Banking Sector

April 16, 2009

OVERWEIGHT

BANKING

BANK ON IT

- 1Q09 earnings season for banks is set to begin by the end of April and be concluded by mid-May. Most banks have so far disclosed tentative time frames, rather than exact disclosure dates. As the first two-month P/L performance of the sector has been publicised, a remarkable sequential jump in profits is already being foreseen, though we think that some banks are set to outpace even the most upbeat forecasts. **Our aggregate profit estimate for 1Q09 points to a 92% increase over 4Q08, versus the 113% rise indicated by the January-February data.** While maintaining our Overweight call on the banks, we opt to err on the side of caution in our 1Q09 earnings forecasts and be surprised on the upside.

1Q09 Posting Dates & Net Profit Forecasts (TRLmn)

Bank	Posting Date	L/T Rating	Type of Financial	1Q09	4Q08	QoQ Chg.	1Q08	YoY Chg.
AKBNK	end-April or 1w May	HOLD	Cons	501	236	113%	444*	13%
GARAN	7-May	BUY	Cons	565	379	49%	492	15%
ISCTR	mid-May	BUY	B.Only	500	200	150%	555	-10%
YKBNK	11-May week	HOLD	Cons	386	165	133%	444	-13%
HALKB	14/15-May	BUY	B.Only	355	108	228%	301	18%
VAKBN	8-May	BUY	B.Only	247	185	34%	196	26%
TEBNK	30-Apr	BUY	Cons	53	20	160%	59	-10%
TSKB	13/15-May	BUY	B.Only	29	18	62%	29	3%
SKBNK	-	HOLD	B.Only	39	22	81%	62	-36%
TEKST	3-May week	HOLD	B.Only	3	1	122%	7	-56%
ASYAB	3-May week	BUY	B.Only	41	85	-51%	37	11%

Source: The Banks, EFGI Estimates. Adjusted for TRL276mn one-off.

- We expect all deposit banks in our coverage universe to see their NIMs increase by around 100bp and record strong sequential bottom line improvements in 1Q09, with the exception of Bank Asya. While the conventional banks have scaled back the interest paid to TRL time deposits from over 20% in 4Q08 down to 12%, Bank Asya, which does not have much of a control on deposit costs, will even face a qoq NIM erosion. Given our preference for conventional banks over participation banks under the prevailing circumstances and taking into account its recent strong outperformance, we trim our S/T rating for **Bank Asya** to Marketperform from Outperform. We maintain **Garanti** as our top pick, which has the potential to surprise the market on the upside more than the rest due to its capital gains on available-for-sale securities. **Halkbank**, which we expect to more than triple its 4Q08 profit and register the highest loan growth in the system with limited asset quality deterioration, is our second choice in the sector. **Isbank**, which has the highest amount of TRL deposits, is also set to emerge as one of the top players in terms of NIM expansion.
- In 1Q09, both loans and deposits contracted in real terms; however, due to the increase in the TRL value of the foreign currency-denominated portion, the sector's overall loans appeared stable, while deposits increased by 2% nominally during the quarter. Moving into the second quarter, the shrinkage in loans in real terms seems poised to continue, reinforcing our perception that **a rapid contraction in NIMs is seemingly not on the cards.**

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Profits to Soar…

We recently reiterated our Overweight stance on Turkish banks, reflecting among other factors, our expectations of a remarkable sequential improvement in banks' 1Q09 earnings performances. It now appears, however, that banks' 1Q09 earnings scorecards could turn out even stronger than expected earlier, fuelled by stronger NIM improvement and higher trading gains, which should more than compensate for the rise in provision expenses.

All in all, we expect the net profit of the banking system to increase by 92% sequentially in 1Q09. While banks have the scope to register an even larger increase, we think that by setting aside some discretionary reserves for future impairments, they may tend to curb the profits to some extent. The sector's performance in the first two months of 2009 suggests that it is highly likely for the banks to deliver positive surprises. The average monthly profit registered in the first 2-month period of 2009 is 113% higher than the monthly average of 4Q08. However, it is worth noting that all such free provisions are set aside mostly at the end of March (and even later).

