



Fitch Revises 18 Turkish Banks' Outlooks to Negative on Sovereign Change

Fitch Ratings-London-25 August 2016: Fitch Ratings has revised the Outlooks to Negative from Stable on 18 Turkish banks, while affirming their Issuer Default Ratings (IDRs).

In addition, the ratings of those banks' financial subsidiaries, which are driven by institutional support, are affirmed and their Outlooks are revised to Negative. A full list of rating actions is available at the end of this commentary. The rating actions follow the revision of the Outlook on Turkey's sovereign IDRs to Negative from Stable (see 'Fitch Affirms Turkey at 'BBB-'; Revises Outlook to Negative' dated 19 August 2016 at www.fitchratings.com).

KEY RATING DRIVERS AND SENSITIVITIES - IDRS, SUPPORT RATINGS, SUPPORT RATINGS FLOORS (SRF), DEBT RATINGS

The revision of the Outlooks on the Long-Term IDRs of T.C. Ziraat Bankasi A.S. (Ziraat), Turkiye Halk Bankasi A.S. (Halk), Turkiye Vakiflar Bankasi T.A.O. (Vakif), Istanbul Takas ve Saklama Bankasi A.S. - (Takasbank), Turkiye Sinai Kalkinma Bankasi A.S. (TSKB), Turkiye Kalkinma Bankasi A.S. (TKB) and Turkiye Ihracat Kredi Bankasi AS (Turk Eximbank), reflects the increased likelihood of a deterioration in the government's ability to provide support given the Negative Outlook on the sovereign rating.

They also reflect the potential for those banks whose Viability Ratings (VR) are at the same level as the sovereign, to be downgraded due to the effects of a worsening operating environment. In the case of Takasbank, whose IDR is driven by its standalone creditworthiness, the Negative Outlook reflects its exposure purely to Turkish bank counterparty risk in the context of the deteriorating operating environment.

Consequently, a downgrade of the Turkish sovereign would likely lead to a downgrade of the Long-Term IDRs of all seven entities. In the event that their Long-Term IDRs are downgraded Fitch would also expect to downgrade the banks' Short-Term IDRs.

The IDRs of the seven entities are underpinned by their 'BBB-' Support Rating Floors, reflecting Fitch's view of a high probability of support from the Turkish authorities in case of need. The SRFs of Ziraat, Halk and Vakif reflect their (i) state ownership (ii) policy roles (Ziraat, Halk) (iii) systemic importance, and (iv) significant state-related deposits.

Takasbank's SRF reflects the exceptionally high systemic importance of the bank given its role as the country's clearing centre and, as a result of its interconnectedness with the financial sector, and the potential contagion risk in the event of a default.

The SRFs of TSKB, TKB and Turk Eximbank reflect (i) the banks' policy roles (ii) majority state ownership (TKB and Turk Eximbank) and (iii) government support of the banks' funding. Fitch has not assigned VRs to these banks as a result of their policy roles and funding profiles.

Akbank T.A.S.'s (Akbank) and Turkiye Is Bankasi A.S.'s (Isbank) IDRs are driven by their VRs. Their lower SRFs of 'BB-' reflect only a moderate probability of support from the Turkish state on account of their ownership structures while also taking into account the banks' systemic importance and market shares.

The revised Outlooks on the 'BBB' support-driven Long-Term IDRs of the foreign-owned commercial banks, Turkiye Garanti Bankasi A.S. (Garanti), ING Bank A.S. (INGBT), Turk Ekonomi Bankasi A.S. (TEB), Finansbank A.S. (Finansbank), ICBC Turkey Bank A.S. (ICBC Turkey), Burgan Bank A.S. (Burgan), Alternatifbank A.S. (ABank), and the foreign-owned participation banks Kuvveyt Turk Katilim Bankasi A.S. (Kuvveyt Turk) and Turkiye Finans Katilim Bankasi AS (Turkiye Finans), all of which are at the level of Turkey's Country Ceiling, reflect the increased likelihood of a downgrade of the Country Ceiling following the change in the sovereign's Outlook.

Turkey's Country Ceiling reflects transfer and convertibility risks and limits the extent to which support from

foreign shareholders can be factored into the banks' Long-Term IDRs. At the same time their Local Currency IDRs, whose Outlooks have also been revised to Negative, continue to take into account Turkish country risks.

The IDRs, Support Ratings and debt ratings of all nine foreign-owned banks reflect Fitch's view that their parents continue to have a strong propensity to provide support, notwithstanding the change in sovereign outlook, given the subsidiaries' ownership structures, integration and, in some cases, common branding.

