



# Investor Presentation

**BRSA Solo Results**

*1<sup>st</sup> Quarter, 2006*

*May, 2006*

# Vakıfbank: An Overview of 1Q2006 results & financial performance trends

<b>B/S mix</b>	<p>Increased share of loans in total assets Decreasing trading securities portfolio Increased funding from retail deposits</p>	Total Assets	34,128.3
<b>B/S growth</b>	<p>Strong asset growth driven primarily by rapid loan expansion (retail and SME loans)</p>	Gross Loans	14,549.3
<b>Asset quality</b>	<p>Decreasing level of NPLs, stringent credit review/scoring systems 100% NPL coverage</p>	Securities	10,420.0
<b>Capitalisation</b>	<p>Strong capitalisation levels, allowing for future growth Pepaid government sub-debt</p>	Total Deposits	23,118.0
<b>Revenue mix</b>	<p>Increased share of interest income from loans, rather than securities Focus on generating fee &amp; commission income</p>	Shareholders' Equity	4,030.0
<b>Profitability</b>	<p>Well managed cost base and efficient network</p>	Net Interest Income	384.6
		Net Profit	210.7
		Branch Network	304
		Customer Number	Over 6 million

1Q2006 BRSA Bank Only Figures (mm YTL)

# Financial performance 1<sup>st</sup> Q2006

## Balance sheet highlights

- Continued rapid expansion of credit portfolio supported by strong growth in deposits
  - Gross loan portfolio increased by 62.3% to YTL14.5bn YoY
  - Customer deposits grew by 33.6% to YTL23.1bn YoY
  - Significant growth in higher yielding YTL products: YTL loans grew by 62.0%; YTL deposits registered a 40.3% growth YoY
- Share of loans in total assets increased to 39.6% compared to 34.1% in 1Q2005, while the share of securities portfolio contracted to 30.5% from 39.5% in 1Q2005
- Loan to deposit ratio reached 56.6% in 1<sup>st</sup> Q 2006 compared to 47.0% in 1<sup>st</sup> Q 2005
- *Strengthened capital base as a result of successful IPO raising YTL1.5bn*
- Prudent provisioning and improving loan quality: NPLs down to 7.1% of gross loan portfolio in 1<sup>st</sup> Quarter 2006 and are fully provisioned

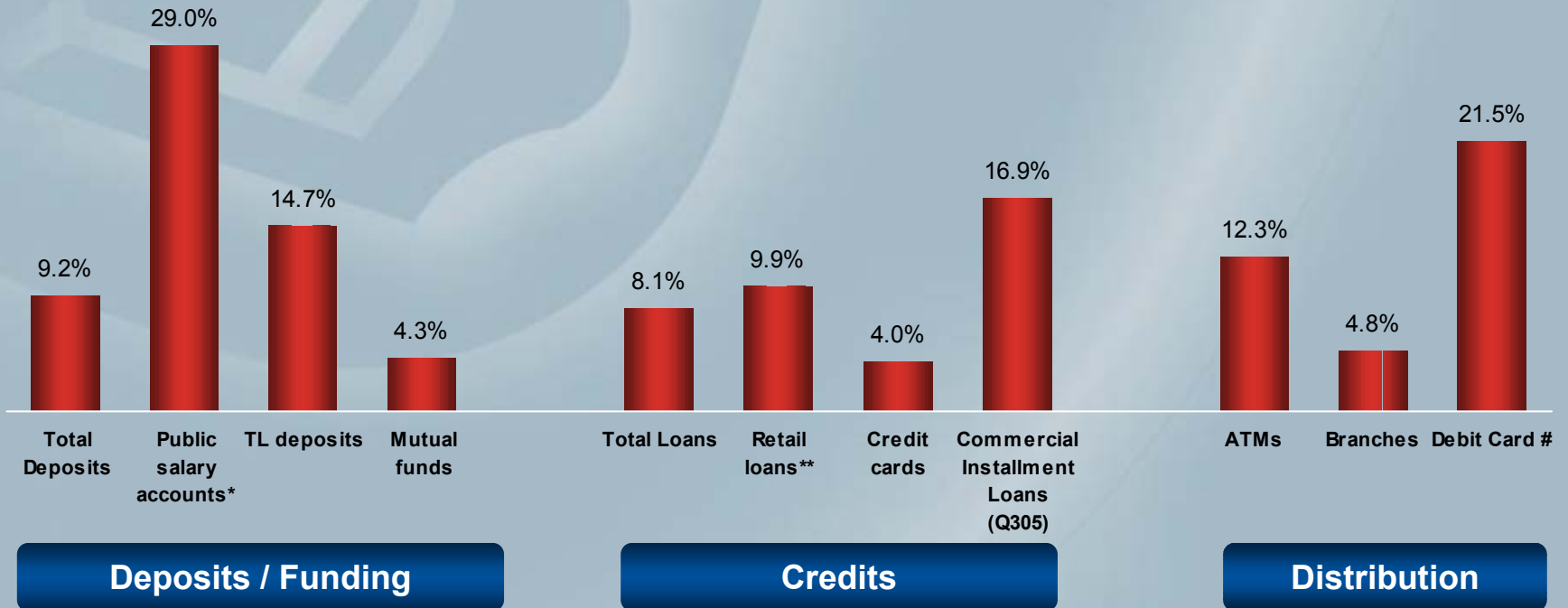
# Financial performance 1Q2006

## P/L Highlights

- **Strong NIM despite margin pressure**
  - Lending and deposit margins driven by market trends
  - Very limited non-interest earning assets and strong YTL funding
  - Over 50 bps increase compared to 4th quarter 2005
  - Net interest income increased by 9,2% YoY
- **Further potential to grow fee & commission income**
  - Expected increase in credit card usage due to new legislation and credit card reorganization
- **Strong cost control**
  - Vakifbank remains one of the most efficient banks in Turkey
  - Cost/income ratio is in line with top players at 33,6%
  - Productivity per branch and employee remain one of the market leaders

