Finansbank: FY 2010 IFRS results

- **Net profit in FY.10 reached TL 913 million, up +10% yoy.**
- **Total income amounted to TL 2,815 million, up +6% yoy.**
- **Net interest margin stands at 6.5%.**
- **Decreased provisions totalling TL 273 million, reflecting improving macro conditions, down -45% yoy. NPL provision coverage ratio stands at 67% and cost of risk at 109bps.**
- **RoE at 17% taking into account the capital increase of Q4 2010 (estimated at 18% excluding the effect of this increase)**
- **Strong capital position, with the consolidated Core Tier I ratio at 13.8% and total CAR at 17.3%**
- **Gross customer loans up +33% yoy, customer deposits up +26% yoy**

Dynamic growth accelerates

Net profit of Finansbank grew +10% yoy to TL 913 million. **Return on average equity** stood at 17% for the year while **total income** was up +6% yoy to TL 2,815 million. Specifically:

- **Net interest income** grew +3% yoy to TL 2,082 million, while **net commission income** grew +4% yoy to TL 516 million
- Despite the expansion of Finansbank's branch network and associated personnel growth, yoy growth in **operating expenses** was +15%. The **efficiency (cost/income) ratio** stood at 50%, a level that reflects this rapid expansion: 502 branches as of year-end 2010, a +9% (or +41 branches) yoy growth; staff numbers rose +14% yoy to 12,797 employees.

In December 2010, Finansbank's **total net loans** amounted to TL 27.3 billion (including factoring and leasing receivables), up +32% yoy. This performance underscores the positive course of the Turkish economy and bodes well for the continued growth of Finansbank.

Retail lending continues to be the key driver behind Finansbank's growth dynamic, increasing +33% yoy:

- Finansbank's **mortgage loans** totalled TL 6.5 billion compared with TL 5.1 billion in 2009, up +27% yoy. Its market share of mortgage lending in Turkey stood at 11%, stable compared to 2009.
- **Credit card** outstandings grew by +44% to TL 7.0 billion, compared with TL 4.9 billion as of year-end 2009. Accordingly, Finansbank's share of the respective market in December 2010 stood at 14.5%[1] compared with 11.9% in December 2009.
- **Consumer credit** amounted to TL 3.5 billion compared with TL 2.8 billion in 2009, up +27% resulting in Finansbank's market share of consumer credit standing at 4.6%.

As of December 31st 2010, Finansbank's **business lending** totalled TL 10.2 billion, having grown by +32% on an annual basis, reflecting improved business climate in Turkey.

NPLs represented 6.1% of total loans at the end of 2010, improving by c.30bps from September 2010. This reflects both the recovery of the Turkish economy and the stabilization of new delinquencies at lower levels compared with the beginning of the year.

In addition, improved loan recovery performance, combined with the stabilisation of new defaults led to a -45% yoy drop in the level of provisions. **Cost of risk** stands at 109 bps, halved from the 241 bps of 2009. NPL coverage stood at 67% as of year-end 2010.

As a result of the bank's strategy to widen its franchise, strong growth was also posted in customer **deposits**, which increased +26% over the course of the past 12 months. **Deposits in local currency**

[1] Estimated

presented particularly strong growth of +39% yoy. In December 2010, the Bank's loan-to-deposit ratio stood at 113%, with deposits comprising the main source of funding for its operations.

Strong capital adequacy

Finansbank's **Core Tier I capital adequacy ratio** stands at 13.8%, after a capital increase of TL 551m which took place in Q4 2010. The main source of this increase was the conversion of USD 325m subordinated debt into equity. Finansbank's **total capital adequacy ratio** stood at 17.3% as of December 2010, virtually unchanged throughout the year, despite a +30% yoy growth in risk weighted assets.

About Finansbank

Established in 1987 with a focus on domestic corporate banking, Finansbank S.A. ("the Bank") has grown to become the 5th largest private sector bank in Turkey, in terms of loan market share. In 1995, the Bank entered the affluent retail market as part of its strategy to become a fully-fledged retail bank and has since established itself as a leading player in the Turkish banking market. As of the end of 2010, Finansbank had 7.1 million customers holding at least one product, 1,574 ATMs, 12,797 employees, and a young branch network comprising 502 branches.

Strategy

Since 2006, the Bank has grown to be #5 in terms of loan market share. The bank's trajectory to reach this position has been based on:

(a) organic growth,

(b) a highly successful partnership with National Bank of Greece since 2006,

(c) a young, effective management team,

(d) a highly qualified and motivated workforce and

(e) full alignment with international best corporate governance practices

Since 2002, the Bank's business model has emphasized the higher margin, higher growth retail segment where it has significantly increased market share. Specifically, in retail mortgage loans, the Bank holds 11% of the market (#2 rank), in credit cards 14.5% (#4 rank in the market), in personal need loans 5.7% (#4 rank in the market), and in business installment loans 8.4% (#3 rank in the market).

The Bank's leadership position in the retail business underpins its strong top line and hinges on a young and highly productive and efficient branch network complemented by:

(a) effective use of alternative distribution channels,

(b) strong customer analytics,

(c) robust information technology capabilities and

(d) best practice risk management.

