

Corporate Credit Rating

☐ New ☒ Update

Sector: Leasing

Publishing Date: April 26, 2022

Senior Chief Analyst

Orkun Inan

+90 212 352 56 73

orkun.inan@jcrer.com.tr

Team Leader

Faik Baysan

+90 212 352 56 73

faik.baysan@jcrer.com.tr

Analyst

Caglanur Tekin

+90 212 352 56 73

caglanur.tekin@jcrer.com.tr

RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	AA- (tr)	J1+ (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	J3
	International FC ICR Outlooks	Stable	Stable
	International LC ICR	BB	J3
ISRs (Issue Specific Rating Profile)	International LC ICR Outlooks	Stable	Stable
	National ISR	AA- (tr)	J1+ (tr)
	International FC ISR	-	-
Sovereign*	International LC ISR	-	-
	Foreign Currency	BB (Stable)	-
	Local Currency	BB (Stable)	-

* Assigned by JCR on May 31, 2021

Vakıf Finansal Kiralama A.Ş.

JCR Eurasia Rating, has evaluated the **"Vakıf Finansal Kiralama A.Ş."** and **the Cash Flows on its Potential Bond Issuances** in the high-investment level category and revised the Long-Term National Issuer Credit Rating as **'AA- (tr)'** from **'A (tr)'** and the Short-Term National Issuer Credit Rating at **'J1+ (tr)'** with **'Stable'** outlooks. On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were assigned as **'BB/Stable'** as parallel to international ratings and outlooks of Republic of Turkey.

The Company, **Vakıf Finansal Kiralama A.Ş.** (referred to as **'the Company'** or **Vakıf Leasing**), was founded in 1988 to provide leasing services to real sector firms, particularly to Small and Medium Size Enterprises (SMEs), for their investments regarding assets and capital goods. The Company performs its activities through its headquarters in Istanbul and five branches in Ankara, Adana, Bursa, Izmir and Antalya as well as in the widespread branch network of Vakıfbank. Vakıf Leasing has a staff force of 76 as of FYE2021 (FYE2020: 68).

The Company is a subsidiary of **Türkiye Vakıflar Bankası T.A.O.**, a large-scale and mostly publicly capitalized commercial bank in Turkey, with a 58.71% stake. **Türkiye Sigorta A.Ş.** holds 15.65% of the Company shares. Both the stated shareholders of the Company are listed on the Borsa İstanbul (BIST). The Company has been publicly traded on the Borsa İstanbul (BIST) since 1991 with a 25.64% free float rate under the ticker symbol **"VAKFN"**.

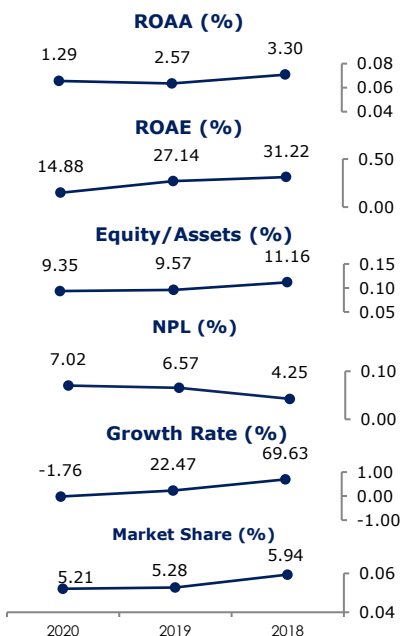
Key rating drivers, as strengths and constraints, are provided below.

Strengths

- Enhancement in profitability indicators supporting internal equity generation,
- Notable improvement in NPL ratio in FY2021 coupled with under the sector average,
- Balanced leasing receivables and financial liabilities mitigating FX volatility's effects,
- Opportunities of being a bank affiliate company,
- Robust and reputable shareholder structure providing advantages,
- High level of compliance with corporate governance best practices and continuity of well-established risk management practices,
- Qualified and experienced management team in leasing sector.

Constraints

- Participation banks' transactions in the sector escalating competition,
- Volatile interest rate and foreign exchange rate environment increasing uncertainty,
- Highly competitive and volatile market conditions.



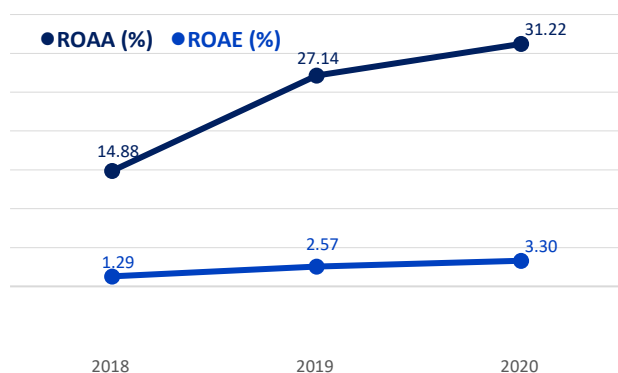
Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been revised to **'AA- (tr)'** from **'A (tr)'**. Sustainability of the Company's profitability performance, balanced FX position, intra-group synergy with Vakıfbank branches and equity level together with the trend of NPL ratio have been evaluated as important indicators for the stability of the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are determined as **'Stable'**. The Company's Sectorial regulations, NPL ratios, profitability ratios, cash flow generation and the Company's market share and market conditions will be closely monitored by JCR Eurasia Rating in upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the sector will be monitored as well.

1. Rating Rationale

Enhancement in Profitability Indicators Supporting Internal Equity Generation

The Company improved its gross and net profit generation capacity in FY2021. The Company's gross profit increased to TRY 166.96mn in FY2021 from TRY 132.54mn in FY2020 and net profit increased almost doubled, reached to TRY 128.07mn in FY2021 (FYE2020: TRY 60.32mn).