# VakifBank: continued leadership, particularly in retail and SME finance

## Market shares (%) (2005)



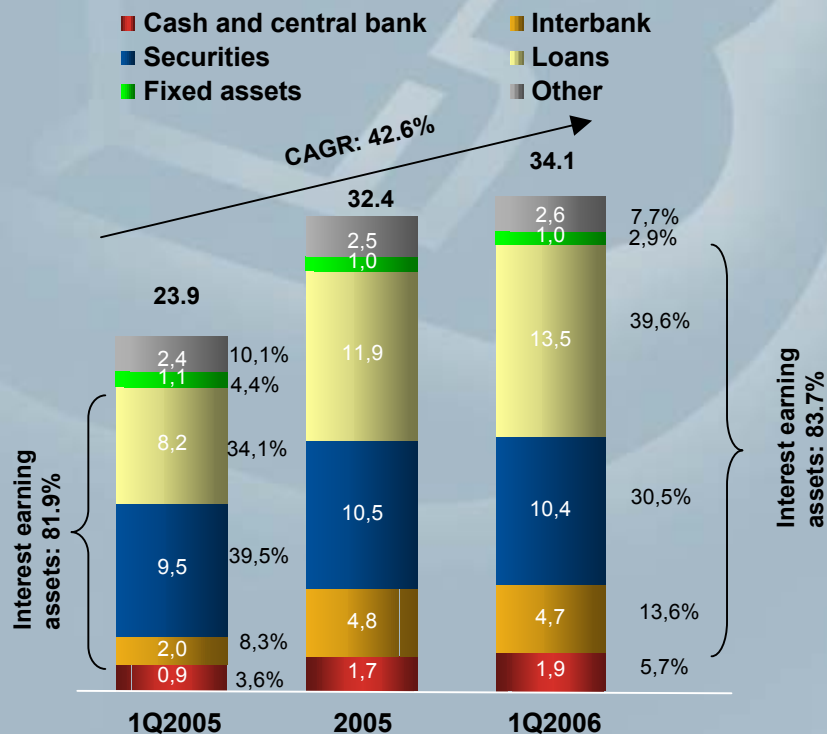
Source: Turkish Banks Association reports under BRSA standards, Capital Markets Board

\* VakifBank estimates

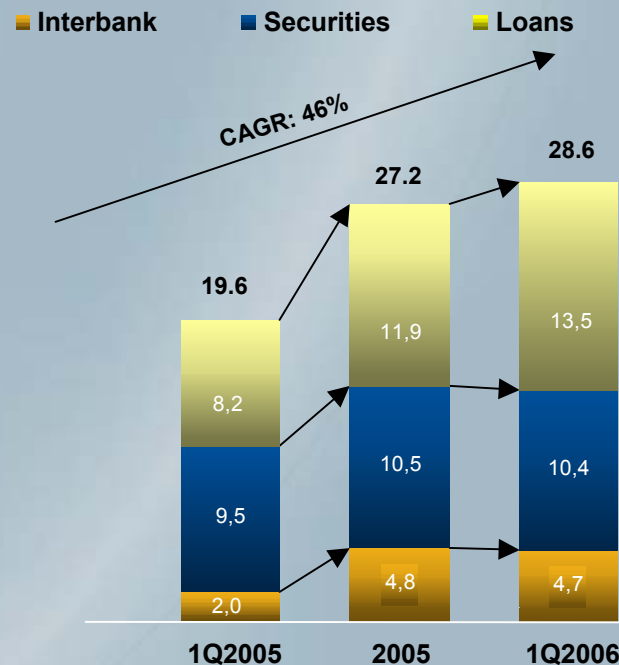
\*\* Includes home, auto and other. Credit card loans and State Mass Housing Authority (TOKI) loans not included

# Diversification of asset mix towards interest-earning assets

## Asset composition (YTLbn)



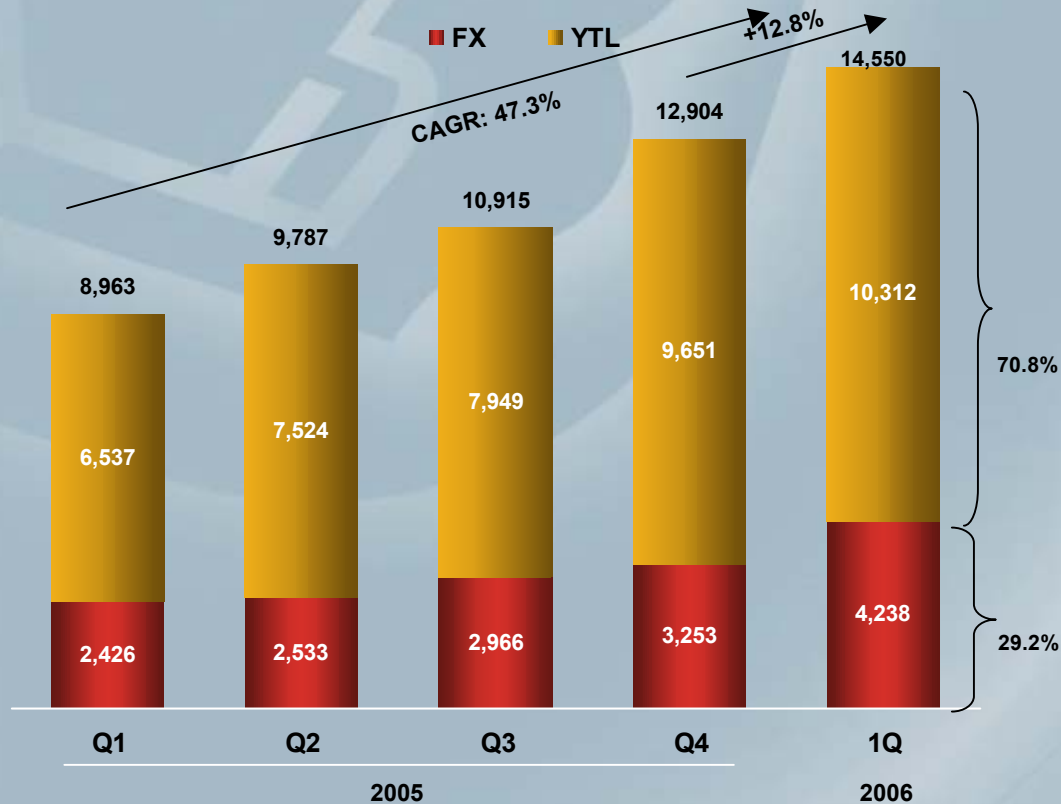
## Interest earning assets (YTLbn)



- Strong growth in assets driven by rapid expansion of loan portfolio
- Continued diversification away from securities—from 39,5% of total assets in 1st Q 2005 to 30,5% in 1st Q 2006