Sector's Monthly Profit (TRLmn)

Monthly	Net Int. Income	Provisions	Pers. Exp.	Net Capital Gains	N. Profit
Oct-08	2,922	794	866	-535	842
Nov-08	2,534	633	830	123	1,124
Dec-08	2,602	1,446	876	183	288
Jan-09	2,984	1,160	817	559	1,589
Feb-09	3,306	922	834	71	1,615

Source: BRSA Monthly Bulletin

Although we believe that the bright numbers are mostly priced in, we still think that some analysts that consider the banks' final quarter 08 profits as permanent, may tend to upgrade their forecasts substantially after they see half of their full-year estimates registered in only three months. As the banks are still reluctant to reflect the declining rates to their loan yields, second quarter profits are also likely to be strong. However, with loan rates expected to come down as of 2H09, NIM shrinkage is inevitable. We expect the sector's overall '09 NIM to be only 30bp higher than the 4.8% recorded in '08. Moderation in loan rates should trigger deferred loan demand, which should support banks' P/Ls from a volume perspective this time. While we have been at the bullish end of the expectations spectrum (our '09 bottom line forecasts are tabulated below), the ongoing high NIMs suggest that the chance for banks to positively surprise the market increases.

Net Profits TRLmn	Type of Financial	2008A	2009E	YoY Chg
AKBNK	Cons	1,782	1,709	-4%
GARAN	Cons	1,879	1,737	-8%
ISCTR	B.Only	1,509	1,403	-7%
YKBNK	Cons	1,261	1,169	-7%
HALKB	B.Only	1,018	1,009	-1%
VAKBN	B.Only	753	723	-4%
TEBNK	Cons	187	181	-3%
TSKB	B.Only	119	102	-15%
SKBNK	B.Only	144	125	-13%
TEKST	B.Only	13	9	-26%
ASYAB	B.Only	247	216	-13%

Source: EFGI Estimates

Banks 1Q09 Forecast Details (TRLmn)

	AKBNK					GARAN					ISCTR				
Financials	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08***	**YoY Chg.**	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**
Loans	49,004	49,054	0%	44,289	11%	52,935	52,750	0%	45,330	17%	47,758	47,610	0%	38,885	23%
Deposits	59,412	57,575	3%	49,617	20%	60,488	57,960	4%	48,243	25%	63,187	63,538	-1%	51,242	23%
Assets	94,575	93,093	2%	81,119	17%	99,403	99,038	0%	82,097	21%	98,500	97,551	1%	83,959	17%
Net Interest Income	1,133	874	30%	939	21%	1,100	788	40%	846	30%	1,274	948	34%	923	38%
Fees, trading, other	463	338	37%	464	0%	587	608	-4%	692	-15%	559	599	-7%	715	-22%
Provisions	429	353	21%	302	42%	270	265	2%	260	4%	535	695	-23%	348	54%
Opex	553	617	-10%	515	7%	725	674	8%	645	12%	713	686	4%	590	21%
Tax	113	6	1742%	142	-21%	126	78	62%	141	-10%	85	-35	-344%	145	-41%
Net Income	**501**	**236**	**113%**	**444**	**13%**	**565**	**379**	**49%**	**492**	**15%**	**500**	**200**	**150%**	**555**	**-10%**
Ratios			**Chg.bps**		**Chg.bps**			**Chg.bps**		**Chg.bps**			**Chg.bps**		**Chg.bps**
NPL Ratio	2.9%	2.3%	68	1.8%	117	3.1%	2.4%	71	1.9%	113	5.5%	4.4%	104	3.8%	169
Ann.Prov.Exp./Loans	3.5%	2.9%	62	2.7%	77	2.0%	2.0%	3	2.3%	-26	4.5%	5.8%	-136	3.6%	90
NIM	4.9%	3.9%	100	5.0%	-8	4.6%	3.5%	113	4.5%	14	5.5%	4.3%	121	4.9%	58

*Source: Banks, EFGI Estimates *Akbank 1Q08 P/L adjusted for TRL225mn tax reversal and TRL51mn NPL sales*

