

TURKISH BANKING SECTOR BANKING ON RECOVERY...

HOLD

KEY HIGHLIGHTS

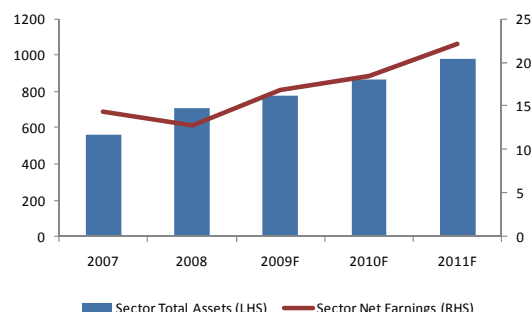
Going without the IMF with risks on the fiscal side As support to our previous opinion, we now see that an IMF deal before the end of this year is not likely and the government is trying to manage its fiscal policy without the support of the fund. Even though the market has been trying to keep the expectations alive on that issue, comments from the economic agents that have bearings on the subject reflect that the story is largely over, at least for a while.

Turkish banks to finance Treasury Turkish Treasury has an additional borrowing requirement of TRY 45 billion which would possibly be acquired from domestic sources in 2010. With a lower possibility of an IMF scenario in our hand, we believe that Turkish Treasury would continue to rely on domestic banks in order to roll-over its borrowing needs. Low Loan-to-Deposit (LDR) ratio at 77%, strong capital structures with CAR standing at almost 20% and sufficient liquidity (12% of the total assets) imply that Turkish banks can and will supply the necessary funding the Treasury needs in 2009 and 2010.

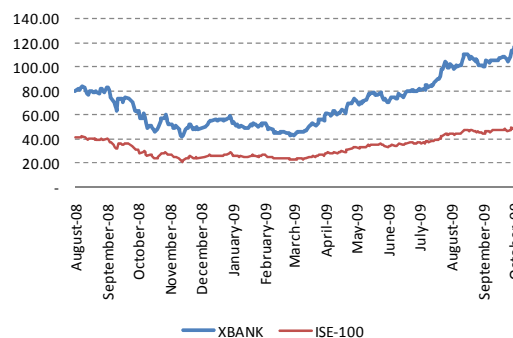
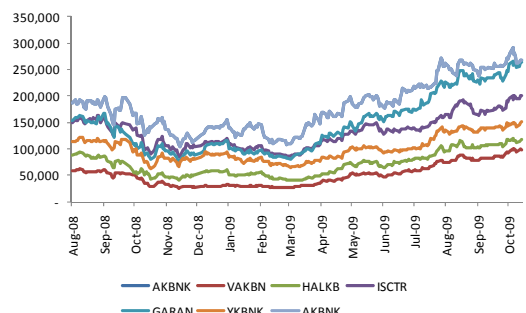
Strong earnings momentum for 2009 As we move towards the end of the quantitative easing period, we maintain our argument that margins will slightly contract in 2H09 and 2010 due to bottoming-out interest rates and/or re-pricing of loan book and securities portfolio. However, we believe that the contraction in NIM would not be a vital one as previously anticipated since high yielding loan growth is ready to kick in. On the other hand, we have increased our 2009YE bottom-line growth for the sector to 31.8% and reduced our 2010YE earnings growth assumption to 9.1%.

A fine growth story for 2010 We anticipated a 14.4% yoy loan growth and a 14.1% securities growth for the sector in 2010. We believe that Turkish banks would next year choose to cut their excess liquidities and reduce cash holdings in exchange of securities and loans which would also support the top-line and bottom-line of the sector. Thus, 2010 would be a period of modest growth in every balance sheet item except cash and cash-like items. Deposit growth at 10.6% and the incrementing equity by 19.1% from 2009 earnings would be the main drivers of the placements in loans and securities portfolio.

Isbank and two state banks are our top picks. We maintain "BUY" ratings for Isbank (TRY 7.60), Halkbank (TRY 11.70) and Vakifbank (TRY 5.00) since these banks are able and willing to grow on loans and their strong funding capabilities. The top-3 banks in our coverage also represent strong earnings growth momentum.



Summary	Target		Target	Target	
Valuation	Price, TRY	Upside	Mcap, TRY mn	Mcap, USD mn	Rec
Akbank	9.00	1%	26,938	18,545	HOLD
Garanti	6.80	8%	28,432	19,573	HOLD
Halkbank	11.70	24%	14,640	10,079	BUY
Isbank	7.60	16%	23,385	16,098	BUY
TEB	2.30	4%	2,479	1,707	HOLD
Vakifbank	5.00	26%	12,472	8,586	BUY
Yapi Kredi	3.80	9%	16,474	11,341	HOLD



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I, Volkan Muhurcuoglu, hereby certify that the views expressed in this research accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EXECUTIVE SUMMARY

Growing on balance sheet items...

GDP growth, inflation and MTFF Our economist argues that medium-term fiscal framework (“MTFF”) is based on reasonable macro economic assumptions but lacks the explanation of the measures that will bring the fiscal outlook at manageable level in the medium-term. Market participants treat the MTFF as the precursor of an IMF deal. Although we argue that the MTFF is necessary but not a sufficient condition for an IMF deal, we believe that the government’s will is needed. However, its reluctance indicates that the immediate IMF agreement is not likely. Moreover in line with MTFF, our economist foresees -6% yoy GDP contraction in 2009, followed by +3.5% and +4.0% real GDP growth in 2010 and 2011, respectively. Inflation, on the other hand, would remain in line with medium-term targets as year-end CPI for 2009 is estimated at 5.9%. The inflation figure comes in at 5.3% for 2010 and 4.9% for 2011.

Non-IMF scenario in play with certain risks on the fiscal side As support to our previous statement suggesting that *“an IMF deal is less likely before late September”*, we now see that our suggestion has proved to be true and an IMF deal before the end of this year is not likely and the government is trying to manage its fiscal policy without the support of the fund. Even though the market has been trying to keep the expectations alive on the issue, comments from the economic agents that have bearings on the subject reflect that the story is largely over, at least for a while. Differently, Turkish external borrowing requirement and financing gap is quickly becoming extinct while the domestic requirement walks in the opposite direction. The non-bank corporate external debt roll-over ratio has currently flatten out at c. 80% meanwhile banks have almost completely refinanced their syndication loans despite the hard times. Thus, we can argue that the financing problem of the Turkish economy has largely shifted from a large external debt problem, which seems to be more manageable now, to a higher domestic borrowing need. Since the government is not keen on funding its domestic borrowing need with cheap IMF funding, it would need to raise it from its own domestic sources, the local banks. On the other hand, general elections in 2011 pose a risk on fiscal discipline after 2009 since Turkish governments are used to apply populist measures approximately 12-15 months prior to the elections. Thus, we can expect to see fiscal discipline to mitigate towards the end of 2010.

Turkish banks to finance Treasury Turkish Treasury has an additional borrowing requirement of TRY 45 billion which would possibly be acquired from domestic sources in 2010. With a lower possibility of an IMF scenario in our hand, we believe that Turkish Treasury would continue to rely on domestic banks in order to roll-over its borrowing needs. Low Loan-to-Deposit (LDR) ratio at 77%, strong capital structures with CAR standing at almost 20% and sufficient liquidity (12% of the total assets) imply that Turkish banks can and will supply the necessary funding the Treasury needs in 2009 and 2010. Please note that we have abdicated from our previous argument that additional borrowing of the sector from the Treasury would likely produce a “crowding-out” effect; this time arguing that high

liquidity and strong capital structure of the Turkish banks would allow them to grow in double digits both in securities portfolio and in loan book. Turkish banks seem strong enough to absorb the Treasury's high borrowing needs while posting a c.15% yoy loan growth in 2010. Low LDR, high capital levels, sufficient liquidity on balance sheets would allow banks to provide the vital funding for the Treasury in 2010. It would not be surprising to see 13-15% growth for both loan and security placements next year.

Strong earnings momentum for 2009 As we move towards the end of the quantitative easing period, we maintain our argument that margins will slightly contract in 2H09 and 2010 due to bottoming-out interest rates and re-pricing of loan book and securities portfolio. However, we believe that the contraction would not be a vital one as previously anticipated since high yielding loan growth is ready to kick in. On the other hand, we have increased our 2009YE bottom-line growth for the sector to 31.8% and reduced our 2010YE earnings growth assumption to 9.1%. Owing to the low base of earnings in 2H08, 12-m trailing bottom-line figure should increase although the second half of the year would not be as strong as the first half.

A fine growth story for 2010 We anticipated a 14.4% yoy loan growth and a 14.1% securities portfolio growth for the sector in 2010. We believe that Turkish banks would choose to cut their excess liquidities and reduce cash holdings in exchange of securities and loans which would also support the top-line and bottom-line of the sector in 2010. Thus, 2010 would be a period of modest growth in every balance sheet item except cash and cash-like items. Deposit growth at 10.6% and the incrementing equity base by 19.1% from 2009 earnings would be the main drivers for the placements in loans and securities portfolio. On the other hand, we would see a minor increase in borrowings in 2010 by 6% on the funding side while cash levels would come down by 10% yoy. That said, the abovementioned decline in cash holdings and liquidity are crucial for the sector since it would serve as a funding base for Turkish banks to grow their placements in loans and securities. We assume that the banks would enhance their total securities portfolio by +TRY 38.4 billion in 2010 which corresponds to approximately 83% of the net financing need of the Treasury we have mentioned before. However, please note that there is an upside potential that banks might increase their holdings of bonds and T-bills up to a point to cover all of the financing need of the Treasury in 2010, TRY 45 billion.

Isbank and the two state banks are our top picks We maintain "BUY" ratings for **Isbank** (TRY 7.60), **Halkbank** (TRY 11.70) and **Vakifbank** (TRY 5.00) since we like these banks because of their abilities/willingness to grow on loans and their strong funding capabilities. The top-3 banks in our coverage also show strong earnings growth momentum. On the other hand, Isbank has been a laggard in the recent bank rally which is another factor that increases our appetite for the bank. Based on our assumptions, Isbank should achieve a 2010E EPS of 0.81, whereas the two state banks, Halkbank and Vakifbank should achieve a 2010E EPS of 1.34 and 0.55, respectively.

We maintain HOLD recommendation for Akbank. We have revised our 2009E bottom-line figure up by 9.4% to TRY 2,515 million from TRY 2,299 million and lowered the bank's COE on the back of

continuing pattern of decreasing costs of funding. This revision leads us to adjust our year-end target price to TRY 9.00 from TRY 7.87 up by 14.3% while revising our “SELL” recommendation to **“HOLD”**. Our revised target price proves only 1% upside with respect to current prices. Akbank has a vast potential for further growth and places itself as one of the biggest banks in Turkey but comparatively more expensive than its peers.

We maintain HOLD recommendation for Garanti. We have revised our 2009E bottom-line figure up by 4.3% to TRY 2,627million from TRY 2,299 million on the back of continuation pattern for decreasing costs of funding and hence lower COE. This revision leads us to adjust our year-end target price to TRY 6.80 from TRY 5.85 revising our “BUY” recommendation to **“HOLD”** since the bank’s share price has gone up considerably in the recent periods. Our revised target price proves 8% upside with respect to current prices. Note that investors should take backward moving prices as signals for taking long positions on the bank.

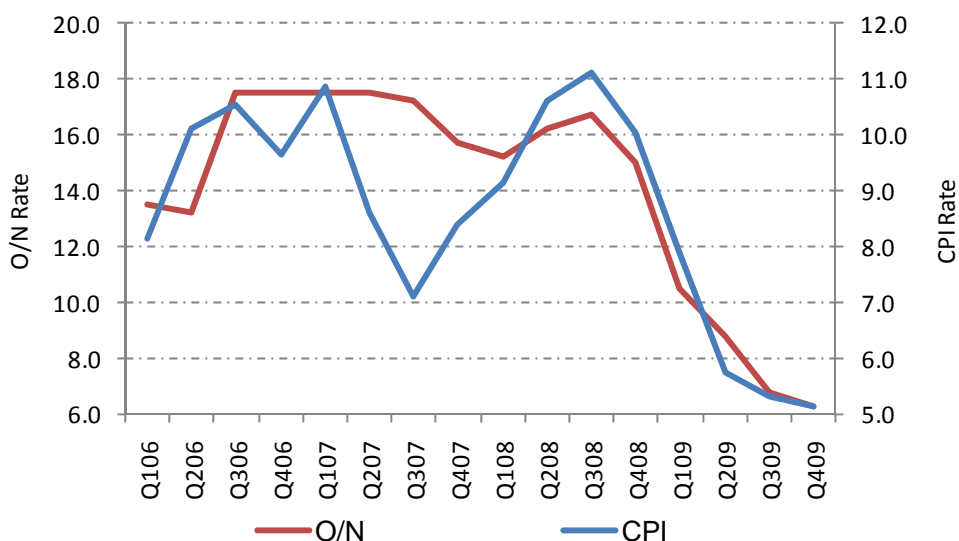
We maintain HOLD recommendation for TEB. We have revised our 2009E bottom-line figure by a decrease of 15% to TRY 208 million from TRY 244 million. However, continuing depletion in the COE led us to adjust our 2009 year-end target price up by 13.8% to TRY 2.30 from TRY 1.95 maintaining our **“HOLD”** recommendation for the bank. Our revised target price proves 4% upside potential with respect to current prices.

We maintain HOLD recommendation for Yapi Kredi. We have revised our 2009E bottom-line figure with an increase of 6.6% to TRY 1,512 million from TRY 1,420 million. On the other, hand further declining COE led us to adjust our 2009 year-end target price up by 10% to TRY 3.80 from TRY 3.45 maintaining our recommendation for the bank as **“HOLD”**. Our revised target price proves 9% upside potential with respect to its current prices.

Summary Valuation	Target Price, TRY	Upside	Target Mcap, TRY mn	Target Mcap, USD mn	Rec
Akbank	9.00	1%	26,938	18,545	HOLD
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KEY ASSUMPTIONS

GDP growth to advance in 2010 The announcement regarding the recent GDP data of -7.0% in June proves a considerable slowdown in the decline of the economic activity up from -14.3% in March. We are aware of the matter that the recovery in the economic activity would not be quick and we are not in the denial of our previous estimation that the recovery would be a “U” shaped one. However, on the flipside, we recognize that there are some signs that the consumer demand is improving. We believe that the contraction has ceased after 2Q09, whereas the loan demand has been stabilized and contraction is at the threshold of positive growth after 3Q09. In short, if we should pinpoint a recovery figure, we have to cheat and suggest that the recovery would be shaped as a “Sharp U” a fictional new character that sits just in the middle of a “U” and a “V”. On the other hand, unemployment which gears to our NPL expectations came in better than expected in the two recent announcements. The CBRT’s continuing quantitative easing cycle and interest rate cuts should lead to a recovery in consumption and investment next year. Thus, we see that Turkish economy would grow after 3Q09 and the GDP would achieve a 3.5% growth in 2010E versus to a -6% decline in 2009E whereas our economist forecasts c. 5.3% inflation in 2010.



Shorter duration of the crises cycle In Turkey, crises generally last for longer than 12 months in average (up to 15 months). We believe that as the financial system is much healthier and strongly capitalized with respect to previous crises, current recovery would be expeditious. Moreover, increased stability in the money markets i.e. lower foreign exchange risks on the balance sheet items increase our confidence in Turkish equities.

The banking rally to continue on lower inflation, recovery and lower COE Interest rates came down sharply from their 2008 levels benefiting the Turkish banks because of their convenient duration gap. The key driver of the interest rates has been CBRTs overnight rate and Turkish government bond yields have fallen distinctly as the bank continued to cut the discount rates. The two-year bonds are now priced at 8.12% down from 25% in the last quarter of 2008. With its recent

but not conclusive rate cut of 50 bps, CBRT policy rate now stands at 6.75% down by 950 bps YtD. On the other hand, interest rates on loans started to decline while banks carved down their rates beginning from July and onwards. The interest rate cuts have been largely on short-term mortgage and housing loans. In our analysis, we found out that gains on cost of equity as a result of declining interest rates surpassed the slowdown in the earnings growth after 2Q09 and would lift up the target prices thus creating a better outlook for the Turkish banks and banking index.

We expect volumes to improve, loan growth to pick up Furthermore, we also expect fee and commission income business to extend as retail banking volumes grow in 2010. We believe that NPL reversals and increased collection rates would have a positive effect on 2010 earnings. Even though we remain bullish on 2010 balance sheet growth and solid bottom-line figure moderately going beyond strong earnings of 2009, we pencil a single digit growth of 9.1% for 2010 earnings, enforcing the risks of the financial conjuncture.

We can outline our key assumptions for 2010 as follows:

- i. **We have reduced our interest rate forecasts until 2Q10** meaning that the rates would descend further in the two consecutive periods of 2010 than start to increase with the inflationary pressures leading CBRT to raise its policy rates.
- ii. **We have assigned a lower cost of equity** to associate with the strong easing in government bond yields and relatively stable outlook for inflation. Our models work on the assumption that CBRT would continue to cut its policy rates by a further 25+25 bps until the year then hold it steady afterwards. We do not expect a strong reversal in monetary policy until the end of 2Q10 or unless global conditions state otherwise.
- iii. **We assume deposits to increase by 10.6% yoy.** This is in fact a moderate growth projection since Turkish banks are capable of grasping a 5% yoy deposit growth in a continuously contracting economy.
- iv. **We estimate 14.4% yoy loan growth.** The banks are remarkably liquid allowing them to increase their holdings of loans and securities. On top of that, increased international borrowing capability, expected growth in deposits and decreasing cash holdings would lead banks to deliver better balance sheet growth. However, we do not foresee that banks would be on a pursuit of aggressive growth, which might hurt them if things go bad and also be able to defend their margins better in an increasing interest rate environment.
- v. **We forecast securities portfolio to grow by 14.1% in 2010.** Please note that there is an upside growth potential in here (up to + TRY 45 billion) depending on higher funding introduced to the balance sheet, decreasing cash holdings and favorable interest rate environment.

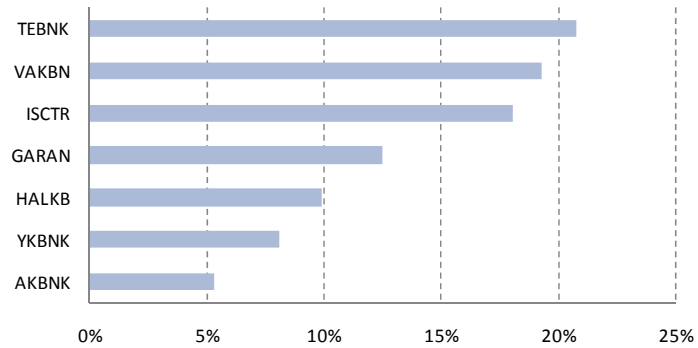
- vi. **We estimated sector ROE to be at 18.0% in 2009** and with a dividend pay-out ratio of 20%.

RISKS AND CATALYSTS TO OUR MODELS

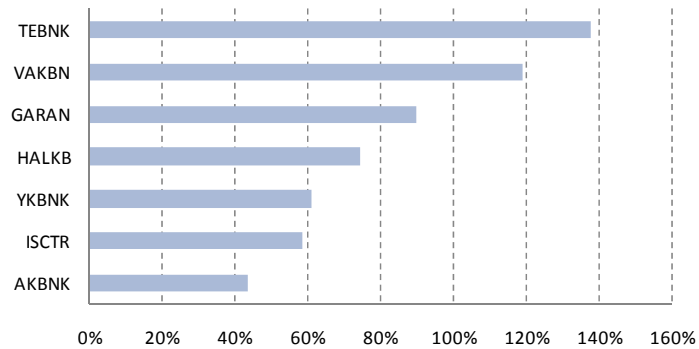
- i. Strong recent rally of the Turkish banking index since March, **placing selling pressures on the shares in November;**
- ii. Lagging expected recovery, **“W” shaped recovery;**
- iii. **Vast NIM erosion**, lack of balance sheet growth, **lower earnings** than expected;
- iv. **Worsening asset quality** than expected, higher NPL rates, increased provisions;
- v. **Upside surprises** on our moderate growth assumptions;
- vi. **Unrealized gains** booked under equity;
- vii. New potential **IPOs and SPOs** especially of the state banks;

FOCUS SHARE PRICE RETURNS

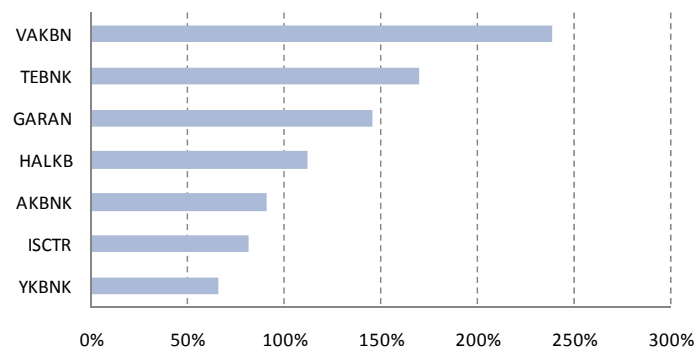
Last Month



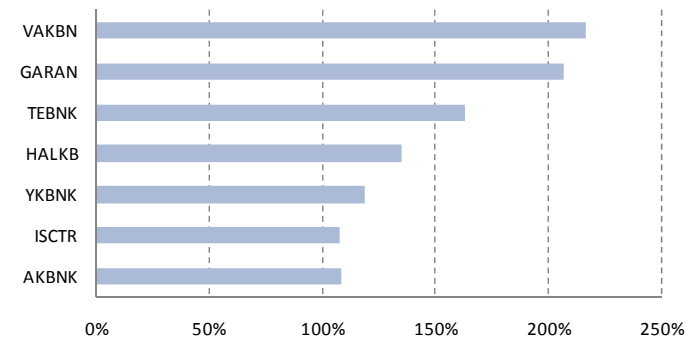
Last Six Months



Year-to-Date



Last Year

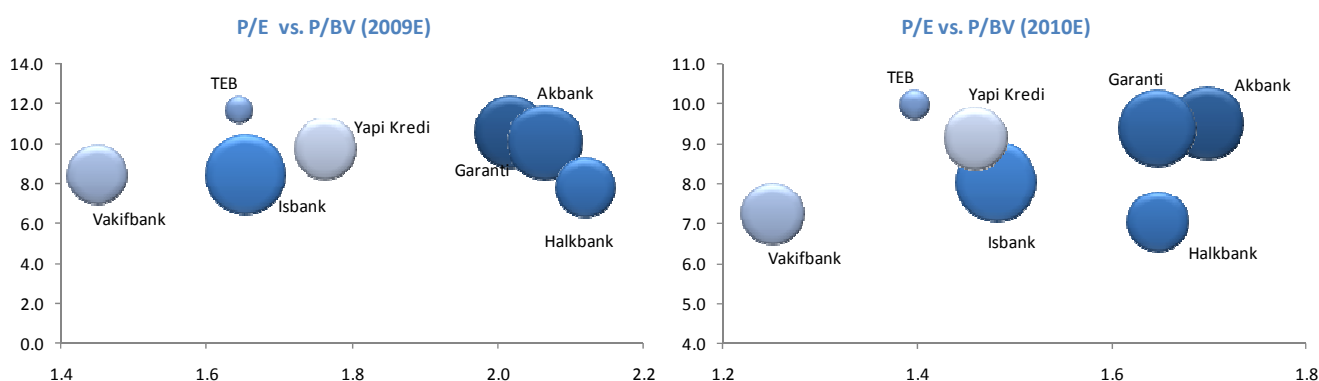


BANKING OUTLOOK

Turkish banks continued to announce strong earnings figures in 2Q09 mainly driven by;

- i. **NIM expansion** as a result of declining interest rates and favorable duration gap;
- ii. **High mark-to-market gains** on securities portfolio and trading;
- iii. Continuing **decline in cost of funding** boosted by CBRT's interest rate cuts;
- iv. Strong **fee** generation, limited and wisely **controlled OPEX** growth
- v. Better than expected **NPL rates**

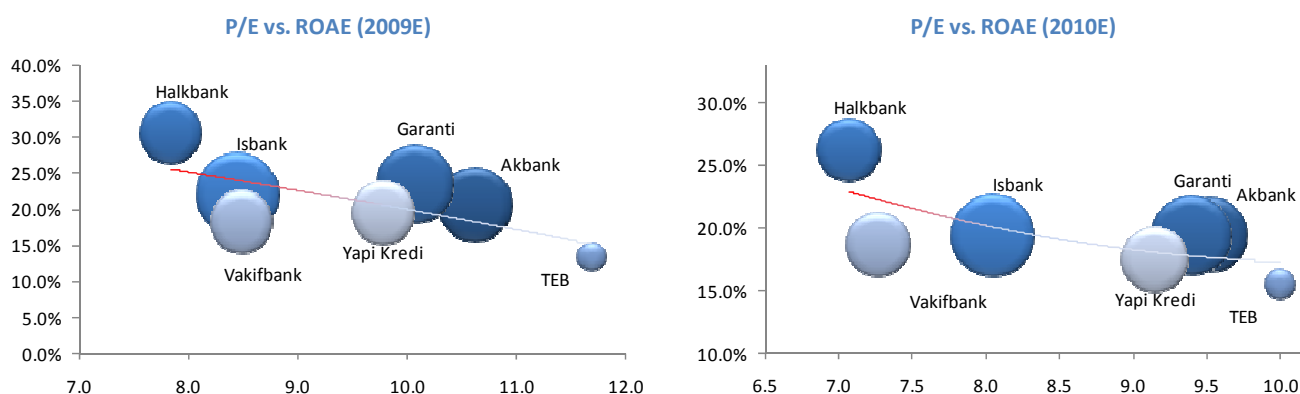
Graph 1 – P/E vs. P/BV for our banking universe (2009-2010)



Source: Company Data, Seker Estimates

The Turkish banking sector ended the first half of 2009 with no loan growth but a 5% increase in deposits despite the slowdown in the economic activity. That said, the Turkish banks used their excess liquidities only to finance and invest the Treasury securities. This strategy along with decreasing interest rates backed up with favorable duration gap of IEA and IBLs proved banks with a flourishing growth in net interest income and vast margin expansion. Moreover, banks recorded hefty trading and FX gains up by almost 350% yoy, thanks to fine mark-to-market gains on securities portfolios. Overall, the bottom-line of the sector grew by 33% yoy. We believe that the bottom-line of the sector in 3Q09 and 4Q09 would grow by 25.7% (to TRY 13,433 million) and 31.8% (to TRY 16,844 million), respectively.

