

Corporate Credit Rating

☐ New ☒ Update

Sector: Leasing

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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	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	BB	-
ISRs (Issue Specific Rating Profile)	International LC ICR Outlooks	Negative	-
	National ISR	-	-
	International FC ISR	-	-
Sovereign*	International LC ISR	-	-
	Foreign Currency	BB (Negative)	-
Sovereign*	Local Currency	BB (Negative)	-

* Assigned by JCR on August 18, 2022

VAKIF FİNANSAL KİRALAMA ANONİM ŞİRKETİ

JCR Eurasia Rating, has evaluated the "Vakıf Finansal Kiralama A.Ş." in the very high-investment level category and revised the Long-Term National Issuer Credit Rating as 'AA (tr)' from 'AA- (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/Negative' as parallel to international ratings and outlooks of Republic of Türkiye.

Vakıf Finansal Kiralama A.Ş. (hereinafter referred to as "the Company" or "Vakıf Leasing"), is licensed as a leasing company and has been subject to the "Financial Leasing, Factoring, Financing and Saving Financing Companies Law" dated December, 2012 and conducts its activities within the framework of "Regulation on Principles for Establishment and Operations of Financial Leasing, Factoring and Financing Companies" dated April 24, 2013. The Company 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 İstanbul and five branches in Adana, Ankara, Antalya, Bursa and İzmir as well as in the widespread branch network of Vakıfbank. Vakıf Leasing had a staff force of 76 as of FYE2022 (FYE2021: 76).

The Company is a subsidiary of **Türkiye Vakıflar Bankası T.A.O.** (referred to as "the Bank"), which ranks 2nd among Turkish banks in terms of asset size with its consolidated assets of TRY 1.71bn. Vakıfbank holds 62.05% of the Company's share as of FYE2022, while the remaining shares are publicly traded. The Company has been publicly traded on the Borsa İstanbul (BIST) since 1991 under the ticker symbol "VAKFN".

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

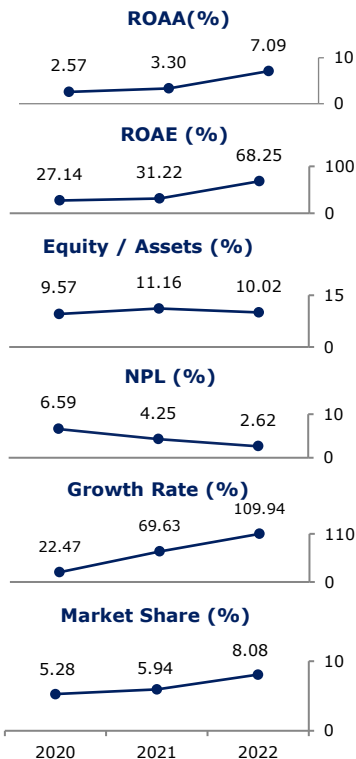
Strengths

- Healthy improvement in operational and financial performance in FY2022,
- Steady increase in profitability indicators providing operational sustainability,
- Low level of NPL ratio, remaining below the sector average in FY2022 supporting asset quality,
- Balanced receivables and liabilities structure and rising share of local currency lending mitigating credit risk,
- As a bank-owned leasing company, harnessing from strong brand name of Vakıfbank with wide branch network,
- Established position in the sector along with shareholders' extensive experience in finance sector,
- As a publicly traded company, high level of compliance with corporate governance best practices, experience of senior management and continuity of well-established risk management practices.

Constraints

- Rising sentiment to interest rate volatility due to increased share of debt structure with variable interest rate in FY2022,
- Above sector leverage rates, albeit increasing equity levels,
- Credit risk concentration among the top fifty customers,
- Challenging macro environment and highly competitive market conditions.

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been revised to 'AA (tr)' from 'AA- (tr)'. Improved performance indicators of the Company, profitable outlook, decreased NPL ratio, intra-group synergy through Vakıfbank branches as well as sentiment to FX and interest rate levels, above sector leverages, geopolitical and economic concerns across the globe 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

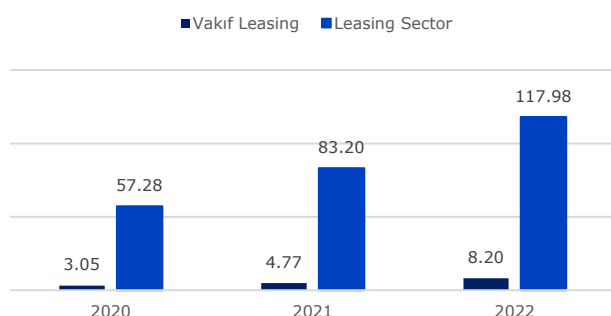
Healthy Improvement in Operational and Financial Performance in FY2022

Vakif Leasing's turnover rose to USD 402.09mn in FY2022 from USD 265.62mn in FY2021 with a 51.38% growth rate compared to previous year indicating a healthy improvement of performance. Additionally, the number of transactions, which was 758 in 2021, increased by 22.43% to 928 in 2022.

(USD mn)	FY2022	FY2021	FY2020
Turnover	402.09	256.62	172.65
Number of Transactions	928	758	546

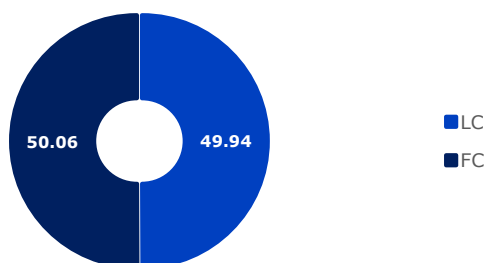
Additionally, according to the Company management, the Company's number of customers increased from 1,112 to 1,360 in FY2022.

Net Leasing Receivables (TRY bn)



The Company's net finance lease receivables rose to TRY 8.20bn in FY2022 from TRY 4.77bn. While Turkish leasing sector's net lease receivables increased by 41.79% in FY2022 in TRY terms, Vakif Leasing's growth rate was 72%, above the sector average.

Portfolio Currency Composition %

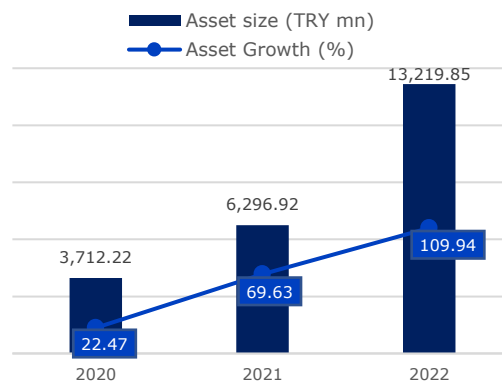


The depth look at the lease receivables structure reveals 50.06% of foreign currency share in FYE2022, reflecting a balanced portfolio composition in terms of currency unit.