KEY RATING DRIVERS AND SENSITIVITIES -SUBSIDIARIES OF FOREIGN OWNED BANKS

The IDRs of the Garanti Faktoring A.S., Garanti Finansal Kiralama A.S. (Garanti Leasing), Finans Finansal Kiralama A.S. (Finans Leasing), Alternatif Finansal Kiralama AS (ALease) are equalised with those of their respective parents, reflecting their strategic importance to and integration with their respective groups.

Consequently, the revision of their Outlooks to Negative from Stable mirrors the rating action on their parents and indicates a possible weakening of their parents' ability to support them. The ratings of these entities are sensitive to changes in the ratings of their respective parent banks.

KEY RATING DRIVERS AND SENSITIVITIES - VRS

The 'bbb-' VRs of Ziraat, Halk, Vakif, Garanti, TEB and Finansbank are unaffected as a result of the change in sovereign outlook, while the VRs of Takasbank, Akbank and Isbank, which drive the banks' IDRs, are affirmed.

The operating environment and Turkish sovereign rating remain key sensitivities for all banks' VRs given their exposure to the domestic economy and exposure to investor sentiment as evidenced by the banks' high level of foreign currency wholesale funding. Consequently, a sovereign downgrade would likely have a negative impact on the banks' standalone credit profiles and lead to a downgrade of their VRs. Stabilisation of the sovereign's credit profile and the country's economic prospects would reduce downward pressure on the banks' VRs.

The VRs of INGBT, ICBC Turkey, Burgan, ABank, Kuveyt Turk and Turkiye Finans are also unaffected by the sovereign outlook action. A weaker operating environment may have less direct or immediate impact on those banks' VRs as they are currently below the level of the sovereign rating and therefore have a somewhat greater tolerance to modest operating environment deterioration.

KEY RATING DRIVERS AND SENSITIVITIES - SUBSIDIARIES OF DOMESTICALLY PRIVATELY OWNED BANKS

The IDRs of the subsidiaries of Akbank and Isbank, AK Finansal Kiralama A.S. (Aklease), Ak Yatirim Menkul Degerler AS (Ak Investment), Akbank AG, Is Faktoring A.S., Is Finansal Kiralama A.S. (Is Leasing) and Is Yatirim Menkul Degerler A.S. (Is Investment) are equalised with those of their respective parents, reflecting their strategic importance to and integration with their respective groups.

Consequently, the revision of their Outlooks to Negative from Stable mirrors the rating action on their parents and indicates a possible weakening of their parents' ability to support them. The ratings of these entities are sensitive to changes in the ratings of their respective parent banks.

KEY RATING DRIVERS AND SENSITIVITIES - SUBORDINATED DEBT RATINGS

Vakif's and Isbank's subordinated debt ratings are notched once off their 'bbb-' VRs, reflecting Fitch's view that government support will not necessarily be extended to subordinated creditors. As such, the ratings are sensitive to changes in the bank's VRs.

ABank's and Kuveyt Turk's subordinated debt ratings are notched down from their Long-Term Foreign Currency IDRs and as such are sensitive to changes in the banks' support-driven ratings, reflecting Fitch's view that support from their respective institutional owners would extend to subordinated creditors.

The ratings of the notes of all four banks are also sensitive to a change in notching due to a change in Fitch's assessment of the probability of the notes' non-performance risk relative to the risk captured in their respective anchor ratings, or in its assessment of loss severity in case of non-performance.

KEY RATING DRIVERS AND SENSITIVITIES - NATIONAL RATINGS

The affirmation of all banks' and subsidiaries National Ratings with Stable Outlooks reflects Fitch's view that the creditworthiness of the banks relative to each other and to other Turkish banks has not changed

significantly as a result of the sovereign Outlook change.

The rating actions are as follows:

T.C. Ziraat Bankasi A.S.:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB-'; Outlook revised to Negative from Stable

Short-Term Foreign and Local Currency IDRs affirmed at 'F3'

Viability Rating unaffected at 'bbb-'

Support Rating affirmed at '2'

Support Rating Floor affirmed at 'BBB-'

Senior unsecured long term debt affirmed at 'BBB-'

Senior unsecured short-term debt affirmed at 'F3'

National Long-Term Rating affirmed at 'AAA(tur)'; Outlook Stable

Turkiye Halk Bankasi A.S.:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB-'; Outlook revised to Negative from Stable

Short-Term Foreign and Local Currency IDRs affirmed at 'F3'

Viability Rating unaffected at 'bbb-'

Support Rating affirmed at '2'

