

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

Republic of Turkey (security code: -)

<Affirmation>

Foreign Currency Long-term Issuer Rating:	BBB-
Outlook:	Stable
Local Currency Long-term Issuer Rating:	BBB-
Outlook:	Stable

Rationale

- (1) Located at the junction of Europe and Asia, Turkey is a major power in the Middle East with a land area of 781,000 km² (about twice as much as Japan) and a population of nearly 80 million. The country's GDP totaled USD0.7 trillion and its per capita GDP was over USD9,000 in 2015. It is a member of the Group of Twenty (G20). Having a customs union with the EU, it is closely linked to Europe economically. The ratings are supported by the country's largest economic foundation in the Middle East that could be a good export base to the EU and Islamic countries; and its sound public and banking sectors' buffer against shocks. The ratings are, on the other hand, constrained by (i) macroeconomic imbalances as seen in its low saving rate and chronic current account deficit; (ii) large external financing needs and dependence on the international financial markets; and (iii) increasing political and social uncertainty.
- (2) Turkey is going through mounting political and social tensions. Since July 2015, conflicts with the Kurdish rebel group and the IS have intensified, resulting in terrorist attacks even in Ankara and Istanbul. An abortive coup occurred in July 2016. The number of foreign visitors has been falling amid security concerns. However, automobile production and exports, spurred by foreign investment, have been renewing records even after the turn of 2016. Real GDP, in recent quarters, has been growing around 3-4% year-on-year, in line with its potential growth rate. The long-standing issue of current account deficit shrank from 7.7% of GDP in 2013 to 4.5% in 2015 thanks to the fall in oil prices. The new regulations adopted by the authorities have helped trim the country's short-term external debt from US\$132 billion at the end of 2014 to US\$105 billion at the end of July 2016, below its foreign exchange reserves (US\$120 billion). Although the lira depreciated by 25% against the US dollar in 2015, the banking sector has been keeping its nonperforming loan ratio low at around 3%. On the fiscal front, primary balance remains surplus and the general government's debt is kept low at just above 30% of GDP. The country is susceptible to volatile cross-border capital flows amid increasing political and social uncertainty. However, domestic banks, the principal borrowers of the country's external debt, have been managing to roll over their external borrowings well, and may likely benefit from the monetary easing in the advanced economies that is expected to continue for some time to come. The public and banking sectors maintain their buffer against shocks that they have built in the past. In light of the above, JCR has affirmed its ratings with "Stable" outlook.
- (3) Looking ahead, critical factors will be (a) in the short term, whether the authorities can sustain the international market confidence so as to enable the domestic banks to smoothly roll over their external borrowings, and (b) in the medium term, whether the government can structurally improve the macroeconomic imbalances and gradually reduce external financing needs (i.e., a soft landing) by improving the investment environment including alleviation of security concerns and by accelerating structural reforms before the global monetary easing comes to an end. Moreover, JCR will, among others, monitor (i) in terms of foreign exchange liquidity, the status of domestic banks' rollover of external borrowings as well as the balance between short-term external debt and foreign exchange reserves, and (ii) in terms of financial stability, the corporate sector's resilience to currency depreciation, including the extent of their hedging coverage, given the growing foreign currency-denominated borrowings in the corporate sector especially by large companies.

Toshihiko Naito, Satoshi Nakagawa

Rating

Issuer: Republic of Turkey

<Affirmation>

	Rating	Outlook
Foreign Currency Long-term Issuer Rating	BBB-	Stable
Local Currency Long-term Issuer Rating	BBB-	Stable

Rating Assignment Date: October 4, 2016

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Rating Policies on JCR's website (<http://www.jcr.co.jp/english/>).

Outline of methodology for determination of the credit rating is shown as "Sovereign and Public Sector Entities" (November 7, 2014) in Rating Policies on JCR's website (<http://www.jcr.co.jp/english/>).

The aforementioned credit ratings are unsolicited. Except in cases of a credit rating for a sovereign, JCR indicates affix "p" after a rating symbol to distinguish it from a rating with solicitation. The undisclosed information, which has material influence on the credit rating, was obtained from the rating stakeholder.

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INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Republic of Turkey
Rating Publication Date:	October 7, 2016

1

The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2

The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3

The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Economic Base

The likelihood of a given debt payment is highly conditional to the issuing government's ability to maintain/expand the economic base into the future with maintaining soundness of financial systems.

B) Fiscal Base

The likelihood of a given debt payment is highly correlated to fiscal balance, public debt and other factors of the issuing government's fiscal condition.

