



Rating Action: **Turkiye Is Bankasi AS**

Moody's concludes review of Turkish banks

Frankfurt, November 09, 2009 -- Moody's Investors Service has downgraded the long-term local currency debt and deposit ratings of 10 Turkish banks, while upgrading the stand-alone ratings of four institutions. The changes to the stand-alone ratings reflect the fact that Turkey's banks have proved relatively resilient thus far to the strains of the global recession and the resultant national economic downturn. The changes to the long-term debt and deposit ratings reflect the role of systemic support in these ratings.

The rating agency continues to believe that the Turkish government has a strong willingness and ability to support its banks, if needed. However, the changes are part of Moody's global reassessment of systemic support, which brings the measure of such support closer in line with Turkey's own debt rating of Ba3.

As part of today's rating actions, Moody's also downgraded the short-term local currency deposit ratings of two banks, and confirmed the short-term local currency deposit ratings of two others. Also confirmed is the long-term local currency rating of the one remaining bank that constituted the 11 originally placed under review by Moody's on 3 August 2009.

Moody's also downgraded the national scale long-term ratings of three banks and confirmed the national scale short-term rating of one bank.

A detailed list of ratings affected, as well as brief discussions of the actions on the individual banks, follows below.

UPGRADE OF STAND-ALONE RATINGS REFLECTS RESILIENCE DURING DOWNTURN

The upgrades of four of the Turkish banks' stand-alone ratings reflect the entities' strengthening financial fundamentals and earnings resilience in the midst of the global recession, which has plunged the local economy into a steep downturn over the past year.

Moody's has upgraded the bank financial strength ratings (BFSRs) of **Turkiye Is Bankasi** to C- from D+ and of **Anadolubank** to D+ from D. BFSRs measure a bank's intrinsic financial strength, without benefit given for the potential of outside support. They are expressed on a scale from A to E.

The rating agency also raised the Baseline Credit Assessments (BCAs) of two other banks, **T.C. Ziraat Bankasi** (to Baa3 from Ba1) and **Turkiye Vakiflar Bankasi** (to Baa3 from Ba1). BCAs are derived from BFSRs, but are converted to Moody's traditional Aaa to C rating scale, which is more detailed. As such, a BFSR may be equivalent to more than one BCA. In these two cases, the gradual strengthening in the intrinsic financial strength of the two institutions did not warrant an upgrade in the BFSR, but did allow a conversion to a higher BCA.

DOWNGRADES OF LOCAL CURRENCY RATINGS DRIVEN BY REVISED SYSTEMIC SUPPORT ASSESSMENT

The downgrades of the local currency debt and deposit ratings are driven by Moody's revision of its approach to systemic support. They do not reflect any deterioration in the intrinsic strength or operating performance of the affected entities. The changes implied by the revisions are being implemented globally, affecting 50 banking systems, including Turkey.

Moody's explains this new assessment of systemic support in detail in the Special Comments "Financial Crisis More Closely Aligns Bank Credit Risk and Government Ratings in Non-Aaa Countries", published in May 2009, and "Turkish Bank Rating Actions Driven by Global Review of Systemic Support", published in August 2009.

Moody's continues to believe that most governments are likely to support their nations' banks to avoid a crisis in the local payments system. The probability of such support is an important part of Moody's credit analysis and it provides an uplift to the debt and deposit ratings from a bank's standalone level of strength. However, the rating agency also believes that the capacity of a country and its central bank to support its financial sector during a prolonged systemic crisis is now more closely aligned with the government's own creditworthiness.

Moody's new systemic support indicator for Turkey is at Ba1, which is two notches above the government's Ba3 local currency bond rating. The two-notch difference between the systemic support indicator and the government's rating reflects Moody's assessment of the Turkish government's strong ability and willingness

to support the banking system, its broad array of financial and non-financial tools and the system's intrinsic strength, demonstrated during the ongoing crisis and past global downturns.