Support Rating Floor affirmed at 'BBB-'

Senior unsecured long term debt affirmed at 'BBB-'

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

Turkiye Vakiflar Bankasi T.A.O.:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB-'; Outlook revised to Negative from Stable

Short-Term Foreign and Local Currency IDRs affirmed at 'F3'

Viability Rating unaffected at 'bbb-'

Support Rating affirmed at '2'

Support Rating Floor affirmed at 'BBB-'

Senior unsecured long term debt affirmed at 'BBB-'

Senior unsecured short-term debt affirmed at 'F3'

Subordinated debt rating: affirmed at 'BB+'

National Long-Term Rating affirmed at 'AAA(tur)'; Outlook Stable

Istanbul Takas ve Saklama Bankasi A.S. - Takasbank:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB-'; Outlook revised to Negative from Stable

Short-Term Foreign and Local Currency IDRs affirmed at 'F3'

Viability Rating affirmed at 'bbb-'

Support Rating affirmed at '2'

Support Rating Floor affirmed at 'BBB-'

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

TKB,;

Long-Term Foreign and Local Currency IDRs: affirmed at 'BBB-'; Outlook revised to Negative from Stable

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

Support Rating: affirmed at '2'

Support Rating Floor: affirmed at 'BBB-'

National Long-Term Rating: affirmed at 'AAA(tur)'; Stable Outlook

TSKB:

Long-Term Foreign and Local Currency IDRs: affirmed at 'BBB-'; Outlook revised to Negative from Stable

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

Support Rating: affirmed at '2'

Support Rating Floors: affirmed at 'BBB-'

National Long-Term Rating affirmed at 'AAA(tur)'; Stable Outlook

Senior unsecured long term debt affirmed at 'BBB-':

Senior unsecured long term debt programme affirmed at 'BBB-'

Senior unsecured short term debt programme affirmed at 'F3'

Turk Eximbank:

Long-Term Foreign and Local Currency IDRs: affirmed at 'BBB-'; Outlook revised to Negative from Stable

Short-Term Foreign and Local Currency IDRs: affirmed at 'F3'
Support Rating: affirmed at '2'
Support Rating Floor: affirmed at 'BBB-'
National Long-Term Rating: affirmed at 'AAA(tur)'; Stable Outlook
Senior unsecured long term debt affirmed at 'BBB-'
Senior unsecured debt programme affirmed at 'BBB-'

Turk Ekonomi Bankasi A.S., Finansbank A.S.:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB'; Outlook revised to Negative from Stable
Short-Term Foreign and Local Currency IDRs affirmed at 'F2'
Viability Rating unaffected at 'bbb-'
Support Rating affirmed at '2'
National Long-Term Rating affirmed at 'AAA(tur)'; Stable Outlook
Senior unsecured long term debt affirmed at 'BBB'
Senior unsecured short term debt affirmed at 'F2'

ING Bank A.S.:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB'; Outlook revised to Negative from Stable
Short-term Foreign and Local Currency IDRs affirmed at 'F2'
Viability Rating unaffected at 'bb+'
Support Rating affirmed at '2'
National Long-Term Rating affirmed at 'AAA(tur)'; Stable Outlook

Kuveyt Turk Katilim Bankasi A.S.:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB'; Outlook revised to Negative from Stable
Short-Term Foreign and Local Currency IDRs affirmed at 'F2'
Viability Rating unaffected at 'bb-'
Support Rating affirmed at '2'
National Long-Term Rating affirmed at 'AAA(tur)'; Stable Outlook
Senior unsecured debt (sukuk) issued by Kuveyt Turk's KT Sukuk Varlik Kiralama A.S., KT Kira Sertifikalari Varlik Kiralama A.S. affirmed at 'BBB'
Subordinated debt issued by KT Sukuk Company Limited affirmed at 'BBB-'

Turkiye Finans Katilim Bankasi A.S.:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB'; Outlook revised to Negative from Stable
Short-Term Foreign and Local Currency IDRs affirmed at 'F2'
Viability Rating unaffected at 'bb-'
Support Rating affirmed at '2'
National Long-Term Rating affirmed at 'AAA(tur)'; Stable Outlook
Senior unsecured debt issues (sukuk) issued by TF Varlik Kiralama A.S. affirmed at 'BBB'

ICBC Turkey Bank A.S, Burgan Bank A.S.:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB'; Outlook revised to Negative from Stable
Short-Term Foreign and Local Currency IDRs affirmed at 'F2'
Viability Rating unaffected at 'b+'
Support Rating affirmed at '2'
National Long-Term Rating affirmed at 'AAA(tur)' Stable Outlook

Alternatifbank A.S.:

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB'; Outlook revised to Negative from Stable
Short-Term Foreign and Local Currency IDRs affirmed at 'F2'
Viability Rating unaffected at 'b+'
Support Rating affirmed at '2'
National Long-Term Rating affirmed at 'AAA(tur)' Stable Outlook
Guaranteed debt affirmed at 'A+'
Subordinated debt affirmed at 'BBB-'

Alternatif Finansal Kiralama A.S.

