

FITCH TAKES ACTION ON 15 TURKISH BANKS FOLLOWING SOVEREIGN CRITERIA CHANGE

Fitch Ratings-London-28 July 2016: Fitch Ratings has downgraded the Long-Term Local Currency Issuer Default Ratings (IDR) of 15 Turkish banks and two bank leasing subsidiaries, and affirmed their Short-term Local Currency IDRs. The Outlooks on the Long-Term Local Currency IDRs of all entities are Stable.

The downgrades of the Long-term Local Currency IDRs follow Fitch's downgrade of Turkey's Long-Term Local Currency IDR to 'BBB-' from 'BBB', as a result of which it is now equalised with the Long-Term Foreign Currency IDR. This was driven by the change in Fitch's sovereign rating criteria, which now requires the presence of two key factors to achieve an uplift of the Long-Term Local Currency IDR above the Long-Term Foreign Currency IDR, which are not present in Turkey: (i) strong public finance fundamentals relative to external finance fundamentals, and (ii) previous preferential treatment of LC creditors relative to FC creditors. For more details see 'Fitch Applies Criteria Changes to Turkey's Ratings' dated 22 July 2016 at www.fitchratings.com.

The Long-Term Foreign Currency IDRs, Viability Ratings (VR) and National Long-Term ratings of these entities remain unaffected by this rating action. However, due to the change in the sovereign Long-Term Local Currency IDR, Fitch is reviewing its National Rating scale for Turkey. Any recalibration of this scale could result in changes to the National Ratings of the banks included in this review and of Turkish banks in general.

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

KEY RATING DRIVERS - LOCAL CURRENCY IDRS OF TURKISH STATE-OWNED COMMERCIAL BANKS, DEVELOPMENT BANKS AND TAKASBANK

The Long-Term Local Currency IDRs of the state-owned commercial banks (T.C. Ziraat Bankasi A.S. (Ziraat), Turkiye Halk Bankasi A.S. (Halk), Turkiye Vakiflar Bankasi T.A.O.'s (Vakifbank)), of Turkey's development banks (Turkiye Kalkinma Bankasi (TKB), Turkiye Sinai Kalkinma Bankasi (TSKB), Turkiye Ihracat Kredi Bankasi (Turk Eximbank)) and of Takasbank (Istanbul Takas ve Saklama Bankasi A.S.), Turkey's central clearing counterparty, have been downgraded to 'BBB-' from 'BBB', following the rating action on the sovereign Long-Term Local Currency IDR.

As a result the entities' Long-Term Local Currency IDRs continue to be equalised with that of the Turkish sovereign, reflecting Fitch's expectation of a high probability of support in all cases. The banks' Short-term Local Currency IDRs have been affirmed at 'F3'. As a result of the one-notch downgrade of their Local Currency IDRs to the level of their 'BBB-' Support Rating Floors, the Local Currency IDRs of Ziraat, Vakif, Halk and Takasbank are now also in line with their 'bbb-' VRs - a measure of their standalone creditworthiness - and as such are underpinned by their VRs at their current rating level.

KEY RATING DRIVERS - LOCAL CURRENCY IDRS OF TURKISH FOREIGN-OWNED BANKS WITH COUNTRY CEILING CONSTRAINT; SHORT-TERM FOREIGN CURRENCY IDRS OF KUYEYT TURK AND TURKIYE FINANS

The Long-Term Local Currency IDRs of foreign-owned ICBC Turkey A.S., Kuyeyt Turk, Turkiye Finans, Burgan Bank A.S. ING Bank A.S., Finansbank A.S., Alternatifbank A.S. (ABank) and Turk Ekonomi Bankasi A.S. (TEB) have been downgraded by one notch to 'BBB' from 'BBB+'. In all cases the banks ratings are driven by institutional support from higher rated foreign

shareholders. This rating action maintains the one notch between the banks' and the sovereign's Long-Term Local Currency IDRs and continues to take into account Turkish country risks.

The upgrade of the Short-Term Foreign Currency IDRs of Kuveyt Turk and Turkiye Finans reflects a reassessment by Fitch of potential liquidity support from the banks' respective parents. The Short-Term IDRs of the remaining foreign banks are driven by Fitch's view of potential shareholder support.

