Turkiye Vakiflar Bankasi T.A.O.

Full Rating Report

Ratings

Foreign Currency	
Long-Term IDR	BBB−
Short-Term IDR	F3
Local Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
National	
Long-Term Rating	AAA(tur)
Viability Rating	bbb−
Support Rating	2
Support Rating Floor	BBB−
Sovereign Risk	
Foreign-Currency Long-Term IDR	BBB−
Local-Currency Long-Term IDR	BBB

Outlooks

Foreign-Currency Long-Term Rating	Stable
Local-Currency Long-Term Rating	Stable
National Long-Term Rating	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

Turkiye Vakiflar Bankasi T.A.O.

	30 Sep 14	31 Dec 13
Total assets (USDm)	66,811.1	65,443.6
Total assets (TRYm)	152,396.2	139,787.6
Total equity (TRYm)	13,967.7	12,471.0
Operating profit (TRYm)	1,309.8	1,951.9
Published net income (TRYm)	1,077.3	1,628.2
Comprehensive income (TRYm)	1,484.3	902.1
Operating ROAA (%)	1.21	1.60
Operating ROAE (%)	13.24	16.11
Internal capital generation (%)	9.35	12.25
Fitch core capital/ weighted risks (%)	11.09	10.52
Tier 1 regulatory capital ratio (%)	11.01	10.21

Related Research

Turkey (October 2014)

Fitch Affirms Turkey at 'BBB'; Outlook Stable (October 2014)

Fitch Affirms 3 State-Owned Turkish Banks (November 2014)

Turkiye Vakiflar Bankasi T.A.O. – Ratings Navigator (November 2014)

Peer Review: State-Owned Turkish Banks (December 2014)

Analysts

Janine Dow
+44 20 3530 1464
janine.dow@fitchratings.com

Radu Gheorghiu
+44 20 3530 1253
radu.gheorghiu@fitchratings.com

Key Rating Drivers

Sovereign Support-Driven IDRs: The Long-Term Issuer Default Ratings (IDRs) and Support Rating Floor (SRF) of Turkiye Vakiflar Bankasi T.A.O. (Vakifbank) are aligned with the Turkish sovereign's Long-Term Foreign-Currency (FC) IDR. This reflects Fitch Ratings' view that there is a high probability that the authorities would provide support if required. This reflects Vakifbank's majority ownership (58.45%) by the General Directorate for Foundations (GDF), fully controlled by the Turkish state, and its systemic importance (8.6% deposit market share).

Good Relationship with State: State deposits represent around 30% of total deposits. The Turkish Treasury also guarantees borrowings from international financial institutions (IFIs), representing less than 20% of total non-equity funding at end-June 2014. Relationships with state-owned entities and corporates provide the bank with 2.3 million stable payroll customers (14% of total retail customers). State-directed lending does not appear to be prevalent. However, Fitch believes government influence on state-owned banks may be increasing.

Reasonable Standalone Profile: The Viability Rating (VR) reflects the bank's broad and stable franchise, and reasonable metrics in terms of capitalisation, loan quality, performance and funding. Fitch believes these metrics can support the VR as it faces continued pressure from an operating environment characterised by slower growth, volatile interest and exchange rates, rising inflation and weaker investment appetite.

Narrowing Margins Impact Performance: Tighter margins hurt performance metrics in 2014. The bank's loan book is still overweight in corporate and commercial lending (38% of total loans against a target 30%) and its margins, at 3.8%, are lower than peers' (around 4.2%). Operating performance indicators fall well behind those achieved by other state-owned and private-sector peers, reflecting the absence of a specific niche that might reduce pricing power and higher impairment charges to ensure above-average loan loss reserve cover.

Well Reserved Impaired Loans: Impaired loans/total loans ratios, at around 4%, are high compared to the 2.9% sector average. Positively, restructured loans are low (1% of total loans) and loan loss cover is among the peers' best: 126% including specific and general reserves.

Increasing Wholesale Funding: Customer deposits represented 67% of funding at end-3Q14. Non-deposit funding comprises mainly syndicated loans, repos and senior unsecured debt. Vakifbank's FC liquidity position appears comfortable.

Below-Average Core Capital: Vakifbank's Fitch Core Capital (FCC)/weighted risks ratio is lower than the 13% average for state-owned and private-sector peers. Additional growth is likely to be funded by the issuance of Basel III compliant Tier 2 capital instruments.

Rating Sensitivities

Sovereign-Linked IDRs: Movements in Turkey's sovereign ratings would likely result in similar rating action at Vakifbank. Vakifbank's Support Rating (SR) and SRF could be downgraded in case of privatisation, legislation changes or reduced sovereign financing flexibility. Downgrades of the SR and SRF would not by themselves lead to a downgrade of the Long-Term FC IDR, as this is underpinned by the VR. Given close correlations with the operating environment, upside potential for the VR is limited.

Figure 1

Ownership at End-June 2014

	(%)
GDF	58.45
Vakifbank pension fund	16.10
Free float	25.20
Other	0.25
Total	**100.0**

Source: Vakifbank

Operating Environment

Vakifbank operates mainly in Turkey where the environment is volatile, characterised by frequent interest and exchange rate movements, unsteady economic growth trends, a structural current account deficit and some political instability. There has been 10 years of economic growth, funded largely by the domestic banking sector.

Vakifbank has pursued a growth-oriented strategy in recent years, like most Turkish banks, and with a view to support Turkish economic development. Market share in the more profitable retail and SME markets has been expanded. Vakifbank's objectives are to continue to support the development of Turkey's economy, with particular emphasis on supporting export-driven companies and businesses.

Company Profile

Vakifbank was established in 1954 under a special law to administer the revenue and expenditure of GDF's charitable foundations. It has since developed into a fully fledged retail and commercial bank. Management of GDF's assets represents only a small part of its overall activity. GDF is controlled and managed by the Turkish state, reporting to the prime minister and operating within its own specific budget. Its mission is to ensure that the assets of the country's foundations are well protected. These are mainly real estate assets (of historical and commercial interest), owned either by GDF or by privately owned foundations. Ownership details are provided in Figure 1. In September 2012, the government announced plans to transfer the 58.45% GDF stake to the Turkish Treasury. Discussions relating to the transfer resurfaced in 2H14 but details of timing is undisclosed.

Vakifbank is the sixth-largest bank in Turkey, commanding respectable market shares in total assets (8.4%) and deposits (8.6%). The bank's main service segments are retail, SME and commercial banking (the latter comprising local corporate clients). It is one of the leading banks handling salary payments of public-sector employees. Of its 16 million retail customers, 2.3 million are payroll accountholders including state employees and pensioners.

Vakifbank benefits from its links to the state. It provides cash management, collection and trade finance services to state enterprises. In addition, only state-owned commercial banks are eligible to receive savings deposits from certain state-owned companies and entities defined in law. State-related deposits are important for Vakifbank as they are a source of stable funding. In Fitch's opinion, however, the absence of a specific niche at Vakifbank, evidenced by its lack of a policy role, means that it competes directly with private-sector peers but lacks some of the tools and scale available to these.

Vakifbank's domestic branch network has grown rapidly, reaching 877 branches at end-June 2014 (end-2012: 744 branches). The bank is set to continue its expansion, aiming for 1,000 branches by end-2016, which should help boost the deposit base. Overseas operations consist of branches in New York, Bahrain and Iraq. The bank has around 20 subsidiaries and affiliates in financial and non-financial activities. Non-financial subsidiaries' total assets represented less than 2% of the bank's equity at end-June 2014.

