

## **FITCH PLACES TURKIYE VAKIFLAR BANKASI ON RATING WATCH POSITIVE**

Fitch Ratings-London/Istanbul/Paris-25 November 2009: Fitch Ratings has today placed Turkiye Vakiflar Bankasi T.A.O.'s (Vakifbank) Long-term Issuer Default Ratings (IDRs) on Rating Watch Positive (RWP) after a review in which Fitch concluded that the ratings should be based on potential support from the Turkish state rather than the bank's intrinsic financial strength, as further privatisation of the bank in the near future appears unlikely.

Long-term foreign currency IDR: 'BB-'; placed on RWP

Long-term local currency IDR: 'BB'; placed on RWP

Short-term foreign currency IDR: affirmed 'B'

Short-term local currency IDR: affirmed 'B'

National Long-term Rating: upgraded to 'AA+(tur)' from 'AA(tur)'; Outlook Stable

Individual Rating: affirmed 'C/D'

Support Rating: upgraded to '3' from '4'

Support Rating Floor: upgraded to 'BB-' and placed on RWP, from 'B+'

The bank's Long-term IDRs will move in line with Turkey's sovereign ratings, which are currently on RWP. If and when the Turkish sovereign's ratings are upgraded, Fitch will take a similar rating action on Vakifbank's ratings.

Vakifbank is majority-owned (58.45%) by the General Directorate of Foundations (GDF), an entity controlled by the Turkish state. The bank undertook a partial IPO in November 2005 and 25.2% of its shares are quoted on the Istanbul stock exchange. The government intends to reduce its stake in the bank, but it has provided no clear timeframe on such a move as yet. Given unfavourable global market conditions, Fitch believes this stated plan could face additional delays. Fitch therefore believes Vakifbank should be viewed in the same light as other state-owned banks, with government support rather than intrinsic financial strength as the key rating driver. Therefore, Fitch views that its IDRs, National Long-term rating, Support Rating and Support Rating Floor should be equalised with those of TC Ziraat Bankasi A.S., Turkiye Halk Bankasi A.S. and Turkiye Kalkinma Bankasi A.S.

Given Vakifbank's ownership and importance in Turkey, Fitch believes the state would provide support if needed. However, the Turkish sovereign's ability to do so, given its IDRs (Long-term foreign currency IDR 'BB-/RWP and Long-term local currency IDR 'BB'/RWP), is considered moderate.

Vakifbank's Individual Rating reflects its well established franchise in Turkey, a good retail deposit base with a 9% deposit market share, and asset quality indicators which remain sound although they have weakened, as is the case throughout the banking sector. The bank's profitability, although below the average achieved by leading private and state-owned peers, is still acceptable. Its capital ratios, which are also below the average for Turkey's banking sector, are considered adequate given its fairly modest risk profile.

Despite a deep contraction in the economy during H109, Turkish banks are generally posting good results in 2009 which have been supported by sharply reduced domestic interest rates, at a time when growing risk aversion has facilitated a widening of spreads. At the same time, banks have been able to channel excess liquidity into high-yielding government securities. Its margins are narrower than some more retail-oriented peers, but asset quality ratios are sound. Vakifbank does not write off fully reserved impaired loans and thus its reported impaired loan ratios are negatively impacted by a large amount of long-standing problem loans.

Vakifbank is predominantly deposit-funded. 27% of total customer deposits at end-June 2009 were from state-owned entities and the bank's good relationship with state-owned companies has helped

increase its public sector employee customer base. Vakifbank's strategy is to continue to gain market share, opening branches in Istanbul and other major cities.

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs.

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Note to Editors: Fitch's National Ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(tur)' for National Ratings in Turkey. Specific letter grades are not therefore internationally comparable.

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