

# VakıfBank in Brief

***Today, VakıfBank is one of the foremost multi-specialist banks in Turkey.***

VakıfBank was founded under the authorization of Special Law No. 6219 dated January 11, 1954, with the objectives of utilizing the assets and incomes of foundations for financial purposes in the best possible way, assisting the accumulation of savings in the country by way of contemporary management and adherence to solid banking principles, and protecting the savings so they can be used efficiently for economic development. VakıfBank was established with an initial capital of TL 50 million and commenced operations on April 13, 1954. Subject to the provisions of the special law, VakıfBank since then has opted for the development of the Turkish economy and its integration with world economies.

Today, VakıfBank is one of the foremost multi-specialist banks in Turkey. Contemporary banking products and services offered by the Bank cover corporate, commercial and small-scale banking as well as consumer and private banking. In addition to basic banking products and services, VakıfBank is also active in investment banking and capital markets.

Through its financial subsidiaries, the Bank delivers a wide range of financial services ranging from insurance and leasing to factoring using the most advanced technologies. In addition to 294 branches nationwide, VakıfBank reaches its individual and corporate customers via alternative distribution channels and plays an active role in financing both exports and imports.

VakıfBank has four overseas subsidiaries and a branch in New York, USA. These subsidiaries are located in Austria (VakıfBank International AG), in France (Banque du Bosphore) and in the Turkish Republic of Northern Cyprus (World Vakıf Off-Shore Banking and Cyprus Vakıflar Bank Ltd.).

## **Ratings Assigned to VakıfBank by International Rating Agencies**

### **Moody's**

Long-term Bank Deposits	B3
Financial Strength	E+
Short-term Bank Deposits	NP

### **FitchRatings**

Foreign Currency	
Long-term	B+
Short-term	B
Outlook	Stable
Local Currency	
Long-term	B+
Outlook	Stable

### **National**

Long-term	BBB (tur)
Outlook	Stable
Individual	D/E
Support	4

### **Capital Intelligence**

Foreign Currency	
Long-term	B
Short-term	B
Financial Strength	B+
Support	2
Outlook	Stable

# Financial Highlights

## Consolidated Summary Balance Sheets – Inflation Adjusted

(TL billion)

Assets	December 31, 2003	December 31, 2002	Liabilities and Shareholders' Equity	December 31, 2003	December 31, 2002
Liquid Assets	145,618	115,501	<b>Liabilities</b>		
Balances with the Central Bank	264,522	310,881	Deposits		
Balances with Banks	1,449,799	577,454	Demand	2,560,322	1,881,655
Interbank Funds Sold	275,539	141,419	Time	10,255,305	9,303,654
Trading Securities Portfolio	5,861,720	5,303,355	Expense accruals on deposits	117,171	76,847
Available-for-Sale Portfolio	1,171,742	104,154		12,932,798	11,262,156
Reserve Deposits at the Central Bank	739,502	788,287	Commitments to Repurchase Securities	525,976	198,341
Loans (Net)	5,122,420	4,385,014	Interbank Funds Borrowed	2,234,237	1,834,165
Trade Receivables	92,134	68,153	Securities Issued	-	387,160
Sundry Debtors	71,744	56,846	Funds	178,486	202,350
Equity Participations (Net)	332,513	359,396	Trade Payables	90,792	53,282
Held-to-Maturity Securities	1,282,125	1,894,425	Deposits and Advances Taken for Imports	178,572	157,991
Premises and Equipment (Net)	1,314,829	1,504,807	Sundry Creditors	148,297	67,152
Other Assets	95,541	131,096	Taxes and Dues Payable	27,739	132,860
			Provisions	430,066	374,447
			Other Liabilities	208,114	161,021
				16,955,077	14,830,925
			<b>Minority Interest</b>	224,589	264,788
			<b>Shareholders' Equity</b>	1,040,082	645,075
			Share Capital	1,507,551	1,507,551
			Revaluation Fund	118,514	127,158
			Retained Earnings	(585,983)	(989,634)
<b>TOTAL ASSETS</b>	<b>18,219,748</b>	<b>15,740,788</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>18,219,748</b>	<b>15,740,788</b>
			<b>COMMITMENTS AND CONTINGENCIES</b>	<b>5,136,379</b>	<b>7,426,528</b>

## Consolidated Income Statements – Inflation Adjusted

(TL billion)

	2003	2002
Interest Income - Banking	2,335,566	2,521,450
Interest (Expense) - Banking	(2,011,493)	(2,141,113)
Net Interest Income - Banking	324,073	380,337
Loan Loss Provision (Expense)	(366,180)	(115,675)
<b>NET INTEREST (EXPENSE)/INCOME AFTER LOAN LOSS PROVISIONS</b>	<b>(42,107)</b>	<b>264,662</b>
Non-Interest Income	1,071,823	905,161
Non-Interest (Expense)	(731,853)	(1,058,982)
Income/(Loss) from Associates	(483)	6,988
<b>INCOME/(EXPENSE) BEFORE TAX AND MONETARY GAIN/(LOSS)</b>	<b>297,380</b>	<b>117,829</b>
Taxation	71,443	42,249
<b>INCOME/(EXPENSE) BEFORE MONETARY GAIN/(LOSS)</b>	<b>368,823</b>	<b>160,078</b>
Monetary Gain/(Loss)	1,289	224,606
<b>NET INCOME/(LOSS)</b>	<b>370,112</b>	<b>384,684</b>
Less: Minority Share of Net Income/(Loss)	13,875	22,999
Net (Loss)/Income Attributable to VakıfBank Shareholders	356,237	361,685
Earnings/(Loss) Per Share	1,039	1,054

# Shareholders of VakıfBank

## **Republic of Turkey General Directorate of Foundations**

The General Directorate of Foundations was authorized to establish a bank, governed by provisions of Special Law No. 6219, aimed at utilizing the assets and incomes of registered and subsidiary foundations, specified above, in the best way possible. The largest shareholder of VakıfBank is the Republic of Turkey General Directorate of Foundations with a 55% share in Group A, and a 20% share in Group B.

## **Affiliated Foundations**

Affiliated Foundations are those whose administrators and/or inheritors have ceased to exist for the last 10 years and which have legally lost their means of providing charitable services and have, consequently, been taken over by the General Directorate of Foundations. All activities and aspects of such foundations are currently administered and represented by the General Directorate of Foundations.

## **Non-affiliated Foundations**

Non-affiliated Foundations are foundations with social purposes, administered by their boards of trustees and are subject to governmental inspection. These foundations are governed by the Foundations Law No. 2762 and the related Decree on Foundations concerning the execution of the Law. Non-affiliated Foundations have separate legal identities and pursue social purposes (such as helping destitute people and supporting education). They are administered by the inheritors of

the founders. These foundations can be governed on trust, by proxy in the name of the Board of Trustees or directly by a trustee. The activities of the trustees are subject to controls by the General Directorate of Foundations and the General Management is responsible to the Foundation's Board of Directors. Non-affiliated foundations are liable for the execution of own commitments and pay their debt with their own property. With a 20% share, they are represented by Group B in the Bank's shareholder structure.

## **VakıfBank Employees Pension Fund**

VakıfBank's current employees and retirees are members of the VakıfBank Employees Pension Fund. This Fund, represented by Group C, has a share of 24.89% in VakıfBank's capital. In carrying out its activities, the Fund is governed by the Turkish Civil Law, the Social Insurance Law No. 506 and provisions of the Fund's Charter. The fees collected from the Fund's members and the revenue generated by investing these fees constitute the Fund's funding resources.

## **VakıfBank Private Social Security Fund**

VakıfBank Private Social Security Fund owns a 0.6% share in VakıfBank's capital as represented by Group C shareholders.

## **Group C Real Persons**

Individual shareholders have a 0.5% share in VakıfBank's capital as represented by Group C shareholders.

**VakıfBank stocks and shareholders are classified into three groups (A, B and C) as given below:**

<b>Shareholder Structure of VakıfBank</b>			
<b>(As of December 31, 2003)</b>			
<b>Shareholders</b>	<b>Group</b>	<b>Share (%)</b>	<b>Amount (TL billion)</b>
Republic of Turkey General Directorate of Foundations	A	55	176,427
Affiliated Foundations	B	19.75	63,354
Non-affiliated Foundations	B	0.25	802
VakıfBank Employees Pension Fund	C	24.89	79,841
VakıfBank Private Social Security Fund	C	0.06	193
Group C Real Persons	C	0.05	160
<b>TOTAL</b>		<b>100</b>	<b>320,777</b>

## Board of Directors

<i>Name</i>	<i>Position</i>	<i>Since</i>
Aziz Ahmet KACAR	Chairman, Executive Director and General Manager	February 2, 2003
Yusuf BEYAZIT	Deputy Chairman	March 21, 2003
Hasan ÖZER	Board Member	February 7, 2003
A. Müfit CENGİZ	Board Member	December 31, 2003
Hasan AYKIN	Board Member	February 10, 2004
Orhan TÖZ	Board Member	March 21, 2003
Hüseyin DURMAZ	Board Member	November 11, 1998
Kerim KARAKAYA	Board Member	March 21, 2003
Selahattin TORAMAN	Board Member	December 31, 2003



## Executive Management

<i>Name</i>	<i>Position</i>	<i>Since</i>
Aziz Ahmet KACAR	General Manager	February 7, 2003
Hüseyin DURMAZ	Assistant General Manager	January 6, 1998
Yusuf YEŞİLIRMAK	Assistant General Manager	June 5, 1999
Tanju YÜKSEL	Assistant General Manager	May 1, 2000
Ekrem Tosun KARAY	Assistant General Manager	January 29, 2003
Ahmet Atıf MEYDAN	Assistant General Manager	January 29, 2003
Kerim KARAKAYA	Assistant General Manager	February 26, 2003
A. Çetin GEZGİNCAN	Assistant General Manager	March 5, 2003

## Auditors

<i>Name</i>	<i>Position</i>	<i>Since</i>
Ahmet TANYOLAÇ	Auditor	March 21, 2003
Faruk EROĞLU	Auditor	March 21, 2003



## Milestones in VakıfBank's History



*Since the very first day of its establishment, VakıfBank has adhered strictly to the principle of providing dynamic service to its customers, with high quality financial products and services. VakıfBank has been an innovator in the Turkish banking industry with the new products and services it has introduced and has assisted in the country's economic advancement.*

1954

- VakıfBank is established in Ankara on April 13, 1954, with an initial capital of TL 50 million and begins activities with two branch offices in Istanbul (June 14), one in Ankara (June 8) and another one in Izmir (August 8).