Sectoral breakdown of leasing receivables in 2022 compared to 2021 is as follows:

Sectoral Breakdown (%)	2022	2021
Manufacturing Sector	46.43	49.42
Construction	19.88	21.77
Wholesale and Retail Trade	10.95	14.37
Health and Social Services	7.61	1.96
Real Estate and Rental	5.88	3.96
Mining and Quarrying	4.02	2.04
Education	1.46	2.12
Others	3.77	4.36
Total	100	100

The Company's asset size rose to TRY 13.22bn in FYE2022 from 6.30bn in FYE2021. Increase in finance lease receivables and cash and cash equivalents were the major drivers of the growth of assets size, providing the Company to increase its interest income. Thanks to marked and steady improvement of assets size over the reviewed period, the Company's market share in terms of assets size reached 8.08% in FYE2022. (FYE2021: 5.94%). Total assets mainly consisted of finance lease receivables (62.05%), followed by cash and cash equivalents (20.74%) as of FYE2022.



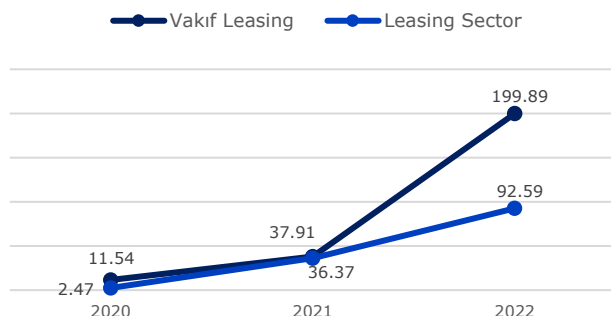
The banks' tightening of credit taps for long-term funds in 2022 led companies to obtain long-term and fixed-rate funds for financing investment goods through financial leasing, which boosted Vakif Leasing's performance.

Steady Increase in Profitability Indicators Providing Operational Sustainability

Thanks to marked and steady improvement in increase in finance lease receivables, Vakif Leasing's finance lease income climbed TRY 1.08bn by 3 (x) increase compared to previous year. As shown in the graph below, the Company's finance lease income grew above the sector throughout the reviewed

period and the gap between the sector and Vakıf Leasing widened in FY2022.

Finance Lease Income Growth (%)



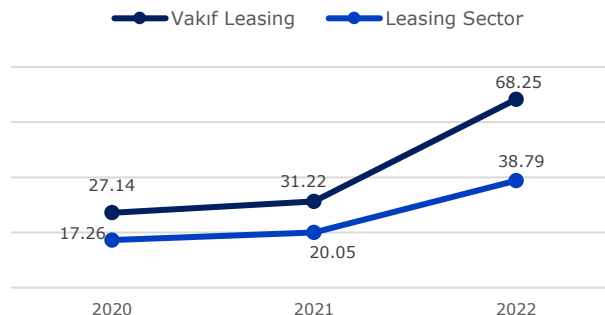
According to the Company's independent audit report, average compound interest on lease receivables realized as 27.09%, 8.45% and 7.00% for TRY, USD and EUR receivables, respectively. (FYE2021: TRY:18.04%, USD:8.80%, EUR:6.61%).

(TRY mn)	FY2022	FY2021	FY2020
Operating Income	1,107.48	368.46	267.26
Financial Expenses (-)	800.02	201.98	134.71
Gross Profit / Loss	307.46	166.92	132.54
Operating Expenses (-)	80.17	37.86	29.17
Gross Operating Profit / Loss	227.29	129.10	103.37
Other Operating Income	578.59	101.61	52.07
Provision Expenses (-)	30.45	43.36	63.63
Other Operating Expenses (-)	83.62	22.27	5.16
Net Operating Profit / Loss	691.81	165.09	86.65
Income Tax Expense from Discontinued Operations (-)	173.24	37.02	26.33
Net Profit / Loss from Discontinued Operations	518.57	128.07	60.32

Despite 3.96 (x) times increase in financial expenses, the surge in interest income from financial leases brought a cascading effect and gross profit increased by 84.15% in FY2022 compared to previous year. (FY2022: TRY 307.46mn). Vakıf Leasing posted TRY 518.57mn profit at the bottom line in FY2022 with 4.05 (x) times increase compared to previous year.

In addition, as it is shown at the below graph, ROAE, which is accounted for pretax profit over average equities, realized as 68.25% in FY2022, remaining well above the sector average.

ROAE (%)

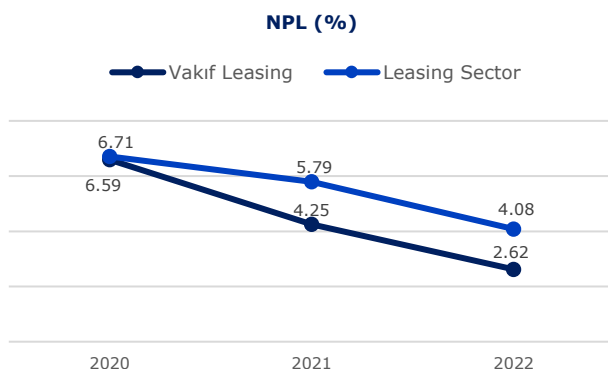


All in all, improved profitability adds to higher equity level. Internal Equity Generation to Previous Years Equity ratio surged to 73.82% in FY2022 whilst it was 36.06% in FY2021. Additionally, the Company's paid-in capital increased by TRY 131.10mn to TRY 600.00mn, of which TRY 100mn was covered from internal reserves and TRY 31.10mn was cash capital increase. As JCR Eurasia, we see the healthy improved profitable outlook, which contributes to higher equity levels and operational sustainability, as the Company's strength.

The Company's paid-in capital increased up to TRY 600.00mn as of FYE2022 from TRY 200mn as of FYE2020. On the other hand, it must be noted that despite increased level of paid-in capital from TRY 468.89mn to TRY 600mn in FYE2022, equity to total assets ratio dwindled from 11.16% to 10.02%, remaining below sector averages. 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.

Low Level of NPL ratio, Remaining Below the Sector Average in FY2022 Supporting Asset Quality

Whilst Vakıf Leasing increased its net receivables by 72% in FYE2022, its non-performing loan volume grew moderately to TRY 220.69mn (FYE2021: TRY 211.78mn). Specific provisions decreased from TRY 168.37mn to TRY 128.13mn in FYE2022 due to NPL write-off amounted TRY 92.08mn. As it is shown at the below graph, the Company's NPL ratio remained below the sector average over the reviewed period and materialized at 2.62% as of FYE2022.



