

TÜRKİYE VAKIFLAR BANKASI TAO

January 2010

Rating Report

TÜRKİYE VAKIFLAR BANKASI TAO

Turkey

January 2010

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TÜRKİYE VAKIFLAR BANKASI TAO

Ankara, Turkey
January 2010

RATINGS

FINANCIAL HIGHLIGHTS

	Current	Last Changed From	Date	USD (mn) TRY (mn)	30/6/2009 USD	30/6/2009 TRY	2008 TRY	2007 TRY
Sovereign								
Long-Term:	BB-	B+	Aug 05	Total Assets	39,786	60,809	54,558	44,235
Short-Term:	B	C	Aug 05	Net Loans	21,339	32,615	31,127	24,122
Outlook	Stable	-	-	Total Deposits *	29,292	44,770	45,196	33,084
				Total Capital	4,386	6,704	6,305	5,492
				Gross Income	1,458	2,229	3,267	2,853
				Net Profit	410.5	627.3	911.9	1,049.8
Foreign Currency				*Customer deposits+Interbank Exchange Rate: USD/TRY		1.5284	1.5250	1.1708
Long-Term:	BB-	B+	Aug 05	%		30/6/2009	2008	2007
Short-Term:	B	C	Nov 03	NPLs / Gross Loans		5.73	4.96	4.88
				LLR / NPL		105.01	93.47	100.45
Financial Strength	BBB-	BB+	Jun 06	Capital Adequacy Ratio		14.62	14.30	14.74
				Net Loans / Stable Funds		65.55	74.41	66.63
Support	2	-	-	Int Differential (annualised)		5.21	3.61	3.96
				Cost / Income		46.02	58.06	54.89
Outlook				ROAA (annualised)		2.18	1.85	2.53
Foreign Currency	Stable	Positive	Jun 06					
Financial Strength	Stable	Positive	Jun 06					

RATINGS DRIVERS

Supporting the Ratings

- Strong customer deposit base, but with some reliance on higher-cost time deposits
- Improving liquidity ratios in 2009
- Continued good coverage of non-performing loans (NPLs)
- Quasi-government shareholding

Constraining the Ratings

- Rapid rise in NPLs and the NPL ratio
- Sizeable amount of deposit concentration
- Challenging economic environment

RATING RATIONALE

Türkiye Vakıflar Bankası T.A.O (Vakıfbank, or VB), like many banks, has experienced sharp increases in both NPLs and the NPL ratio in 2008 and again in H1 2009. Until 2009, rapid loan portfolio and balance sheet growth had masked the increase in NPLs by keeping the ratio low and had also strained the Bank's capital in relation to that large and growing portfolio. VB has addressed the former by continuing to make full provisioning for its NPL portfolio, and the latter with a greatly reduced dividend for 2008 and increased operating profitability in the first half of 2009. The Bank has traditionally displayed reasonably good liquidity ratios, and those further improved in the first half of 2009. While those ratios are underpinned by a very strong customer deposit base, VB's profile as a corporate bank has resulted in a larger than average share of deposits being accounted for by more volatile and more expensive time deposits. Overall profitability has been erratic over the past eighteen months, as operating costs have risen sharply in both 2008 and H1 2009. The cost ratio has not reflected that, because of the high growth in gross income. However, when that growth slows, as it will likely do in 2010, a more accurate picture should emerge.

In view of the VB's continued commitment to covering its NPLs, its strong deposit base and its very good liquidity, Foreign Currency ratings are affirmed at BB- long-term and B short-term; the Financial Strength rating is affirmed at BBB-. The support level remains at 2, and the outlook remains 'Stable'.

HISTORY AND OWNERSHIP

Türkiye Vakıflar Bankası was established in 1954 under a special law by the General Directorate of Foundations to administer the financial affairs of charitable organisations and foundations. These are state-controlled entities (some dating back to the Ottoman Empire) set up and governed under the Foundations Law to hold in perpetuity assets such as mosques and museums, as well as residential and commercial real estate, on behalf of the public.

In 1957 Vakıf took a natural step, given its corporate character, and established an insurance company (Güneş Insurance Company), and shortly thereafter it established Vakıf Life Insurance Company, as well as other subsidiaries involved in leasing and factoring. In the early 1990s it began to expand its retail banking activity by introducing new products such as auto loans, mortgage loans and credit cards. VB is now a full-service commercial bank with its headquarters in Ankara and branches covering 81 Turkish cities.

Table 1		%
Vakıfbank Shareholders as at December 2008		
General Directorate of Foundations – Class A shs		43.00
General Directorate of Foundations – Class B shs		15.45
VB Pension Fund		16.10
Free Float		25.18
Other		0.27
Total		100.00

VB is now a full-service commercial bank with its headquarters in Ankara and branches covering 81 Turkish cities.

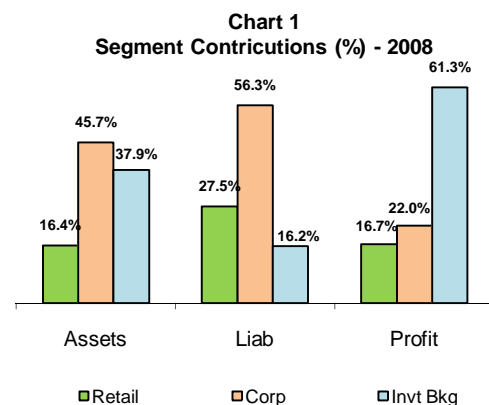
Through a 2005 IPO, approximately 25% of the Bank's shares are now listed on the Istanbul Stock Exchange (ISE), and are held mainly by international institutional investors. The Bank's ownership as of 31 December 2008 is as shown in Table 1, above.

The majority shareholder is the General Directorate of Foundations (GDF), which was established in 1924 to administer and regulate Turkish charitable foundations. It is a state entity and reports directly to the Prime Minister. With management appointed by the Turkish government, the Bank and the foundations that control it may therefore be regarded as quasi-state enterprises.

CURRENT BUSINESS MODEL

VB is primarily a corporate bank. Like other Turkish banks, it has expanded its portfolio of retail lending and credit cards, but recent growth in those areas has paralleled that of the growth in corporate lending.

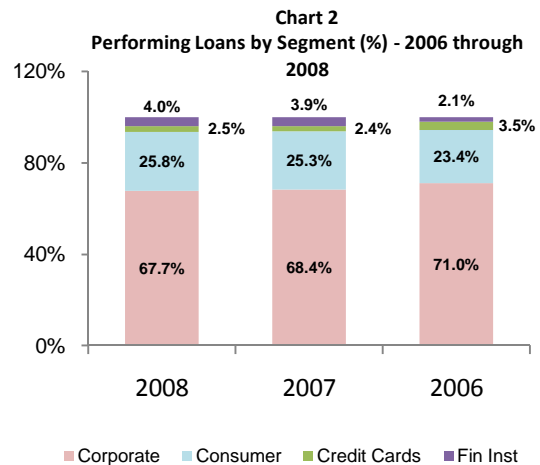
For segment reporting purposes the Bank segments its business into three categories: corporate, retail and investment banking. The shares of these segments in the Bank's assets, liabilities and profits for 2008 are shown in Chart 1, to the right, and as it illustrates, the Bank's loan business is dominated by the corporate sector. The chart also points out a situation which is unusual among Turkish banks: retail banking accounts for about the same percentage of the Bank's net profit as it consumes of the Bank's assets. Moreover, corporate banking, while not providing the largest share of profits, nevertheless supplies a higher percentage of funding than its share of assets. Chart 2 (below), which deals with just the Bank's performing loan portfolio, further demonstrates the importance of the Bank's corporate business.



In addition to its audit and risk management functions, which are managed in groups which report directly to the Board, the Bank's organisation consists of ten units, each headed by an Assistant General Manager, and each reporting to the General Manager. The ten consist of six support units

and four business units, viz. Corporate and Commercial Banking, Retail Banking, Treasury and International/Investor Relations.

VB operates numerous financial subsidiaries and affiliates, and the financial statements of 13 of these have been consolidated into the Bank's statement of accounts. Operations of these entities include leasing, brokerage, pension fund management, insurance, factoring, real estate investments, and asset management. Also included among these affiliates are a banking subsidiary operating in the Turkish Republic of Northern Cyprus and the Turkish development bank Türkiye Sinai Kalkınma Bankası A.Ş., in which VB holds a stake of 8.4%.



All of the following ranking figures relate to balance sheet size as measured by total assets at mid-year 2009. With a total of TRY60.8 billion (a market share of about 8%), Vakifbank ranks sixth among Turkish deposit banks – a position which it is endeavouring to improve upon (see **Future Strategies**, below).

At mid-year 2009 VB operated a network of 429 full-service branches domestic: 427; foreign: 2), 100 satellite branches and five mobile branches, covering 81 Turkish cities, although the Bank's marketing strength lies largely to the east of Ankara. Its retail franchise encompasses 9.0mn customers and it operates Turkey's third-largest ATM network.

OPERATING ENVIRONMENT/INDUSTRY UPDATE

Turkey had been recovering quite well from its banking crisis of 2000-01, when the world economy began to be thrown into turmoil in 2008 from the sub-prime crisis, the problems and bailouts of AIG and Bear Stearns and the collapse of Lehman Brothers. As is well known, most of the countries of the world experienced a crisis of solvency and a shortage of liquidity.

In 2008 Turkey's overall economic condition was significantly better than had been the case in 2000-01, when the country experienced its own banking crisis.¹ Its current account deficit had begun to shrink relative to GDP, which was growing steadily. Inflation had come under control, and interest rates were on a steady downward trend. The introduction of the New Turkish lira (eliminating 6 zeroes) in 2004 was more the result than the cause of sounder fiscal and monetary policies. In an environment of healthy growth, liquidity had improved and consumer confidence continued to grow. Nevertheless, Turkey did not escape the effects of the events of the past fifteen months, which were manifested in the macroeconomic results as well as in the condition of the banking system and of individual banks.

As a manufacturing and an export-oriented economy, Turkey experienced a rapid deterioration in its real GDP growth, with the figure for 2008 struggling to reach 1% and a year-on-year decline of almost 14% in the first quarter of 2009. Since that time, the trend has been one of gradual improvement, with estimates of the second quarter decline ranging from 7-8%, and forecasts for the rate of contraction for the full year 2009 ranging from 5% to 7%. A return to modest growth (2-3%) is projected for 2010, of course depending upon the fortunes of the country's main customers, especially Germany.