This view is underpinned by the following:

(i) There is strong political and historical evidence in favour of characterising Turkey as a "highly supportive" banking system. The Turkish government has a track record of bailing out depositors and other creditors during the 2000-01 banking crisis and the system benefits from a high deposit insurance scheme, of up to YTL50,000 (US\$38,700) per account;

(ii) Swift actions during the recent global crisis have been indicative of the continued high priority the government places on the health and stability of the financial system. The authorities aggressively cut policy interest rates in line with inflation expectations, while providing liquidity support to meet the needs of all financial institutions;

(iii) Banking institutions are primarily core-funded in local currency, a profile that has helped the system to manage the ongoing global financial crisis, despite the riskier global environment and some pressure on credit fundamentals as a result of the contraction in growth. Notwithstanding the marked slowdown in loan origination and transaction volumes, the system has been supported by low interest rates, high capital levels (18% average system BIS ratio in 2008), profitability and strong loan loss reserves; and

(iv) The relatively modest size of the Turkish banking system, with an assets-to-GDP ratio of 77% and a loans-to-GDP ratio of 39% at the end of 2008, suggests that the risk of the crystallisation of banking losses on the government's balance sheet is only moderate.

Moody's also expects only modest loan growth in Turkey. Similarly, Moody's anticipates only a moderate deterioration in banks' asset quality, because of the relatively low level of indebtedness of Turkish households and corporations. This should be well within the banks provisioning ability. Moreover, the Turkish banking system is well capitalised, with relatively low loan-to-deposit and leverage ratios, as well as a small total foreign exchange-denominated loan book. The system's short-term financing requirements are also fairly limited at present.

LIST OF RATING ACTIONS

The following rating actions were taken:

(i) Akbank TAS's long-term local currency deposit rating was downgraded to Baa1, with a stable outlook, from A3, within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its other ratings were unaffected.

Moody's assesses the probability of systemic support as very high, but this does not result in any rating uplift for the local currency deposit rating from the Baa1 BCA

(ii) Anadolubank AS's BFSR was upgraded to D+ from D, which maps to a Ba1 BCA. The bank's Ba1 long-term local currency deposit rating was confirmed. The ratings carry a stable outlook. Its other ratings were unaffected.

The upgrade of the bank's BFSR to D+ is driven by the bank's satisfactory overall financial fundamentals, underscored by its good earning power, adequate liquidity profile, good asset quality and efficiency ratios, as well as its relatively limited exposure, both on- and off-balance sheet, to its controlling shareholder and related companies. It also incorporates Anadolubank's comfortable equity capital after the capital injection by its owners, against the sizeable risks and occasional volatility inherent in the market. The bank's asset quality remains one of the best in the system and it has performed well during the ongoing economic contraction. The bank's strong capitalisation provides adequate loss absorption capacity in light of Moody's stress tests on its earnings, risk assets and capital.

Moody's assesses the probability of systemic support as moderate, but this does not result in any rating uplift for the local currency deposit rating from the Ba1 BCA.

(iii) Asya Katilim Bankasi AS's long-term local currency deposit rating was downgraded to Ba2 with a stable outlook from Ba1. The national scale rating was downgraded to A3.tr from A1.tr and the short-term rating confirmed at TR-1. The rating actions were taken within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its other ratings were unaffected.

Moody's assesses the probability of systemic support as moderate, which does not result in any uplift for the local currency deposit rating from the Ba2 BCA.

(iv) Denizbank AS's long-term local currency deposit rating was downgraded to Baa2 with a stable outlook from Baa1, within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its other ratings were unaffected.

Moody's assesses the probability of systemic support as moderate and the probability of support from the

parent group Dexia (Dexia Crédit Local, D+/Ba1/A1 negative outlook) as high. However, this support assessment does not result in an uplift for the local currency deposit rating from the Baa2 BCA.

(v) T.C. Ziraat Bankasi's local currency deposit ratings were downgraded to Baa3/Prime-3 with a stable outlook from Baa1/Prime-2, within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its other ratings were unaffected. Meanwhile, its BCA was raised to Baa3 with a stable outlook from Ba1.