In addition, the Company devote its provisions pursuant to the 6th article of the Regulation Governing the Accounting Practices and Financial Statements of the Financial Leasing, Factoring, Financing and Saving Financing Companies rather than IFRS 9. The Company's specific provisions amounted TRY 26.20mn and general provisions amounted TRY 4.25mn in FY2022.

The detail of net finance lease receivables overdue is as follows:

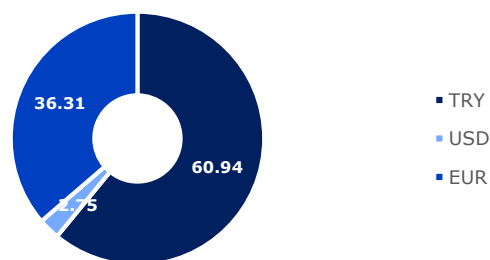
(TRY mn)	FYE2022	FYE2021
Not overdue and not impaired	8,055.87	4,484.22
Overdue but not impaired	147.41	285.33
Impaired	220.69	211.78
Provision for impairment (-)	128.13	168.37
Finance lease receivables, net	8,295.84	4,812.96
Impaired receivables		
151-240 days	33.79	9.94
241-365 days	40.43	3.63
>1 year	146.47	198.2
Non-performing receivables, net	220.69	211.78

According to the Company management, no significant deterioration in the non-performing loan ratio is expected in 2023. Since NPL ratio is significant for financial institutions in terms of financial stability, profitability and reputation, we, as JCR Eurasia, see assets structure and low level of NPL ratio as a rating positive factor of the Company.

Balanced Receivables and Liabilities Structure and Rising Share of Local Currency Lending Mitigating Credit Risk

As it is shown at the below figure, TRY composes the majority of the funding structure of Vakıf Leasing with 60.94% weight as of FYE2022.

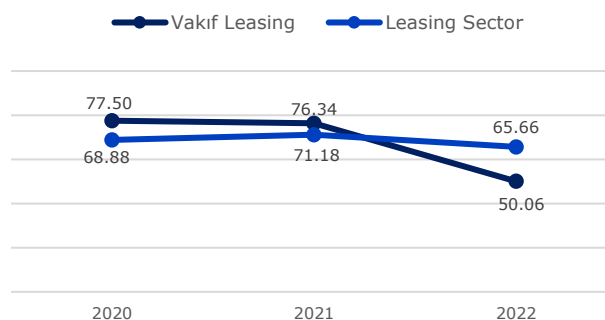
Funding Currency Breakdown %



Excluding foreign currency bad loans Vakıf Leasing's net balance sheet position rose to TRY 1.51bn thanks to balanced structure of lease receivables of which 50.06% was foreign currency based. According to the Company management, foreign currency is purchased from the spot market when a contract is restructured, terminated or the currency is changed in order to avoid a short FX position on the balance sheet.

Since imported goods constitute majority of leasing in Türkiye, the finance lease receivable portfolio structure mainly consists of FX leases. It must be noted that, on one hand the Company's balanced portfolio structure of assets and liabilities in terms of currency unit enable the Company to ease effects of FX fluctuations on balance sheet integrity and on the other hand, declining 50.06% of net finance leases were foreign-currency based, below the sector, mitigate credit risk amid local currency depreciation.

FX Lease Receivables/Total Receivables (%)



Additionally, although the Company's derivative financial liabilities amounted TRY 21.52mn as of December 31, 2021, the Company did not record any derivative financial liabilities as of December 31, 2022.

As a bank-owned Leasing Company, Harnessing from Strong Brand Name of Vakıfbank with Wide Branch Network

Presently there are 21 leasing companies in Türkiye, 15 of which are bank subsidiaries.

Although Vakıf Leasing has 5 branches which are located in Adana, Ankara, Antalya, Bursa and İzmir, geographically diversified and extensive branch network of Vakıfbank enables Vakıf Leasing to reach a multitudinous customer. According to the Company management, 54% of the leasing credits came from direct marketing, while Vakıf Leasing's share was 46%.

Vakıf Leasing get benefit from opportunities of being a bank affiliate company including access to funding, customer reach, credibility and economies of scale reducing costs. Existence of Vakıfbank, parent shareholder of Vakıf Leasing, through its 949 branches across all over Türkiye enable the Company to access these opportunities. In addition, Vakıfbank is a significant resource of human for the Company, particularly in management levels thanks to its well qualified staff force.

Established Position in the Sector along with Shareholders' Extensive Experience in Finance Sector

Vakıf Leasing was established in 1988 as a subsidiary of Vakıfbank and its shares has been listed in BIST since 1991, which rendered the Company the first publicly-traded leasing Company in Türkiye. Having successfully operated exceeding 30 years, Vakıf Leasing continues not only to support investments that will contribute to national development and employment and increase national income, but also to provide added value for Türkiye.

BIST Indices that Vakıf Finansal Kiralama A.Ş. is included are BIST Financials / BIST All Shares-100 / BIST All Shares / BIST Main / BIST Leasing Factoring.

Vakıfbank, ranks 2nd in terms of assets size as of FYE2022, is one of the building blocks of the Turkish finance sector and has prominence through its contribution to the Türkiye's leading investment projects. Vakıfbank was rated by JCR Eurasia Rating and affirmed with the ratings of '**AAA (tr)**' on the Long Term National Local Scale on June 23, 2022.

As a Publicly Traded Company, High Level of Compliance with Corporate Governance Best Practices, Experience of Senior Management and Continuity of Well-established Risk Management Practices

Compliance with corporate governance best practices provides guidance and sustainability for companies through the enhancement of their efficiency via transparent, widely accepted and continuously monitored processes and policies.

Founded in 1988, Vakıf Leasing is Türkiye's first publicly traded leasing company whose shares have been traded on the BIST since 1991. Vakıf Leasing has reached a high standard of compliance with the Corporate Governance Practices such as a comprehensive risk management framework, high degree of transparency, presence of three independent members on the Board, establishment of all committees required by the principles (audit, corporate governance and early detection of risk), and comprehensive website, quality of financial reporting along with an emphasis on sustainability and efficiency which contributes to its current set of ratings.

Vakıf Leasing's website includes history, products, information on up-to-date operational performance, international structure, career and news, financial reports and investor relations. These factors contribute to the Company's transparency level and to the investors' risk perception for the Company accordingly.