The Turkish current account picture, while heavily influenced by the level of exports, is more significantly driven by the changes in the level of imports. During the boom years of 2002-2006, imports were key ingredients in the rising current account deficit. Despite robust growth in GDP, the

¹ At that time Turkey was a participant in an IMF Standby Arrangement, and its freedom to act was severely limited.

CA deficit/GDP ratio climbed continuously, reaching 6.1% in 2006. However, the strong growth in that deficit for 2006 (45%) was not to be repeated in the subsequent two years, and the ratio calmed down to 5.6% in 2009, with a large share of that attributed to the fourth quarter. As both imports and the GDP decline have continued to moderate, the ratio improved to 4% in Q1 2009, and is expected to be under 2% for the full year.

The banking system also displayed a sounder profile than it had eight years earlier. The 2000 crisis had revealed the need for better bank regulation and supervision, resulting in the creation of the Banking Regulation and Supervisory Agency of Turkey (BRSA). The new agency was staffed by experienced personnel drawn from the Central Bank, the Undersecretariat of the Treasury, and the SDIF (deposit guarantee agency). The four agencies joined in an agreement outlining duties and responsibilities and agreeing to share data collected from the banks and elsewhere in the economy. State banks were recapitalised and assurances were put in place to require the payment of government debts to those banks in a timely manner.

Over the ensuing years, BRSA required banks to adopt a new and more transparent accounting system² and it set up more effective systems of offsite and onsite supervision. Regulations concerning related-party lending (long an Achilles' heel of some Turkish banks), collateral valuation and minimum liquidity ratios were implemented and enforced. Short-term liquidity tools were added, such as a rediscount facility at the Central Bank and, on a more routine basis, the ability to conduct repurchase agreement activity. Since 2000, a thriving market for repo agreements has grown at the Istanbul Stock Exchange, and most Turkish banks avail themselves of this market to deal with short-term liquidity shortages and excesses. Moreover, the Turkish Parliament passed laws supporting the agency, including one which provides for the ability of the Central Bank, at its discretion, to provide liquidity to any solvent bank.

Consequently, when the crisis began, the Turkish Central Bank

- was not hamstrung by IMF-mandated prohibitions about providing liquidity – a contributor to the failure of several banks in early 2001
- had the tools available to provide liquidity to individual banks if needed
- was able to provide liquidity to the banking system as a whole because of the improved condition of the economy

Noteworthy among the effects of the crisis on the Turkish banking system are the steps which did not need to be taken: there was little if any need for the Central Bank to directly infuse liquidity into any bank, and the government did not guarantee the liabilities of Turkish banks (beyond those of retail depositors) because it did not need to.

In general, Turkish banks entered the crisis with strong balance sheets, characterised by modest levels of NPLs (mostly legacy NPLs), full coverage by loan-loss reserves, and an average CAR in the range of 18%. While liquidity had been gradually tightening during the period of economic expansion, banks' liquidity ratios nevertheless remained sound by any reasonable standard. The principal negative characteristic was that their profitability was steadily declining as banks sought to make better use of their liquidity by expanding their balance sheets. Nevertheless, operating profitability was strong and risk expense generally low. Strong balance sheets allow banks to withstand severe downturns, and the Turkish banks in 2008 provided ample demonstration of that truism.

While circumstances did not require drastic action by the monetary and fiscal authorities, appropriate actions were indeed taken. Taxes were reduced and incentives created to keep the economy from sinking too far, and the resultant rise in consumer confidence helped to increase domestic demand, partly filling the gap until foreign demand could be revived. On the monetary front, the Central Bank began to cut interest rates – a freedom it had rarely had before, but which was now necessary given

² All banks prepare their financial statements according to BRSA standards, but most banks issue statements prepared according to IFRS as well.

the declining economy and possible given the continuing fall in the rate of inflation³ and the lack of any inflationary pressures. The overnight lending rate, which stood at 16.75% in November 2008, has been cut continuously, most recently to 6.50% on 19 November 2009.

Notwithstanding these measures, banks began to experience reduced loan demand and deterioration in asset quality, particularly in respect of credit cards, and those banks heavily exposed in that sector suffered more than others. NPL ratios were generally higher in 2008 year-on-year, but the banks' robust earnings pictures allowed the sector to retain full coverage of its NPLs. In the last part of 2008, reduced loan volumes and higher provisions cut into banks' earnings (by 23% for the sector), while the decline in interest rates (and consequent rise in NIMs) had yet to take full effect.

Banks' ability to deal with their NPL positions is hampered by a banking law which requires a bankruptcy judgment in order to write off loans. Moreover, state banks and quasi-state banks are reluctant to write off loans even then, as they may be accused of political favouritism. The result is that a significant portion of Turkish banks' NPLs consists of legacy NPLs. Accordingly, the stated growth in any bank's NPLs on the year actually understates that growth.

In 2009, the profitability scenario was almost completely reversed, the rate of NPL increase grew and NIMs continued to rise. For the sector, bank earnings were up by 32% in the first quarter and 33% in the first half (both figures year-on-year). Moreover, loan volumes have stabilised as clients with facilities in use are reluctant to repay them lest they not be renewed because of a bank's liquidity concerns. In general, banks are not actively seeking to expand their loan business, so that competition-generated declines in spreads have not occurred. On the negative side for those banks more heavily exposed to credit card lending, a Central Bank cap on credit card interest rates⁴ has caused reductions in net interest income on those assets.

In view of 2008's rise in NPLs, BRSA implemented a change in NPL regulations, effective 31 January 2009. That change has to do with the treatment of NPLs which are restructured or rescheduled. The new regulations provide that a loan may be rescheduled three times and each time be returned to performing status under the following conditions:

- On the first rescheduling, the borrower must repay 5% in cash, and the loan can be considered performing after three months of payments as agreed
- On the second rescheduling, the borrower must repay 10% in cash, and the loan can be considered performing after six months of payments as agreed
- On the third and final rescheduling, the borrower must repay 15% in cash, and the loan can be considered performing after twelve months of payments as agreed

The one issue which remains as a key area of examination for most Turkish banks is their historical practice of making foreign-currency loans and funding them with foreign-currency deposits or borrowings, or swapping to defray the risk. Such exposure is now more supervised than in the past, and in general banks keep only very minimal open positions. However, they are still subject to risks on the asset side if, in the case of a severe TRY depreciation, a borrower is unable to repay in full.⁵ Secondly, the bank is exposed on the liability side should foreign exchange funding become scarce. While this risk too is seen as minimal, especially given the way the Turkish Central Bank was able to navigate the current crisis, the area remains one which should be closely examined in the analysis of most Turkish banks.

³ Since 2004 the rate of inflation, as measured by the CPI, had been moving in and out of single digits – itself a phenomenon unfamiliar to most Turks. A spike to over 11% for the first three quarters of 2008 was summarily reversed as the economy slowed, but the rate for 2008 still came in at 10.1%. The rate for the full year 2009 is now forecast to be in the range of a record-low 6% (in May and June 2009 the PPI posted a negative figure).

⁴ The cap was anticipated, but in the event it was lower than expected.

⁵ Turkish law limits who may borrow in foreign currency (not households), but there is no law or regulation limiting a borrower's open foreign currency position.

Despite the current economic conditions, Turkish banks are in generally sound condition and in many cases more so than a year ago, despite higher levels of NPLs. The key elements of the banking system today are:

- Adequately and professionally regulated by BRSA
- Low leverage and low volumes of foreign borrowing
- Customer deposits fund 60% of banks' assets, and loan/deposit ratios are similarly strong
- Sound liquidity further bolstered by high capitalisation ratios, still in the range of 18%
- No toxic investments

RECENT DEVELOPMENTS/FUTURE STRATEGIES

Key events of 2008 and 2009 include:

- managed asset quality deterioration through the global economic crisis by increasing loan-loss coverage
- maintained capital ratios considerably above those required by BRSA
- grew the customer deposit base consistent with loan growth and improved its liquidity profile
- significantly improved NIM and cost structure
- Maintained sound returns on assets and equity

The Bank's budget for 2010-11 contains certain elements which have consistently been incorporated into its long-term strategy. The Bank's mission involves innovation, the valuing of its human capital, and social responsibility. Nearer-term targets include:

- to become one of Turkey's top three banks
- to ensure customer satisfaction
- to develop new products and services
- to grow non-interest income, specifically credit card fee income
- to continually develop and motivate the Bank's personnel.

RISK MANAGEMENT

Risk management is the responsibility of the Board of Directors, which approves all policies, procedures, controls and specific risk parameters. Activities giving rise to certain risks (credit risk, market risk and operational risk) are conducted by the respective operating units (see below); those activities are monitored by the Risk Management Department, which reports directly to the Board. Monitoring of the overall effectiveness of the system is conducted by the Auditing Committee of the Board.

Credit Risk includes risks related to potential losses due to obligors' failure to make timely payments on their obligations, as well as those due to concentration by product, economic sector or geography. The Risk Management Department takes part in the establishment and use of rating and scoring systems and assists in the determination of credit risk policies.

The Group establishes credit limits by borrower as well as by type of concentration, with credits approved based on an evaluation of the obligor and its related group (if any), the obtaining of collateral and/or guarantees, and a periodic review of facilities, which includes analysis of the obligor's financial condition and profitability. In addition, the Group monitors adherence to approved limits, makes determination as to the impairment of loan assets, identifies required provisions, and reports results regularly to the Board.

Market Risk includes liquidity risk, interest rate risk and currency risk. While the Risk Management Group sets policies and procedures, it is the ALCO Committee which sets strategies for their implementation. Reporting to ALCO on a daily basis, the Treasury Department is responsible for implementing the Bank's policies according to approved procedures and within approved limits.

Liquidity Risk On a continuing basis, Treasury is advised of all activities bankwide which would have a significant effect on the Bank's liquidity position. The department uses this information in its management of the Bank's liquidity, which includes operating deposits with the Central Bank, Due From operating accounts with other banks (both domestic and foreign), interbank deposit and placement activity, and the Bank's trading and AFS securities portfolios.

The Treasury's objective is to be certain that on a routine basis, and under certain specified stress conditions, the Bank has the ability to pay its obligations when due, and to do so with minimal (if any) loss from other types of risks. In this process the Treasury is charged with collecting liquidity from the various business departments and subsidiaries, and in turn supplying those units with liquidity as needed.

In addition to its own computations based on certain scenarios involving stressed situations, the Bank is subject, as are all Turkish banks, to prudential regulations of the Bank Regulation and Supervision Agency (BRSA). Treasury is responsible for meeting these regulations as well.