Unlike the other two state-owned commercial banks, Vakifbank has no clear policy mission. It competes with the country's leading public and private state-owned banks; Vakifbank is not renowned for any particular specialisation. In Fitch's opinion, this may be a weakness given fierce competition across all segments in Turkey, limiting pricing power and franchise. Fitch also notes that the absence of a policy role means that Vakifbank enjoys greater flexibility in establishing its strategy. Positively, public perception of the bank as a state-owned entity reinforces customer loyalty. This is likely to retain depositors' confidence in periods of potential market stress.

Related Criteria

Global Financial Institutions Rating Criteria (January 2014)

During the 2001 crisis, Vakifbank's capital adequacy ratio fell below the regulatory minimum following heavy credit losses at the bank. Subordinated loans were received to address this problem. Since then, risk management has much improved.

Traditional banking activities dominate Vakifbank's business, but it is one of the last remaining large Turkish banks to retain its insurance businesses. Equity invested in the life and non-life companies is small in relation to the group, representing less than 2% of consolidated equity. Vakifbank believes life insurance business offers good long-term cross-selling opportunities as pension and savings products develop in Turkey. Management's strategy is to reduce the bank's traditional focus on corporate lending, to strengthen its presence in retail business and grow profitably in high-margin sectors, particularly SMEs. The bank is close to meeting its strategic portfolio split, as highlighted in Figure 2.

Figure 2
Loan Portfolio Split by Business Line

(%)	1H14	Target 2016
Retail	35.9	40.0
SME	26.1	30.0
Commercial and corporate	38.0	30.0

Source: Vakifbank

Like other state-owned banks, Vakifbank is planning to establish a specialised Islamic banking subsidiary. Turkey's current President has publicly expressed support for expanding Islamic banking in the country.

Management

Vakifbank's board of directors comprises nine members who serve for a period of three years. The general manager (CEO), a board member, is appointed by Turkey's prime minister, as is one additional board member. The bank's shares are divided into four classes, with each class enjoying different rights in respect of the election of board members. GDF's ownership across various share classes gives it the right to appoint four board members. Fitch considers Vakifbank's board to be largely shaped by the government. Vakifbank's pension fund appoints a further two members, so that only one member is appointed by the remaining shareholders. The board includes three members classified as independent, but these all have either held government positions as members of parliament, mayors, members of state agencies, etc, or held positions at other state-owned banks or agencies.

Vakifbank's executive management team demonstrates a high degree of stability. Executives demonstrate the level of experience and capability needed to manage a bank of its size and business profile.

Corporate Governance

Vakifbank complies with governance code of conduct guidelines applicable to Turkish companies. However, Fitch has some reservations about the changing nature of large loans among many of Turkey's leading banks. Exposures to fast-growing companies/consortiums whose expansion has coincided with the current ruling political party's time in power may feature, to varying degrees, within the top 20 borrowers of many of the banks. Such borrowers generally feature more prominently among state-owned banks. Largest exposures include energy privatisation finance, real estate development projects and newer corporate names not among Turkey's traditional, leading conglomerates. Given the government's ambitious economic growth plans and close control over state-owned banks (whose boards are dominated by government appointments), and the limited size (lending capacity) of the country's development banks, Fitch believes there is some risk that the authorities will influence lending strategy at the state-owned commercial banks.

Financial Profile

Credit Risk

Loan Quality Traditionally Weaker than Peers'

Figure 3

Key Loan Quality Indicators

(%)	3Q14	2013	2012	2011
Growth of gross loans	13.53	26.81	18.40	28.70
Impaired loans/gross loans	3.94	4.05	3.88	3.60
Reserves for impaired loans/impaired loans	91.89	90.12	89.07	94.96
Impaired loans less reserves for impaired loans/Fitch core capital	2.42	3.05	2.67	1.19
Loan impairment charges/average gross loans	0.87	1.32	0.91	0.00

Source: Vakifbank financial statements, adapted by Fitch

Vakifbank's board of directors determines the bank's risk appetite and approves all general principles relating to risk control and management, limits and all risk control procedures. All risk procedures are reviewed and adapted as appropriate. Additional committees are in place to ensure that all risks are adequately controlled and monitored. The adequacy of all internal control systems is monitored by the audit committee. Vakifbank's risk committee reports directly to the audit committee. The risk committee comprises market, credit and operational risk divisions. The bank's risk committee sets, measures and monitors risk management policies.

Vakifbank's traditional focus has been on corporate lending and retail business where credit underwriting standards are well tested. Concentrations by customer group and industry sector are not excessive. Approximately 68% of total on- and off-balance-sheet credit exposures at end-June 2014 benefited from some form of collateral, comprising mainly real estate assets.

Vakifbank, like all Turkish banks, measures credit, market and operational risks according to Basel II's standardised/basic approaches. Measurement of liquidity risk is more advanced and internal guidelines are conservative.

Credit risk, which Fitch considers to be Vakifbank's major risk, appears well managed. Impaired loans have hovered around the 4% mark for several years, consistently above the average for both public- and private-sector peers, but recoveries are steady and fairly high and there have been no large peaks in impairment trends. Turkish government bonds dominate the securities portfolio; the bank does not invest in equities (equity investments included in the balance sheet attached are stakes in the bank's subsidiaries).

In Fitch's opinion, Vakifbank's largest exposures bear close similarities with those featuring at other leading Turkish banks. Vakifbank has a slightly more prominent share of local authority lending than its immediate peers. Related-party lending generally hovers around 6% of equity, which appears reasonable. Concentration risk appears well managed. Of the top 20 exposures, four are state-related, three relate to energy privatisations, three are to the construction sector, focused on a mixture of large project finance, development and investment finance, and the balance cover names, both long-standing market leaders and more recently established companies, which are also borrowers at other large Turkish banks. Impaired loans are concentrated by name, but the largest impaired loan is modest in relation to FCC. Further, around 20% of impaired loans are long-standing (dating from prior to 2008) and all large impaired loans are fully reserved.

Over 2002-2004, Vakifbank introduced an internal grading system for corporate and consumer borrowers. Scoring models for SME and commercial (middle market) borrowers have been in place since 2008-2011, and all credit risk management policies have complied with Basel II regulations since 3Q12. The bank regularly updates its credit risk management tools. Scoring models applicable to credit cards are in place, and these will be followed by a scoring system for consumer loans. This should be in place by 1H15. Internal models for measuring retail credit risks have been developed in conjunction with independent consultants, but additional data must be collected by the bank before these can be considered to be effective.

At end-June 2014, internal grades had been assigned to approximately two-thirds of Vakifbank's total on- and off-balance-sheet risks. Grades assigned to only 2% of risks fell into the 'monitored' category and only 0.5% displayed a real loss possibility. The bank's reserve coverage ratios are above peer averages, suggesting a conservative approach.

A switch to more advanced, statistics-based, risk measurement systems would, according to management, represent a saving of around 1.7% in the bank's total capital adequacy ratio, with savings arising mainly from the low default probabilities across a wide portfolio of lending segments, collateralised SME lending and a less penalising measurement of operational risk.

In 2013, regulators requested Turkish banks to assess their capital adequacy ratios internally, in line with ICAAP. At end-June 2014, regulators published minimum Basel II ICAAP requirements and published minimum stress scenarios applicable to Turkish banks. Details regarding capital prevention buffers have not yet been disclosed, but banks must reach a 12% minimum stressed capital adequacy ratio. Under the most severe stress scenarios, Vakifbank would require some additional capital (see *Capital* below).

Vakifbank's loan book mix has not undergone any major changes in recent years, as illustrated in Figure 4.

