

Corporate Credit Rating

□ New ☑ Update

Sector: Leasing

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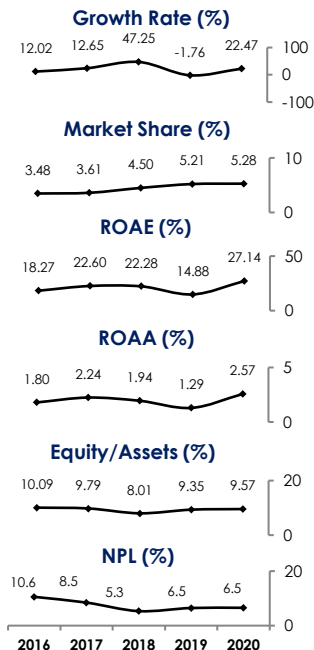
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RATINGS

		Long Term	Short Term
National	Local Rating	A (Trk)	A-1 (Trk)
	Outlook	Stable	Stable
	Issue Rating	A (Trk)	A-1 (Trk)
International	Foreign Currency	BB+	B
	Local Currency	BB+	B
	Outlook	FC Negative LC Negative	Negative
Sovereign*	Sponsor Support	1	-
	Stand-Alone	AB	-
	Foreign Currency	BB+	-
	Local Currency	BB+	-
	Outlook	FC Negative LC Negative	-

*Assigned by JCR on April 10, 2020



VAKIF FİNANSAL KİRALAMA A.Ş.

JCR Eurasia Rating has upgraded the ratings of the **Vakıf Finansal Kiralama A.Ş.** and the **Cash Flows Relating to the Outstanding and Prospective Debt Issuances** to '**A (Trk)**' on the Long-Term National Scale with '**Stable**' outlook. On the other hand, the Long Term International Foreign and Local Currency Ratings have been assigned as '**BB+**' with '**Negative**' outlooks.

The Company, **Vakıf Finansal Kiralama A.Ş.**, 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 has been publicly traded since 1991 (with a 25.64% free float rate of its TRY 200mn paid-in capital as of 2020 year-end).

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). Vakıf Leasing has a staff force of 68 as of 2020 year-end. 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.

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

Strengths	Constraints
<ul style="list-style-type: none"> Upward trend of net profit almost double as of FYE2020 Improvement in profitability indicators supporting internal equity generation Diversified funding sources via bond issuances Opportunities of being a bank affiliate company Robust and reputable shareholder structure providing advantages High compliance to corporate governance practices 	<ul style="list-style-type: none"> Increasing interest and foreign exchange rates environment Ongoing contraction on global and local economy in 2021, due to Covid-19 pandemic Highly competitive and volatile market conditions

Considering the aforementioned points, the Company's the Long-Term National Rating has been upgraded as '**A (Trk)**'. Until the effects of the coronavirus pandemic on the global and local economy are clearly revealed, the company's long and short-term outlooks are determined as '**Stable**'. Sustainability of the Company's profitability performance, efficiency of cost management, and equity level together with the trend of NPL ratio are to be monitored by JCR Eurasia Rating. The macroeconomic indicators at national and international markets, as well as market conditions and legal frame about the sector will be continued to be monitored.

In addition to the recent legal arrangements aiming to support the sector and our consideration that the major controlling shareholder, Vakıfbank T.A.Ş., has the willingness and experience to ensure long term liquidity and equity within their financial capability and to provide efficient operational support to Vakıf Finansal Kiralama A.Ş. when required, the Company initiated efforts to increase intra-group synergy and Vakıfbank branches supported transaction volume in the last year. In this regard, the Company's Support Rating Grade has been affirmed as **(1)** in JCR Eurasia Rating notation.

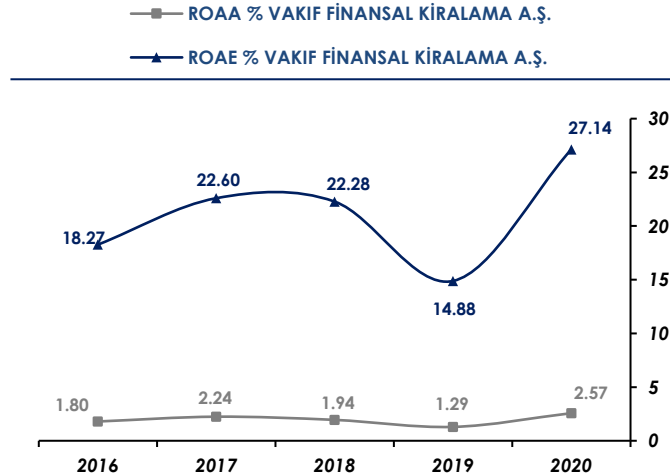
Considering the Company's organizational structure, asset size, market efficiency, corporate governance practices and track record, we, as JCR Eurasia Rating, are of the opinion that Vakıf Finansal Kiralama A.Ş. has reached the level of adequate experience and facilities to manage the incurred risks on its balance sheet regardless of any assistance from the shareholders, provided that it maintains the efficiency in the market. Within this context, the Stand Alone Grade of the Company has been affirmed as **(AB)** in the JCR Eurasia Rating notation system.