	YKBNK					HALKB					VAKBN				
Financials	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**
Loans	39,579	39,555	0%	32,240	23%	27,136	25,836	5%	20,676	31%	31,163	30,502	2%	26,062	20%
Deposits	45,304	44,023	3%	36,163	25%	41,223	40,271	2%	35,309	17%	37,972	37,120	2%	32,034	19%
Assets	71,779	70,872	1%	60,953	18%	52,602	51,096	3%	44,492	18%	52,963	52,193	1%	46,636	14%
Net Interest Income	935	749	25%	675	39%	759	544	39%	525	45%	659	530	24%	482	37%
Fees, trading, other	445	433	3%	618	-28%	127	49	156%	169	-25%	223	265	-16%	195	15%
Provisions	243	228	7%	88	175%	188	197	-5%	97	94%	255	225	14%	146	74%
Opex	666	739	-10%	632	5%	271	279	-3%	214	27%	328	364	-10%	277	18%
Tax	86	50	72%	129	-33%	72	10	603%	83	-13%	52	22	131%	57	-8%
Net Income	**386**	**165**	**133%**	**444**	**-13%**	**355**	**108**	**228%**	**301**	**18%**	**247**	**185**	**34%**	**196**	**26%**
Ratios			**Chg.bps**		**Chg.bps**			**Chg.bps**		**Chg.bps**			**Chg.bps**		**Chg.bps**
NPL Ratio	5.3%	4.3%	101	3.9%	144	5.6%	4.7%	98	5.0%	67	5.5%	4.6%	94	4.5%	104
Ann.Prov.Exp./Loans	2.5%	2.3%	15	1.1%	136	2.8%	3.0%	-28	1.9%	89	3.3%	2.9%	33	2.2%	103
NIM	5.7%	4.7%	98	5.0%	67	6.0%	4.6%	143	5.1%	87	5.3%	4.3%	95	4.5%	76

Source: Banks, EFGI Estimates

	TEBNK					SKBNK					TEKST				
Financials	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**
Loans	9,294	9,229	1%	8,717	7%	4,792	4,800	0%	4,192	14%	1,596	1,606	-1%	2,202	-28%
Deposits	10,867	10,496	4%	10,167	7%	6,067	5,932	2%	4,404	38%	1,427	1,434	0%	1,697	-16%
Assets	17,258	17,137	1%	15,989	8%	8,029	8,041	0%	6,851	17%	2,918	2,953	-1%	3,124	-7%
Net Interest Income	250	200	25%	210	19%	190	181	5%	147	29%	39	35	13%	45	-13%
Fees, trading, other	71	69	2%	93	-24%	28	17	67%	90	-68%	9	10	-16%	5	89%
Provisions	55	52	6%	37	49%	52	31	66%	76	-31%	18	11	67%	11	62%
Opex	200	200	0%	195	2%	119	139	-14%	84	42%	27	34	-20%	30	-10%
Tax	13	-3	-550%	12	11%	8	5	44%	16	-51%	0	-1	-126%	2	-89%
Net Income	**53**	**20**	**160%**	**59**	**-10%**	**39**	**22**	**81%**	**62**	**-36%**	**3**	**1**	**122%**	**7**	**-56%**
Ratios			**Chg.bps**		**Chg.bps**			**Chg.bps**		**Chg.bps**			**Chg.bps**		**Chg.bps**
NPL Ratio	2.9%	2.2%	69	1.7%	126	5.7%	4.8%	94	2.4%	326	4.0%	3.3%	71	1.7%	230
Ann.Prov.Exp./Loans	2.4%	2.2%	12	1.7%	67	4.3%	2.6%	173	7.2%	-289	4.4%	2.6%	177	2.0%	242
NIM	6.2%	4.9%	125	6.0%	14	10.0%	9.6%	44	9.8%	15	5.7%	4.8%	90	6.4%	-63