1956

- After necessary studies and surveys at major economic centers across the country, VakıfBank continues to advance and opens 10 branch offices.

1957

- Güneş Insurance is established and starts activities.

1977

- VakıfBank continues its nationwide expansion reaching 206 branch offices.

1982

- In an effort to conduct banking operations in a more dynamic manner and in accord with regional characteristics, Regional Directorates are established in Istanbul, Aegean and Çukurova regions where economic activities are more intensive.

1984

- Placing emphasis on automation, all departments are connected to the mainframe computer and computerization becomes prevalent throughout the Bank.
- The number of branches increases to 269.

1989

- In addition to the main one in Istanbul, Securities Centers are also established in Ankara and Izmir.



1990

- After extensive restructuring, the Fund Management Center is established to offer services at international banking standards.
- Principles of "reputation credit" are adopted and the needs of merchant customers are met regarding credit card applications.
- The scope of retail loans is expanded to include the financing of equipment, enterprise loans, marriage, education and cultural needs, cars, insurance premium payments and overseas education.



1959-1973

- VakıfBank's activities are extended widely throughout the country as new branches are opened in important commercial and industrial regions that are also vital for foundation activities.

1973

- Paid-in capital is increased from TL 50 million to TL 100 million.

1976

- Paid-in capital is increased from TL 100 million to TL 200 million.

1986

- All branch offices are equipped with computers and a centralized computer system is developed.

1987

- VakıfBank Sports Club is established.

1988

- VakıfBank becomes a member of Swift Communication System.

1991

- Self-service Banking (Future 2001) starts in Ankara – the first of its kind in Turkey.
- Telephone Banking (Infobank) starts operations.

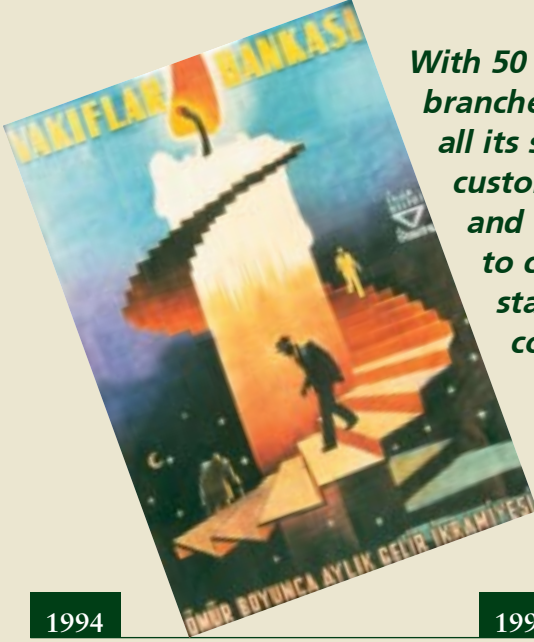
1992

- As a new banking product in Turkey, overdraft facilities under the name Bankomat-724 Account are initiated.
- The Self-service Banking Unit (Future 2001) starts in Istanbul, following the one in Ankara.
- The POS project is further enhanced and an integrated system is developed enabling automatic authorization from Visa London.
- A Centralized Authorization System is put into practice that allows communications on an electronic platform basis in and out of Turkey.

1993

- VakıfBank obtains its first syndicated loan, amounting to US\$ 38.5 million.
- Activities in Istanbul that have a large share in the Bank's overall operational volume are gathered under the management of an Assistant General Manager.
- With VakıfBank's pioneering efforts, the 'Gold Point' ATM Platform is formed enabling ATM sharing under a common logo.
- World Vakıf Off Shore Banking Ltd. is established in the Turkish Republic of Northern Cyprus.

## Milestones in VakıfBank's History



*With 50 years of success and experience, 294 domestic branches and one foreign branch, and 7,341 employees and all its service units, plus owing its strength to its extensive customer network as well as its qualified human resources and technological infrastructure, VakıfBank is well poised to continue to serve its customers with the highest standards of quality as well as to maintain its positive contribution to the national economy.*

1994

- VakıfBank Finance Market branch is opened in Ankara to serve customers with all existing banking products and services as well as insurance and other financial activities.
- New types of consumer credits are developed to address the needs of university students, housewives, teachers and low ranking soldiers.

1995

- In an effort to comply with all contemporary banking practices, the Bank undergoes a major restructuring process where Committees, Directorates, Group Managements, Managements and Unit Managements are established.
- The New York branch is inaugurated with a view to step into international markets, as well as to integrate the Bank with these markets.
- VakıfBank opens the "Gold Account" for the first time in Turkey.
- The loan portfolio is diversified to include loans for vacations, education, private school support, completion of construction projects for housing cooperatives, natural disasters, and the operation of thermal/boarded houses, greenhouse business, Southeast Anatolia support and Turkish handicrafts.
- The Bank starts to issue and deliver Visa Electron debit cards and MasterCard corporate credit cards.

1996

- Vakıf Risk Sermayesi Yatırım Ortaklığı A.Ş., the first venture capital company in Turkey, and Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş., a real estate investment trust, are established.
- VakıfBank initiates payphone call payments by credit card for the first time in Turkey.
- VakıfBank starts issuing Maestro/Cirrus Cards.
- To promote Turkish sports, the "VakıfBank Olympic Card" is issued within the scope of the National Olympic Committee's bid for hosting the 2004 Istanbul Olympics.
- Two international rating agencies assess VakıfBank positively:
  - Moody's gives the highest possible rating (B1) to a bank in Turkey in terms of deposits, and
  - Thomson BankWatch assigns the highest rating (LC-1) for short-term deposits and (LC-A+) for long-term deposits, both confirming the Bank's payback capabilities.





1997

- VakıfBank realizes its first credit card receivables securitization scheme for US\$ 130 million with a term of three years.
- The "Autobank" (a mobile bank branch office) containing all the technological infrastructure of an established branch office is launched for the first time in the world by VakıfBank; the "Mobile Branch" application that communicates by satellite link-up is made operational.
- The "POSNAKİT" product is launched, enabling cash withdrawals from gas stations and acquiring merchants via debit and credit cards.

1998

- The "Home Banking System" is installed within the premises of some customers who have substantial business volumes with the Bank.
- With the installation of new computer systems, import and export transactions are automated in the branches authorized for the handling of foreign trade transactions.
- The Bank's facilities in Yakacık, Istanbul, are converted into school premises. This school, named the "VakıfBank Children of Hope Primary School" opens for 1998-1999 academic year for the purpose of educating homeless children.
- In order to promote the use of VakıfBank credit cards and increase customer satisfaction, the Bank starts the "VakıfPuan" product, a rewards program designed to earn the cardholder a wide range of gift alternatives in proportion to spending using the Bank's credit card.

1999

- For the first time in Turkey, similar to what is done in European countries, VakıfBank starts to lend long-term facilities to individuals and begins to grant "Long-term Housing Loans" with maturities of up to 20 years.
- As a result of the agreement made with the State Maritime Enterprises, a "Mobile POS" application is launched, enabling passengers traveling on the company's ships to pay for their onboard expenses by credit card.
- "VakıfBank Primary Schools" are built nationwide and start education.
- The Banker magazine, in a survey focusing on the top 25 banks in the world, ranks VakıfBank first among the world's top banks in terms of return on equity.
- Following a thorough assessment by IBAR/Duff and Phelps Credit Rating Co., VakıfBank is assigned a BBB rating, attesting to the Bank's success in the international arena.

## Milestones in VakıfBank's History



**VakıfBank launched a new and modern product called the 'Pool Account' to meet the ever-growing banking needs of its individual customers.**

2000

- VakıfBank realizes its first Eurobond issue for EUR 200 million with a term of three years. In a difficult year, VakıfBank becomes the only Turkish bank to tap the Eurobond market.
- VakıfBank is the first bank in Turkey to receive the "ISO 9001 Quality Certificate" for retail banking applications.
- The Bank provides chequebooks to its customers to be drawn on their ATM 7/24 and/or overdraft accounts as well as on their existing commercial and call deposit accounts. This facility provides customers with the capability to use cheques where purchases cannot be made with a credit card.
- In order to enable customers to perform all banking operations, with the exception of depositing and withdrawing cash, without the necessity to go to a branch office, VakıfBank starts Internet Banking at "www.vakifbank.com.tr." Additionally, the Bank starts Call Center Banking operations over the phone at "444 0 724" and WAP Banking applications over

mobile communication devices like WAP-enabled mobile phones.