Graph 2 – P/E vs. P/BV for our banking universe (2009-2010)



Source: Company Data, Seker Estimates

Table 1 – Turkish Banking Sector Income Statement Forecasts

Income Statement	2007A	2008A	1Q09	1H09	3Q09E	2009E	2010E	2011E
Interest Income	69,224.8	84,129.8	22,817.4	43,861.2	66,807.8	89,379.2	96,259.1	113,369.1
Interest Income on Loans	39,338.0	51,913.6	14,329.2	27,592.0	39,969.8	53,882.9	58,775.4	70,703.5
Interest Income on Placement at Banks	4,738.0	4,519.5	926.3	1,600.0	2,110.0	2,927.5	2,994.2	4,536.7
Interest Income on Security Portfolio	638.4	450.7	137.6	240.7	323.6	464.2	475.4	486.8
Interest Expense	43,477.0	53,277.4	12,969.2	23,477.6	36,327.1	51,399.8	56,216.3	68,642.3
Interest Expense on Deposits	35,245.2	43,445.3	10,688.2	19,271.7	28,499.7	40,004.3	44,185.4	55,325.3
Interest Expense on Bank Liabilities	3,480.3	4,610.2	908.9	1,787.4	3,398.5	5,122.2	5,341.7	4,647.6
Interest Expense on Borrowing	4,439.1	4,682.1	1,225.8	2,145.5	4,005.0	5,678.0	6,054.4	7,709.9
Other Interest Expense	312.4	539.8	146.3	272.9	423.9	595.3	634.9	959.6
NET INTEREST INCOME (NII)	25,747.8	30,852.4	9,848.2	20,383.7	30,480.7	37,979.4	40,042.8	44,726.7
Net Fees and Commissions Income	7,181.6	8,449.7	2,242.6	4,569.0	6,388.7	8,474.5	11,360.3	13,784.1
Net Trading Gain/Loss	773.9	-205.6	768.5	1,763.3	1,688.0	1,534.0	1,187.0	766.0
Other Operating Income	5,311.6	4,178.9	1,110.2	2,049.4	2,766.6	3,734.9	4,201.7	4,878.7
Total Operating Income	39,815.5	44,164.9	14,363.8	29,482.9	42,055.9	52,633.8	57,720.3	65,101.9
Provision Cost for Loan Loss Receivables	4,996.0	7,583.4	3,327.7	6,101.1	9,456.7	11,820.9	13,003.0	14,043.2
Operating Expenses	17,248.2	20,759.2	5,069.6	10,386.7	16,099.4	20,124.2	22,136.6	23,907.6
Before Tax Profit	17,571.3	15,822.3	5,966.6	12,995.1	16,499.8	20,688.7	22,580.7	27,151.1
Provision For Taxes	-3,225.5	-3,038.1	-958.5	-2,332.5	-3,066.2	-3,844.7	-4,196.3	-5,045.6
NET PROFIT	14,345.8	12,784.2	5,008.1	10,662.6	13,433.5	16,844.0	18,384.4	22,105.4
- yoy change, %		-10.9%	31.9%	33.2%	25.7%	31.8%	9.1%	20.2%

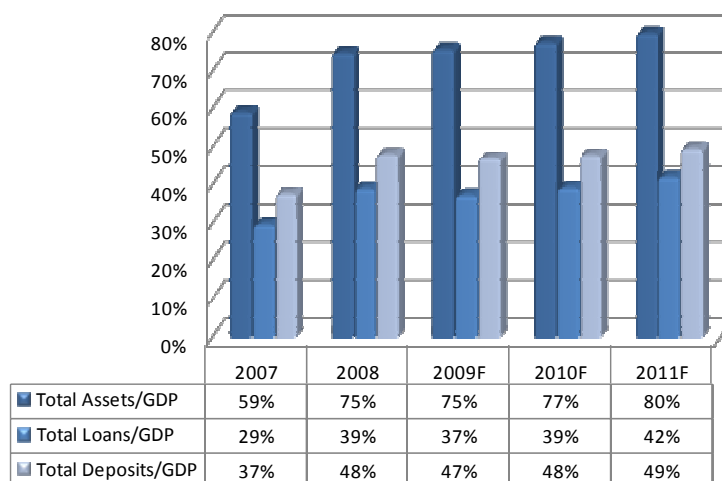
Source: TBA, BRSA, Seker Estimates

Table 2 – Turkish Banking Sector Balance Sheet Forecasts

Balance Sheet	2007A	2008A	1Q09	1H09	3Q09E	2009E	2010E	2011E
Cash, Banks, CBRT & MM	74,831.6	100,886.0	102,413.0	103,961.5	86,099.6	88,695.1	80,924.6	96,525.3
Security Portfolio	175,817.5	206,933.2	225,666.8	238,343.0	267,620.1	272,787.8	311,200.1	330,193.9
Trading	12,862.6	7,391.1	11,353.2	11,109.1	10,643.1	10,862.2	15,764.6	26,009.8
Available for Sale	120,475.9	79,587.0	94,799.0	105,153.2	129,337.4	132,390.3	145,894.5	149,102.6
Held to Maturity	42,479.0	119,955.1	119,514.6	122,080.8	127,639.5	129,535.3	149,541.0	155,081.5
Loans, Net	280,453.2	366,900.9	364,716.6	363,008.9	367,265.7	381,254.2	436,019.0	512,344.0
Non-Performing Loans	9,826.7	13,215.6	16,029.0	17,586.5	23,384.0	22,670.7	23,738.7	21,982.6
Provisioning for Non-Performing Loans	8,688.6	10,752.8	12,728.7	14,332.1	19,876.4	18,816.7	17,804.1	15,387.8
Participations	10,664.1	10,093.4	9,995.0	10,814.4	10,914.9	11,169.2	11,649.5	12,156.2
Fixed Assets	10,538.5	11,451.0	11,409.7	11,468.1	11,605.6	11,953.4	12,610.4	13,303.5
Other Non-IEA	8,674.3	9,528.4	10,078.2	10,091.5	10,212.6	10,518.9	11,097.6	11,708.2
TOTAL ASSETS	561,171.9	705,870.8	724,357.8	737,776.4	753,718.5	776,378.7	863,501.3	976,231.2
Deposits	356,983.7	453,484.7	462,162.7	466,422.3	473,141.6	482,334.2	533,243.5	607,036.3
Liabilities to Banks	28,213.9	41,284.9	43,719.4	49,928.1	54,365.4	59,243.5	65,451.5	64,444.1
Borrowing	59,160.8	78,212.1	78,713.6	73,927.9	71,411.6	70,340.4	74,684.9	84,932.0
Other Liabilities	43,327.5	50,193.4	51,874.1	53,739.0	55,544.2	58,164.4	63,519.2	67,083.2
Shareholder's Equity	73,485.9	82,695.7	87,888.0	93,759.2	99,255.7	106,296.2	126,602.1	152,735.4
TOTAL LIABILITIES AND EQUITY	561,171.9	705,870.8	724,357.8	737,776.4	753,718.5	776,378.7	863,501.3	976,231.2

(*) including CBRT

Source: TBA, BRSA, Seker Estimates

Graph 3 – Turkish Banking Sector Balance Sheet Forecasts**Assets, Loans and Deposits to GDP****Table 4 – Turkish Banking Key Ratios**

Key Ratios	2008A	2009E	2010E	2011E
<i>Profitability Ratios</i>				
NIM	5.1%	5.4%	5.1%	5.1%
ROAA 12-m	2.0%	2.3%	2.2%	2.4%
ROAE 12-m	16.7%	17.9%	15.7%	15.8%
Tangible ROAE 12-m	17.9%	19.1%	16.5%	16.5%
EPS (industry average)	0.34	0.44	0.48	0.57
Cost of Risk (12m Trailing)	2.2%	3.1%	3.1%	2.9%
<i>Growth Ratios (Annualized)</i>				
Asset Growth	25.8%	10.0%	11.2%	13.1%
Loan Growth	30.8%	3.9%	14.4%	17.5%
Deposit Growth	27.0%	6.4%	10.6%	13.8%
Securities Growth	17.7%	31.8%	14.1%	6.1%
Equity Growth	12.5%	28.5%	19.1%	20.6%
<i>Efficiency & Financial Strength Ratios</i>				
Interest Income on Loans / Total Interest Income	61.7%	60.3%	61.1%	62.4%
Interest Income on Securities / Total Interest Income	32.4%	39.4%	34.7%	32.6%
Net Banking Income / Total Operating Income	89.0%	88.3%	89.1%	89.9%
Cost/Average Assets	4.5%	3.7%	4.1%	4.0%
Net Fee Income / Total Assets, 12-m	1.3%	1.1%	1.4%	1.5%
Net Fee Income / Total Income, 12-m	19.1%	16.1%	19.7%	21.2%
OPEX/ Total Assets, 12-m	3.3%	2.7%	2.7%	2.6%
Net Fee Income / OPEX, 12-m	40.7%	42.1%	51.3%	57.7%
Cost / Income, 12-m	47.0%	38.2%	38.4%	36.7%
CAR	17.1%	20.5%	19.2%	18.1%
Free Capital to Assets	7.0%	8.9%	9.9%	11.2%
Free Capital to Equity	59.4%	64.7%	67.4%	71.3%
External Borrowing/Total Assets	11.1%	9.1%	8.6%	8.7%
<i>Asset Composition & Breakdown</i>				
Interest Earning Assets/Assets	95.6%	95.7%	95.9%	96.2%
Loans/Assets	52.0%	49.1%	50.5%	52.5%
Deposits/Assets	64.2%	62.1%	61.8%	62.2%
Securities/Assets	28.7%	35.5%	36.2%	35.1%
Equity/Assets	11.7%	13.7%	14.7%	15.6%
Loans/Deposits	80.9%	79.0%	81.8%	84.4%
<i>Asset Quality</i>				
NPL	3.5%	5.7%	5.2%	4.2%
NPL Provisioning	81%	83%	75%	70%

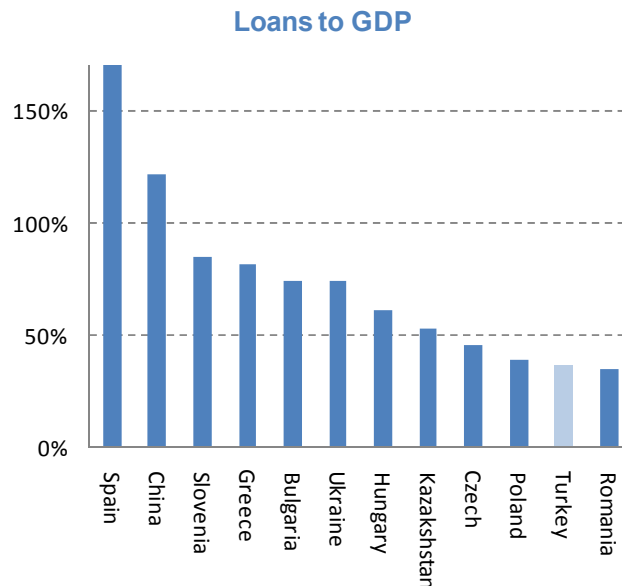
Source: TBA, BRSA, Seker Estimates

LENDING MARKET

The first half of 2009 (and probably the second half as well) has been a humble year in terms of loan growth but nevertheless even managing a flat loan book could be considered as a success given that the economic conditions since 2007 have deteriorated considerably. In our view, the loan growth was stagnant due to;

- i. Banks' unwillingness to lend on increased risks within the financial system;
- ii. Lack of loan demand from new and existing retail and healthy corporate consumers;
- iii. Relatively higher interest rates when compared to declining cost of funding;

Graph 5 – Loans to GDP ratio: Turkey vs. International Peers



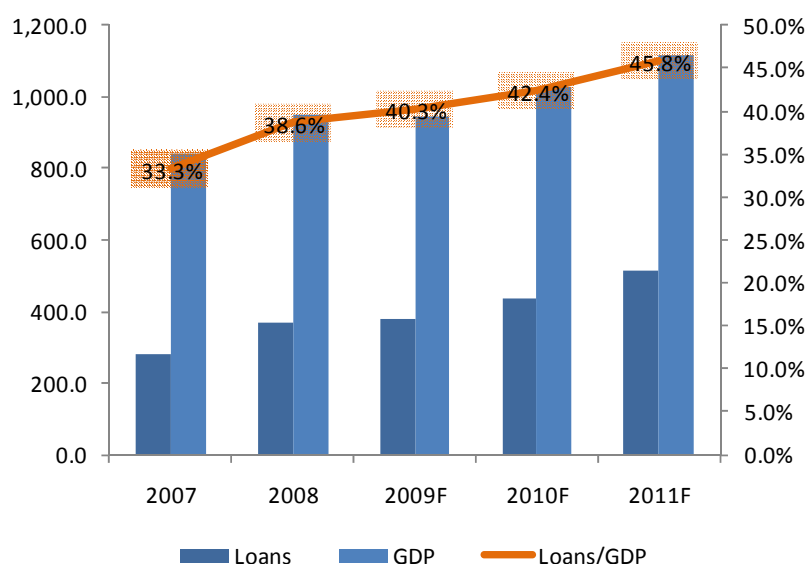
Source: Bloomberg

Turkish loan penetration is staggering behind its Central European peers standing at 38% by the end of 2008. This figure still proposes a compelling upside potential in the medium and long-term, when compared with Czech Republic (46%), Ukraine (74%), Hungary (61%) and Slovenia (85%). We believe that as economic growth takes its pace again, there would be enough room for lending market to grow. Loan growth has surged in the past four years, reaching to 52% in 2005 and averaging a CAGR of c.30%. However, we are aware that this growth figure will be hampered in 2009YE and anticipate a 4% yoy loan growth for the year-end. Please note that this growth expectation is below our previous assumption of +9.6% since 3Q09 has not been a quarter of growth but rather being flat due to Ramadan combined with summer seasonality and late openings of public and private schools.

Despite the recent reductions in loan interest rates especially on mortgage and housing loans, sector data so far fosters that there has been a limited demand for retail loans. However, even though the

demand for loans has been reluctant since 2Q09, it has been in the positive territory since 1Q09. We believe that this is not temporary but rather implies a recovery signal which we based our growth assumptions for the remainder of the year. Thus, we expect loan growth to reach 5-6% levels in the last quarter achieving a 4% growth for the full year 2009E.

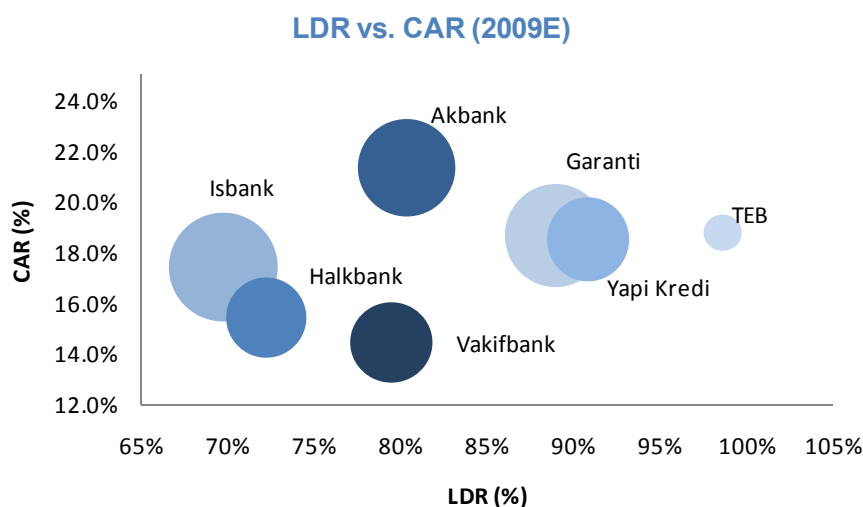
Graph 6 – Loans to GDP ratio forecasts



Source: BRSA, Seker Estimates

On the other hand, CBRT continues to slash its benchmark rate and does not seem to be concerned about inflation and consequently increases expectations for further rate cuts. We believe that the lagging increase in consumption and demand stemming from lower interest rate environment would accelerate loan growth in 2010 and 2011. In 2010, we would see loan growth to reach 14.4%. Our universe of banks proves an average LDR of 78.6% vs. 80.5% of the sector and the growth projected next year pushes the ratio up to 85% which proves further upside potential. We can summarize our expectation for 2010 outlook as follows;

- i. We expect **14.4% yoy loan book growth**;
- ii. Loan **growth to pick up especially in retail products**, mortgages and housing loans etc.;
- iii. Possible **end of rate cut policy** and quantitative easing cycle;
- iv. Main drivers of loan growth would be **improved consumer spending and investment activity** due to low interest rates;
- v. Possible **recovery** in economic activity after 2009 for healthy organizations;
- vi. Picking up **growth in privatization and M&A market**;
- vii. Low levels of **loan-to-deposits ratio**

Graph 7 – LDR vs. CAR for our coverage universe (2009E)

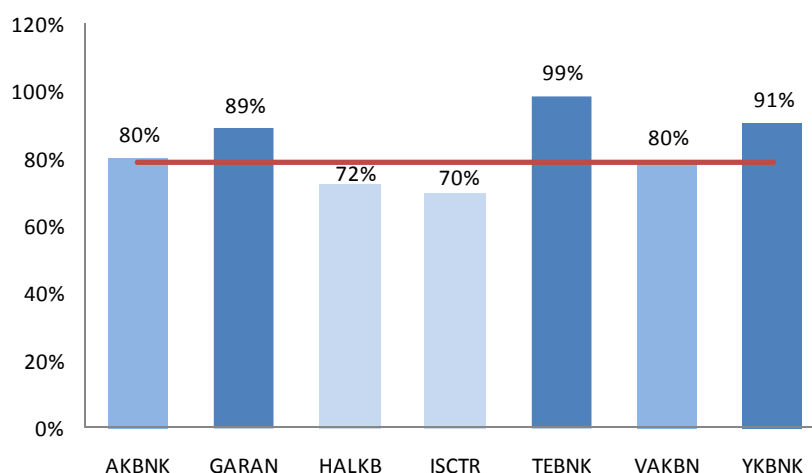
Source: Company Data, Seker Estimates

That said, given the recent shortfalls in retail products such as general purpose and mortgage loans, we expect demand on such type of products to rebound after 2Q09. We would also be facing a moderate growth in commercial and SME loans in the upcoming periods on the back of hiking confidence of the segments. This also has comforted the government to seize a number of measures trying to support the private sector, through the reduction of interest rates (but sadly did not help much) and the provision of guarantees for the banking sector covering lending, particularly focused on private SME companies. The Credit Guarantee Fund ("KGF") will operate as a guarantor of 60% of the credit a SME draws from banks, according to the agreement. If any loans to become default, lender banks can apply to KGF to request 60% of the outstanding amount. If the loan is re-collected than the bank would repay the KGF. Moreover, Treasury's transfer of TRY 1 billion to the KGF would also increase SME loan volume by approximately 10 folds to TRY 10 billion which would positively contribute to 2009 and 2010 loan volume growth. With recovery gaining momentum, we do expect a progressive loan growth after 3Q09. As we forecast lending growth to be mainly driven by TRY loans, TRY LDR becomes essential to determine which banks can brace hard competition in deposit chase. In terms of low LDR levels, state banks lead our way and all banks expect Yapi Kredi and TEB have ratios below 90% which imply further room for growth.

Table 5 – Balance sheet growth for our coverage universe (2009E)

	Loan Book Growth				Deposit Base Growth				Securities Growth			
	2008A	2009F	2010F	2011F	2008A	2009F	2010F	2011F	2008A	2009F	2010F	2011F
Akbank	19.9%	-7.2%	17.2%	25.3%	20.0%	-1.9%	10.5%	19.6%	7.9%	29.4%	9.7%	7.4%
Garanti Bank	34.1%	2.3%	18.5%	26.5%	34.8%	8.9%	14.4%	20.0%	49.1%	29.4%	11.9%	8.4%
Halkbank	42.6%	20.9%	22.2%	28.8%	30.6%	7.4%	14.7%	21.3%	15.0%	19.2%	11.0%	8.2%
Isbank	40.1%	0.3%	15.5%	22.5%	30.9%	7.7%	12.1%	17.9%	1.8%	45.7%	7.1%	-1.2%
TEB	23.9%	-5.8%	21.6%	31.2%	30.9%	-12.5%	19.5%	25.6%	14.2%	-2.0%	6.3%	9.8%
Vakifbank	30.0%	12.9%	29.4%	30.1%	28.6%	16.7%	16.1%	22.4%	4.7%	27.5%	14.7%	8.2%
Yapi Kredi	35.7%	-5.1%	21.0%	31.4%	29.7%	-3.2%	20.6%	29.2%	5.0%	8.5%	9.1%	6.7%

Source: Company Data, Seker Estimates

Graph 8 – Loan-to-Deposit Ratios of our coverage banks

Source: Company Data, Seker Estimates

The state banks, Vakifbank and Halkbank, have clearly shown a more accredited appetite in lending with respect to their private peers. Thus, we are keen on that the private banks to be more aggressive in lending after 3Q09 (i.e. Akbank, Garanti) and be more competitive in 2010. However, we can still expect state banks to be active in the lending market. Thus our top picks in terms of 2009-2010 loan growth are;

Winner: Halkbank

Runner-Ups: TEB, Akbank, Vakifbank, Garanti

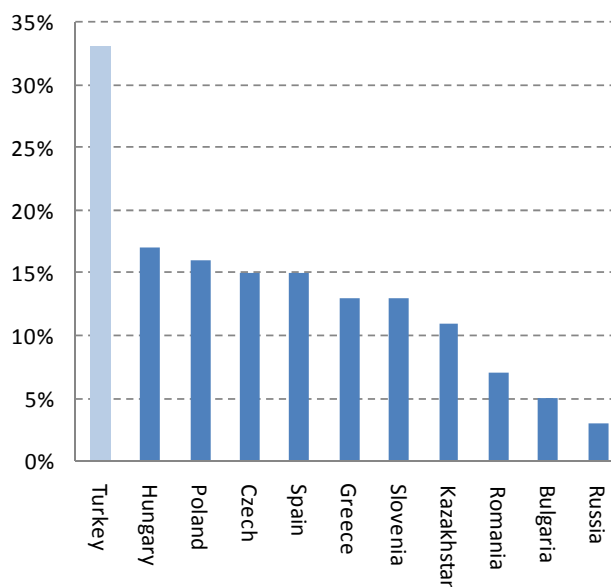
Underdog: Isbank

SECURITIES PORTFOLIO

Turkish banks became the biggest lender to the Turkish Treasury since they have stationed most of their liquidities into securities due to stagnating loan demand. Within this context, in a quantitative easing period and falling interest rate environment, Treasury managed to find cheap funding whereas banks gathered hidden capital reserves and invested in some handsome instruments. As we mentioned before, in the absence of fiscal stimulus and potential recovery leading to inflationary pressures in the economy, a low level of real interest rates seems to be unsustainable. Therefore, we pencil a 150-200 bps interest rate increase towards the end of 2010. Thus, as we reach out towards the bottom of quantitative easing period, the re-pricing of the TRY FRN portfolios would pose an important risk and pressure on the net interest income together with the re-pricing of the high yielding loans. In this regard, the banks with higher concentrations of TRY FRN portfolios are likely to be more vulnerable to reversals in the interest rate policy than those with FX and/or fixed income securities. That said Garanti and Halkbank have largest shares of TRY FRN securities in their portfolio who are subject to abovementioned risks in the upcoming periods. However, please note that Halkbank has approximately 40% of its TRY portfolio in special government securities which have shorter durations that reset in

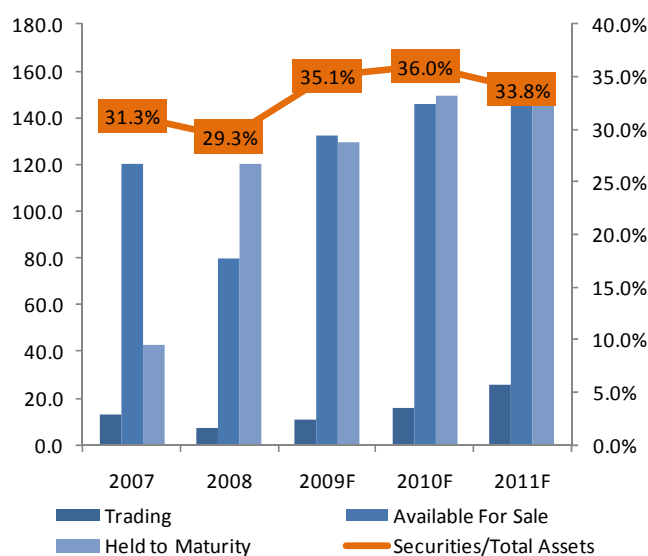
every Treasury auction. For this reason, Halkbank has seen an early re-pricing effect whereas its private peers would be experiencing over 2H09. On the other hand, Garanti has c.24% of its FRN portfolio in CPI-linkers that would subdue the adverse effect of rate resets in its portfolio.

Graph 9 – Securities Portfolio to Total Assets: Turkey vs. International Peers



With the sheer declines in bond yields, Turkish banks have accumulated considerable amounts of unrealized mark-to-market gains in their TRY securities portfolio. This is exclusively the case for banks with relatively larger portions of Available for Sale Securities in their portfolios, such as Garanti and Isbank. We believe that these unrealized gains should transfer into P&L trading income in 2010 acting as a cushion to support the possible decline in top-line generation.

Graph 10 – Turkish Banking Sector Securities Portfolio Forecasts



Source: BRSA, Seker Estimates

On the back of our projections, we can summarize our expectations for securities portfolio in 2010 as follows;

- i. **We expect 14.1% (+TRY 38.4 billion) growth** in securities portfolio;
- ii. We **see an upside to our growth assumption** with total security portfolio increasing by +TRY 45 billion;
- iii. We expect **FX and/or fixed income securities to outweigh** TRY FRN securities;
- iv. We expect **Held to Maturity portfolio to outweigh** Available for Sale securities;
- v. We expect **decreasing yields on securities portfolio** and **less contribution to the P&L**;
- vi. We expect **unrealized gains from securities booked under equity to decline** (or moved to P&L);

Our top picks in terms of best portfolio management and highest gains on securities portfolio are;

Winner: Garanti

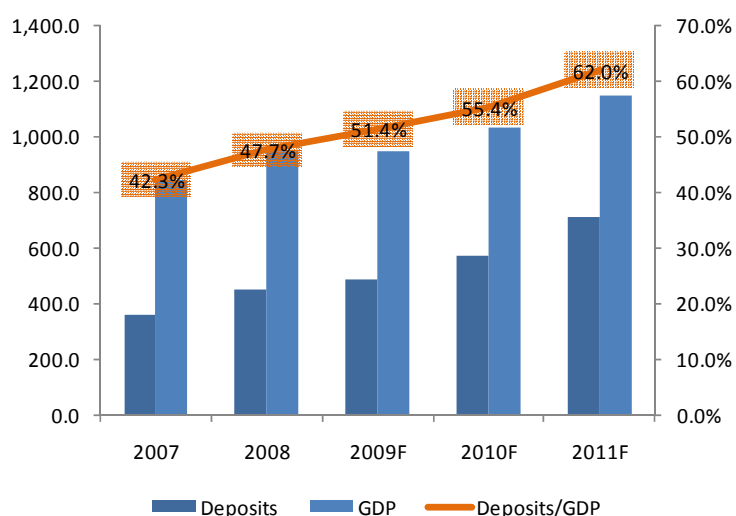
Runner-Up: Isbank, Halkbank

Underdog: Akbank

FUNDING MARKET

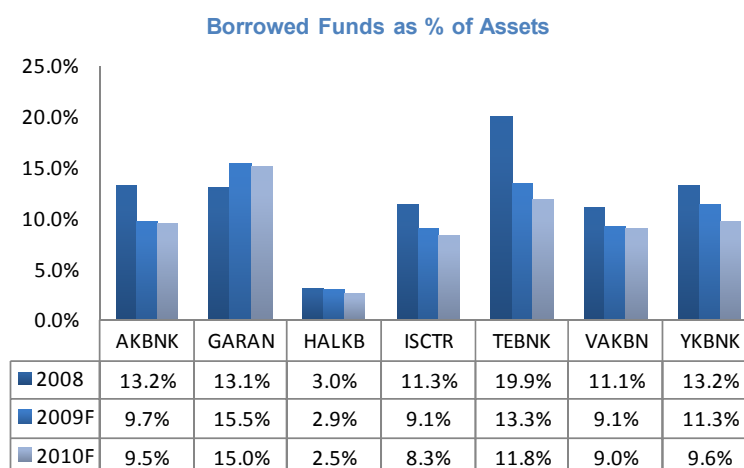
With a strong capital structure with CAR standing at 19.7% and the loan-to-deposit ratio below 80%, Turkish banks are well capitalized and funded to finance the lending and securities growth that we expect next year. On the funding side, having a wide and well-diversified distribution network would be at vital importance to acquire cheap deposit funding. In terms of distribution channel network, Isbank is the winner of the game with 1,061 branches way above its competitors. On the other hand, from a diversification perspective, Halkbank has the largest presence especially outside the big cities in Anatolia, allowing the bank to grasp favorable deposits from unbanked regions of Turkey.