Interest Rate Risk The Bank's portfolios of securities – whether trading, AFS or Held to Maturity – are subject to risks of changes in value. For trading and AFS debt securities, the Bank uses VaR to measure and control this risk, assuming a 10-day holding period and a 99% level of confidence. In order to limit risk while conducting interest rate-related activities on a profitable basis, the Bank employs interest-rate sensitivity analysis, which aims, as far as practicable, to match the Bank's assets with its liabilities for each of several interest-rate repricing periods. The Bank's portfolio of equities is considered to be minimal; however, changes in equity prices are monitored on a regular basis by the Risk Management Department in order to make determinations about liquidation and to maximise profit or minimise loss on those holdings.

Currency Risk The Bank's currency trading limits, established in relation to its equity, are set to be consistent with its policy on currency exposure. In recent years the Bank has maintained, at balance sheet date, minimal amounts of long FX exposure relative to its total assets or to its Tier 1 capital.

Operational Risk is managed by the Auditing Committee, consisting of two members of the Board. The committee deals with, *inter alia*, the risk of loss having to do with such areas as technology, fraud, theft, defalcation, and business interruption. Data relevant to such losses are collected by the Risk Management Department and reported regularly to the Board through its Auditing Committee. The Committee is responsible for monitoring the overall effectiveness of internal controls, the Bank's systems for managing risks, and accounting and reporting systems.

FINANCIAL ANALYSIS

The consolidated financial statements for the financial year ending 31 December 2008 were audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., member firm of the KMPG network of independent firms, in accordance with International Standards on Auditing. They were prepared and presented in accordance with International Financial Reporting Standards (IFRS), and the auditor has expressed an unqualified opinion on the statements.

The consolidated financial statements for the period ended 30 June 2009 were prepared and presented in accordance with Turkish Accounting Standards and regulations as published by the BRSA, and were reviewed by the same auditors in accordance with standards and regulations as published by the BRSA. The auditors therefore did not express an audit opinion, but state that based on the results of their limited review nothing came to their attention which would cause them to believe

that the financial statements and results of the operations of the Bank for the period in question are not presented fairly.

ASSETS

Asset Composition

The composition of the Bank's balance sheet by major categories is shown in Chart 3 to the right. VB's balance sheet is more heavily weighted toward loans than those of its peers⁶ (57.1% at year-end 2008, compared to a peer-group average of 50.3%). Moreover, that share has risen steadily and sharply in the past few years: as recently as 2005 loans accounted for just 37% of the balance sheet. Loan growth has outpaced the growth in both customer deposits and total deposits in each of the past four years. In 2009 the situation eased somewhat as customer deposits grew faster (12.7%) than net loans (4.8%), reducing loans' share of the balance sheet to a figure much nearer that of the peer group – 53.6% – and generally increasing the Bank's liquidity.

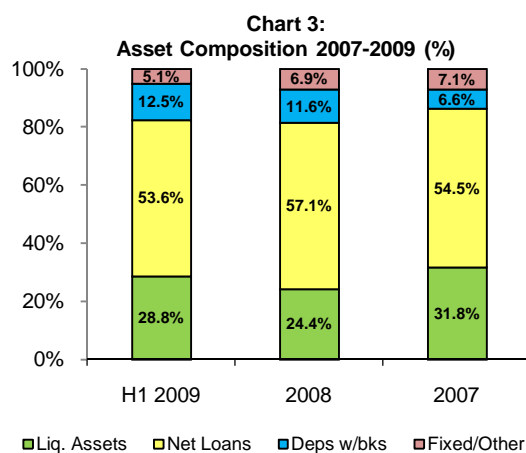


Table 2 - Major changes in the balance sheet (TRYmn) Dec 07- Jun 09

Asset category	Assets +	Assets-	Liab +	Liab -
Liquid assets/deps with bks	3,434			
Net loans	8,493	-		
Interbank liabilities				711
Customer deposits			12,396	
Total capital			1,213	

The key changes in the Bank's balance sheet from the end of 2007 to 30 June 2009 are shown in Table 2 to the left. In general, the Bank experienced an increase in liquidity over the past eighteen months, especially in 2009, and with the increase in net loans being only about two-thirds of the increase in customer deposits, overall liquidity was slightly improved over the period.

Asset Concentration

Vakifbank reports its performing loans by economic sector. and a breakdown of the total is provided in Table 3, below. While "consumer loans" is the largest single category, it represents just 26% of performing loans (and 6.7% of nonperforming loans). Corporate and commercial lending accounts for the remaining 74%. In most sectors the growth rate in 2008 did not deviate far from the 29% recorded for the performing portfolio as a whole.

Table 3 – Economic Sector Risk Concentrations (Performing Loan Portfolio)						
Economic sector	31/12/2008 (TRYmn)	Share of total (%)	31/12/2007 (TRYmn)	Share of total (%)	Increase (TRYmn)	% Growth 08-09
Consumer loans	7,896	25.5	6,012	24.9	1,884	31.3
Manufacturing	6,185	19.9	5,204	21.6	981	18.9
Wholesale/retail trade	3,438	11.1	2,236	9.3	1,203	53.8
Transport & communications	2,092	6.7	2,464	10.2	-373	-15.1
Construction	2,078	6.7	1,586	6.6	493	31.1
Financial Institutions	1,220	3.9	939	3.9	282	30.0
Hotel, food, beverage	858	2.8	384	1.6	474	123.3
Total	31,014	100.00	24,122	100.00	6,893	28.6

Contrary to what might be expected of a predominantly corporate bank, there is very little concentration in the loan book when viewed on an individual borrower basis. At year-end 2008 the 20 largest customers have a combined obligation (including cash and noncash loans) equal to just 21.9%

⁶ .

of total loans. For the ten largest the percentage is 13.4% and for the five largest it is 8.1%. However, that percentage is much smaller if only cash loans are compared to the portfolio of cash loans. Of the top 20 obligors, 18 have cash loans, and the cash loans of those 18 (although they might not be the 18 largest cash loan borrowers) constitute a sound 16.5% of the portfolio.

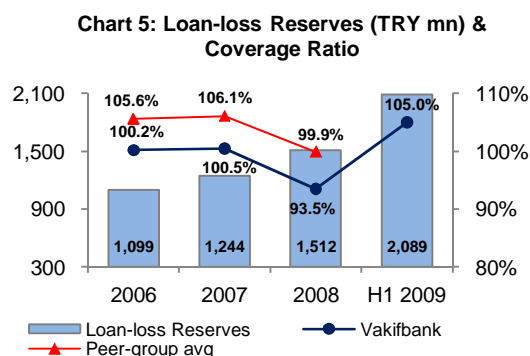
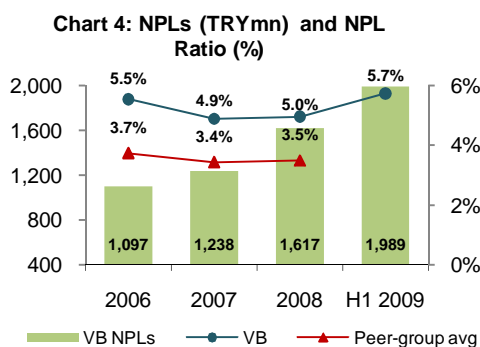
To discourage concentration in any one sector (and thereby helping to reduce concentration to any one borrower), the Bank has internal limits for each economic sector, in addition to approved individual limits for each individual borrower.

Asset Quality

The level of NPLs⁷ has risen substantially in both 2008 and the first half of 2009, jumping from TRY1,238mn at year-end 2007 to TRY1,989mn at 30 June 2009. While that 60.7% increase compares to an estimated 70% rise for the peer group over that period of time, the 60% rate exceeded the rate of growth in Vakibank's gross loan portfolio (36.8%). As a result, the NPL ratio rose from 2007's level of 4.88% – at first imperceptibly to 4.96%, (year-end 2008), which was nevertheless above the averages of both the peer group (3.48%) and the sector (4.75%).⁸ The increase in the NPL ratio was noticeably larger in H1 2009, when it expanded to 5.73% – fourth-highest in the peer group.

Loan-loss provisioning has gradually become more robust as the situation has demanded. From a negative provisioning in 2005 and a small 0.51% of gross loans in 2006, the figure grew to 0.84% in 2008 and mushroomed to 2.48% (annualised) for the first half of 2009. During that time, the Bank's coverage ratio (including portfolio provisions) has hovered right around 100%. While it did dip to 93.5% at the end of 2008, it returned to 105.0% as of 30 June. Those figures are reasonably sound and should also be viewed in the context of collateral and capital.

At year-end 2008, 73% of the cash loan portfolio was collateralised and the ratio was 69% for all loans (cash and non cash). While those aggregate figures do not reveal the extent of collateral to any given loan or especially to any given NPL, they add comfort to the Bank's good coverage. When applying the ratio of the Bank's gross NPLs to the sum of its free capital and loan-loss reserves, VB posts a figure of 23.5%, which is somewhat high (mid-year 2009: 27.4%). In fact it is the fifth-highest in the peer group. This ratio confirms two things: that the NPL ratio is high, and that despite the good coverage, the relationship between the Bank's gross loans and its free capital is weak (see also **Capital Adequacy**, below).



At 31 December 2008, the Bank held an investment portfolio of TRY12.0 billion, virtually all of which was in Turkish government securities. Sixty-nine per cent of that portfolio was held as available for sale and 30% as HTM. Of the remaining TRY146mn, which constitutes the trading portfolio, more than half was in the form of Turkish government securities and the balance consisted of derivatives held for trading. The portfolio is sound, but like many other banks around the world, VB made mark-to-market provisions on its HTM portfolio (TRY9.9mn) as well as on its AFS portfolio (TRY6.6mn) from

⁷ CI's definition of NPLs includes non-performing lease receivables, which in any event are not a significant part of the total.

⁸ The word "sector" used in this report refers to the 32 deposit banks conducting banking business in Turkey. The sector averages referred to are estimates derived from a BRSA report providing full data for the entire banking sector.

“severe and prolonged” declines in fair value. The total amounted to a low 0.5% of its entire investment portfolio.

Related-party Lending/Contingent Accounts

Related-party lending is generally in the range of a very low 1% of total capital.

Contingent accounts (reported differently between IFRS and BRSA) stood at 32.1% of total assets at 30 June 2009 (BRSA). Subtracting derivatives, which BRSA places both on- and off-balance sheet, the figure stands at 26.4% – well below the peer-group average of 36%.