1. Rating Rationale

Upward Trend of Net Profit Almost Double as of FYE2020

The Company improved its gross and net profit generation capacity during FY2020. The Company's net profit increased almost doubled, reached to TRY 60.3mn as FY2020. Accordingly, satisfactory net profit amounts of TRY60.3mn contributing positively to equity level through improved internal equity generation capacity. 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.

Additionally, both the company profitability ratios ROAA and ROAE improved compared to previous year figures. The company's ROAA is recorded 2.57% while the sector enjoyed 3.06% in FY2020. On the other hand, ROAE for the company continued to stand above the sector with a rate of 27.14% in FY2020.



Diversified funding sources via bond issuances

The Company issued a bond amounted TRY 50mn in October 9, 2020. The bond issuance presents the advantages of agility in financing, lowering the exposure of bank-dependency, reducing funding costs and relieving the burden of collaterals on bank loans. The bond issuance indicates a better management in liabilities side of the balance sheet.

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 698.8bn and TRY 5.01bn, respectively, and 933 domestic branches owned the majority stake (58.71%) of the Company shares over the review period. **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 10.7bn, 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 FYE2020, respectively, and are mostly publicly capitalized. Accordingly, the Company uses its benefits regarding market recognition, customer base, access network, funding sources and liquidity.

High Compliance to Corporate Governance 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), existence of an effective shareholders relation unit, and comprehensive website. These factors contribute to the Company's transparency level and to the investors' risk perception for the Company accordingly.

Increasing Interest and Foreign Exchange Rates Environment

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.

Ongoing Contraction on Global and Local Economy in 2021, Due to Covid-19 Pandemic

Recent uncertainty created by the global Covid-19 pandemic, which started in China in January 2020 and subsequently influenced whole world, caused a sharp drop in expectations of global growth. According to IMF, the world has been put in a Great Lockdown. As a result of the pandemic, the global economy was projected to contract sharply by 3.5% in 2020 by IMF (dated January, 2021). This makes the Great Lockdown the worst recession since the Great Depression, and for worse than the Global Financial Crisis of 2008. Although the significant actions of large central banks include monetary stimulus and liquidity facilities to reduce systemic stress, weaker economic outlook may spoil the risk appetite of investors. So even though economic growth will soon start to pick up again in step with the reopening of the economies, it may take a time before the risk appetite of investors are healed.

Highly Competitive and Volatile Market Conditions

Ongoing fragility in the global economy, differentiating growth dynamics of the world's leading countries and unions, increasing concern for developing countries, contraction in tourism, weak foreign demand and highly volatile market conditions created downward pressure on Turkey's economic activity.

With respect to the factors mentioned above, JCR Eurasia Rating has upgraded the ratings of the **Vakıf Finansal Kiralama A.Ş** to **'A (Trk)'** on the Long-Term National Scale.

When the global and national scale rating matching published by JCR Eurasia Rating is considered, the Company's Long and Short-Term International Ratings are assigned at **'BB+'** and **'B'**.

2. Projections

The Company's projected balance sheet for the year of 2021 is provided below together with the projected and realized values of 2020:

(TRY 000)	2020 Realized	2020 Forecast	2021 Forecast
EARNING ASSETS	3,266,013	3,000,604	4,420,106
Banks and Other	118,715	44,100	130,000
Leasing Receivables	3,055,520	2,823,919	4,178,432
Net NPL	42,771	120,585	96,584
Non-Performing Loans	215,490	262,443	268,597
Provision for NPL(-)	172,719	141,858	172,013
Other	25,618	12,000	15,000
NON-EARNING ASSET	446,206	265,770	337,100
TOTAL ASSETS	3,712,219	3,266,374	4,757,116
Bank Borrowings	3,143,364	2,827,412	3,951,000
Issued Debt Instruments	51,615	0	0
Other Liabilities	162,079	136,358	265,771
EQUITY	355,161	302,604	540,345
Paid-Capital	200,000	195,000	407,000
Net Profit	60,321	33,604	45,030
TOTAL L&E	3,712,219	3,266,374	4,757,116
Annual Asset Growth %	22.47	7.76	28.15
Equity/Total Asset %	9.57	9.26	11.36
ROAA %	2.57	1.07	1.33
ROAE %	27.14	11.47	12.57
NPL %	6.54	8.50	6.30