Ziraat's BCA was raised to Baa3 to reflect the bank's ample capital and the good earnings that provide an adequate loss absorption capacity in light of Moody's stress tests on its earnings, risk assets and capital. Furthermore, the bank's asset quality position continues to be one of the best in the system. The likely increase in provisioning requirements as its asset quality deteriorates is well within its provisioning capacity.

According to Moody's, these metrics, together with the bank's comfortable funding franchise (it possesses the largest retail deposit base in the country with an 18% market share), continuing modernisation and improvements in its internal process and risk management practices position it higher up within the D+ BFSR category, thus mapping to a Baa3 BCA.

The probability of systemic support is assessed as extremely high however the new systemic support does not result in any additional rating uplift in the local currency deposit rating from the bank's Baa3 Baseline Credit Assessment.

(vi) Turk Ekonomi Bankasi AS's long-term local currency deposit rating was downgraded to Baa2 with a stable outlook from Baa1, within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its other ratings were unaffected.

Moody's assesses the probability of support from BNP Paribas (B/Aa1/on review for downgrade), which is one of the bank's controlling shareholders, as high, resulting in a one-notch uplift for the local currency deposit rating from the bank's Baa3 BCA. Moody's also assesses the probability of systemic support from the local authorities as high, but this does not result in any additional rating uplift beyond that provided by the foreign parent.

(vii) Turkiye Garanti Bankasi AS's long-term local currency deposit rating was downgraded to Baa1 with a stable outlook from A3 and its long-term national scale rating was downgraded to Aa1.tr from Aaa.tr, within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its other ratings were unaffected.

Moody's assesses the probability of systemic support as very high and the probability of support from GE Capital Corporation (a 20.85% shareholder in the bank and in joint control with the Dogus group, which owns 30.52%) as low. The support assessment does not result in the local currency deposit ratings receiving any uplift from the bank's Baa1 BCA.

(viii) Turkiye Is Bankasi AS's BFSR was upgraded to C- from D+ (resulting in the BCA being raised to Baa2 from Baa3). The bank's long-term local currency deposit rating was downgraded to Baa2 with a stable outlook from A3, within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its Prime-2 short-term local currency deposit rating was confirmed and its other ratings were unaffected. (This rating action is also discussed in a separate press release, published today.)

(ix) Turkiye Sinai Kalkinma Bankasi AS's long-term local currency deposit rating was downgraded to Baa2 with a stable outlook from Baa1, within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its Prime-2 short-term local currency deposit rating was confirmed and its other ratings were unaffected.

Moody's assesses the probabilities of systemic and major shareholder support (from Turkiye Is Bankasi) for Turkiye Sinai Kalkinma Bankasi as very high, resulting in a one-notch rating uplift for the long-term local currency deposit rating from the bank's Baa3 BCA. According to Moody's Joint Default Analysis, the probability of systemic support for banks with a controlling shareholder in the same country is incorporated into the rating through the parent's local currency deposit rating, which in this case is Turkiye Is Bankasi's newly upgraded Baa2 local currency deposit rating.

(x) Turkiye Vakiflar Bankasi AS's local currency deposit ratings were downgraded to Baa3/Prime-3 with a stable outlook from Baa1/Prime-2, within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its other ratings were unaffected. Meanwhile, its BCA was raised to Baa3 from Ba1 within the D+ BFSR category.

Vakifbank's BCA was raised to Baa3 to reflect the resilience of its earnings and capital base to the severe economic downturn in Turkey. The bank has generated good earnings throughout 2009, which more than cover its increasing provisioning requirements as its asset quality deteriorates. Taken together with the bank's ample capital, its strong earnings provide it with adequate loss absorption capacity in light of Moody's stress tests on its earnings, risk assets and capital.

Vakifbank's NPL ratio is higher than the banking system's average level mainly because approximately 1.9% of legacy NPLs on its balance sheet have not been written off. The bank reported 5.47% NPLs at the end of

H1 2009, up from 4.57% reported at the end of 2008, versus the sector averages of 4.85% and 3.64% respectively. As shown by the narrowing gap between Vakifbank's and the sector's NPLs, the rate of deterioration of the bank's asset quality is lower than that of the sector.