Figure 4
Loan Book Split (%)

	1H14	2013	2012
Corporate and commercial	38.0	37.5	37.7
SME	26.1	25.5	25.9
• Retail mortgages	15.2	15.4	15.2
• Consumer loans	13.5	14.0	13.7
• Auto loans	0.5	0.6	0.7
• Retail credit card and overdraft	6.7	7.0	6.8
Total retail	35.9	37.0	36.4
Total (%)	100.0	100.0	100.0

Source: Vakifbank

Like most banks in Turkey, a high proportion of Vakifbank's loans are extended short-term, as shown in Figure 5.

Figure 5
Maturity Split of 1H14 Loan Book (%)

Loans maturing within 3 months	20
Loans maturing within three months and 12 months	44
Loans maturing within one and five years	21
Loans extending over five years	15
Total (%)	100

Source: Vakifbank

By sector, loans are fairly well spread, with the most notable exposures focused on manufacturing industries (18% of total risks, distributed among a wide range of sub-sectors), construction (11%), wholesale and retail trade (16%), energy (6%) and transport and telecommunications (8%). Vakifbank's 20 largest on-balance-sheet risks at end-June 2014 represented 12% of total end-June 2014 risks and 147% of FCC. The largest exposure, to a leading and long established conglomerate, represented 18% of end-1H14 FCC, which Fitch considers to be sizeable (peer average: 12%).

Vakifbank's asset quality indicators have long been slightly worse than peers'. This was the case even prior to the deep financial crisis of 2001. Like all state-owned banks, Vakifbank does not sell fully reserved impaired loans. Were allowances made for this, Vakifbank's loan quality would, according to management, be better than the sector average. This has not been verified by Fitch, but management argues that, were we to write back private-sector sold impaired loans, the sector average impaired loans/total loans ratio at end-1H14 would have hovered around 4%, indicating that asset quality at Vakifbank is in line with the sector average. In our opinion, above-average reported impaired loans suggest a somewhat higher degree of risk taking, also reflected in the bank's wider margins. In addition, Vakifbank retains a portfolio of 'legacy' loans which became impaired prior to 2008. At end-June 2014, these represented around one-third of total impaired loans, which is significant.

Trends in impaired loan ratios do not give rise to any major concerns. As stated above, the bank's reserve policies are conservative and provide ample cover for impaired loans. Figure 6 shows that loan quality across selected portfolios is roughly in line with the sector average; the quality of its vehicle loans, which represent a very small part of overall lending, appears better.

Figure 6
Impaired Loans by Portfolio Type

(%)	1H14 sector average	1H14 Vakifbank	2013 Vakifbank	2012 Vakifbank
Corporate and commercial portfolios	n.a.	5	6	6
SME	3.1	3	2	2
Retail mortgages	0.5	1	1	1
Consumer	3.7	3	3	3
Auto	3.2	7	6	5
Retail credit cards and overdraft	6.5	7	6	6
Total impaired loans/total loans	**2.78**	**4.04**	**4.05**	**3.88**
Total impaired loans adjusted for write-offs/total loans	**3.96**	**3.98**	**3.85**	**3.92**

Source: Vakifbank, BRSA data, adapted by Fitch

Limited Market Risk

Market risk is measured using value at risk (VaR) – using a 99% confidence interval, a 10-day holding period and one year of historical data. Correlations are not considered which, given high market volatility in Turkey, can prove to be less conservative. More advanced systems are being developed, but this process has been ongoing for many years.

Turkish banks are exposed to a high degree of market volatility given frequent changes in interest and Turkish lira exchange rates against major currencies. Vakifbank runs stress scenarios on the securities portfolio and monitors VAR calculations with daily back-testing. In 2011, new risk models were introduced. These aim to keep the bank's hedged FC position at below 5% of equity, which appears reasonable. Structurally, Vakifbank is less exposed to FC risk than peers because its shares of FC loans (24%) and deposits (30%) are well below the sector averages, at around 30% and 40% respectively.

In line with the sector, Vakifbank is exposed to high interest rate risk because its liabilities reprice more quickly than its assets, with around 70% of end-1H14 liabilities repricing within three months, against a low 24% of assets. Roughly two-thirds of Vakifbank's loan portfolio is contractually variable rate, with fixed-rate exposures concentrated in the retail segment. Turkish banks apply a regulatory interest rate shock to all interest-earning assets and liabilities. The impact on net interest income of a simultaneous +500bp/−400bp change in Turkish lira interest rates and +200bp/−200bp change in foreign-currency interest rates should be less than 20% of regulatory equity. Vakifbank's ratio at 13% was well within the limit at end-1H14.

Exposure to currency risk is lower. Around 75% of Vakifbank's loan book at end-June 2014 was extended in Turkish lira. The bank is well matched in terms of lira funding. FC loans are mainly extended to corporates and larger middle market companies with a demonstrated track record in FC revenue capacity. Vakifbank has access to longer-term lira facilities provided by the state; unlike many other Turkish banks keen to secure longer-term funding instruments as they expand into longer-term lending, Vakifbank is not forced to borrow longer-term in FC and swap these facilities into lira. The bank's corporate borrowers are, in turn, likely to run open FC positions, as is common in Turkey, and this may expose the bank to underlying exchange rate risk.

Earnings and Profitability

Figure 7

Key Performance Indicators

(%)	3Q14	2013	2012	2011
Net interest income/average earning assets	3.83	4.81	4.91	4.04
Non-interest expense/gross revenues	55.43	47.76	52.64	61.06
Loans and securities impairment charges/ pre-impairment operating profit	33.69	38.57	30.67	6.89
Operating profit/average total assets	1.21	1.60	1.79	1.82
Operating profit/risk-weighted assets	1.41	1.70	2.07	2.11
Net income/average equity	10.89	13.44	13.37	14.96

Source: Vakifbank financial statements, adapted by Fitch

Vakifbank's performance indicators lag those of its peers but remain reasonable. Vakifbank's margins contracted considerably in 1H14 as a steep interest rate hike in January hurt the cost of Turkish lira funding, particularly deposits. The fixed-rate portion of the bond portfolio also affected margins. A trend towards lower interest rates since 2Q14 is boosting margins, but Vakifbank's high dependence on net interest revenue exposes it to reducing profitability in times of rising interest rates as deposits reprice quickly. Volumes of fees and commissions, comprising mainly loan fees, declined slightly during the 12 months to end-June 2014, largely reflecting slowing new lending. Vakifbank's target is to achieve a fee and commission income contribution to operating revenues of 15% (1H14: around 10%).

New branch openings have put pressure on operating expenses in recent years. At 55%, Vakifbank's cost/income ratio is slightly higher than the 48% average for leading state-owned and private-sector peers.

Impaired loan recoveries are still significant at Vakifbank (1H14: TRY387.6m; 2013: TRY457.8m), reflecting solid collateral realisations. Nevertheless, Vakifbank's net loan impairment charges (LICs) as a percentage of pre-impairment operating profit, at 34%, remain high compared to both state-owned peers (exceptionally low at around 15%) and leading private-sector banks (29%). This reflects mainly Vakifbank's prudent policy of fully reserving 'group IV' loans (more than 180 days overdue), above the 50% regulatory requirement. Fitch expects LICs to continue to increase as loans season, especially given the expected tougher domestic economic environment. However, trends show manageable LICs, and this remains our base case.

Results to end-September 2014 show growth roughly in line with the sector average but a reduction in margins, impacted by rising deposit costs. Overall loan portfolio mix and asset quality indicators remained broadly stable. New impaired loans, split roughly 40% retail/60% SME and commercial/corporate, represented a low 0.4% of total end-September 2014 loans.

