

Structured Finance Rating

Covered Bonds (Preliminary Report)

 New Update

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Türkiye Cumhuriyeti Ziraat Bankası A.Ş. Covered Bonds

| Type of Securities | Mortgage Covered Bonds |
|---|--|
| Relevant Programme | "TRY5 bn Capital Markets Board (CMB) Issue Ceiling" |
| Issuer | Türkiye Cumhuriyeti Ziraat Bankası A.Ş. |
| Registration | Merkezi Kayıt Kuruluşu A.Ş. |
| Swap Counterparties | None (no swap) |
| Cover Monitor | Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (Ernst & Young) |
| Specific Applicable Law | The CMB Communiqué Serial: III, No: 59.1 named "Covered Bonds" |
| Outstanding Covered Bonds on May 1, 2020 (issued at par in single issuance) | TRY 1,000,000,000 5-year maturity maturing on July 12, 2023 |
| Covered Bonds to be issued | Currently within TRY 5 bn CMB ceiling (subject to be increased later) |
| Principal Payment | Soft bullet |
| WAL of CBs | TBD |
| Cover Pool Assets on May 1, 2020 | First Lien Mortgage Loans: TRY 8,000,030,688 Government Bonds: TRY100,000,000 |
| Nominal Overcollateralization | 33.33% (committed: 2% & observance of 20%) |
| Current WAL of CP | 3.11 years |
| Number of Borrowers | 107,457 |
| Number of Mortgage Loans | 107,718 |
| CB & CP Interest Type Fixed / Floating | CB: TBD / CP: Fixed |
| CP Cut-off Date | May 1, 2020 |

RATINGS

| Covered Bonds to be issued under "TRY5 bn Capital Markets Board Issue Ceiling" by "Türkiye Cumhuriyeti Ziraat 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 Cumhuriyeti Ziraat Bankası A.Ş.", hereinafter referred as Ziraat Bankası and/or the Issuer, (ranking 1st 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 "TRY5 bn Capital Markets Board (CMB) Issue Ceiling" through approval by the CMB within the meaning of the CMB Communiqué Serial: III, No: 59.1 named "Covered Bonds"- currently amounting to TRY5 bn (may be subject to be increased), terms of which have not been determined yet. In its latest corporate credit rating action for Ziraat Bankası, JCR-ER assigned 'AAA (Trk)' with Stable outlook in the Long-Term National Scale for the Issuer on October 11, 2019.

The underlying assets of the CBs to be issued will be the well-diversified cover pool (with a current WAL at 3.11 years) consisting of instalment-based residential mortgage loans - all secured by first lien mortgages - extended by the Issuer mainly for purposes of purchasing property (100% of the total outstanding loans in the CP on May 1, 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 one and the Bank's observance of a certain OC level
- 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