Source: Banks, EFGI Estimates

	ASYAB					TSKB				
Financials	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**	**1Q09**	**4Q08**	**QoQ Chg.**	**1Q08**	**YoY Chg.**
Loans	6,191	6,148	1%	5,063	22%	3,568	3,668	-3%	2,979	20%
Deposits	6,408	5,843	10%	5,203	23%	0	0		0	
Assets	8,375	8,109	3%	7,003	20%	6,034	6,209	-3%	5,579	8%
Net Interest Income	141	146	-3%	122	16%	59	69	-14%	68	-13%
Fees, trading, other	81	102	-21%	85	-5%	5	0	3033%	-3	-265%
Provisions	60	40	48%	62	-4%	10	30	-67%	14	-28%
Opex	110	101	9%	94	17%	15	14	3%	12	17%
Tax	11	22	-51%	13	-19%	10	7	52%	10	4%
Net Income	**41**	**85**	**-51%**	**37**	**11%**	**29**	**18**	**62%**	**29**	**3%**
Ratios			**Chg.bps**		**Chg.bps**			**Chg.bps**		**Chg.bps**
NPL Ratio	6.5%	4.9%	161	5.0%	156	1.1%	0.7%	46	0.5%	59
Ann.Prov.Exp./Loans	3.9%	2.6%	122	4.9%	-103	1.1%	3.3%	-218	1.9%	-75
NIM	7.2%	7.8%	-61	7.7%	-45	4.1%	5.0%	-83	4.8%	-67

Source: Banks, EFGI Estimates

...but Volume Growth Seen Dismal

Due to lack of funding particularly on the FX side, TRL and FX loans declined by 2% and 7% (FX figures all in US$ terms) during 1Q09. In this period, FX deposits contracted by 6%, while FX wholesale funding declined by 10%, summing up to a US$12bn loss of foreign currency financing in the first quarter. TRL deposits, on the other hand, increased by an insignificant 1.3% during this time. Other than these items that almost perfectly match one another, we see the banks increasingly switching from cash to securities. Accordingly, total TRL securities in the system soared by TRL11bn (8%) qoq, while the FX portion increased by TRL650mn in 1Q09, serving as a testament to the sector's increased confidence in interest rate levels.

Banking Sector Key Indicators as of April 10, 2009

4/10/2009	Growth						TRLmn (unless otherwise stated)			
	YtD	QtD	1Q09	2008	4Q08	3Q08	CURRENT	31/03/09	31/12/08	29/09/08
US$/TRY							*1.568*	*1.688*	*1.512*	*1.232*
Loans	**-3.0%**	**-2.7%**	**-0.3%**	**29.1%**	**1.9%**	**5.4%**	**362,067**	**372,150**	**373,089**	**366,222**
TRL	-2.1%	-0.4%	-1.7%	21.0%	-3.4%	5.6%	259,068	260,131	264,725	273,941
FX	-5.0%	-8.1%	3.4%	54.1%	17.4%	4.7%	102,999	112,019	108,365	92,281
-FX (US$)	*-8.4%*	*-1.0%*	*-7.4%*	*18.7%*	*-4.4%*	*4.0%*	*65,672*	*66,362*	*71,656*	*74,927*
Deposits	**-0.9%**	**-3.2%**	**2.4%**	**26.9%**	**8.4%**	**3.2%**	**464,865**	**480,385**	**469,131**	**432,737**
TRL	-1.2%	-2.5%	1.3%	25.3%	5.7%	5.8%	303,965	311,903	307,809	291,314
FX	-0.3%	-4.5%	4.4%	30.0%	14.1%	-1.6%	160,900	168,481	161,322	141,423
FX (US$)	*-3.8%*	*2.8%*	*-6.4%*	*0.2%*	*-7.1%*	*-2.2%*	*102,588*	*99,811*	*106,673*	*114,829*
Repos	**1.3%**	**-3.2%**	**4.6%**	**46.9%**	**1.2%**	**13.1%**	**41,314**	**42,671**	**40,779**	**40,294**
Deposits Incl. Repos	**-0.7%**	**-3.2%**	**2.6%**	**28.3%**	**7.8%**	**4.0%**	**506,179**	**523,056**	**509,910**	**473,031**
Cash	**-33.2%**	**-30.3%**	**-4.1%**	**57.3%**	**53.9%**	**-14.3%**	**28,914**	**41,509**	**43,283**	**28,127**
Loans to Banks	**19.8%**	**9.0%**	**10.0%**	**31.4%**	**30.1%**	**-15.3%**	**42,420**	**38,925**	**35,401**	**27,217**
Domestic	-27.6%	-27.9%	0.4%	-11.0%	75.1%	-51.3%	4,079	5,661	5,638	3,219
Foreign	35.4%	15.3%	17.5%	37.4%	22.3%	-9.3%	38,341	33,264	28,313	23,154
Foreign (US$)	*30.6%*	*14.6%*	*14.0%*	*5.8%*	*-0.1%*	*-10.2%*	*24,446*	*21,339*	*18,722*	*18,733*
Securities	**9.5%**	**0.6%**	**8.8%**	**18.2%**	**7.5%**	**4.3%**	**212,540**	**211,305**	**194,181**	**180,644**
NPLs (Net)	**21.9%**	**-2.5%**	**25.1%**	**115.9%**	**25.1%**	**25.6%**	**3,550**	**3,642**	**2,912**	**2,328**
NPLs (Gross)	23.6%	1.1%	22.2%	31.2%	18.8%	6.5%	16,719	16,529	13,527	11,385
NPL Provisions	24.1%	2.2%	21.5%	18.4%	17.0%	2.5%	13,169	12,887	10,610	9,065
Wholesale Borrowings	**-3.7%**	**-4.7%**	**1.1%**	**34.3%**	**10.2%**	**3.9%**	**81,280**	**85,265**	**84,361**	**76,523**
From domestic banks	16.0%	-1.4%	17.7%	13.4%	-13.0%	9.8%	4,640	4,706	4,000	4,598
From foreign banks	-4.6%	-4.9%	0.2%	35.6%	11.7%	3.5%	76,640	80,558	80,361	71,925
Foreign (US$)	*-8.0%*	*2.4%*	*-10.2%*	*4.4%*	*-9.0%*	*2.9%*	*48,865*	*47,724*	*53,138*	*58,400*