Capitalisation and Leverage

Figure 8
Key Capitalisation Indicators

(%)	3Q14	2013	2012	2011
Fitch core capital/weighted risk	11.09	10.52	13.19	12.46
Tangible common equity/tangible assets	9.07	8.74	10.87	10.19
Tier 1 regulatory capital ratio	11.01	10.21	11.76	12.38
Internal capital generation	9.35	12.25	11.72	13.82

Source: Vakifbank financial statements, adapted by Fitch

Vakifbank's capital ratios are considered adequate given its risk profile and especially in view of the bank's high loan loss reserve coverage. Dividend distributions are modest. Since the outset of 2014, mark-to-market gains or losses on securities have been included in regulatory capital; gains (TRY986.6m in 1H14) boosted capital in 1H14. Growth remains a priority and Vakifbank is planning to fund additional growth with Tier 2 capital instruments. The bank performs capital stress testing; under its worst-case scenarios, which in Fitch's opinion include a collection of fairly severe circumstances, additional capital would be required by 2016 in order to sustain a 12% total capital ratio. Fitch's stresses show that Vakifbank's capital position is weaker than state-owned peers', limiting growth capacity.

Funding and Liquidity

Figure 9
Key Funding and Liquidity Indicators

(%)	3Q14	2013	2012	2011
Loans/customer deposits	120.44	116.77	112.99	105.14
Interbank assets/interbank liabilities	80.31	73.56	62.65	72.53
Customer deposits/total funding (excluding derivatives)	67.26	66.40	72.14	75.55

Source: Vakifbank financial statements, adapted by Fitch

Vakifbank continues to be predominantly funded by deposits which are well diversified; at end-June 2014, the top 20 deposits represented a modest 13% of total deposits. At end-June 2014, state-related deposits stood at 14.9% of total customer deposits and core state deposits reached 15.7%. Among the largest 20 deposits at end-June 2014, 11 were state-related and a further two related to Vakifbank's own pension fund. At end-1H14, a relatively low 23% of savings deposits were covered by the Savings Deposits Insurance Fund guarantee, reflecting deposit balances per customer which are on the high side.

Figure 10
Breakdown of Non-Equity Funding

(%)	End-June 2014	2013
Customer deposits	67.3	66.3
Bank deposits	3.7	3.6
Repos	10.7	12.2
Other short-term borrowings	7.1	9.2
Senior bonds and borrowings maturing after one year	9.3	6.8
Subordinated debt	1.6	1.6
Other	0.3	0.3
Total non-equity funding (TRYm)	**120,889.2**	**119,105.3**

Source: Financial statements, adapted by Fitch

FC deposits represent around 30% of total deposits, below the 40% sector average. Deposits are very short-term (around 20% are sight deposits at end-June 2014 and around 60% of the remaining savings deposits mature within three months). Like other Turkish banks, Vakifbank is seeking to extend the maturity of its funding instruments. Diversification away from deposits is a natural development for the sector. Borrowed funds at Vakifbank are not excessive, as highlighted in Figure 10 above.

Repurchase agreements are the main source of non-deposit funding for the bank; these are mainly short-term and entered into with major international banks in conjunction with cross-currency arrangements which swap FC into Turkish lira funding. Other short-term borrowings are mainly syndicated loans and local-currency bonds. Instruments maturing after one year comprise senior bonds, borrowings from IFIs and securitisations. Vakifbank's main creditor IFIs are the European Investment Bank, the World Bank and the European Bank for Reconstruction and Development, which extend loan facilities targeting SMEs and energy projects, often guaranteed by the Turkish Treasury, and securitisations. Subordinated debt totals USD900m matures in 2022. FC-denominated subordinated debt provides some protection against exchange rate movements. Vakifbank is considering issuing FC-denominated covered bonds, backed by residential housing loans.

Vakifbank estimates the actual average maturity of its deposits at about 16 months, based on historical deposit rollover rates underpinning comfortable liquidity. The bank's liquidity management relies on it matching its cash flow and maintaining strong asset liquidity. The bank's liquidity ratios comfortably satisfy FC and total balance-sheet regulatory liquidity requirements. The stock liquidity ratio of 18.6% at end-1H14 was nearly three times higher than the required 7% minimum.

Support

Vakifbank's SRs of '2' and SRF of 'BBB−' reflect Fitch's view of the high probability of support from the Turkish sovereign, in case of need. The SRF, which underpin the bank's Long-Term FC IDR, is aligned with the sovereign's Long-Term FC IDR. The bank's Long-Term Local-Currency IDR of 'BBB' is also aligned with the sovereign's, reflecting Fitch's high support expectations.

In Fitch's view, the Turkish state's propensity to support Vakifbank is likely to be very high, reflecting ownership and significant state-related deposits. Fitch believes the state's ability to provide extraordinary FC support to the banking sector, if required, may be somewhat constrained given limited central bank FC reserves and the sector's sizeable external debt. However, in Fitch's view, the FC support needs of the state-owned banks in even quite extreme scenarios should be manageable for the sovereign given their reasonable liquidity FC positions.

Fitch believes the probability of state support for Vakifbank is high. This reflects its ultimate state ownership, systemic importance, the track record of support to date and the manageable size of the banks relative to Turkey's GDP. Fitch believes there are currently no plans to further privatise Vakifbank and expects it to remain majority state-owned for the foreseeable future. The SRFs of state-owned banks in Turkey are notched down once from Turkey's sovereign FC LT IDR. Turkey's FC reserves available to provide extraordinary support to the banking sector are modest, both in absolute size and in relation to the banking sector's net FC outstanding liabilities. Relative to large private-sector banks, state-owned banks have lower net FC liabilities, suggesting that the sovereign would be more able to provide extraordinary support to these in case of need.

Vakifbank's ownership, strategy and management are closely tied to the government. In times of stress, state-owned banks have benefited from deposit inflows, and the state would be keen to preserve the good reputation of public-sector banks in the event of a crisis. The president of Turkey has encouraged depositors to place funds in state-owned banks in the past (in conjunction with rhetorical anti-banking public addresses).

GDF would not, in Fitch's opinion, be in a position to support Vakifbank. GDF is a net borrower (not from Vakifbank) as it requires funds to restore and maintain the upkeep of the historical monuments it manages. Fitch looks through GDF to the ultimate shareholder for support.

Figure 11

Peer Comparison – Key Financial Trends

	T.C. Ziraat Bankasi A.S. (BBB−/Stable/bbb−)			Turkiye Halk Bankasi A.S. (BBB−/Stable/bbb−)			Turkiye Vakiflar Bankasi T.A.O. (BBB−/Stable/bbb−)			Private peer averages		
(%)	**3Q14**	**2013**	**2012**	**3Q14**	**2013**	**2012**	**3Q14**	**2013**	**2012**	**3Q14**	**2013**	**2012**
Profitability												
Operating profit/average total assets	2.40	2.55	2.61	1.98	2.84	3.26	1.21	1.60	1.79	1.94	2.22	2.41
Operating profit/average equity	22.52	26.27	27.63	20.34	28.06	33.05	13.24	16.11	16.98	17.67	18.98	20.18
Cost/income	43.93	44.79	40.80	48.92	43.69	38.44	55.43	47.76	52.64	44.61	44.37	44.79
Loan and securities impairment charges/pre-impairment op. profit	11.76	15.27	21.58	18.78	14.07	16.81	33.69	38.57	30.67	29.32	24.32	19.69
Net interest margin	4.48	4.97	4.95	4.19	4.86	5.24	3.83	4.81	4.91	4.03	4.11	4.23
Capitalisation												
Equity/total assets	12.11	8.82	10.55	9.93	9.45	10.55	9.17	8.92	10.95	10.98	10.96	12.59
Fitch core capital/RWA	17.18	11.14	17.19	11.32	12.12	14.04	11.09	10.52	13.19	11.70	12.19	14.78
Regulatory tier 1 ratio	15.77	9.98	17.13	11.95	12.75	14.13	11.01	10.21	11.76	12.36	12.71	14.06
Asset quality and risk												
Impaired loans/total gross loans	1.95	2.12	2.78	3.66	2.55	2.92	3.94	4.05	3.88	2.26	2.26	2.12
Gross loan growth	20.21	55.25	0.91	13.31	31.48	15.30	13.53	26.81	18.40	13.84	26.45	16.29
Reserves/impaired loans	69.62	67.16	61.45	59.44	80.71	82.52	91.89	90.12	89.07	78.84	78.54	77.14
LICs/average gross loans	0.57	0.90	1.40	0.71	0.73	0.83	0.87	1.32	0.91	1.14	1.11	0.95
Liquidity and funding												
Loans/deposits	95.41	86.10	66.67	120.56	98.27	93.33	120.44	116.77	112.99	11.70	12.19	14.78