According to the projections for the following year, Vakıf Leasing expects 28.15% growth in asset size. The Company projects an increase in paid-in capital from TRY 200mn to TRY 407mn in FYE2021. The realized figures of 2020 went beyond the Company's projections in terms of both asset size and net profit. The expectations on net profit for 2021 will be monitored by JCR Eurasia Rating, under the expected contraction scenario in 2021, emanated from ongoing coronavirus outbreak.

3. Rating Outlook

A **'Stable'** outlooks have been assigned for the Company's short and long term national grades, with the expectation of minimal changes in existing conditions, state of affairs and development trend due to profit amount increased and stood at an equity supportive level together with slightly deteriorated but above sector average profitability ratios,

above sector five-year cumulative growth leading to increased market share and effectiveness, improved asset quality thanks to NPL ratio that below the sector averages, relieved liquidity management through diversified funding sources and better maturity composition of borrowings, increased contribution of other operating income together with its increasing volatility generating potential on future profitability figures, decreased equity level, restrained profitability due to above sector average financial and operating expenses and doubled provisions, challenging market conditions and highly competitive operating environment.

Additionally, JCR Eurasia Rating has affirmed **'Negative'** outlooks on the international Long and Short-Term LC&FC rating perspectives of Vakıf Leasing, respectively, which are the sovereign ratings' outlooks of the Republic of Turkey.

The main driving forces that can call forth a revision in the current outlook status include Company related issues affecting asset quality, liability profile and profitability, along with Turkey's sovereign rating which is highly responsive to domestic and foreign economic uncertainties, tensions and developments.

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

- »Further improvement of net profit margin and internal equity generation capacity,
- »Improvement in equity to total assets ratio
- »Strengthening of equity structure through paid-in capital increase,
- »Sustained recovery in the domestic economy

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,
- »Changes in the sovereign rating level of Turkey represent the factors that might affect the outlooks.

Additionally, **'Negative'** outlooks have been assigned for the international foreign and local currency ratings for both long and short-term perspectives in parallel with the sovereign outlooks of Turkey.

4. Sponsor Support and Stand Alone Assessment

Risk estimations matched with the sponsor support grades reflect the financial and non-financial state, support capability and the degree of desire to support of the major controlling shareholder of Vakıf Leasing, **Türkiye Vakıflar Bankası T.A.O.**, and the sector's support level by public authorities. It is believed that the main shareholder, as a large-scale commercial bank in Turkey with a domestic network of over 933 branches and capitalized mostly with public, has the ample power and equipment to provide financial and efficient operational support as and when required. On the other hand, the sector's support level by public authorities lags behind the banking sector despite the improvements achieved through latest legislative regulations. In this regard, despite the sector's support level falling behind the banking sector, JCR Eurasia Rating has affirmed the **Sponsor Support Grade** as **'1'**, indicating the highest level of sponsor support potential.

The Stand-Alone Grade has been constituted particularly with respect to the Company's operational track record, asset size and quality, equity level and structure, growth rates and market efficiency, risk management and corporate governance practices and the development of existing risks in the markets and business environment. Within this context, the **Stand-Alone Grade** of the Company has been affirmed as **'AB'** in JCR Eurasia Rating's notation system, with the opinion that Vakıf Leasing has reached the level of strong experience and facilities to manage the incurred risks on its balance sheet without any assistance from its shareholders provided that it improves its profit generation capacity and market efficiency.

5. Company Profile and Industry

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 200mn as of 2020 year-end.

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 following table provides the Company’s 2019 year-end shareholder structure and paid-in capital amount. The Company’s paid-in capital continuously increased up to TRY 200mn as of 2020 and the capital increases are completed through internal resources. Vakıfbank, with paid-in capital, asset size and net profit figures of TRY 3.9bn, TRY 698.8bn and TRY 5.01bn, respectively in 2020, held the majority stake of the Company shares over the years.