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 an experienced team and presence of a well-functioning control organization compatible with its size.

Rising Sentiment to Interest Rate Volatility due to Increased Share of Debt Structure with Variable Interest Rate in FY2022

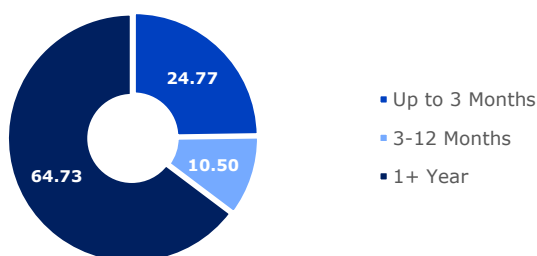
The Company's loans received amount increased from TRY 5.13bn to TRY 10.85bn as of FYE2022 with 2.11 (x) times increase compared to previous year.

While FX loans constituted the majority as of FYE2021, the debt profile has turned into a TRY

dominated structure due to restricted access to FX based loans. While Türkiye decoupled from the rest of world and has implemented interest rate cut in parallel to its economic model, 2022 was a year of hiking policy rates due to the rising level of inflation across the world. In the wake of increased level of interest rates and surge in Türkiye's CDS premium FX based loans costs increased and share of them in the Company's balance sheet decreased. On the other hand, since access to overseas loan became tough, the Company turned toward thematic loans. As the availability of credit, especially long-term credit, is limited, the Company was mainly supported by Vakıfbank in terms of fund supply in FYE2022. The share of Vakıfbank in the Company's funds borrowed increased from 23.40% to 67.58% in FYE2022.

Additionally, a depth look at Company's balance sheet reveals a rising share of TRY in both assets and liabilities side. Due to decreased interest rate in real terms arising from surge in inflation, prompted the companies to obtain TRY based loans.

Funding Maturity Breakdown %



The majority of the Company's funding maturity is over 1+ year as it is shown at the above figure. Due to decreased maturity of loans in the market arising from uncertainties, Vakıfbank's share in total funding increased from 23.40% to 67.58%.

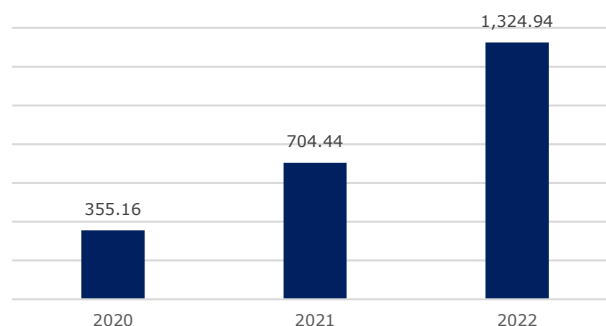
(TRY mn)	FYE2022	FYE2021
Domestic Bank Loans		
Loans with Fixed Interest Rate		
TRY	972.91	957.60
EUR	955.69	1,691.65
USD	16.58	529.72
Loans with Floating Interest Rate		
TRY	5,539.97	-
EUR	1,790.99	975.54
Total Domestic Bank Loans	9,376.15	4,154.52
Loans Received from Abroad		
Loans with Fixed Interest Rate		
EUR	517.96	505.51
Loans with Floating Interest Rate		
EUR	675.06	278.51
USD	281.43	194.92
Total Loans Received from Abroad	1,474.46	978.94
Total Loans Received	10,850.60	5,133.45

As it is shown at the above table, the share of loans with variable interest rate surged from to 77.30% and materialized at TRY 8.39bn as of FYE2022. On the other hand, according to the Company management, interest rate risk mitigated by the interest rate cap against the possibility of a surge in interest rates.

Above Sector Leverage Rates, albeit Increasing Equity Levels

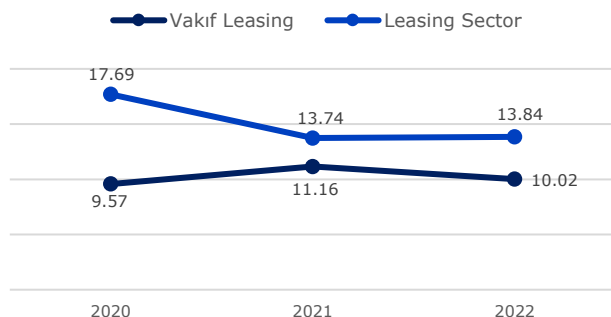
As it is shown at the below graph, thanks to its profitable outlook, the Company's equity level had an upward trend over the reviewed period.

Equity (TRY mn)



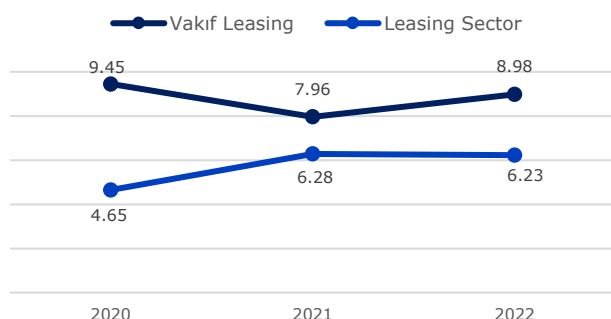
On the other hand, despite rising equity level, as it is shown in the graph below the Company's equity to total assets ratio realized as 10.02% as of FYE2022 and remained below the sector average over the reviewed period.

Equity / Total Assets (%)



The Company's debt to equity ratio was also high at 8.98 (x) and remained above sector average.

Debt to Equity (x)



The liability structure mainly consisted of funds borrowed with 82.07% and no issued debt recorded as of FYE2022.

Credit Risk Concentration among the Top Fifty Customers

Vakif Leasing increased its finance lease receivables and number of customers increased from 1,122 to 1,360 as of FYE2022.

Customer concentration risk is the level of revenue risk that a portfolio holds as a result of relying on a small pool of customers and is a measure of how total revenue is distributed among the Company's customer base.

Customer Concentration	%
First 10	25
First 20	34
First 50	49

According to the data obtained from the Company management, top 50 customers represented 49% of total finance leases as of FYE2022. On the other hand, despite customer concentration, it must be noted that, the fact that the Company's customer base is also Vakifbank's customer, the Company utilizes from

assessment and grading methodology of Vakifbank which increases the Company's receivables quality.