Source: Bank data adapted by Fitch

Turkiye Vakiflar Bankasi T.A.O.
Income Statement

	30 Sep 2014			31 Dec 2013		31 Dec 2012		31 Dec 2011	
	9 Months - 3rd Quarter USDm Unqualified	9 Months - 3rd Quarter TRYth Unqualified	As % of Earning Assets	Year End TRYth Unqualified	As % of Earning Assets	Year End TRYth Unqualified	As % of Earning Assets	Year End TRYth Unqualified	As % of Earning Assets
1. Interest Income on Loans	3,028.5	6,908,050.0	7.20	7,684,434.0	6.67	7,050,343.0	7.65	4,973,352.0	6.05
2. Other Interest Income	717.0	1,635,408.0	1.70	1,756,001.0	1.52	1,949,638.0	2.12	1,722,248.0	2.10
3. Dividend Income	5.2	11,911.0	0.01	16,429.0	0.01	6,916.0	0.01	4,732.0	0.01
4. Gross Interest and Dividend Income	**3,750.7**	**8,555,369.0**	**8.91**	**9,456,864.0**	**8.21**	**9,006,897.0**	**9.78**	**6,700,332.0**	**8.15**
5. Interest Expense on Customer Deposits	1,653.0	3,770,501.0	3.93	3,543,409.0	3.08	3,946,141.0	4.28	2,951,304.0	3.59
6. Other Interest Expense	580.0	1,322,992.0	1.38	989,871.0	0.86	798,362.0	0.87	710,064.0	0.86
7. Total Interest Expense	**2,233.0**	**5,093,493.0**	**5.31**	**4,533,280.0**	**3.94**	**4,744,503.0**	**5.15**	**3,661,368.0**	**4.45**
8. Net Interest Income	**1,517.7**	**3,461,876.0**	**3.61**	**4,923,584.0**	**4.28**	**4,262,394.0**	**4.63**	**3,038,964.0**	**3.70**
9. Net Gains (Losses) on Trading and Derivatives	87.1	198,687.0	0.21	257,268.0	0.22	339,391.0	0.37	51,384.0	0.06
10. Net Gains (Losses) on Other Securities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Net Insurance Income	(56.6)	(129,203.0)	(0.13)	(31,858.0)	(0.03)	168,599.0	0.18	156,180.0	0.19
13. Net Fees and Commissions	219.6	500,947.0	0.52	629,107.0	0.55	418,105.0	0.45	561,369.0	0.68
14. Other Operating Income	175.2	399,525.0	0.42	304,434.0	0.26	317,971.0	0.35	549,070.0	0.67
15. Total Non-Interest Operating Income	**425.2**	**969,956.0**	**1.01**	**1,158,951.0**	**1.01**	**1,244,066.0**	**1.35**	**1,318,003.0**	**1.60**
16. Personnel Expenses	411.2	937,973.0	0.98	1,255,065.0	1.09	1,089,485.0	1.18	954,483.0	1.16
17. Other Operating Expenses	665.7	1,518,541.0	1.58	1,650,153.0	1.43	1,809,114.0	1.96	1,705,918.0	2.08
18. Total Non-Interest Expenses	**1,076.9**	**2,456,514.0**	**2.56**	**2,905,218.0**	**2.52**	**2,898,599.0**	**3.15**	**2,660,401.0**	**3.24**
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
20. Pre-Impairment Operating Profit	**866.0**	**1,975,318.0**	**2.06**	**3,177,317.0**	**2.76**	**2,607,861.0**	**2.83**	**1,696,566.0**	**2.06**
21. Loan Impairment Charge	278.0	634,168.0	0.66	1,083,245.0	0.94	607,591.0	0.66	994.0	0.00
22. Securities and Other Credit Impairment Charges	13.8	31,386.0	0.03	142,211.0	0.12	192,337.0	0.21	115,943.0	0.14
23. Operating Profit	**574.2**	**1,309,764.0**	**1.36**	**1,951,861.0**	**1.69**	**1,807,933.0**	**1.96**	**1,579,629.0**	**1.92**
24. Equity-accounted Profit/ Loss - Non-operating	10.9	24,961.0	0.03	25,631.0	0.02	26,953.0	0.03	21,624.0	0.03
25. Non-recurring Income	23.7	53,995.0	0.06	52,818.0	0.05	27,359.0	0.03	108,795.0	0.13
26. Non-recurring Expense	0.8	1,776.0	0.00	0.0	0.00	0.0	0.00	n.a.	-
27. Change in Fair Value of Ow n Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
28. Other Non-operating Income and Expenses	n.a.	n.a.	-	0.0	0.00	(664.0)	(0.00)	(7,503.0)	(0.01)
29. Pre-tax Profit	**608.0**	**1,386,944.0**	**1.44**	**2,030,310.0**	**1.76**	**1,861,581.0**	**2.02**	**1,702,545.0**	**2.07**
30. Tax expense	135.8	309,655.0	0.32	402,131.0	0.35	437,961.0	0.48	341,536.0	0.42
31. Profit/Loss from Discontinued Operations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
32. Net Income	**472.3**	**1,077,289.0**	**1.12**	**1,628,179.0**	**1.41**	**1,423,620.0**	**1.55**	**1,361,009.0**	**1.66**
33. Change in Value of AFS Investments	166.0	378,627.0	0.39	(870,530.0)	(0.76)	811,765.0	0.88	(606,138.0)	(0.74)
34. Revaluation of Fixed Assets	22.8	51,960.0	0.05	71,329.0	0.06	36,442.0	0.04	8,977.0	0.01
35. Currency Translation Differences	(10.3)	(23,550.0)	(0.02)	73,162.0	0.06	(6,641.0)	(0.01)	28,260.0	0.03
36. Remaining OCI Gains/(losses)	n.a.	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
37. Fitch Comprehensive Income	**650.7**	**1,484,326.0**	**1.55**	**902,140.0**	**0.78**	**2,265,186.0**	**2.46**	**792,108.0**	**0.96**
38. Memo: Profit Allocation to Non-controlling Interests	(1.5)	(3,440.0)	(0.00)	(24,295.0)	(0.02)	169.0	0.00	56,695.0	0.07
39. Memo: Net Income after Allocation to Non-controlling Interests	473.8	1,080,729.0	1.13	1,652,474.0	1.44	1,423,451.0	1.55	1,304,314.0	1.59
40. Memo: Common Dividends Relating to the Period	44.0	100,316.0	0.10	100,292.0	0.09	37,507.0	0.04	34,379.0	0.04
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Exchange rate		USD1 = TRY2.28100		USD1 = TRY2.13620		USD1 = TRY1.78190		USD1 = TRY1.91110	

Turkiye Vakiflar Bankasi T.A.O.