A high “demand deposit” mix is also important in maintaining current margins and spreads by extremely lowering the overall cost of funding. A strong retail branch network as we mentioned is quite important in achieving success in high demand deposit acquisition. Even though Garanti and Yapi Kredi are not the leaders in the branch network size they achieved the highest and best mix of demand deposits , due to their solid corporate and retail franchise, as Garanti being the leader. Halkbank has also been aggressive in strengthening its demand deposit base over the last quarters.

Graph 11 – Turkish Banking Sector Deposit Base Forecasts

Source: BRSA, Seker Estimates

As for other sources of funding, Garanti has been a divergent player in this field, by paying particular attention through actively managing its balance sheet and making use of the excess FX liquidity to create longer term funding with the use of swaps and futures that result in costs below the deposit funding.

Graph 12 – Borrowed Funds as % of Assets of our coverage universe

Source: Company Data, Seker Estimates

Over the last decade, due to high risk nature of the Turkish financial system, syndications raised on behalf of Turkish banks were shaped with a large number of participating banks. With the help of the booming economy, this was recouped with an increasing number of small compact deals. In 2H09, we believe that the trend of syndications would be widening and becoming deliberately attractive especially for the leading banks and indicate that the Turkish banking sector is assembling greater charm. Nonetheless, pricing on Turkish bank risk remains stable and margins cling high. The price range is

hovering between 200-250 bps over LIBOR and EURIBOR. Another improvement is that some banks like Garanti for example, are gathering more control over the syndication process.

2009 has been the year that heightened the prestige of Turkish banks to secure funds on relatively favorable terms. Isbank secured a US\$ 570 million dual-tranche term loan, funded in both Euros and US dollars with a cost of LIBOR/EURIBOR + 250 bps. Moreover, by mid September, Isbank rolled over a dual tranche loan originally signed in October 2008 for one more year. Also in the same period, Yapi Kredi signed a one-year multi currency deal worth US\$ 985 million. The all-in-cost was LIBOR+225bps. However one of the best priced deals was executed in 2009, when Garanti signed a dual-tranche syndication loan worth of US\$ 110 million and EUR 519 million. The deal conducted a price of 175 bps + LIBOR/EURIBOR and has a maturity of one year.

To summarize, loan penetration in Turkey, particularly at consumer level, resides low when compared to the rest of Europe. Turkish banks have a level somewhere in the region of 36%, compared to 154% in the European and 60 – 70% in CEE.

We can summarize our expectations for funding market in 2010 as follows;

- i. We expect **10.6% growth in deposit base**;
- ii. We expect **6% growth in banks borrowing**;
- iii. We expect **10% growth in liabilities to banks**;
- iv. We expect **19.1% growth in total equity** supported by strong earnings of 2009;
- v. We expect **Turkish banks to be more aggressive** in deposit collections;

Our top-picks in terms of strongest deposit base and deposit growth are;

Winner: Isbank

Runner-Up: Halkbank, Vakifbank

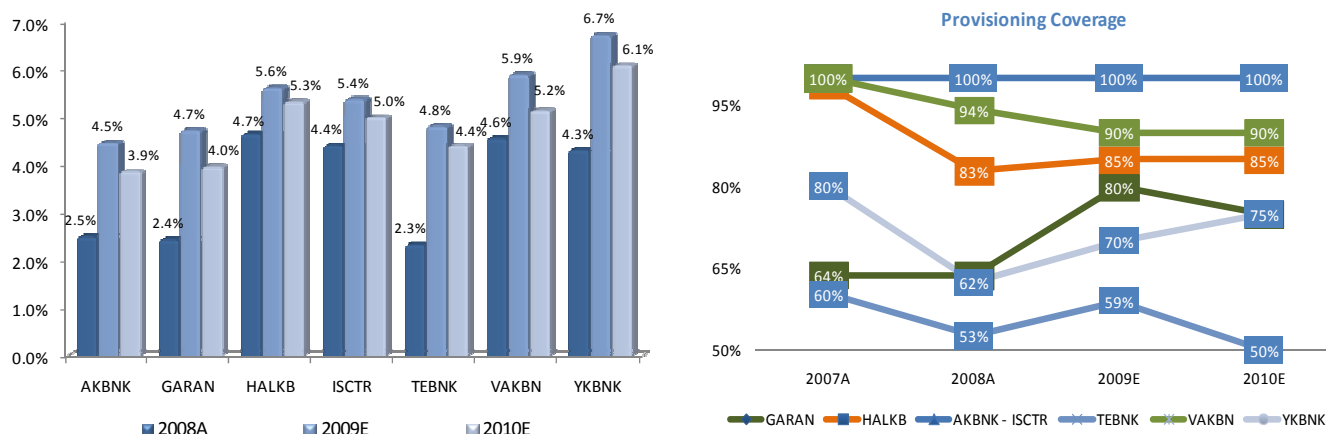
Underdog: Akbank, TEB

ASSET QUALITY

Total NPL stock of the Turkish banking sector has nearly doubled since the beginning of the crises. 1Q09 displayed the highest level of increase in NPL whereas there has been a slowdown in the rate of loan losses after 2Q09. Thus, bad loans in the system continue to climb though with a slower momentum with respect to earlier periods. In our meetings with bank managements, we noted that the managements of the banks in our coverage universe seem more relaxed in terms of seeing limited NPL generations, recoveries gaining motion and stable outlook for asset quality. In this regard, we would expect a better outlook in terms of asset quality and loan losses in 2009YE results. Asset quality trends are coherent with other signs of contraction coming to an end. The asset quality of the sector is still in attenuation but at a much slower pace than previous stages. The rate of growth in loan losses has

fallen sharply from June and onwards. 2Q09 marked an improvement in collection rates and slowing down additional NPLs. Thus, we expect NPL ratio to reach 5.7% at the year-end 2009 than gradually decline afterwards to 5.2% and 4.2% in 2010 and 2011, respectively.

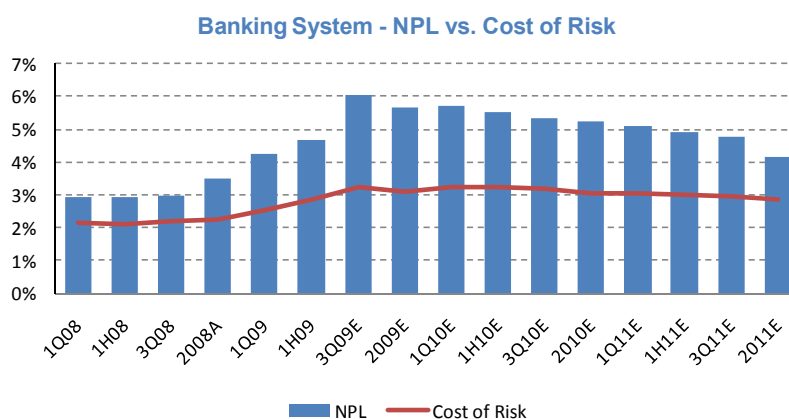
Graph 13 – NPL Ratio and Provisioning Coverage of our coverage universe



Source: Company Data, Seker Estimates

On the other hand, NPL coverage has continued to increase, with most banks keeping their conservative stance and providing high levels of provisioning. The coverage level in the sector is at c. 80% well above regulatory limits. Banks now still seem to be cautious and maintain their provisioning levels in order to create an earning reserve for 2010 and recoup with the expected pressures on the top-line resulting from NIM contraction. So far, we should not be excessively concerned about 2010 earnings in the absence of solid top-line generation since banks would choose to normalize their provisioning levels as soon as asset quality improves. The improvement in asset quality is by means of improvement in the economic activity and hence recovery.

Graph 14 – Turkish Banking System NPL ratio vs. Cost of Risk

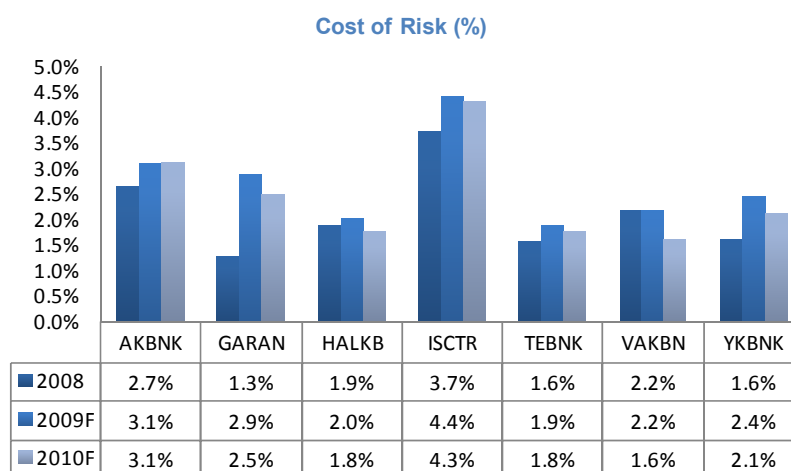


Source: BRSA, Seker Estimates

We can summarize our expectations for banks' asset quality in 2010 as follows;

- i. Our year-end 2009 **NPL expectation comes in at 5.7%** (2010YE: 5.2%, 2011YE: 4.2%);
- ii. We forecast the **provisioning levels to stabilize at 75%** in 2010;
- iii. We see the annualized **12-m trailing cost of risk at 3.1%** on average for both 2009 and 2010;
- iv. The pace of the **deterioration in loan quality depends on GDP growth and unemployment** rate which we believe to pick up after 4Q09;

Graph 15 – Cost of Risk of our coverage universe



Source: Company Data, Seker Estimates

Our top-picks in terms of better than expected NPL ratio are;

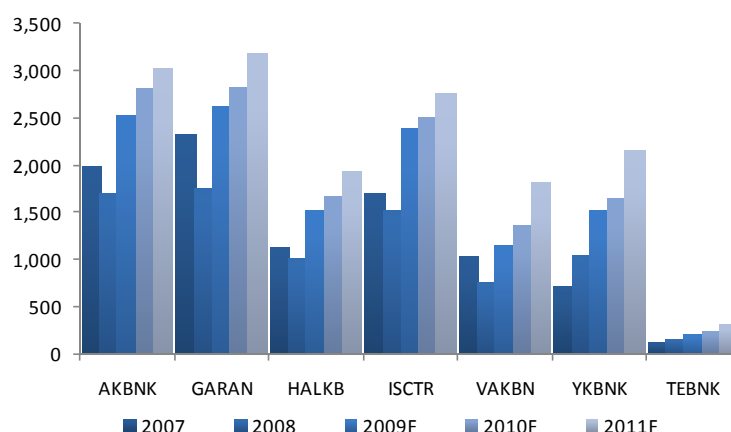
Winner: Akbank

Runner-Up: Isbank, Garanti, TEB

Underdog: Yapi Kredi, Vakifbank

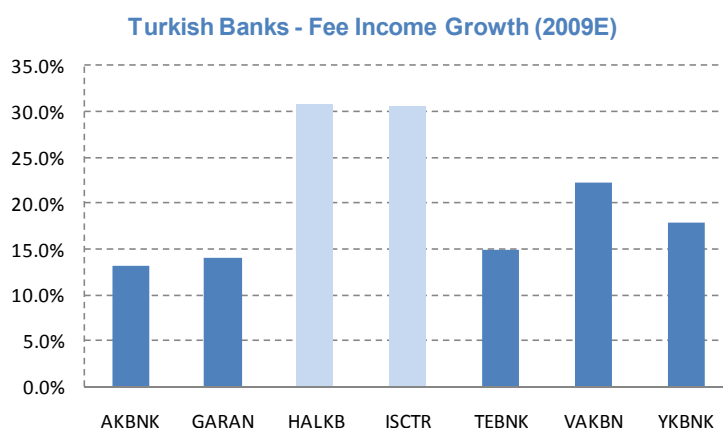
EARNINGS

2009 has been a highly profitable year for the most of the banks in our coverage universe. The strong top – line generation was a natural consequence of balance sheet duration mismatches channeled by the accelerated re-pricing effect of deposits in a decreasing interest rate environment. More of that, this favorable period of top-line period was prolonged by the risk-averse nature of the banks and the stagnant banking environment with limited loan growth. Though we believe that margins are likely to be squeezed with respect to their highest levels in 2Q09, the expected volume growth in lending would offset the contraction in the margins to some degree. Turkish banks have sufficient capital with a low level of LDR which would allow them to achieve the lending growth that we have built our entire system upon.

Graph 16 – Net Earnings Estimates of our coverage universe

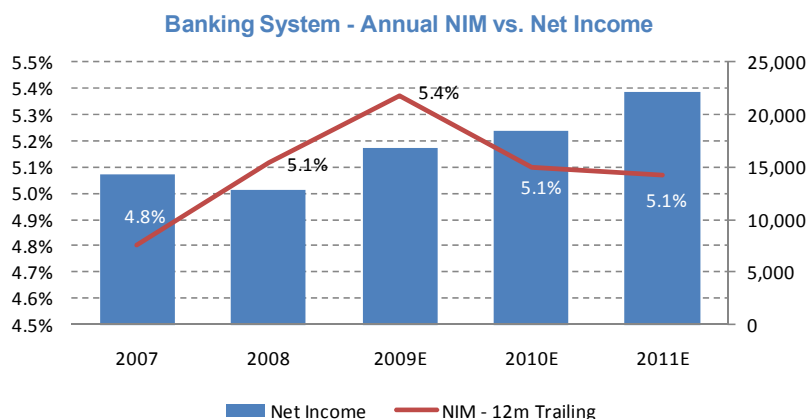
Source: Company Data, Seker Estimates

Being faint hearted, we would like to call the period ahead of us as “normalization” from the current “super-profits” stage turning into a normal earnings environment on the back of growing operations. Thus, we have raised our bottom-line estimates for 2009E following a very strong first half and modified our 2010E forecasts according to the statements we have made above. Overall, we see Turkish banks’ earnings growing at an estimated average of 9.1% in 2010YE down from an estimated 31.8% in 2009YE. However, Garanti, Isbank, Vakifbank and Akbank bank would be exceeding sector averages.

Graph 17 – Fee Income Growth of our coverage universe

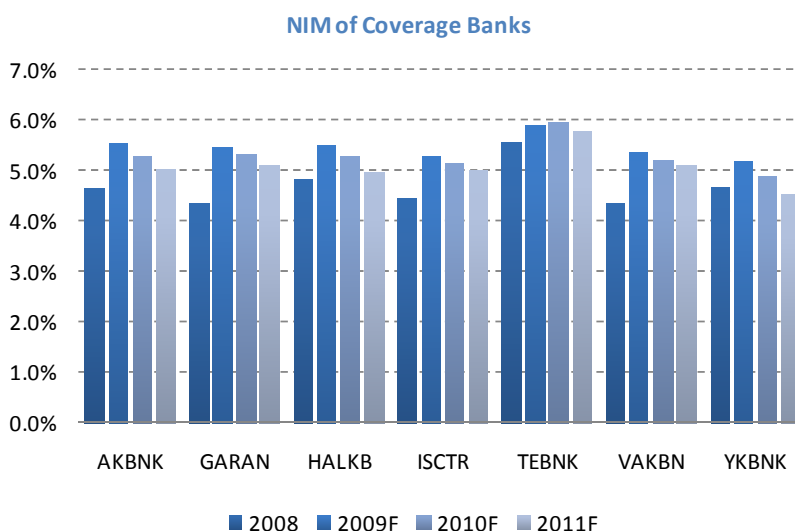
Source: Company Data, Seker Estimates

Moreover, we do not see a vast contraction in net interest margin levels of the banks in the near term. Since NIM is highly affected by maturity mix in loans and deposits, our forecasted duration gap analysis with interest rates bottoming out next year should result in a contracted NIM. Turkish banks’ structure of deposit base is similar varying between 25 to 30 days. On the other hand, loan mixes are differentiating and for those banks with longer duration of loans are likely to feel more pressures on their margins as interest rates bottom-out. This reversal of interest rates would raise the risks more on those banks than those with shorter duration of loans.

Graph 18 – Turkish Banking Sector NIM and Net Income Forecasts**Source:** BRSA, Seker Estimates

We have estimated an average NIM of 5.6% for our coverage banks vs. 5.4% NIM 2009YE. We believe that the expected contraction in the net interest margins would not be a major one since banks would be able to defend their margins by loan volume growth in an increasing interest rate environment. In our view, there are three main drivers of NIM growth:

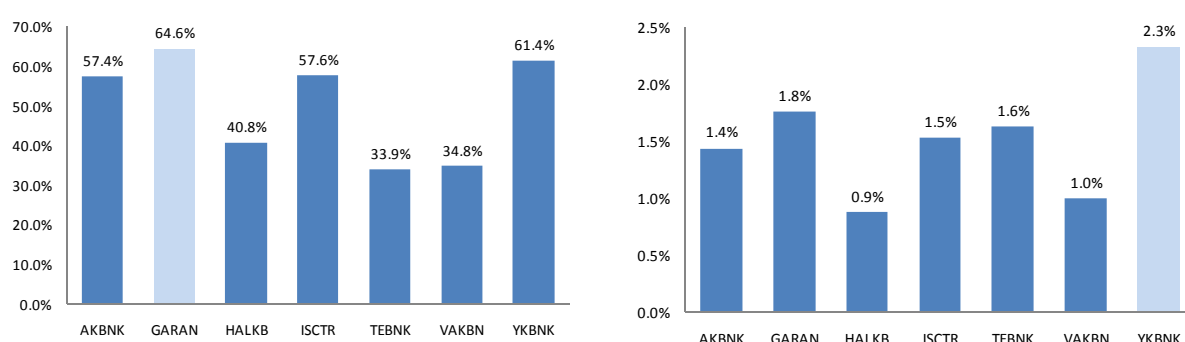
- i. Direction of the market rates.
- ii. Balance sheet growth.
- iii. Duration gap – maturity mismatch

Graph 19 – NIM Forecasts of coverage universe**Source:** Company Data, Seker Estimates

Fee and commission income for our banking universe contributes approximately 23% of the total banking income. Particularly in a low interest rate environment and duration gap working against the banks in our coverage in which they will feel more and more pressures on their net interest margins,

strong fee income generation becomes a distinctive competitive advantage. In the absence of lending over the first half of the year, we have observed an increasing alteration among the fee income performances of the Turkish banks. Albeit the generation of remarkably less income from usual loan originations which reflect the nature of fee and commission income, banks such as Garanti and Yapi Kredi managed to improve their fee income sources profoundly by the contribution of supplementary business units such as insurance, brokerage and asset management etc. State banks on the other hand, proved their deficiencies in this area as fee income of the banks is highly dependent on loan growth only. Fee income diversification is an important aspect since banks with more diversified fee income sources show more sustainable growth through different stages of economic cycles.

Graph 20: Net Fee Income/OPEX vs. Net Fee Income/Total Assets of coverage universe



Source: Company Data, Seker Estimates

Table 5: Net Income Expectations of coverage universe

	NEW			OLD			CHANGE, %		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Akbank	2,515	2,805	3,021	2,299	2,552	2,834	9%	10%	7%
Garanti Bank	2,627	2,818	3,184	2,511	2,395	2,509	5%	18%	27%
Halkbank	1,508	1,673	1,939	1,438	1,544	1,892	5%	8%	2%
Isbank	2,391	2,508	2,758	2,365	2,183	2,489	1%	15%	11%
TEB	208	243	301	N/A	N/A	N/A	N/A	N/A	N/A
Vakifbank	1,150	1,363	1,822	N/A	N/A	N/A	N/A	N/A	N/A
Yapi Kredi	1,512	1,655	2,156	1,420	1,324	1,432	6%	25%	51%

Source: Company Data, Seker Estimates

We can summarize our expectations for banks' net earnings and NIM in 2010 as follows;

- i. We expect a **10.6% bottom-line growth**;
- ii. We expect NIM to come in at **5.2%** down by 30 bps from **5.4% 2009YE**;
- iii. **Better NIM outlook than previously expected.** Less contraction on the back of declining bond yields;
- iv. **Trading gains to be higher than expected.** As yields continue to come down, the trading gains on bank's securities portfolio would increase further. Unrealized gains held under equity would be used to support a possible weakness in the top-line generation;
- v. **Reduction in provisioning coverage** to support bottom-line growth;

Our top-picks in terms of strong bottom-line generation are;

Winner: Garanti

Runner-Up: Isbank, Akbank

Underdog: TEB

VALUATION and INVESTMENT CONCLUSION

Our former projections of COE expectations have become a dead letter since interest rates have come down considerably in the face of declining inflation and decreasing bond yields surpassing our expectations. Therefore, we have adjusted our cost of equity assumptions in this report and reduce it by c.400 bps. These COE adjustments along with increased earnings projections led to higher target prices for our banking universe. Turkish banks are currently trading at a significant discount relative to their CEE and EMEA peers where the average 2010E P/BV of Turkish banks xxx vs. xxx of CEE and xxx of EMEA. We believe that there is still room left for the Turkish banks to offer upside potential and good returns for investors. In general our valuations are boosted by;

- i. **Higher earnings** forecast;
- ii. **Lower discount rate** (lower risk-free rate)
- iii. **Higher ROE** expectation;
- iv. **Higher sustainable growth**, 250-300 bps above the GDP growth;
- v. **Higher balance sheet growth**;

Table 6: Earnings per Share Estimates

EPS Estimates	2009E	2010E	2011E
Akbank	0.84	0.93	1.01
Garanti Bank	0.63	0.67	0.76
Halkbank	1.21	1.34	1.55
Isbank	0.81	0.81	0.90
TEB	0.19	0.22	0.27
Vakifbank	0.46	0.55	0.73
Yapi Kredi	0.35	0.38	0.50

We value our banking universe using Gordon Growth Model (“**GGM**”) and Residual Income Model (“**RIM**”) and take the average figure as the forecasted Target Price. We prefer to construct our valuation models with a 3 to 5 year projection period. Please note that our forecast and valuation figures are based on TRY-denominated BRSA bank-only figures.

Table 7: DuPont Breakdown – 1H09

DuPont Breakdown (1H09)	AKBNK	GARAN	HALKB	ISCTR	TEBNK	VAKBN	YKBNK
ROAE	16.9%	22.8%	26.4%	17.4%	13.1%	15.1%	18.6%
NII/Total Assets	2.67%	2.56%	2.60%	2.22%	2.88%	2.60%	2.63%
Net Income/Total Assets	1.58%	1.51%	1.41%	1.32%	1.08%	1.01%	1.46%
Equity/Total Assets	14.3%	12.0%	8.8%	10.5%	12.2%	10.9%	12.3%
OPEX/Total Assets	2.6%	2.8%	2.2%	2.9%	5.0%	2.7%	3.7%
ROAA	2.3%	2.5%	2.3%	1.8%	1.3%	1.6%	2.0%

Table 8: Valuation Table - 2009E

Valuation Table 2009E	AKBNK	GARAN	HALKB	ISCTR	TEBNK	VAKBN	YKBNK
<i>Recommendation</i>							
12-m Trailing TP	9.00	6.80	11.70	7.60	2.30	5.00	3.80
Upside	1%	8%	24%	16%	4%	26%	9%
Rating	HOLD	HOLD	BUY	BUY	HOLD	BUY	HOLD
<i>Valuation & Market Data</i>							
Current Price, TRY	8.90	6.30	9.45	6.55	2.21	3.96	3.48
Number of Shares	3,000	4,200	1,250	3,080	1,100	2,500	4,347
Current Mcap, TRY million	26,700	26,460	11,813	20,171	2,431	9,900	15,128
Current Mcap, USD million	18,381	18,216	8,132	13,886	1,674	6,815	10,414
12m Target Mcap, TRL million	26,938	28,432	14,640	23,385	2,479	12,472	16,474
(-) Participations, TRL million	-973	-905	-326	-3,825	-160	-617	-1,936
Core Banking Equity	12,266	11,913	3,963	8,382	1,479	6,110	6,452
COE in 2009	14.5%	14.8%	14.6%	14.6%	15.0%	14.9%	14.0%
<i>Multiples (Core Banking)</i>							
P/E 2007A	12.8	9.1	13.5	11.1	15.1	10.0	14.9
P/E 2008A	8.4	6.2	5.6	7.5	5.5	3.9	8.8
P/E 2009E	10.6	10.1	7.8	8.4	11.7	8.5	9.8
P/E 2010E	9.5	9.4	7.1	8.0	10.0	7.2	8.9
P/BV 2007A	2.5	3.1	3.6	1.7	2.3	1.9	2.6
P/BV 2008A	1.3	1.1	1.4	0.9	0.6	0.5	1.3
P/BV 2009E	2.0	2.1	2.1	1.7	1.6	1.4	1.8
P/BV 2010E	1.7	1.6	1.6	1.5	1.4	1.2	1.4
ROAE 2007A	21.6%	39.9%	28.9%	16.8%	19.4%	21.9%	18.0%
ROAE 2008A	15.8%	21.8%	23.8%	15.6%	14.4%	14.1%	18.2%
ROAE 2009E	20.7%	23.6%	30.6%	22.1%	13.4%	18.4%	19.6%
ROAE 2010E	19.5%	19.4%	26.3%	19.4%	15.5%	18.7%	17.5%

Our main valuation assumptions are as follows:

- i. **We forecast equity and earnings figures between 2009 and 2013.** We assume a sustainable growth phase for all the banks in our coverage though the growth rates change from bank to bank;
- ii. ROE is a function of the bank's expected operating income, capital adequacy and profitability of the segments where the bank has a relatively higher presence;
- iii. **We use a CAPM to calculate the banks' COE metric.** As for risk free rate, we have incorporated 8% for 2009, 9% for 2010 and 2011, and 10% for 2012 and onwards. For the equity risk premium, we anticipate a 5% risk premium and took the banks' relevant betas and growth prospects into consideration. Thus, each bank in our assumptions has different levels of cost of equity depending on their beta and growth projections.