# Rapid expansion of loan portfolio continued...

## Gross loans (YTLmm)

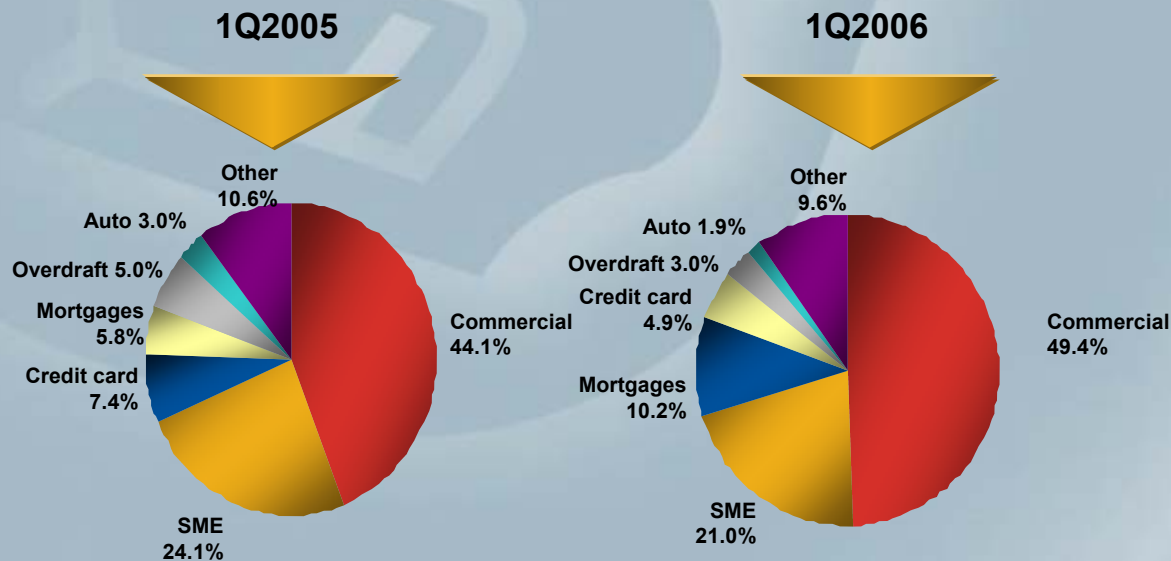


## Comments

- Loan portfolio registered a 47.3 % increase in 1Q2006 from 1Q2005
- After a slowdown in the first three quarters of 2005 due to IPO preparations, gross loan growth resumed with total portfolio increasing by 12.8% in 1Q2006
- Higher yielding YTL loans grew by 57.7% while FX-denominated loans increased by 74.7% from 1Q2005 to 1Q2006.

# ...with strong focus on retail and SME lending...

## Breakdown of loans by sector



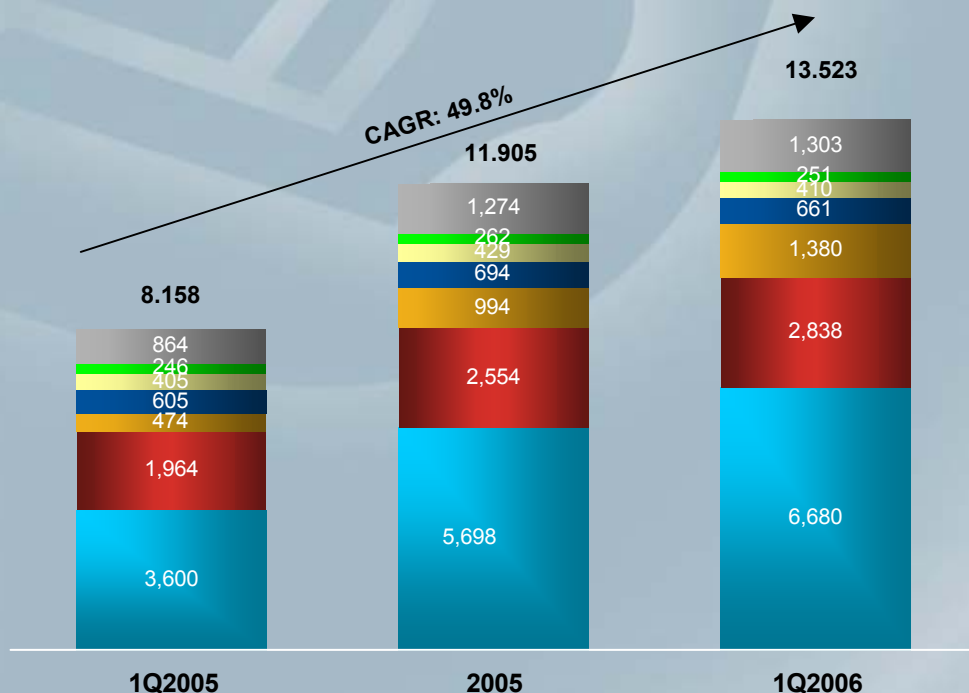
## Comments

- Good position in traditionally strong regions of central and eastern Turkey
  - Selective expansion in Istanbul region
- To strengthen its retail franchise, VakifBank introduced 670 SME portfolio managers, 322 retail portfolio managers and 477 marketing associates in 2005
- As a result of these initiatives, cross-selling ratio for SME portfolio managers increased from 1.97x in June 2005 to 2.56x in March 2006
- At the same time, average loan per customer grew from YTL3,5mm for SME portfolio manager to YTL4.8mm



# ...and in particular on high margin products

## Retail, SME and COMM. loans (YTLmm)



## Comments

- High yields in retail & SME lending: credit card 36%, commercial installment loans 20%, retail loans 18%
- For the 1st quarter 2006; interest margin on YTL loans is 20.85%, interest margin on FX loans is 7.00% where interest margin on YTL deposits is 13.07% and interest margin on FX deposits 3.50%
- Loans grew by 13.6 in 1Q2006 comparing to the end of 2005. driven by commercial loans growth of 17.2%, SME loans growth of 11.1% and housing loans growth of 44.9%.

