currency / Outlook		BBB- (Stable)	A-3 (Stable)	
National Note / Outlook		AAA (Trk) (Stable)	A-1+ (Trk) (Stable)	
Sovereign*	Foreign Currency	BB+	-	
	Local Currency	BB+	-	
	Outlook	FC	Negative	-
		LC	Negative	-

\*Assigned by Japan Credit Rating Agency, JCR on April 10, 2020

## Overview

"Türkiye Halk Bankası A.Ş.", hereinafter referred as Halkbank and/or the Issuer, (ranking 3<sup>rd</sup> in asset size in the Turkish banking sector) plans to issue Mortgage Covered Bonds in Turkey on nominal values to local qualified investors or investors domiciled abroad by invitation or private placement without any public offering under "TRY15 bn Capital Markets Board (CMB) Issue Ceiling" through approval by the CMB dated April 22, 2020 within the meaning of the CMB Communiqué Serial: III, No: 59.1 named "Covered Bonds"- amounting to TRY15 bn, terms of which have not been determined yet. In its latest corporate credit rating action for Halkbank, JCR-ER assigned 'AAA (Trk)' with Stable outlook in the Long-Term National Scale for the Issuer on October 31, 2019.

The underlying assets of the CBs to be issued will be the well-diversified cover pool (with WAL at 3.45 years) consisting of instalment-based residential mortgage loans - all secured by first lien mortgages - extended by the Issuer mainly for purposes of purchasing property (99.68% of the total outstanding loans in the CP on May 26, 2020). The cover pool bears fixed interest payments.

## Strengths

- Dual recourse facilities for the CB issuances provided by the Turkish applicable law
- Existence of numerous strict asset eligibility criteria strengthening appropriateness level of assets in cover pool of CBs
- Ample surplus OC over committed OC and the one corresponding to current rating
- Homogeneous and multitudinous profile of obligors in the cover pool
- Low level of cover pool delinquencies together with LtV ratios well below legal and reference levels
- An immune and liquid portfolio with matching terms and few conditionalities
- Facility of monthly replacement of cover pool to be provided by the Issuer

## Constraints

- Symmetrical risk profiles across the CB series and absence of secondary market impeding investor diversity
- Growing uncertainties through Covid-19 pandemic accompanied by geopolitical tension to exert temporary adversities on debt-servicing
- Metrics of the current structure exposed to potential changes within the programme through the Issuer's decisions
- Excess spread throughout the maturities not assessed due to yet undefined terms of the CB issuances