Challenging Macro Environment and Highly Competitive Market Conditions

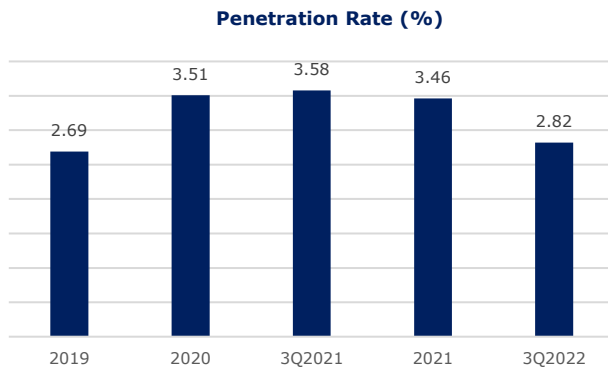
Monetary easing policies implemented over the years, supply chain disruptions related to Covid-19, volatile commodity prices related to Ukraine-Russia war and subsequent sanctions against Russia are the underlying reasons of recent inflationary environment.

Despite wild price swings, energy prices have declined in 2022 amid slowing global growth and concerns about a possible recession. Brent crude oil prices reached USD 139.13/bbl in March 2022, the highest level since 2008 due to Russian invasion of Ukraine. Nevertheless, prices eased in the 2H2022 and closed the year at USD 85.91/bbl as major central banks, particularly FED and ECB, hiked interest rates.

Economic growth in the euro area slowed markedly in the second half of 2022 and finally came to a halt in the fourth quarter. 2023 is likely to become a challenging year amid fears of recession in major economies, including EU zone and USA, and has both headwind and tailwinds. Major central banks including the FED and the ECB continue to rate hike to tame inflation, leading to a slowdown in economic activities. According to the IMF World Economic Outlook report dated April, 2023 five years from now, global growth is expected to be around 3%. This is the lowest medium-term forecast in an IMF World Economic Outlook report since 1990.

It must be noted that, Ukraine-Russia war is continuing as of our report date, causing a blurry atmosphere over global economic outlook and increasing uncertainties. On the other hand, recent turmoil at USA banking system, political and economic uncertainties, ripples in commodity prices are the risk that fuel fears of recession.

As of April, 2023, there are 21 leasing institutions, 15 of which are bank-owned. As can be seen, most of the players in the sector, including Vakif Leasing, benefit from the opportunities of being a bank subsidiary, which leads to increased competition. On the other hand, according to the leasing penetration rate which is accounted for leasing volume excluded building divided by total fixed investment excluding building was 2.82% as of September, 2022, indicating potential for growth for leasing sector.



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

When the global and national scale rating matching published by JCR Eurasia Rating is considered, the Company's Long-Term International Issuer Credit Rating is assigned as **'BB'**.

2. Rating Outlook

JCR Eurasia Rating has assigned **'Stable'** outlook on Long-Term National Issuer Credit Rating and Short-Term National Issuer Credit Rating perspectives of Vakıf Leasing, considering improved performance and profitability indicators, low level of NPL, intra-group synergy with Vakıfbank branches as well as sentiment to interest rates, above sector leverage rates and uncertainties across the globe.

Additionally, the outlook on the International Long-Term Issuer Credit Rating perspectives of Vakıf Leasing have been assigned as **'Negative'** in line with the sovereign rating outlooks of the Republic of Türkiye.

Significant factors that may be taken into consideration for any future change in ratings and outlook status include;

Factors that Could Lead to an Upgrade

- Growing income stream and further improvement in profitability indicators,
- Solid growth performance in assets volume,
- Improvement in leverage ratios,
- Ease of access to financial resources from both national and international organizations,
- Improvements in diversification of customer base,

- Reduction in financing costs and robust economic growth in the domestic and international markets,
- Upgrades in sovereign ratings and economic growth prospects of Türkiye.

Factors that Could Lead to a Downgrade

- Contraction in performance and profitability indicators,
- Deteriorating asset quality and liquidity profile,
- Increasing cost of funding and its effect on profitability,
- Potential deterioration in accessing external financial resources,
- Possible regulatory actions that would restrain the profitability & growth performance of the sector,
- A sharp slump in growth in the domestic and international markets,
- Downgrades in the sovereign rating level of Türkiye.

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

No projections have been submitted by the Company management.

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 37.95% free float of its paid-in capital of TRY 600mn as of December, 2022.

The Company has been subject to the "Financial Leasing, Factoring, Financing and Saving Financing Companies Law" dated December, 2012 and conducts its activities within the framework of Regulation on Principles for Establishment and Operations of Financial Leasing, Factoring and Financing Companies 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 Adana, Ankara, Antalya, Bursa and İzmir as well as the widespread branches of Vakıfbank. The labor force of the headquarters and regional offices was 76 people as of FYE2022 (FYE2021: 76).

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
Emine UYUMAZ	Member
Eren SÜZEN	Member
Savaş Atanur KAZAZ	Independent Member
Selçuk Gökbayrak	Independent Member
Mustafa ERDİN	Member /General Manager

b. Shareholders, Subsidiaries & Affiliates

As of December 2022, the paid in capital of Vakıf Leasing is TRY 600mn. The Company's paid-in capital increased by TRY 131.10mn to TRY 600.00mn, of which TRY 100mn was covered from internal reserves and TRY 31.10mn was cash capital increase. The table below indicates the shareholding structure of Vakıf Leasing as of FYE2022 and FYE2021:

Vakıf Leasing's Shareholder Structure

TRY mn	December, 2022		December, 2021	
	Amount-TRY	%	Amount-TRY	%
Vakıfbank	372.27	62.05	293.56	62.61
Türkiye Sigorta Anonim Şirketi	-	-	78.24	16.69
Public Held	227.73	33.95	97.09	20.70
Total	600.00	100	468,895	100

Vakıfbank, with paid-in capital, asset size and net profit figures of TRY 7.11bn, TRY 1.71bn and TRY 24.47bn, respectively in FYE2022, 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 23, 2022.

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.