KEY RATING DRIVERS - LOCAL CURRENCY IDRS OF BANK SUBSIDIARIES

The Long-Term Local Currency IDRs of Finans Finansal Kiralama (Finans Leasing), 99% owned by Finansbank, and Alternatif Finansal Kiralama (ALease), 100% owned by ABank, have been downgraded to 'BBB' from 'BBB+' mirroring the rating action on their parents. Their support-driven Short-Term IDRs have been affirmed at 'F2'.

RATING SENSITIVITIES - LOCAL CURRENCY IDRS OF TURKISH STATE OWNED COMMERCIAL BANKS, DEVELOPMENT BANKS AND TAKASBANK

The banks' Long-Term Local Currency IDRs remain sensitive to further movement in Turkey's sovereign Long-Term Local Currency IDR and country risks. The IDRs of Ziraat, Halk, Vakifbank and Takasbank are underpinned at their current rating level by their 'bbb-' VRs, but they are also sensitive to potential negative rating action on the sovereign.

RATING SENSITIVITIES - LOCAL CURRENCY IDRS OF TURKISH FOREIGN-OWNED BANKS WITH COUNTRY CEILING CONSTRAINT

The foreign-owned banks' Long-Term Local Currency IDRs remain sensitive to further movement in Turkey's Sovereign Long-Term Local Currency IDR and to Turkey country risks. In addition, a weakening in the ability and the propensity of their respective parents to provide support could result in negative rating action on the banks' ratings.

RATING SENSITIVITIES - SUBSIDIARY AND AFFILIATED COMPANIES

The Local Currency IDRs of Finans Leasing and ALease are sensitive to any changes in (i) the ratings of their parents; and (ii) Fitch's view of the propensity and ability of their parents to provide support in case of need.

The rating actions are as follows:

T.C. Ziraat Bankasi A.S., Turkiye Halk Bankasi A.S., Turkiye Vakiflar Bankasi T.A.O. and Istanbul Takas ve Saklama Bankasi A.S. - Takasbank:

Long-Term Foreign Currency IDRs unaffected at 'BBB-'; Outlook Stable

Long-Term Local Currency IDRs downgraded to 'BBB-' from 'BBB'; Outlook Stable

Short-Term Foreign Currency IDRs unaffected at 'F3'

Short-Term Local Currency IDRs affirmed at 'F3'

Viability Ratings unaffected at 'bbb-'

Support Ratings unaffected at '2'

Support Rating Floors unaffected at 'BBB-'

Senior unsecured debt unaffected at 'BBB-'

Senior unsecured debt (short-term; Ziraat and Vakifbank) unaffected at 'F3'

Subordinated debt rating (Vakifbank): unaffected at 'BB+'

National Long-Term rating unaffected at 'AAA(tur)'; Outlook Stable

TKB, TSKB, Turk Eximbank:

Long-Term Foreign Currency IDRs: unaffected at 'BBB-'; Stable Outlook

Long-Term Local Currency IDRs: downgraded to 'BBB-' from 'BBB'; Stable Outlook

Short-Term Foreign Currency IDRs: unaffected at 'F3'

Short-Term Local Currency IDRs: affirmed at 'F3'

Support Ratings: unaffected at '2'
Support Rating Floors: unaffected at 'BBB-'
National Long-Term Ratings: unaffected at 'AAA(tur)'; Stable Outlook
Senior unsecured debt (TSKB and Turk Eximbank): unaffected at 'BBB-'

Turk Ekonomi Bankasi A.S., Finansbank A.S.:
Long-term Foreign Currency IDR unaffected at 'BBB'; Stable Outlook
Long-term LC IDRs downgraded to 'BBB' from 'BBB+'; Stable Outlook
Short-term Foreign Currency IDRs unaffected at 'F2'
Short-term Local Currency IDRs affirmed at 'F2'
Viability Ratings unaffected at 'bbb-'
Support Ratings unaffected at '2'
National Long-Term Ratings unaffected at 'AAA(tur)' Stable Outlook
Senior unsecured debt unaffected at 'BBB-'