AKBANK

Company Report

HOLD – TRY 9.00

Target Mcap: TRY 26,938 mn – USD 18,596 mn

HOLD THE LINE...

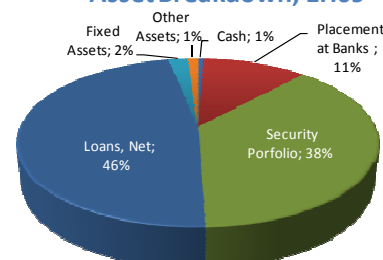
What Happened?

- Akbank reported its 1H09 bank-only financial statements with TRY 1,349 million net income (outpacing the market consensus of TRY 1,292 million) up by 17.6% yoy. On quarterly terms, the bottom-line figure came at TRY 730 million registering an increase of 44.1% yoy and 18.1% qoq. Even though the bank still abstains from being active in the lending market, it has shown improvements in generating income from its interest earning assets with respect to previous quarters. On the other hand, there was a considerable improvement in the interest costs. Therefore, NII of the bank has increased by almost 30% yoy in 1H09, backing up better than expected bottom-line growth. On the downside, Akbank was not successful in originating solid mark-to-market gains due to its conservative portfolio structure. Most of the bank's securities are held as fixed income and positioned as Held-to-Maturity securities inducing Akbank to record relatively weaker trading gains. Furthermore, decisive cost control measures supported the bank's bottom line for the first half of the year.

Financials

- Contraction in the loan book to continue.** Akbank continued to downsize its operations in the SME and other parts of the consumer loan segments, which are believed to be more risky. On top of that, the management noted that the negative growth effect of Ramadan combined with summer seasonality would result in further depreciation in the loan book in 3Q09. However, we believe that the pace of the decline would be much slower than 2Q09, almost growing on a beeline. Thus, we forecast that the bank's loan book would aggregate to TRY 41,256 million, down by -7.0% yoy.
- Weak appetite for deposits.** Being less active in the lending market, Akbank has no increased appetite in attracting deposit funding and this would likely be the case until the year end 2009. This situation is also in line with the overall trend in the sector where individual investors still avoid depositing their savings at banks since the interest rates have been coming down remarkably. On the other hand, Akbank's Loan/Deposit ratio has almost bottomed-out at %80.5 which proves further growth opportunities for the bank. We believe that the bank would be more aggressive and likely to re-gain its market share losses both in terms of loans and deposits after 2009.
- Changing composition in Securities Portfolio.** The bank recorded a 16.8% rise in 2Q09 in TRY securities where much of the growth stemming from the vast expansion of Available for Sale TRY portfolio up by 62.3% qoq. This witty repositioning maneuver helped the bank's NIM to improve. However, keep in mind that a part of the loan portfolio would be re-priced after 3Q09 likely to squeeze NIM after 2009.

Asset Breakdown, 1H09



SHAREHOLDER STRUCTURE

	%
Sabancı Holding	44%
Citibank	20%
Sabancı Family	7%

SNAPSHOTS

	2008A	2009F
Net Earnings	1,705	2,515
Total Assets	85,649	87,821
ROE	17%	21%
P/BV	1.3	2.0
P/E	8.4	10.6

STOCK DATA

Reuters	AKBNK.IS
Bloomberg	AKBNK.TI
Average Daily Volume ('000)	60,458
Free Float (%)	29%
Current Mcap (TRY mn)	26,700
Current Mcap (USD mn)	18,381
Exchange Rate	1.45
Current Price	8.90
12M Target Price	9.00
No. of Shares in Issue	3,000
52-Week Range	3.39 - 9.70
Weight in ISE-100	12%
Beta (2 year, weekly return)	1.31

- **100% roll-over rate.** The bank management notified that there would be no problems in rolling out the securitization/syndication loans due in December 2009. Thus, we believe that 100% roll-over rate is achievable for the bank and foresee no major risks on that matter. Currently, Turkish banks receive syndication loans with an average cost of LIBOR/EURIBOR + 2.25%

Profitability

- Though we believe that the “Super-Profits” period is over for the banking system in general, Akbank's cost cutting measures would further help the bank to surprise the market with higher than expected bottom-line figure announcements. On the back of declining interest rates due to continuing quantitative easing and higher fee and commissions income, we believe that the bank's 3Q09 net profit figure would come at TRY 648 million (TRY 1,996 million on aggregate) down 11.3% qoq. As the interest rates bottom out towards the end of the year, 2009 year-end figure would aggregate to TRY 2,515 million showing an increase of 47.6% yoy but a decline of 19.9% qoq (TRY 519 million on quarterly terms).
- **Improving NIM standing at 5.0%.** NIM of the bank continued to increase due to maturity affect of the asset and liability composition, further decline in cost of funding. As we mentioned above, this improvement was also backed by the re-positioning of the bank's securities portfolio. We believe that the year-end 2009 net interest margin would position at 5.5% with a 50 bps increase than gradually decline thereafter. (2010: 5.3%, 2011: 5.0%)

Asset Quality

- **Improvement in cost of risk and NPL ratio.** The bank reported a lower than expected loan loss provisioning expense of TRY 247 million on the quarterly basis, down by 42.8% owing to NPL ratio milder than the sector's average. This moderate increase in 12m-trailing NPL to 3.8% results from cautious strategy refraining from funding the SME sector. We believe that contraction of Akbank's loan book especially in SME segment started to show its effect on the bank's NPL ratios. We forecast that the bank's NPL for the year-end 2009 would come at 4.6%. We also forecasted that the cost of risk for the bank would be around 3.1% in 2009YE. On the other hand, Akbank might face difficulties in re-gaining its market share losses in SME segments as soon as the economy recovers. However, it can be expected that the bank would be considerably aggressive after 2009.

Growth Projections (2009E; year-on-year)

(i) Total Assets: +2.5% (ii) Total Loans: -7.2% (iii) Total Deposits: -1.9% (iv) Securities Portfolio: +29.4% (v) Shareholders' Equity: +18.1%, (vi) Net Income: +47.6%

Strengths & Catalysts

(i) Strong ROAE standing at 20.7% (2009E) and high CAR at 21.3% (2009E) withheld as a cushion for potential risks, (ii) sound asset quality with relatively lower NPL ratio at 4.6% (2009E) below the sectors average, (iii) well managed operating costs, low Cost/Income ratio at 32.7% (2009E) (iv) Liquid balance sheet with liquid asset ratio at 12% (held as cushion for LLPs and/or for future growth in loans), (v) improved technological infrastructure and call-centers used as active sales channels with 700 inbound and 200 outbound sales agents; enhanced CRM capability and active use of Alternative Distribution Channels (vi) successful risk management, (vii) flourishing launch of a new innovative product attracting 1.5 million new customers: Fish, (ix) Wide range of banking branches, (x) effective risk management and high collateral rates

Risks

(i) Diminishing market shares in almost all segments, (ii) relatively lower trading gains with respect to its Tier-I peers (puts more downside as long as quantitative easing continues) (iii) relatively lower fee and commission income: Net Fee Income/Total Income ratio at 18.8%, (iv) no organic growth projections – no new branch openings, no additional personnel until 2009YE (v) relatively expensive market price (vi) less benefit from ATM consolidation with relatively fewer built-in ATMs

Our Recommendation

We have revised our 2009E bottom-line figure up by 9.4% to TRY 2,515 million from TRY 2,299 million and lowered the bank's COE on the back of continuing pattern of decreasing costs of funding. This revision leads us to adjust our year-end target price to TRY 9.00 from TRY 7.87 up by 14.3% while revising our “SELL” recommendation to “HOLD”. Our revised target price proves only 1% upside with respect to current prices. Akbank has a vast potential for further growth and places itself as one of the biggest banks in Turkey but comparatively more expensive than its peers.

Table: Akbank 2009 Quarterly Income Statement – TRY mn

Income Statement	1Q09	1H09	3Q09	2009E
Interest Income	2,508.3	4,785.5	7,152.6	9,502.5
Interest Income on Loans	1,467.0	2,706.9	4,022.9	5,348.1
Interest Income on Placement at Banks	48.1	83.9	120.7	154.1
Interest Income on Security Portfolio	993.2	1,994.7	3,009.1	4,000.3
Trading	7.9	13.4	23.0	44.9
Available for Sale	270.7	643.7	1,163.3	1,686.7
Held to Maturity	714.5	1,337.6	1,822.7	2,268.7
Interest Expense	1,391.9	2,505.3	3,704.7	4,907.7
Interest Expense on Deposits	1,073.2	1,929.0	2,882.7	3,844.9
Interest Expense on Bank Liabilities	215.1	399.5	585.4	769.7
Interest Expense on Borrowing	101.2	172.8	229.9	284.9
Other Interest Expense	2.3	3.9	6.7	8.2
NET INTEREST INCOME (NII)	1,116.4	2,280.2	3,447.9	4,594.9
Net Fees and Commissions Income	296.3	630.2	922.7	1,235.5
Net Trading Gain/Loss	45.7	93.4	115.8	171.4
Other Operating Income	188.8	318.7	414.2	538.5
Total Operating Income	1,689.9	3,365.4	4,943.6	6,583.1
Provision Cost for Loan Loss Receivables	431.3	678.3	952.0	1,338.5
Operating Expenses	514.1	1,024.8	1,537.2	2,152.1
Before Tax Profit	744.5	1,662.3	2,454.4	3,092.6
Provision For Taxes	126.3	313.9	458.1	577.2
NET PROFIT	618.2	1,348.5	1,996.2	2,515.3
- Quarter Figure	618.2	730.3	647.8	519.1

Table: Akbank 2009 Quarterly Balance Sheet – TRY mn

Balance Sheet	1Q09	1H09	3Q09	2009E
Cash	482.9	480.4	486.2	500.8
Placement at Banks and Interbank MM*	9,639.8	9,604.6	9,184.4	8,350.7
Security Portfolio	30,101.0	32,177.6	34,134.0	35,030.4
Trading	217.6	215.0	416.8	993.0
Available for Sale	8,735.2	12,882.1	15,747.9	16,883.6
Held to Maturity	21,148.2	19,080.5	17,969.3	17,153.7
Loans, Net	42,285.5	40,626.5	40,041.2	41,198.9
Non-Performing Loans	1,454.0	1,605.3	1,744.7	1,929.8
Provisioning for Non-Performing Loans	1,454.0	1,605.3	1,744.7	1,929.8
Participations	952.8	934.0	945.2	973.4
Fixed Assets	825.9	817.2	827.0	851.7
Other Non-IEA	758.9	877.4	887.9	914.5
TOTAL ASSETS	85,046.8	85,517.7	86,505.8	87,820.5
Deposits	50,291.5	50,485.0	50,837.5	51,236.7
Liabilities to Banks	8,944.2	10,073.5	10,577.1	11,106.0
Borrowing	11,423.9	9,138.3	8,734.1	8,520.5
Other Liabilities	3,010.8	3,597.3	3,636.3	3,717.4
Shareholder's Equity	11,376.5	12,223.7	12,720.8	13,239.9
TOTAL LIABILITIES AND EQUITY	85,046.8	85,517.7	86,505.8	87,820.5

(*) Including CBRT

Table: Akbank Income Statement Annual Forecasts – TRY mn

Income Statement	2007A	2008A	2009E	2010E	2011E
Interest Income	8,481.5	9,700.2	9,502.5	9,506.1	11,371.7
Interest Income on Loans	5,205.8	6,033.1	5,348.1	5,574.9	7,241.1
Interest Income on Placement at Banks	287.4	315.7	154.1	106.1	116.2
Interest Income on Security Portfolio	2,988.3	3,351.4	4,000.3	3,825.1	4,014.4
Trading	391.0	136.4	44.9	208.9	510.6
Available for Sale	2,597.3	2,528.7	1,686.7	2,047.5	2,044.1
Held to Maturity	0.0	686.3	2,268.7	1,568.7	1,459.8
Interest Expense	5,239.9	6,212.5	4,907.7	4,795.5	6,272.3
Interest Expense on Deposits	3,939.0	4,829.9	3,844.9	3,914.6	5,096.7
Interest Expense on Bank Liabilities	767.1	869.2	769.7	745.6	868.9
Interest Expense on Borrowing	520.4	504.3	284.9	129.6	281.0
Other Interest Expense	13.5	9.0	8.2	5.8	25.7
NET INTEREST INCOME (NII)	3,241.6	3,487.7	4,594.9	4,710.6	5,099.5
Net Fees and Commissions Income	946.4	1,091.9	1,235.5	1,693.1	1,821.8
Net Trading Gain/Loss	149.3	44.7	171.4	108.2	93.2
Other Operating Income	507.5	741.0	538.5	657.0	997.9
Total Operating Income	4,876.9	5,395.2	6,583.1	7,212.2	8,056.0
Provision Cost for Loan Loss Receivables	719.6	1,148.1	1,338.5	1,441.1	1,528.1
Operating Expenses	1,696.3	2,187.3	2,152.1	2,322.6	2,813.2
Before Tax Profit	2,461.0	2,059.8	3,092.6	3,448.6	3,714.6
Provision For Taxes	466.8	355.4	577.2	643.7	693.4
NET PROFIT	1,994.2	1,704.4	2,515.3	2,804.9	3,021.3

Table: Akbank Balance Sheet Annual Forecasts – TRY mn

Balance Sheet	2007A	2008A	2009E	2010E	2011E
Cash	515.7	604.0	500.8	509.6	513.9
Placement at Banks and Interbank MM*	3,580.0	11,177.0	8,350.7	7,959.9	6,611.4
Security Portfolio	25,074.4	27,066.1	35,030.4	38,417.7	41,274.7
Trading	4,843.0	219.9	993.0	3,872.1	6,882.9
Available for Sale	20,231.5	6,285.6	16,883.6	19,127.0	19,675.7
Held to Maturity	0.0	20,560.6	17,153.7	15,418.6	14,716.1
Loans, Net	37,015.8	44,374.1	41,198.9	48,299.8	60,520.0
Non-Performing Loans	1,002.4	1,138.7	1,929.8	1,941.9	1,619.5
Provisioning for Non-Performing Loans	1,007.5	1,138.7	1,929.8	1,941.9	1,619.5
Participations	769.1	923.5	973.4	1,026.8	1,083.1
Fixed Assets	750.1	839.9	851.7	898.4	947.7
Other Non-IEA	499.4	663.9	914.5	964.8	1,017.9
TOTAL ASSETS	68,204.6	85,648.6	87,820.5	98,077.1	111,968.8
Deposits	41,044.2	52,246.8	51,236.7	56,627.1	67,721.0
Liabilities to Banks	4,414.6	8,105.0	11,106.0	12,554.0	10,656.1
Borrowing	8,854.5	11,298.8	8,520.5	9,268.8	11,038.2
Other Liabilities	3,290.5	2,789.7	3,717.4	3,901.6	4,095.1
Shareholder's Equity	10,600.8	11,208.4	13,239.9	15,725.5	18,458.4
TOTAL LIABILITIES AND EQUITY	68,204.6	85,648.6	87,820.5	98,077.1	111,968.8

(*) Including CBRT

Table: Akbank Key Ratios

Key Ratios	2007A	2008A	2009E	2010E	2011E
<i>Profitability Ratios</i>					
NIM	5.3%	4.6%	5.5%	5.3%	5.0%
ROAA 12-m	3.1%	2.2%	2.9%	3.0%	2.9%
ROAE 12-m	21.6%	15.8%	20.7%	19.5%	17.8%
Tangible ROAE 12-m	23.4%	16.8%	22.1%	20.6%	18.7%
EPS	0.66	0.57	0.84	0.93	1.01
Trailing EPS	0.73	0.57	0.84	0.93	1.01
Cost of Risk (12m Trailing)	2.2%	2.7%	3.1%	3.1%	2.7%
<i>Growth Ratios (Annualized)</i>					
Asset Growth	19.1%	25.6%	2.5%	11.7%	14.2%
Loan Growth	30.6%	19.9%	-7.2%	17.2%	25.3%
Deposit Growth	20.0%	27.3%	-1.9%	10.5%	19.6%
Securities Growth	23.1%	7.9%	29.4%	9.7%	7.4%
Equity Growth	50.6%	5.7%	18.1%	18.8%	17.4%
<i>Efficiency & Financial Strength Ratios</i>					
Interest Income on Loans / Total Interest Income	61.4%	62.2%	56.3%	58.6%	63.7%
Interest Income on Securities / Total Interest Income	35.2%	34.5%	42.1%	40.2%	35.3%
Net Banking Income / Total Operating Income	85.9%	84.9%	88.6%	88.8%	85.9%
Cost/Average Assets	3.9%	4.0%	3.7%	3.9%	4.0%
Net Fee Income / Total Income, 12 -m	19.4%	20.2%	18.8%	23.5%	22.6%
Net Fee Income / OPEX, 12-m	55.8%	49.9%	57.4%	72.9%	64.8%
OPEX/Assets	2.7%	2.8%	2.5%	2.5%	2.7%
Cost / Income, 12-m	34.8%	40.5%	32.7%	32.2%	34.9%
CAR	18.9%	18.2%	21.3%	21.8%	20.9%
Free Capital to Assets	12.6%	10.3%	12.0%	13.1%	13.8%
Free Capital to Equity	81.0%	78.3%	79.3%	81.6%	83.5%
External Borrowing/Total Assets	13.0%	13.2%	9.7%	9.5%	9.9%
<i>Asset Composition & Breakdown</i>					
Interest Earning Assets/Assets	96.3%	96.5%	96.3%	96.5%	96.8%
Loans/Assets	54.3%	51.8%	46.9%	49.2%	54.1%
Deposits/Assets	60.2%	61.0%	58.3%	57.7%	60.5%
Securities/Assets	38.2%	29.2%	39.5%	39.6%	37.3%
Equity/Assets	15.5%	13.1%	15.1%	16.0%	16.5%
Loans/Deposits	90.2%	84.9%	80.4%	85.3%	89.4%
<i>Asset Quality</i>					
NPL	2.6%	2.5%	4.5%	3.9%	2.6%
NPL Provisioning	100%	100%	100%	100%	100%

Table: Akbank Valuation

Valuation Key Metrics (TRY mn, %)	2009E	2010E	2011E	2012E	2013E
Cost of Equity	14.5%	14.5%	15.5%	16.5%	16.5%
Earnings	2,515.3	2,804.9	3,021.3	3,232.8	3,507.5
Total Equity	13,239.9	15,725.5	18,458.4	20,304.2	21,928.6
(-) Participations	-973.4	-1,026.8	-1,083.1	-1,137.3	-1,307.9
Core Equity	12,266.5	14,698.7	17,375.3	19,166.9	20,620.7
RoAE	20.7%	19.5%	17.8%	16.9%	17.0%
Target P/BV (2009E)	2.0	1.7			
Target P/E (2009E)	10.6	9.5			
12-m Target Mcap (GGM)	26,524.6				
12-m Target Mcap (RIM)	27,351.1				
12-m Target Mcap (Blended)	26,937.8				
12-m Target Mcap USD mn (Blended)	18,595.8				
Number of Shares	3,000				
12-m Target Price TRY (Blended)	9.00				
Current Price, TRY	8.90				
Current Mcap	26,700				
Upside Potential	1%				

GARANTI

Company Report

HOLD – TRY 6.80
Target Mcap: TRY 28,432 mn – USD 19,627 mn

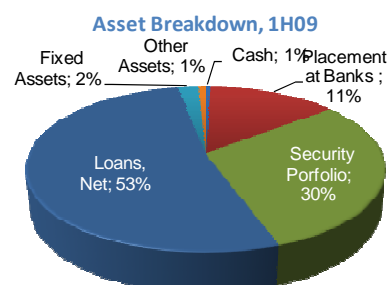
TIMES LIKE THESE...

What Happened?

- Garanti Bank released its 1H09 bank-only financial statements with TRY 1,416 million net income (just above the market consensus of TRY 1,385 million) up by 42.3% yoy. On quarterly terms, the bottom-line figure came at TRY 765.1 million demonstrating a sharp increase of 41.2% yoy and 17.6% qoq. The bank was quite fortunate in recording high trading gains in 1H09 (up by 557% yoy) and consecutively managed to prove a solid top-line generation. The witty positioning in the securities portfolio allowed the bank to enhance a positive growth on its NIM in a quantitative easing period. Altogether with a ledgermain treasury management, Garanti was adequate enough to post record profits in the 1H09.

Financials

- Sluggish Growth.** Garanti management state that they are having a sluggish loan demand and maintain mediocre growth expectations in total loans for 2009. However, the bank is enduring an accelerated demand and positive growth in some segments such as housing and mortgage loans, general purpose and credit card loans beginning 2Q09. Thus, we believe that the bank's loan book after bottoming-out in 3Q09 would exhibit an increased demand and growing appetite for lending. On the other hand, even though Garanti originates high volumes of mortgage loans in 3Q09, the net figures state otherwise. Since Garanti has been deeply involved in the mortgage loan market for a while, redemptions of the bank's existing (old) mortgage loan portfolio cancels out the positive growth affect of its new loan issuances. Garanti funds its mortgage loans with swaps and other types of money market derivatives. Our year-end 2009 loan book figure comes in at TRY 51,075 million up only by 2.3% yoy.
- Waiting for 2010.** In line with the overall sector trend, Garanti challenged a downward sloped deposit demand curve after 1Q09. However, we believe that Garanti (along with its Turkish peers) would be more aggressive in the deposit market after 2009. That said, we can assume that diminishing deposit growth (with an increasing rate) has bottomed-out and would increase after 2009. The bank holds the highest demand deposit in its mix. Our year-end 2009 deposit base figure comes in at TRY 57,384 million.
- Solid portfolio management.** Garanti holds large shares of TL FRN's in its portfolio. Since we believe that quantitative easing (after a further rate cut of 25+25 bps) might come to an end after 2009, the bank than would be subject to declining yields on its securities. We believe that Garanti would not be able to boost its NIM (and one-off revenues) at least not as much as the 1H09 figures. Nevertheless, CPI-linked bonds which contribute ca. 25% of the banks FRN portfolio would absorb the negative effect of the bottoming-out interest rates.



SHAREHOLDER STRUCTURE	%
Dogus Holding	26.6%
Dogus Subsidiaries	3.9%
GE Arastirma ve Musavirlik	20.9%

SNAPSHOTS	2008A	2009F
Net Earnings	1,751	2,627
Total Assets	88,941	95,953
ROE	22%	24%
P/BV	1.1	2.1
P/E	6.2	10.1

STOCK DATA

Reuters	GARAN.IS
Bloomberg	GARAN.TI
Average Daily Volume ('000)	277,845
Free Float (%)	56%
Current Mcap (TRY mn)	26,460
Current Mcap (USD mn)	18,216
Exchange Rate	1.45
Current Price	6.30
12M Target Price	6.80
No. of Shares in Issue	4,200
52-Week Range	1.76-6.35
Weight in ISE-100	14%
Beta (2 year, weekly return)	1.38

- **100% roll-over rate.** The bank management notified that there would be no problems in rolling out the securitization/syndication loans due in the last quarter of 2009. Thus, we believe that 100% roll-over rate is achievable for the bank and we foresee no major risks on that matter. Turkish banks are currently receiving syndication loans with an average cost of LIBOR/EURIBOR + 2.25%

Profitability

- Garanti posted one of the highest profit announcements in the first half of 2009 thanks to its strong fee income, increased NIM, active balance sheet management and one-off trading gains. Front loading provisioning would also benefit the bank in the medium run to record high profits on the back of normalization in coverage levels as the asset quality ratios turn positive. The bank also has TRY 1.4 billion (up from TRY 850 million of AFS portfolio) worth of hidden profits reserves held under Equity as Unrealized Gains (from mark-to-market gains) in order to be used as a support to earnings as margins would be under pressure after 2009 and a cushion for possible future risks. Our 2009E year-end figure aggregates to TRY 2,627 million showing an increase of 50% yoy (3Q09E: TRY 685.2 mn and 4Q09E: TRY 526 mn).
- **Improving NIM standing at 4.8%.** NIM of the bank continued to increase due to maturity affect of the asset and liability composition, and the further decline in cost of funding. The bank also defended its margins by witty positioning of its security portfolio. We believe that the year-end 2009 net interest margin would position at 5.4%. (2010: 5.3%, 2011: 5.1%)

Asset Quality

- **Improvement in cost of risk and NPL ratio.** Garanti has maintained 3.5% NPL ratio for the 1H09 both lower than the estimates and sector averages. The management also noted that loan loss provisions would be lower in 3Q09 and year-end 2009, thanks to ongoing credit card restructurings. Restructured loans have already reached TRY 750 million carrying out 30% of the total credit card restructuring in the sector. Therefore, we forecast that the bank's NPL ratio for the year-end 2009 to come in at 4.7%. In addition, our forecasted cost of risk stands at 2.9% for 2009E. (2010: 4.0%, 2011: 2.6%)

Growth Projections (2009E; year-on-year)

(i) Total Assets: +7.9% (ii) Total Loans: +2.3% (iii) Total Deposits: +8.9% (iv) Securities Portfolio: +29.4% (v) Shareholders' Equity: +35.4% (vi) Net Income: +50%

Strengths & Catalysts

(i) Prudent and strong management allowing to bank to record high trading gains and hence solid net profits, (ii) High zero cost demand deposit ratio at 17%, (iii) Strong ROAE at 23.6% (2009E), (iv) High Unrealized Trading Gains (mark-to-marked) retained as cushion for potential risks, (v) market leader position in total loans and credit cards, (vi) High leverage ratio: 8.0x, (vii) strong fee and commission income (2009E: TRY 1,644 million), (viii) relatively lower NPL ratio at 4.5% (2009E), (ix) advanced technological infrastructure, active use of Alternative Distribution Channels, (x) effective risk management team (xi) relatively higher Net Fee Income/OPEX ratio at 64.6% (2009E) (xii) well positioned to capture extended loan demand

Risks

(i) strong presence of one-off gains in the income statement (ii) contracting net interest margins (iii) re-pricing and negative maturity affect on the securities (high percentage of FRNs) risky in a increasing interest rate environment, (iv) relatively higher OPEX (v) likely pressures on loan yields following the cap decline effect from credit cards.

Our Recommendation

We have revised our 2009E bottom-line figure up by 4.3% to TRY 2,627million from TRY 2,299 million on the back of continuation pattern for decreasing costs of funding and hence lower COE. This revision leads us to adjust our year-end target price to TRY 6.80 from TRY 5.85 revising our "BUY" recommendation to "HOLD" since the bank's share price has gone up considerably in the recent periods. Our revised target price proves 8% upside with respect to current prices. Note that investors should take backward moving prices as signals for taking long positions on the bank.