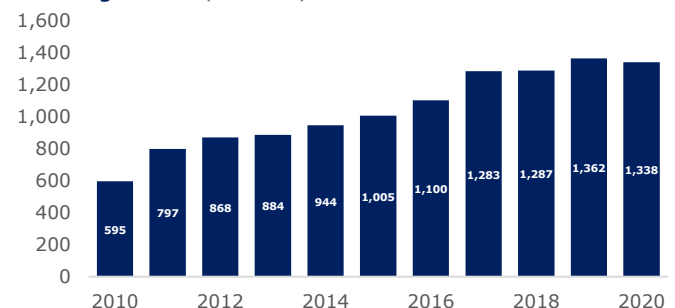
Company Name	Ownership 2022	Ownership 2021
Vakıf Faktoring A.Ş.	3.79	3.79
Vakıf Pazarlama Sanayi ve Tic.A.Ş.	3.27	3.27
Vakıf Yatırım Menkul Değerler A.Ş.	0.25	0.25

c. Industry Assessment

Leasing companies with their role of financing fixed-asset investments makes a huge contribution to the economies. Especially, since banks loans possibility of to be used for speculative purposes, leasing companies' effect on economy is to create significant direct impact. In other word, since financial leasing offers an asset's using rights, it works like selective loans which has produced direct output. However, since fixed asset investment strongly correlate with the general economic conditions, leasing sectors potential closely relate with economic activity. Thus, sectors general outlook strongly correlates with the general economic conditions.

Leasing volumes across world follows upward trend.

Leasing Volume (billion USD)



Source: Solifi, JCR-ER

Although the leasing transactions' annual volume decreased slightly in 2020, when the pandemic slowed down economic activity, leasing is seen as one of the main sources of finance across the world, especially in developed countries. As its obviously can be seen in

graph below, sector took a double digit share in fixed asset investments. By contrast to developed markets, Türkiye's penetration rate was only 2% with a volume of USD 4bn in 2020. In comparison to developed countries, the sector has growth potential in Türkiye.

Leasing Volumes by Country in 2020 (billion USD)

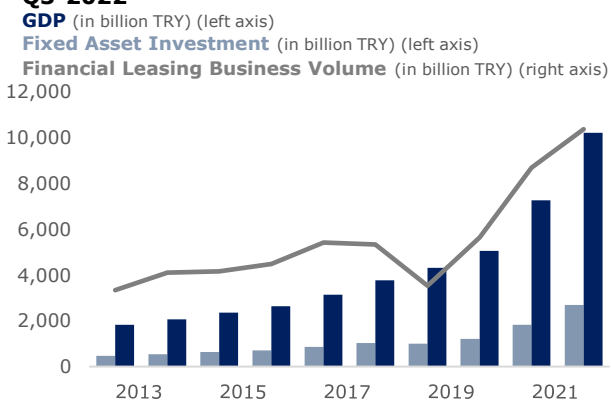
Ranking		Annual Volume (in billion USD)	Growth (%)	Penetration Rate (%)
1	USA	440	-7	22
2	China	300	12	9
3	UK	83	-20	28
4	Germany	80	-	16
5	Japan	66	-14	5
6	France	57	-10	18
26	Türkiye	4	47	2

Source: Solifi, JCR-ER

Although the sector's potential is closely related with the general economic outlook, banks domination in Turkish financial markets direct customers to the banks as first financing sources. On the other hand, banks can direct their customers to leasing companies, which are their own subsidiaries, in order to increase the awareness of leasing transactions and increase transaction volumes.

As of Q3-2022, TRY 1,200bn of fixed asset investment has been done in Türkiye and leasing companies financed TRY 43,1bn of total fixed asset investment. The penetration rate which is ratio of leasing business volume to total fixed asset investment regressed to 1.61% in Q3-2022 where it was calculate as 1.95% in the same period of previous year.

Financial leasing sector financed TRY 23.4bn of Türkiye's gross fixed asset investment as of Q3-2022



Source: AFI, JCR-ER

Nearly half of the leasing volume comes from five sectors. Construction and Wholesale& retail sectors are

the two sectors from services industry who actively use leasing operation to finance fixed asset investment.

Leasing Volume by Sectors (in million TRY)

	2022*	2021	2020	2019
Construction	8,693	6,486	4,079	1,663
Textile and Textile Products	7,534	4,842	3,298	1,777
Wholesale and Retail	5,628	2,669	1,560	1,534
Main Metal and Production of Material	4,837	2,487	1,628	1,528
Manufacturing	29,456	18,565	11,627	7,951
Services	25,041	15,458	10,306	5,699
Total	56,685	36,134	23,479	14,664

*January to November
Source: BRSA, AFI, JCR-ER

Moreover, to services industry, sectors operate in manufacturing industry tend to use leasing as a financing tool. For instance, the textile and textile products sector used leasing transactions to purchase equipment worth TRY 7,534mn as of November 2022 whilst the metal sector financed its fixed investment of 4,837 million via leasing transactions.

According to the data from BRSA, which is the regulating body of the sector indicates that sector's asset size jumped by 54,97% and reached to TRY 159,560bn compared to same period of the previous year, as of November 2022. In the mentioned period, cash accounts went up by 115,98% whilst financial assets which includes net leased assets, non-performing receivables and allowances increased by 39.06% and recorded as TRY112,029bn.

Selected Balance Sheet Items for Financial Leasing Companies (in million TL)

	FY2020	FY2021	2021/11	2022/11
Cash, Cash Equivalents and Central Bank	3,124	5,981	6,026	13,015
Financial Assets (Net)	58,061	83,014	80,561	112,029
Leasing (Net)	57,278	83,203	79,831	112,272
Non-Performing Receivables	4,096	5,094	4,778	5,307
Allowances for Expected Credit Loss	3,407	5,352	4,115	5,724
Tangible Assets (Net)	1,103	1,947	1,494	3,689
Total Assets	70,277	106,048	102,964	159,560
Funds Borrowed	49,604	77,459	73,165	114,446
Securities Issued	2,203	3,325	3,603	7,434
Shareholders' Equity	12,431	14,575	14,733	21,791
Paid-in Capital	3,939	4,362	4,079	4,777
Total Liabilities and Equity	70,277	106,048	102,964	159,560

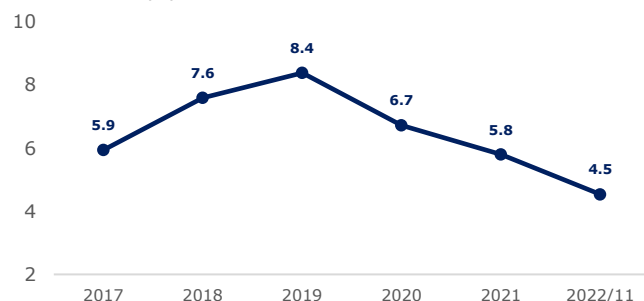
Source: BRSA, JCR-ER

Since the bulk amount of the sector's business volume take place in FX denominated assets, it is important to mention that significant part of financial assets is FX

denominated. So, FX movements, especially in the last twelve months had a considerable effect on balance sheet in terms of financial assets. Net leasing assets increased by 40.6% in compared to similar period of 2021 whilst non-performing receivables went up only by 11.1%. On the other hand, it is seen that leasing companies acted very cautiously in this period in terms of allowances and an amount higher than the non-performing receivables are kept as allowances.