- The "Central Bank of Turkey EFT Second Generation Project," along with the "EST (Electronic Securities Transfer)" project, is put into practice.
- Moody's, the international rating agency, assigns VakıfBank a "B1" rating with a "positive outlook" endorsement, confirming the adequacy of the Bank's financial strength.
- Platinum cards, offering a wider range of advantages, are introduced to high net worth clients.
- Principles of "Reputation Credit" are incorporated in the POS software in order to enable installment-based shopping by credit card.
- The Bank's subsidiaries, Güneş Insurance, Vakıf Financial Leasing, Vakıf Investment Trust Company, Vakıf Real Estate Investment Trust Company and Vakıf Venture Capital Company offer their shares to the public.



2001



2002

- VakıfBank attains the first long-term borrowing following the economic crisis through the securitization of its trade receivable rights for an amount of US\$ 200 million at a term of five years.
- VakıfBank becomes the first Turkish commercial bank to launch a syndicated loan facility following the economic crisis for an amount of US\$ 110 million.
- Regarding the Regulations on the Internal Audit and Risk Management Systems of Banks, a Senior Risk Committee as well as a Bank-wide Risk Committee and an Internal Control Center are established, with both reporting to the Senior Risk Committee.
- In order to provide customers with secure, swift and contemporary services, the technological infrastructure of the Bank is equipped with state-of-the-art hardware. The new Data Processing Center becomes operational and the existing system is replaced with the "Cisco Works 2000" management system.

- New service tools like the e-trade platform between companies, Bankomat account, credit card-based e-trade model, Palm 724 and B2B applications are developed and introduced.
- VakıfBank credit cards are made payable by installments.

- VakıfBank obtains the first long-term borrowing facility of the year, the second tranche of the DPR securitization, for an amount of US\$ 200 million and a term of three years.
- The web-based Intranet information system is established within the Bank.
- As the bank having the largest number of debit cards in Turkey, VakıfBank ranks first in Europe in terms of the number of Maestro cards issued by a banking institution.
- VakıfBank continues its support of culture and the arts in 2002 with a total of 77 exhibitions in its art galleries.

## Milestones in VakıfBank's History

*As it has in previous years, VakıfBank continued its quest in 2003 to expand its customer portfolio by effectively promoting both its existing and new services to a larger segment of the populace.*



2003

- VakıfBank borrows US\$ 200 million from syndication markets in a deal in which 36 banks participate - involving 14 arrangers - and with an over-subscription rate of 46%.

- VakıfBank obtains the third and the fourth tranches of the DPR Securitization scheme amounting to US\$ 300 million.

During 2003, VakıfBank puts the following projects into practice:

- the "Pool Account" that enables customers to invest their savings in mutual funds and/or foreign currency (US dollar or euro) instruments and still make their regular utility and tax payments from this account

- the "Golden Cheque" project where cheque payments of up to TL 1 billion are guaranteed for the first time in Turkey and the "Special Customer Card Project" that provides cardholders with favorable advantages and opportunities

- a marketing and sales oriented new branch organization that operates under the principles of customer satisfaction, which will enable the development of the banking staff of the future

- the "Remote Access" (EXAPI System) enabling the Bank's customers to trade directly on the Istanbul Stock Exchange

- the "First Step Mutual Fund" for parents wanting to invest in the future of their children

- a special account type for use by customers to facilitate their investment decisions—meetings organized for customers called gold, dollar, euro and mutual fund meetings, will be assisted by this new investment account

- the "Supporter Credit Card" for the fans of the three most popular football clubs in Turkey's Premier League

With 50 years of success and experience, 294 domestic branches and one foreign branch, and 7,341 employees and all its service units, plus owing its strength to its extensive customer network as well as its qualified human resources and technological infrastructure, VakıfBank is well poised to continue to serve its customers with the highest standards of quality as well as to maintain its positive contribution to the national economy.

## VakıfBank Today

- **US\$ 12.8 billion in total assets - 5<sup>th</sup> largest Turkish bank in terms of asset size \***
- **50 years of banking experience**
- **Management continuity**
- **A diversified corporate client base**
- **Strong brand recognition and franchise in retail banking**
- **Well distributed outlets and extensive alternative distribution channels**
- **Unique ownership structure provides accountability as the State, flexibility as a private sector institution.**

### Key Financial Ratios

	2002	2003
<b>CAPITAL ADEQUACY</b>		
BIS Standard Ratio	14.86	14.93
<b>LIQUIDITY (%)</b>		
Liquid Assets / Total Assets	45.91	53.42
<b>ASSET QUALITY (%)</b>		
Fixed Assets / Total Assets	10.36	8.44
<b>LIABILITY STRUCTURE</b>		
Total Deposits / Total Liabilities	74.25	74.18
<b>INCOME EXPENSE STRUCTURE (%)</b>		
Total Income / Total Expense	110.33	107.68
Interest Income / Interest Expense	116.82	116.39
Non-Interest Income/ Non-Interest Expense	98.96	92.56
<b>PROFITABILITY (%)</b>		
Net Income/ Average Paid-in Capital	95.76	72.40



\* Excluding state-owned banks

## Message from the CEO

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***VakıfBank has assumed a leading role with the products and services it has provided to its Turkish banking clientele for 50 years and has continued its efforts and successes at all times, notwithstanding the obstacles encountered along the way towards helping the national economy grow, develop and integrate with world economies.***

We entered 2003 with conditions that raised concerns in both domestic and international markets. The looming threat of war in Iraq and the overall economic stagnation observed in almost all developed economies, predominantly in the American economy, were adding to the uncertainties in the markets. The USA and Coalition's intervention in Iraq was shorter than initially anticipated by most analysts, relieving national markets. Domestically, inflation and interest rates decreased considerably because of the economic measures implemented in an uncompromising manner by the new government in line with the IMF-sponsored program. In 2003, exports started to break new records; however, the widening trade imbalance should not be overlooked. Although public expenditures could be controlled to a great extent, the funding sources for the budget were still largely insufficient. However, thanks to restored confidence in the economic outlook, the maturity and cost of the domestic debt were reduced. These economic improvements and developments will prove to be vital for future undertakings. With expectations that the inflation rate would drop to single-digit figures, along the continuous decline of interest rates, investors turned to new investment instruments and forced the banks to perform real banking by gradually departing from treasury banking.

VakıfBank has assumed a leading role with the products and services it has provided to its Turkish banking clientele for 50 years and has continued its efforts and successes at all times, notwithstanding the obstacles encountered along the way towards helping the national economy grow, develop and integrate with world economies.

In a banking industry where competition is increasing every day, and profit margins are narrowing, the service aspect of banking is gaining more importance than ever before. The only way to achieve our goals is to provide 'Unconditional Customer Satisfaction.' Therefore, we have carried out our training programs and investments to ensure that our technological infrastructure will always remain updated, at all times and under all difficulties. We implemented meticulous measures to strengthen our financial structure and we regained and reinstated our

capital, which weakened during Turkey's previous crises. Under the complex economic conditions, we achieved high profitability by increasing our capacity to generate both interest and non-interest revenue with our profit-oriented efficient workflows. Thus, we will once again take our place in the upper echelons of the banking sector in terms of capital adequacy in the next few years without demanding capital increases from our shareholders. Operating with our principle of performing banking at world standards, VakıfBank did not experience any adaptation problems in the transition to the new banking environment. New arrangements on risk management were immediately implemented in our Bank.

VakıfBank has notable competitive advantages over its peers. Many public organizations keep their funds at VakıfBank voluntarily as they are provided with high quality banking services and this opportunity creates a stable and low-cost funding base for the Bank. Since we are one of the first banks to enter the small and medium-size enterprises (SMEs) segment, we have substantially increased our lending and deposit shares in this segment. VakıfBank is a bank integrated with business life. It has always been preferred by a wide range of clients from merchants to industrialists for the quality of its domestic and foreign trade services. The SME loans extended within the scope of the KOSGEB project brings customized solutions to all the financial requirements of small businesses and facilitates their growth and entry to world markets. With the Financial Services Group led by the Bank, we do not only provide banking services to our corporate and retail customers, but also offer all contemporary financial services like leasing, factoring, insurance and private pension systems under the same roof with a 'financial supermarket' approach.

Having high credit ratings in the international banking circles, VakıfBank continues to support funding of the foreign trade transactions of its customers without any limitations even during the most hectic days of the recent volatile economic environment. With its wide correspondent network and subsidiaries abroad, VakıfBank aims to be a leading financial institution in the international arena. It is one of the few Turkish banks

capable of raising low-cost foreign currency funding facilities through syndicated loans from international financial markets.

International rating agencies have always assigned VakıfBank positive ratings to the extent that the sovereign rating allows and many investment banks have emphasized its strengths in the reports they published.

The new banking environment, which emerged in Turkey in the aftermath of the recent crises has increased the dimensions of the competition and is likely to continue as such in the near future. Profit margins in Treasury securities trading are decreasing rapidly and we are in the process of a speedy transformation from treasury banking to real banking. In this transition period, VakıfBank is in one of the most advantageous positions as it has never ceased its support to borrowers and particularly, to the real sector. It has also served consumers for many years by assuming a leading role in the retail banking sector. This customer-oriented approach has created a sense of loyalty for VakıfBank among individuals and organizations requiring banking services. With today's rapidly changing circumstances, VakıfBank has started to reap the benefits of its long years of involvement in real banking practices. The high profitability we achieved in 2003 is therefore a natural outcome of our past undertakings.