Switching back to FX deposits?

Repos are down TRL7bn from end-1Q09, reducing the system's cash.

Biggest ever quarterly NPL rise of TRL3bn.

US$5bn slide in wholesale FX funds pulled down FX lending in 1Q09.

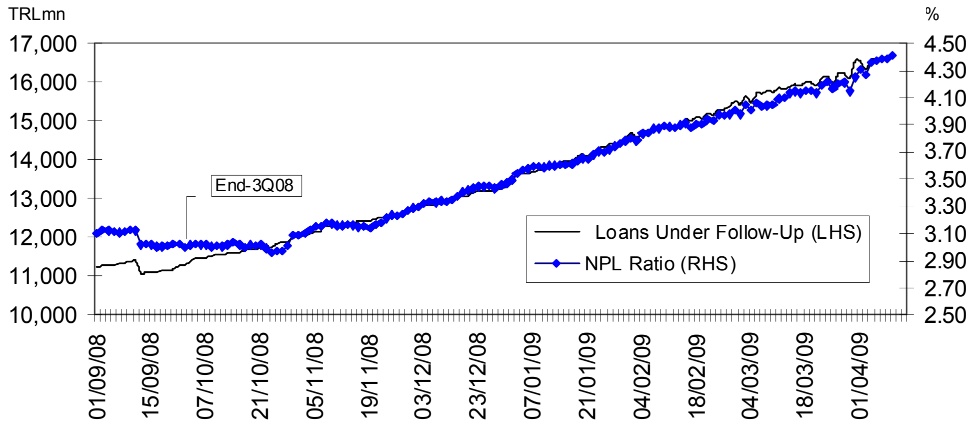
Ratios	**Current**	**1Q09**	**4Q08**	**3Q08**
NPL Ratio	4.5%	4.3%	3.5%	3.0%
Provision Coverage	78.8%	78.0%	78.4%	79.6%
Loans/Deposits	77.9%	77.5%	79.5%	84.6%
TRL Loans/TRL Deposits	*85.2%*	*83.4%*	*86.0%*	*94.0%*
FX Loans/FX Deposits	*64.0%*	*66.5%*	*67.2%*	*65.3%*
Share of FX in loans	28.4%	30.1%	29.0%	25.2%
Share of FX in deposits	34.6%	35.1%	34.4%	32.7%
Demand Dep./Total Dep.	13.7%	13.8%	13.9%	15.7%
Wholesale funds/Deposits	17.5%	17.7%	18.0%	17.7%
Cash/Deposits	6.2%	8.6%	9.2%	6.5%

Source: The BRSA, EFGI

The sector has its black and white areas, though generally not much of grey tones. When the bond yields increased to 26% in October 08, the banks loaded the bulk of their securities to their held-to-maturity books, which they highly regretted after the rates plummeted to 12.5%. This time, the newly obtained bonds in the first quarter are recorded fully under the available-for-sale book, which is followed at market value.