Table: Garanti 2009 Quarterly Income Statement – TRY mn

Income Statement	1Q09	1H09	3Q09E	2009E
Interest Income	2,766.7	5,405.2	8,050.0	10,665.1
Interest Income on Loans	1,667.6	3,198.0	4,864.7	6,479.7
Interest Income on Placement at Banks	139.8	267.2	362.1	436.1
Interest Income on Security Portfolio	959.4	1,940.0	2,823.2	3,749.2
Trading	6.3	11.2	29.1	49.9
Available for Sale	677.9	1,387.0	2,046.4	2,722.9
Held to Maturity	275.2	541.9	747.7	976.4
Interest Expense	1,660.5	3,015.8	4,402.6	5,766.5
Interest Expense on Deposits	1,237.0	2,243.3	3,328.4	4,374.1
Interest Expense on Bank Liabilities	255.7	435.1	534.3	636.4
Interest Income on Borrowing	165.8	334.4	534.9	749.8
Other Interest Expense	2.0	3.0	5.1	6.2
NET INTEREST INCOME (NII)	1,106.3	2,389.5	3,647.3	4,898.6
Net Fees and Commissions Income	417.9	837.7	1,209.6	1,644.7
Net Trading Gain/Loss	384.7	722.4	638.9	564.3
Other Operating Income	82.9	79.4	103.2	134.2
Total Operating Income	1,991.8	4,106.7	5,677.7	7,322.8
Provision Cost for Loan Loss Receivables	577.2	1,071.6	1,230.2	1,489.1
Operating Expenses	579.3	1,213.0	1,819.5	2,547.3
Before Tax Profit	835.3	1,822.2	2,628.0	3,286.4
Provision For Taxes	184.5	406.3	527.0	659.0
NET PROFIT	650.8	1,415.9	2,101.0	2,627.4
- Quarter Figures	650.8	765.1	685.2	526.4

Table: Garanti 2009 Quarterly Balance Sheet – TRY mn

Balance Sheet	1Q09	1H09	3Q09E	2009E
Cash	523.0	546.5	553.1	569.6
Placement at Banks and Interbank MM*	14,114.2	12,914.5	10,538.6	8,232.8
Security Portfolio	26,330.2	28,089.2	30,751.6	33,161.6
Trading	691.3	750.0	854.2	1,041.4
Available for Sale	18,116.4	19,901.2	21,981.5	23,326.7
Held to Maturity	7,522.4	7,438.0	7,915.8	8,793.5
Loans, Net	50,754.3	49,147.2	49,833.5	51,075.1
Non-Performing Loans	1,511.2	1,757.9	2,215.7	2,515.4
Provisioning for Non-Performing Loans	1,152.0	1,434.8	1,772.5	2,012.3
Participations	872.0	869.4	879.5	905.0
Fixed Assets	1,185.7	1,201.2	1,215.6	1,252.0
Other Non-IEA	992.8	725.8	734.5	756.5
TOTAL ASSETS	94,772.3	93,493.8	94,506.3	95,952.8
Deposits	58,307.0	57,930.2	57,459.0	57,383.9
Liabilities to Banks	9,192.8	5,599.5	5,732.4	5,928.4
Borrowing	12,442.8	13,945.3	14,376.3	14,834.9
Other Liabilities	4,640.3	4,807.2	4,862.6	4,987.2
Shareholder's Equity	10,189.3	11,211.7	12,075.9	12,818.3
TOTAL LIABILITIES AND EQUITY	94,772.3	93,493.8	94,506.3	95,952.8

(*) Including CBRT

Table: Garanti Income Statement Annual Forecasts – TRY mn

Income Statement	2007A	2008A	2009E	2010E	2011E
Interest Income	7,216.6	9,378.4	10,665.1	11,085.5	13,886.8
Interest Income on Loans	4,254.5	5,757.3	6,479.7	7,115.9	9,318.6
Interest Income on Placement at Banks	747.6	665.6	436.1	323.4	368.3
Interest Income on Security Portfolio	2,214.6	2,955.5	3,749.2	3,646.2	4,199.9
Trading	17.2	24.9	49.9	69.6	87.5
Available for Sale	1,565.6	2,111.9	2,722.9	2,697.4	3,102.4
Held to Maturity	631.8	818.7	976.4	879.2	1,010.0
Interest Expense	4,412.5	6,200.4	5,766.5	5,800.1	7,903.2
Interest Expense on Deposits	3,073.6	4,318.4	4,374.1	4,319.0	5,900.9
Interest Expense on Bank Liabilities	712.5	1,159.1	636.4	437.9	581.6
Interest Income on Borrowing	618.7	713.6	749.8	1,037.6	1,400.1
Other Interest Expense	7.7	9.4	6.2	5.5	20.7
NET INTEREST INCOME (NII)	2,804.1	3,178.0	4,898.6	5,285.5	5,983.6
Net Fees and Commissions Income	1,197.7	1,441.1	1,644.7	2,039.5	2,220.7
Net Trading Gain/Loss	-135.9	251.3	564.3	259.3	199.6
Other Operating Income	1,017.9	298.0	134.2	246.0	364.0
Total Operating Income	4,933.2	5,270.8	7,322.8	7,915.8	8,858.1
Provision Cost for Loan Loss Receivables	337.6	566.4	1,489.1	1,424.7	1,155.4
Operating Expenses	1,823.4	2,542.4	2,547.3	2,966.4	3,719.7
Before Tax Profit	2,772.1	2,162.0	3,286.4	3,524.7	3,983.0
Provision For Taxes	456.5	411.5	659.0	706.8	798.7
NET PROFIT	2,315.6	1,750.5	2,627.4	2,818.0	3,184.3

Table: Garanti Balance Sheet Annual Forecasts – TRY mn

Balance Sheet	2007A	2008A	2009E	2010E	2011E
Cash	518.0	682.7	569.6	552.2	556.8
Placement at Banks and Interbank MM*	9,842.5	9,690.3	8,232.8	9,467.2	11,896.2
Security Portfolio	17,191.9	25,629.2	33,161.6	37,123.9	40,223.7
Trading	145.6	666.1	1,041.4	1,009.2	1,491.3
Available for Sale	13,102.5	17,345.8	23,326.7	26,276.0	28,863.1
Held to Maturity	3,943.8	7,617.3	8,793.5	9,838.7	9,869.3
Loans, Net	37,217.9	49,907.4	51,075.1	60,514.8	76,535.6
Non-Performing Loans	846.5	1,239.7	2,515.4	2,485.1	2,035.4
Provisioning for Non-Performing Loans	539.5	789.6	2,012.3	1,863.8	1,485.8
Participations	588.7	839.8	905.0	953.3	1,004.2
Fixed Assets	1,149.7	1,181.8	1,252.0	1,320.9	1,393.5
Other Non-IEA	1,069.5	1,009.5	756.5	798.2	842.1
TOTAL ASSETS	67,578.2	88,940.8	95,952.8	110,730.3	132,452.0
Deposits	39,098.1	52,715.3	57,383.9	65,637.7	78,759.8
Liabilities to Banks	8,176.9	10,702.9	5,928.4	7,175.5	9,105.4
Borrowing	9,155.0	11,625.1	14,834.9	16,594.9	20,059.8
Other Liabilities	4,265.0	4,428.4	4,987.2	5,246.1	5,518.6
Shareholder's Equity	6,883.1	9,469.1	12,818.3	16,076.2	19,008.4
TOTAL LIABILITIES AND EQUITY	67,578.2	88,940.8	95,952.8	110,730.3	132,452.0

(*) Including CBRT

Table: Garanti Key Ratios

Key Ratios	2007A	2008A	2009E	2010E	2011E
<i>Profitability Ratios</i>					
NIM	5.1%	4.4%	5.4%	5.3%	5.1%
ROAA 12-m	4.0%	2.3%	2.8%	2.7%	2.6%
ROAE 12-m	39.9%	21.8%	23.6%	19.4%	18.2%
Tangible ROAE 12-m	43.5%	22.5%	24.8%	20.1%	18.8%
EPS	0.79	0.42	0.63	0.67	0.76
Cost of Risk (12m Trailing)	1.0%	1.3%	2.9%	2.5%	1.7%
<i>Growth Ratios (Annualized)</i>					
Asset Growth	34.4%	31.6%	7.9%	15.4%	19.6%
Loan Growth	36.1%	34.1%	2.3%	18.5%	26.5%
Deposit Growth	29.7%	34.8%	8.9%	14.4%	20.0%
Securities Growth	19.4%	49.1%	29.4%	11.9%	8.4%
Equity Growth	47.4%	37.6%	35.4%	25.4%	18.2%
<i>Efficiency & Financial Strength Ratios</i>					
Interest Income on Loans / Total Interest Income	59.0%	61.4%	60.8%	64.2%	67.1%
Interest Income on Securities / Total Interest Income	30.7%	31.5%	35.2%	32.9%	30.2%
Net Banking Income / Total Operating Income	81.1%	87.6%	89.4%	92.5%	92.6%
Cost/Average Assets	5.0%	5.0%	4.2%	4.5%	4.6%
Net Fee Income / Total Assets, 12-m	2.1%	1.9%	1.8%	2.0%	1.8%
Net Fee Income / Total Income, 12-m	24.3%	27.3%	22.5%	25.8%	25.1%
OPEX/ Total Assets, 12-m	3.2%	3.3%	2.7%	2.9%	3.1%
Net Fee Income / OPEX, 12-m	65.7%	56.7%	64.6%	68.8%	59.7%
Cost / Income, 12-m	37.0%	48.2%	34.8%	37.5%	42.0%
CAR	15.4%	16.1%	18.7%	19.5%	18.6%
Free Capital to Assets	5.6%	6.7%	9.8%	11.2%	11.5%
Free Capital to Equity	54.7%	63.2%	73.3%	77.0%	80.1%
External Borrowing/Total Assets	13.5%	13.1%	15.5%	15.0%	15.1%
<i>Asset Composition & Breakdown</i>					
Interest Earning Assets/Assets	95.1%	95.8%	96.4%	96.7%	97.1%
Loans/Assets	55.1%	56.1%	53.2%	54.7%	57.8%
Deposits/Assets	57.9%	59.3%	59.8%	59.3%	59.5%
Securities/Assets	25.7%	26.3%	32.5%	33.7%	31.5%
Equity/Assets	10.2%	10.6%	13.4%	14.5%	14.4%
Loans/Deposits	95.2%	94.7%	89.0%	92.2%	97.2%
<i>Asset Quality</i>					
NPL	2.2%	2.4%	4.7%	4.0%	2.6%
NPL Provisioning	64%	64%	80%	75%	73%

Table: Garanti Valuation Summary

Valuation Key Metrics (TRY mn, %)	2009E	2010E	2011E	2012E	2013E
Cost of Equity	14.8%	15.8%	16.8%	17.8%	17.8%
Earnings	2,627.4	2,818.0	3,184.3	3,502.7	3,783.0
Total Equity	12,818.3	16,076.2	19,008.4	20,909.2	23,000.2
(-) Participations	-905.0	-953.3	-1,004.2	-1,134.7	-1,282.3
Core Equity	11,913.3	15,122.9	18,004.2	19,774.5	21,717.9
RoAE	23.6%	19.4%	18.2%	17.7%	17.4%
Target P/BV	2.1	1.6			
Target P/E	10.1	9.4			
12-m Target Mcap (GGM)	29,148.4				
12-m Target Mcap (RIM)	27,715.6				
12-m Target Mcap (Blended)	28,432.0				
12-m Target Mcap USD mn (Blended)	19,627.2				
Number of Shares	4,200				
12-m Target Price TRY (Blended)	6.80				
Current Price, TRY	6.30				
Current Mcap	26,460.0				
Upside Potential	8%				

HALKBANK

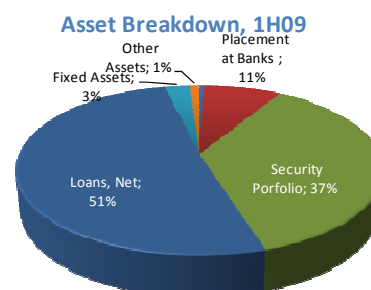
Company Report

BUY – TRY 11.70
Target Mcap: TRY 14,640 mn – USD 10,106 mn

A FINE GROWTH STORY

What Happened?

- Halkbank reported a net profit of TRY 787 million in the first half of 2009, with an increase of 22.7% from the same period a year earlier, gaining market shares especially in deposit market. On quarterly terms, the bottom-line figure came at TRY 423 million showing an increase of 15.8% yoy and 23.8% qoq. As a bank with higher than average loan year-to-date growth of a fine 10.2%, Halkbank was able to produce TRY 2.1 billion interest income on its loans and TRY 1.5 billion net interest income corresponding to a NIM (12-m trailing) of 5.9%. That said, 61% of the net interest income came from core banking activities, such as lending whereas the remaining 37% came from government securities portfolio. Halkbank reported the highest ROE (tangible) ratio of 34.6% outpacing its closest private Tier-I rivals.



SHAREHOLDER STRUCTURE		%
Privitization Administration		75%

Financials

- Remarkable performance in loans.** In the first half of 2009, Halkbank's total loan book grew by more than 25% yoy to TRY 28.5 billion. Despite the sector's recent shortfalls in lending activity, Halkbank managed to keep the pace of loan book growth and would possibly announce a better than expected loan growth at the year end. We have forecasted that the year-end 2009 figure would come at TRY 31.2 billion with an increase of 20.9% yoy. We believe that commercial, SME and retail loans would be the main drivers of the loan book growth. However, the management asserts that they have no mortgage or housing loan demand whereas the sector data on that segment in the past few months states otherwise. Loan/Deposit ratio of 70% indicates that the bank has a vast growth potential in terms of loans.
- Re-gaining market shares in deposits.** With another positive resolution from the Turkish banking sector, Halkbank managed to increase its main funding source, (approx. 74% of its total assets) its deposit base by 2.9% qoq to TRY 40.9 billion covering its market share losses in 1Q09. As for 1H09, Halkbank possessed an 8.8% market share in total deposits. Though the bank has been losing market share with a negative growth in FX deposits, above average growth in TRY deposits assisted the bank to regain its market share losses.
- Securities portfolio managed successfully.** In line with the overall trend in the sector, in order to accumulate positive returns in a quantitative easing environment, Halkbank holds 64% of its securities portfolio in FRN securities (78% of its TRY securities). We believe this would be subject to declining yields as soon as interest rates bottom-out. On the other hand, the bank holds most of its securities as TRY Held to Maturity which we believe would be a shield against the anticipated interest rate rise after 2009. However, the bank will fail to record solid mark-to-market gains unlike its commercial rivals.

SNAPSHOTS	2008A	2009F
Net Earnings	1,018	1,508
Total Assets	51,096	60,028
ROE	24%	31%
P/BV	1.4	2.1
P/E	7.8	7.8

STOCK DATA

Reuters	HALKB.IS
Bloomberg	HALKB.TI
Average Daily Volume ('000)	44,007
Free Float (%)	25%
Current Mcap (TRY mn)	11,813
Current Mcap (USD mn)	8,132
Exchange Rate	1.45
Current Price	9.45
12M Target Price	11.70
No. of Shares in Issue	1,250
52-Week Range	3.11-9.55
Weight in ISE-100	3%
Beta (2 year, weekly return)	1.26

- **No syndication/securitization.** According to the management, Halkbank's main funding source and its strongest competitive advantage is its hefty deposit base. Therefore, the bank has no syndication or securitization loan needs and there are no stated intentions of receiving such type of loans in the near future. The management asserted that Halkbank could easily fund itself with cheaper sources rather than international borrowing since the bank has tight connections with the important governmental and non-governmental organizations that would affect the decisions of many SME companies.

Profitability

- **Loan profitability.** Halkbank with a 62% interest income on loans to total interest income ratio would remain as a bank that originates profitability out of its core banking activities. We believe that the weight of loans in total interest income will increase whereas securities yield and weight declines. This is in line with the bank's management attitude indicating that the bank would concentrate on loan growth in the near future. Due to relatively slower growth in the 3Q09, net interest income generation of the bank would be lower than the 2Q09 aggregating to TRY 2.133 million. However, this situation would revise in the last quarter which we believe to be more profitable than 3Q09. As a result, 2009 net interest income of the bank would come at TRY 2,932 up by 36.7% yoy pioneering the bank to record TRY 1,508 million bottom-line figure with an increase of 48% yoy. Moreover, even though the bank managed to increase its net fee and commission income by almost 11.5% qoq, due to strong rise in total operating revenues, the share of net fee and commission in total income remained flat at 11.8%
- **Defending NIM at 5.0%-5.5%.** In 1H09, Halkbank managed to decrease its cost of deposits from 12.8% (2008) to 8.1% by a strong 470 bps decline whereas the yields on loans came down only by 250 bps to 16.1% since the last quarter of 2008. Thus, the bank's spread on loans has increased to 8% from 5.8% positively contributing to the interest margin while spread on its securities remained almost flat at 4.4%. We believe that as yields on securities declines through the end of the year and re-pricing in loans takes its effect, the net interest margin of the bank would decline to 5.5% at the end of 2009. On the other hand, strong deposit base and solid growth potential in the bank's loan book would defend its margins after 2009. Our NIM forecast for the bank is at 5.3% and 5.0% in 2010 and 2011, respectively.

Asset Quality

- **Slight increase of 10 bps in the NPL ratio to 5.1%.** Surprisingly as a bank with above average loan growth in a recessive and high unemployment environment, Halkbank managed to detain its NPL ratio at 5.1% slightly higher than the sector averages. The better than expected NPL ratio stems from unexpectedly lower NPL generation from the bank's SME segment and consumer loan segments with 4.3% and 2.5% NPL ratios, respectively. The management noted that since the bank is a state bank and has good connections with unions and chambers that affect the behavior of many SME companies, the bank managed to collect the loan defaults with minimum contribution of new non-performing loans achieved. Our NPL forecast for the year-end 2009 comes at 5.6% up by another 50 bps until the year end. (2010: 5.3%, 2011: 5.1%)

Growth Projections (2009E; year-on-year)

(i) Total Assets: +17.5% (ii) Total Loans: +20.9% (iii) Total Deposits: +7.4% (iv) Securities Portfolio: +19.2% (v) Shareholders' Equity: +30% (vi) Net Income: +48%

Strengths & Catalysts

(i) Strong potential in high yielding loan growth, (ii) strong deposit base as a main source (73.5%) of funding, (iii) strongest ROAE at 34%, (iv) courageous and far-sighted management allowing the bank to grow on core banking products, (v) new and differentiated products such as loans for police force officers and healthcare personnel, (vi) successful cost control measures, C/I at 31% (2009YE estimation: 32.2%) (vii) tight relations with governmental and non-governmental organizations, (viii) strong presence with at least one branch in every province (ix) lower cost-of-risk at 2.0%

Risks

(i) Relatively higher NPL ratio at 5.1% (2009YE: 5.6%) with further risks on the downside (ii) contracting NIM (iii) relatively lower mark-to-market gains (iv) lower CAR ratio than its commercial peers and sector's average (v) relatively lower net fees and commissions income

Our Recommendation

We have revised our 2009E bottom-line figure up by 9.5% to TRY 1,508 million from TRY 1,349 million. This revision on the back of declining COE led us to adjust our 2009 year-end target price to TRY 11.70 from TRY 9.60 maintaining our **"BUY"** recommendation for the bank and listing Halkbank as our Top-Pick. Our revised target price proves 24% upside potential with respect to current prices.

Table: Halkbank 2009 Quarterly Income Statement – TRY mn

Income Statement	1Q09	1H09	3Q09E	2009E
Interest Income	1,829.9	3,526.4	5,210.1	6,970.8
Interest Income on Loans	1,101.7	2,137.5	3,129.2	4,201.1
Interest Income on Placement at Banks	49.8	88.4	126.0	162.6
Interest Income on Security Portfolio	678.3	1,300.6	1,954.9	2,607.2
Trading	0.9	2.3	3.8	6.3
Available for Sale	116.7	267.0	440.1	611.8
Held to Maturity	560.7	1,031.2	1,510.9	1,989.1
Interest Expense	1,151.4	2,079.0	3,077.3	4,039.3
Interest Expense on Deposits	1,042.8	1,865.1	2,765.8	3,624.9
Interest Expense on Bank Liabilities	67.2	139.5	221.3	312.1
Interest Expense on Borrowing	24.2	42.1	54.2	64.1
Other Interest Expense	17.2	32.2	36.1	38.2
NET INTEREST INCOME (NII)	678.5	1,447.4	2,132.7	2,931.5
Net Fees and Commissions Income	102.2	216.2	349.4	484.1
Net Trading Gain/Loss	-6.4	4.1	4.1	28.1
Other Operating Income	90.9	164.0	213.2	277.2
Total Operating Income	869.1	1,842.3	2,710.1	3,731.7
Provision Cost for Loan Loss Receivables	147.1	292.9	386.2	590.8
Operating Expenses	271.6	565.3	791.5	1,187.2
Before Tax Profit	450.4	984.1	1,532.5	1,953.7
Provision For Taxes	85.5	196.7	349.3	445.4
NET PROFIT	364.9	787.4	1,183.1	1,508.3
Quarter Figure	364.9	422.5	395.7	325.2

Table: Halkbank 2009 Quarterly Balance Sheet – TRY mn

Balance Sheet	1Q09	1H09	3Q09E	2009E
Cash	201.9	221.1	223.7	230.5
Placement at Banks and Interbank MM	3,836.6	4,600.4	4,705.7	4,570.8
Security Portfolio	19,450.8	20,320.7	20,939.6	21,845.8
Trading	87.6	49.3	69.4	129.1
Available for Sale	3,487.5	4,101.1	4,327.6	4,640.6
Held to Maturity	15,875.7	16,170.3	16,542.6	17,076.1
Loans, Net	27,204.8	28,480.0	29,801.1	31,246.5
Non-Performing Loans	1,421.7	1,502.2	1,656.3	1,850.4
Provisioning for Non-Performing Loans	1,108.9	1,203.7	1,407.8	1,572.8
Participations	345.1	348.7	352.9	363.5
Fixed Assets	1,096.3	1,124.9	1,138.4	1,172.6
Other Non-IEA	428.6	574.2	581.1	598.6
TOTAL ASSETS	52,564.1	55,670.1	57,742.6	60,028.1
Deposits	39,783.2	40,940.2	41,983.6	43,245.4
Liabilities to Banks	3,309.1	4,924.5	5,471.3	5,981.8
Borrowing	1,956.1	1,835.9	1,775.6	1,736.6
Other Liabilities	2,841.7	3,087.7	3,268.0	3,489.2
Shareholder's Equity	4,674.1	4,881.8	5,244.1	5,575.1
TOTAL LIABILITIES AND EQUITY	52,564.1	55,670.1	57,742.6	60,028.1

(*) Including CBRT

Table: Halkbank Balance Sheet – TRY mn

Income Statement	2007A	2008A	2009E	2010E	2011E
Interest Income	5,708.2	6,792.9	6,970.8	7,283.7	9,279.3
Interest Income on Loans	2,650.2	3,773.5	4,201.1	4,538.1	5,958.4
Interest Income on Placement at Banks	246.0	243.6	162.6	152.8	220.7
Interest Income on Security Portfolio	2,812.0	2,775.8	2,607.2	2,592.9	3,100.2
Trading	79.9	51.0	6.3	23.7	53.6
Available for Sale	1,140.2	1,201.1	611.8	829.1	869.8
Held to Maturity	1,591.9	1,523.7	1,989.1	1,740.1	2,176.7
Interest Expense	3,955.9	4,666.7	4,039.3	4,003.0	5,645.0
Interest Expense on Deposits	3,696.5	4,333.8	3,624.9	3,590.4	5,030.2
Interest Expense on Bank Liabilities	160.5	224.2	312.1	368.5	487.5
Interest Expense on Borrowing	72.9	73.2	64.1	32.2	75.3
Other Interest Expense	26.1	35.4	38.2	11.9	52.1
NET INTEREST INCOME (NII)	1,752.3	2,126.2	2,931.5	3,280.7	3,634.3
Net Fees and Commissions Income	296.2	370.3	484.1	637.4	912.6
Net Trading Gain/Loss	-41.9	-193.6	28.1	29.8	-18.8
Other Operating Income	451.6	363.2	277.2	325.3	494.1
Total Operating Income	2,477.2	2,704.9	3,731.7	4,284.1	5,033.0
Provision Cost for Loan Loss Receivables	222.9	436.3	590.8	632.7	668.6
Operating Expenses	847.7	1,002.2	1,187.2	1,484.3	1,853.2
Before Tax Profit	1,406.6	1,266.4	1,953.7	2,167.0	2,511.2
Provision For Taxes	275.5	248.1	445.4	494.0	572.5
NET PROFIT	1,131.0	1,018.3	1,508.3	1,673.0	1,938.8

Table: Halkbank Balance Sheet Annual Forecasts – TRY mn

Balance Sheet	2007A	2008A	2009E	2010E	2011E
Cash	228.5	210.9	230.5	213.2	215.0
Placement at Banks and Interbank MM	4,453.3	4,916.7	4,570.8	4,648.7	4,328.6
Security Portfolio	15,944.6	18,333.5	21,845.8	24,238.2	26,232.6
Trading	480.2	114.8	129.1	428.4	731.7
Available for Sale	8,427.0	2,359.9	4,640.6	6,450.3	6,445.9
Held to Maturity	7,037.4	15,858.9	17,076.1	17,359.5	19,055.0
Loans, Net	18,121.1	25,836.3	31,246.5	38,190.6	49,173.8
Non-Performing Loans	1,032.7	1,251.4	1,850.4	2,133.3	2,632.5
Provisioning for Non-Performing Loans	1,018.9	1,037.8	1,572.8	1,813.3	2,237.6
Participations	347.9	325.7	363.5	383.4	404.4
Fixed Assets	748.7	1,060.6	1,172.6	1,237.1	1,305.1
Other Non-IEA	390.4	412.1	598.6	631.5	666.2
TOTAL ASSETS	40,234.5	51,095.9	60,028.1	69,542.7	82,325.9
Deposits	30,840.9	40,271.1	43,245.4	49,618.8	60,190.3
Liabilities to Banks	1,702.8	2,390.4	5,981.8	7,060.2	7,206.2
Borrowing	937.0	1,521.8	1,736.6	1,742.1	1,942.8
Other Liabilities	2,370.6	2,623.7	3,489.2	3,950.4	4,180.7
Shareholder's Equity	4,383.1	4,288.8	5,575.1	7,171.2	8,805.9
TOTAL LIABILITIES AND EQUITY	40,234.5	51,095.9	60,028.1	69,542.7	82,325.9

(*) Including CBRT

Table: Halkbank Key Ratios

Key Ratios	2007A	2008A	2009E	2010E	2011E
<i>Profitability Ratios</i>					
NIM	4.9%	4.8%	5.5%	5.3%	5.0%
ROAA 12-m	3.1%	2.2%	2.7%	2.6%	2.6%
ROAE 12-m	28.9%	23.8%	30.6%	26.3%	24.2%
Tangible ROAE 12-m	29.8%	24.9%	32.7%	27.7%	25.3%
EPS 12-m	0.90	0.81	1.21	1.34	1.55
Cost of Risk 12-m	1.4%	1.9%	2.0%	1.8%	1.5%
<i>Growth Ratios (Annualized)</i>					
Asset Growth	16.9%	27.0%	17.5%	15.9%	18.4%
Loan Growth	55.6%	42.6%	20.9%	22.2%	28.8%
Deposit Growth	13.4%	30.6%	7.4%	14.7%	21.3%
Securities Growth	-12.1%	15.0%	19.2%	11.0%	8.2%
Equity Growth	16.0%	-2.2%	30.0%	28.6%	22.8%
<i>Efficiency & Financial Strength Ratios</i>					
Interest Income on Loans / Total Interest Income	46.4%	55.5%	60.3%	62.3%	64.2%
Interest Income on Securities / Total Interest Income	49.3%	40.9%	37.4%	35.6%	33.4%
Net Banking Income / Total Operating Income	82.7%	92.3%	91.5%	91.5%	90.3%
Cost/Average Assets	3.1%	2.9%	2.9%	3.2%	3.7%
Net Fee Income / Total Assets, 12-m	0.8%	0.8%	0.9%	1.0%	1.2%
Net Fee Income / Total Income, 12-m	12.0%	13.7%	13.0%	14.9%	18.1%
OPEX/ Total Assets, 12-m	2.3%	2.2%	2.1%	2.3%	2.5%
Net Fee Income / OPEX, 12-m	34.9%	36.9%	40.8%	42.9%	49.2%
Cost / Income, 12-m	34.2%	37.1%	31.8%	34.6%	36.8%
CAR	20.3%	14.5%	15.4%	16.5%	16.1%
Free Capital to Assets	7.2%	4.5%	5.3%	6.6%	7.3%
Free Capital to Equity	65.8%	53.1%	56.7%	64.1%	68.5%
External Borrowing/Total Assets	2.3%	3.0%	2.9%	2.5%	2.4%
<i>Asset Composition & Breakdown</i>					
Interest Earning Assets/Assets	95.7%	96.1%	96.1%	96.5%	96.9%
Loans/Assets	45.0%	50.6%	52.1%	54.9%	59.7%
Deposits/Assets	76.7%	78.8%	72.0%	71.4%	73.1%
Securities/Assets	46.1%	37.9%	36.3%	35.0%	32.1%
Equity/Assets	10.9%	8.4%	9.3%	10.3%	10.7%
Loans/Deposits	58.8%	64.2%	72.3%	77.0%	81.7%
<i>Asset Quality</i>					
NPL	5.4%	4.7%	5.6%	5.3%	5.1%
NPL Provisioning	99%	83%	85%	85%	85%

Table: Halkbank Valuation Summary

Valuation Key Metrics (TRY mn, %)	2009E	2010E	2011E	2012E	2013E
Cost of Equity	14.6%	15.6%	15.6%	16.6%	16.6%
Earnings	1,508.3	1,673.0	1,938.8	2,093.9	2,230.0
Total Equity	4,288.8	5,575.1	7,171.2	8,805.9	9,510.4
(-) Participations	-325.7	-363.5	-383.4	-404.4	-424.7
Core Equity	3,963.1	5,211.6	6,787.8	8,401.5	9,085.7
RoAE	30.6%	26.3%	24.2%	23.0%	22.7%
Target P/BV	2.1	1.6			
Target P/E	7.8	7.1			
12-m Target Mcap (GGM)	15,123.8				
12-m Target Mcap (RIM)	14,156.5				
12-m Target Mcap (Blended)	14,640.1				
12-m Target Mcap USD mn (Blended)	10,106.4				
Number of Shares	1,250				
12-m Target Price TRY (Blended)	11.70				
Current Price	9.45				
Current Mcap, TRY	11,812.5				
Upside Potential	24%				

ISBANK

Company Report

BUY – TRY 7.60
Target Mcap: TRY 23,385 mn – USD 16,016 mn

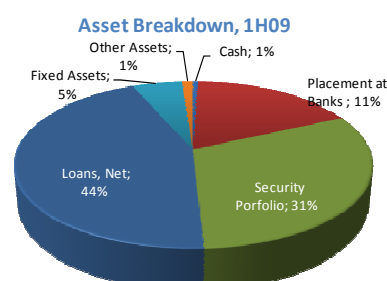
LAGGING DISCRETION

What Happened?