Vakıf Leasing – Shareholder Structure

Shareholders	December 31,2020
Vakıfbank	58.71%
Türkiye Sigorta A.Ş.	15.65%
Public	25.64%
Paid-in Capital (mn TRY)	200

In addition, the company's organizational chart has not changed 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 executive as general manager. The labor force of the headquarters and regional offices was 68 people as of year-end 2020 (FYE2019: 70).

Board Members

Hazım AKYOL	Chairman
Halil ÇELİK	Deputy Chairman
Şeref YAROĞLU	Member
Burhaneddin TANYERİ	Member
Emine UYUMAZ	Member
Eren SÜZEN	Member
Ersin ÖZOĞUZ	Member / Deputy GM

Moreover, the Company has three affiliates, all of which (Vakıf Faktoring Hizmetleri A.Ş., Vakıf Pazarlama Sanayi ve Tic. A.Ş., Vakıf Yatırım Menkul Değerler A.Ş.) were recorded in the marketable securities account.

Affiliates **Shares (%)**

Vakıf Faktoring A.Ş.	3.79
Vakıf Pazarlama Sanayi ve Tic.A.Ş.	3.27
Vakıf Yatırım Menkul Değerler A.Ş.	0.25

Leasing Sector

As of FYE2020, the total asset size and equity of the Turkish Leasing Sector, containing 22 companies of various sizes and ranking 24th in the global market in terms of transaction volume, increased by 15% to TRY 70.27bn (USD 9.47bn) and increased by 19.80% to TRY 12.43bn (USD 1.67bn), 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

(000,000)	2020	2019	2018	2017	2016
Asset Size-TRY	70,277	58,176	68,506	58,124	48,353
Asset Size-USD	9,472	9,794	12,972	15,410	13,740
Equity-TRY	12,431	10,376	9,601	8,604	7,757
ROAA %	2.99	2.22	1.88	2.19	2.57
ROAE %	17.32	15.41	13.17	14.26	15.63
NPL Ratio %	6.71	8.31	7.2	5.53	6.26
Equity/T. Sources %	17.69	17.84	14.01	14.8	16.04

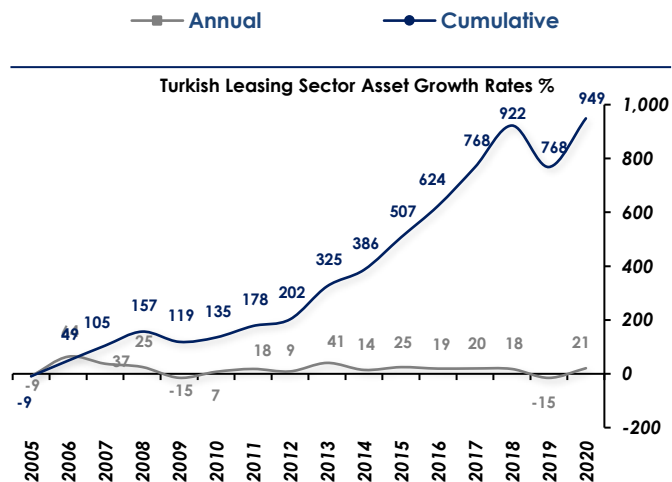
Leasing activities in Turkey began under the regulation and supervision of the Undersecretariat of the Treasury in 1983 and the first leasing company was established in 1986. The BRSA became the sector's regulator and supervisor following the Banking Law which has been entered into force in late 2005. According to data provided by BRSA, 22 leasing companies, all with headquarters located in Istanbul, were active in the Turkish Leasing Sector as of FYE2020. 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 FYE2020, total asset size of leasing companies in Turkey was TRY 70,277mn and total equity was TRY 12,431mn. 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 regain a growth trend in 2020.



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 (49.5%) and Services (43.9%). 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 90.04% (FYE2019: 90.55%) while short term borrowings constituted the highest part of the liabilities at a rate of 70.58% (FYE2019: 70.49%). Total equity level of the sector was 17.69% (FYE2018: 17.84%) of total resources.

The non-performing receivables ratio of the sector decreased to 6.71% as of FYE2020 (FYE2019: 8.37%), 1.64 times higher than the Banking Sector. The ratio of non-performing receivables to total equity was 32.95% (FYE2019) 42.56%, improved but still imposing pressure on the risk perception of the sector in terms of suppressed asset quality.