\*:Includes Housing Loans+TOKI. (YTLmm)

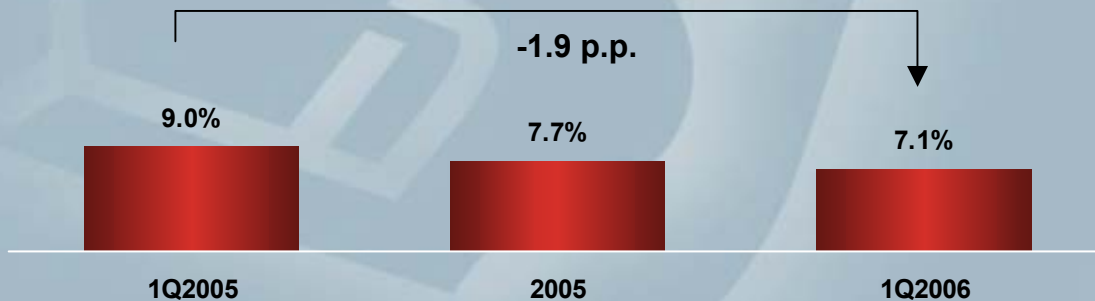
1Q2005: 328 Housing Loans+146 TOKI

2005:860 Housing Loans+134 TOKI

1Q2006: 1.246 Housing Loans+134 TOKI

# Steady and significant improvement in asset quality

## Gross NPLs as % of gross loans



## Comments

- Despite rapid expansion of the loan portfolio, NPLs continued to decrease reaching 7.1% of total gross loan portfolio in 1Q2006 compared to 9.0% in 1Q2005
- Since 2003, loan loss provisions cover 100% of NPLs

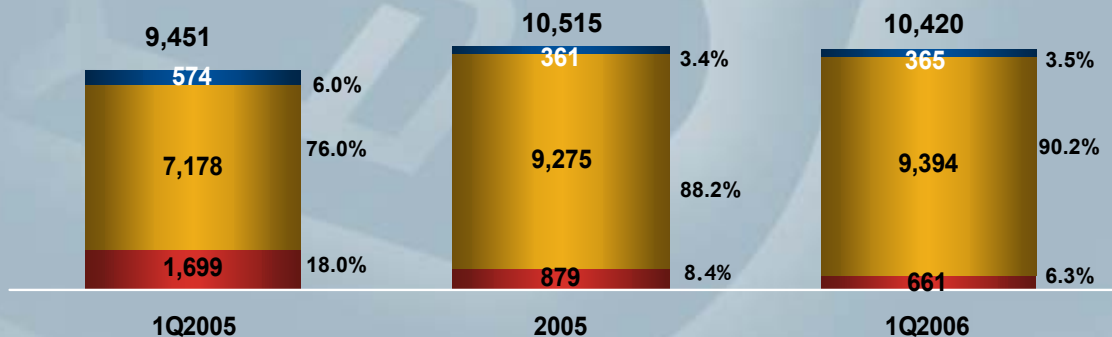
## Gross NPLs and provisions (YTLmm)



# Securities portfolio evolution

## Securities 1Q2006 (YTLmm)

■ Trading securities portfolio ■ Portfolio available for sale ■ Securities held to maturity



## Comments

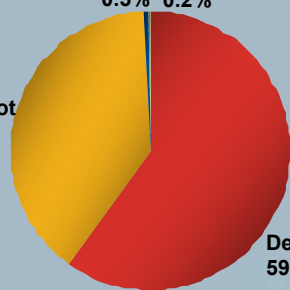
- The securities portfolio increased by 10.3% YoY but its share in total assets continued to decline—from 39.5% to 30.5%
- Trading portfolio decreased by 61.1% in 1Q2006 comparing to 1Q2005 with its share dropping from 18.0% of total securities portfolio in 1Q2005 to 6.3% in 1Q2006
- Portfolio of securities available for sale stood at 90.2% of total securities portfolio in 1Q2006 compared to 76.0% in 1Q2005

## Available for sale portfolio breakdown by type of security

### 1Q2005

Shares - quoted 0.5%  
Shares - not quoted 0.2%

Debt securities - not quoted 39.5%

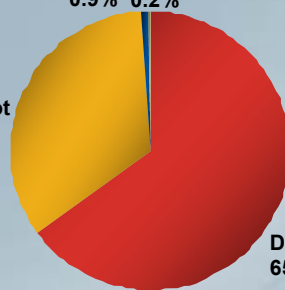


Total\*: YTL7,194mm

### 1Q2006

Shares - quoted 0.9%  
Shares - not quoted 0.2%

Debt securities - not quoted 33.8%

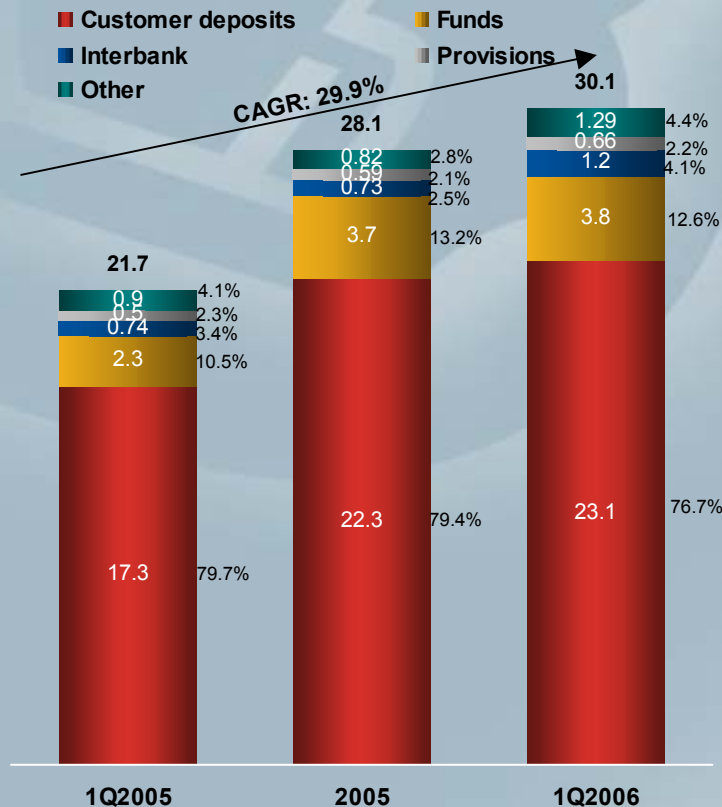


Total\*: YTL9,412mm

\*:Excluding impairment provision

# Strong deposit growth is supporting the expansion of credit portfolio

## Breakdown of liabilities (YTLbn)



## Comments

- Total liabilities grew by 38.7% in 1Q2006 comparing to 1Q2005, driven by continued expansion of deposit base and increase in external funding
- Despite a decline in Q1 05, customer deposits posted a 33.5% growth in 1Q2006 and accounted for 76.7% of total liabilities