Additionally, both the company profitability ratios ROAA and ROAE improved compared to previous year figures. The company's ROAA is recorded 3.30% which is the sector average in 2021. On the other hand, ROAE for the company with a rate of 31.22% continued to stand above the sector while the sector enjoyed 19.80% in 2021.



Accordingly, satisfactory profitability indicators contributing positively to equity level through improved internal equity generation capacity. Internal Equity Generation to Previous Years Equity ratio realized as 36.06% in FY2021 whilst it was 21.29% in FY2020. Also, the Company's paid-in capital increased up to TRY 468.89mn as of FYE2021 from TRY 200mn as of FYE2020. Thanks to internal equity generation and equity injection, equity to total assets ratio reached to 11.16% in FY2021 from 9.57% in FY2020.

Moreover, the Company materialized no dividend payment over the review period, indicating a management strategy envisaging to support the equity level through keeping the generated internal resources in the Company.

Notable Improvement in NPL Ratio in FY2021 Coupled with Under the Sector Average

The Company's gross NPL volume stood at TRY 211.78mn as of FYE2021 (FYE2020: TRY 215.49mn.). With the decrease in overdue receivable, that of the

leasing receivables decreased in the NPLs ratio to 4.25% as of FYE2021 from 6.57% as of FYE2020 due to recovery, collection and other transactions as of FYE2021. The ratio under the average for the Turkish Leasing Sector which is 5.79% for FY2021. The Company is targeting to decrease the NPL ratio in FY2022 to 3.61%.

NPL sale and write-off are frequently observed in the sector, while the Bank did not sell or write of non-performing loans during 2020 and 2021.

Balanced Leasing Receivables and Financial Liabilities Mitigating FX Volatility's Effects

While the Company indicated a high share of foreign currency denominated financial liabilities in its balance sheet composition, its FX position softened through its foreign currency leasing receivables and cash. Vakıf Leasing's 67.23% and 18.65% of the received loans were in EUR and USD currencies, respectively whilst the Company's FX receivables constitute 73.58% of leasing receivables as of FYE2021 (FYE2020: 74.51%).

Financial Liabilities Based on Currency Type (%)	2020	2019
EUR	67.23	73.26
TRY	18.65	14.80
USD	14.12	11.94

Vakıf Leasing's net FX position recorded a rise to TRY131.50mn as of FYE2021 (FYE2020: TRY 1.75mn). Thanks to balanced leasing receivables and financial liabilities, the Company mitigates the effect of FX risk.

Moreover, the Company does not use derivative transactions intensely. As of FYE2021, derivative financial liabilities held for trading consist of the fair value difference arising from the Company's cross currency swap transactions, amounting to TRY 21.52mn.

Opportunities of Being a Bank Affiliate Company

The financial leasing sector operates as a complement to the banking sector in Turkey as well as in the rest of the world. In other words, banks in Turkey determine financing strategies for companies and shape their capital investments by offering commercial loan or leasing alternatives depending on the balance sheet structure of the companies.

This situation also provides significant operational opportunities for Vakıf Leasing. Vakıfbank has a wide geographical reach across Turkey serving through a

total of 936 branches in Turkey. Thanks to wide portfolio of the bank and brand identity, the number of customers directed to leasing by Vakıfbank is quite high.

Robust and Reputable Shareholder Structure Providing Advantages

A large-scale commercial bank, Vakıfbank, with paid capital, solo asset size and net profit figures of TRY 3.9bn, TRY 1,007bn and TRY 4.17bn, respectively, and 936 domestic branches owned the majority stake (58.71%) of the Company shares over the review period. Vakıfbank was rated by JCR Eurasia Rating and affirmed with the ratings of '**AAA (tr)**' on the Long Term National Local Scale on June 22, 2021.

Türkiye Sigorta A.Ş., one of the major players in the Turkish Insurance Sector with paid-capital and asset size figures of TRY 1.16bn and TRY 14.35bn, respectively, is the subsequent legal entity shareholder of the Company with a 15.65% stake in the same period. Both the companies are listed on the BIST with the free floats of 16.14% and 18.90% as of FYE2021, respectively, and are mostly publicly capitalized. Accordingly, the Company uses its benefits regarding market recognition, customer base, access network, funding sources and liquidity.

High Level of Compliance with Corporate Governance Best Practices and Continuity of Well-Established Risk Management Practices

As the Company is one of the few leasing companies listed on the BIST, the corporate governance compliance level of it is relatively high compared to sector-wide practices, particularly in the issues of presence of two independent members on the Board, establishment of all committees required by the principles (audit, corporate governance and early detection of risk), and comprehensive website.

Also, the Company has high compliance level with the corporate governance principles particularly regarding the exercise of shareholders' rights, efficient and comprehensive system of public disclosure and the website together serving as an effective platform in their supporting the transparency level, comprehensive risk management system with functionalized organizational units of internal control and internal audit. These factors contribute to the Company's transparency level and to the investors' risk perception for the Company accordingly.

Qualified and Experienced Management Team in Leasing Sector

As a publicly traded Company, Vakıf Leasing is required by capital market law to adopt certain principles and establish bodies and units in compliance with the aforementioned standards. Vakıf Leasing has committed to these threshold standards and internalized the corporate governance culture throughout the organization with its qualified management team.

The experience and background senior management team in the leasing sector contribute to the Company's value. The Company benefits from a experienced team and presence of a well-functioning control organization compatible with its size.

Increasing Interest Rate and Volatile Foreign Exchange Rate Environment

Central Bank of Republic of Turkey (CBRT) has reduced the policy rate in tandem with the new economic model. On the other hand, inflationary environment in the developed economies following both supply chain disruptions and increasing government spending to stimulate the economy, induced central banks across the world to reduce quantitative easing policies and hike policy rates.