The financial leasing sector's profitability indicators of ROAA and ROAE were higher than that of the Banking Sector in 2020. While ROAA and ROAE of the Banking Sector were 1.38% and 13.90%, respectively, they were 2.99% and 17.32% for the leasing sector, respectively, in the same period.

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 2020 with a growth of 48% and USD 3.8bn transaction volume, exceeding its target of 34% growth at the beginning of the year. As of August, loan demand shifted from banks to leasing companies. Still contracts decreased in crisis times, 13.8k new contracts were signed 2020 and the 10.4k contracts in 2019 were exceeded.

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

6. Financial Policy & Risk

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 analyse 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 consisting of the General Manager, the Assistant General Manager, the Group Manager and the Risk Monitoring and Asset Management Managers attached 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.

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. The Company's top 10 customers composed 24% (2019: 22%) of the total receivables portfolio including overdue loans as of FYE2020, the top 20 customers 36% (2019: 34%) and the top 50 customers 56% (2019: 54%) for the same period. The concentration ratios in all brackets displayed a slight deterioration and stayed within the accepted national reference indices.

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. Moreover, the Company ratios regarding FX position decreased and maintained remarkably below sector average standings in the last year, rising positive contribution to its risk level. The pre-tax profit of the Company had a variance range of (+/-) TRY 175k (FY2019: TRY 3.4mn), corresponding below 2.1% of the pre-tax profit in FY2020.

The Company's net gains or losses on FX position exhibited a continuously positive value over the years and improved in the last year with a 2020 year-end gain of TRY 25.17mn (FY2019: TRY 10.65mn), positively contributing to pre-tax profit generation capacity.

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. 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 106k in FY2020.

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 8, 2021, cash credit lines worth TRY 9.43bn were extended to Vakıf Leasing by 29 different financial institutions (as of March 13, 2020, TRY 5.81bn by 26 institutions) and circa 30% of this total line was utilized in cash and non-cash loans. Additionally, a TRY 200mn borrowing/lending limit was extended 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 2021. However, if deemed necessary, an application for issuance may be on agenda.

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.

	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	As % of	As % of	As % of			
VAKIF FİNANSAL KİRALAMA A.Ş.	2020	2020	2020	2019	2019	2018	2018	2017	2020	2019	2018	2020	2019	2018
BALANCE SHEET - ASSET	USD	TRY	TRY	TRY	TRY	TRY	TRY	TRY	Assets	Assets	Assets	Growth	Growth	Growth
TRY (000)														
	(Converted)	(Original)	(Average)	(Original)	(Average)	(Original)	(Average)	(Original)	(Original)	(Original)	(Original)	Rate	Rate	Rate
A-TOTAL EARNING ASSETS (I+II+III)	444,930.59	3,266,013.00	3,099,539.00	2,933,065.00	2,918,723.50	2,904,382.00	2,420,077.50	1,935,773.00	87.98	96.76	94.13	11.35	0.99	50.04
I- LOANS AND RECEIVABLES (net)	428,757.99	3,147,298.00	3,023,672.00	2,900,046.00	2,878,408.50	2,856,771.00	2,395,518.50	1,934,266.00	84.78	95.67	92.59	8.53	1.51	47.69
a) Lease Receivables	416,255.02	3,055,520.00	2,817,333.50	2,579,147.00	2,546,409.50	2,513,672.00	2,137,265.00	1,760,858.00	82.31	85.09	81.47	18.47	2.60	42.75
b) Over Due Loans	29,356.31	215,490.00	205,230.00	194,970.00	175,558.50	156,147.00	164,850.50	173,554.00	5.80	6.43	5.06	10.52	24.86	-10.03
c) Others	3,489.95	25,618.00	131,946.00	238,274.00	253,102.00	267,930.00	193,636.50	119,343.00	0.69	7.86	8.68	-89.25	-11.07	124.50
d) Allowance for Loan and Receivables Losses (-)	-20,343.30	-149,330.00	-130,837.50	-112,345.00	-96,661.50	-80,978.00	-100,233.50	-119,489.00	-4.02	-3.71	-2.62	32.92	38.74	-32.23
II-BANKS AND OTHER EARNING ASSETS	16,172.60	118,715.00	75,867.00	33,019.00	40,315.00	47,611.00	24,559.00	1,507.00	3.20	1.09	1.54	259.54	-30.65	3,059.32
a) Banks	16,172.60	118,715.00	75,867.00	33,019.00	40,315.00	47,611.00	24,559.00	1,507.00	3.20	1.09	1.54	259.54	-30.65	3,059.32
B-NON-EARNING ASSETS	60,786.87	446,206.00	272,144.00	98,082.00	139,611.50	181,141.00	170,368.50	159,596.00	12.02	3.24	5.87	354.93	-45.85	13.50
a) Cash and Cash Equivalents	0.00	0.00	16,995.50	33,991.00	74,742.50	115,494.00	113,024.50	110,555.00	n.a	1.12	3.74	-100.00	-70.57	4.47
b) Asset Held For Sale And Discontinued Operations (net)	0.00	0.00	6,708.50	13,417.00	12,082.00	10,747.00	9,509.50	8,272.00	n.a	0.44	0.35	-100.00	24.84	29.92
c) Other	60,786.87	446,206.00	248,440.00	50,674.00	52,787.00	54,900.00	47,834.50	40,769.00	12.02	1.67	1.78	780.54	-7.70	34.66
- Intangible Assets	131.73	967.00	937.50	908.00	715.50	523.00	503.00	483.00	0.03	0.03	0.02	6.50	73.61	8.28
- Property and Equipment	3,351.68	24,603.00	24,421.50	24,240.00	22,391.50	20,543.00	20,721.50	20,900.00	0.66	0.80	0.67	1.50	18.00	-1.71
- Deferred Tax	0.00	0.00	2,894.00	5,788.00	9,067.00	12,346.00	11,324.00	10,302.00	n.a	0.19	0.40	-100.00	-53.12	19.84
- Other	57,303.45	420,636.00	220,187.00	19,738.00	20,613.00	21,488.00	15,286.00	9,084.00	11.33	0.65	0.70	2,031.10	-8.14	136.55
TOTAL ASSETS	505,717.46	3,712,219.00	3,371,683.00	3,031,147.00	3,058,335.00	3,085,523.00	2,590,446.00	2,095,369.00	100.00	100.00	100.00	22.47	-1.76	47.25