Furthermore, the bank has a strong franchise with extensive nationwide reach and a strong presence in key growth segments. It has maintained its market share in line with the growth of the Turkish banking system in recent years, showing the strength of its franchise and business model. The strong presence of the bank in the salary accounts market should continue to support the performance of the loan portfolio during the projected slow economic recovery in Turkey.

Moody's assesses the probability of systemic support for Vakifbank as very high however this does not result in any uplift for the local currency deposit rating from the bank's Baa3 BCA.

(xi) Yapi Kredi Bankasi AS's (YKB) long-term local currency deposit rating was downgraded to Baa1 with a stable outlook from A3, and its long-term national scale rating was downgraded to Aa2.tr from Aaa.tr, within the context of Moody's global review of the systemic support available to banks in non-Aaa systems. Its other ratings were unaffected.

YKB's Baa1 long-term local currency deposit rating receives a two-notch uplift from its Baa3 BCA, based on a very high probability of support from one of its controlling shareholders, UniCredito Italiano SpA (rated C/A3/Aa3 stable outlook). Moody's also assesses the probability of systemic support from the local authorities as very high, but this does not result in any additional rating uplift beyond that provided by the foreign parent.

PREVIOUS RATING ACTIONS AND PRINCIPAL METHODOLOGIES

The last rating action on Akbank TAS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on Anadolubank AS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on Asya Katilim Bankasi AS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on Denizbank AS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on T.C. Ziraat Bankasi was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on Turk Ekonomi Bankasi AS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on Turkiye Garanti Bankasi AS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on Turkiye Is Bankasi AS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on Turkiye Sinai Kalkinma Bankasi AS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on Turkiye Vakiflar Bankasi AS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The last rating action on Yapi ve Kredi Bankasi AS was on 24 September 2009 when the outlook on its B1 long-term foreign currency deposit rating was changed to positive from stable.

The principal methodologies used in rating the Turkish banks are the "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating the Turkish banking system can also be found in the Rating Methodologies sub-directory on Moody's website., including the Special Comments "Financial Crises More Closely Aligns Bank Credit Risk and Government Ratings in Non-Aaa Countries", published in May 2009, and "Turkish Bank Rating Actions Driven by Global Review of Systemic Support", published in August 2009.

T.C Ziraat Bankasi, and Turkiye Vakiflar Bankasi AS are headquartered in Ankara, Turkey. All the other banks are headquartered in Istanbul, Turkey.

Moody's concludes review of Turkish banks

Akbank TAS had total assets of TRY92.7 billion (US\$61.0 billion) under IFRS at the end of December 2008.

Anadolubank AS had total assets of TRY3.8 billion (US\$2.5 billion) under IFRS at the end of December 2008.

Asya Katilim Bankasi AS had total assets of TRY8.1 billion (US\$5.3 billion) under IFRS at the end of December 2008.

Denizbank AS had total assets of TRY24.2 billion (US\$15.9 billion) under BRSA at the end of December 2008.

T.C. Ziraat Bankasi had total assets of TRY104.4 billion (US\$77.6 billion) under BRSA at the end of December 2008.

Turk Ekonomi Bankasi AS had total assets of TRY17.0 billion (US\$11.2 billion) under IFRS at the end of December 2008.

Turkiye Garanti Bankasi AS had total assets of TRY98.2 billion (US\$69.7 billion) under IFRS at the end of December 2008.

Turkiye Is Bankasi AS had total assets of TRY97.5 billion (US\$63.4 billion) under IFRS at the end of December 2008.

Turkiye Sinai Kalkinma Bankasi AS had total assets of TRY6.3 billion (US\$4.2 billion) under IFRS at the end of December 2008.

Turkiye Vakiflar Bankasi AS had total assets of TRY54.6 billion (US\$35.9 billion) under BRSA at the end of December 2008.

Yapi ve Kredi Bankasi AS had total assets of TRY69.9 billion (US\$46.0 billion) under IFRS at the end of December 2008.

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