As Turkey decoupled from rest of the world where other economies are increasing rates, Turkish Lira depreciated sharply. In fact, USDTRY exchange rate depreciated from 8.76 before the beginning of rate cuts to as high as 17.40 in December 2021 (FYE2020: USDTRY 7.44). In addition to excessive depreciation of Lira against rest of the world, intraday and monthly volatility of the exchange rates has soared as well, significantly increasing hedging costs and increasing uncertainty. Furthermore, both retail and commercial loan rates are maintaining their high levels, despite of the policy rate cuts.

Additionally, 5-year credit default swap (CDS) premiums of Turkey has started to increase notably, exceeding 600 bps in December 2021. Sharp depreciation, elevated volatility and high CDS premiums significantly increase the financing costs of local corporates both from domestic and international markets. As a result, these highly adverse financial conditions are very likely to induce notable stress on particularly non-financial corporations. While companies with very high share of FX revenues could bear the volatilities to a certain extent, most non-FI companies would likely experience significant stress as

their debt service requirements will increase with the recent exchange rates.

The risk of maturity mismatch mainly derived from the relatively long maturity structure of leasing transactions is the common characteristics of the sector, leading to higher liquidity and interest rate risk exposures compared to other financial sectors. Additionally, a significant part of the sector's transaction volume is realized in foreign currency, leading to foreign currency risk exposure.

Participation Banks' Transactions in the Sector Escalating Competition

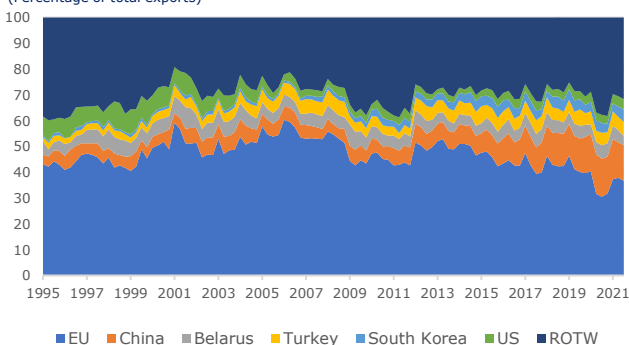
Participation Banks, which are becoming increasingly widespread in Turkey and in the world, also carry out leasing transactions under the name of "icara". Participation banking, whose market shares are increasing in banking and leasing transactions, is expected to increase competition in the sector.

In addition, since the resources of participation banks come from the funds they create from their customers, it provides a cost advantage. For this reason, these banks may offer lower cost products to customers from time to time and this leads them to gain a place in the market.

Volatile Interest Rate and Foreign Exchange Rate Environment Increasing Uncertainty

Russian invasion of Ukraine, jolted the market and shifted the geopolitical concerns arose across the globe. Due to Russia's prominence as a prominent commodity and energy exporter, major conflict and subsequent sanctions/reactions across the world has notable implications for global growth, trade and risk appetite. The gravity of the situation is exacerbated especially in Europe, as it is the most reliant on Russian energy imports.

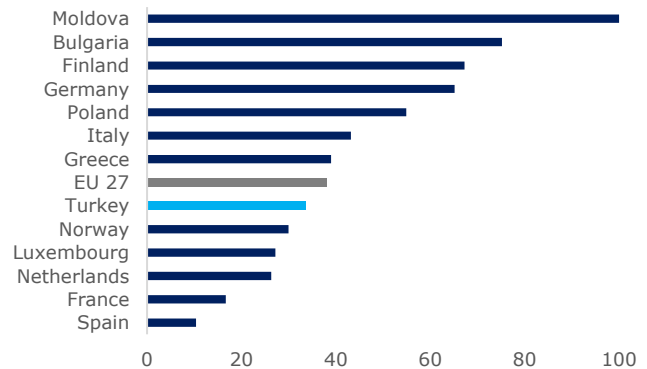
Russia Goods Exports by Destination
 (Percentage of total exports)



Source: Refinitiv Datastream

Since Russia is one of the world's biggest oil and natural gas producers, the per-barrel price of Brent crude has already surged notably and the price of oil breached the \$100 mark for the first time it since 2014. The commodity prices, especially that of aluminum and nickel, are also expected to reach record highs, as fear a disruption in supplies from Russia, which is a major metal producer. On the other hand, Russia and Ukraine are also key wheat exporters in the World. Therefore, supply concerns will also impact on agricultural prices.

Europe Natural Gas Imports
 (Percent of total imports, 2020)



Source: Refinitiv Datastream/Eurostat/Fathom Consulting

In the upcoming periods, higher energy and commodity prices will boost global inflation, which is already seeing record-high prices for food and energy and inflation pressures will determine the framework of the monetary policy normalization of central banks. In line with these developments, the risk appetite is expected to remain weak towards emerging markets and funds flow to safe instruments such as dollar and gold etc, as the recent sharp drop in developed market yields indicate.

The economic impact is noteworthy in Turkey as well; with approximately 30% of the foreign visitors to Turkey coming from were Russia and Ukraine in 2021. Therefore, the share of the two countries in tourism revenues has remained large. As post-pandemic tourism revenue expectations were around USD 30-35bn, economic impact of receding tourism revenues from the affected countries would be sizable.

Another important fact is that Russia is among the largest trade partners. Russia is among Turkey's largest trade partners, with imports and exports reaching USD 28bn and USD 6bn, respectively in 2021. Most of the trade relationship stems from energy and agricultural input trade. On the other hand, relations with Russia and Ukraine are also very significant for the construction and contracting industry. In 2021, the Turkish contracting companies undertook 413 projects

in 69 countries amounting to USD 30.7bn and the leading market was again the Russia with a share of 36%. Ukraine was ranked 4th with the share of 5%.