Foreign Exchange Rate Sensitivity

At year-end 2008, 44% of VB’s assets (48% of net loans) and 50% of its liabilities⁹ were denominated in foreign currency, and its net long position stood at TRY193mn, corresponding to 0.4% of total assets or 3.1% of tier 1 capital. About two-thirds of that position was in EUR and almost all the rest in USD. In addition, the bank had a net long position off-balance sheet, which increased the previous figure (and ratios) by about 17%.

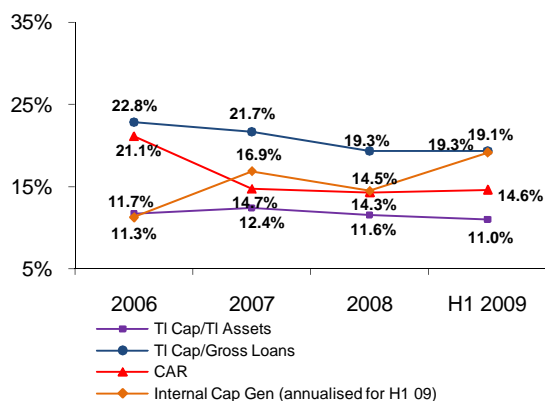
At 30 June 2009 the Bank had a larger long position on-balance sheet than at year-end, and a partially offsetting off-balance sheet position, netting to a slightly (22%) smaller long position compared to 31 December 2008.

CAPITAL ADEQUACY

VB’s capital consists principally of Tier 1 capital. A relatively small Tier 2 balance consists entirely of revaluation reserve, which grew in the first half of 2009 with the rise in the value of the significant AFS portfolio.

For the year 2008, Tier 1 capital (TRY6.3 billion) grew by 17.6%, and the TRY939mn increase was entirely the result of the 2008 net profit.

Chart 6: Capital Ratios



Overall, capital posted a 15% rise in 2008, behind the rates of growth in both total assets (23.3%) and net loans (29.0%), so that most capital ratios weakened as a result. In the first half of 2009, strong net profitability pushed capital up by another TRY399mn (6.3%), and capital ratios stabilised because over that same period gross loans and capital grew at practically the same rate as the balance sheet (11.5%). Chart 6 (to the left) shows the progression of several key capital ratios from 2006 through 30 June 2009.

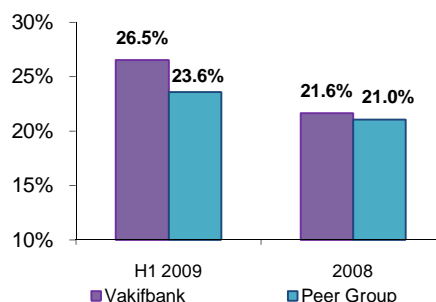
As the chart shows, the Bank’s capital ratios have all slipped slightly in the past eighteen months, although the CAR has been virtually unchanged.

At 14.6% it is strong, even though it is below the average for a very well capitalised banking sector. A further comparison of VB’s relationship to the peer group can be made by looking at the ratio of total capital to gross loans, as displayed in Chart 7, below. As noted previously (see **Asset Quality**, above), total capital is relatively weak, given the level of the Bank’s gross loans.

⁹ Not including capital, but including subordinated debt.

Recognising the challenges of the current environment, the Bank paid only a token dividend in 2008, which helped to keep its capital ratios stable and which also served to minimise the decline in its rate of internal capital generation, to 14.47% in 2008, slightly below the peer-group average. However, the rate rose again in H1, as might be expected in the absence of a dividend, to 19.1%, which was considerably above that of the peer-group average.

Chart 7: Total Capital to Gross Loans (%)



Elements of Basel II requirements have been incorporated into Turkish banking law and regulations, and have been in effect since January 2008. Those elements include several which have negatively impacted the CARs of Turkish banks, including re-weighting Turkish government FX-denominated bonds at 100% (from 0%), market risk, operational risk and off-balance sheet accounts, but the banks do not yet benefit from the reductions provided for the regulatory retail portfolio. Nor is there yet a requirement to measure credit risk based on credit risk ratings. Accordingly, in June 2008 BRSA announced that it was postponing to an uncertain date in the future the full implementation of Basel II. The minimum CAR required of Turkish banks is 8%, but a bank which wishes to add branches to its network is required to have a CAR of 12%.

LIQUIDITY AND FUNDING

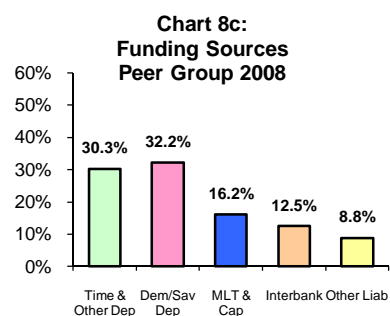
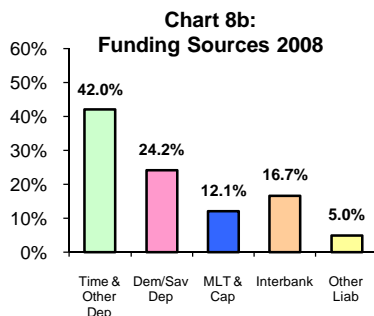
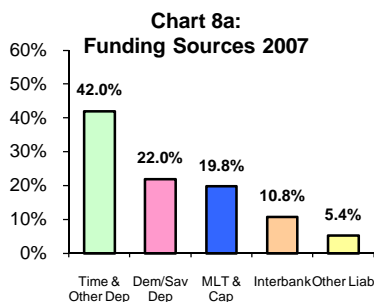
Funding Mix

As a corporate bank, VB makes heavier use of time and other (mostly foreign currency time) deposits than most of its peers. While its efforts at collecting retail demand and savings deposits were very successful in 2008 (with levels increasing by 50% and 27% respectively), those deposits as a share of total funding still fall far below peer-group averages. In fact, with levels remaining basically flat in 2009 and time deposits continuing to grow, their share of funding fell once again in 2009.

The continuing increase in time deposits has meant that customer deposits have been growing at a healthy pace overall, rising 28% in 2008 and 12.7% in the first half of 2009. Boosted by that high level of time deposits, customer deposits accounted for 66.2% of the Bank's year-end balance sheet, compared to 62.5% for the peer group.

Comparing year-end figures, the Bank falls somewhat behind its peers in the share of the balance sheet provided by total capital (see also **Capital Adequacy**, above). In terms of the remaining sources, the Bank uses derivatives to a far lesser extent, so that the headline item of other liabilities is a less important component of sources of funds. However, when all of the previous comparisons are considered, it leaves a gap in the Bank's funding, which is filled by short-term interbank borrowings and repos. For VB that accounted for an increased share of total funding at year-end 2008. In H1 2009 that share went down while the share accounted for by capital increased. However, a comparison to the peer group's mid-year figure is not valid since anecdotal data show that the peer group's share of MLT borrowings and capital also rose on the half-year, by perhaps as much as 400bp.¹⁰

¹⁰ Mid-year peer-group figures are estimates because the data for it are incomplete.



Liquidity Position

Owing especially to the strong level of time deposits, VB posts generally sound loan-based liquidity ratios, with its ratio of net loans to total customer deposits only slightly higher than the peer-group average (86.2% compared to 80.4%). While both figures are slightly high, they are not alarmingly so.

The Bank's greater relative use of the interbank market results in a ratio of net loans to total deposits better than that of the peer group. In fact, at year-end 2008 only three banks posted a ratio lower than VB's 68.9% – Akbank, Türkiye Halk Bankasi and the state-owned deposit-gathering behemoth T.C. Ziraat Bankasi. Removing the interbank liability factor and allowing for the presence of capital and MLT borrowing, VB's ratio rises, while that of the peer group falls. Consequently, VB's ratio of net loans to stable funds comes in at 74.4% (peer group average: 65.6%) and causes the Bank to be ranked about in the middle of the peer group by that measurement.

The more important two of the ratios (net loans to customer deposits and to stable funds) eased in the first half of 2009, as both customer deposits and capital showed good growth, and net loans advanced by only 4.8%. All of these 2008 ratios for VB and for the peer group are shown in the charts below, and for VB the H1 2009 improvement is also illustrated.¹¹

Chart 9a: Loan-based Ratios

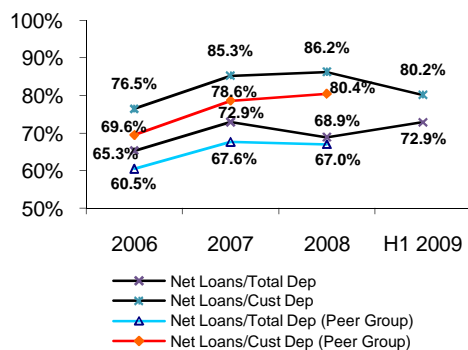
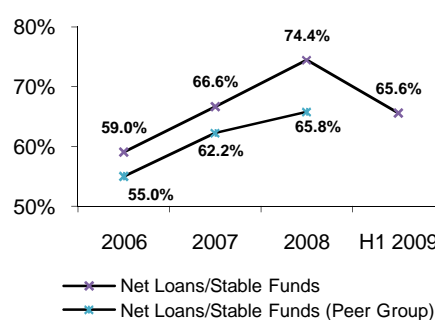


Chart 9b: Loan-based Ratios



The Bank's higher-than-average allocation of assets to the loan portfolio in 2008 has limited the extent of its ability to use other outlets, specifically categories of liquid assets. While interbank placements rose from 6.6% of total assets to 11.6% on the year, liquid assets declined from 32% to 24%, including a decline in the absolute level of Central Bank deposits. Consequently, the Bank's liquid asset ratio, while still very good at 36.0%, was lower than the 42.8% posted by the peer group and the 42.9% for the sector as a whole. Moreover, when interbank liabilities are netted out, the net liquid asset ratio (total liquid assets plus net interbank deposits as a share of total assets) was a marginal 23.2%, compared to the peer group's 34.6%.

¹¹ Peer-group data for mid-year is not included because it is incomplete.

The increased level of capital in H1 2009 had a residual benefit on the bank's liquidity as well, as both liquid assets and bank placements grew both absolutely and in their shares of the balance sheet as of 30 June. Moreover, the reduced reliance on interbank borrowing led to an increase in both the liquid asset ratio (41.3%), and the net liquid asset ratio (37.1%) – both very strong figures.