Balance Sheet

	30 Sep 2014			31 Dec 2013		31 Dec 2012		31 Dec 2011	
	9 Months - 3rd Quarter USDm	9 Months - 3rd Quarter TRYth	As % of Assets	Year End TRYth	As % of Assets	Year End TRYth	As % of Assets	Year End TRYth	As % of Assets
Assets									
A. Loans									
1. Residential Mortgage Loans	6,259.3	14,277,508.0	9.37	13,300,952.0	9.52	10,283,389.0	9.52	8,809,987.0	9.43
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Other Consumer/ Retail Loans	7,742.9	17,661,665.0	11.59	17,194,790.0	12.30	13,977,528.0	12.94	12,300,947.0	13.16
4. Corporate & Commercial Loans	29,441.0	67,154,900.0	44.07	23,546,589.0	16.84	44,747,983.0	41.42	36,946,568.0	39.53
5. Other Loans	2,433.0	5,549,626.0	3.64	38,130,622.0	27.28	3,679,543.0	3.41	3,332,528.0	3.57
6. Less: Reserves for Impaired Loans	1,661.3	3,789,501.0	2.49	3,367,453.0	2.41	2,509,028.0	2.32	2,099,932.0	2.25
7. Net Loans	**44,214.9**	**100,854,198.0**	**66.18**	**88,805,500.0**	**63.53**	**70,179,415.0**	**64.96**	**59,290,098.0**	**63.44**
8. Gross Loans	**45,876.2**	**104,643,699.0**	**68.67**	**92,172,953.0**	**65.94**	**72,688,443.0**	**67.28**	**61,390,030.0**	**65.69**
9. Memo: Impaired Loans included above	1,808.0	4,123,962.0	2.71	3,736,465.0	2.67	2,816,827.0	2.61	2,211,283.0	2.37
10. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	-	n.a.	-	0.0	0.00
B. Other Earning Assets									
1. Loans and Advances to Banks	1,422.8	3,245,442.0	2.13	3,162,446.0	2.26	2,659,418.0	2.46	2,541,675.0	2.72
2. Reverse Repos and Cash Collateral	0.4	973.0	0.00	1,000.0	0.00	3,717.0	0.00	190,127.0	0.20
3. Trading Securities and at FV through Income	31.2	71,225.0	0.05	217,224.0	0.16	207,065.0	0.19	187,484.0	0.20
4. Derivatives	178.2	406,567.0	0.27	438,395.0	0.31	89,425.0	0.08	174,138.0	0.19
5. Available for Sale Securities	7,288.9	16,626,025.0	10.91	16,657,409.0	11.92	14,334,781.0	13.27	13,354,843.0	14.29
6. Held to Maturity Securities	2,841.8	6,482,125.0	4.25	5,413,171.0	3.87	4,261,060.0	3.94	5,979,238.0	6.40
7. Equity Investments in Associates	207.0	472,263.0	0.31	438,101.0	0.31	363,501.0	0.34	315,294.0	0.34
8. Other Securities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Total Securities	**10,547.6**	**24,059,178.0**	**15.79**	**23,165,300.0**	**16.57**	**19,259,549.0**	**17.83**	**20,201,124.0**	**21.61**
10. Memo: Government Securities included Above	10,020.5	22,856,753.0	15.00	21,965,565.0	15.71	18,557,776.0	17.18	19,268,059.0	20.62
11. Memo: Total Securities Pledged	7,415.7	16,915,299.0	11.10	18,152,380.0	12.99	11,080,355.0	10.26	8,035,643.0	8.60
12. Investments in Property	79.3	180,911.0	0.12	20,829.0	0.01	19,646.0	0.02	159,204.0	0.17
13. Insurance Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Other Earning Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
15. Total Earning Assets	**56,264.7**	**128,339,729.0**	**84.21**	**115,154,075.0**	**82.38**	**92,118,028.0**	**85.26**	**82,192,101.0**	**87.94**
C. Non-Earning Assets									
1. Cash and Due From Banks	8,520.9	19,436,119.0	12.75	18,975,182.0	13.57	12,331,494.0	11.41	7,141,862.0	7.64
2. Memo: Mandatory Reserves included above	7,244.1	16,523,858.0	10.84	14,542,489.0	10.40	8,108,813.0	7.51	4,269,727.0	4.57
3. Foreclosed Real Estate	308.4	703,516.0	0.46	569,082.0	0.41	2,093.0	0.00	2,159.0	0.00
4. Fixed Assets	334.4	762,675.0	0.50	877,804.0	0.63	1,355,088.0	1.25	1,175,781.0	1.26
5. Goodwill	n.a.	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
6. Other Intangibles	69.2	157,762.0	0.10	128,069.0	0.09	100,036.0	0.09	79,988.0	0.09
7. Current Tax Assets	3.2	7,310.0	0.00	6,891.0	0.00	0.0	0.00	0.0	0.00
8. Deferred Tax Assets	68.0	155,079.0	0.10	157,636.0	0.11	208,167.0	0.19	197,670.0	0.21
9. Discontinued Operations	n.a.	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
10. Other Assets	1,242.4	2,834,021.0	1.86	3,918,843.0	2.80	1,924,506.0	1.78	2,670,983.0	2.86
11. Total Assets	**66,811.1**	**152,396,211.0**	**100.00**	**139,787,582.0**	**100.00**	**108,039,412.0**	**100.00**	**93,460,544.0**	**100.00**
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Customer Deposits - Current	7,336.5	16,734,608.0	10.98	13,879,873.0	9.93	11,046,951.0	10.22	9,149,399.0	9.79
2. Customer Deposits - Savings	8,498.3	19,384,555.0	12.72	17,913,065.0	12.81	15,044,654.0	13.93	13,358,867.0	14.29
3. Customer Deposits - Term	22,255.6	50,765,025.0	33.31	47,142,509.0	33.72	38,242,439.0	35.40	35,878,841.0	38.39
4. Total Customer Deposits	**38,090.4**	**86,884,188.0**	**57.01**	**78,935,447.0**	**56.47**	**64,334,044.0**	**59.55**	**58,387,107.0**	**62.47**
5. Deposits from Banks	1,771.6	4,041,046.0	2.65	4,298,995.0	3.08	4,244,689.0	3.93	3,504,446.0	3.75
6. Repos and Cash Collateral	6,072.7	13,851,925.0	9.09	14,580,345.0	10.43	8,490,891.0	7.86	5,981,675.0	6.40
7. Other Deposits and Short-term Borrowings	4,266.0	9,730,846.0	6.39	10,967,760.0	7.85	5,847,470.0	5.41	3,233,521.0	3.46
8. Total Deposits, Money Market and Short-term Funding	**50,200.8**	**114,508,005.0**	**75.14**	**108,782,547.0**	**77.82**	**82,917,094.0**	**76.75**	**71,106,749.0**	**76.08**
9. Senior Debt Maturing after 1 Year	5,501.0	12,547,890.0	8.23	8,138,636.0	5.82	4,626,259.0	4.28	6,171,776.0	6.60
10. Subordinated Borrowing	926.0	2,112,173.0	1.39	1,964,663.0	1.41	1,630,188.0	1.51	0.0	0.00
11. Other Funding	n.a.	n.a.	-	0.0	0.00	0.0	0.00	n.a.	-
12. Total Long Term Funding	**6,427.0**	**14,660,063.0**	**9.62**	**10,103,299.0**	**7.23**	**6,256,447.0**	**5.79**	**6,171,776.0**	**6.60**
13. Derivatives	109.2	249,043.0	0.16	219,480.0	0.16	199,692.0	0.18	344,803.0	0.37
14. Trading Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
15. Total Funding	**56,737.0**	**129,417,111.0**	**84.92**	**119,105,326.0**	**85.20**	**89,373,233.0**	**82.72**	**77,623,328.0**	**83.05**
E. Non-Interest Bearing Liabilities									
1. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	615.8	1,404,658.0	0.92	1,190,739.0	0.85	956,059.0	0.88	671,180.0	0.72
3. Reserves for Pensions and Other	1,098.0	2,504,441.0	1.64	2,402,713.0	1.72	2,041,443.0	1.89	1,756,962.0	1.88
4. Current Tax Liabilities	133.7	304,950.0	0.20	238,757.0	0.17	343,553.0	0.32	149,889.0	0.16
5. Deferred Tax Liabilities	4.2	9,470.0	0.01	3,975.0	0.00	6,676.0	0.01	3,666.0	0.00
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Discontinued Operations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
8. Insurance Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Other Liabilities	2,099.0	4,787,833.0	3.14	4,375,114.0	3.13	3,489,451.0	3.23	3,657,317.0	3.91
10. Total Liabilities	**60,687.6**	**138,428,463.0**	**90.83**	**127,316,624.0**	**91.08**	**96,210,415.0**	**89.05**	**83,862,342.0**	**89.73**
F. Hybrid Capital									
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
G. Equity									
1. Common Equity	5,818.5	13,271,976.0	8.71	12,260,247.0	8.77	10,660,115.0	9.87	9,316,096.0	9.97
2. Non-controlling Interest	204.7	466,864.0	0.31	309,101.0	0.22	397,619.0	0.37	359,050.0	0.38
3. Securities Revaluation Reserves	100.4	228,908.0	0.15	(149,719.0)	(0.11)	720,811.0	0.67	(90,954.0)	(0.10)
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Fixed Asset Revaluations and Other Accumulated OCI	n.a.	n.a.	-	51,329.0	0.04	50,452.0	0.05	14,010.0	0.01
6. Total Equity	**6,123.5**	**13,967,748.0**	**9.17**	**12,470,958.0**	**8.92**	**11,828,997.0**	**10.95**	**9,598,202.0**	**10.27**
7. Total Liabilities and Equity	**66,811.1**	**152,396,211.0**	**100.00**	**139,787,582.0**	**100.00**	**108,039,412.0**	**100.00**	**93,460,544.0**	**100.00**
8. Memo: Fitch Core Capital	6,054.4	13,809,986.0	9.06	12,102,894.0	8.66	11,520,373.0	10.66	9,323,017.0	9.98
9. Memo: Fitch Eligible Capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-