Current and prospective economic sanctions, so far concerning mainly financial affairs, could spread to trade embargos or become more aggravated. We expect the soaring energy prices and disruptions in trade due to both logistics issues and potential embargos/inability to trade due to international fund transfer bans, to drag global growth downwards. Global downside risks for growth and upside risks for inflation, which had been creeping even before the Russian invasion of Ukraine, will likely intensify.

With respect to the factors mentioned above, JCR Eurasia Rating has revised the Long-Term National Issuer Credit Rating as '**AA- (tr)**' from '**A (tr)**' and the Short-Term National Issuer Credit Rating at '**J1+ (tr)**' in JCR Eurasia Rating's notation system which denote high-investment level grades.

When the global and national scale rating matching published by JCR Eurasia Rating is considered, the Group's Long- and Short-Term International Issuer Credit Ratings are assigned at '**BB**' and '**J3**', respectively.

2. Rating Outlook

JCR Eurasia Rating has assigned "**Stable**" outlooks on the National Long and Short-Term Issuer Credit Rating perspectives of Vakif Leasing considering sustainability of the Company's profitability performance, balanced FX position, intra-group synergy with Vakifbank branches and equity level together with the trend of NPL ratio. Additionally, the outlook on the International Long and Short-Term Issuer Credit Rating perspectives of Vakif Leasing have been assigned as '**Stable**' in line with the sovereign rating outlooks.

Factors that Could Lead to an Upgrade

- »Further improvement of net profit margin and internal equity generation capacity,
- »A noticeable recovery in asset quality,
- »Improvement in equity to total assets ratio,
- »Sustained recovery in the domestic and international markets.

Factors that Could Lead to a Downgrade

- »Contraction in profitability indicators,
- »Deterioration in foreign currency position,
- »Potential deterioration in accessing external financial resources,
- »Weakening of asset quality,

»Deterioration in liquidity levels.

The Company's Sectorial regulations, NPL ratios, profitability ratios, cash flow generation and the Company's market share and market conditions will be closely monitored by JCR Eurasia Rating in upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the sector will be monitored as well.

3. Projections

The Company's projected balance sheet for the year of 2022 is provided below together with the realized values of 2021:

(TRY 000)	2021 Realized	2022 Forecast
Cash, Cash Equivalents	779,199	550,000
Financial Assets Measured at Amortized Cost (net)	4,812,958	7,462,132
Leasing Transactions (net)	4,769,551	7,408,870
Non-Performing Loans	211,780	277,282
Expected Loss Provisions/Special Provisions (-)	-168,373	-224,020
Other	704,767	1,193,466
TOTAL ASSETS	6,296,924	9,205,598
Loans Received	5,133,454	7,236,915
Other Liabilities	461,026	703,321
EQUITY	702,444	1,265,362
Paid-Capital	468,895	1,000,000
Net Profit	128,071	145,497
TOTAL L&E	6,296,924	9,205,598
Annual Asset Growth %	69.62	46.19
Equity/Total Asset %	11.16	13.75
ROAA %	3.30	1.88
ROAE %	31.22	14.79
NPL %	4.25	3.61

According to the projections for the following year, Vakif Leasing expects 46.19% growth in asset size. The Company projects an increase in paid-in capital from TRY 458.89mn to TRY 1bn and a decrease in NPL ratio. The expectations on financial statements for 2022 will be monitored by JCR Eurasia Rating.

4. Company Profile & Industry

a. History and Activities

Vakıf Leasing was established in 1988 and has been publicly traded since 1991 under the ticker of **VAKFN**. It was the first leasing company listed on the BIST and had a 25.64% free float of its paid-in capital of TRY 500mn as of January, 2022.

The Company has been subject to the "Financial Leasing, Factoring and Financing Companies" Law since December 2012 and conducts its activities within the framework of the provisions of the related Regulation dated April 24, 2013.

The Company offers leasing services of investment support for domestic and international assets and capital goods needed by SMEs through its headquarters and five regional offices in Ankara, Adana, Izmir, Bursa and Antalya as well as the widespread branches of Vakıfbank. The labor force of the headquarters and regional offices was 76 people as of FYE2021 (FYE2020: 68).

In addition, the Company's organizational chart did not change compared to last year and was composed of 12 units (law-monitoring and liquidation, credits, risk monitoring & asset management, financial affairs and investor relations, human resources, administrative affairs, marketing, operations & insurance, IT, financing, risk management and internal control) structured under a general manager and a deputy general manager.

Vakıf Leasing's Board has 7 members, including one member as a general manager. The Company formed 3 different committees, namely Early Risk Detection Committee, Corporate Governance Committee and Audit Committee.

Board of Directors

Hazım AKYOL	Chairman
Halil ÇELİK	Vice Chairman / Independent Member
Şeref YAROĞLU	Member
Emine UYUMAZ	Member
Eren SÜZEN	Member
Savaş Atanur KAZAZ	Independent Member
Mustafa ERDİN	Member /General Manager

b. Shareholders, Subsidiaries & Affiliates

As of January 2022, the paid in capital of Vakıf Leasing is TRY 500mn. The Company's paid-in capital increased up to TRY 500mn in January, 2022 and the capital increase is completed through paid capital increase by using the priority right. The table below indicates the shareholding structure of Vakıf Leasing as of January 2022 and FYE2021:

Vakıf Leasing's Shareholder Structure				
TRY, 000	January, 2022		December, 2021	
	Amount-TRY	%	Amount-TRY	%
Vakıfbank	293,562	58.71	293,562	62.61
Türkiye Sigorta Anonim Şirketi	78,244	15.65	78,244	16.69
Public Held	128,194	25.64	97,089	20.70
Total	500,000	100	468,895	100

Vakıfbank, with paid-in capital, asset size and net profit figures of TRY 3.9bn, TRY 1,007bn and TRY 4.17bn, respectively in 2021, held the majority stake of the Company shares over the years. Vakıfbank was rated by JCR Eurasia Rating and affirmed with the ratings of **'AAA (tr)'** on the Long Term National Local Scale on June 22, 2021.