While the sector is cautious about non-performing receivable, NPL rate decreasing since 2020. Although the regulation which allowed financial institutions allows to delete non-performing receivables from account, the positive signal that leasing companies are well-behaved to manage its non-performing receivables.

After pandemic with the help of forbearance measures, NPL rate is downwarding.
NPL Rate (%)



Source: BRSA, JCR-ER

Increases in assets are reflected in financing side of balance sheet. Leasing companies use security issuance and bank loans as sources of finance along with retained earnings. As of November 2022, funds borrowed amounts recorded %56.4 YoY growth and realized as TRY 114,446bn. In the same period, sector enlarged its issued security volume by 106.3% from TRY 3,603bn to TRY 7,434bn, as well.

Moreover, steady capital injections are observed in balance sheet. Paid-in capital account went up by 17.1% and was recorded as TRY 4,777 bn. Along with this, retained earnings make relative contribution to shareholders' equity between the November 2021 and November 2022. In mentioned period sectors equity bounded to TRY 21,791bn with an increase rate of 47.9%. As of November 2022, the sector earned TRY 11,923mn financial lease income. This indicates a 92.1% increase compared to similar period of previous year. However, increase in financial expenses in mentioned period repressed the gross profit margin.

The gross profit margin decreased to 29.9% from 39.9% due to financial expenses which realized as TRY 8,357bn as of November 2022.

On the other hand, the net profit for the period was significantly supported with the other operating profits obtained with the support of the fluctuations in the exchange rates. Thus, the net profit of the sector increased by 158.4% compared to the same period of the previous year and reached TRY 5,349mn in the mentioned period.

Selected Income Statement Items for Financial Leasing Companies (in million TL)

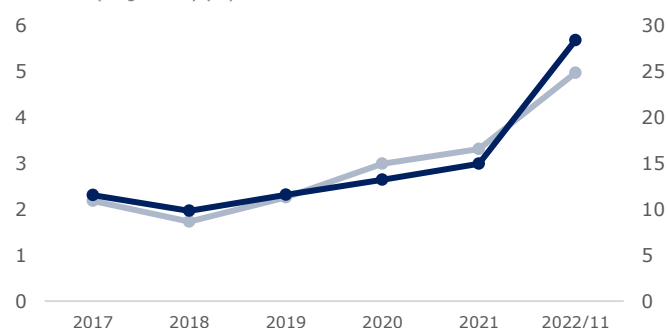
	2020	2021	2021/11	2022/11
Operating Income	5,112	7,013	6,208	11,923
Financial Lease Income	5,112	7,013	6,208	11,923
Financial Expenses	2,495	4,213	3,728	8,357
Gross Profit/Loss	2,617	2,799	2,480	3,567
Operating Expenses	754	871	769	1,335
Other Operating Profit/(Loss)	1,464	2,911	2,614	5,360
Net Operating Profit/Loss	1,968	2,708	2,749	5,616
Profit from Continuing Operations Before Tax	1,968	2,708	2,749	6,599
Net Profit	1,502	2,042	2,070	5,349

Source: BRSA, JCR-ER

ROAA has exhibited upward trend since 2018, jumped to 4.97% in November 2022. In regards to ROAE, it had similar path to ROAA and recorded a substantial increase from 14.93% in 2021 to 28.4% in November 2022.

Profitability ratios are going up with increasing net profit.

ROAA (Left Axis) (%)
ROAE (Right Axis) (%)



Source: BRSA, JCR-ER

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

Due to its leasing transactions, the Company is exposed to credit risk. By dealing with creditworthy counterparties and, where possible, obtaining sufficient collateral, the Company seeks to mitigate its credit risk. In addition, the financial situation and credibility of customers are analyzed and credit risks are monitored on the basis of these analyses, supplemented by intelligence reports. Credit risk of the Company is concentrated in Türkiye, where operations are carried out. 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 11.06bn as of FYE2022 (FYE2021: TRY 5.61bn) indicating almost doubled rise in comparison to the previous year arising from significant increase in receivables from financial leasing activities and bank deposits. Total credit risk exposure comprised 83.64% of total asset size as of FYE2022. (FYE2021: 89.11%) In addition, sector credit concentrations are avoided in order to minimize the associated risks. The Company's lease receivables are diversified across various industries.

Market Risk

Market risk is the risk that changes in the value of a financial instrument may have an impact on the Company's future cash flows. The objective of market

risk management is to control the level of market risk within acceptable parameters through optimization of the return on risk. 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.

Foreign exchange risk

The Company is exposed to FX risk due to its FX denominated financial leasing activities and funds borrowed. Vakıf Leasing's net FX position recorded an increase to TRY 1.51bn as of FYE2022 (FYE2020: TRY 131.50mn). The distribution of foreign currency assets and liabilities as of 2022 and 2021 year-end are shown below:

FX Position (TRY mn)	FYE2022	FYE2021
Assets	6,317.91	4,686.99
Liabilities (-)	4,801.98	4,482.07
Net FX Position	1,515.92	131.50

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 FYE2022 and FYE2021 is (+/-) TRY 151.59mn and TRY 13.15mn, respectively.

Interest Rate Risk

The main risk to which non-trading portfolios are exposed is the fluctuations in future cash flows due to changes in market interest rates. The Company's borrowings at fixed and floating interest rates expose it to interest rate risk. Interest rate risk is controlled by the Company through an appropriate allocation between fixed and floating rate borrowings.

(TRY mn)	FYE2022	FYE2021
Fixed Interest Rate Financial Instruments		
Financial Assets (Total)	10,945.42	5,531.06
<i>Term Deposit</i>	2,742.14	761.51
<i>Financial Lease Receivables, Net</i>	8,203.28	4,769.55
Financial Liabilities (Total)	299.82	176.76
<i>Funds Borrowed</i>	2,643.15	3,178.98
<i>Issued Bonds</i>	-	-
Floating Interest Rate Financial Instruments		
Financial Liabilities (Total)	8,387.46	1,954.47
<i>Funds Borrowed</i>	8,387.46	1,954.47

As of FYE2022, the Company's has a debt structure with floating interest rate with a weight of 77.30%.

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 7, 2023, cash credit lines worth TRY 57.13bn were allocated to Vakıf Leasing by 32 different financial institutions (as of April 19, 2022, TRY 13.34bn by 30 institutions) and circa 21% of this total line was utilized in cash and non-cash loans. Additionally, a TRY 2bn borrowing/lending limit was allocated to the Company to transact in the Takasbank Money Market (TPP).