- Isbank reported a net profit of TRY 1,370 million in the first half of 2009, with an increase of 18.8% from the same period a year earlier, maintaining its leader position in terms of market shares in total assets and deposits market. On quarterly terms, the bottom-line figure came at TRY 765 million showing an increase of 27.8% yoy and 26.2% qoq. As a bank with strong deposit base, Isbank managed to increase its net interest income by 27% qoq on the back of declining funding costs. In contrast with the remaining of the sector, the bank increased its deposit base by 3.6% qoq and 23.6% yoy to TRY 66.5 billion. Sound trading gains and strong dividend income were amongst the other contributors to the better than expected bottom-line figure. In the first half of 2009, total assets of the bank grew by 5.6% qoq and 18.0% yoy to TRY 104.1 billion. Furthermore, Isbank reported the strongest ROE compared to its private peers, with its 1H09 tangible ROAE standing at 31.6%.

Financials

- Stagnating loan growth.** In 1H09, total loan book of the bank has declined by 1.1% to TRY 45.9 billion. Even though TRY loans were up by 3%, much of the contraction came from the 10% (2% when adjusted for exchange rate change) decline in the bank's FX loans. Just like its closest rivals, Isbank's management also pointed out the negative impact of Ramadan, delayed school openings and summer's seasonality effect on the 3Q09 loan growth. Thus, we believe that the loan book of the bank would remain almost flat in 2009 aggregating to TRY 47.7 billion with a growth of 0.3% yoy. However, as economic recovery finds its steam after 2009, we believe that the bank's loan growth would pick up gradually to 15.5% and 22.5% in 2010 and 2011, respectively. Moreover, with a loan to deposit ratio at 69.1%, the bank proves a great potential for future growth when compared to its peers. (2009YE: 69.8%)
- Strong deposit base.** As a bank with the largest deposit franchise among its private peers, Isbank managed to increase its deposit volume by a 3.6% qoq and 23.6% yoy to TRY 66.5 billion. As a bank with almost 14% market share in total deposits, Isbank has long been cited as a safe haven for Turkish depositors. It was quite clear that this attitude was not subject to any change even in an environment of jaded deposit customers who were reluctant to save. Thus, we believe that the bank's deposit base would grow by 7.7% yoy in 2009 to TRY 68.4 billion. We forecast that the bank would cop 12% and 18% deposit growth in 2010 and 2011, respectively.



SHAREHOLDER STRUCTURE

	%
Isbank Pension Fund	42%
Republican People's Party	28%

SNAPSHOTS	2008A	2009F
Net Earnings	1,509	2,391
Total Assets	97,552	108,161
ROE	15.6%	22%
P/BV	0.9	1.7
P/E	7.5	8.4

STOCK DATA

Reuters	ISCTR.IS
Bloomberg	ISCTR.TI
Average Daily Volume ('000)	155,841
Free Float (%)	33%
Current Mcap (TRY mn)	20,171
Current Mcap (USD mn)	13,886
Exchange Rate	1.45
Current Price	6.55
12M Target Price	7.60
No. of Shares in Issue	3,080
52-Week Range	2.69-6.55
Weight in ISE-100	6%
Beta (2 year, weekly return)	1.31

- **Securities portfolio managed successfully.** With a heavy securities portfolio of TRY 32.5 billion, Isbank holds most of its securities (76%) as Available for Sale. This decision helped the bank to record solid mark-to-market gains, but would be risky when anticipated interest rate reversion occurs. However, the bank has invested in fix rate and CPI-linked securities with average maturities at 0.72 years for TRY securities and 3.86 years for FX securities to overcome this negative effect. FX heavy securities portfolio would serve as a positive catalyst for the bank since it will face less interest rate pressure on security yields when compared to its TRY dominated peers. We believe that with a record expansion of 47% yoy, total securities portfolio of the bank would come at TRY 36.6 billion followed to be decreasing and replacing itself with core banking products i.e. Loans. Along with free provisions over TRY 900 million, Isbank holds the second largest amount of unrealized mark-to-market gains from TRY securities held under equity which would act as a cushion in volatile times .
- **100% roll-over rate.** We believe that there would be no problems in rolling out this year's securitization/syndication loans.

Profitability

- **Loan profitability.** With an ROE (tangible) of 31.6%, Isbank remains as one of the most profitable banks in terms of shareholders with its 1H09 bottom-line at TRY 1,370 million. We believe that, Isbank would remain as a high profitable bank on the back of improving margins, high commission and trading income and effective cost management though the "Super-Profits" period is considered to be over for the banking sector. Trading and dividend income on the other hand have contributed with nearly 44% to the earnings figure which are one-off and non-recurrent in nature. However, we believe Isbank would announce high dividend and trading income in the upcoming periods which would positively affect the bank's profitability. We estimate 3Q09 and 2009 year-end net profit to aggregate to TRY 1,895 million and TRY 2,391 million, respectively. On top of that, potential fee income from the bank's large ATM network following the consolidation, acts as another catalyst for the bank after 1H09. The earnings figure would be TRY 524 million and 497 million for 3Q09 and 4Q09.
- **Improving Margins.** Isbank maintained quite high margins in the second quarter up by almost 70 bps on the back of decreasing funding cost and increasing spreads. We believe that though the banking sector is subject to decreasing margins after 2009, a bank with solid growth in lending and strong deposit base would easily defend its NIM. That said, we believe that Isbank would maintain its NIM above 5.0% both in 2009 and 2010.

Asset Quality

- **NPL ratio remained flat at 5.1%.** Isbank announced lower NPL generation in consumer loans and credit cards compared to the sector. NPL ratio remained flat in the two consecutive quarters of 2009 caused naturally as the bank avoided active lending in the sector. We believe that this avoidance would replace itself with expansionary strategy resulting in a slightly higher NPL ratio. The moderate growth in NPL ratio is also in line with the argument that as economic conditions recover there would be fewer loans going default. Our year-end 2009 NPL ratio stands at 5.4% for Isbank.

Growth Projections (2009E; year-on-year)

(i) Total Assets: +10.9% (ii) Total Loans: +0.3% (iii) Total Deposits: +7.7% (iv) Securities Portfolio: +45.7% (v) Shareholders' Equity: +29.2 (vi) Net Income: +58%

Strengths & Catalysts

(i) Strong tangible ROAE at 30% (2009E), (ii) Strong deposit base as a market leader among private banks (iii) prudent management with respectable backgrounds (iv) widespread shareholder base (v) strong and nationwide presence in every province of the country (vi) high synergy (more felt on recent years) created through its subsidiaries and participants (vii) extensive ATM network (viii) high CAR at 17.4% (2009E) supporting future asset growth (ix) relatively lower loans-to-deposit ratio

Risks

(i) Relatively higher NPL ratio compared to its private peers (ii) considerable weight of one-off gains in the income statement (iii) 100% coverage curbing bottom-line growth (iv) slow NII growth and heavy FX securities.

Our Recommendation

We have revised our 2009E bottom-line figure with just a slight retouch of %1 to TRY 2,391 million from TRY 2,365 million. However, declining COE led us to adjust our 2009 year-end target price up by 8.5% to TRY 7.60 from TRY 7.60 maintaining our "BUY" recommendation for Isbank as another bank in our Top-Pick. Our revised target price proves 16% upside potential with respect to current prices.

Table: Isbank 2009 Quarterly Income Statement – TRY mn

Income Statement	1Q09	1H09	3Q09E	2009E
Interest Income	2,747.5	5,274.1	8,194.5	11,157.4
Interest Income on Loans	1,894.5	3,601.7	5,173.2	6,750.3
Interest Income on Placement at Banks	167.8	270.9	406.2	534.5
Interest Income on Security Portfolio	685.2	1,401.5	2,615.1	3,872.7
Trading	15.3	32.6	44.6	56.9
Available for Sale	519.9	1,018.9	1,948.4	2,915.9
Held to Maturity	150.0	350.0	622.1	899.9
Interest Expense	1,657.7	2,964.5	4,548.5	6,095.4
Interest Expense on Deposits	1,454.4	2,582.3	3,982.3	5,338.6
Interest Expense on Bank Liabilities	32.9	67.1	171.6	286.5
Interest Expense on Borrowing	161.7	303.1	379.9	454.2
Other Interest Expense	8.7	12.0	14.7	16.2
NET INTEREST INCOME (NII)	1,089.8	2,309.6	3,646.0	5,062.0
Net Fees and Commissions Income	290.8	608.9	939.0	1,571.7
Net Trading Gain/Loss	196.0	277.3	367.6	529.8
Other Operating Income	218.2	408.9	531.6	691.1
Total Operating Income	1,944.5	3,926.5	5,808.2	8,111.6
Provision Cost for Loan Loss Receivables	581.3	914.2	1,375.8	2,164.3
Operating Expenses	603.7	1,343.4	1,880.7	2,727.1
Before Tax Profit	759.5	1,668.9	2,551.7	3,220.2
Provision For Taxes	153.7	298.5	656.8	828.9
NET PROFIT	605.8	1,370.4	1,894.8	2,391.3
- Quarter Figure	605.8	764.6	524.4	496.5

Table: Isbank 2009 Quarterly Balance Sheet – TRY mn

Balance Sheet	1Q09	1H09	3Q09E	2009E
Cash	520.7	586.0	593.0	610.8
Placement at Banks and Interbank MM	17,942.0	18,215.5	16,920.6	16,030.8
Security Portfolio	27,570.7	32,468.6	35,076.0	36,653.9
Trading	572.9	555.3	572.0	584.9
Available for Sale	23,221.5	24,641.4	25,121.6	26,148.6
Held to Maturity	3,776.4	7,271.9	9,382.5	9,920.4
Loans, Net	46,445.1	45,935.1	46,337.0	47,737.6
Non-Performing Loans	2,488.7	2,477.4	2,596.1	2,715.3
Provisioning for Non-Performing Loans	2,488.7	2,477.4	2,596.1	2,715.3
Participations	3,113.7	3,732.0	3,758.3	3,824.8
Fixed Assets	1,949.1	1,944.8	1,968.1	2,027.1
Other Non-IEA	1,066.4	1,224.2	1,238.9	1,276.0
TOTAL ASSETS	98,607.7	104,106.2	105,891.9	108,161.0
Deposits	64,187.7	66,478.7	67,341.6	68,430.5
Liabilities to Banks	6,483.1	9,349.4	9,952.2	10,613.7
Borrowing	11,418.0	10,416.8	10,038.0	9,792.2
Other Liabilities	6,707.8	6,691.1	6,849.9	7,117.5
Shareholder's Equity	9,811.1	11,170.2	11,710.1	12,207.1
TOTAL LIABILITIES AND EQUITY	98,607.8	104,106.2	105,891.9	108,161.0

(*) including CBRT

Table: Isbank Annual Income Statement Forecasts – TRY mn

Income Statement	2007A	2008A	2009E	2010E	2011E
Interest Income	9,134.1	10,596.1	11,157.4	11,857.6	14,326.1
Interest Income on Loans	5,266.8	6,785.3	6,750.3	6,521.7	8,720.0
Interest Income on Placement at Banks	645.7	635.4	534.5	475.3	970.7
Interest Income on Security Portfolio	3,221.6	3,175.4	3,872.7	4,860.6	4,635.5
Trading	54.8	55.8	56.9	62.1	84.1
Available for Sale	3,077.9	2,614.8	2,915.9	3,873.7	3,855.9
Held to Maturity	88.9	504.8	899.9	924.8	695.5
Interest Expense	6,173.9	6,977.9	6,095.4	6,425.3	8,379.3
Interest Expense on Deposits	4,668.5	5,501.6	5,338.6	5,700.4	7,331.4
Interest Expense on Bank Liabilities	588.5	669.2	286.5	493.6	583.7
Interest Expense on Borrowing	887.3	768.7	454.2	223.2	430.7
Other Interest Expense	29.6	38.3	16.2	8.1	33.5
NET INTEREST INCOME (NII)	2,960.2	3,618.3	5,062.0	5,432.3	5,946.8
Net Fees and Commissions Income	1,074.5	1,204.2	1,571.7	1,873.1	2,121.2
Net Trading Gain/Loss	426.2	472.7	529.8	426.3	313.9
Other Operating Income	911.0	651.5	691.1	826.0	1,220.1
Total Operating Income	5,874.9	6,231.5	8,111.6	8,731.7	9,680.1
Provision Cost for Loan Loss Receivables	1,617.8	1,614.0	2,164.3	2,312.6	2,438.6
Operating Expenses	2,154.0	2,819.5	2,727.1	3,041.4	3,527.1
Before Tax Profit	2,103.1	1,798.0	3,220.2	3,377.7	3,714.3
Provision For Taxes	401.3	288.6	828.9	869.5	956.1
NET PROFIT	1,701.8	1,509.4	2,391.3	2,508.3	2,758.2

Table: Isbank Annual Balance Sheet Forecasts – TRY mn

Balance Sheet	2007A	2008A	2009E	2010E	2011E
Cash	502.8	593.3	610.8	550.2	554.8
Placement at Banks and Interbank MM	13,542.3	18,031.6	16,030.8	17,022.1	22,063.9
Security Portfolio	24,722.1	25,164.2	36,653.9	39,268.3	38,795.6
Trading	991.9	451.9	584.9	856.7	1,207.0
Available for Sale	21,774.8	21,250.5	26,148.6	29,959.3	30,602.6
Held to Maturity	1,955.4	3,461.9	9,920.4	8,452.3	6,986.0
Loans, Net	33,979.8	47,610.3	47,737.6	55,121.2	67,515.0
Non-Performing Loans	1,494.1	2,195.5	2,715.3	2,905.1	3,080.8
Provisioning for Non-Performing Loans	1,494.0	2,195.5	2,715.3	2,905.1	3,080.8
Participations	4,816.8	3,095.5	3,824.8	3,950.3	4,082.8
Fixed Assets	1,977.7	1,952.8	2,027.1	2,138.4	2,255.9
Other Non-IEA	639.4	1,104.1	1,276.0	1,346.2	1,420.3
TOTAL ASSETS	80,180.9	97,551.9	108,161.0	119,396.8	136,688.3
Deposits	48,533.1	63,539.2	68,430.5	76,685.9	90,378.9
Liabilities to Banks	5,802.8	7,006.8	10,613.7	11,493.4	11,444.5
Borrowing	9,962.9	11,033.2	9,792.2	9,939.2	11,322.2
Other Liabilities	5,278.3	6,523.7	7,117.5	7,653.7	8,077.4
Shareholder's Equity	10,603.9	9,449.0	12,207.1	13,624.6	15,465.3
TOTAL LIABILITIES AND EQUITY	80,180.9	97,551.9	108,161.0	119,396.8	136,688.3

(*) including CBRT

Table: Isbank Key Ratios

Key Ratios	2007A	2008A	2009E	2010E	2011E
<i>Profitability Ratios</i>					
NIM	4.2%	4.5%	5.3%	5.2%	5.0%
ROAA 12-m	2.2%	1.7%	2.3%	2.2%	2.2%
ROAE 12-m	16.8%	15.6%	22.0%	19.6%	19.1%
Tangible ROAE 12-m	23.1%	20.7%	29.0%	26.2%	25.7%
EPS	0.62	0.55	0.81	0.81	0.90
Cost of Risk (12m Trailing)	4.9%	3.7%	4.4%	4.3%	3.8%
<i>Growth Ratios (Annualized)</i>					
Asset Growth	6.6%	21.7%	10.9%	10.4%	14.5%
Loan Growth	14.0%	40.1%	0.3%	15.5%	22.5%
Deposit Growth	4.6%	30.9%	7.7%	12.1%	17.9%
Securities Growth	-6.2%	1.8%	45.7%	7.1%	-1.2%
Equity Growth	12.7%	-10.9%	29.2%	11.6%	13.5%
<i>Efficiency & Financial Strength Ratios</i>					
Interest Income on Loans / Total Interest Income	57.7%	64.0%	60.5%	55.0%	60.9%
Interest Income on Securities / Total Interest Income	35.3%	30.0%	34.7%	41.0%	32.4%
Net Banking Income / Total Operating Income	68.7%	77.4%	81.8%	83.7%	83.3%
Cost/Average Assets	4.3%	4.6%	3.8%	4.3%	4.4%
Net Fee Income / Total Assets, 12-m	1.4%	1.4%	1.5%	1.7%	1.7%
Net Fee Income / Total Income, 12-m	18.3%	19.3%	19.4%	21.5%	21.9%
OPEX/ Total Assets, 12-m	2.8%	3.2%	2.7%	2.7%	2.8%
Net Fee Income / OPEX, 12-m	49.9%	42.7%	57.6%	61.6%	60.1%
Cost / Income, 12-m	36.7%	45.2%	33.6%	34.8%	36.4%
CAR	20.5%	15.2%	17.4%	16.9%	15.9%
Free Capital to Assets	4.0%	3.4%	4.7%	5.2%	5.6%
Free Capital to Equity	29.9%	34.9%	41.6%	45.4%	49.8%
External Borrowing/Total Assets	12.4%	11.3%	9.1%	8.3%	8.3%
<i>Asset Composition & Break down</i>					
Interest Earning Assets/Assets	90.1%	93.1%	92.8%	93.3%	93.9%
Loans/Assets	42.4%	48.8%	44.1%	46.2%	49.4%
Deposits/Assets	60.5%	65.1%	63.3%	64.2%	66.1%
Securities/Assets	32.4%	26.5%	33.1%	33.6%	29.1%
Equity/Assets	13.2%	9.7%	11.3%	11.4%	11.3%
Loans/Deposits	70.0%	74.9%	69.8%	71.9%	74.7%
<i>Asset Quality</i>					
NPL	4.2%	4.4%	5.4%	5.0%	4.4%
NPL Provisioning	100%	100%	100%	100%	100%

Table: Isbank Valuation Summary

Valuation Key Metrics (TRY mn, %)	2009E	2010E	2011E	2012E	2013E
Cost of Equity	14.6%	15.6%	15.6%	16.6%	16.6%
Earnings	2,391.3	2,508.3	2,758.2	3,034.0	3,337.4
Total Equity	12,207.1	13,624.6	15,465.3	17,011.8	18,713.0
(-) Participations	-3,824.8	-3,950.3	-4,082.8	-4,491.1	-4,940.2
Core Equity	8,382.4	9,674.3	11,382.4	12,520.7	13,772.8
RoAE	22.1%	19.4%	19.0%	18.7%	18.7%
Target P/BV	1.7	1.5			
Target P/E	8.4	8.0			
12-m Target Mcap (GGM)	22,435.1				
12-m Target Mcap (RIM)	24,334.0				
12-m Target Mcap (Blended)	23,384.5				
12-m Target Mcap, USD mn (Blended)	16,015.7				
Number of Shares	3,080				
12-m Target Price, TRY (Blended)	7.60				
Current Price, TRY	6.55				
Current Mcap	20,171.4				
Upside Potential	16%				

TEB

Company Report

HOLD – TRY 2.30
Target Mcap: TRY 2,479– USD 1,694 mn

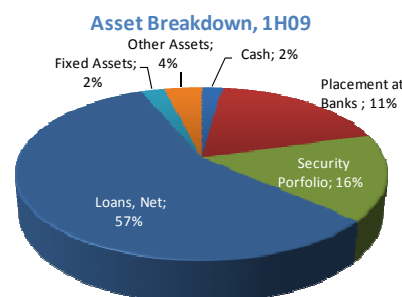
LAND AHOY! MERGER ON THE HORIZON...

What Happened?

- TEB announced its 1H09 bank-only financial statements with TRY 140 mn net income up by 14.1% yoy. On quarterly terms, the net earnings of the bank has decreased by 33.9% qoq to TRY 56 mn (in line with the overall consensus of TRY 55 mn), whereas the bottom-line figure proved an increase of 4.1% yoy. Even though the top-line has shown some positive growth with respect to the last quarter, the net trading income figures as a non-recurring item lost its stance since 1Q09. Highlights of the bank for the 1H09 can be summarized as; (i) high NIM due to decreasing funding costs in spite of the decline in the loan portfolio (ii) continuing cost-cut measures (iii) high CAR (iv) relatively better asset quality (v) moderately increasing fee and commission income (vi) sound securities income (vii) continuing high liquidity (viii) continued down-sizing in total loans and total deposits. Overall, the financial performance of the bank can be deemed as average since the Turkish banking sector, unlike its international peers, has seen some record profit announcements since 1Q09.

Financials

- Diminishing asset size.** TEB's asset size shrank by almost 10% qoq where much of the decline came from the conservative stance of the bank abstaining from being active on the lending market and the "let go" of its high cost deposits. We believe that after contracting slightly more to TRY 12,754 million in 3Q09, year-end 2009 total assets of the bank would come in at TRY 13,068 million with a decrease of 11.3% yoy. Our total asset estimates for 2010 and 2011 stand at TRY 15,327 million and TRY 18,641 million, respectively, with a CAGR of 15%.
- Picking up activity in the lending market.** Since 4Q08, in line with the market's general trend, TEB avoided being active in the lending market due to soaring risks and volatility in the economy. We believe that 2H09 would be a period of positive growth for the bank's loan book, and the year-end growth would be a mild decline of 5.8% yoy to TRY 8,009 million, transcending our previous estimation of 17.2% drop in total loans to TRY 7,044 million.
- Contracting deposit base.** TEB relinquished its high cost deposits with a strategy that resulted in a considerable NIM growth to 6%. The management noted that there might be yet another move to "let go" some of the remaining part of the high cost deposits (depending on the quantitative easing cycle) and/or the bank might switch to small ticket deposits to ensure positive growth in NIM. Our deposit base forecasts stand at TRY 7,874 million in 3Q09 down by 2.4% qoq and TRY 8,116 million for the year-end 2009 down by 12.5% yoy.



SHAREHOLDER STRUCTURE		%
TEB Financial Investments		85%

SNAPSHOTS	2008A	2009F
Net Earnings	208	243
Total Assets	14,736	13,068
ROE	14.4%	13.4%
P/BV	0.6	1.6
P/E	5.5	11.7

STOCK DATA

Reuters	TEBNK.IS
Bloomberg	TEBNK.TI
Average Daily Volume ('000)	9,112
Free Float (%)	15%
Current Mcap (TRY mn)	2,431
Current Mcap (USD mn)	1,674
Exchange Rate	1.45
Current Price	2.21
12M Target Price	2.30
No. of Shares in Issue	1,100
52-Week Range	0.54-2.25
Weight in ISE-100	6%
Beta (2 year, weekly return)	1.41

- **Liquidity Management.** TEB as a strategy holds roughly 15-16% of security portfolio in its assets and the management affirmed that this strategy would be kept even though decreasing interest rates help banks to record strong mark-to-market gains. On the other hand, though declining, TEB has a very high liquidity position (net cash position standing at 21% and liquid assets to deposit ratio at 35%) which is very unusual for a banking corporation and we believe that bank's conservatism on this issue is not subject to any change in the near future. Costly in their nature, a high net cash position can be regarded as inefficient, though from another point of view, it is a cautious stance and a cover for possible risks.
- **100% roll-over rate.** TEB has a USD 245 million of syndication due in 4Q09 and the management underlined that there might be no additions while the roll-over rate would be 100%. We believe even though syndication is still a quite hard task for a Tier-II type Turkish bank at the moment, 100% roll-over rate would be achievable given that the credit lines are better than 4Q08.
- **TEB-Fortis Merger.** TEB and Fortis Bank shareholders are on the verge to decide a possible merger with Fortis; the other Tier-II ISE listed BNP Paribas bank in Turkey. Though it has a dilution risk attached to it, this merger might give boost to TEB to reach the mass market and become a Tier-I competitor.