C) External Positions

The likelihood of a given debt payment is highly correlated to the liquidity positions which change along with the international balance of payments and the international investment position.

D) Social and Political Bases and Economic Policy

The likelihood of a given debt payment is highly conditional to the social and political stability, effectiveness of economic and monetary policies as well as international economics.

E) Related Parties' Stance of Support/ Assistance for the Government

The likelihood of a given debt payment is affected by the stance of the credit enhancement provider and other related parties with regard to their stance of support/ assistance for the issuing government.

F) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuing government's will, and/ or its rank relative to other debts of the same government in the order of seniority in principal/ interest payment which is determined by design as financial product or by international practice, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.
- A) Informational and explanatory materials presented by the rating stakeholders with regard to the economy and fiscal management policy, etc. of the issuing government
- B) Statistics and reports published by an independent organization with regard to the economy and fiscal status, etc. of the issuing government

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR does not receive payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Economic Base

The credit rating is subject to alteration if there is an improvement or deterioration of the issuer's economy or financial systems, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

B) Fiscal Base

The credit rating is subject to alteration if the issuer increases/ decreases its fiscal deficit/ surplus and its public debt and thereby makes given debt payment liability less/ more bearable. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

C) External Positions

The credit rating is subject to alteration if there is a change in the issuer's international balance of payments and international investment position and thereby an improvement/ deterioration of its liquidity positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Social and Political Bases and Economic Policy

The credit rating is subject to alteration if there is a change in the issuer's social and political conditions or economic/ monetary policies, etc. and thereby an improvement/ deterioration of its economy and fiscal positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

E) Related Parties' Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the credit enhancement provider or other related parties with regard to their stance of support/ assistance for the issuing government and thereby an improvement/ deterioration of its economy, fiscal positions and liquidity positions. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

F) Order of Seniority in Debt Payment

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts, due to improvement/ deterioration of the issuer's fiscal condition and/or will. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

G) International Economies

The credit rating is subject to alteration if there is a change in the international economies, commodity or foreign exchange markets, etc. and thereby, through international balance of payments, an improvement/ deterioration in the issuer's fiscal balance or debt payment capacity. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

H) Various Events

The credit rating is subject to alteration on occurrence of various events, such as domestic unrest, war, natural disaster, etc. which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's economy, fiscal positions, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12

Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<http://www.jcr.co.jp/english/nrsro/index.html>

13

Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Economic Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's economy or financial systems, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's economy or financial systems on some drastic change in environments, etc.

B) Fiscal Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's fiscal conditions in terms of annual balance or public debt. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's fiscal condition on some drastic change in its economy.

C) External Positions

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions reflecting

improvement or deterioration of the international balance of payments and the international investment position. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in the country's economic/ fiscal conditions and financing activities, etc.

D) Social and Political Bases and Economic Policies

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's social and political bases and economic/ monetary policies. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the country's situation changes drastically, making the issuer's social and political bases and economic/monetary policies significantly improved or deteriorated.

E) International Economics

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of the international economies or commodity/ foreign exchange markets, etc. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Republic of Turkey	Issuer(Long-term)(LC)	March 12, 2004	B+	Positive
Republic of Turkey	Issuer(Long-term)(LC)	March 10, 2005	BB-	Positive
Republic of Turkey	Issuer(Long-term)(LC)	December 28, 2007	BB-	Stable
Republic of Turkey	Issuer(Long-term)(LC)	June 4, 2009	BB-	Stable
Republic of Turkey	Issuer(Long-term)(LC)	February 1, 2010	BB	Stable
Republic of Turkey	Issuer(Long-term)(LC)	February 21, 2011	BB	Stable
Republic of Turkey	Issuer(Long-term)(LC)	June 28, 2012	BB	Positive
Republic of Turkey	Issuer(Long-term)(LC)	May 23, 2013	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(LC)	July 11, 2014	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(LC)	August 28, 2015	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	December 28, 2007	BB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	June 4, 2009	BB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	February 1, 2010	BB	Stable
Republic of Turkey	Issuer(Long-term)(FC)	February 21, 2011	BB	Stable
Republic of Turkey	Issuer(Long-term)(FC)	June 28, 2012	BB	Stable
Republic of Turkey	Issuer(Long-term)(FC)	May 23, 2013	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	July 11, 2014	BBB-	Stable
Republic of Turkey	Issuer(Long-term)(FC)	August 28, 2015	BBB-	Stable

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Atsushi Masuda
General Manager of International Rating Department

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