Table 4: Non-Bank Depositors Share of VB Customer Deposits – 31 December 2008 (%)

20 Largest Depositors	27.1
10 Largest Depositors	19.1
5 Largest Depositors	12.2

VB displays a fair amount of concentration in its nonbank customer deposits, even for a corporate bank. The most significant number is that for the share of those deposits provided by the top five depositors – a very high 12.2% (including the largest single depositor

with 3.2%). The concentration thins somewhat as the number is increased to cover the top 10, but that 19.2% is still somewhat high. Even when the collection is broadened to cover the 20 largest, the resulting 27.1% share is high.

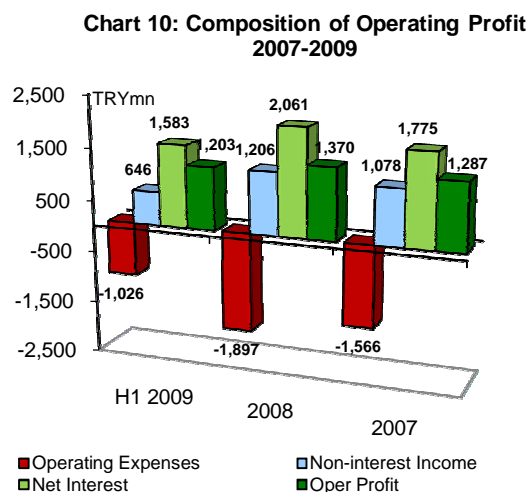
PROFITABILITY

Net Profit Composition

In absolute terms, VB posted a 13.1% decline in net profit for 2008, the result of a greatly moderated growth in operating profit and a more than doubling of loan-loss provisions. The cooling of operating profit growth was caused by significantly higher operating expenses and slower growth in non-interest income (NII). To compound matters, the decline came against a backdrop of a 19% growth in average total assets, so that ROAA plummeted by 68bp from an already below-average 2.53% to 1.85%. However, the fall in the ROAA of the peer group was about the same and on the year the Bank ranked just above the middle of the peer group by this measurement. In H1 2009 many of these elements were repeated, however a stronger net interest provided the boost necessary to improve VB's net profitability and give it an ROAA of 2.18% (annualised) for the first half of the year.

Operating Profit

A summary of the Bank's operating profit is depicted in Chart 12 below.



Like most Turkish banks, VB displays a repricing mis-match between its customer deposits and its loan book, and that has worked to its advantage as TRY interest rates have continued to fall. Net interest has grown steadily in recent years, posting a strong 16.1% increase in 2008. The relationship of net interest to overall profitability and to the balance sheet had remained fairly constant in recent years. In 2006 and 2007 net interest had represented 4.3% of average total assets and had stood at 137% of operating profit. The increase in average total assets was the main cause of net interest growth in 2008 (as the interest differential declined), but because of a sharp rise in operating expenses, net interest now stood at 150% of operating profit.

Historically, the Bank's interest differential has been low compared to that of its peers, but the number fell yet again (by 35bp) in 2008, as a result of the volatility of interest rates in that year and the continued growth in the share of funding provided by more expensive time deposits. For VB, funding cost rose by 9bp, while interest on average earning assets declined by 27bp, ranking the Bank's interest differential as the peer group's third-lowest.

In H1 2009 net interest benefitted greatly from the continual slide in TRY interest rates, so that the figure for the half-year was 77% of that for full-year 2008. Only because of strong improvement in NII and a slight slowing of operating cost growth did net interest fall back to account for a more usual 132% of operating profit.

It had been customary for non-interest income (NII) to account for a share of gross income somewhat higher than that of its peers – 35-37%, compared to a peer-group average of about 31%. In 2008 NII growth slowed considerably (12%; 2007: 23%), despite healthy rises in fees and commissions and in “other income” (mostly insurance premiums). The slower growth can be attributed to a TRY57mn reduction in the net of FX/dealing securities income and a TRY28mn reduction in income from the sale of fixed assets.

In the first part of 2009, NII rebounded somewhat, as rising insurance premiums (TRY199mn for H1 2009 as against TRY180mn for all of 2008) more than offset weaker performances from fees and commissions income and FX/DSI income. While not showing the same strength as net interest for the half year, NII was still 54% of the 2008 total.

Owing to the better performance of net interest in 2008, gross income grew by a still respectable 14.5% (2007: 16.7%). For H1 2009 the pace had definitely picked up as the result of improvements in both net interest and NII, so that the semester’s gross income stood at 68% of that for 2008. In 2008 the Bank posted the second of back-to-back 20% rises in operating expenses; in 2007 gross income growth had exceeded cost growth, but that was not the case in 2008. The principal cause behind the sharp rise was not, as might be expected, salaries and benefits, which rose by just 10.9% on the year. Rather, the large increase (TRY240mn) came in “other expenses.” While most sub-categories of “other expenses” showed mild increases, the bulk of the TRY240mn was to be found in incurred insurance claims (TRY119mn) and credit card promotion expenses (TRY120mn). Consequently, operating profit managed only a 6.4% rise, and in view of the larger asset base, its share of average total assets fell to 2.77% (2007: 3.10%). However, that was still high enough to keep VB in the middle third of the peer group.

In 2009 operating expenses continued to grow, posting a 23% y-o-y rise, with most major increases falling under “other.” Fortunately, gross income growth was robust enough to absorb the increase, and operating profit for the half year stood at 88% of that for 2008, but a lower 2.09% (annualised) of average total assets. When compared to gross income, the cost ratio would appear to have fallen (from 58.1% for 2008 to 46.0% for H1 2009). However, that decline was produced by the unusually large improvement in gross income. That is not likely to continue in 2010, and may not even have continued throughout 2009, so that a better control of costs will be necessary to keep that ratio from making a very rapid rise in the near future.

Provisions

As noted previously (see **Asset Quality**, above), the Bank has done what it needs to do to keep its NPL portfolio fully or almost fully covered. The sharp rise in NPLs in 2008 resulted in an increase in the share of operating profit consumed by the net provisioning charge (2008: 20.1%; 2007: 10.1%). While that step provided good coverage to its NPLs, the Bank was able to protect more of its operating profit than was common across the peer group (which used more than 25% of its operating profit on average). Nevertheless, 2008’s weak operating profitability proved to be too much to overcome, and the ROAA slipped to 1.85%.

In 2009 the roles were reversed, as a stronger operating profitability was required to feed a more substantial need for loan-loss provisions, given the faster growth of NPLs in that year. Operating profitability, in spite of continued cost issues, was able to meet the need and still allow the Bank to post an annualised ROAA of 2.18% (fifth-lowest in the peer group).

OUTLOOK

Vakifbank has continued to manage its asset quality, liquidity and capital reasonably well through the current global economic crisis. It has to this point made all the right decisions, such as continuing to fully provide for its NPLs, slowing the rate of balance sheet growth, and cutting the dividend on its reduced 2008 net profit. There is no reason to believe that the Bank will not continue to make prudent decisions like these in the future.

The outlook for both its profitability and its overall financial condition will depend to some extent on external events. If the growth in NPLs has slowed, and if the economy starts to show a modest recovery, the Bank is reasonably well positioned to take advantage of that. If not, it is also equipped to continue to make loan-loss provisions. The one element which however needs to be further controlled is the rise in operating expenses. If a recovery is slow in coming, the Bank will need its operating profitability to cover possible additional loan-loss provisions, and it can not expect responsibility for growth in that profitability to depend solely on growth in net interest or non-interest income.

TURKIYE VAKIFLAR BANKASI T.A.O. (CONS)

TR40

PERFORMANCE RATIOS					
	External Audit	AUD 12/2008	AUD 12/2007	AUD 12/2006	AUD 12/2005
A . SIZE FACTORS					
1 . Total Assets (USD 000)		35,775,972	37,782,283	27,490,652	25,279,481
2 . Total Capital (USD 000)		4,134,497	4,690,635	3,210,823	3,163,182
B . ASSET QUALITY					
3 . Total Assets Growth Rate (Year on Year %)		23.34	14.20	13.92	27.45
4 . Loan-Loss Reserve to Gross Loans (%)		4.63	4.90	5.55	8.03
5 . Non-Performing Loans to Gross Loans (%)		4.96	4.88	5.54	8.03
6 . Loan-Loss Reserve to Non-Performing Loans (%)		93.47	100.45	100.20	99.99
7 . Unprovided Non-Performing Loans to Free Capital (%)		1.96			0.00
8 . Loan-Loss Provision Charge on Gross Loans (%)		0.84	0.51	-0.07	2.87
9 . Reserve for Dimin. of Investments to Total Investments (%)					
10 . Related Party Loans to Total Capital (%)		1.01	0.28	5.20	
11 . Total Contingents on Total Assets (%)		14.87	13.43	11.97	13.67
C . CAPITAL ADEQUACY					
12 . CI Risk Asset Ratio (%)		11.26	12.67	11.84	11.39
13 . Estimated BIS Risk Asset Ratio (%)		12.91	14.66	13.87	15.96
14 . Estimated BIS RAR on Tier One Capital (%)		12.88	14.28	13.81	14.77
15 . Actual Risk Asset Ratio to Local Standards (%)		14.30	14.74	21.12	25.40
16 . Internal Capital Generation (%)		14.47	16.86	11.28	9.06
17 . Total Capital Growth Rate (Year on Year %)		14.81	21.39	6.34	67.42
18 . Total Capital to Total Assets (%)		11.56	12.41	11.68	12.51
19 . Total Capital to Gross Loans (%)		19.32	21.65	22.84	31.26
20 . Free Capital Funds (TRY mn)		5,399,999	4,640,584	3,773,856	2,640,742
21 . Estimated BIS RAR Shortfall (TRY mn)		0	0	0	0
22 . Risk Weighted Assets on Total Footings (%)		77.94	74.68	75.23	63.22
D . LIQUIDITY					
23 . Net Loans to Total Deposits (%)		68.87	72.91	65.32	49.42
24 . Net Loans to Total Customer Deposits (%)		86.20	85.26	76.45	54.09
25 . Net Loans to Stable Funds (%)		74.41	66.63	59.04	45.45
26 . Customer Deposits to Total Deposits (%)		79.89	85.51	85.44	91.37
27 . Liquid Asset Ratio (%)		36.01	38.41	40.56	49.91
28 . Quasi-Liquid Asset Ratio (%)		36.34	38.87	40.96	50.16
29 . FX Currency Assets to FX Currency Liabilities (%)		101.00	103.20	101.79	101.21
30 . FX Currency Loans to FX Currency Deposits (%)		63.75	62.84	50.62	
31 . Interbank Assets to Interbank Liabilities (%)		69.82	61.02	94.84	165.73
32 . Net Interbank Assets (TRY mn)		-2,743,080	-1,868,434	-215,216	1,436,657
E . PROFITABILITY					
33 . Return on Average Assets (%)		1.85	2.53	2.46	2.46
34 . Return on Average Equity (%)		15.46	20.96	20.42	22.70
35 . Underlying Profits on Average Assets (%)			1.35	1.59	3.81
36 . Underlying Profits on Average Equity (%)			11.16	13.16	35.21
37 . Funding Cost (%)		10.91	10.82	9.67	9.41
38 . Interest on Average Earning Assets (%)		14.51	14.78	14.33	15.17
39 . Interest Differential (%)		3.61	3.96	4.66	5.76
40 . Non-Interest Income to Gross Income (%)		36.91	37.80	35.93	54.69
41 . Operating Expenses to Gross Income (%)		58.06	54.89	53.46	57.62
42 . Operating Profit Growth Rate (%)		6.43	13.09	-17.47	6.46
43 . Operating Profit on Average Assets (%)		2.77	3.10	3.13	4.55
44 . Risk Provisioning Charge to Operating Profit (%)		20.07	10.11	-1.20	28.31
45 . Dividend Payout Ratio (%)		0.20	14.08	43.30	59.02
RATES					
Exchange Rate (Units per USD)		1.5250	1.1708	1.4090	1.3450
Inflation Rate (%)		10.40	8.80	10.50	10.10
Imputed Interest Rate on Free Capital (%) (Treasury Bill Rate)		NA	17.65	18.37	15.49