Moreover, the Company has 3 affiliates which are Vakıf Faktoring Hizmetleri A.Ş., Vakıf Pazarlama Sanayi ve Tic. A.Ş., Vakıf Yatırım Menkul Değerler A.Ş. Vakıf Faktoring A.S. provides leasing and factoring services. The Company offers loan prepayment, monitoring the collection, agreement, invoice amount, and credit to business enterprises for relatively short periods. Vakıf Pazarlama Sanayi ve Tic. A.Ş. offers support services. Vakıf Yatırım Menkul Değerler A.Ş. operates as an institutional brokerage firm. The Company offers portfolio management, capital raising, financial planning, and advisory services.

Company Name	Ownership 2021	Ownership 2020
Vakıf Faktoring A.Ş.	3.79	3.79
Vakıf Pazarlama Sanayi ve Tic.A.Ş.	3.27	3.27
Vakıf Yatırım Menkul Değerler A.Ş.	0.25	0.25

c. Industry Assessment

As of FYE2021, the total asset size and equity of the Turkish Leasing Sector, containing 22 companies of various sizes, increased by 50.90% to TRY 106.05bn

(USD 7.96bn) and increased by 17.25% to TRY 14.57bn (USD 1.09bn), respectively.

The Turkish Leasing Sector, providing mid and long-term investment financing services, operates essentially as a complement to the Turkish Banking Sector and conducts its activities under the supervision and control of the Banking Regulation and Supervision Agency (BRSA).

THE KEY INDICATORS OF TURKISH FINANCIAL LEASING SECTOR

(mn)	2021	2020	2019	2018	2017
Asset Size-TRY	106,048	70,277	58,176	68,506	58,124
Asset Size-USD	7,956	9,472	9,794	12,972	15,410
Equity-TRY	14,575	12,431	10,376	9,601	8,604
ROAA (%)	3.31	2.99	2.22	1.88	2.19
ROAE (%)	19.8	17.32	15.41	13.17	14.26
NPL Ratio (%)	5.79	6.71	8.31	7.2	5.53
Equity/T. Sources (%)	13.74	17.69	17.84	14.01	14.8

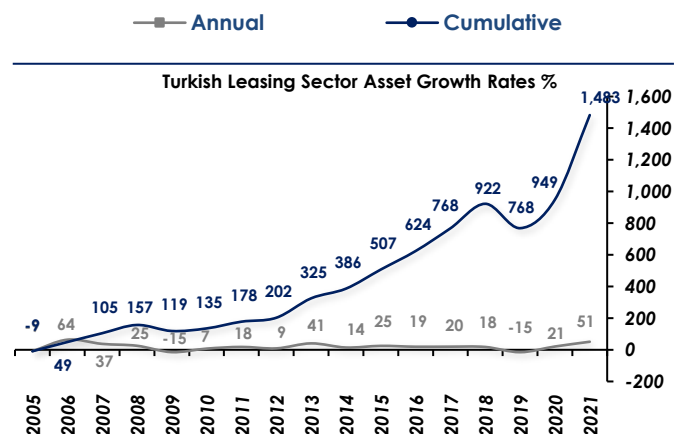
Leasing activities in Turkey began under the regulation and supervision of the Undersecretariat of the Treasury in 1983 and the first leasing company was established in 1986. The BRSA became the sector's regulator and supervisor following the Banking Law which has been entered into force in late 2005. According to data provided by BRSA, 22 leasing companies, all with headquarters located in Istanbul, were active in the Turkish Leasing Sector as of FYE2021. The official authorization of 60 leasing companies have been cancelled due to mergers, withdrawal from the sector and the inability to adapt to BRSA regulations since March, 2006.

The Turkish Leasing Sector holds a quite small share of the overall financial system of Turkey. The sector exhibited a rapid growth until 2008 and its growth decelerated following the stated year in which the low rate VAT on financial leasing transactions was terminated. The growth of the sector exhibited an almost stable pattern after the termination of low VAT advantage between 2008 and 2012. The sector growth accelerated after 2012 due to the 'Leasing, Factoring and Financing Companies' law that contains growth supporting provision entered into force in December, 2012, and the VAT advantage which was started again in 2012 and was expanded in 2013. The sector's market penetration rate, which is defined as the share of total leases excluding immovable assets among fixed capital investments, is still quite low in Turkey. While the leasing rate of total fixed capital investments stands at approximately 15-20% in industrialized countries, it

stands at circa 5% in Turkey, reflecting ample room for future improvements.

Leasing services provide assistance and financing opportunities in terms of efficiency and cost management to the companies through allowing the use of production and investment instruments with leasing instead of purchasing. It stands as a financing method which gives operating rights of a property to lessee while the lessor preserves ownership rights. Leasing transaction is the transfer of ownership rights between two parties for a limited period of time in return for a clearly stated rental price. This method allows companies to gain essential financial advantages and use their capital efficiently. The financial lease provides the benefits of; no need for large amounts of cash outflows from the business for investment purposes, payment of investments made by businesses in fixed periodical installments, no banking and insurance transaction tax except the fee and stamp tax, in addition to the cost of the goods, the payment of transportation and assembly fees in installments, nearly 100% financing support for investment without using working capital, flexibility in determining installment amounts, the property cannot be confiscated as the lease company holds its ownership in case of bankruptcy, possibility to take over the property at a symbolic price at the end of the lease agreement.