Profitability

- **Strong NIM standing at 6% and sound fee income generation.** TEB's unadjusted NIM improved by almost 50 bps on the back of widening TRY loan-deposits and securities spreads. Primary cause of increasing spreads was the abovementioned contraction in deposit accounts due to the bank's cost cut measures. Despite the lower volumes in hand, the bank managed to increase its 1H09 NII by 5% yoy. We believe that standing out developments in the bank's P&L would be; **(i)** slight contraction in the banks NIM, **(ii)** strong fee income generation, **(iii)** contraction in security portfolio gains, **(iv)** slight increase in OPEX. Our 2009 year-end net interest income estimation comes in at TRY 208 million with an increase of 27% yoy. On quarterly terms, the bottom-line figures would be TRY 39 million and TRY 30 million for 3Q09 and 4Q09, respectively.

Asset Quality

- **NPL ratio increased by denominator effect.** Total defaults of the bank detonated by 20% qoq in 2Q09 and NPL ratio jumped to 4.7% from 3.6% coupled with the denominator effect. The increase in the NPL ratio stems mainly from the SME and credit card loans. The management asserts that the current level of the NPL ratio can be maintained until the year end supported by a moderate loan growth in 2H09 and picking up economic activity. We agree with the management insights and forecast a 4.8% NPL ratio for the bank in 2009.

Growth Projections (2009E; year-on-year)

(i) Total Assets: -11.3% **(ii)** Total Loans: -5.8% **(iii)** Total Deposits: -12.5% **(iv)** Securities Portfolio: -2.0%
(v) Shareholders' Equity: +15.2 **(vi)** Net Income: +27%

Strengths & Catalysts

(i) Strong CAR at 19% **(ii)** relatively better asset quality **(iii)** relatively higher NIM **(iv)** sound fee income generation **(v)** prudent management of securities portfolio **(vi)** strong possibility of a merger with Fortis Bank

Risks

(i) Unusually high liquidity ratio **(ii)** conservative banking approach **(iii)** shrinking loan and deposit base **(iv)** loss of market shares **(v)** relatively higher cost to income ratio at 58%

Our Recommendation

We have revised our 2009E bottom-line figure by a decrease of 15% to TRY 208 million from TRY 244 million. However, continuing depletion in the COE led us to adjust our 2009 year-end target price up by 13.8% to TRY 2.30 from TRY 1.95 maintaining our "**HOLD**" recommendation for the bank. Our revised target price proves 4% upside potential with respect to current prices.

Table: TEB 2009 Quarterly Income Statement – TRY mn

Income Statement - TRY mn	1Q09	1H09	3Q09E	2009E
Interest Income	494.7	898.8	1,247.6	1,600.6
Interest Income on Loans	378.2	690.3	960.6	1,235.2
Interest Income on Placement at Banks	38.9	60.2	75.6	90.5
Interest Income on Security Portfolio	77.6	148.3	211.4	274.9
Trading	2.6	5.2	7.5	9.8
Available for Sale	41.9	79.3	111.8	145.9
Held to Maturity	33.1	63.7	92.1	119.1
Interest Expense	313.1	527.1	701.4	864.0
Interest Expense on Deposits	204.2	351.4	500.1	638.2
Interest Expense on Bank Liabilities	6.7	16.1	25.7	36.3
Interest Expense on Borrowing	79.4	117.2	132.3	145.8
Other Interest Expense	22.9	42.4	43.3	43.7
NET INTEREST INCOME (NII)	181.6	371.7	546.2	736.6
Net Fees and Commissions Income	59.0	120.1	161.7	220.2
Net Trading Gain/Loss	50.0	76.2	82.9	60.5
Other Operating Income	8.8	16.7	21.7	28.3
Total Operating Income	311.5	596.7	824.6	1,057.5
Provision Cost for Loan Loss Receivables	39.9	84.3	103.2	149.6
Operating Expenses	171.5	344.3	499.3	649.1
Before Tax Profit	100.1	168.0	222.0	258.9
Provision For Taxes	15.9	28.2	43.6	50.8
NET PROFIT	84.2	139.8	178.5	208.1
- Quarter Figure	84.2	55.6	38.7	29.6

Table: TEB 2009 Quarterly Balance Sheet – TRY mn

Balance Sheet - TRY mn	1Q09	1H09	3Q09E	2009E
Cash	260.0	287.2	290.6	299.3
Placement at Banks and Interbank MM*	3,313.8	2,379.7	1,926.2	1,866.7
Security Portfolio	2,328.3	2,049.7	1,989.1	2,042.4
Trading	183.5	92.0	107.8	110.4
Available for Sale	1,337.2	1,109.2	1,047.1	1,137.4
Held to Maturity	807.7	848.5	834.2	794.5
Loans, Net	7,701.0	7,370.8	7,719.1	8,009.4
Non-Performing Loans	293.6	351.0	394.7	397.2
Provisioning for Non-Performing Loans	152.5	197.5	230.9	234.4
Participations	153.9	153.9	155.8	160.4
Fixed Assets	169.2	161.1	163.0	167.9
Other Non-IEA	462.9	500.4	506.5	521.6
TOTAL ASSETS	14,389.2	12,902.7	12,750.2	13,067.8
Deposits	9,393.7	8,070.5	7,874.7	8,116.9
Liabilities to Banks	554.6	537.2	590.9	650.0
Borrowing	2,110.8	1,865.7	1,791.8	1,743.8
Other Liabilities	822.0	858.4	883.4	917.3
Shareholder's Equity	1,508.1	1,570.8	1,609.5	1,639.8
TOTAL LIABILITIES AND EQUITY	14,389.2	12,902.6	12,750.2	13,067.8

(*) Including CBRT

Table: TEB Income Statement Annual Forecasts – TRY mn

Income Statement - TRY mn	2007A	2008A	2009E	2010E	2011E
Interest Income	1,453.2	1,965.8	1,600.6	1,491.3	1,951.5
Interest Income on Loans	1,060.8	1,476.9	1,235.2	1,189.9	1,595.6
Interest Income on Placement at Banks	124.7	187.6	90.5	61.2	106.4
Interest Income on Security Portfolio	267.7	301.2	274.9	240.1	249.5
Trading	22.7	27.8	9.8	10.3	8.4
Available for Sale	244.9	239.2	145.9	173.9	241.1
Held to Maturity	0.0	34.3	119.1	56.0	0.0
Interest Expense	894.1	1,261.6	864.0	717.9	1,042.6
Interest Expense on Deposits	626.5	880.9	638.2	622.4	877.0
Interest Expense on Bank Liabilities	99.0	93.6	36.3	45.8	55.2
Interest Expense on Borrowing	167.5	244.5	145.8	46.8	94.1
Other Interest Expense	1.2	42.6	43.7	3.0	16.4
NET INTEREST INCOME (NII)	559.1	704.2	736.6	773.4	908.9
Net Fees and Commissions Income	107.4	191.5	220.2	285.6	322.2
Net Trading Gain/Loss	-21.9	28.9	60.5	75.9	42.7
Other Operating Income	35.5	83.3	28.3	32.3	49.1
Total Operating Income	694.8	1,027.2	1,057.5	1,179.2	1,335.0
Provision Cost for Loan Loss Receivables	68.3	128.9	149.6	160.8	170.4
Operating Expenses	460.6	701.0	649.1	715.8	790.2
Before Tax Profit	166.0	197.3	258.9	302.6	374.4
Provision For Taxes	35.7	33.1	50.8	59.4	73.5
NET PROFIT	130.3	164.2	208.1	243.2	301.0

Table: TEB Balance Sheet Annual Forecasts – TRY mn

Balance Sheet - TRY mn	2007A	2008A	2009E	2010E	2011E
Cash	193.5	269.0	299.3	274.7	277.0
Placement at Banks and Interbank MM*	2,273.1	3,099.5	1,866.7	2,246.4	2,260.5
Security Portfolio	1,824.2	2,083.9	2,042.4	2,171.5	2,384.5
Trading	230.3	90.6	110.4	105.0	99.8
Available for Sale	1,594.0	1,195.4	1,137.4	1,866.0	2,284.7
Held to Maturity	0.0	797.8	794.5	200.5	0.0
Loans, Net	6,864.4	8,504.8	8,009.4	9,737.7	12,772.7
Non-Performing Loans	121.5	201.5	397.2	439.0	377.5
Provisioning for Non-Performing Loans	73.2	106.1	234.4	219.5	188.7
Participations	152.2	153.9	160.4	169.3	178.6
Fixed Assets	171.0	177.0	167.9	177.1	186.9
Other Non-IEA	322.5	448.0	521.6	550.3	580.6
TOTAL ASSETS	11,800.9	14,736.1	13,067.8	15,327.0	18,640.8
Deposits	7,083.0	9,271.7	8,116.9	9,697.6	12,183.5
Liabilities to Banks	904.3	201.7	650.0	766.8	751.4
Borrowing	1,990.4	2,939.7	1,743.8	1,809.9	2,074.8
Other Liabilities	912.9	899.3	917.3	1,142.6	1,461.5
Shareholder's Equity	910.3	1,423.6	1,639.8	1,910.1	2,169.6
TOTAL LIABILITIES AND EQUITY	11,800.9	14,736.1	13,067.8	15,327.0	18,640.8

Table: TEB Key Ratios

Key Ratios	2007A	2008A	2009E	2010E	2011E
<i>Profitability Ratios</i>					
NIM	6.0%	5.6%	5.9%	5.9%	5.8%
ROAA 12-m	1.3%	1.2%	1.5%	1.7%	1.8%
ROAE 12-m	19.4%	14.4%	13.4%	13.5%	14.8%
Tangible ROAE 12-m	22.1%	14.7%	14.1%	14.1%	15.5%
EPS	0.59	0.18	0.19	0.22	0.27
Cost of Risk (12m Trailing)	1.1%	1.6%	1.9%	1.8%	1.5%
<i>Growth Ratios (Annualized)</i>					
Asset Growth	42.5%	24.9%	-11.3%	17.3%	21.6%
Loan Growth	38.6%	23.9%	-5.8%	21.6%	31.2%
Deposit Growth	30.5%	30.9%	-12.5%	19.5%	25.6%
Securities Growth	11.6%	14.2%	-2.0%	6.3%	9.8%
Equity Growth	63.2%	56.4%	15.2%	16.5%	13.6%
<i>Efficiency & Financial Strength Ratios</i>					
Interest Income on Loans / Total Interest Income	73.0%	75.1%	77.2%	79.8%	81.8%
Interest Income on Securities / Total Interest Income	18.4%	15.3%	17.2%	16.1%	12.8%
Net Banking Income / Total Operating Income	95.9%	87.2%	90.5%	89.8%	92.2%
Cost/Average Assets	5.9%	6.7%	6.5%	7.5%	6.9%
Net Fee Income / Total Assets, 12-m	1.1%	1.4%	1.6%	2.0%	1.9%
Net Fee Income / Total Income, 12-m	15.5%	18.6%	20.8%	24.2%	24.1%
OPEX/ Total Assets, 12-m	4.6%	5.2%	4.8%	5.1%	4.7%
Net Fee Income / OPEX, 12-m	23.3%	27.3%	33.9%	39.9%	40.8%
Cost / Income, 12-m	66.3%	68.2%	61.4%	60.7%	59.2%
CAR	14.9%	17.7%	18.8%	17.9%	15.6%
Free Capital to Assets	1.8%	3.7%	4.8%	5.2%	5.6%
Free Capital to Equity	23.8%	38.6%	38.2%	41.6%	47.7%
External Borrowing/Total Assets	16.9%	19.9%	13.3%	11.8%	11.1%
<i>Asset Composition & Breakdown</i>					
Interest Earning Assets/Assets	92.9%	92.9%	91.2%	92.4%	93.4%
Loans/Assets	58.2%	57.7%	61.3%	63.5%	68.5%
Deposits/Assets	60.0%	62.9%	62.1%	63.3%	65.4%
Securities/Assets	13.9%	12.1%	15.6%	14.3%	13.0%
Equity/Assets	7.7%	9.7%	12.5%	12.5%	11.6%
Loans/Deposits	96.9%	91.7%	98.7%	100.4%	104.8%
<i>Asset Quality</i>					
NPL	1.8%	2.3%	4.8%	4.4%	2.9%
NPL Provisioning	60%	53%	59%	50%	50%

Table: TEB Valuation Summary

Valuation Key Metrics (TRY mn, %)	2009E	2010E	2011E	2012E	2013E
Cost of Equity	15.0%	16.0%	16.0%	17.0%	17.0%
Earnings	208.1	243.2	301.0	328.0	357.6
Total Equity	1,639.8	1,910.1	2,169.6	2,343.2	2,530.6
(-) Participations	-160.4	-169.3	-178.6	-187.5	-196.9
Core Equity	1,479.3	1,740.8	1,991.0	2,155.7	2,333.7
RoAE	13.4%	15.5%	12.4%	15.8%	15.9%
Target P/BV	1.6	1.4			
Target P/E	11.7	10.0			
12-m Target Mcap TRY (GGM)	2,378.6				
12-m Target Mcap TRY (RIM)	2,580.1				
12-m Target Mcap TRY (Blended)	2,479.4				
12-m Target Mcap USD (Blended)	1,693.6				
Number of Shares	1,100				
12-m Target Price TRY (Blended)	2.30				
Current Price	2.21				
Current Mcap, TRY	2,431.0				
Upside Potential	4%				

CASE STUDY: TEB-FORTIS MERGER

Expectations following the merger

- **Total assets** of the merger would be **TRY 25,753 million**.
- **Total loan book** and **deposit base** would come in at **TRY 16,161 million** and **TRY 13,694 million** respectively.
- The aggregate bottom-line figure can be expected between **TRY 800 – 900 million**.

Income Statement	2009/12	2010/12	2011/12
Interest Income	3,118.6	2,770.8	3,389.5
Interest Expense	1,632.3	1,265.4	1,863.2
NET INTEREST INCOME (NII)	1,486.3	1,505.4	1,526.3
Net Fees and Commissions Income	273.2	310.2	345.7
Net Trading Gain/Loss	114.7	112.6	113.6
Other Operating Income	28.3	32.3	49.1
Total Operating Income	1,914.4	1,972.5	2,046.8
Provision Cost for Loan Loss Receivables	149.2	160.2	169.6
Operating Expenses	627.5	736.4	795.1
Before Tax Profit	1,137.7	1,075.9	1,082.1
Provision For Taxes	227.5	215.2	216.4
NET PROFIT	910.1	860.7	865.7

Pros and cons of the merger between TEB and Fortis

- Re-gaining and increasing market shares through inorganic growth
- Transfer into upper league of Tier-I banks
- Moderate downsizing in costs, benefiting from the economies of scale.
- Slight falls in revenues of 2010 and 2011 due to additional investments and elimination of multiple accounts, branches (opening new ones), personnel etc.

Balance Sheet	2009/12	2010/12	2011/12
Cash	432.6	395.7	399.0
Placement at Banks and Interbank MM	2,667.5	2,608.8	3,575.0
Security Portfolio	4,537.2	5,045.6	4,982.8
Loans, Net	14,062.3	16,160.8	20,148.9
Non-Performing Loans	900.3	788.7	674.4
Provisioning for Non-Performing Loans	558.2	457.5	370.9
Participations	329.1	347.2	366.3
Fixed Assets	372.5	393.0	414.6
Other Non-IEA	760.0	801.8	845.9
TOTAL ASSETS	23,161.3	25,753.0	30,732.6
Deposits	12,261.2	13,694.6	17,652.3
Liabilities to Banks	956.9	1,095.8	1,084.5
Borrowing	4,246.9	4,395.6	5,003.7
Other Liabilities	1,951.3	2,351.2	2,909.3
Shareholder's Equity	3,745.0	4,215.9	4,082.8
TOTAL LIABILITIES AND EQUITY	23,161.3	25,753.0	30,732.6

- More resources for mass marketing.
- Widening customer choices.

- Increased competition.
- Possibility of losing passive customers who are disrupted by the changing systems and/or dislocated branches.
- Possibility of reduced job security, increased workloads, anxiety and stress among employees.
- We see no major cultural merger risks due to congruent nature of the two banks.

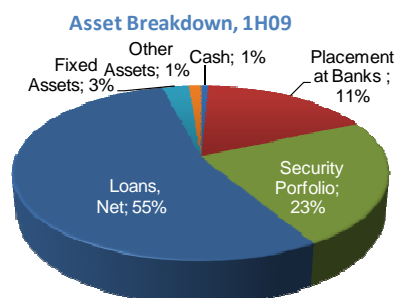
Key Ratios		2009/12	2010/12	2011/12
<i>Profitability Ratios</i>				
NIM		n/a	6.7%	5.8%
ROAA 12-m		n/a	3.5%	3.1%
ROAE 12-m		n/a	20.6%	19.6%
Tangible ROAE 12-m		n/a	22.1%	21.0%
EPS		n/a	0.40	0.40
Trailing EPS		n/a	0.40	0.40
Cost of Risk (12m Trailing)		n/a	1.0%	0.9%
<i>Growth Ratios (Annualized)</i>				
Asset Growth		-13.1%	11.2%	19.3%
Loan Growth		-10.7%	14.9%	24.7%
Deposit Growth		-16.8%	11.7%	28.9%
Securities Growth		-0.9%	11.2%	-1.2%
Equity Growth		16.0%	12.6%	-3.2%
<i>Asset Composition & Breakdown</i>				
Interest Earning Assets/Assets		91.8%	92.5%	93.4%
Loans/Assets		60.7%	62.8%	65.6%
Deposits/Assets		52.9%	53.2%	57.4%
Securities/Assets		19.7%	19.5%	16.8%
Equity/Assets		16.2%	16.4%	13.3%
Loans/Deposits		114.7%	118.0%	114.1%
<i>Asset Quality</i>				
NPL		6.2%	4.7%	3.3%
NPL Provisioning		62%	58%	55%

VAKIFBANK**Company Report****BUY – TRY 5.00****Target Mcap: TRY 12,408 mn – USD 8,461 mn****STRONG ENOUGH...****What Happened?**

- Vakifbank reported a net profit of TRY 595 million in the first half of 2009, with an increase of 25.9% from the same period a year earlier. On quarterly terms, the bottom-line figure came in at TRY 300.8 million showing an increase of 27.8% yoy and 26.2% qoq. The bank's net interest income of the bank went up by 61.3% in 1H09 yoy on the back of decreasing funding costs allowing the bank to elevate its interest income coverage ratio to %186 from %146 with respect to the same period a year earlier. Even though the top-line and the bottom-line growth of the bank had been noteworthy, one-off trading gains and fee income couldn't prove satisfying results. Since the bank's fee and commission income is quite dependent on the bank's loan growth and volumes, it came down by 5% yoy in the first half. Highlights of the bank can be summarized as: (i) high NIM due to diminishing funding costs (ii) relatively better top-line generation (iii) relatively lower fee and trading income (iv) strong growth in securities portfolio (v) relatively higher growth in loans and deposits

Financials

- Promising growth pattern in loans and deposits.** Vakifbank's asset size in 1H09 grew by 5.0% qoq and 21.5% yoy to TRY 58,987 million from TRY 48,530 million in 1H08. The positive growth figure of the bank's total assets stems from the potent growth of its loan book by 13.6% yoy to TRY 32,167 million and deposit base by 21.1% yoy to TRY 42,098 million. We believe that the bank would keep its growth pace throughout the year and maintain 13% and 17% yoy growth figures in loans and deposits, respectively. Our total asset estimation for the bank comes in at TRY 60,559 million suggesting an increase of 16% yoy outpacing the expectations of its private peers (2010YE: +29.6%, 2011YE: +30%). On the other hand, a relatively lower TRY loan-to-deposits ratio at almost 70% also supports the bank's visible growth appetite and our high growth projections for the bank.
- Strong growth in securities portfolio likely to benefit bottom-line.** Vakifbank managed to increase its securities portfolio up by 20% YtD and at the same time augmenting its share in total assets to 23.3% from 22.0%. The bank holds most of its securities in Available for Sale portfolio though risky as soon as the decreasing interest environment reverses. However, strong securities portfolio of the bank would likely benefit its bottom-line as long as interest rates stay low at their current and anticipated levels. We have forecast that the bank's securities portfolio to wax by 27.5% in 2009 to TRY 14,662 million. Vakifbank is one of the few banks that has an estimated securities portfolio with a CAGR above 15% for three consecutive years.

**SHAREHOLDER STRUCTURE**

	%
State Charity Fund	75%

SNAPSHOTS	2008A	2009F
Net Earnings	753	1,1450
Total Assets	52,193	60,559
ROE	14%	18%
P/BV	0.5	1.5
P/E	3.9	8.6

STOCK DATA

Reuters	VAKBN.IS
Bloomberg	VAKBN.TI
Average Daily Volume ('000)	58,445
Free Float (%)	25%
Current Mcap (TRY mn)	9,900
Current Mcap (USD mn)	6,815
Exchange Rate	1.45
Current Price	3.96
12M Target Price	5.00
No. of Shares in Issue	2,500
52-Week Range	1.04-4.02
Weight in ISE-100	6%
Beta (2 year, weekly return)	1.38

Profitability

- **Solid top-line generation.** With a dignified ROE at 20%, Vakifbank announced one of the most surprising top-line and bottom-line figures for the 1H09. Net interest income of the bank came in at TRY 1,531 million indicating an increase of a handsome 61.3% yoy. On the other hand, Vakifbank benefited less from one-off trading gains when compared to its peers. This puts Vakifbank in a position of a bank that creates strong top-line generation with core banking activities only, which we believe would be the case after 2009. Thus, we anticipate that the bank would continue its profitability in the upcoming periods and forecast year-end 2009 bottom-line figure as TRY 1,150 million proving an increase of 53%, the highest rate among the Turkish banks. (2010YE: TRY 1,369 million, 2011YE: TRY 1,828 million)
- **Improving Margins.** Good old story of improving margins has also been the case for Vakifbank and as the interest rates bottom out through 2010, we believe that margins of the bank would like to be squeezed. However, as a bank with strong deposit base and a solid balance sheet growth, we believe that the bank would manage to defend its margins in the near future. Thus, our NIM forecast of the bank for 2009 and 2010 stands at 5.4% and 5.2%, respectively.

Asset Quality

- **NPLs remain slightly above the sector's average.** When compared to the sector, Vakifbank announced a slightly higher NPL ratio at 5.5% with an increase of 27% YtD proving an increase slightly below the sector's average. Thus, we believe that the bank's NPL generation would slow down after 1H09 and likely come to a halt at 5.9% which is our year-end 2009 NPL expectation for the bank. Provisioning of the bank currently stands at 90% which can be deemed as a conservative and high provisioning ratio.

Growth Projections (2009E; year-on-year)

- **(i)** Total Assets: +16.0% **(ii)** Total Loans: +12.9% **(iii)** Total Deposits: +16.7% **(iv)** Securities Portfolio: +27.5% **(v)** Shareholders' Equity: +27.5% **(vi)** Net Income: +53%

Strengths & Catalysts

(i) Low TRY loan-to-deposits ratio connoting healthy future balance sheet growth **(ii)** lower duration mismatch of the securities portfolio **(iii)** visible growth appetite of the management **(iv)** improving retail banking activities **(v)** lower dependence on one-off trading gains **(vi)** strong weight of deposits in total liabilities

Risks

(i) Relatively lower fee and commissions income generation dependent on lending activity **(ii)** relatively lower CAR **(iii)** relatively higher NPL ratio **(iv)** relatively higher cost to income ratio when compared to the top-3

Our Recommendation

We have forecasted 2009E bottom-line figure as TRY 1,150 million. Declining COE pioneered a 2009 year-end target price of TRY 4.80 meaning a **"BUY"** recommendation for the Vakifbank replacing it as another bank in our Top-Pick. Our target price proves 26% upside potential with respect to current prices.