VakıfBank has a unique banking culture. Our staff work in teams like members of a family. Always aware of our social responsibilities when conducting banking business, VakıfBank has, since its foundation, assumed a leading role in the development of our country. While operating in a profit-oriented manner, VakıfBank, in an effort to carry out its responsibilities toward the country, has undertaken the financing of many large-scale infrastructural projects. Currently, VakıfBank is the leading bank in Turkey in project financing.

Our bank, which has always supported the real sector and relentlessly engages in domestic and foreign trade finance, has a robust credit culture. Like that of all banks during the previous years of economic crisis, VakıfBank's non-performing loan rate increased. However, this unwanted occurrence was totally eliminated in 2003. In line with our high profitability, sufficient reserves were allocated for all non-performing loans and the non-performing loan ratio was reduced last year to the industry averages. According to the results of the scoring system that we use for evaluating loan applications, the average score of the first 1,000 companies in our existing loan portfolio stands at 3.6, on a scale with a maximum of 5.

Adhering strictly to our principle of performing real banking business, we accomplished 97% of the growth rate that was targeted for 2003 in line with our strategic plan. Out of the five largest private banks, whose growth



rates averaged 18%, VakıfBank achieved the greatest growth rate. Currently, we are in the process of divesting the non-financial companies from our subsidiary portfolio. We will allocate the financial sources gained in this way to the real sector as loans. The bond portfolio in our balance sheet constitutes 40% of total assets at the end of 2003. We will further decrease this ratio and increase the ratio of loans to total assets in the following years. We will increase the share of consumer loans to 35% and commercial loans to 65% in total net loans. We are one of the top three banks in terms of the volume of consumer loans, with our wide-ranging loan types amounting to nearly 30. We will also increase the quality and share of income-generating assets by disposing of our idle real estate in due course.

We believe that our human resources are our most precious asset. Our training programs are organized in parallel with our long-term objectives and the trends in the banking sector, with the belief that investment in the human being is the most crucial factor for our corporate success.

With our efficient staff and management, our comprehensive and state-of-the-art systems, our unique banking experience and corporate culture, VakıfBank is ready for the future and its new banking environment. Our next step is to make VakıfBank a world bank. We are confident that we have all the experience and means to achieve this goal. With the hope and expectation that our shareholders will continue their support in this regard, as always, I hereby extend my sincere thanks to each of them on behalf of the Board of Directors. I would also like to thank all our staff members, whom we consider to be members of one big family, our correspondent banks, business partners and customers. We owe our strength to you and we work for you.

Looking forward to another fruitful 50 years.

**A. Ahmet KACAR**  
Chairman and General Manager

## Overview of activities in 2003

*In 2003, VakıfBank continued to extend Turkish lira and FX-denominated pre-export loans in order to support the export oriented industries and increase their competitive strength in international markets.*



### Commercial Banking Highlights

- Over 52,000 corporate clients many of which are small and medium-size export-oriented enterprises
- Conglomerates are also targeted
- Focused lending to strongest companies in every industry possessing high growth potentials
- More focus on project finance, syndicated loans and treasury guaranteed financing and European Investment Bank sourced loans
- Extended utilization of Turkish Eximbank Loans
- New regional corporate marketing departments supporting branch managers to grasp further market share and attract new customers
- Seizing cross-selling opportunities in commercial banking



## **CORPORATE BANKING**

### **Commercial Loans**

Within the general loan policy implemented by the Bank in 2003, the number of customers granted loans was increased, the risk concentration of some specific groups and companies was reduced regularly, and emphasis was placed on extending loans to small and medium-size companies. During the year, new loan products were developed and important progress was achieved in spreading the risk evenly over the entire credit portfolio.

In 2003, VakıfBank continued to extend Turkish lira and FX-denominated pre-export loans in order to support the export oriented industries, increase their competitive strength in international markets, and provide financing to them in the export preparation stage.

In order to increase the Bank's stake in the market, to expand the customer portfolio, and to diversify the risk over the portfolio, the Bank developed new loan products and introduced raw material and business premises purchasing loans, loans against the assignment of export documents, spot/revolving FX loans and loans against cheques/bills during the year.

In 2003, the Bank also continued to extend spot loans to meet the short-term liquidity needs of customers with high creditworthiness in order to increase the Bank's transaction volume and increase profitability by channeling excess liquidity into loans.

VakıfBank has laid down a fundamental banking principle, that all credits extended to companies be guaranteed and profitable. A new set of lending policies, which were specified for the transition to the risk management system made compulsory by the Decree on Internal Audit and Risk Management Systems of Banks, was developed and put into practice for all loans extended in 2003.

Credit and collateral contracts made separately for installment-based commercial credits (for usual business requirements and vehicle purchases) extended to companies, and for overdraft facilities and credit cards

were merged with the Banking Services Contract, thus preventing borrowing customers from signing more than one contract and incurring additional legal liabilities such as stamp duty, etc.

In 2003, credit limits of domestic and foreign banks and financial institutions were reviewed in order to minimize risks and avoid potential problems that may arise from various banking transactions. In this regard, the limits of 62 foreign and four domestic banks and financial institutions were re-assigned.

The Retail-Commercial Branch classification that started in 1999 was eliminated and all branches were equipped to provide all products and services.

### **Project Finance Loans**

The resources to finance investment projects are obtained by VakıfBank from its own capital, or provided from local and/or international funding sources, or through framework agreements made with banks from various countries to finance the long-term machinery and equipment purchases of investors from abroad and are offered under various types of cash loan facilities. In this scope, a loan agreement was signed in 2003 with the European Investment Bank for an amount totaling EUR 200 million. Also, loan negotiations were carried out with the European Development Bank.

During 2003, the Bank extended loans originating from foreign banks to meet the investors' requirements. These foreign banks and facilities included the European Development Bank (EDB) Earthquake Loans, SME Loans, and Loans for Preventing Industrial Pollution.

VakıfBank participates in syndicated project finance loans organized under the leadership of foreign banks and/or of its own to raise funding for large-scale public tenders (construction of dams, motorways, railways, energy plants, etc.). In 2003, VakıfBank had a share of US\$ 163.1 million out of a total of US\$ 914.8 million in syndicated loans.

***VakıfBank has laid down a fundamental banking principle, that all credits extended to companies be guaranteed and profitable.***

## Overview of activities in 2003

### Retail Banking Highlights

- Strong brand recognition and franchise in retail banking
- 294 branches - 6<sup>th</sup> largest branch network in Turkey - 121 cash booths, 1,700 ATMs
- Extensive alternative distribution channels - Internet Banking, Palm Banking, WAP Banking and Call Center
- 10.8 million retail account holders, 1.1 million with overdraft facilities
- 8% market share in total deposits
- 15% market share in retail lending
- 37 different types of loans targeting a diverse client base
- 1.7 million payroll customers with approximately 50% benefiting from retail loans
- 1.6 million credit card holders
- 40,000 acquiring merchants

### SME Loans

In line with the emphasis placed by the Bank on SMEs, a Directorate for SME Loans was developed and working capital loans were extended pursuant to the protocols signed with the Chambers of Industry and Commerce and the Chambers of Small Businesses.

In keeping with the principles specified by the Bank and within the scope of the KOSGEB-supported SME loans, VakıfBank extended working capital loans to manufacturer companies, license plate credits to owners of taxis, minibuses, city buses and employee transportation vehicles who are engaged in public transportation, medical doctors and dentists with offices, pharmacists operating their own drugstores, members of industrialist and businessman associations (SİSAD, ORSİAD, AŞİAD and GİMAD), organizations in the tourism sector, agricultural companies engaged in organic crop growing and greenhouse operations and member merchants who are POS clients of the Bank.

A protocol was signed between KOSGEB and VakıfBank in June 2003. Accordingly, working capital loans not exceeding an upper limit of US\$ 200,000 were extended to 332 SMEs from the TL 40 trillion of total resources transferred to VakıfBank by KOSGEB. With this project, VakıfBank continued its support to the national economy by allocating loans to a large base of companies.

VakıfBank was also sensitive to untoward social events and in line with its social banking principles, provided the necessary financial support to the people who were injured in the terrorist bomb attacks in Istanbul. These people were granted a total of TL 658 billion of working capital loans with favorable interest rates and maturities in the two-month period following the bombings.

### RETAIL BANKING

#### Retail Lending

The downward trend in credit interest rates during 2003 resulted in an increase in the demand for retail loans and a rapid increase in credit applications was observed. The Bank diversified its retail loan portfolio to include the following types of new loans:

- Religious Holiday Loan
- Car Maintenance and Repair Loan
- Winter Tourism Loan
- Fuel Support Loan
- Consumer Loans Collateralized by Rental Income.

VakıfBank started, for the first time in Turkey, second-hand car loans for vehicles up to 10 years old. Also, housing loans were extended with maturities of up to 10 years.

Furthermore, protocols were prepared to extend loans with reduced interest rates to various organizations and commercial institutions. To benefit from the exuberance in the passenger car market, campaigns were organized under agreements made with some of the leading automotive manufacturers.

Total retail loans, which were TL 356,467 billion at the end of 2002, reached TL 1,276 trillion at the end of 2003 and VakıfBank's market share in retail loans increased from 12.8% to 14.3%.