As of FYE2021, total asset size of leasing companies in Turkey was TRY 106,048mn and total equity was TRY 14,575mn. The sector presented a positive growth until 2008 before contracting by 15% due to new tax regulations in 2009. Following 2009, the sector continued to grow until 2019 in which a 15% contraction realized as in 2009. Accordingly, the cumulative asset growth of the sector between 2004 and 2019 decreased from 922% to 768%. On the other hand, the sector regains a growth trend in 2020 and 2021.



The Leasing Sector to be reach a higher trading volume will have a positive impact on SMEs having high growth potential and highly competitive sectors. Tax regulations, particularly changes in VAT rates, are the most influential factor on companies' leasing decisions. An additional factor behind growth in the sector was the implementation of the "Sell & Leaseback" concept as a part of leasing methods.

In terms of cost value of financial leasing contracts, the most concentrated sectors of the leasing market are Manufacturing (51.4%) and Services (42.8%). In the manufacturing sector, Textile and Textile Products Industry ranks first, the Metal Main Industry and Processed Matter Production second. In the services sector, the first is Construction sector and the second is Wholesale and Retail Trade and Motor Vehicles Services.

Leasing receivables constituted the highest portion of the sector assets with a share of 92.11% (FYE2020: 95.87%) while short term borrowings constituted the highest part of the liabilities at a rate of 73.04% (FYE2020: 70.58%). Total equity level of the sector was 13.74% (FYE2020: 17.69%) of total resources.

The non-performing receivables ratio of the sector decreased to 5.76% as of FYE2021 (FYE2019: 6.71%). The ratio of non-performing receivables to total equity was 34.95% (FYE2020: 32.95%), improved but still imposing pressure on the risk perception of the sector in terms of suppressed asset quality.

Asset and transaction volume concentration rates are quite high amongst the 22 leasing companies. Asset and transaction volume concentration is mostly composed of companies which contain banks in their shareholder structure. Bank subsidiary leasing companies constitutes above 80% of the leasing sector in terms of asset size. This concentration leads to a more parallel banking and leasing activities compared to other countries and an oligopolistic market. As a result, a credit contraction in the banking sector will inevitably have an adverse effect on the leasing sector. The fact that the bank related large leasing companies generally creates advantages such as increasing the funding capacity of the sector and providing a cost advantage to the users together with creating unfair competition due to the use of bank's customer networks.

As the significant part of the sector transaction volume is realized in foreign currency, the developments in the value of TRY against foreign currencies and in the

capability of obtaining long-term funding still are important criteria for the growth of the sector.

The providing leasing services of participation banks, titled 'icara', is another issue that would support the growth of the sector when market conditions and investment risk appetite return to normal. The developments in public and private sector construction investments is important for the leasing sector as the Construction and Real Estate Sector in Turkey constitute almost half of the overall leasing activities and the construction equipment and machinery investments significantly affect the demand for leasing and leasing transaction volume. On the other hand, the construction sector is very sensitive to developments in the economic conjuncture, making the growth of the leasing industry also fragile and challenging the management of sustainability risk.

The issues, starting in 2018 and continuing in 2019, of contraction in investment climate, slowdown in household consumption expenditures and distortions in consumer and real sector confidence adversely affected the leasing sector in the last year. In particular, the weakening of investment trends especially in sectors that have a significant share in leasing transactions such as construction, plastics and textile and weakening of private sector machinery investments cannot contributed positively to the development of the sector. Additionally, the sector surpassed 2021 with a growth of 21% and USD 3.99bn transaction volume. 5.5k new contracts were signed 2021 and the 4.8k contracts in 2020 were exceeded.

Sources: *Banking Regulation and Supervision Agency (BRSA), Central Bank of Turkey (CBRT), Association of Financial Institutions (AFI)*

5. Additional Rating Assessments

The use of the financial instruments exposes the company to credit, liquidity and market risks. The Board of Directors of the Company is responsible for the establishment and supervision of the risk management structure. The board manages the effectiveness of the risk management system through the mechanisms existing within the Group. Additionally, the Company owns the Early Detection of Risk Committee required in the Corporate Governance Principles. The risk management policies and processes of the Company have been configured in a structure aiming to identify and analyze the risks exposure, to determine the appropriate risk limits and controls and to monitor risk and compliance with established limits. Risk management policies and systems are subject to

regular revisions to update the changes in the products/services and market conditions. The Company aims to build up a disciplined and constructive control environment in which all employees understand their duties and responsibilities through training and management standards and procedures. Moreover, since the Company is a subsidiary of Vakıfbank on a consolidated basis, it performs a periodical data declaration to Vakıfbank in order to calculate operational, market, credit and liquidity risk exposures.

Credit Risk

The Company is exposed to credit risk through its leasing transactions. The Company and the Group, which it belongs, aim to reduce their credit risk by transacting with parties having credit liability and obtaining sufficient collateral where possible. Moreover, the financial situations and the credibility of customers are analysed and credit risks are monitored through these analyses supplemented by intelligence reports. Credit risk is controlled through limits set by the Company Board. Moreover, the Company had a Risk Monitoring Committee with a detailed monitoring process, and an internal scoring system applied for the lease activities up to EUR 250k. The "Customer Delay Report" is prepared daily by the Risk Monitoring and Asset Management Departments and is shared with related departments.

As stated in the audit report, the principle items exposed to credit risk includes receivables from financial leasing activities, other receivables as well as bank deposits which collectively amounted to TRY 5.61bn as of FYE2021 (FYE2020: TRY 3.25bn) showing rise in comparison to the previous year due to significant increase in receivables from financial leasing activities and bank deposits. Total credit risk exposure comprised 89.11% of total asset size as of FYE2021, slightly higher than the value of 87.67% attained as of FYE2020.