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB'; Outlook revised to Negative from Stable
Short-Term Foreign and Local Currency IDRs affirmed at 'F2'
Support Rating affirmed at '2'

National Long-Term Rating affirmed at 'AAA(tur)'; Stable Outlook

Finans Finansal Kiralama A.S.

Long-Term Foreign and Local Currency IDRs: affirmed at 'BBB'; Outlook revised to Negative from Stable

Short-Term Foreign and Local Currency IDRs affirmed at 'F2'

Support Rating affirmed at '2'

National Long-Term Rating affirmed at 'AAA(tur)'; Stable Outlook

Akbank T.A.S.

Long-Term Foreign and Local Currency IDRs: affirmed at 'BBB-'; Outlook revised to Negative from Stable

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

Viability Rating affirmed at 'bbb-'

Support Rating affirmed at '3'

Support Rating Floor affirmed at 'BB-'

National Long-Term Rating affirmed at 'AA+(tur)'; Outlook Stable

Senior unsecured long term debt affirmed at 'BBB-'

Senior unsecured short term debt affirmed at 'F3'

Turkiye Is Bankasi A.S.

Long-Term Foreign and Local Currency IDRs: affirmed at 'BBB-'; Outlook revised to Negative from Stable

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

Viability Rating affirmed at 'bbb-'

Support Rating affirmed at '3'

Support Rating Floor affirmed at 'BB-'

National Long-Term Rating affirmed at 'AA+(tur)'; Outlook Stable

Senior unsecured long term debt affirmed at 'BBB-'

Senior unsecured short term debt affirmed at 'F3'

Subordinated debt affirmed at 'BB+'

Turkiye Garanti Bankasi A.S.

Long-Term Foreign and Local Currency IDRs affirmed at 'BBB'; Outlook revised to Negative from Stable

Short-Term Foreign and Local Currency IDRs affirmed at 'F2'

Viability Rating unaffected at 'bbb-'

Support Rating affirmed at '2'

National Long-Term Rating affirmed at 'AAA(tur)'; Outlook Stable

Senior unsecured long term debt affirmed at 'BBB'

Senior unsecured short term debt affirmed at 'F2'

Akbank AG

Long-Term Foreign Currency IDR: affirmed at 'BBB-'; Outlook revised to Negative from Stable

Short-Term Foreign Currency IDR: affirmed at 'F3'

Support Rating affirmed at '2'

Ak Finansal Kiralama A.S. and Ak Yatirim Menkul Degerler A.S.

Long-Term Foreign and Local Currency IDRs: affirmed at 'BBB-'; Outlook revised to Negative from Stable

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

Support Rating affirmed at '2'

National Long-Term Rating affirmed at 'AA+(tur)'; Outlook Stable

Senior unsecured debt Long-term ratings (Ak Finansal only) affirmed at 'BBB-'

Senior unsecured debt Short-term ratings (Ak Finansal only) affirmed at 'F3'

Is Finansal Kiralama A.S. and Is Faktoring A.S.

Long-Term Foreign and Local Currency IDRs: affirmed at 'BBB-'; Outlook revised to Negative from Stable

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

Support Rating affirmed at '2'

National Long-Term Rating affirmed at 'AA+(tur)'; Outlook Stable

Is Yatirim Menkul Degerler A.S.

National Long-Term Rating affirmed at 'AA+(tur)'; Outlook Stable

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

Long-Term Foreign and Local Currency IDRs: affirmed at 'BBB'; Outlook revised to Negative from Stable

Short-Term Foreign and Local Currency IDRs: affirmed at 'F2'
Support Rating affirmed at '2'
National Long-Term Rating affirmed at 'AAA(tur)'; Outlook Stable

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Additional information is available on www.fitchratings.com

Applicable Criteria

Criteria for Rating Sukuk (pub. 16 Aug 2016) (<https://www.fitchratings.com/site/re/885806>)
Global Bank Rating Criteria (pub. 15 Jul 2016) (<https://www.fitchratings.com/site/re/884135>)
Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016)
(<https://www.fitchratings.com/site/re/884128>)

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