	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	(Year end)	As % of	As % of	As % of			
VAKIF FİNANSAL KİRALAMA A.Ş.	2020	2020	2020	2019	2019	2018	2018	2017	2020	2019	2018	2020	2019	2018
BALANCE SHEET-LIABILITIES+EQUITY	USD	TRY	TRY	TRY	TRY	TRY	TRY	TRY	Assets	Assets	Assets	Growth	Growth	Growth
TRY (000)	(Converted)	(Original)	(Average)	(Original)	(Average)	(Original)	(Average)	(Original)	(Original)	(Original)	(Original)	Rate	Rate	Rate
C- COST BEARING RESOURCES (I+II)	450,056.81	3,303,642.00	3,019,007.00	2,734,372.00	2,777,109.00	2,819,846.00	2,348,923.50	1,878,001.00	88.99	90.21	91.39	20.82	-3.03	50.15
I-PAYABLES	21,834.75	160,278.00	146,896.50	133,515.00	131,523.50	129,532.00	104,110.00	78,688.00	4.32	4.40	4.20	20.04	3.07	64.61
a) Other	21,834.75	160,278.00	146,896.50	133,515.00	131,523.50	129,532.00	104,110.00	78,688.00	4.32	4.40	4.20	20.04	3.07	64.61
II-BORROWING FUNDING LOANS & OTHER	428,222.06	3,143,364.00	2,872,110.50	2,600,857.00	2,645,585.50	2,690,314.00	2,244,813.50	1,799,313.00	84.68	85.80	87.19	20.86	-3.33	49.52
a) Fund Borrowed-Short Term	275,749.20	2,024,137.00	1,824,585.50	1,625,034.00	1,524,070.50	1,423,107.00	1,145,018.50	866,930.00	54.53	53.61	46.12	24.56	14.19	64.15
b) Fund Borrowed-Long Term	145,441.32	1,067,612.00	1,021,717.50	975,823.00	1,037,174.00	1,098,525.00	967,993.50	837,462.00	28.76	32.19	35.60	9.41	-11.17	31.17
c) Marketable Securities For Issued (net)	7,031.54	51,615.00	25,807.50	0.00	84,341.00	168,682.00	131,801.50	94,921.00	1.39	n.a	5.47	n.a	-100.00	77.71
D- NON COST BEARING RESOURCES	7,276.89	53,416.00	33,423.00	13,430.00	15,974.00	18,518.00	15,374.00	12,230.00	1.44	0.44	0.60	297.74	-27.48	51.41
a) Provisions	3,875.35	28,447.00	16,613.50	4,780.00	4,763.50	4,747.00	4,263.00	3,779.00	0.77	0.16	0.15	495.13	0.70	25.62
b) Current & Deferred Tax Liabilities	1,130.58	8,299.00	4,149.50	0.00	0.00	0.00	1,654.00	3,308.00	0.22	n.a	n.a	n.a	n.a	-100.00
c) Other Liabilities	2,270.96	16,670.00	12,660.00	8,650.00	11,210.50	13,771.00	9,457.00	5,143.00	0.45	0.29	0.45	92.72	-37.19	167.76
E- TOTAL LIABILITIES	457,333.70	3,357,058.00	3,052,430.00	2,747,802.00	2,793,083.00	2,838,364.00	2,364,297.50	1,890,231.00	90.43	90.65	91.99	22.17	-3.19	50.16
F- EQUITY	48,383.76	355,161.00	319,253.00	283,345.00	265,252.00	247,159.00	226,148.50	205,138.00	9.57	9.35	8.01	25.35	14.64	20.48
a) Prior Year's Equity	38,600.23	283,345.00	265,252.00	247,159.00	226,148.50	205,138.00	187,620.50	170,103.00	7.63	8.15	6.65	14.64	20.48	20.60
b) Equity (Internal & external resources added during the year)	1,565.97	11,495.00	8,051.50	4,608.00	3,272.00	1,936.00	1,576.00	1,216.00	0.31	0.15	0.06	149.46	138.02	59.21
c) Minority Interest	0.00	0.00	0.00	0.00	35.00	70.00	21.00	-28.00	n.a	n.a	0.00	n.a	-100.00	-350.00
d) Profit & Loss	8,217.56	60,321.00	45,949.50	31,578.00	35,796.50	40,015.00	36,931.00	33,847.00	1.62	1.04	1.30	91.02	-21.08	18.22
TOTAL LIABILITY+EQUITY	505,717.46	3,712,219.00	3,371,683.00	3,031,147.00	3,058,335.00	3,085,523.00	2,590,446.00	2,095,369.00	100.00	100.00	100.00	22.47	-1.76	47.25