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 ANONİM ŞİRKETİ

Balance Sheet ('000 TRY)

	2022	2021	2020
Cash, Cash Equivalents	2,742,139	779,199	118,715
Financial Assets at Fair Value Difference through Other Comprehensive Income (net)	46,781	26,434	25,618
Financial Assets Measured at Amortized Cost (net)	8,295,843	4,812,958	3,121,680
Leasing Transactions (net)	8,203,283	4,769,551	3,055,520
Non-Performing Loans	220,694	211,780	215,490
Expected Loss Provisions/Special Provisions (-)	-128,134	-168,373	-149,330
Tangible Assets (net)	91,749	28,990	24,603
Intangible Assets (net)	1,063	684	967
Deferred Tax Asset	0	0	0
Current Period Tax Asset	56,228	8,862	0
Others	1,857,568	639,797	420,636
Assets Held for Sale and from Discontinued Operations (net)	128,480	0	0
TOTAL ASSETS	13,219,851	6,296,924	3,712,219
Loans Received	10,850,603	5,133,454	3,091,749
Payables from Leasing Transactions	180	171	42
Securities Issued (net)	0	0	51,615
Derivative Financial Liabilities	0	21,516	0
Provisions	25,292	48,002	28,447
Current Tax Liability	30,331	33,367	16,670
Deferred Tax Liability	95,931	11,742	8,299
Others	892,575	346,228	160,236
TOTAL LIABILITIES	11,894,912	5,594,480	3,357,058
Paid-in Capital	600,000	468,895	200,000
Capital Reserves	1,662	513	244
Other Accumulated Comprehensive Income or Expenses Not to be Reclassified to Profit or Loss	112,029	40,354	40,306
Profit Reserves	92,682	64,611	54,290
Net Profit/Loss	518,566	128,071	60,321
TOTAL EQUITY	1,324,939	702,444	355,161
TOTAL LIABILITIES AND EQUITY	13,219,851	6,296,924	3,712,219

- Including JCR Eurasia Rating's adjustments where applicable

VAKIF FİNANSAL KİRALAMA ANONİM ŞİRKETİ

Income Statement ('000 TRY)

	2022	2021	2020
Operating Income	1,107,484	368,946	267,259
Leasing Revenues	1,082,375	360,924	261,703
Fees and Commissions from Leasing	25,109	8,022	5,556
Financing Expenses	-800,022	-201,984	-134,714
Interests Paid on Used Loans	-751,775	-183,147	-125,708
Interest Paid on Leasing Transactions	-46	-23	-10
Interests Paid on Issued Securities	0	-5,952	-1,644
Fees and Commissions Given	-48,201	-12,862	-7,352
Gross Profit/Loss	307,462	166,962	132,545
Expenses from Op. Act.	-80,169	-37,862	-29,172
Gross Operating Profit	227,293	129,100	103,373
Other Operating Income	578,587	101,615	52,072
Provision Expenses (-)	-30,450	-43,356	-63,630
Other Operating Expenses (-)	-83,620	-22,270	-5,165
Net Operating Profit/Loss	691,810	165,089	86,650
Tax Provision for Continuing Operations (±)	-173,244	-37,018	-26,329
Net Profit/Loss for the Period	518,566	128,071	60,321

- Including JCR Eurasia Rating's adjustments where applicable,

VAKIF FİNANSAL KİRALAMA ANONİM ŞİRKETİ

Key Ratios & Metrics

	2022	2021	2020
PROFITABILITY & PERFORMANCE			
Operating ROAA(Ope Net Inc / Assets (avg)) (%)	14.79	7.08	6.35
Operating ROAE(Ope Net Inc /Equ Cap (avg)) (%)	142.41	66.98	67.04
ROAA	7.09	3.30	2.57
ROEA	68.25	31.22	27.14
Net Profit/Avg Total Assets	5.31	2.56	1.79
Provisions/Total Income	3.35	15.97	34.44
Growth Rate	109.94	69.63	22.47
Gross Profit Margin	76.22	60.81	46.90
Total Operating Expenses/Total Income	8.83	13.95	15.79
Interest Coverage Ratio	192.02	187.29	168.03
Total Income/Total Expenses (x)	16.50	21.44	17.69
Net Profit Margin	57.13	47.17	32.65
Total Income/Avg Total Assets	9.30	5.42	5.48
Interest Margin (%)	4.72	3.64	4.14
Total Income/Avg Equity	89.54	51.34	57.87
Market Share (%)	8.08	5.94	5.28
LIQUIDITY			
Liquid Assets + Marketable Securities / Equity (%)	206.96	110.93	33.43
Net Interest and Commission / Total Assets (%)	3.31	2.82	3.71
Liquid Assets + Marketable Securities / Total Assets (%)	20.74	12.37	3.20
CAPITAL ADEQUACY			
Intangible Assets / Total Assets (%)	0.01	0.01	0.03
Equity/Total Assets (Standard Ratio) (%)	10.02	11.16	9.57
Internal Equity Gen/Previous Years Equity	73.82	36.06	21.29
Equity/Equity+Total Guarantees+Commitments	25.72	25.18	27.63
Free Equity / Total Receivables Ratio (%)	14.63	13.51	10.08
Tangible Assets / Total Assets (%)	0.69	0.46	0.66
ASSET QUALITY			
Total FX Position/Total Assets	11.47	2.09	0.05
Loan Loss Provision/Total Loans	1.56	3.53	4.89
Total Provision/Profit Before Tax&Provision	4.22	20.80	42.34
Total FX Position/Equity	114.41	18.72	0.49

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:	01/04/2023- 21/04/2023
Rating Publishing Date:	26/04/2023
Rating Expiration Date:	1 full year after publishing date, unless otherwise stated
Audited Financial Statements:	FYE2022-FYE2021-FYE2020 Solo
Previous Rating Results:	April 26, 2022 / Long Term National Scale / 'AA- (tr)' Other rating results for the Company are available at www.jcrer.com.tr
Rating Committee Members:	Z. M. Çoştan (<i>Executive Vice President</i>), Orkun İnönü (<i>Director</i>), M. Hayat (<i>Manager</i>)

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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.

Previous rating results and other relevant information can be accessed on www.jcrer.com.tr

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This rating report has been composed within the methodologies registered with and certified by the SPK (CMB-Capital Markets Board of Turkey), BDDK (BRSA-Banking Regulation and Supervision Agency) and internationally accepted rating principles and guidelines but is not covered by NRSRO regulations.

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