ING Bank A.S.:
Long-term Foreign Currency IDR unaffected at 'BBB'; Stable Outlook
Long-term Local Currency IDR downgraded to 'BBB' from 'BBB+'; Stable Outlook
Short-term Foreign Currency IDR unaffected at 'F2'
Short-term Local Currency IDR affirmed at 'F2'
Viability Rating unaffected at 'bb+'
Support Rating unaffected at '2'
National Long-term Rating unaffected at 'AAA(tur)' Stable Outlook

Kuveyt Turk Katilim Bankasi A.S, Turkiye Finans Katilim Bankasi AS:
Long-term Foreign Currency IDRs unaffected at 'BBB'; Stable Outlook
Long-term LC IDRs downgraded to 'BBB' from 'BBB+'; Stable Outlook
Short-term Foreign Currency IDRs upgraded to 'F2' from 'F3'
Short-term Local Currency IDRs affirmed at 'F2'
Viability Ratings unaffected at 'bb-'
Support Ratings unaffected at '2'
National Long-Term Ratings unaffected at 'AAA(tur)' Stable Outlook
Senior unsecured debt issues (sukuk) (Turkiye Finans TF Varlik Kiralama A.S., Kuveyt Turk's KT Sukuk Varlik Kiralama A.S., KT Kira Sertifikalari Varlik Kiralama A.S.) unaffected at 'BBB'
Subordinated debt (KT Sukuk Company Limited) unaffected at 'BBB-'

ICBC Turkey Bank A.S, Alternatifbank A.S., Burgan Bank A.S.:
Long-Term Foreign Currency IDRs unaffected at 'BBB'; Stable Outlook
Long-Term Local Currency IDRs downgraded to 'BBB' from 'BBB+'; Stable Outlook
Short-Term Foreign Currency IDRs unaffected at 'F2'
Short-Term Local Currency IDRs affirmed at 'F2'
Viability Ratings unaffected at 'b+'
Support Ratings unaffected at '2'
National Long-term Ratings unaffected at 'AAA(tur)' Stable Outlook

Alternatif Finansal Kiralama A.S.
Long-Term Foreign Currency IDR unaffected at 'BBB'; Stable Outlook
Long-Term Local Currency IDR downgraded to 'BBB' from 'BBB+'; Stable Outlook
Short-Term Foreign Currency IDR unaffected at 'F2'
Short-Term Local Currency IDR affirmed at 'F2'
Support Rating unaffected at '2'
National Long-term Rating unaffected at 'AAA(tur)' Stable Outlook

Finans Finansal Kiralama A.S.

Long-Term Foreign Currency IDR: unaffected at 'BBB'; Stable Outlook
Long-Term Local Currency IDR downgraded to 'BBB' from 'BBB+'; Stable Outlook
Short-Term Foreign Currency IDR unaffected at 'F2'
Short-Term Local Currency IDR: affirmed at 'F2'
Support Rating unaffected at '2'
National Long-term Rating unaffected at 'AAA(tur)' Stable Outlook

Contact:

Primary Analysts

Lindsey Liddell (Ziraat, Halk, Vakifbank, KT, TFKB, ABank, Alease, Burgan, TEB)

Director

+44 20 3530 1008

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Aslan Tavitov (ICBC Turkey, ING Bank A.S, Finansbank, Finans Leasing)

Director

+44 20 3530 1788

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Sandra Hamilton (TKB, TSKB, TurkEximbank)

Director

+44 20 3530 1266

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Christian Kuendig (Takasbank)

Senior Director

+44 20 3530 1399

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analysts

Huseyin Sevinc (Ziraat, Halk, Vakifbank, ICBC Turkey, TKB, TSKB, TurkEximbank)

Analyst

+44 20 3530 1027

Ahmet Kilinc (KT, TFKB, ABank, Alease, Burgan, ING Bank A.S, Finansbank, Finans Leasing, TEB)

Analyst

+44 20 3530 1272

Evgeny Konavalov (Takasbank)

Director

+1 212 612 7839

Committee Chairperson

Alexander Danilov

Senior Director

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 15 Jul 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=884135

Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=884128

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