Exchange rate: 30 Sep 2014 USD1 = TRY2.28100; 31 Dec 2013 USD1 = TRY2.13620; 31 Dec 2012 USD1 = TRY1.78190; 31 Dec 2011 USD1 = TRY1.91110

Turkiye Vakiflar Bankasi T.A.O.

Summary Analytics

	30 Sep 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011
	9 Months - 3rd Quarter	Year End	Year End	Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	9.43	9.40	10.58	9.05
2. Interest Expense on Customer Deposits/ Average Customer Deposits	6.14	5.03	6.38	5.84
3. Interest Income/ Average Earning Assets	9.47	9.24	10.38	8.92
4. Interest Expense/ Average Interest-bearing Liabilities	5.54	4.42	5.68	5.11
5. Net Interest Income/ Average Earning Assets	3.83	4.81	4.91	4.04
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	3.13	3.75	4.21	4.04
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	3.83	4.81	4.91	4.04
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	21.89	19.05	22.59	30.25
2. Non-Interest Expense/ Gross Revenues	55.43	47.76	52.64	61.06
3. Non-Interest Expense/ Average Assets	2.27	2.38	2.87	3.07
4. Pre-impairment Op. Profit/ Average Equity	19.97	26.23	24.49	18.65
5. Pre-impairment Op. Profit/ Average Total Assets	1.82	2.60	2.59	1.96
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	33.69	38.57	30.67	6.89
7. Operating Profit/ Average Equity	13.24	16.11	16.98	17.37
8. Operating Profit/ Average Total Assets	1.21	1.60	1.79	1.82
9. Taxes/ Pre-tax Profit	22.33	19.81	23.53	20.06
10. Pre-Impairment Operating Profit / Risk Weighted Assets	2.12	2.76	2.99	2.27
11. Operating Profit / Risk Weighted Assets	1.41	1.70	2.07	2.11
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	10.89	13.44	13.37	14.96
2. Net Income/ Average Total Assets	0.99	1.33	1.41	1.57
3. Fitch Comprehensive Income/ Average Total Equity	15.01	7.45	21.27	8.71
4. Fitch Comprehensive Income/ Average Total Assets	1.37	0.74	2.25	0.91
5. Net Income/ Av. Total Assets plus Av. Managed Securitized Assets	n.a.	n.a.	1.41	1.57
6. Net Income/ Risk Weighted Assets	1.16	1.42	1.63	1.82
7. Fitch Comprehensive Income/ Risk Weighted Assets	1.59	0.78	2.59	1.06
D. Capitalization				
1. Fitch Core Capital/ Risk Weighted Assets	11.09	10.52	13.19	12.46
2. Fitch Eligible Capital/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
3. Tangible Common Equity/ Tangible Assets	9.07	8.74	10.87	10.19
4. Tier 1 Regulatory Capital Ratio	11.01	10.21	11.76	12.38
5. Total Regulatory Capital Ratio	13.69	13.21	15.56	13.22
6. Core Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.
7. Equity/ Total Assets	9.17	8.92	10.95	10.27
8. Cash Dividends Paid & Declared/ Net Income	9.31	6.16	2.63	2.53
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	6.76	11.12	1.66	4.34
10. Cash Dividends & Share Repurchase/Net Income	n.a.	n.a.	n.a.	2.53
11. Internal Capital Generation	9.35	12.25	11.72	13.82
E. Loan Quality				
1. Growth of Total Assets	9.02	29.39	15.60	21.64
2. Growth of Gross Loans	13.53	26.81	18.40	28.70
3. Impaired Loans/ Gross Loans	3.94	4.05	3.88	3.60
4. Reserves for Impaired Loans/ Gross Loans	3.62	3.65	3.45	3.42
5. Reserves for Impaired Loans/ Impaired Loans	91.89	90.12	89.07	94.96
6. Impaired loans less Reserves for Impaired Loans/ Fitch Core Capital	2.42	3.05	2.67	1.19
7. Impaired Loans less Reserves for Impaired Loans/ Equity	2.39	2.96	2.60	1.16
8. Loan Impairment Charges/ Average Gross Loans	0.87	1.32	0.91	0.00
9. Net Charge-offs/ Average Gross Loans	0.00	0.00	0.02	0.01
10. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	4.58	4.64	3.88	3.61
F. Funding				
1. Loans/ Customer Deposits	120.44	116.77	112.99	105.14
2. Interbank Assets/ Interbank Liabilities	80.31	73.56	62.65	72.53
3. Customer Deposits/ Total Funding (excluding derivatives)	67.26	66.40	72.14	75.55