Finansbank's average branch age is 5.7 years compared to a range of approximately 10 to 30 years for its peer group. Approximately 60% of the Bank's branches are aged less than 5 years, the highest proportion among its key peers. The nationwide branch network covers cities accounting for 96% of Turkish GDP and 98% of banking volumes. Finansbank estimates that the average break-even period for new branches is 12 months and that branches reach maturity within 5 years. However the maturity profile differs among loans, deposits and revenues with retail branches maturing by 90% in terms of loans, by 51% in terms of deposits and by 79% in terms of revenues within 36 months.

In view of the potential arising from its productive and efficient branch network, the Bank has recently announced plans to increase its branch network to 750 branches by 2013 - an increase of approximately 250 branches from December 2010.

Finansbank's effective use of alternative sales and distribution channels supports its branch network productivity. The Bank has a 6% market share in ATMs and the largest call centre agency network nationwide with 1,276 agents. The Bank is also a leader in alternative sales channels: it has the largest direct and telesales network in Turkey accounting for two-thirds of its credit card sales, 33 dedicated credit branches producing about 10% of the Bank's personal needs loan book and a capability in instant cards accounting for more than 10% of its credit card sales. The Bank is also a leader in mobile and online banking and aspires to become one of the top 3 providers nationwide.

Customer and product analytics constitute the cornerstone of the Bank's retail strategy. The Bank's centralized, data driven approach to customer segmentation, relationship management and product innovation has resulted in the deepening and broadening of its customer base. Since 2007, the Bank has increased its customer base in retail banking by 1.0 million customers while at the same time increasing its cross sell ratio from 1.5 products per customer to 2.1 products per customer.

Finansbank operates a scalable and low cost information technology platform which is organized as a separate unit. Its IT infrastructure allows for fast and easy introduction of new products to market as well as seamless implementation of new pricing and documentation.

Being part of NBG Group, Finansbank stands to benefit from an additional loan portfolio booked in other Group geographies, namely in Malta and London, UK. These loans are in the process of being transferred to Turkey, a process which is expected to be complete by mid March 2011. The total amount of loans to be transferred is c. TL 2.8 billion, almost exclusively comprising of loans to Turkish blue chip companies and all of which were performing loans at December 31, 2010 (no NPLs, no watch list).

Credit risk management constitutes a comparative advantage for the Bank and a critical component of its strategy. The Bank's underwriting policy is fully aligned with that of the NBG Group. Risk management functions are embedded within business units throughout the organization reporting to the Group Risk Committee and ultimately to the Board of Directors. Underwriting is based on a combination of proprietary, application and behavioural scorecards and state of the art outsourced systems. The structured approach to credit risk management is apparent in the Bank's strong track record in monitoring and early warning as well as its excellence in collections exemplified by high recovery rates across retail and corporate loans. As a result, asset quality performance has been solid.

To be comparable with other leading Turkish commercial banks, the Bank's NPL ratio of 6.1% at December 2010, would need to be adjusted for: (i) the Malta and London book which consists of performing corporate loans and would have improved the NPL ratio at December 2010 by 50bps to 5.6% had these loans been in the portfolio and (ii) the Bank's policy not to write off loans until all applicable legal measures are exhausted in line with the Turkish tax code (no material write-offs since 2008 compared to approximately 40bps of write offs for the market in the last 12 months) and (iii) the Bank's abstention from NPL portfolio sales.

Going forward, management has set targets that it believes will drive performance. **These are set based on consolidated local (BRSA) GAAP.**

Driver	Metric	2-3 Year Targets	4-5 Year Targets
Growth	Loan growth	>25% average p.a.	~25% average p.a.
	Deposit growth	~30% average p.a.	>25% average p.a.
Margins	NIM	Conversion to 560 bps	Converging to 540bps[1]
Cost efficiency	C/I ratio	~46%	~42%[2]
Asset Quality	CoR	~90 bps	~90 bps[3]
	Coverage Ratio	~80%	~75%
Profitability	RoAE	~20%	~21%
	RoAA	~2.5%	~2.7%
Liquidity	Loans / Deposits	~130%	~120%
Capital	CAR	>16%	~16%

Retail Banking

The Bank's vision for Retail Banking is to further deepen customer relationships and optimize its product mix, with a focus on "relationship banking" underpinning its growth and profitability. In the medium term, Finansbank aspires to:

(a) increase its market share in credit cards to >16% (#3 from #4 currently)

(b) maintain its #2 position in mortgages

(c) achieve approximately 10% market share in consumer loans, and

(d) reach circa 7% market share in retail deposits

The shift to more profitable products constitutes an important driver of bottom line growth. The shift in product mix has emphasized higher margin consumer lending and credit cards while de-emphasizing increasingly crowded segments such as auto loans. At the same time, the Bank has

[1] Under IFRS, NIM will converge to 500bps
[2] Under IFRS, C:I will be c.40%
[3] Under IFRS, CoR will be c.100bps

maintained its focus on well collateralised, stable segments such as mortgages. The business is managed with an eye towards balancing profitability and risk.