NOTES:

BALANCE SHEET - ASSETS (TRY mn)

RISK WGHT	External Audit	AUD					Growth (%)				Breakdown (%)			
		12/2008 USD 000	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005
LIQUID ASSETS:														
0%	Cash & 7 Day	290,779	443,438	422,143	412,477	282,613	5.04	2.34	45.95	47.63	0.81	0.95	1.06	0.83
0%	Central Bank	557,700	850,492	1,483,704	296,535	2,038,077	-42.68	400.35	-85.45	29.90	1.56	3.35	0.77	5.99
10%	Treasury Bills	74,456	113,545	5,190	249,877		2,087.76	-97.92			0.21	0.01	0.65	
20%	Government Securities	7,798,304	11,892,414	11,438,389	10,677,436	11,027,444	3.97	7.13	-3.17	13.19	21.80	25.86	27.57	32.43
20%	Revised - Repos	349	532	715,835	120,922		-99.93	491.98			0.00	1.62	0.31	
	TOTAL LIQUID ASSETS	8,721,588	13,300,421	14,065,261	11,757,247	13,348,134	-5.44	19.63	-11.92	16.04	24.38	31.80	30.35	39.26
DEPOSITS WITH BANKS:														
20%	Short - Up to 1 Year	1,069,516	1,631,012	182,407	190,133	2,122,253	794.16	-4.06	-91.04	-3.75	2.99	0.41	0.49	6.24
20%	Short - CD's	23,007	35,085	35,170	42,319		-0.24	-16.89			0.06	0.08	0.11	
100%	Medium Term	3,067,818	4,678,423	2,706,745	3,721,726	1,500,000	72.84	-27.27	148.12	30.37	8.58	6.12	9.61	4.41
	TOTAL DEPOSITS WITH BANKS	4,160,341	6,344,520	2,924,322	3,954,178	3,622,253	116.96	-26.04	9.16	7.95	11.63	6.61	10.21	10.65
100%	MARKETABLE SECURITIES	119,807	182,706	204,385	155,625	83,300	-10.61	31.33	86.82	-51.48	0.33	0.46	0.40	0.24
LOANS AND ADVANCES:														
20%	Government Guaranteed													
50%	First Mortgage Loans													
100%	Bills Disc. & Short Term	19,900,464	30,348,208	23,596,068	18,409,764	7,265,034	28.62	28.17	153.40	1.36	55.63	53.34	47.53	21.37
100%	Medium/Long Term	139,654	212,972	184,126		5,104,964	15.67			203.56	0.39	0.42		15.01
100%	Other - Finance Leases	301,667	460,042	347,414	299,291	147,499	32.42	16.08	102.91	23.54	0.84	0.79	0.77	0.43
100%	Non-Performing Loans	1,060,607	1,617,426	1,238,086	1,097,176	1,092,477	30.64	12.84	0.43	16.57	2.96	2.80	2.83	3.21
100%	Loan-Loss Reserve	-991,311	-1,511,749	-1,243,662	-1,099,376	-1,092,410	21.56	13.12	0.64	16.57	-2.77	-2.81	-2.84	-3.21
	NET LOANS AND ADVANCES	20,411,081	31,126,899	24,122,032	18,706,855	12,517,564	29.04	28.95	49.44	39.57	57.05	54.53	48.30	36.82
100%	UNQUOTED INVESTMENTS	48,546	74,033	42,478	70,534		74.29	-39.78			0.14	0.10	0.18	
100%	NON-FINANCIAL SUBS & AFFILS.													
100%	FINANCIAL SUBS & AFFILIATES					355,077				20.50				1.04
100%	FIXED ASSETS	593,514	905,109	851,212	750,193	1,258,661	6.33	13.47	-40.40	-10.54	1.66	1.92	1.94	3.70
100%	OTHER ASSETS	1,721,094	2,624,669	2,025,807	3,339,697	2,815,913	29.56	-39.34	18.60	188.29	4.81	4.58	8.62	8.28
	TOTAL ASSETS	35,775,972	54,558,357	44,235,497	38,734,329	34,000,902	23.34	14.20	13.92	27.45	100.00	100.00	100.00	100.00
CONTINGENT ACCOUNTS:														
100%	Fin. Gtees/SLCs/Acceptances	4,023,692	6,136,131	4,819,602	3,400,879	3,373,407	27.32	41.72	0.81	12.69	75.63	81.12	73.33	72.56
50%	Bid & Performance Bonds	3,458	5,274	3,468	9,814		52.08	-64.66			0.07	0.06	0.21	
20%	LCs/Bank & Govt Guarantees	1,293,366	1,972,383	1,118,055	1,227,088	1,275,742	76.41	-8.89	-3.81	25.06	24.31	18.82	26.46	27.44
10%	Bonding for Banks & Govts													
5%	IR Swaps/Bank & Govt LCs													
	TOTAL CONTINGENT ACCOUNTS	5,320,517	8,113,788	5,941,125	4,637,781	4,649,149	36.57	28.10	-0.24	15.83	100.00	100.00	100.00	100.00
	TOTAL FOOTINGS	41,096,489	62,672,145	50,176,622	43,372,110	38,650,051	24.90	15.69	12.22	25.93	-	-	-	-
	RISK WEIGHTED ASSETS	32,031,637	48,848,247	37,472,485	32,626,983	24,433,933	30.36	14.85	33.53	33.80	-	-	-	-

BALANCE SHEET - LIABILITIES (TRY mn)

	USD 000	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005	
INTERBANK LIABILITIES:														
	Current & 7 Day	1,197	1,825	1,224	3,129					49.10	-60.88			0.00
	Short - Borrowings & Deposits	4,831,948	7,368,720	2,638,097	2,678,017	2,185,596	179.32	-1.49	22.53	6.26	13.51	5.96	6.91	6.43
	Other - Interbank Funds	1,125,938	1,717,055	2,153,435	1,488,248		-20.26	44.70			3.15	4.87	3.84	
	TOTAL INTERBANK LIABILITIES	5,959,082	9,087,600	4,792,756	4,169,394	2,185,596	89.61	14.95	90.77	6.26	16.66	10.83	10.76	6.43
CUSTOMER DEPOSITS:														
	Demand + Import Deposits	3,492,373	5,325,869	3,539,326	4,338,000	2,282,760	50.48	-18.41	90.03	-32.62	9.76	8.00	11.20	6.71
	Savings	5,156,416	7,863,534	6,182,520	5,258,908	3,670,561	27.19	17.56	43.27	90.90	14.41	13.98	13.58	10.80
	Time	8,075,622	12,315,324	12,857,172	8,809,256	10,549,206	-4.21	45.95	-16.49	51.57	22.57	29.07	22.74	31.03
	Other	6,952,970	10,603,279	5,712,714	6,062,291	6,641,204	85.61	-5.77	-8.72	4.93	19.43	12.91	15.65	19.53
	TOTAL CUSTOMER DEPOSITS	23,677,381	36,108,006	28,291,732	24,468,455	23,143,731	27.63	15.63	5.72	24.43	66.18	63.96	63.17	68.07
OFFICIAL DEPOSITS														
	TOTAL DEPOSITS + INTERBANK	29,636,463	45,195,606	33,084,488	28,637,849	25,329,327	36.61	15.53	13.06	22.62	82.84	74.79	73.93	74.50
	OTHER LIABILITIES	1,794,416	2,736,484	2,387,125	2,128,515	2,660,211	14.64	12.15	-19.99	19.41	5.02	5.40	5.50	7.82
	MEDIUM/LONG TERM LIABILITIES	210,596	321,159	3,272,088	3,443,916	1,756,884	-90.18	-4.99	96.02	40.40	0.59	7.40	8.89	5.17
TIER TWO CAPITAL:														
	Asset Revaluation Reserve	9,819	14,974	141,007	18,613	290,497	-89.38	657.57	-93.59	183.09	0.03	0.32	0.05	0.85
	Hybrid Capital Instruments	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
	Subordinated Term Debt	0	0	0	0	0	-	-	-	-100.00	0.00	0.00	0.00	0.00
	TOTAL TIER TWO CAPITAL	9,819	14,974	141,007	18,613	290,497	-89.38	657.57	-93.59	-10.80	0.03	0.32	0.05	0.85
TIER ONE CAPITAL:														
	Paid Up Capital	2,164,030	3,300,146	3,300,146	3,300,146	2,692,703	0.00	0.00	22.56	50.08	6.05	7.46	8.52	7.92
	Minority Interests	201,039	306,584	269,806	268,336	323,612	13.63	0.55	-17.08	11.41	0.56	0.61	0.69	0.95
	Reserves	1,759,609	2,683,404	1,780,837	936,954	947,668	50.68	90.07	-1.13	623.86	4.92	4.03	2.42	2.79
	TOTAL TIER ONE CAPITAL	4,124,678	6,290,134	5,350,789	4,505,436	3,963,983	17.56	18.76	13.66	78.91	11.53	12.10	11.63	11.66
	TOTAL CAPITAL	4,134,497	6,305,108	5,491,796	4,524,049	4,254,480	14.81	21.39	6.34	67.42	11.56	12.10	11.68	12.51
	TOTAL LIABILITIES AND CAPITAL	35,775,972	54,558,357	44,235,497	38,734,329	34,000,902	23.34	14.20	13.92	27.45	100.00	100.00	100.00	100.00