Turkiye Vakiflar Bankasi T.A.O.
Reference Data

	30 Sep 2014			31 Dec 2013		31 Dec 2012		31 Dec 2011	
	9 Months - 3rd Quarter USDm	9 Months - 3rd Quarter TRYth	As % of Assets	Year End TRYth	As % of Assets	Year End TRYth	As % of Assets	Year End TRYth	As % of Assets
A. Off-Balance Sheet Items									
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
3. Guarantees	8,839.2	20,162,113.0	13.23	17,964,019.0	12.85	12,670,066.0	11.73	11,223,108.0	12.01
4. Acceptances and documentary credits reported off-balance sheet	3,125.8	7,130,001.0	4.68	5,442,527.0	3.89	4,580,541.0	4.24	4,591,273.0	4.91
5. Committed Credit Lines	10,201.2	23,268,930.0	15.27	72,063,262.0	51.55	50,698,980.0	46.93	n.a.	-
6. Other Contingent Liabilities	8,171.1	18,638,378.0	12.23	19,179,650.0	13.72	13,458,755.0	12.46	11,878,587.0	12.71
7. Total Business Volume	97,148.5	221,595,633.0	145.41	254,437,040.0	182.02	189,447,754.0	175.35	121,153,512.0	129.63
8. Memo: Risk Weighted Assets	54,608.7	124,562,475.0	81.74	115,053,688.0	82.31	87,365,463.0	80.86	74,839,919.0	80.08
9. Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Fitch Adjusted Risk Weighted Assets	54,608.7	124,562,475.0	81.74	115,053,688.0	82.31	87,365,463.0	80.86	74,839,919.0	80.08
B. Average Balance Sheet									
Average Loans	42,819.5	97,671,297.0	64.09	81,774,017.0	58.50	66,646,645.0	61.69	54,956,353.0	58.80
Average Earning Assets	52,957.7	120,796,446.0	79.26	102,364,874.0	73.23	86,764,646.0	80.31	75,143,654.0	80.40
Average Assets	63,544.3	144,944,590.0	95.11	122,210,913.0	87.43	100,873,590.0	93.37	86,609,354.0	92.67
Average Managed Securitized Assets (OBS)	n.a.	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
Average Interest-Bearing Liabilities	53,933.0	123,021,151.0	80.72	102,659,615.0	73.44	83,562,494.0	77.34	71,706,485.0	76.72
Average Common equity	5,574.4	12,715,145.0	8.34	11,492,320.0	8.22	9,957,468.0	9.22	8,691,144.0	9.30
Average Equity	5,797.8	13,224,715.0	8.68	12,112,983.0	8.67	10,648,175.0	9.86	9,096,623.0	9.73
Average Customer Deposits	36,020.5	82,162,785.0	53.91	70,413,621.0	50.37	61,887,827.0	57.28	50,542,307.0	54.08
C. Maturities									
Asset Maturities:									
Loans & Advances < 3 months	5,477.9	12,494,978.0	8.20	12,334,063.0	8.82	6,544,826.0	6.06	7,585,757.0	8.12
Loans & Advances 3 - 12 Months	8,514.6	19,421,882.0	12.74	15,400,799.0	11.02	13,110,633.0	12.14	12,865,734.0	13.77
Loans and Advances 1 - 5 Years	19,491.4	44,459,989.0	29.17	41,000,878.0	29.33	32,202,425.0	29.81	29,463,493.0	31.53
Loans & Advances > 5 years	10,106.0	23,051,685.0	15.13	19,937,318.0	14.26	17,151,016.0	15.87	9,263,763.0	9.91
Debt Securities < 3 Months	254.7	580,920.0	0.38	2,629,411.0	1.88	318,405.0	0.29	498,048.0	0.53
Debt Securities 3 - 12 Months	965.6	2,202,537.0	1.45	2,944,789.0	2.11	2,591,192.0	2.40	868,097.0	0.93
Debt Securities 1 - 5 Years	3,782.4	8,627,549.0	5.66	7,778,695.0	5.56	10,890,340.0	10.08	10,837,263.0	11.60
Debt Securities > 5 Years	5,341.9	12,184,936.0	8.00	9,373,304.0	6.71	5,092,394.0	4.71	7,478,280.0	8.00
Loans & Advances to Banks < 3 Months	1,404.5	3,203,757.0	2.10	3,160,207.0	2.26	2,659,272.0	2.46	2,539,227.0	2.72
Loans & Advances to Banks 3 - 12 Months	17.1	39,053.0	0.03	2,239.0	0.00	146.0	0.00	2,108.0	0.00
Loans & Advances to Banks 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Liability Maturities:									
Retail Deposits < 3 months	n.a.	n.a.	-	n.a.	-	0.0	0.00	n.a.	-
Retail Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	0.0	0.00	n.a.	-
Retail Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	0.0	0.00	n.a.	-
Retail Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits < 3 Months	34,897.3	79,600,705.0	52.23	65,430,772.0	46.81	60,136,774.0	55.66	55,121,268.0	58.98
Other Deposits 3 - 12 Months	2,835.1	6,466,801.0	4.24	8,798,685.0	6.29	3,634,010.0	3.36	2,866,843.0	3.07
Other Deposits 1 - 5 Years	349.5	797,289.0	0.52	4,705,990.0	3.37	550,332.0	0.51	395,629.0	0.42
Other Deposits > 5 Years	8.5	19,393.0	0.01	n.a.	-	12,928.0	0.01	3,367.0	0.00
Deposits from Banks < 3 Months	1,556.3	3,549,830.0	2.33	3,422,043.0	2.45	3,300,502.0	3.05	2,533,903.0	2.71
Deposits from Banks 3 - 12 Months	186.1	424,520.0	0.28	589,004.0	0.42	741,795.0	0.69	918,892.0	0.98
Deposits from Banks 1 - 5 Years	100.1	228,270.0	0.15	92,905.0	0.07	10,463.0	0.01	2,074.0	0.00
Deposits from Banks > 5 Years	n.a.	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
Senior Debt Maturing < 3 months	7,489.0	17,082,420.0	11.21	14,789,465.0	10.58	7,772,883.0	7.19	5,691,421.0	6.09
Senior Debt Maturing 3-12 Months	4,246.4	9,685,952.0	6.36	2,732,469.0	1.95	2,391,548.0	2.21	832,831.0	0.89
Senior Debt Maturing 1- 5 Years	3,129.3	7,138,007.0	4.68	4,074,289.0	2.91	891,137.0	0.82	0.0	0.00
Senior Debt Maturing > 5 Years	1,090.4	2,487,228.0	1.63	0.0	0.00	0.0	0.00	0.0	0.00
Total Senior Debt on Balance Sheet	15,955.1	36,393,607.0	23.88	21,596,223.0	15.45	11,055,568.0	10.23	6,524,252.0	6.98
Fair Value Portion of Senior Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Covered Bonds	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Subordinated Debt on Balance Sheet	926.0	2,112,173.0	1.39	1,964,663.0	1.41	1,630,188.0	1.51	0.0	0.00
Fair Value Portion of Subordinated Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
D. Equity Reconciliation									
1. Equity	6,123.5	13,967,748.0	9.17	12,470,958.0	8.92	11,828,997.0	10.95	9,598,202.0	10.27
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Add: Other Adjustments	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Published Equity	6,123.5	13,967,748.0	9.17	12,470,958.0	8.92	11,828,997.0	10.95	9,598,202.0	10.27
E. Fitch Eligible Capital Reconciliation									
1. Total Equity as reported (including non-controlling interests)	6,123.5	13,967,748.0	9.17	12,470,958.0	8.92	11,828,997.0	10.95	9,598,202.0	10.27
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC only	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
4. Goodwill	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
5. Other intangibles	69.2	157,762.0	0.10	128,069.0	0.09	100,036.0	0.09	79,988.0	0.09
6. Deferred tax assets deduction	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
7. Net asset value of insurance subsidiaries	0.0	0.0	0.00	239,995.0	0.17	208,588.0	0.19	195,197.0	0.21
8. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
9. Fitch Core Capital	**6,054.4**	**13,809,986.0**	**9.06**	**12,102,894.0**	**8.66**	**11,520,373.0**	**10.66**	**9,323,017.0**	**9.98**
10. Eligible weighted Hybrid capital	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. Government held Hybrid Capital	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
12. Fitch Eligible Capital	**n.a.**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**
Exchange Rate	USD1 = TRY2.28100			USD1 = TRY2.13620		USD1 = TRY1.78190		USD1 = TRY1.91110	

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.