In credit cards, the Bank has increased annual average spend per card at a compound annual growth rate of 26% since 2006, the highest growth rate among peers. Importantly, this significant growth has been achieved while successfully retaining customer relationships (voluntary attrition has decreased from 2.6% to 1.1% during the same timeframe) and improving customer engagement (the active customer ratio has increased from 62% to 80% since 2006).

In mortgages, Finansbank is a segment leader with the most efficient sales platform among peers, having registered significant market shares gains since 2006.

Likewise, the Bank has registered significant growth in consumer lending without conceding on underwriting standards: the Bank has become a top 3 player in overdraft loans in the last three years, while its market share gains in personal need loans were in excess of 50% during the same period.

Business Banking

Business banking at Finansbank comprises of SME banking and Corporate & Commercial Banking.

The Bank's vision for SME banking is to transition from being a market innovator to a top tier bank, focusing on a relationship driven sales approach to customised segment needs. In the medium term, Finansbank aspires to:

(a) increase its market share in SME cash loans from 4% to circa 7%

(b) improve its market share in commercial finance from 8.9% to circa 10%

(c) grow the ratio of TL demand deposits / loans from 12.4% to circa 20%

In Corporate and Commercial banking, the Bank seeks to emphasize its commercial presence and become the main relationship bank of a targeted client base. Specifically, over the medium term, the Bank aspires to:

(a) increase its market share from 4.7% to circa 5.5%

(b) strengthen its presence in commercial branches from 72 branches today to 250

(c) improve the cross sell ratio from 3.4x today to 4.5x

Finansbank re-organized its SME banking business in 2009 with the goal of unlocking significant growth potential by effectively segmenting the customer base, realigning its sales franchise and focusing on customized product innovation. The Bank is a pioneer in SME banking having established the first dedicated business unit in 2002. It now serves in excess of 200,000 clients through 441 branches and 1,062 sales representatives and has a market share of around 8.4% in business installment loans. The four pillars underpinning its SME strategy are risk and value based pricing, centralized marketing design and execution, "star customer" campaigns and a focus on the point of sale merchant network.

The implementation of the new segmentation model in the SME business is already producing tangible results. Indicatively, since 2009 the number of products cross-sold to core credit customers has increased from 4.9 to 5.3, average monthly TL demand deposits have increased, the number of star customers (customers with high cash flow product penetration) has increased from 14,439 to 24,588 and the number of active POS merchants under SME banking has increased from 55,503 to 65,210.

In project finance and syndicated loans, the Bank is a top 4 player with an 8.4% market share. Going forward, the focus will be on high fee and commission business such as trade finance, insurance and overdraft and installment loans.

Funding and Capital Management

Finansbank has a solid funding profile with 61% of its total liquidity emanating from customer deposits. Deposits have been growing in line with assets and there is further, yet to be realized, potential as the young branch network matures and expands. The share of TL deposits to total

deposits has grown from 48% in 2007 to 75% by year-end 2010, registering a compound annual growth rate of 40% and providing a stable funding base for future expansion. The balance sheet is focused on core banking assets as net loans constitute approximately 66% of total assets, one of the highest proportions among peers.

Wholesale funding comprises only 13% of total liabilities. The Bank has further untapped potential to access the long term funding markets through securitizations, syndications and bond issues. Liquidity reserves were in excess of TL 4bn as of December 2010, funding from NBG remained negligible, while a successful syndication of EUR 352 million and USD 333 million was secured in Q4 2010.

The Bank actively manages TL interest rate sensitivity in the international swap market, hedging mortgages and other fixed installment loans. The hedge ratio on this book stood at 64%, one of the most conservative in the market.

Disclaimer

This press release contains "forward looking statements" which may relate to, without limitation, Finansbank's plans, objectives, goals, strategies, future operational performance, and anticipated developments in the Turkish banking market and the Turkish and global economies. These forward looking statements are characterized by words such as "anticipate", "estimate", "believe", "intend", "plan", "predict", "may", "will", "would", "should", "continue", "expect" and similar expressions, but these expressions are not the exclusive means of identifying such statements. Such forward looking statements involve risks, uncertainties and other important factors that could cause circumstances or Finansbank's actual results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to: (i) Finansbank's ability to implement its growth strategy and expand and develop its customer base and branch network; (ii) continued economic growth and continued stability of inflation rates in Turkey; (iii) Finansbank's ability to meet capital adequacy or other requirements; (iv) operational risks and changes in operating costs; (v) Finansbank's ability to compete effectively against other companies in the Turkish banking market; (vi) the failure, interruption in or breach of Finansbank's information systems; (vii) Finansbank's relationship with NBG; (viii) the effectiveness of Finansbank risk management, strategies and techniques; (ix) the adequacy of Finansbank's funding sources and liquidity; (x) the impact of economic, political and social developments in Turkey. There can be no assurance that actual results will not differ materially from expectations, and, therefore, readers are cautioned not to place undue reliance on such statements. Further, any forward-looking statement speaks only as of the date on which it is made, and Finansbank undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.