In addition, geographical and sector credit concentration is avoided to minimize the related risk exposures. The Company's leasing receivables are spread across diverse sectors. Sectoral breakdown is as follows:

Sectoral Breakdown (%)	2021	2020
Manufacturing Sector	49.42	47.25
Construction	21.77	23.95
Wholesale and Retail Trade	14.37	10.10
Real Estate and Rental	3.96	4.57
Education	2.12	2.17

Mining and Quarrying	2.04	3.63
Others	6.32	8.33
Total	100	100

The Company's top 10 customers composed 24% (2020: 24%) of the total receivables' portfolio including overdue loans as of 2021, the top 20 customers 35% (2020: 36%) and the top 50 customers 54% (2020: 56%) for the same period. The concentration ratios in all brackets displayed a slight improvement.

Market Risk

Market risks stem from fluctuations in the value of a financial instrument which could potentially impact the Company's future cash flows. These include foreign currency risk, interest rate risks and risks relating to changes in the prices of financial instruments and commodities. Market risk is subject to the Company's ALCO meetings held on a weekly basis and managed through regulatory measures revised in accordance with the changing market conditions.

The leasing operations and borrowings denominated in foreign currencies exposes the Company to foreign currency risk. Vakıf Leasing's net FX position recorded a rise to TRY131.50mn as of FYE2021 (FYE2020: TRY 1.75mn). The distribution of foreign currency assets and liabilities as of 2021 and 2020 year-end are shown below.

FX Position (000, TRY)	2021	2020
Assets	4,686,987	2,771,464
Liabilities (-)	4,482,073	2,769,718
Net FX Position	131,502	1,746

The effect of a 10% change in the value of TL against the following currencies-USD, EUR, CHF, GBP- on the income statement and shareholders' equity (excluding tax effect) for the accounting periods ending on FYE2021 and FYE2020 is (+/-) TRY 13.15mn and TRY 175k, respectively.

The Company is exposed to interest rate risk stemming from its leasing receivables and bank loans and tries to manage it through monitoring interest rate range and specifying pre-approved limits for reprising bands. Fixed interest rate is preferred during utilization of loans, on the other hand, if it is necessary, variable interest rate is also used, on the other hand and it is balanced by giving loans in return with variable interest rate.

Roughly one third of the Company's loans are on floating interest rate. The sensitivity analysis of 1% change in interest rate maintained its negligible variance range of (+/-) TRY 195k for 2021 and TRY 106k for 2020.

Liquidity Risk

The liquidity risk management is under the responsibility of Company Board. A suitable liquidity risk management has been formed by the Board to meet the short, medium and long-term funding and liquidity requirements of the Company. The Company manages its liquidity risk by holding an adequate level of funding and borrowing sources through regular following of estimated and realized cash flows and due matching efforts of assets and liabilities. Additionally, the Company's receivables and payables are evaluated weekly in asset and liability meetings (APCO) on the basis of maturity dispute and average interest rate analyses, and monthly information is given to the Board.

As of April 19, 2022, cash credit lines worth TRY 13.34bn were allocated to Vakıf Leasing by 30 different financial institutions (as of April 8, 2021, TRY 9.43bn by 29 institutions) and circa 41.38% of this total line was utilized in cash and non-cash loans. Additionally, a TRY 500mn borrowing/lending limit was allocated to the Company to transact in the Takasbank Money Market (TPP). Moreover, there is no decision taken by the Board of Directors to apply to CMB a for the issuance of bonds/financing bills in 2022.

Operational Risk

The Company tries to minimize the human risk through implementations such as awareness and duties and legislation trainings, transition studies to performance system based on qualitative data, system and automation investments for manual errors, supervision of work processes through control points by Internal Control, extension the scope of approval mechanisms for risky transactions and creation of authority and limit matrices. In order to ensure information and system security, the independent auditing company and the controlling shareholder Vakıfbank perform periodic IT audits. In addition, in-house trainings are performed to increase the awareness of staff regarding systemic threats. Emergency regulations and emergency action plans have been established in order to minimize and manage external factor risks.

VAKIF FİNANSAL KİRALAMA A.Ş.
(Solo Financials)

Balance Sheet ('000 TRY)

	2021	2020	2019
Cash, Cash Equivalents	779,199	118,715	67,010
Financial Assets at Fair Value Difference through Other Comprehensive Income (net)	26,434	25,618	13,277
Financial Assets Measured at Amortized Cost (net)	4,812,958	3,121,680	2,661,772
Leasing Transactions (net)	4,769,551	3,055,520	2,579,147
Non-Performing Loans	211,780	215,490	194,970
Expected Loss Provisions/Special Provisions (-)	-168,373	-149,330	-112,345
Tangible Assets (net)	28,990	24,603	24,240
Intangible Assets (net)	684	967	908
Deferred Tax Asset	0	0	5,788
Current Period Tax Asset	8,862	0	0
Others	639,797	420,636	258,012
Assets Held for Sale and from Discontinued Operations (net)	0	0	140
TOTAL ASSETS	6,296,924	3,712,219	3,031,147
Loans Received	5,133,454	3,091,749	2,600,857
Payables from Leasing Transactions	171	42	167
Securities Issued (net)	0	51,615	0
Derivative Financial Liabilities	21,516	0	0
Provisions	48,002	28,447	4,780
Current Tax Liability	33,367	16,670	8,650
Deferred Tax Liability	11,742	8,299	
Others	346,228	160,236	133,348
TOTAL LIABILITIES	5,594,480	3,357,058	2,747,802
Paid-in Capital	468,895	200,000	175,000
Capital Reserves	513	244	244
Other Accumulated Comprehensive Income or Expenses Not to be Reclassified to Profit or Loss	40,354	40,306	28,811
Profit Reserves	64,611	54,290	47,712
Net Profit/Loss	128,071	60,321	31,578
TOTAL EQUITY	702,444	355,161	283,345
TOTAL LIABILITIES AND EQUITY	6,296,924	3,712,219	3,031,147