PROFIT AND LOSS ACCOUNT (TRY mn)

	USD 000	12/2008	12/2007	12/2006	12/2005	Growth (%)				% of Average Total Assets			
	12/2008	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005
Interest Income	4,279,694	6,526,534	5,475,860	4,428,814	3,790,222	19.19	23.64	16.85	15.78	13.21	13.20	12.18	12.49
Interest Expense	-2,928,190	-4,465,490	-3,701,205	-2,861,675	-2,316,029	20.65	29.34	23.56	17.10	-9.04	-8.92	-7.87	-7.63
Net Interest	1,351,504	2,061,044	1,774,655	1,567,139	1,474,193	16.14	13.24	6.30	13.76	4.17	4.28	4.31	4.86
Fees and Commissions	302,521	461,345	350,649	267,296	360,354	31.57	31.18	-25.82	30.20	0.93	0.85	0.73	1.19
Net FX Gains/(Losses)	47,913	73,067	133,586	42,669	48,349	-45.30	213.08	-11.75	-47.41	0.15	0.32	0.12	0.16
Dealing Securities Income	64,161	97,846	94,632	48,387									

RATIO FORMULAE

A. Size Factors	
1. TOTAL ASSETS (USD 000)	
2. TOTAL CAPITAL (USD 000)	
B. Asset Quality Ratios	
3. TOTAL ASSETS GROWTH RATE (YEAR ON YEAR %)	$\frac{(\text{CURRENT YEAR TOTAL ASSETS} - \text{LAST YEAR TOTAL ASSETS}) \times 100}{\text{LAST YEAR TOTAL ASSETS}}$
4. LOAN-LOSS RESERVE TO GROSS LOANS (%)	$\frac{\text{LOAN-LOSS RESERVE} \times 100}{\text{GROSS LOANS}}$
5. NON-PERFORMING LOANS TO GROSS LOANS (%)	$\frac{\text{NON-PERFORMING LOANS} \times 100}{\text{GROSS LOANS}}$
6. LOAN-LOSS RESERVE TO NON-PERFORMING LOANS (%)	$\frac{\text{LOAN-LOSS RESERVE} \times 100}{\text{NON-PERFORMING LOANS}}$
7. UNPROVIDED NON-PERFORMING LOANS TO FREE CAPITAL (%)	$\frac{\text{NON-PERFORMING LOANS} - \text{LOAN LOSS RESERVE} \times 100}{\text{FREE CAPITAL}}$
8. LOAN-LOSS PROVISION CHARGE ON GROSS LOANS (%)	$\frac{\text{PROVISIONS FOR DOUBTFUL DEBTS CHARGE} \times 100}{\text{GROSS LOANS}}$
9. RESERVE FOR DIMINUTION OF INVESTMENTS TO TOTAL INVESTMENTS (%)	$\frac{\text{RESERVE FOR DIMINUTION OF INVESTMENTS} \times 100}{\text{TOTAL INVESTMENTS}}$
10. RELATED PARTY LOANS TO TOTAL CAPITAL (%)	$\frac{\text{RELATED PARTY LOANS} \times 100}{\text{TIER ONE} + \text{TIER TWO CAPITAL}}$
11. TOTAL CONTINGENTS ON TOTAL ASSETS (%)	$\frac{\text{TOTAL CONTINGENTS} \times 100}{\text{TOTAL ASSETS}}$
C. Capital Adequacy Ratios	
12. CI RISK ASSET RATIO (%)	$\frac{\text{FREE CAPITAL FUNDS} \times 100}{\text{RISK WEIGHTED ASSETS} - \text{NON-FINANCIAL SUBS.} - \text{FIXED ASSETS}}$
13. ESTIMATED BIS RISK ASSET RATIO (%)	$\frac{(\text{TOTAL CAPITAL} - \text{FINANCIAL SUBSIDIARIES}) \times 100}{\text{RISK WEIGHTED ASSETS}}$
14. ESTIMATED BIS RAR ON TIER ONE CAPITAL (%)	$\frac{\text{TIER ONE CAPITAL} - \text{FINANCIAL SUBSIDIARIES} \times 100}{\text{RISK WEIGHTED ASSETS}}$
15. ACTUAL RISK ASSET RATIO TO LOCAL STANDARDS (%)	AS REPORTED BY LOCAL CENTRAL OR COMMERCIAL BANKS
16. INTERNAL CAPITAL GENERATION (%)	$\frac{(\text{NET PROFIT} - \text{DIVIDENDS} - \text{EXTRAORDINARY ITEMS}) \times 100}{\text{TIER ONE CAPITAL}}$
17. TOTAL CAPITAL GROWTH RATE (YEAR ON YEAR %)	$\frac{(\text{CURRENT YEAR TOTAL CAPITAL} - \text{LAST YEAR TOTAL CAPITAL}) \times 100}{\text{LAST YEAR TOTAL CAPITAL}}$
18. TOTAL CAPITAL TO TOTAL ASSETS (%)	$\frac{\text{TOTAL CAPITAL} \times 100}{\text{TOTAL ASSETS}}$
19. TOTAL CAPITAL TO GROSS LOANS (%)	$\frac{\text{TOTAL CAPITAL} \times 100}{\text{GROSS LOANS}}$
20. FREE CAPITAL FUNDS (LOCAL CURRENCY)	TOTAL CAPITAL - FINANCIAL & NON FINANCIAL SUBSIDIARIES - FIXED ASSETS
21. ESTIMATED BIS RAR SHORTFALL (LOCAL CURRENCY)	IF BIS RISK ASSET RATIO IS LESS THAN 8% (0.08 X RISK WEIGHTED ASSETS) - (TOTAL CAPITAL - FINANCIAL SUBSIDIARIES)
22. RISK WEIGHTED ASSETS ON TOTAL FOOTINGS (%)	$\frac{\text{RISK WEIGHTED ASSETS} \times 100}{\text{TOTAL FOOTINGS}}$
D. Liquidity Ratios	
23. NET LOANS TO TOTAL DEPOSITS (%)	$\frac{\text{NET LOANS} \times 100}{\text{TOTAL CUSTOMER DEPOSITS} + \text{INTERBANK}}$
24. NET LOANS TO TOTAL CUSTOMER DEPOSITS (%)	$\frac{\text{NET LOANS} \times 100}{\text{TOTAL CUSTOMER DEPOSITS}}$
25. NET LOANS TO STABLE FUNDS (%)	$\frac{\text{NET LOANS} \times 100}{\text{STABLE FUNDS}}$
26. CUSTOMER DEPOSITS TO TOTAL DEPOSITS (%)	$\frac{\text{TOTAL CUSTOMER DEPOSITS} \times 100}{\text{TOTAL DEPOSITS} + \text{INTERBANK}}$
27. LIQUID ASSET RATIO (%)	$\frac{(\text{TOTAL LIQUID ASSETS} + \text{TOTAL DEPOSITS WITH BANKS}) \times 100}{\text{TOTAL ASSETS}}$
28. QUASI-LIQUID ASSET RATIO (%)	$\frac{\text{QUASI-LIQUID ASSETS} \times 100}{\text{TOTAL ASSETS}}$
29. FOREIGN CURRENCY ASSETS TO FOREIGN CURRENCY LIABILITIES (%)	$\frac{\text{FOREIGN CURRENCY ASSETS} \times 100}{\text{FOREIGN CURRENCY LIABILITIES}}$
30. FOREIGN CURRENCY LOANS TO FOREIGN CURRENCY DEPOSITS (%)	$\frac{\text{FOREIGN CURRENCY LOANS} \times 100}{\text{FOREIGN CURRENCY BORROWINGS} + \text{FOREIGN CURRENCY DEPOSITS}}$
31. INTERBANK ASSETS TO INTERBANK LIABILITIES (%)	$\frac{\text{TOTAL DEPOSITS WITH BANKS} \times 100}{\text{TOTAL INTERBANK LIABILITIES}}$
32. NET INTERBANK ASSETS (LOCAL CURRENCY)	TOTAL DEPOSITS WITH BANKS - TOTAL INTERBANK LIABILITIES

E. Profitability Ratios

33. RETURN ON AVERAGE ASSETS (%)	$\frac{\text{NET PROFIT (or LOSS)} \times 100}{\text{AVERAGE TOTAL ASSETS}}$
34. RETURN ON AVERAGE EQUITY (%)	$\frac{\text{NET PROFIT (or LOSS)} \times 100}{\text{AVERAGE TIER ONE CAPITAL} + \text{AVERAGE REVALUATION RESERVE}}$
35. UNDERLYING PROFITS ON AVERAGE ASSETS (%)	$\frac{(\text{OPERATING PROFIT} - \text{INTEREST ON AVERAGE FREE CAPITAL}) \times 100}{\text{AVERAGE TOTAL ASSETS}}$
36. UNDERLYING PROFITS ON AVERAGE EQUITY (%)	$\frac{(\text{OPERATING PROFIT} - \text{INTEREST ON AVERAGE FREE CAPITAL}) \times 100}{\text{AVERAGE TIER ONE CAPITAL} + \text{AVERAGE REVALUATION RESERVE}}$
37. FUNDING COST (%)	$\frac{\text{INTEREST EXPENSE} \times 100}{\text{AVERAGE TOTAL DEPOSITS \& INTERBANK} + \text{AVERAGE MEDIUM/LONG TERM LIABILITIES} + \text{AVERAGE HYBRID CAPITAL INSTRUMENTS} + \text{AVERAGE SUBORDINATED TERM DEBT}}$
38. INTEREST ON AVERAGE EARNING ASSETS (%)	$\frac{\text{INTEREST INCOME} \times 100}{\text{AVERAGE CASH \& 7 DAY} + \text{AVERAGE T-BILLS} + \text{AVERAGE GOVERNMENT SECURITIES} + \text{AVERAGE OTHER LIQUID ASSETS} + \text{AVERAGE TOTAL DEPOSITS WITH BANKS} + \text{AVERAGE MARKETABLE SECURITIES} + \text{AVERAGE NET LOANS}}$
39. INTEREST DIFFERENTIAL (%)	INTEREST ON AVERAGE EARNING ASSETS (%) - FUNDING COST (%)
40. NON-INTEREST INCOME TO GROSS INCOME (%)	$\frac{(\text{GROSS INCOME} - \text{NET INTEREST}) \times 100}{\text{GROSS INCOME}}$
41. OPERATING EXPENSES TO GROSS INCOME (%)	$\frac{\text{OPERATING EXPENSES} \times 100}{\text{GROSS INCOME}}$
42. OPERATING PROFIT GROWTH RATE (YEAR ON YEAR %)	$\frac{(\text{CURRENT YEAR OPERATING PROFIT} - \text{LAST YEAR OPERATING PROFIT}) \times 100}{\text{LAST YEAR OPERATING PROFIT}}$
43. OPERATING PROFIT ON AVERAGE ASSETS (%)	$\frac{\text{OPERATING PROFIT} \times 100}{\text{AVERAGE TOTAL ASSETS}}$
44. RISK PROVISIONING CHARGE TO OPERATING PROFIT (%)	$\frac{\text{PROV. CHARGE FOR DOUBTFUL DEBTS \& DIM. OF INVESTMENTS} \times 100}{\text{OPERATING PROFIT}}$
45. DIVIDEND PAYOUT RATIO (%)	$\frac{\text{DIVIDENDS} \times 100}{\text{NET PROFIT (or LOSS)}}$