### **Credit Cards**

In 2003, the number of VakıfBank credit cards increased by 310,650, reaching 1,458,788; the number of POS terminals increased by 623 units, reaching a total of 34,184; the number of member merchants with whom the Bank has made installment payment contracts increased by 5,901, reaching a total of 15,083; and outstanding credit card receivables increased by 49% to TL 348 trillion. The Bank made structural changes on installment payment applications under credit cards and provided alternative installment payment schemes to acquiring merchants.

In July 2003, the Bank launched VakıfPara to be used for free-of-charge shopping, in addition to VakıfPuan, and customers were offered bonus points measured in Turkish lira in proportion to their credit card spending.

During the year, VakıfBank made contracts with the Beşiktaş, Galatasaray and Fenerbahçe Football Clubs and issued fan cards with team logos.

### **Bankomat-724 Loans**

As a result of the agreements signed and decreases in interest rates paralleling improvements in the domestic economy, Bankomat-724 Loans increased by 81%, reaching TL 359 trillion. This increase was further propelled by the increases in the number of organizations and persons whose salaries are paid through VakıfBank.

As a result of this development, the number of Bankomat-724 customers increased by 1,333,296, up from 9,046,959 at the beginning of 2003 to 10,380,255 by the end of the year. Furthermore, the number of Bankomat account holders benefiting from overdraft, which was 956,625 at the beginning of the year, reached 1,054,638 at the end of 2003.

### **Utility Payments**

The regular payments system enables customers who have credit and/or deposit accounts with the Bank to automatically pay their utility invoices like electricity, phone bills, etc. and credit cards with the payment orders they give. There was an increase in the number of people utilizing this system by 80,413 over that of the previous year, reaching a total of 1,675,889. The invoices of many new institutions, in addition to the existing ones, were paid online through the regular payments system from the Bank's alternative delivery channels.

### **Payroll Services**

As a result of new agreements made with additional organizations and institutions, VakıfBank was providing payroll services to 2,025,183 people by the end of 2003, up from a total of 1,946,447 persons in 2002.

The total payroll paid in the one-year period during 2003 increased by 22%, from TL 700.8 trillion in 2002 up to TL 855 trillion at the end of last year.

#### **Retail Loans by Type**

(TL billion)

Housing Loans	80,957	6.3%
Car Loans	146,142	11.5%
Other Consumer Loans	456,021	35.7%
Vehicle Loans	177,371	13.9%
Installment-based		
Commercial Loans	415,392	32.6%
<b>TOTAL</b>	<b>1,275,883</b>	<b>100.0%</b>

## Overview of activities in 2003

### **Cheque Transactions**

Pursuant to amendments made to Law No. 3167 on "Arrangement of Cheque Payments and Protection of Cheque Bearers," the Bank started to issue chequebooks with tax IDs as from July 1, 2003.

In addition to VakıfBank cheques with magnetic codes, the necessary infrastructure work was performed to issue Gold Cheques of a different color and design to be given to a select group of customers. The Bank will now be legally liable for TL 1 billion, instead of the previous TL 310 million, for every page of the newly designed Gold Cheques.

Cheque clearing transactions are performed with 36 banks in a fully electronic environment.

### **Insurance Operations**

Insurance services were delivered in a contemporary style and in conformity with the overall objectives and policies of the Bank in 2003 as well.

As a result of the competitive environment in the financial services sector, VakıfBank began delivering banking and insurance services together. Vakıf Emeklilik A.Ş. (Pension Fund Company) also joined in these efforts, carried out under the name of "Insurance Banking." In order to make a solid start in insurance sales, as well as to accelerate efforts, promote sales, spread the use of insurance services and increase the Bank's income from insurance sales, VakıfBank applied a special bounty in 2003 to its employees who are engaged in the sales of cumulative and non-cumulative Vakıf Emeklilik A.Ş. insurance products and private pension products.

### **ALTERNATIVE DISTRIBUTION CHANNELS**

High-tech smart cards and the systems associated with them started to be applied predominantly in universities, public institutions and organizations that operate around a campus setting. In this system, the employees of an organization are given ID cards that can also be used as credit or debit cards. These smart cards are recognized by the control systems on the premises and can allow the holder access to workspace and living quarters and to shopping units purchasing without hard cash. VakıfBank owns the second largest card issuing center in the world and has numerous important competitive advantages in this regard.

The Bank is getting ready for smart card usage that will be compulsory in 2005 by continuously improving its infrastructure through investments in this area.

Furthermore, VakıfBank continues to develop "B2B" applications (Business to Business) that provide efficient solutions in financing and organizing cash flows between dealers and suppliers operating large sales networks. The infrastructure and software associated with B2B applications are relentlessly developed and the suppliers are provided with dealer access via Internet and POS terminals, thus enabling banking transactions to be completed at shorter time intervals. These applications rule out payment instruments like cheques and bills and provide endless cross selling opportunities for the Bank.

VakıfBank "Autobank" vehicles can be mobilized quickly to school premises for tuition collection, as well as to company premises to make salary payments. Autobanks also provide invaluable services at fairs and exhibitions and in the aftermath of natural disasters, such as earthquakes.

### **ATMs**

VakıfBank ATMs are continually equipped with new services in order to fully meet all customer needs. Foreign currency buying and selling, utility payments and opening FX-denominated term deposit accounts are included in the service spectrum of VakıfBank ATMs.

VakıfBank is the first bank in Turkey to launch foreign currency dispensing 'Cambiomat-724 ATM' machines that operate based on US dollars, the euro and Turkish lira. Cambiomat-724 ATM installations were completed in Istanbul, Ankara, Izmir and Antalya during 2003.

By installing 65 new devices during 2003, the number of ATMs increased to 1,636, up from 1,571 at the end of December 2002.

### **Call Center**

VakıfBank enhanced its existing Call Center applications and started to deliver passwords to Internet users and credit cardholders in 2003.

The number of individual customers utilizing Call Center services since the beginning of the year reached 421,808. During 2003, the Call Center responded to a total of 293,590 calls and the amount of operations conducted over the phone totaled TL 389 trillion.

### **Internet Banking**

In 2003, the number of individual customers involved in alternative distribution channels increased to 494,456, whereas the number of corporate customers in this area reached 4,618.

## Investment Banking Highlights

### Mutual Funds

- Establish, manage and market mutual funds
- VakıfBank benefits from countrywide branch network and extensive alternative distribution channels

### Fixed Income Securities

- Trade TL and FX Government Bonds and Treasury Bills in primary and secondary markets for retail customers
- Execute equity and fixed income trading for retail customers
- Underwrite and advise on IPOs as an agent of Vakıf Securities
- Manage the Bank's securities portfolio
- Execute repo transactions
- Analyze and publish valuation reports on private and public companies

## INVESTMENT BANKING

Through its branches, Securities Centers, Infobank, ATMs and Internet Branch, VakıfBank offers investment banking services for the purpose of directing its customers' savings toward profitable investments. Investors who have opened investment accounts through any of these delivery channels can benefit from numerous investment banking instruments like stocks, treasury bills, mutual funds, gold and repo. On the other hand, VakıfBank aims to increase its market share in corporate finance activities assisting companies with their IPO schemes, capital increases, dividend distributions and market valuations.

### Brokerage Services in Securities Trading

Securities trading can be performed actively through all branches, as well as via the Securities Centers and the Internet and Call Center during market sessions. In 2003, VakıfBank provided brokerage services for securities totaling TL 381 trillion and produced a commission income of TL 919 billion. The Remote Access Project (EXAPI) that was put into practice at the end of March enables the processing of 12 trade orders in a second. With this application, transactions on the ISE can be directly and swiftly performed electronically.

### Corporate Finance

Favorable trends in the economy and technological advancements led to important innovations on the supply side of the capital markets and the inclination of companies having growth potentials to secure funds from capital markets gathered speed.

VakıfBank is the only authorized institution to provide valuation services for company purchases and sales, partnerships and stock transactions of the foundations. With the help of its expert staff, it also provides services for company pricing and stock value assessments. VakıfBank performed stock price valuations for 15 companies in 2003.

### Trading Treasury Bills and Government Bonds

VakıfBank provides uninterrupted trading services 24 hours a day, seven days a week for Treasury debt securities through its branches as well as through alternative distribution channels. In 2003, the Bank generated a transaction volume of about TL 18.2 quadrillion in treasury bills and government bonds. Additionally, VakıfBank sold Turkish Treasury Eurobonds worth US\$ 194 million and euro 46 million in 2003.

### Mutual Funds

VakıfBank is one of the first financial institutions in Turkey to establish and manage mutual funds. Throughout the years, the Bank has gained valuable competency in risk and portfolio management in mutual funds. VakıfBank has three Type A and four Type B mutual funds. In August, the Food and Beverage Sector Fund (8th Fund), the Financial Institutions Sector Fund (9th Fund) and the Metal Sector Fund (10th Fund) merged into a Type A Fund. The ISE National-30 Index Fund and Type B Mixed Fund (7th Fund) were converted into a Type A Mixed First Step Fund. The First Step Fund allows parents to invest in the future of their children with long-term investment instruments.

## Overview of activities in 2003



VakıfBank launched a new and modern product called the 'Pool Account' to meet the ever-growing banking needs of its individual customers. In this application, any balance at the end of each working day in the account of a customer is automatically transferred to a specific investment account as specified by the customer according to his or her preferences. Furthermore, any regular payment the customer wants to make can also be handled automatically by this system. A special type of account was launched especially for customers who gather frequently to talk about investments in gold, dollar, euro or mutual funds. This specific account type greatly facilitates their investment decisions.