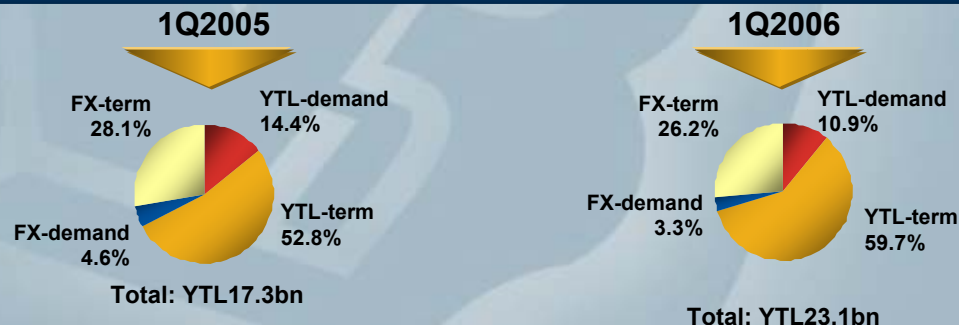
## Loans and customer deposits (YTLbn)



Note: Customer deposits exclude interbank deposits  
 Total liabilities excluding equity

# Deposit base composition and evolution

## Customer deposit breakdown by type and currency



## Comments

- Increased focus on YTL deposit base—from 67.0% in 1Q2005 to 70.5% in 1Q2006
- Significant portion of ‘cheap’ demand deposits
  - Still below market average

## Deposit composition by type

(YTLmm)	1Q2005		2005		1Q2006	
	Amount	%	Amount	%	Amount	%
<b>Saving deposits<sup>1</sup></b>	<b>2,100</b>	<b>12.0%</b>	<b>3,664</b>	<b>16.4%</b>	<b>4,053</b>	<b>17.5%</b>
Demand	358	2.0%	548	2.4%	657	2.8%
Term	1,742	10.0%	3,116	14.0%	3,396	14.7%
<b>Public and Commercial<sup>2</sup></b>	<b>9,527</b>	<b>55.0%</b>	<b>12,262</b>	<b>54.9%</b>	<b>12,264</b>	<b>53.0%</b>
Demand	2,137	12.3%	2,282	10.2%	1,851	8.0%
Term	7,390	42.7%	9,980	44.7%	10,413	45.0%
<b>Foreign currency</b>	<b>5,719</b>	<b>33.0%</b>	<b>6,398</b>	<b>28.7%</b>	<b>6,800</b>	<b>29.5%</b>
Demand	802	4.6%	778	3.5%	755	3.3%
Term	4,917	28.4%	5,620	25.2%	6,045	26.2%
<b>Total<sup>3</sup></b>	<b>17,346</b>	<b>100.0%</b>	<b>22,324</b>	<b>100.0%</b>	<b>23,117</b>	<b>25.8%</b>

<sup>1</sup> Represents deposits taken from retail customers

<sup>2</sup> Represents deposits taken from government related corporates, SMEs and other entities which are not individuals

<sup>3</sup> Totals do not include Interbank deposits

# Despite decline on interest rates, state deposits remained almost unchanged

## State deposits (YTLmm)

## Comments

■ State Deposits      ■ Share of state deposits



- Despite decline on interest rates, VakifBank did not experience a significant withdrawal of state deposits
- Much less pressure felt after two largest deposit departures in Q3 2005 and Q1 2006

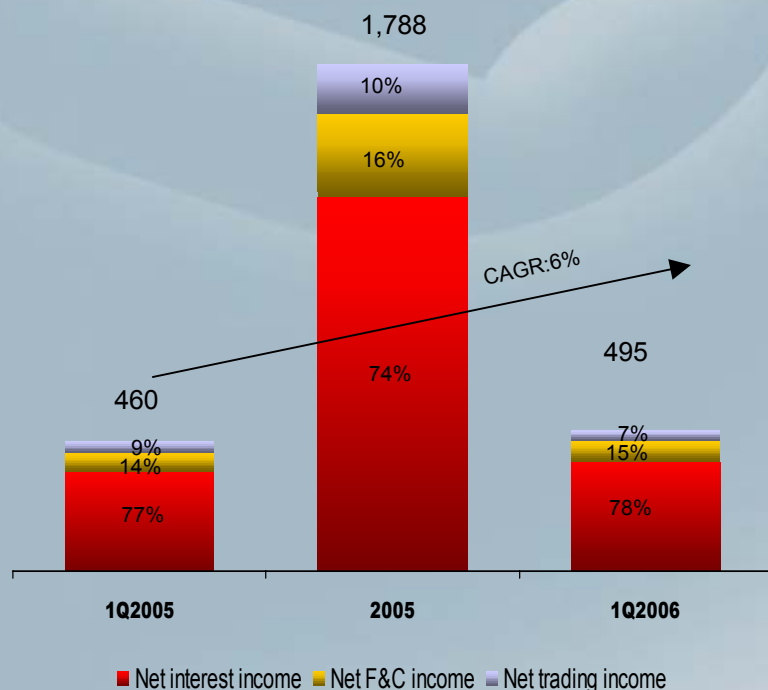
# Strengthened capitalisation to support rapid growth

Capital position				Comments
(YTLmm)	1Q2005	2005YE	1Q2006	
Paid in share capital	420.1	1,279.0	1,279.0	■ The bank successfully raised YTL1,45mm through an IPO in November 2005
Adjustment to paid-in capital	605.8	605.8	605.8	
Share premium	0	1,172.3	1,172.1	
Reserves	0	326.9	421.8	■ Subordinated debt of YTL213mm was paid back to SDIF
Profit	184.7	535.2	210.7	
Prior year income/loss	888.0	0	0	■ In General Assembly, the bank has decided to pay YTL 399.4mm to the shareholders and YTL 100.5mm will be paid to D Group shareholders (free float).
<b>Total core capital</b>	<b>2,098.6</b>	<b>3,919.2</b>	<b>3,689.4</b>	
Supplementary capital	455.3	540.2	546.0	
<b>Total capital</b>	<b>2,553.9</b>	<b>4,459.4</b>	<b>4,235.4</b>	
Deductions	(239.9)	(403.0)	(414.2)	
<b>Total shareholders' equity</b>	<b>2,314.0</b>	<b>4,056.4</b>	<b>3,821.2</b>	
<b>RWA</b>	<b>10,470.9</b>	<b>14,498.5</b>	<b>15,718.5</b>	
<b>Market risk</b>	<b>1,519.4</b>	<b>1,474.9</b>	<b>1,586.8</b>	
<b>Capital adequacy ratios</b>	<b>19.3%</b>	<b>25.4%</b>	<b>22.1%</b>	