VAKIF FİNANSAL KİRALAMA A.Ş. INCOME STATEMENT TRY (000)	2020	2019	2018	2017
Net Interest Income	139,544	76,435	48,339	46,607
A) Interest income	266,906	237,489	201,918	139,151
a) Lease Income	261,703	234,637	200,059	139,042
b) Banks	5,203	2,852	1,859	109
B) Financial Expense	127,362	161,054	153,579	92,544
Net Fee and Commission Income	-1,796	-4,367	-1,912	-517
a) Fee and Commission Income	5,556	4,259	4,370	2,987
b) Fee and Commission Expense	7,352	8,626	6,282	3,504
Total Operating Income	41,939	26,318	61,774	25,425
Foreign Exchange Gain or Loss (net) (+/-)	25,178	10,652	38,639	9,438
Gains or Loss on Derivative Instruments (+/-)	-3,515	0	-1,023	0
Other Operating Income	20,276	15,666	24,049	15,981
Taxes other than Income Tax	0	0	0	0
Dividend	0	0	109	0
Provisions	63,630	32,870	35,665	11,376
Provision for Impairment of Loan and Trade Receivables	63,630	32,870	35,665	11,376
Total Operating Expense	29,407	26,043	22,158	17,746
Salaries and Employee Benefits	18,857	17,687	14,893	11,637
Depreciation and Amortization	0	1,656	1,138	1,204
Other Expenses	10,550	6,700	6,127	4,905
Profit from Operating Activities before Income Tax	86,650	39,473	50,378	42,393
Income Tax – Current	12,802	1,695	12,456	3,917
Income Tax – Deferred	13,527	6,200	-2,093	4,629
Net Profit for the Period	60,321	31,578	40,015	33,847
Total Income	184,998.00	102,753.00	111,136.00	72,032.00
Total Expense	32,922.00	26,043.00	23,181.00	17,746.00
Provision	63,630.00	32,870.00	35,665.00	11,376.00
Pretax Profit	88,446.00	43,840.00	52,290.00	42,910.00