At the end of December 2003, the total value of the assets under management in the Bank's mutual funds reached nearly TL 911 trillion, realizing a market share of 4.67% in the domestic market. In the near future, the Bank aims at increasing its market share to over 10%.

The trading of mutual funds can be executed through all distribution channels including all branches, the Internet Branch, the Call Center and ATMs without any restrictions on amount. In 2003, a TL 18.2 quadrillion in transaction volume was achieved through mutual funds.

### **Gold Trading**

Turkey rates as one of the foremost countries in the world regarding gold demand, with a gold importation volume varying between 100 to 200 tons annually.

VakıfBank, a member of the Istanbul Gold Exchange, achieved TL 1.5 trillion in gold trading volume in 2003.

### **INTERNATIONAL BANKING**

VakıfBank's share in Turkey's overall import and export transactions increased in line with its general strategy during 2003. As a result of the increases in import and export transactions, VakıfBank's total volume of international business increased by 25% compared to 2000. This success was achieved primarily by centralizing the execution of international operations in three major cities and directing the branches toward marketing activities by relieving them of the burdens of routine banking operations.

VakıfBank aims to be one of the leading foreign trade banks of Turkey. With this purpose in mind, it escalated the number and quality of training programs geared to the needs of its international operations staff, hence increasing the overall service quality. Through its experienced staff, the Bank provides service in international transactions covering all payment forms. In addition to serving public institutions and strong large-scale companies, VakıfBank offers various loan facilities to smaller companies in an effort to diversify risks, supports the growth of small and medium-size companies and encourages the companies in this segment to enter international markets.

### International Banking Highlights

- A well recognized presence in the international financial markets
- Approximately 8% of the export and import volume of Turkey goes through VakıfBank
- Close, mutually beneficial relationships with correspondent banks globally
- Strong export customer portfolio
- A strong FX funding source
- Apply relevant policies to promote trade finance
- Allocate limits for international financial institutions
- Centralized trade finance operations in three hubs to create more efficiency allowing the branches to focus on the sales of trade finance products

VakıfBank issues letters of guarantee denominated in foreign currencies in favor of domestic and foreign companies participating in international tenders and also issues such foreign currency denominated guarantees to secure cash and non-cash credits used in financing export and import business.

Maintaining close relationships with numerous correspondent banks abroad, VakıfBank carried out its import and export operations without interruption even during the most hectic days of the economic crisis of the past years. Complying with current regulations, the Bank transfers money abroad in a very safe and speedy manner and issues foreign currency cheques. It also performs an intermediary role in foreign currency remittances from abroad and within the country.

In December, the syndicated loan facility arranged by ABN AMRO Bank N.V., American Express Bank GmbH, The Bank of New York, CoBank ACB, The Commercial Bank of Kuwait S.A.K., Gulf Bank K.S.C., Gulf International Bank B.S.C., HVB Group, ING Bank N.V., Mashreqbank PSC, Natexis Banques Populaires, Standard Bank London Limited, Wachovia Bank N.A. and WestLB AG attracted great interest abroad. With the participation of 36 banks, this facility was oversubscribed by 43% above the initially

mandated amount. Taking into consideration the Bank's actual funding requirements, the deal was sealed off at US\$ 200 million.

In 2003, VakıfBank obtained the third and fourth tranches of the DPR Securitization scheme amounting to US\$ 300 million with maturities of three and five years. The transaction was rated with BBB by FitchRatings.

VakıfBank prepares weekly reports in English providing information on the domestic economy and banking industry and these reports are disseminated to over 200 organizations worldwide. Informing international financial circles of Turkey's improving macroeconomic indicators is of vital importance not only to the country, but to the Bank as well.

VakıfBank carries on its work of generating long-term resources from international financial markets through bond issues and other products, and continues its negotiations on this issue with some global investment banks. In line with demands coming from customers specifically participating in construction contracting tenders abroad, VakıfBank started to work with new correspondent banks in the Middle East and Gulf region countries in 2003.



## Overview of activities in 2003

### ***VakifBank invested US\$ 4.5 million in technology in 2003 in order to assure unconditional customer satisfaction by providing secure, rapid and contemporary services.***

In the reports they regularly prepare about the Bank, some of the world's leading investment banks emphasize the excellent quality of VakifBank's management, as well as its robust technological infrastructure. These reports include positive assessments about the Bank's strong market position in consumer and commercial banking activities and stress the effectiveness of its branch network and IT-driven distribution channels. The strengths of VakifBank, in the eyes of foreign financial institutions, are the diversity of its products and services, its close relationships with small and medium-size enterprises and its robust funding base.

The world's leading rating agencies assigned the highest ratings to VakifBank, constrained only by Turkey's sovereign rating. Moody's assigned a grade of B3 for long-term bank deposits and an E+ for the financial strength of the Bank. FitchRatings assigned a B+ for long-term and a B for short-term in terms of foreign currency and assessed the outlook as "stable." These positive ratings assigned to VakifBank further strengthen its international stance, help secure affordable funding facilities from foreign markets and reinforce its image in international banking circles.

#### **INFORMATION TECHNOLOGY**

VakifBank invested US\$ 4.5 million in technology in 2003 in order to assure unconditional customer satisfaction by providing secure, rapid and contemporary services. Investments in technology also help the Bank to save significantly on operational costs.

#### ***Centralization of Operations***

The centralization project aims to ensure rapid adaptation of advancing technology and to provide contemporary and high quality services to the customers. In 2003, VakifBank designed new workflow processes and started the restructuring of its computing infrastructure and applications that were in unison with these processes.

Within the scope of the centralization project:

- VakifBank decided to work with Deloitte and Touche to receive consultancy services on activities related to the centralization project.
- Preliminary work was started for the set up of a "data warehouse" in order to measure the productivity of the Bank, increase cross-selling opportunities, enable decision-support mechanisms and ensure the consistency of the reports submitted to top management. Related companies organized presentations to the Bank on the subject matter. Currently, the relevant work is in progress.
- The specifications were determined for the upgrading of the Bank's wide area communication network infrastructure that would be compatible with the recent data, sound, and visual traffic. The proposed system has been put out to tender and the bids of interested companies are expected by the end of 2004.
- The specifications were prepared for the updating of the Bank's general banking software that would incorporate high technologies. The tender was announced and as of the end of the year, the Bank was conducting "case studies" with the companies, which submitted favorable bids.

When these projects are completed by the end of 2004, all major banking activities will be conducted around a centralized framework.





### Internet Banking Transactions

VakıfBank continuously reinforces its Internet infrastructure and updates its web pages both visually and functionally, facilitating the usage by customers. In addition to current Internet banking applications, the following options were provided in 2003:

- forum.vakifbank.com.tr became operational, where employees' comments concerning banking activities are submitted and evaluated by the related units.
- Web-based notification, fax and correspondence system were installed.
- The EXAPI application became operational, thus enabling the execution of online stock orders, including submitting orders to the ISE, order queries, and cancellations.
- Work for transferring ISE data from Tr.Net Foreks to the central system was started.

Other Information Technology Projects in 2003 included:

- Project finance loans, guarantee entries into books, consumer loans and commercial loans and installment-based loans monitoring applications that had not been previously transferred to a computerized environment were redesigned in the centralized system.

- Circulars and notifications previously distributed in-house in paper format were moved to a computerized environment. The project for expanding and applying the use of this system to all branches and units is in progress.

- For payment and collection transactions, the MTS collection system became operational for Turkcell by using BBS. The project to also include Aycell and Telsim into this system is in progress.

### INTERNAL CONTROL AND RISK MANAGEMENT

#### Internal Control

The internal control function aims to ensure that all banking operations are executed pursuant to the Bank's policies and targets as well as legal procedures and to minimize operational risks by immediately correcting any detected inconsistencies and errors. During the year, 16 more branches were added to the existing 15 branches where internal control work is conducted, increasing the total number of branches included in the scope of internal controls to 31.

Research is underway for conducting centralized controls of the Bank's software operating on its computers, as is a project for setting up a database system that will process and analyze internal control findings.



## Overview of activities in 2003

### Risk Management

In 2003, VakıfBank continued its efforts at maintaining and further developing its risk management system, which was originally established to enable the Bank to comply with all legal requirements, as well as to meet its own needs and worldwide applications within the banking industry.

The 'Operational Risk Policy and Application Principles,' the 'Operational Risk Framework' and the 'Emergency Plan' were put into effect in 2003. These were originally prepared to determine the essentials of VakıfBank's policies, principles, approaches and applications regarding risk management, as well as to identify the risks the Bank is exposed to, to create a common risk language and to manage extraordinary risks that may arise from unexpected conditions.

Furthermore, the Bank prepared the 'VakıfBank Credit Risk Management Policy Document' to establish and operate a robust and consistent in-house credit risk management system and to create a common risk management culture encompassing all its staff members.

The necessary work was completed and new procedures and application principles were designated regarding electronic banking and Internet banking activities that are given priority in terms of operational risk.

The project for developing the "Collaterals Rating Matrix," that will be a major component of the "Credit Risk Rating System" for commercial loans, was started.

The Bank also carried on with its efforts to develop a small business scoring system to evaluate the credit applications of small and medium-size companies.

### LEGAL AFFAIRS

VakıfBank takes all the necessary measures within banking procedures to follow up outstanding loans and to avoid problems regarding collections. Consequently, during 2003, it executed legal and administrative action to collect all non-performing short, medium and long-term commercial and consumer loans.