# Net banking income posted healthy growth in 2005 and 1Q2006

- Net banking income grew by a CAGR of 6% over the last 1 years, with a growth rate of 8% in 1Q2006 comparing to 1Q2005
- Continuous diversification from securities to more client-driven business

## Net banking income composition (YTLmm)

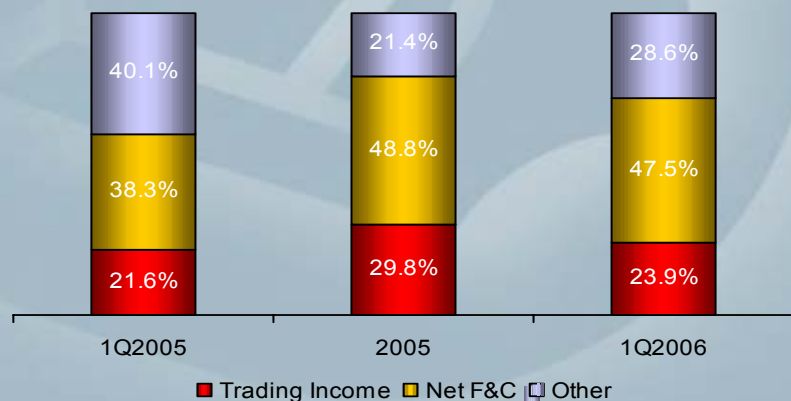


(YTLmm)	1Q2005	2Q2005	3Q2005	4Q2005	1Q2006
Net interest income	352	341	309	316	385
Net F&C income	66	79	72	77	74
Net trading income	42	40	37	57	36
Dividend income	0.8	2.2	0	0	0.6
Other operating income	70	11	22	26	44
<b>Total operating income</b>	<b>526</b>	<b>478</b>	<b>440</b>	<b>475</b>	<b>539</b>
<b>Total operating expenses</b>	<b>-175</b>	<b>-186</b>	<b>-167</b>	<b>-204</b>	<b>-181</b>
<b>Operating profit</b>	<b>351</b>	<b>292</b>	<b>274</b>	<b>271</b>	<b>358</b>
Provisions	-71	-258	-48	-57	-62
Tax provisions	-95	-14	-101	-16	-85
Income from investments and associates	0	-2	-2	-3	0
Net monetary gain/loss	0	0	0	0	0
<b>Net income</b>	<b>185</b>	<b>23</b>	<b>100</b>	<b>227</b>	<b>211</b>

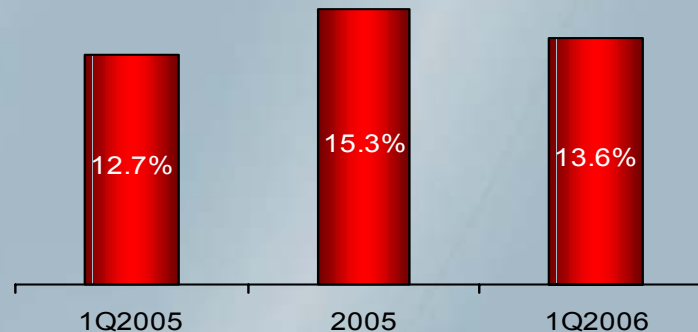


# Net fee and commission income continues to grow

Non-interest income composition (YTLmm)



Net F&C income % of operating income

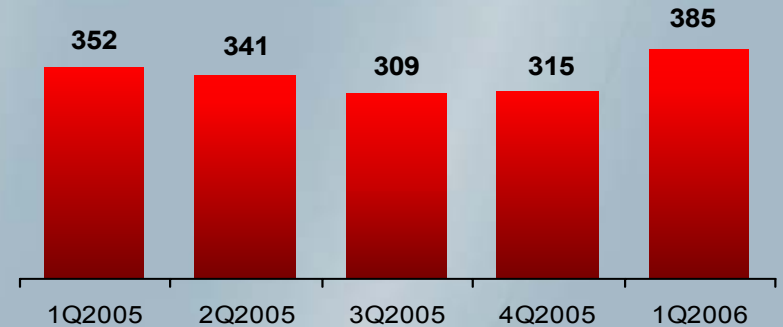


- Net F&C income up by 12.1% driven by increase in cash loans
- Strong trading income, however reduced from 2005YE
- Other income reduced due to lack of sales of non-core assets and reduced provision releases

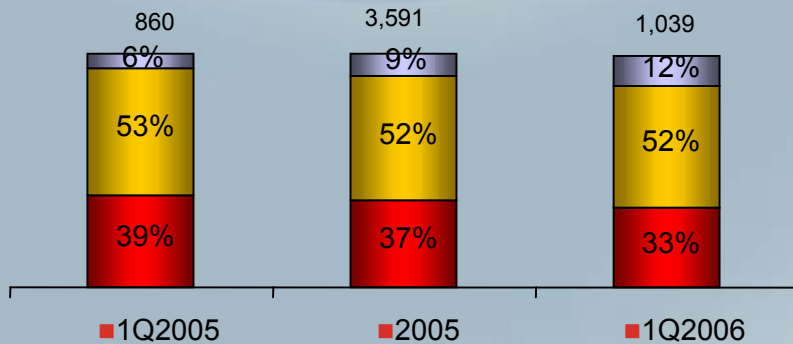
# Increasing interest income from loan activities

- Net interest income up by 9.4% comparing to 1Q2005, despite declining margins
  - From 4th quarter 2005 net interest income grew by 22.2% in 1st quarter 2006
  - increasing income from lending activity
- Further move toward higher margin loans in YTL
- A new SME product to be announced in 2006

Net interest income(YTLmm)

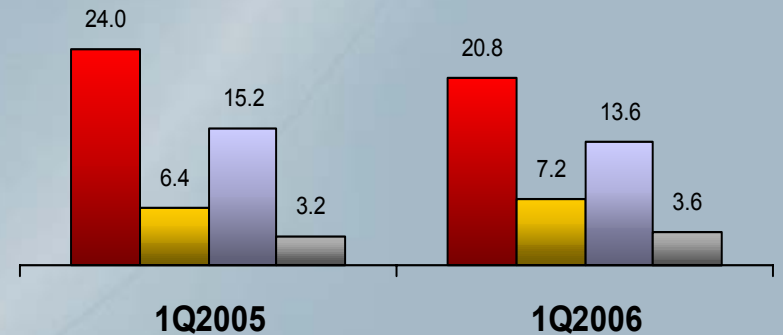


Interest income (YTLmm)



