Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

# Assessment of Financial Position, Profitability and Debt Servicing Ability

## Assets

VakıfBank grew 14.1% in 2010 and its assets rose to TL 74.0 billion; the Bank maintained a healthy composition of assets and kept the share of its interest-bearing assets in total assets at 95.1%. In 2010, total assets comprised of Turkish currency and foreign currency assets by 72.0% and 28.0%, respectively.

The growth in the Bank's total loans was mainly driven by loans, which increased 30.2% to reach TL 44.8 billion in 2010. Highly outpacing the sector's average, the 46.4% hike in retail loans, led by mortgages and consumer loans, combined with 23.4% rise in commercial loans, resulted in a 60.6% share of loans in total assets. VakıfBank continued to provide financing support to its customers in 2010, through the funds it secured either directly or by way of intermediation within the frame of protocols with other financial institutions and entities, as well as directly from its own funds. The Bank's lending policy has been built on the main components of contributing to the growth of production and employment by financing the real sector with a particular focus on the SMEs while remaining strictly adhered to assets quality, and helping the Turkish economy gain access to international markets through export loans and foreign exchange services.

The 30.2% rise in loans and the collections that were realized in non-performing loans improved the asset quality in 2010, which in turn reduced the share of non-performing loans to total loans from 5.8% in 2009 to 4.8% in 2010.

The alleviation of the negative effects of the global crisis and the rise that started in lending in 2010, coupled with the decline in public borrowing requirements, pushed the share of the securities portfolio in total assets down; along this line, VakıfBank's securities portfolio dwindled by 2.2% year-on to TL 18.1 billion while the share of its securities portfolio in total assets dropped from 28.5% to 24.4%.

The share of the Bank's subsidiaries and affiliates in its total assets rose from 1.1% in 2009 to 1.2% in 2010, and the share of tangible fixed assets in total assets declined from 1.7% to 1.5% in the same period.

**Composition of Assets (%)**

## Liabilities

VakıfBank's interest-bearing assets were worth TL 70.3 billion and interest-bearing liabilities TL 62.2 billion in 2010. As a result, the share of interest-bearing liabilities in total assets was 84.1% while the ratio of interest-bearing assets to interest-bearing liabilities stood at 113.0%.

During 2010, VakıfBank raised its total deposits, its most important source of funding, to TL 47.7 billion with a 6.8% increase. The deposits were made up of Turkish lira deposits by 73.9% and foreign currency deposits by 26.1%, while demand and time deposit accounts had respective ratios of 84.4% and 15.3%. The primary factor that led to maturity mismatch among assets and liabilities for the Bank, as well as for the entire sector, was the fact that more than 90% of the deposits concentrated in demand deposits and time deposits with maturities up to three months.

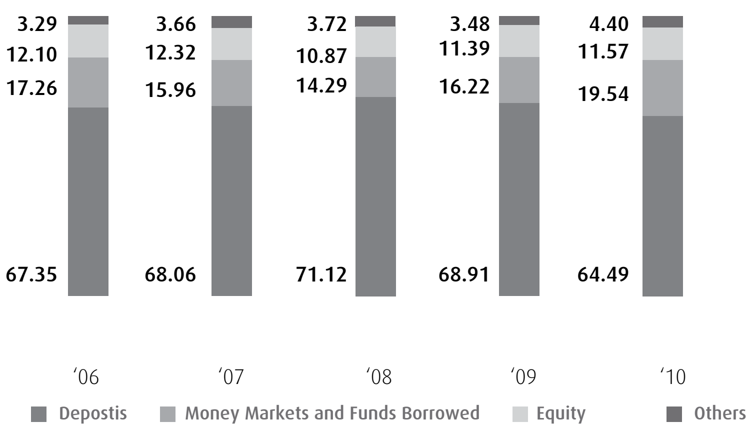
76.7% of VakıfBank's external funds are constituted by deposits, a fact indicative of a solid borrowing structure and a manageable level of risk. Representing the second largest source of funding after deposits and substantially consisting of loans from overseas, loans received grew 44.9% in 2010. In this frame, VakıfBank secured, in March, a syndication loan with a total worth of USD 950 million, which consisted of two tranches of USD 170 million and EUR 566.5 million. Participated by 33 banks, the facility represented the largest syndication loan in the history of the Bank. This was followed by a two-tranche syndication loan of USD 720 million in total, consisting of two maturities in September 2010. Participated by 32 banks, the facility consisted of two tranches of USD 145 million and EUR 453 million. These syndication loans serve as the key indicator of VakıfBank's credibility and reputation in international markets.

To support the real sector with long-term, low-cost funding, VakıfBank continues to cooperate with the European Investment Bank, the World Bank and the European Bank for Reconstruction and Development. VakıfBank is the only bank that offers the loans originating from these three international institutions under a single roof.

At the extraordinary general assembly meeting held in October, VakıfBank authorized the Board of Directors to issue bonds or other borrowing instruments worth TL 3,000,000,000 or its equivalent in a foreign currency in the next three years. The start of the Bank's attempts to issue bonds/bills will positively impact its funding structure, which will provide longer-term financial funds while also representing a safe alternative for the investors.

The Bank's shareholders' equity grew 16.0% to TL 8.6 billion, a result driven by the profit for the period as well as the rise in capital reserves.

**Composition of Liabilities (%)**



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**Profitability**

As a consequence of contracted interest margins resulting from decreased interest rates and intense competition in 2010, net interest income was down 11.3% year-to-year and the ratio of interest income to interest expenses stood at 186.6%. However, non-interest expenses saw a low rise of 5.9%; capital market trading profits derived on disposal of marketable securities and other income items brought a high increase of 42.6% in non-interest income. Thus, net non-interest income went up 17.5% that resulted in the ratio of non-interest income to non-interest expenses to go up from 34.9% to 47.0%.

Provisions worth TL 973 million set aside by reason of non-performing loans and other receivables have been one of the most important factors that adversely affected profitability in 2010, as was the case in 2009.

VakıfBank's net profit for the period was TL 1,157 million in 2010, while its average RoA was 1.7% and RoE was 14.5% in the same period. The Bank's capital adequacy ratio was 14.35% as a result of the risk management and placement policies pursued.

**Debt Servicing Ability**

VakıfBank preserved its debt servicing capability in 2010 by maintaining the share of interest-bearing assets in total assets at 95.1% and sustaining its strong liquidity position.

Continuing to expand its loan book while maintaining its laser-like focus on risk control, VakıfBank boasted a capital adequacy ratio of 14.35%, which is above the legal limit and target ratio and is yet another indication of its financial strength.

The Bank's strong financial structure has been endorsed by various assessments made on different dates during 2010 by international rating agencies. In February 2010, Standard & Poor's upgraded the Bank's foreign currency credit rating from stable to positive.

In October 2010, Moody's improved the outlook of the Bank's Long Term Foreign Currency Deposit Rating of "Ba3" from stable to positive.

Another international rating agency, Fitch Ratings affirmed the Bank's Long Term Credit Rating for local currency and foreign currency as BB+ and upgraded the outlook from "stable" to "positive". The agency also affirmed the Bank's Individual Rating as "C/D".

In the period ahead, the Bank will increase its alternative channels of access, expand its customer base and grow the diversity of its products, and will better capitalize on growth prospects in and out of Turkey. Achieving growth and increased revenues so as to adjust to contracting margins, as well as reducing costs through increased productivity and effective cost management will continue to be the Bank's other important strategies.