Despite an additional TL 122 trillion in credits in arrears during 2003 arising from the previous years' operations, as a result of debt restructuring and collection efforts under legal action, the Bank collected TL 156.1 trillion for non-performing loans. A total of TL 128 trillion in overdue cash credit risk was transferred to outstanding credit accounts pursuant to the provisions of the Regulation on Reserves. This has reduced the gross overdue receivables to TL 769 trillion.

As a result of the high performance in liquidating receivables under follow-up, the year-end profit allowed the Bank to allocate reserves for the entire non-performing loans, and TL 287 trillion of specific reserves for bad debts was allocated annulling the net receivables under follow-up.

Since 2001, TL 292.2 trillion in cash and TL 75.6 trillion in non-cash risks for 22 large-size companies were included in the 'Financial Restructuring Framework Agreement' within the scope of the 'Istanbul Approach' and the related rescheduling agreements were signed. Currently, the Bank is carrying on its efforts to include TL 9.1 trillion in cash and TL 42.9 billion in non-cash risks



of nine companies within the scope of this 'Approach.' These agreements made under the 'Istanbul Approach,' contain a payment plan predominantly with a two-year grace period and maturities of up to 10 years. Apart from those companies and groups included in the 'Istanbul Approach,' since 2001, debt rescheduling agreements were made with 67 commercial groups and businesses covering TL 130 trillion in cash and TL 93.2 trillion in non-cash risks.

According to Article 1 of the Law on Consumer Protection No. 4822, a 50% default interest rate was applied to defaulted credit cardholders of the Bank. Payment agreements were made with 3,406 defaulted consumers covering TL 2.5 trillion. The plans included payments in 12 equal installments.

Accordingly, TL 396 trillion was secured under payment plans as of year-end 2003, comprising about 51% of the total risks under follow-up. Legal proceedings are currently being pursued for the remaining companies making up the 49% of the follow-up risks.

Beginning from April 28, 2003, the 'Follow-up Incentive Premium' application was started to promote the acceleration of liquidation and collection processes for the Bank's past-due receivables.

## PLANNING AND ORGANIZATION

Just as in the previous year, in 2003 the performances of the Bank's branches and units were monitored and evaluated monthly based on 46 pre-determined criteria within the scope of the Annual Business Plan and Development Projections. The organizational structure was reshuffled according to the specified objectives and requirements.

In this regard:

- Four branches, which had low profitability and efficiency were closed down.
- Six Special Operational Centers were transformed into branch offices with capabilities to perform all banking activities.
- For the purpose of increasing service quality, operational speed and customer satisfaction, the restructuring project of the branch offices to enable them to be more sales and marketing oriented was completed and put into practice in six branch locations. This application is gradually being expanded to cover other branch offices.

- A project was started to open corporate branches or to convert existing branches into corporate branches, particularly in larger cities, with the purpose of providing higher quality, more efficient and faster banking services to companies having large business volumes.

In the Headquarters:

- The General Secretariat unit was closed down.
- The positions of the Istanbul Regional Manager and the Corporate Marketing Regional Manager, reporting to an Assistant General Manager, were established to increase the Bank's market share in Istanbul and facilitate the decision-making mechanisms.
- SMEs Loans Management was established to provide faster and more efficient services to small and medium-size companies that possess important potential for exports within the manufacturing industries, as well as to channel these businesses to the Bank. The Legal Affairs Group Management was established to be able to handle the legal proceedings for non-performing loans in a faster manner.

As a part of the human resources planning process in 2003, norm personnel requirements were determined for the purposes of enabling the Bank to reach general policy guidelines and targets, increasing personnel efficiency and determining and meeting the personnel requirements of the units in an optimal way.

In line with the changes in the organizational structure, job procedures were prepared that included job definitions, authorities and responsibilities of the Bank's units and the distribution of the personnel in these units by title.

In 2003, VakıfBank started a restructuring program in its business processes to increase the Bank's competitiveness and profitability in the short-term, reduce costs, enhance service and personnel quality, and meet customer satisfaction criteria and expectations by delivering first-class banking services.



## Overview of activities in 2003

The project groups, formed to identify and classify the business processes of the Bank, map and analyze them according to internationally accepted standards and designate new business processes, completed 90% of their work during the year. Once these processes have been identified and classified the information systems of the Bank will be updated accordingly with the necessary software in place by the end of 2004.

During 2003, design projects for 10 new products and services were initiated and completed.

### HUMAN RESOURCES AND TRAINING

At the end of 2003, there were a total of 7,341 employees on the VakıfBank payroll, of which 3,918 were male and 3,423 were female. During the year, the Bank honored 406 employees for their service of 15 years with Vakıf gold coins and 27 employees for their service of 20 years with golden watches.

#### On-the-Job Training Activities

##### Development Training

To contribute to the personal development of employees by updating and upgrading them on the most recent trends and developments in the banking industry, 107 training seminars on 37 different subjects were provided to 3,639 employees in seven centers, namely Ankara, Istanbul, Mersin, Izmir, Samsun, Adana and Erzurum.

##### Promotional Training

According to Article 36 of the Regulation on Bank Personnel, 'Promotional Trainings' with different durations were organized for the employees who have completed their service period in their positions and who are deemed eligible for promotion by the Human Resources Group Management. In all, 2,456 employees attended these training programs, which took place in

Ankara, Istanbul, Izmir, and Mersin and those who were successful in the promotional exams were given higher authorities.

##### Orientation Training

Orientation training programs were provided to 17 employees who had been newly assigned as internal auditors in the Internal Control Department, as well as to eight programmers who were equipped in basic banking applications.

##### External Training Programs

VakıfBank employees were provided with training organized by the Turkish Bankers Association (TBA) and by other training organizations in Ankara, Istanbul, Izmir and Konya. In 2003, 55 employees participated in training programs offered by TBA on 43 different topics and 38 employees participated in training programs offered by other external organizations on 18 different topics.

##### Internship Program

In 2003, VakıfBank provided an internship opportunity in various Bank units to 242 university and commercial high school students. Under the Law on Apprenticeship and Vocational Training, No. 3308, 569 students from commercial high schools were offered the chance to complete their compulsory internship programs at VakıfBank.

##### Scholarships

VakıfBank continued to grant scholarships in 2003. In all, 224 students were given such financial aid, 99 of whom came from earthquake-stricken areas.

### Breakdown of VakıfBank Employees by Education

	Primary and Secondary School	University Degrees	Graduate Degrees	Total
White-collar	3,165	3,537	70	6,772
Blue-collar	84	-	-	84
Security Staff	472	13	-	485
<b>TOTAL</b>	<b>3,721</b>	<b>3,550</b>	<b>70</b>	<b>7,341</b>

***In accordance with its understanding of social responsibility, in 2003, VakıfBank distributed the Turkish Flag, a poster of Atatürk and Atatürk's Address to the Youth as a present to numerous primary schools in an effort to meet their needs to commemorate the 80th anniversary of the Republic of Turkey.***

#### **PUBLIC RELATIONS AND CONTRIBUTION TO CULTURE AND THE ARTS**

As it has in previous years, VakıfBank continued its quest in 2003 to expand its customer portfolio by effectively promoting both its existing and new services to a larger segment of the populace. In addition to this, as per its usual corporate culture and tradition, the Bank also supported artistic and cultural events.

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Also in 2003, VakıfBank sponsored the First International Finance Summit organized by the Active Academy where the General Manager of VakıfBank, Mr. A. Ahmet Kacar, attended as a speaker. In addition to this, the Bank organized and/or sponsored a number of other social and economic events and organizations.

VakıfBank continued its support of culture and the arts in 2003 with a total of 77 exhibitions. Furthermore, 'Photographs of Atatürk' was exhibited in the Ankara Headquarters Foyer and catalogues of several exhibitions organized during the year were printed and distributed as cultural publications of VakıfBank.

Once again, the Bank hosted the popular "VakıfBank Republican Week" activities, which have become such a well-known tradition, appealing to art lovers since 1999. In 2003, the "VakıfBank Jazz Concert" was organized, hosting Turkish jazz masters who took to the stage in the historic Ankara Railway Station and performed in front of large audiences.

#### **SALE OF REAL ESTATES**

As a result of the sale of 423 real estate properties that were redundant, plus the purchase and foreclosure of 309 new real estate properties, the Bank's number of properties decreased to 1,301 in 2003, down from 1,415 in 2002. Of these, a total of 270 real estate properties are bank property and 1,031 are foreclosure properties.

From the sale of the 423 real estate properties that were redundant, along with the foreclosures, VakıfBank realized an income of TL 89.9 trillion, of which TL 23.4 trillion was transferred to the fund account to be added to the capital. Share of real estates in total assets decreased to 5.7% from 9.6% in 2003.

#### **EQUITY PARTICIPATIONS**

Carrying on in its mission to contribute to the national economy with contemporary banking services in addition to its subsidiaries operating in a number of industries, VakıfBank reduced the number of its equity participations to 36 at the end of 2003, down from 38 in 2002. Block sales of the Bank's non-financial subsidiaries could not be achieved, hence the sale of these companies' assets is continuing. A total of TL 26.5 trillion in revenue from the sale of these assets was transferred to the fund account to be added to the capital.

VakıfBank has 21 finance sector-related equity participations, six of which are in banking, two in insurance and 13 in other financial sectors. Additionally, it has 15 non-finance related equity participations, including one in the energy sector, two in manufacturing, seven in tourism and five in other non-finance related businesses.