■ Securities ■ Loans ■ Money Market&Banks

Yield on loans and deposits (%)

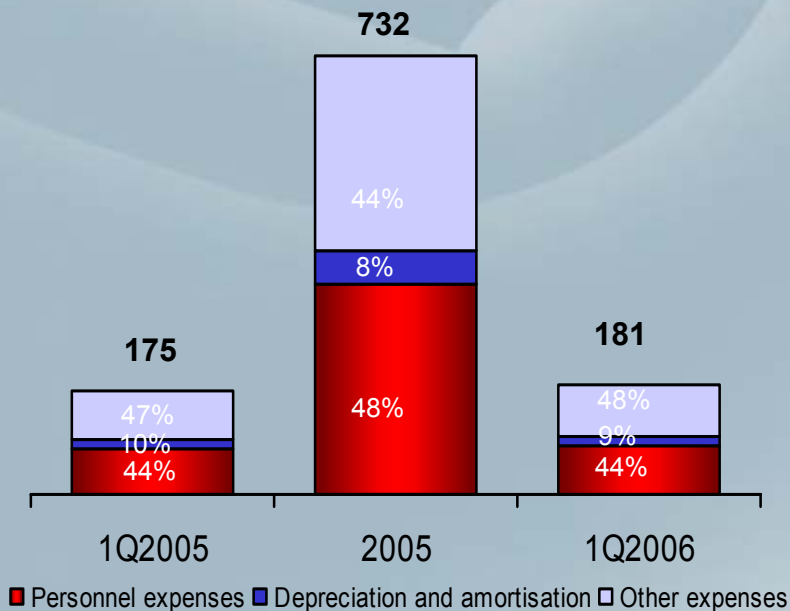


■ TL LOANS ■ FX LOANS ■ TL DEPOSITS ■ FX DEPOSIT

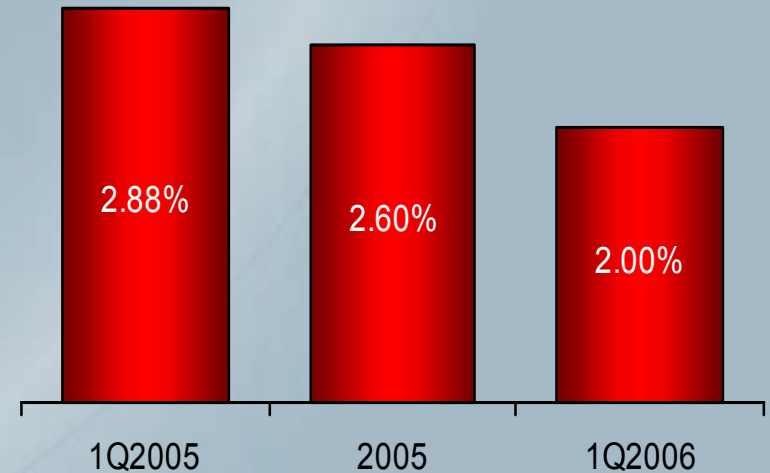
# Operating expenses under control

- Virtually no growth in costs, despite going through restructuring and an IPO in 2005

Other expenses composition (YTLmm)



Operating expenses/average assets (%)



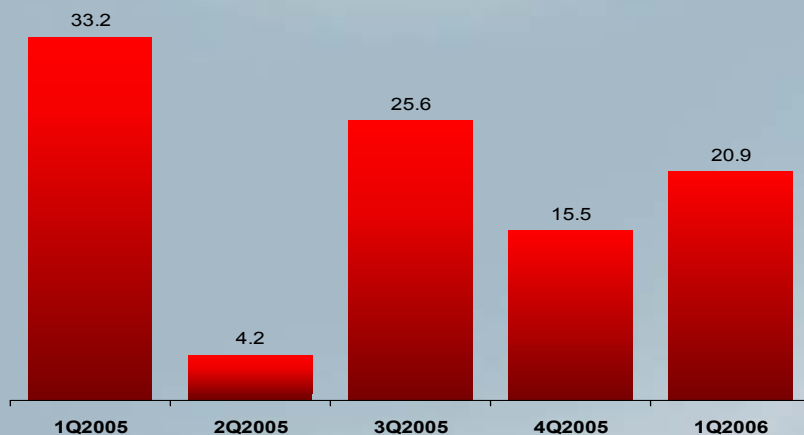
# Expansion on NIM and ROE, decrease on C/I

## NIM (%)

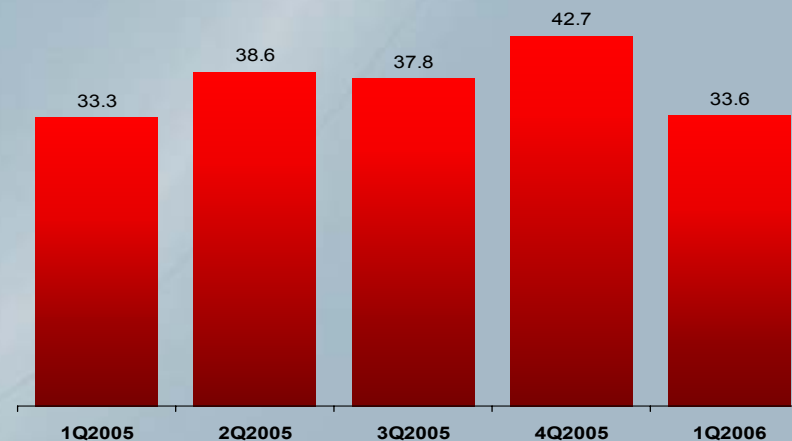


- Over 50 bps expansion on net interest margin in 1st quarter 2006
- Further growth in loans/assets expected to provide more support to Vakifbank's NIM
- Maintained ROE above stated target of 20%