Definitions

FREE CAPITAL:-	FREE CAPITAL FUNDS - TIER TWO CAPITAL
STABLE FUNDS:-	TOTAL CUSTOMER DEPOSITS + OFFICIAL DEPOSITS + MEDIUM/LONG TERM LIABILITIES + FREE CAPITAL FUNDS.
QUASI LIQUID ASSETS:-	TOTAL LIQUID ASSETS + TOTAL DEPOSITS WITH BANKS + MARKETABLE SECURITIES.
TOTAL INVESTMENTS:-	MARKETABLE SECURITIES + UNQUOTED INVESTMENTS + NON-FINANCIAL SUBSIDIARIES & AFFILIATES + FINANCIAL SUBSIDIARIES & AFFILIATES.
RISK WEIGHTED ASSETS:-	WEIGHTED TOTAL OF ASSETS APPLYING THE FOLLOWING PERCENTAGES:- 100% Non-OECD medium term deposits, marketable securities, bills discounted & short term loans, medium/long term loans, other loans, non-performing loans, loan-loss provisions, unquoted investments, non-financial subsidiaries & affiliates, fixed assets, other assets, financial guarantees / standby LCs / acceptances. 50% First mortgage loans, bid & performance bonds. 20% Government securities, other liquid assets, up to 1 year deposits with banks, short/other deposits with banks, government guaranteed / collateralised loans, LCs / bank & government guarantees. 10% T-Bills, bonding for banks & governments. 5% Interest rate swaps/bank & government LCs.
GROSS LOANS:-	GOVERNMENT GUARANTEED, FIRST MORTGAGE LOANS, BILLS DISC. & SHORT TERM, MEDIUM/LONG TERM LOANS, OTHER LOANS, NON-PERFORMING LOANS.
EQUITY:-	TIER ONE CAPITAL + ASSET REVALUATION RESERVE

RATINGS DEFINITIONS

Foreign and Local Currency Ratings

Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.

Local currency ratings for non-sovereign issuers are an opinion of an entity's ability and willingness to meet all of its financial obligations on a timely basis, regardless of the currency in which those obligations are denominated and absent transfer and convertibility restrictions. Both foreign currency and local currency ratings are internationally comparable assessments.

Foreign and local currency ratings take into account the economic, financial and country risks that may affect creditworthiness as well as the likelihood that an entity would receive external support in the event of financial difficulties.

Ratings assigned to banks and corporates are generally not higher than the local and foreign currency ratings assigned by CI to the relevant sovereign government. However, it may be possible for an issuer with particular strengths and attributes such as inherent financial strength, geographically diversified cash flow, substantial foreign assets, and guaranteed external support, to be rated above the sovereign.

The following rating scale applies to both foreign currency and local currency ratings. Short-term ratings assess the time period up to one year.

Long-Term Issuer Ratings

Investment Grade

AAA The highest credit quality. Exceptional capacity for timely fulfilment of financial obligations and most unlikely to be affected by any foreseeable adversity. Extremely strong financial condition and very positive non-financial factors.

AA Very high credit quality. Very strong capacity for timely fulfilment of financial obligations. Unlikely to have repayment problems over the long term and unquestioned over the short and medium terms. Adverse changes in business, economic and financial conditions are unlikely to affect the institution significantly.

A High credit quality. Strong capacity for timely fulfilment of financial obligations. Possesses many favourable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions.

BBB Good credit quality. Satisfactory capacity for timely fulfilment of financial obligations. Acceptable credit characteristics but some vulnerability to adverse changes in business, economic and financial conditions. Medium grade credit characteristics and the lowest investment grade category.

Speculative Grade

BB Speculative credit quality. Capacity for timely fulfilment of financial obligations is vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors do not provide significant safeguard and the possibility of investment risk may develop.

- B Significant credit risk. Capacity for timely fulfilment of financial obligations is very vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors provide weak protection; high probability for investment risk exists.
- C Substantial credit risk is apparent and the likelihood of default is high. Considerable uncertainty as to the timely repayment of financial obligations. Credit is of poor standing with financial and/or non-financial factors providing little protection.
- RS Regulatory supervision. The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.
- SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.
- D The obligor has defaulted on all, or nearly all, of its financial obligations.

Short-Term Issuer Ratings

Investment Grade

- A1 Superior credit quality. Highest capacity for timely repayment of short-term financial obligations that is extremely unlikely to be affected by unexpected adversities. Institutions with a particularly strong credit profile have a "+" affixed to the rating.
- A2 Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.
- A3 Strong capacity for timely repayment that may be affected by unexpected adversities.

Speculative Grade

- B Adequate capacity for timely repayment that could be seriously affected by unexpected adversities.
- C Inadequate capacity for timely repayment if unexpected adversities are encountered in the short term.
- RS Regulatory supervision. The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.
- SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.
- D The obligor has defaulted on all, or nearly all, of its financial obligations.

Capital Intelligence appends "+" and "-" signs to foreign and local currency **long term** ratings in the categories from "AA" to "C" to indicate that the strength of a particular bank is, respectively, slightly greater or less than that of similarly rated peers.

Outlook - expectations of improvement, no change or deterioration in a rating over the 12 months following its publication are denoted Positive, Stable or Negative.

Qualified - in cases where data and/or co-operation are such that it is not possible to formulate ratings to CI's high standards of robustness and reliability the letter "q" is appended to the ratings.

Financial Strength Ratings

CI's financial strength ratings provide an opinion of a bank's inherent financial strength, soundness and risk profile. These ratings do not address sovereign risk factors, including transfer risk, which may affect an institution's capacity to honour its financial obligations, be they local or foreign currency. Financial strength ratings also exclude support factors, which are addressed by foreign and local currency ratings, as well as CI's support ratings. However, financial strength ratings do take into account the bank's operating environment including the economy, the structure, strength and stability of the financial system, the legal system, and the quality of banking regulation and supervision. Financial strength ratings do not assess the likelihood that specific obligations will be repaid in a timely manner.

The following rating scale applies to the financial strength rating.

- AAA Financially in extremely strong condition with positive financial trends; significant strengths in other non-financial areas. Operating environment likely to be highly attractive and stable.
- AA Financially in very strong condition and significant strengths in other non-financial areas. Operating environment likely to be very attractive and stable.
- A Strong financial fundamentals and very favourable non-financial considerations. Operating environment may be unstable but institution's market position and/or financial strength more than compensate.
- BBB Basically sound overall; slight weaknesses in financial or other factors could be remedied fairly easily. May be limited by unstable operating environment.
- BB One or two significant weaknesses in the bank's financial makeup could cause problems. May be characterised by a limited franchise; other factors may not be sufficient to avoid a need for some degree of temporary external support in cases of extraordinary adversity. Unstable operating environment likely.
- B Fundamental weaknesses are present in the bank's financial condition or trends, and other factors are unlikely to provide strong protection from unexpected adversities; in such an event, the need for external support is likely. Bank may be constrained by weak market position and/or volatile operating environment.
- C In a very weak financial condition, either with immediate problems or with limited capacity to withstand adversities. May be operating in a highly volatile operating environment.
- D Extremely weak financial condition and may be in an untenable position.

Capital Intelligence appends "+" and "-" signs to financial strength ratings in the categories from "AA" to "C" to indicate that the strength of a particular institution is, respectively, slightly greater or less than that of similarly rated peers.

Outlook - expectations of improvement, no change or deterioration in a rating over the 12 months following its publication are denoted Positive, Stable or Negative.

Qualified - in cases where data and/or co-operation are such that it is not possible to formulate ratings to CI's high standards of robustness and reliability the letter "q" is appended to the ratings.

Support Ratings

CI's support ratings assess the likelihood that, in the event of difficulties, a bank would receive sufficient financial assistance from the government or private owners to enable it to continue meeting its financial obligations in a timely manner. Support ratings complement CI's financial strength ratings which, in effect, indicate the likelihood that a bank will fail due to inherent financial weaknesses and/or an unstable operating environment and therefore may require external support to avoid defaulting on its obligations. Neither financial strength ratings or support ratings take account of transfer and convertibility risks associated with sovereign events. The overall creditworthiness of an institution and default risk is captured by CI's foreign currency ratings. Foreign currency ratings take into account all factors affecting the likelihood of repayment including inherent financial strength, external support, the operating environment, and sovereign-related risks.

Although subjective, support ratings are based on a thorough assessment of a bank's ownership, market position and importance within the sector and economy, as well as the country's regulatory and supervisory framework and the credit standing of potential supporters.

The following rating scale applies to support ratings.

1. The likelihood of a bank receiving support in the event of difficulties is extremely high. The characteristics of a bank with this support rating may include strong government ownership and/or clear legal guarantees on the part of the state. The bank may also be of such importance to the national economy that state intervention is virtually assured. The ability and willingness of potential supporters to provide sufficient and timely support is extremely strong.
2. The likelihood of support is very high. The ability and willingness of potential supporters to provide sufficient and timely support is very strong.
3. The likelihood of support is high. The ability and willingness of potential supporters to provide sufficient and timely support is strong.
4. The likelihood of support is moderate. There is some uncertainty about the ability and willingness of potential supporters to provide sufficient and timely assistance.
5. The likelihood of support is low. There is considerable uncertainty about the ability and willingness of potential supporters to provide sufficient and timely assistance.