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**Summary:**  
**Turkiye Vakiflar Bankasi T.A.O.**

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## Summary:

# Türkiye Vakıflar Bankası T.A.O.

**Credit Rating:** BB-/Stable/B

## Rationale

The ratings on Türkiye Vakıflar Bankası T.A.O. (VakıfBank) reflect the risky banking and economic environment in the Republic of Turkey (foreign currency BB-/Stable/B; local currency BB/Stable/B); vulnerable asset quality; and substantial, although declining, reliance on public sector deposits. These negative factors are somewhat mitigated by VakıfBank's strong commercial position, adequate profitability, limited single-name lending concentrations, and strong growth potential.

The ratings on VakıfBank reflect its stand-alone credit profile, and do not include any uplift for extraordinary external support. We consider Vakıf to be a systemically important bank in Turkey. Nevertheless, in line with our rating approach in "supportive" countries, including Turkey, where the government relies on prudential policies to maintain a sound banking sector, Standard & Poor's Rating Services does not factor potential government support into the ratings. VakıfBank is indirectly majority owned by the state through the General Directorate of Foundations (GDF), and 25% of its shares have been publicly listed since 2005.

With total assets of Turkish lira (TRY) 58.5 billion (\$38 billion at TRY1.52 to \$1) on March 31, 2009, VakıfBank is the sixth-largest bank in Turkey. Despite continued funding diversification, the bank's reliance on public sector deposits is still significant, which accounted for 27% of total customer deposits at mid-2009. As for most other Turkish banks, VakıfBank's creditworthiness remains closely related to that of the state given its large portfolio of government securities. The ratio of nonperforming loans (NPLs) to total loans surged to 5.5% on March 31, 2009, slightly higher than the sector average (4.5%). Provisions covered 86% of NPLs on the same date.

VakıfBank's profitability is adequate but its income mix, with lower fees and commissions, is less diversified than peers'. Owing to a twofold increase in new loan loss provisions, its return on assets (ROA) fell to 1.85% in 2008 after averaging 2.5% from 2005 to 2007. Earnings got a boost in fourth-quarter 2008 and in first-quarter 2009 from a substantial reduction in the cost of funding after the Central Bank of Turkey (CBT) made several cuts to interest rates.

VakıfBank's capitalization is adequate given the bank's risk profile, with a ratio of adjusted total equity (ATE) to adjusted assets of 10.6% on March 31, 2009. In addition, the bank's dividend payout became more conservative (no dividends in 2008), supporting internal capital building.

## Outlook

The stable outlook mirrors that on Turkey. It also balances the bank's resilience to the economic downturn with our expectations of increased pressure on asset quality, owing to the difficulties that corporate and retail borrowers face. We expect the ratings on the bank to remain tightly linked to the sovereign's creditworthiness. If the economic contraction in Turkey proves to be longer than we currently expect, VakıfBank, along with other Turkish banks, will have to operate in a more difficult and volatile financial environment. This could exert pressure on profitability,

asset quality, and capitalization. Under this scenario, the ratings could come under pressure. Conversely, improvement in Turkey's creditworthiness could have a positive impact on the credit profile of and ratings on Vakif.

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