- Including JCR Eurasia Rating's adjustments where applicable,

VAKIF FİNANSAL KİRALAMA A.Ş.
(Solo Financials)

Income Statement ('000 TRY)

	2021	2020	2019
Operating Income	368,946	267,259	238,896
Leasing Revenues	360,924	261,703	234,637
Fees and Commissions from Leasing	8,022	5,556	4,259
Financing Expenses	-201,984	-134,714	-169,680
Interests Paid on Used Loans	-183,147	-125,708	-157,530
Interest Paid on Leasing Transactions	-23	-10	-11
Interests Paid on Issued Securities	-5,952	-1,644	-3,513
Fees and Commissions Given	-12,862	-7,352	-8,626
Gross Profit/Loss	166,962	132,545	69,216
Expenses from Op. Act.	-37,862	-29,172	-26,043
Gross Operating Profit	129,100	103,373	43,173
Other Operating Income	101,615	52,072	29,263
Provision Expenses	-43,356	-63,630	-32,870
Other Operating Expenses (-)	-22,270	-5,165	-93
Net Operating Profit/Loss	165,089	86,650	39,473
Tax Provision for Continuing Operations (±)	-37,018	-26,329	-7,895
Net Profit/Loss for the Period	128,071	60,321	31,578

- Including JCR Eurasia Rating's adjustments where applicable,

VAKIF FİNANSAL KİRALAMA A.Ş.
(Solo Financials)
Key Ratios & Metrics

	2021	2020	2019
PROFITABILITY & PERFORMANCE			
Operating ROAA(Ope Net Inc / Assets (avg)) (%)	7.08	6.35	6.56
Operating ROAE(Ope Net Inc /Equ Cap (avg)) (%)	66.98	67.04	75.60
ROAA	3.30	2.57	1.29
ROEA	31.22	27.14	14.88
Net Profit/Avg Total Assets	2.36	1.79	1.03
Provisions/Total Income	15.97	34.44	31.99
Growth Rate	69.63	22.47	-1.76
Gross Profit Margin	60.81	46.90	38.42
Total Operating Expenses/Total Income	13.95	15.79	25.35
Interest Coverage Ratio	187.29	168.03	124.51
Total Income/Total Expenses (x)	21.44	17.69	25.35
Net Profit Margin	47.17	32.65	30.73
Total Income/Avg Total Assets	5.42	5.48	3.36
Interest Margin (%)	3.64	4.14	2.50
Total Income/Avg Equity	51.34	57.87	38.74
Non Costly Liabilities + Equity-Non Earning Assets/Assets	11.16	9.57	9.35
Market Share (%)	5.94	5.28	5.21
LIQUIDITY			
Liquid Assets + Marketable Securities / Equity (%)	110.93	33.43	23.65
Net Interest and Commission / Total Assets (%)	2.82	3.71	2.38
Liquid Assets + Marketable Securities / Total Assets (%)	12.37	3.20	2.21
CAPITAL ADEQUACY			
Intangible Assets / Total Assets (%)	0.01	0.03	0.03
Equity/Total Assets (Standard Ratio) (%)	11.16	9.57	9.35
Internal Equity Gen/Previous Years Equity	36.06	21.29	12.78
Equity/Equity+Total Guarantees+Commitments	25.18	27.63	25.20
Free Equity / Total Receivables Ratio (%)	13.51	10.08	9.31
Equity / Total Liabilities (%)	11.16	9.57	9.35
Tangible Assets / Total Assets (%)	0.46	0.66	0.80
ASSET QUALITY			
Total FX Position/Total Assets	2.09	0.05	1.13
Loan Loss Provision/Total Loans	3.53	4.89	4.36
Total Provision/Profit Before Tax&Provision	21.00	42.34	45.44
Total FX Position/Equity	18.72	0.49	12.13

Rating Info

Rated Company:	Vakıf Finansal Kiralama A.Ş. Büyükdere Caddesi Gazeteciler Sitesi Matbuat Sokak No:13 Esentepe/İstanbul Telephone: +90 212 337 67 67
Rating Report Preparation Period:	01/04/2022- 22/04/2022
Rating Publishing Date:	26/04/2022
Rating Expiration Date:	1 full year after publishing date, unless otherwise stated
Audited Financial Statements:	FYE2021-FYE2020-FYE2019 Solo
Previous Rating Results:	April 29, 2021 / Long Term National Scale / 'A (tr)' Other rating results for the Company are available at www.jcrer.com.tr
Rating Committee Members:	Ş. Güleş (Head of Group) , Z. M. Çoktan (Head of Group) , B. Pakyürek (Chief Analyst) , F. Lap (Chief Analyst) , K. F. Özudoğru (Chief Analyst)

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The Company's balance sheet composition, asset quality, risk management practices, business profile, liquidity management, history in the sector, profitability figures, revenues, debt structure e, growth rates, off-balance sheet commitments, and the financial and non-financial positions of the main shareholders were taken into consideration while determining the risk assessment of the long-term international local currency and foreign currency ratings as well as national ratings.

Considering the fact that there are no additional legal or financial collateral guarantees provided separately for the repayment of the bonds issued, the note assigned for the TRY dominated bond issuance is assigned as the same as the Company's Long and Short Term National Local Ratings, unless otherwise stated.

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JCR Eurasia Rating
Maslak Mahallesi Taşyoncası Sokak No:1/F F2 Blok Kat:2 34485 Sarıyer/İstanbul/Türkiye
Telephone: +90(212)352 56 73
Fax: +90 (212) 352 56 75
www.jcrer.com.tr

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