Table: Vakifbank 2009 Quarterly Income Statement – TRY mn

Income Statement	1Q09	1H09	3Q09E	2009E
Interest Income	1,710.4	3,304.6	4,823.8	6,537.5
Interest Income on Loans	1,181.9	2,310.8	3,409.4	4,633.6
Interest Income on Placement at Banks	87.9	133.6	179.4	230.4
Interest Income on Security Portfolio	440.6	860.2	1,235.1	1,673.5
Trading	0.3	1.7	2.2	3.0
Available for Sale	318.1	621.7	887.5	1,198.4
Held to Maturity	122.2	236.9	345.3	472.1
Interest Expense	938.1	1,773.7	2,736.1	3,608.2
Interest Expense on Deposits	824.6	1,563.8	2,377.5	3,120.3
Interest Expense on Bank Liabilities	51.8	96.2	155.9	212.1
Interest Expense on Borrowing	55.9	94.6	182.4	255.0
Other Interest Expense	5.8	19.1	20.3	20.8
NET INTEREST INCOME (NII)	772.3	1,530.9	2,087.7	2,929.3
Net Fees and Commissions Income	100.7	218.8	415.3	569.5
Net Trading Gain/Loss	37.6	62.1	138.3	141.1
Other Operating Income	35.0	85.6	107.1	139.2
Total Operating Income	956.8	1,921.7	2,773.0	3,804.3
Provision Cost for Loan Loss Receivables	186.7	444.5	533.2	730.9
Operating Expenses	402.4	752.3	1,128.5	1,636.3
Before Tax Profit	367.7	724.8	1,111.4	1,437.1
Provision For Taxes	73.2	129.8	222.3	287.4
NET PROFIT	294.5	595.0	889.1	1,149.7
- Quarter Figures	294.5	300.6	294.1	260.6

Table: Vakifbank Income 2009 Quarterly Balance Sheet – TRY mn

Balance Sheet	1Q09	1H09	3Q09E	2009E
Cash	437.1	471.7	477.3	491.6
Placement at Banks and Interbank MM*	9,173.9	10,231.1	9,165.2	8,498.5
Security Portfolio	12,885.9	13,755.5	13,919.3	14,662.3
Trading	51.5	42.8	56.4	74.9
Available for Sale	8,912.0	9,719.0	9,847.3	10,360.3
Held to Maturity	3,922.4	3,993.6	4,015.7	4,227.0
Loans, Net	31,395.2	32,167.1	33,210.5	34,448.4
Non-Performing Loans	1,711.0	1,849.6	1,952.8	2,147.8
Provisioning for Non-Performing Loans	1,464.7	1,670.0	1,757.5	1,933.0
Participations	522.6	594.9	601.2	617.1
Fixed Assets	1,015.1	1,065.7	1,078.4	1,110.8
Other Non-IEA	760.8	700.8	709.3	730.5
TOTAL ASSETS	56,190.7	58,986.7	59,161.2	60,559.2
Deposits	39,505.9	42,097.7	42,290.3	43,329.6
Liabilities to Banks	2,464.9	2,564.7	2,624.7	2,725.1
Borrowing	6,178.3	5,698.1	5,580.4	5,521.8
Other Liabilities	2,034.9	2,181.1	2,199.6	2,255.9
Shareholder's Equity	6,006.7	6,445.1	6,466.2	6,726.8
TOTAL LIABILITIES AND EQUITY	56,190.7	58,986.7	59,161.2	60,559.2

(*) Including CBRT

Table: Vakifbank Balance Sheet Annual Forecast – TRY mn

Income Statement	2007A	2008A	2009E	2010E	2011E
Interest Income	5,352.5	6,413.7	6,537.5	7,066.9	8,897.3
Interest Income on Loans	3,255.9	4,345.6	4,633.6	5,344.3	7,360.8
Interest Income on Placement at Banks	531.0	372.2	230.4	158.5	185.2
Interest Income on Security Portfolio	1,565.6	1,695.8	1,673.5	1,564.2	1,351.3
Trading	37.3	22.6	3.0	5.0	12.5
Available for Sale	1,418.2	1,316.3	1,198.4	1,052.5	838.9
Held to Maturity	110.1	356.9	472.1	506.7	499.9
Interest Expense	3,676.6	4,439.0	3,608.2	3,826.5	5,089.4
Interest Expense on Deposits	3,241.0	3,906.9	3,120.3	3,255.6	4,334.3
Interest Expense on Bank Liabilities	162.9	227.6	212.1	262.9	350.5
Interest Expense on Borrowing	255.3	232.1	255.0	305.5	395.2
Other Interest Expense	17.4	72.4	20.8	2.5	9.4
NET INTEREST INCOME (NII)	1,675.8	1,974.7	2,929.3	3,240.5	3,807.9
Net Fees and Commissions Income	360.5	466.2	569.5	694.6	845.8
Net Trading Gain/Loss	193.3	89.7	141.1	90.5	105.6
Other Operating Income	356.7	312.7	139.2	205.1	243.2
Total Operating Income	2,621.1	2,868.8	3,804.3	4,257.3	5,030.5
Provision Cost for Loan Loss Receivables	368.4	624.3	730.9	657.6	556.5
Operating Expenses	994.6	1,319.2	1,636.3	1,895.9	2,196.3
Before Tax Profit	1,258.1	925.3	1,437.1	1,703.8	2,277.7
Provision For Taxes	227.4	172.1	287.4	340.8	455.5
NET PROFIT	1,030.7	753.2	1,149.7	1,363.0	1,822.2

Table: Vakifbank Balance Sheet Annual Forecasts – TRY mn

Balance Sheet	2007A	2008A	2009E	2010E	2011E
Cash	420.5	439.6	491.6	461.6	465.5
Placement at Banks and Interbank MM*	5,531.8	7,423.8	8,498.5	6,036.2	6,155.2
Security Portfolio	10,986.7	11,500.0	14,662.3	16,824.5	18,204.3
Trading	350.0	47.0	74.9	262.8	671.5
Available for Sale	9,160.3	7,981.6	10,360.3	11,199.1	12,855.0
Held to Maturity	1,476.4	3,471.3	4,227.0	5,362.6	4,677.7
Loans, Net	23,470.0	30,502.3	34,448.4	44,586.0	58,002.6
Non-Performing Loans	1,142.9	1,455.8	2,147.8	2,413.4	2,549.9
Provisioning for Non-Performing Loans	1,142.9	1,370.7	1,933.0	2,172.1	2,295.0
Participations	520.8	539.4	617.1	647.3	679.0
Fixed Assets	1,429.0	1,015.4	1,110.8	1,171.8	1,236.3
Other Non-IEA	49.7	772.9	730.5	770.7	813.1
TOTAL ASSETS	42,408.5	52,193.5	60,559.2	70,498.1	85,556.1
Deposits	28,862.5	37,120.3	43,329.6	50,301.9	61,576.7
Liabilities to Banks	2,076.1	1,687.1	2,725.1	3,577.3	4,387.8
Borrowing	4,692.9	5,770.4	5,521.8	6,326.9	7,793.3
Other Liabilities	1,550.7	1,944.7	2,255.9	2,373.0	2,496.3
Shareholder's Equity	5,226.3	5,671.0	6,726.8	7,919.0	9,301.9
TOTAL LIABILITIES AND EQUITY	42,408.5	52,193.5	60,559.2	70,498.1	85,556.1

(*) Including CBRT

Table: Vakifbank Key Ratios

Key Ratios	2007A	2008A	2009E	2010E	2011E
<i>Profitability Ratios</i>					
NIM	4.5%	4.4%	5.4%	5.2%	5.1%
ROAA 12-m	2.6%	1.6%	2.0%	2.1%	2.3%
ROAE 12-m	21.9%	14.1%	18.4%	18.7%	21.3%
Tangible ROAE 12-m	23.5%	15.1%	19.8%	20.1%	22.7%
EPS	0.41	0.30	0.46	0.55	0.73
Cost of Risk (12m Trailing)	1.8%	2.2%	2.2%	1.6%	1.0%
<i>Growth Ratios (Annualized)</i>					
Asset Growth	14.5%	23.1%	16.0%	16.4%	21.4%
Loan Growth	30.1%	30.0%	12.9%	29.4%	30.1%
Deposit Growth	16.2%	28.6%	16.7%	16.1%	22.4%
Securities Growth	5.3%	4.7%	27.5%	14.7%	8.2%
Equity Growth	16.5%	8.5%	18.6%	17.7%	17.5%
<i>Efficiency & Financial Strength Ratios</i>					
Interest Income on Loans / Total Interest Income	60.8%	67.8%	70.9%	75.6%	82.7%
Interest Income on Securities / Total Interest Income	29.2%	26.4%	25.6%	22.1%	15.2%
Net Banking Income / Total Operating Income	77.7%	85.1%	92.0%	92.4%	92.5%
Cost/Average Assets	3.3%	3.7%	3.8%	3.9%	3.9%
Net Fee Income / Total Assets, 12-m	0.9%	1.0%	1.0%	1.1%	1.1%
Net Fee Income / Total Income, 12-m	13.8%	16.3%	15.0%	16.3%	16.8%
OPEX/ Total Assets, 12-m	2.5%	2.8%	2.8%	2.9%	2.8%
Net Fee Income / OPEX, 12-m	36.2%	35.3%	34.8%	36.6%	38.5%
Cost / Income, 12-m	37.9%	46.0%	43.0%	44.5%	43.7%
CAR	15.3%	14.3%	14.5%	13.6%	12.6%
Free Capital to Assets	7.6%	6.2%	6.7%	7.2%	7.4%
Free Capital to Equity	61.7%	57.5%	60.3%	64.2%	67.9%
External Borrowing/Total Assets	11.1%	11.1%	9.1%	9.0%	9.1%
<i>Asset Composition & Breakdown</i>					
Interest Earning Assets/Assets	94.3%	94.7%	95.1%	95.7%	96.3%
Loans/Assets	55.3%	58.4%	56.9%	63.2%	67.8%
Deposits/Assets	68.1%	71.1%	71.5%	71.4%	72.0%
Securities/Assets	28.6%	22.5%	23.5%	24.2%	22.1%
Equity/Assets	12.3%	10.9%	11.1%	11.2%	10.9%
Loans/Deposits	81.3%	82.2%	79.5%	88.6%	94.2%
<i>Asset Quality</i>					
NPL	4.6%	4.6%	5.9%	5.2%	4.2%
NPL Provisioning	100%	94%	90%	90%	90%

Table: Vakifbank Valuation Summary

Valuation Key Metrics (TRY mn, %)	2009E	2010E	2011E	2012E	2013E
Cost of Equity	14.9%	15.9%	15.9%	16.9%	16.9%
Earnings	1,149.7	1,363.0	1,822.2	1,931.5	2,047.4
Total Equity	6,726.8	7,919.0	9,301.8	9,766.9	10,255.3
(-) Participations	-617.1	-647.3	-679.0	-719.8	-763.0
Core Equity	6,109.7	7,271.7	8,622.8	9,047.1	9,492.3
RoAE	18.4%	18.7%	21.3%	21.9%	22.1%
Target P/BV	1.5	1.3			
Target P/E	8.6	7.3			
12-m Target Mcap TRY (GGM)	11,982.4				
12-m Target Mcap TRY (RIM)	12,832.5				
12-m Target Mcap TRY (Blended)	12,407.5				
12-m Target Mcap USD (Blended)	8,461.2				
Number of Shares	2,500				
12-m Target Price TRY (Blended)	5.00				
Current Price	3.96				
Current Mcap, TRY	9,900.0				
Upside Potential	26%				

YAPI KREDİ BANK

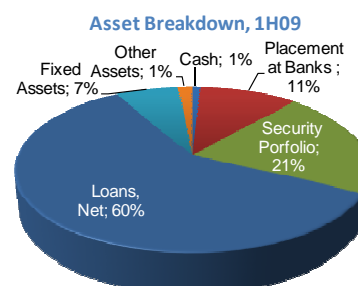
Company Report

HOLD – TRY 3,80
Target Mcap: TRY 16,383 mn – USD 11,172 mn

LEADER IN CREDIT CARDS BUT...

What Happened?

- Yapi Kredi Bank reported a net profit of TRY 924 million in the first half of 2009, with an increase of 28.4% from the same period a year earlier. On quarterly terms, the bottom-line figure came at TRY 431 million showing an increase of 94.5% yoy although it was down by 12.7% qoq. As a bank with strong fee and trading income, Yapi Kredi managed to increase its net interest income by 40% yoy. On the other hand, total assets of the bank shrank by 3.3% qoq to TRY 63,240 million where much of the decline stemmed from the 5% decrease in the bank's total deposit base. On annual terms, the bank increased its Trading Security Portfolio and curtailed its Available for Sale and Held to Maturity Portfolio both by 5% in 1H09. Loan to deposit ratio of the bank came in at 90.7% in 1H09, a ratio that is relatively higher than its peers. With an effective cost cutting measures, the bank announced one of the lowest cost-to-income ratio at 40%. In terms of branch networking, Yapi Kredi places itself as the 4th largest bank in Turkey with 844 branches. The bank is also the leader in the credit card market with its famous trademark "World Card". Currently the bank's CAR stands at 17.1%.



SHAREHOLDER STRUCTURE	%
Koc Financial Services*	82%

* Jointly owned by Unicredit and Koc Group

SNAPSHOTS	2008A	2009F
Net Earnings	1,043	1,512
Total Assets	63,723	64,337
ROE	18%	21%
P/BV	1.3	1.8
P/E	8.8	10.0

Financials

- Bottoming-out loan book.** Total loan book of the bank shrank by 3.4% in 1H09 to TRY 37,707 million as the bank downsized its loan book aiming to cool down the vast expansion of its default rates. Along with the sluggish demand for borrowing and bank's truncated appetite for lending in 3Q09, we believe that the bank's total loan book would continue to go down further to TRY 36,287 million by another 3.8% than bottoming-out thereafter. We forecast that the bank's loan book would come in at TRY 36,698 million down by 5.3% yoy. Loan to deposit ratio at the year-end 2009 would position itself at 90.7% meaning a tighter space to grow with respect to its peers causing the bank to be more aggressive on its funding pursuit.
- Final curtain in the contracting deposit base.** The bank's deposit volume contracted by 5.1% qoq to TRY 39,522 million on the back of diminishing liquidity pressures, alternating investment choices of the Turkish investors and disposition of the bank's high cost deposits. We believe that with its relatively higher loan to deposit ratio, the bank needs additional funding so that Yapi Kredi would be more aggressive in attracting deposit funding in the upcoming periods. After a slight decrease of the bank's deposit base by 0.1% in 3Q09, the year-end figure would come in at TRY 40,383 million down by 3.2% yoy. The bank in recent periods strengthened its demand deposit base allowing the bank to boost its NIM.

STOCK DATA

Reuters	YKBNK.IS
Bloomberg	YKBNK.TI
Average Daily Volume ('000)	64,109
Free Float (%)	24%
Current Mcap (TRY mn)	15,128
Current Mcap (USD mn)	10,414
Exchange Rate	1.45
Current Price	3.48
12M Target Price	3.80
No. of Shares in Issue	4,347
52-Week Range	1.44-3.48
Weight in ISE-100	3%
Beta (2 year, weekly return)	1.20

- **Relatively smaller securities portfolio.** Yapi Kredi holds 21% of its assets at government papers, a ratio that is comparatively smaller than its peers. The bank holds approximately 85% of its securities as Held to Maturity, securing the bank and acting like a cushion to the changes in the market interest rates in volatile times. We believe that total securities portfolio of the bank would decline further in the upcoming futures, allowing the bank to grow on core banking products. Besides, having the most FX weighted securities portfolio, the bank is more protected against downturns on the TRY securities relative to its peers.
- **100% roll-over rate.** Yapi Kredi managed to maintain a sound capital adequacy, strong liquidity and solid financial position in the 1H09. In April 2009, the bank secured a USD 410 million syndication loan with a cost of LIBOR+2.50%. Turkish banks currently receive syndication loans with an average cost of LIBOR/EURIBOR 2.25%. We believe that the bank will face no problems in receiving additional syndication and/or rolling over its upcoming redemptions.

Profitability

- **Strong fee income generation capability.** In 1H09, Yapi Kredi announced a bottom-line figure of TRY 924 million outpacing the market consensus of TRY 885 million. With a hefty income of fees and trading income accruing by almost TRY 1 billion to the net interest income of TRY 1,664 million, Yapi Kredi managed to increase its net earnings by 87% qoq. However, the bank's strong fee income generation from credit cards is subject to decline since the cap rates would be cut down after 3Q09. We have forecast that the banks net profit figure will come in at TRY 1,256 million and TRY 1,512 million in 3Q09 and 4Q09, respectively.
- **Improving Margins.** NIM of the bank continued to increase due to maturity affect of the asset and liability composition and the further decline in the cost of funding. We believe that year-end 2009 net interest margin would position at 5.2% (2010: 4.9% 2011: 4.5%)

Asset Quality

- **Improving asset quality still looking lousy.** In line with the sectors' general trend, deterioration in the bank's asset quality continued in 2Q09 though this time with a slower pace. The bank's weakest link has been its asset quality in the recent crises, adversely affected by its large credit card exposure and aggressive growth strategy in the SME sector. Recent news from the bank indicated that the management was successful in stabilizing new NPL flows with emphasis on collection efforts bringing favorable results. Continuing strong collections, credit card restructuring efforts and NPL inflows on the downswing creates a positive ambience for the bank for the near future. Our NPL forecast for the bank in the year-end 2009 stands at 6.7%. (2010: 6.1% 2011: 5.4%)

Growth Projections (2009E; year-on-year)

(i) Total Assets: +1% (ii) Total Loans: -5.1% (iii) Total Deposits: -3.2% (iv) Securities Portfolio: +8.5% (v) Shareholders' Equity: +22.4%, (vi) Net Income: +45%

Strengths & Catalysts

(i) Strong fee income generation capability (ii) strengthened demand deposit base (iii) successfully initiated cost cutting measures, cost to income ratio down to 40% (iv) strong branch network with 844 branches (v) potential aggressive growth after 2009 (vi) strong collection rate and responding restructuring efforts

Risks

(i) High NPL ratio stemming from the banks credit card loan portfolio (ii) relatively lower provisioning (iii) likely pressures on loan yields following the cap decline effect (iv) relatively higher loan to deposit ratio at 90%

Our Recommendation

We have revised our 2009E bottom-line figure with an increase of 6.6% to TRY 1,512 million from TRY 1,420 million. On the other, hand further declining COE led us to adjust our 2009 year-end target price up by 10% to TRY 3.80 from TRY 3.45 maintaining our recommendation for the bank as **"HOLD"**. Our revised target price proves 9% upside potential with respect to its current prices.

Table: Yapi Kredi 2009 Quarterly Income Statement – TRY mn

Income Statement	1Q09	1H09	3Q09E	2009E
Interest Income	1,898.3	3,623.8	5,201.4	6,804.5
Interest Income on Loans	1,464.1	2,800.2	3,995.1	5,215.3
Interest Income on Placement at Banks	63.3	115.9	166.5	210.3
Interest Income on Security Portfolio	371.0	707.7	1,039.8	1,379.0
Trading	5.0	10.7	19.1	27.6
Available for Sale	22.9	43.9	60.5	75.5
Held to Maturity	343.1	653.1	960.2	1,275.9
Interest Expense	1,106.1	1,960.0	2,917.2	3,794.2
Interest Expense on Deposits	952.8	1,674.8	2,474.7	3,211.0
Interest Expense on Bank Liabilities	20.6	47.5	73.4	98.5
Interest Expense on Borrowing	132.4	237.0	364.9	478.7
Other Interest Expense	0.2	0.6	4.2	5.9
NET INTEREST INCOME (NII)	792.3	1,663.8	2,284.3	3,010.3
Net Fees and Commissions Income	318.7	669.2	1,006.0	1,489.1
Net Trading Gain/Loss	115.6	386.6	416.4	362.1
Other Operating Income	39.6	155.4	202.0	262.6
Total Operating Income	1,408.7	3,017.6	4,053.0	5,272.8
Provision Cost for Loan Loss Receivables	258.7	763.8	810.9	958.0
Operating Expenses	545.2	1,114.7	1,672.1	2,424.6
Before Tax Profit	604.8	1,139.1	1,570.0	1,890.2
Provision For Taxes	111.8	215.4	314.0	378.0
NET PROFIT	493.1	923.7	1,256.0	1,512.2
- Quarter Figures	493.1	430.6	332.3	256.2

Table: Yapi Kredi 2009 Quarterly Balance Sheet – TRY mn

Balance Sheet	1Q09	1H09	3Q09E	2009E
Cash	518.5	559.0	565.8	582.7
Placement at Banks and Interbank MM*	6,792.7	6,702.5	7,233.8	7,293.6
Security Portfolio	13,855.7	13,028.6	13,842.6	14,299.9
Trading	757.0	995.9	1,200.9	1,407.2
Available for Sale	1,258.8	884.2	830.5	749.0
Held to Maturity	11,839.9	11,148.5	11,811.2	12,143.8
Loans, Net	39,036.8	37,706.6	36,287.3	36,698.1
Non-Performing Loans	2,152.3	2,296.9	2,411.3	2,597.8
Provisioning for Non-Performing Loans	1,245.4	1,571.7	1,663.8	1,818.5
Participations	1,858.9	1,858.9	1,880.6	1,935.6
Fixed Assets	2,452.8	2,446.9	2,476.3	2,550.6
Other Non-IEA	891.4	937.0	948.3	976.7
TOTAL ASSETS	65,406.8	63,239.6	63,234.6	64,337.3
Deposits	41,640.6	39,522.6	39,463.6	40,382.9
Liabilities to Banks	1,473.5	888.9	894.8	902.0
Borrowing	8,295.1	7,919.8	7,553.7	7,293.1
Other Liabilities	6,657.6	7,109.0	7,190.8	7,371.4
Shareholder's Equity	7,340.1	7,799.5	8,131.7	8,387.9
TOTAL LIABILITIES AND EQUITY	65,406.8	63,239.7	63,234.6	64,337.3

(*) Including CBRT

Table: Yapi Kredi Balance Sheet Annual Forecasts – TRY mn

Income Statement	2007A	2008A	2009E	2010E	2011E
Interest Income	6,059.2	7,023.8	6,804.5	7,053.6	9,368.6
Interest Income on Loans	4,070.7	5,206.6	5,215.3	5,508.0	7,506.4
Interest Income on Placement at Banks	356.5	341.9	210.3	196.0	316.3
Interest Income on Security Portfolio	1,632.0	1,475.3	1,379.0	1,349.7	1,545.8
Trading	20.2	17.3	27.6	40.0	37.0
Available for Sale	28.6	48.4	75.5	53.9	61.4
Held to Maturity	1,583.2	1,409.5	1,275.9	1,255.8	1,447.4
Interest Expense	3,936.5	4,608.7	3,794.2	3,982.4	5,883.8
Interest Expense on Deposits	3,303.9	4,039.5	3,211.0	3,471.1	5,275.8
Interest Expense on Bank Liabilities	236.4	94.3	98.5	96.0	109.3
Interest Expense on Borrowing	390.0	472.6	478.7	406.2	464.4
Other Interest Expense	6.1	2.2	5.9	9.1	34.2
NET INTEREST INCOME (NII)	2,122.7	2,415.1	3,010.3	3,071.2	3,484.8
Net Fees and Commissions Income	973.8	1,262.7	1,489.1	1,834.8	2,148.7
Net Trading Gain/Loss	73.1	-5.2	362.1	182.0	51.7
Other Operating Income	218.8	367.2	262.6	309.0	366.5
Total Operating Income	3,427.0	4,245.8	5,272.8	5,554.0	6,217.2
Provision Cost for Loan Loss Receivables	420.1	552.6	958.0	880.8	725.0
Operating Expenses	2,154.0	2,358.6	2,424.6	2,604.3	2,797.8
Before Tax Profit	852.9	1,334.7	1,890.2	2,068.9	2,694.4
Provision For Taxes	143.7	292.1	378.0	413.8	538.9
NET PROFIT	709.2	1,042.6	1,512.2	1,655.1	2,155.6

Table: Yapi Kredi Income Statement Annual Forecasts – TRY mn

Balance Sheet	2007A	2008A	2009E	2010E	2011E
Cash	439.8	597.6	582.7	547.6	552.2
Placement at Banks and Interbank MM*	3,979.9	6,125.9	7,293.6	8,662.8	10,910.4
Security Portfolio	12,551.8	13,183.2	14,299.9	15,596.8	16,642.8
Trading	228.9	666.8	1,407.2	1,474.6	943.9
Available for Sale	279.9	987.3	749.0	729.9	832.5
Held to Maturity	12,043.0	11,529.0	12,143.8	13,392.3	14,866.5
Loans, Net	28,508.9	38,673.0	36,698.1	44,392.4	58,339.5
Non-Performing Loans	1,739.3	1,713.0	2,597.8	2,833.6	3,281.5
Provisioning for Non-Performing Loans	1,392.3	1,068.9	1,818.5	2,125.2	2,461.1
Participations	1,467.9	1,858.9	1,935.6	2,039.5	2,149.1
Fixed Assets	2,314.8	2,382.1	2,550.6	2,690.9	2,839.0
Other Non-IEA	1,040.1	902.6	976.7	1,030.5	1,087.2
TOTAL ASSETS	50,303.2	63,723.1	64,337.3	74,960.5	92,520.1
Deposits	32,166.9	41,705.3	40,382.9	48,712.2	62,950.8
Liabilities to Banks	1,776.6	386.9	902.0	944.9	995.3
Borrowing	6,008.9	8,384.4	7,293.1	7,180.3	7,937.4
Other Liabilities	5,446.9	6,393.4	7,371.4	7,751.4	8,151.3
Shareholder's Equity	4,903.7	6,853.0	8,387.9	10,371.7	12,485.4
TOTAL LIABILITIES AND EQUITY	50,303.2	63,723.1	64,337.3	74,960.5	92,520.1

Table: Yapi Kredi Key Ratios

Key Ratios	2007A	2008A	2009E	2010E	2011E
<i>Profitability Ratios</i>					
NIM	4.8%	4.7%	5.2%	4.9%	4.5%
ROAA 12-m	1.5%	1.8%	2.4%	2.4%	2.6%
ROAE 12-m	18.0%	18.2%	19.6%	17.5%	18.8%
Tangible ROAE 12-m	22.2%	21.1%	23.4%	20.1%	21.2%
EPS	0.22	0.29	0.35	0.38	0.50
Cost of Risk (12m Trailing)	1.6%	1.6%	2.4%	2.1%	1.4%
<i>Growth Ratios (Annualized)</i>					
Asset Growth	2.7%	26.7%	1.0%	16.5%	23.4%
Loan Growth	26.7%	35.7%	-5.1%	21.0%	31.4%
Deposit Growth	3.3%	29.7%	-3.2%	20.6%	29.2%
Securities Growth	-23.6%	5.0%	8.5%	9.1%	6.7%
Equity Growth	43.2%	39.8%	22.4%	23.7%	20.4%
<i>Efficiency & Financial Strength Ratios</i>					
Interest Income on Loans / Total Interest Income	67.2%	74.1%	76.6%	78.1%	80.1%
Interest Income on Securities / Total Interest Income	26.9%	21.0%	20.3%	19.1%	16.5%
Net Banking Income / Total Operating Income	90.4%	86.6%	85.3%	88.3%	90.6%
Cost/Average Assets	6.5%	6.4%	5.9%	6.3%	5.7%
Net Fee Income / Total Assets, 12-m	2.0%	2.2%	2.3%	2.7%	2.6%
Net Fee Income / Total Income, 12-m	28.4%	29.7%	28.2%	33.0%	34.6%
OPEX/ Total Assets, 12-m	4.5%	4.1%	3.8%	3.8%	3.4%
Net Fee Income / OPEX, 12-m	45.2%	53.5%	61.4%	70.5%	76.8%
Cost / Income, 12-m	62.9%	55.6%	46.0%	46.9%	45.0%
CAR	15.7%	13.7%	18.5%	18.7%	17.1%
Free Capital to Assets	-0.5%	1.7%	3.3%	5.2%	6.0%
Free Capital to Equity	-5.4%	15.5%	25.6%	37.6%	44.8%
External Borrowing/Total Assets	11.9%	13.2%	11.3%	9.6%	8.6%
<i>Asset Composition & Breakdown</i>					
Interest Earning Assets/Assets	89.5%	91.0%	90.6%	91.6%	92.8%
Loans/Assets	56.7%	60.7%	57.0%	59.2%	63.1%
Deposits/Assets	63.9%	65.4%	62.8%	65.0%	68.0%
Securities/Assets	26.5%	19.1%	21.9%	21.1%	18.6%
Equity/Assets	9.7%	10.8%	13.0%	13.8%	13.5%
Loans/Deposits	88.6%	92.7%	90.9%	91.1%	92.7%
<i>Asset Quality</i>					
NPL	5.8%	4.3%	6.7%	6.1%	5.4%
NPL Provisioning	80%	62%	70%	75%	75%

Table: Yapi Kredi Valuation

Valuation Key Metrics (TRY mn, %)	2009E	2010E	2011E	2012E	2013E
Cost of Equity	14.0%	15.0%	15.0%	16.0%	16.0%
Earnings	1,512.2	1,655.1	2,155.6	2,328.0	2,514.2
Total Equity	8,387.9	10,371.7	12,485.4	13,609.0	14,833.8
(-) Participations	-1,935.6	-2,039.5	-2,149.1	-2,256.5	-2,369.4
Core Equity	6,452.3	8,332.3	10,336.3	11,352.5	12,464.5
RoAE	19.6%	17.5%	18.8%	21.5%	21.1%
Target P/BV	1.8	1.5			
Target P/E	10.0	9.1			
12-m Target Mcap TRY (GGM)	15,714.3				
12-m Target Mcap TRY (RIM)	17,052.1				
12-m Target Mcap TRY (Blended)	16,383.2				
12-m Target Mcap USD (Blended)	11,172.4				
Number of Shares	4,347				
12-m Target Price TRY (Blended)	3.80				
Current Price	3.48				
Current Mcap, TRY	15,127.7				
Upside Potential	9%				

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BASIS FOR 12m RECOMMENDATIONS

BUY: Requires 15% or more estimated upside.

SELL: Requires 10% or more downside.

HOLD: When estimated relative return is limited between -10% and 15% in either direction.

I, Volkan Muhurcuoglu, hereby certify that the views expressed in this research accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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