VAKIF FİNANSAL KİRALAMA A.Ş.
FINANCIAL RATIOS %

2020

2019

2018

I. PROFITABILITY & PERFORMANCE

1. ROA - Pretax Profit / Total Assets (avg.)	2.57	1.29	1.94
2. ROE - Pretax Profit / Equity (avg.)	27.14	14.88	22.28
3. Total Income / Equity (avg.)	57.95	38.74	49.14
4. Total income / Total Assets (avg.)	5.49	3.36	4.29
5. Provisions / Total Income	34.39	31.99	32.09
6. Total Expense / Total Resources (avg.)	1.08	0.93	0.98
7. Net Profit for the Period / Total Assets (avg.)	1.79	1.03	1.54
8. Total Income / Total Expenses	561.93	394.55	479.43
9. Non Cost Bearing Liabilities + Equity- Non Earning Assets / Assets	-1.01	6.56	2.74
10. Non Cost Bearing Liabilities - Non Earning Assets / Assets	-10.58	-2.79	-5.27
11. Total Operating Expenses / Total Income	15.90	25.35	19.94
12. Interest Margin	4.50	2.62	2.00
13. Operating ROAA = Operating Net Incomes / Assets (avg.)	6.35	6.56	7.87
14. Operating ROAE = Operating Net Incomes / Equity Capital (avg.)	67.04	75.60	90.19
15. Interest Coverage – EBIT / Interest Expenses	168.03	124.51	132.80
16. Net Profit Margin	32.61	30.73	36.01
17. Gross Profit Margin	46.84	38.42	45.33
18. Market Share	5.28	5.21	4.50
19. Growth Rate	22.47	-1.76	47.25

II. CAPITAL ADEQUACY (year end)

1. Equity Generation / Prior Year's Equity	4.06	1.86	0.94
2. Internal Equity Generation / Previous Year's Equity	21.29	12.78	19.51
3. Equity / Total Assets (Standard Ratio)	9.57	9.35	8.01
4. Equity / Total Liabilities	10.58	10.31	8.71
5. Free Equity / Total Receivables Ratio	10.47	8.90	7.91
6. Tangible Assets / Total Assets	0.66	0.80	0.67
7. Intangible Assets / Total Assets	0.03	0.03	0.02
8. Equity / Total Guarantees and Commitments + Equity	0.04	0.03	0.03

III. LIQUIDITY (year end)

1. Liquid Assets + Marketable Securities / Total Assets	3.20	2.21	5.29
2. Liquid Assets + Marketable Securities / Total Liabilities	3.54	2.44	5.75
3. Short Term Borrowings / Total Assets	58.84	58.02	50.32
4. Net Interest and Commission / Total Assets	3.71	2.38	1.50
5. Liquid Assets + Marketable Securities / Equity	33.43	23.65	65.99

IV. ASSET QUALITY

1. Loan and Receivable's Loss Provisions / Total Loans and Receivables	4.53	3.73	2.76
2. Total Provisions / Profit Before Provision and Tax	42.34	45.44	41.45
3. Impaired Receivables / Gross Receivables	8.24	6.47	5.32
4. Impaired Receivables / Equity	60.67	68.81	63.18
5. Loss Reserves for Receivables / Impaired Receivables	69.30	57.62	51.86
6. Collaterals / Total Receivables	1,444.74	897.25	808.13
7. Total FX Position / Total Assets	0.05	1.13	2.15
8. Total FX Position / Equity	0.49	12.13	26.80
9. Assets / Total Guarantees and Commitments + Assets	0.40	0.36	0.34

Rating Info

Rated Company:	VAKIF FİNANSAL KİRALAMA A.Ş. Büyükdere Caddesi Gazeteciler Sitesi Matbuat Sokak No:13 Esentepe/İstanbul Tel: 0212 337 67 67
Rating Report Preparation Period:	01.04.2021-28.04.2021
Rating Publishing Date:	28.04.2021
Rating Expiration Date:	1 full year after publishing date, unless otherwise stated
Audited Financial Statements:	31.12.2020 – 31.12.2018 / Solo
Previous Rating Results:	April 29, 2020 / Long Term National Scale / 'A-' Other rating results for the Company are available at www.jcrer.com.tr

Disclaimer

The ratings assigned by JCR Eurasia Rating are a reflection of the Company's independent audit reports prepared in conformity with Turkish Financial Reporting Standards (TFRS) and International Financial Reporting Standards (IFRS), on and off-balance sheet figures, general market conditions in its fields of activity, unaudited financial statements, information and clarifications provided by the Company, and non-financial figures. Certain financial figures of the Company for previous years have been adjusted in line with the JCR Eurasia Rating's criteria.

The Company's balance sheet composition, asset quality, risk management practices, business profile, liquidity management, history in the sector, profitability figures, revenues, debt structure, 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.

JCR Eurasia Rating

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