As of the end of 2003, total commitments to subsidiaries' capitals increased by 5.7% compared to the previous year, reaching TL 230,515 billion. Of this amount, TL 215,828 billion was in cash commitments and TL 14,687 billion was reflected in bonus shares received from subsidiaries.

## Overview of activities in 2003

### VakıfBank's Equity Participations By Sectors

(as of December 31, 2003)

	<i>Capital (TL billion)</i>	<i>VakıfBank's Share in Capital (%)</i>
<b>I - BANKING</b>		
Banque du Bosphore (*) (EURO)	16,000,000	20.00
İMKB Takas ve Saklama Bankası A.Ş.	60,00	4.86
Kıbrıs Vakıflar Bankası Ltd.	4,200	15,00
T. Sınai Kalkınma Bankası A.Ş.	114,000	8.38
World Vakıf Off Shore Banking Ltd. (*) (US\$)	500,000	82.00
VakıfBank International A.G. (*) (EURO)	20,000,000	90.00
<b>II - INSURANCE</b>		
Güneş Sigorta A.Ş.	43,200	35.35
Vakıf Emeklilik A.Ş.	20,250	53.90
<b>III - MANUFACTURING</b>		
GTS Gaziantep Tekstil San. Dış Tic. A.Ş.	80	5.00
İşkur İşçi İşadamı Kimya San. Kur. A.Ş.	0.4	25.00
<b>IV - TOURISM</b>		
Ataköy Marina ve Yat. İşlet. A.Ş.	150	35.16
Ataköy Otelcilik A.Ş.	10,210	18.97
Ataköy Turizm Tesisleri ve Tic. A.Ş.	685	40.58
İzmir Enternasyonal Otelcilik A.Ş.	120	5.00
Ataköy Mağazacılık Tic. A.Ş.	150	45.79
Taksim Otelcilik A.Ş.	30,000	51.00
Vakıflar Turizm A.Ş.	200	0.00
<b>V - OTHER FINANCIAL BUSINESSES</b>		
Bankalararası Kart Merkezi A.Ş.	4,000	9.70
İstanbul Altın Rafinerisi A.Ş.	1,000	0.12
Kredi Kayıt Bürosu A.Ş.	2,475	9.09
Vakıf Finansal Kiralama A.Ş.	13,150	58.71
Vakıf Deniz Finansal Kiralama A.Ş.	24,950	68.55
Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş.	2,550	11.75
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	5,000	27.63
Vakıf Risk Sermayesi Yatırım Ortaklığı A.Ş.	900	46.36
Vakıf Yatırım Menkul Değerler A.Ş.	6,000	99.00
Vakıf Finans Factoring Hizmetleri A.Ş.	22,400	78.39
Vadeli İşlemler Eğitim Danışmanlık A.Ş.	690	8.70
EGS Gayrimenkul Yatırım Ort. A.Ş.	50,000	0.73
Vadeli İşlem ve Opsiyon Borsası A.Ş.	6,000	6.00
<b>VI - OTHER COMMERCIAL BUSINESSES</b>		
Güçbirliği Holding A.Ş.	11,122	0.19
Vakıf Sistem Paz. Yaz. Ser. Tic. San. A.Ş.	3,000	73.00
Vakıf Gayrimenkul Ekspertiz ve Değ. A.Ş.	500	20.00
Eti Soda Üretim A.Ş.	2,775	0.02
Orta Doğu Yazılım Hizmetleri A.Ş.	10,000	15.00
<b>VII - ENERGY BUSINESSES</b>		
Vakıf Enerji ve Madencilik A.Ş.	85,000	65.50

(\*) Full amount is presented.

***As one of the market leaders in the industry with a high operational volume and multi-choice leasing policy, Vakıf Deniz Finansal Kiralama A.Ş. obtained the TS ISO 9002 Quality Assurance Certificate in 1995 and updated it in 1998. Vakıf Deniz Finansal Kiralama A.Ş. was the first financial service company to obtain this certificate.***

#### **VAKIFBANK FINANCIAL SERVICES GROUP**

##### ***Vakıfbank International A.G.***

Established in 1999 to augment VakıfBank's international activities in line with the Bank's geographical expansion strategy, VakıfBank International A.G. has a capital of EUR 20 million, 90% of which is owned by VakıfBank.

##### ***Banque du Bosphore***

Established in 1991 as a Turkish-French joint venture to handle and finance foreign trade transactions between Turkey and Europe, and in particular France, Banque du Bosphore focuses on private sector companies taking a part in capital movements between the two countries. VakıfBank owns 20% of Banque du Bosphore's capital of EUR 16 million.

##### ***World Vakıf Offshore Banking Ltd.***

Established in 1993 in the Turkish Republic of Northern Cyprus to offer offshore banking services, as well as to help Turkey expand into international markets and enhance international activities, World Vakıf Offshore Banking Ltd. has a capital of US\$ 500,000, 82% of which is owned by VakıfBank.

##### ***Kıbrıs Vakıflar Bankası Ltd.***

Established to promote the utilization of Visa and MasterCard/EuroCard International credit cards and increase foreign currency earnings, Kıbrıs Vakıflar Bankası Ltd. has a capital of TL 4.2 trillion, 15% of which is owned by VakıfBank.

##### ***Güneş Sigorta A.Ş.***

Established by VakıfBank in 1957 to offer insurance services, Güneş Sigorta has a capital of TL 43.2 trillion, 35.35% of which is owned by VakıfBank. Güneş Sigorta was the first Turkish insurance company to obtain the TS-EN ISO 9002 Quality Assurance Certificate.

##### ***Vakıf Emeklilik A.Ş.***

Established by Güneş Sigorta A.Ş. in 1991 following the acquisition of the necessary permission from the Turkish Treasury, Vakıf Emeklilik A.Ş. has a capital of TL 20,250 billion, 6% of which is owned by VakıfBank. Pursuant to articles of the Law on Private Pension Savings and Investment System No. 4632, the Company acquired its operations license on August 1, 2003 and its license for establishing funds on September 5, 2003, after which it started offering private pension fund services.



## Overview of activities in 2003

### **Vakıf Finansal Kiralama A.Ş.**

Established in 1988, Vakıf Finansal Kiralama A.Ş. was selected in the same year as one of the top 100 leasing companies in Europe. VakıfBank holds a 58.72% share in the Company's capital of TL 13,150 trillion.

### **Vakıf Deniz Finansal Kiralama A.Ş.**

Established in 1993 to provide leasing services to the maritime industry for dry cargo and ro-ro vessels, Vakıf Deniz Finansal Kiralama A.Ş. has a capital of TL 24,950 billion, 68.55% of which is owned by VakıfBank.

As one of the market leaders in the industry with a high operational volume and multi-choice leasing policy, Vakıf Deniz Finansal Kiralama A.Ş. obtained the TS ISO 9002 Quality Assurance Certificate in 1995 and updated it in 1998. Vakıf Deniz Finansal Kiralama A.Ş. was the first financial service company to obtain this certificate.

### **Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş.**

Established as a publicly-traded company in 1991 to provide stock market investment, brokerage and fund management services for small-scale investors, Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş. has a capital of TL 2,550 billion, 11.75% of which is owned by VakıfBank.

### **Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.**

Established by VakıfBank as the first real estate investment trust company in Turkey, with an initial paid-in capital of TL 250 billion, for the purpose of developing and managing a real estate portfolio and real estate-based market instruments, Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. now has a capital of TL 5 trillion, of which 27.63% is owned by VakıfBank.

### **Vakıf Finans Factoring Hizmetleri A.Ş.**

Established in 1998 to provide domestic and international factoring services, Vakıf Finans Factoring Hizmetleri A.Ş. has a capital of TL 22.4 trillion, 78.39% of which is owned by VakıfBank. The Company provides financing for export as well as domestic trade activities, specifically focusing on textiles, food and forest product industries.

### **Vakıf Risk Sermayesi Yatırım Ortaklığı A.Ş.**

Established by VakıfBank as a venture capital company to provide financing to entrepreneurs through various types of credits, as well as to help technological advancement in Turkey and to extend funds to small and medium-size businesses, Vakıf Risk Sermayesi Yatırım Ortaklığı A.Ş. has a capital of TL 900 billion, 46.36% of which is owned by VakıfBank. The Company currently has investments in three projects where it is also a shareholder in the companies, which developed these projects.

### **Vakıf Yatırım Menkul Değerler A.Ş.**

Established initially with the name of Vakıf Yatırım A.Ş. to perform capital market activities within the scope of the Capital Markets Board's policy decisions dated August 15, 1996, the Company has a capital of TL 6 trillion, 99% of which is owned by VakıfBank. The Company's name was subsequently changed to Vakıf Yatırım Menkul Değerler A.Ş. in 1998.

In addition to brokerage activities, Vakıf Yatırım Menkul Değerler A.Ş. also conducts repurchase and reverse repurchase agreements, investment advisory services and portfolio management activities.





## ***Stars of VakıfBank, Sultanas of the Sun...***

The VakıfBank Güneş Sigorta Women's Volleyball Team defeated ULM Aliud Pharma (GER) in the Final-Four final match of the European Volleyball Confederation (CEV) European Top Women Teams Cup that is widely regarded as the second most prestigious cup in European volleyball. The team also won the European championship last year, a feat accomplished only once before by a Turkish team.

Under the technical management of its coach, Vladimir Buzayev, and team manager, Nalan Ural, VakıfBank Güneş Sigorta Women's Volleyball Team proved in the Top Teams Cup that it was indeed the best team in Europe.