## ROE (%)

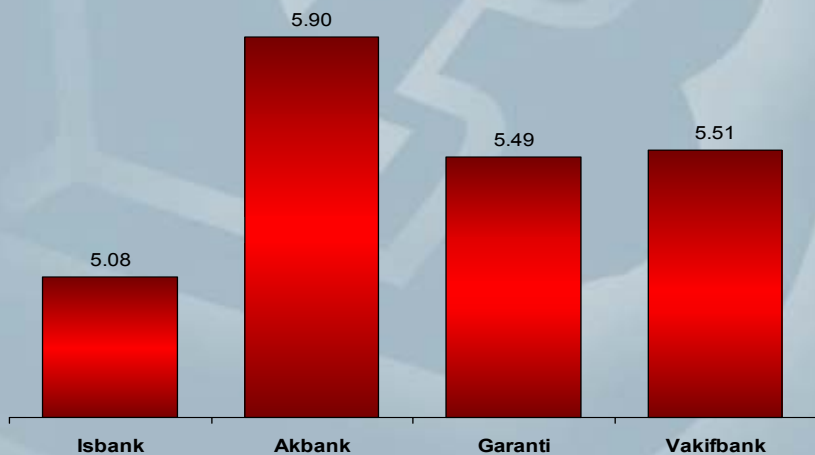


## Cost/Income (%)

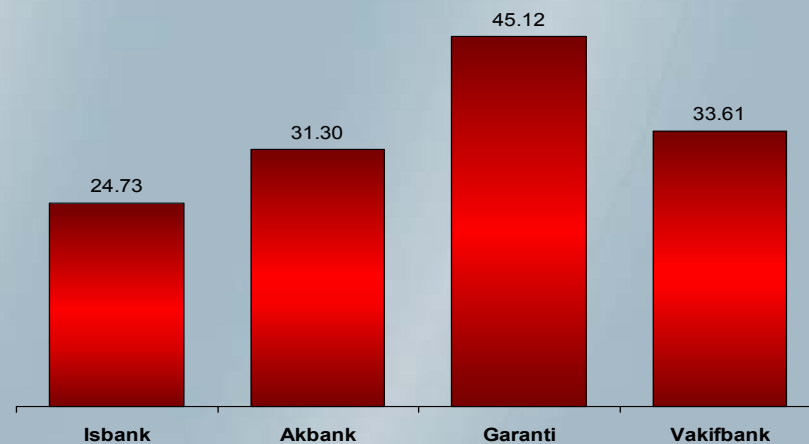


# Performance in line with peer group in 1Q2006

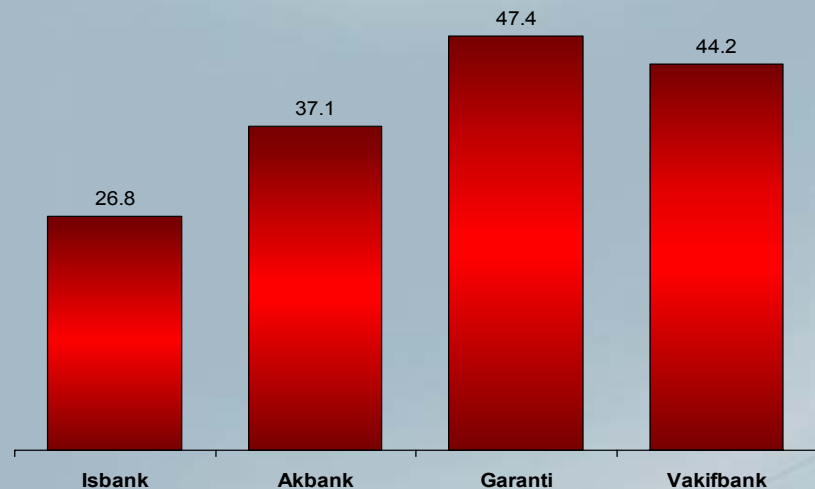
## NIM (%)



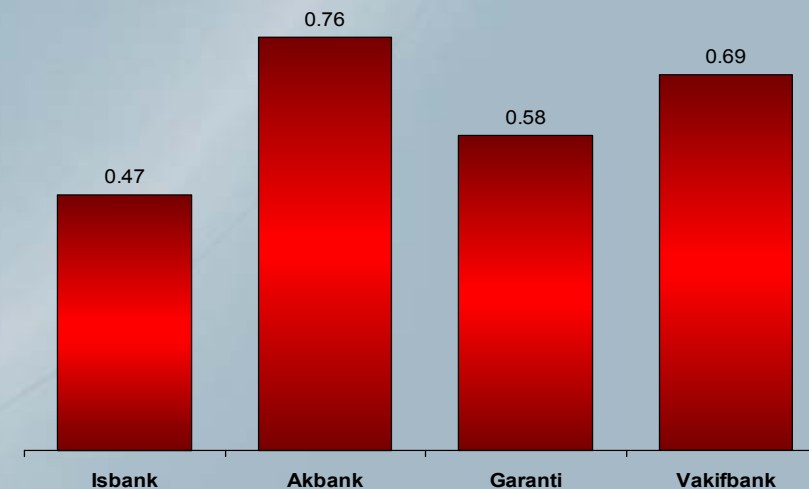
## Cost/Income (%)



## Loans/Number of Branches (mmYTL)



## Net Profit/Number of Branches (mmYTL)



# Visible results from IT upgrade

Metric		2005 (avg)	1Q2006(avg)
Call centre	Calls per month	707.130	909.656
	Answered calls per month	677.094	886.491
	Missed calls per month	36.519	23.165
	Agent capacity	100	100
Alternative channels	ATM transactions per month	6.759.256	6.756.336
	POS transactions per month	5.164.737	5.087.157
	Internet transactions per month	2.139.942	1.635.979

## Future investments planned

- Renewal of IT hardware in all bank branches
- McKinsey&Company work on software upgrade until end of June 2006
- Full connectivity from branch network to central system
- Additional security system for internet banking applications
- Systems upgrade for introduction of “chip and pin” credit card

# Business development for 2006

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- 9 regional sales & marketing directorates to promote commercial, retail and SME banking
- 28 new branches to be opened, mainly in Istanbul
- 4 new branches opened in Anatolia
- For Istanbul, new branches locations determined
- 2 corporate banking branches in Istanbul, locations already determined
- Head office reorganization in progress
- Operational workload in Ankara and Istanbul branches alleviated by centralising follow up on overdue loans and mortgage creation
- Relationship managers at branches now incentivised with 30% performance based appraisal system
- Renovation of 200 branches completed during 2004 and 2005, 100 more to be completed in 2006
- Marketing campaign through commercials and advertisements throughout 2006, stressing the strengthened capitalisation and transformed VakıfBank
- Credit Card division to be reorganised with the help of a consulting company



THANK YOU

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