The system's NPL ratio rose from 3.5% at YE08 to 4.3% at end-1Q09, up 80bp, compared to the 50bp increase of a quarter earlier. We stick to our 7% year-end NPL projection, the ramifications of which are discussed in detail in our banking sector report "BRING IT ON" dated March 31, 2009.

NPL Ratio of the Banking Sector



Source: BRSA Daily Bulletin

Performance Post-1Q09

From the most recent banking sector data as of April 10, 2009, we observe a reversal of the 1Q09 trends. FX deposits, which contracted substantially then, increased by a surprisingly high 2.5% (US$3bn), compared to a 3% (TRL8bn) slippage in the TRL portion qtd. So, the increase in the value of the TRL, coupled with the low 12% time deposit rates are prompting a switch in savings to FX accounts. The NPL ratio, on the other hand, having maintained its uptrend, reached 4.4%.

Ratings & Target Prices

TRL	Target Price	Market Price	Upside	LT Rating	* ST Rating
AKBNK	5.83	5.30	10%	HOLD	M
GARAN	3.99	2.92	37%	BUY	O
ISCTR	5.34	4.22	27%	BUY	M
YKBNK	2.21	1.90	16%	HOLD	U
HALKB	6.96	4.22	65%	BUY	O
VAKBN	1.96	1.62	21%	BUY	M
TEBNK	1.13	0.79	43%	BUY	M
TSKB	1.21	0.85	42%	BUY	M
SKBNK	1.23	1.23	0%	HOLD	U
TEKST	0.50	0.47	6%	HOLD	U
ASYAB	1.94	1.39	39%	BUY	M

*Source: EFGI * M:Marketperform, O:Outperform, U:Underperform*

Garanti Bank: We maintain Garanti as our top pick, which has the potential to surprise the market on the upside more than the rest due to capital gains on available for sale securities. In our base case scenario, we expect Garanti to face an 8% yoy contraction in its 2009 net profit, as the cost of risk climbs from 1.25% to 1.77% (4.2% NPL ratio), which is set to be compensated by the NIM that is likely to improve from 4.1% to 4.5%. We do not expect the Bank, which commands a 15% CAR, to face capital adequacy issues, at least up until a YE09

NPL ratio of 11%. This top notch, efficient and innovative Bank, which improved its sector ranking from 4th to 1st position in loans in a span of 5 years, is trading at a highly attractive 1.1x 09F P/B, one of the lowest levels since '03. We expect the Bank to deliver substantial margin enhancement on the back of easing deposit costs, together with hefty trading gains both from the long balance sheet FX position-backed swap accounting and the liquidation of available-for-sale securities that are in the money. All in all, increasing provisioning needs in the face of worsening asset quality are set to be more than compensated by the widening NIM and capital gains. Through these means, the Bank aims to surpass its year-ago profit in FY09. As for 1Q09, we expect Garanti to register 49% qoq bottom line growth with the potential to surprise on the upside.

Halkbank: Halkbank, which we expect to more than triple its 4Q08 profit and to register the highest loan growth in the system with limited asset quality deterioration, is our second bank pick. The Bank, which is set to record the highest ROE in the system for 2009, in our view, will most likely be the only bank to report an ROE in excess of 20%. Up until a YE09 NPL ratio of 12%, we do not anticipate any capital shortage. Continuous bond book redemptions are providing the needed liquidity for loan growth and cushioning the Bank from the cost escalation driven by the stiff competition for deposits. Halk will be collecting a hefty TRL5bn from bond redemptions and coupon payments in '09. It is also worth noting that its state bank status helps Halkbank attract low cost savings deposits and forego the costlier part. No syndicated loans; hence, no roll over risk. Multilateral financial organisations have started to prefer Halkbank more and more over investment and development banks, owing to its nationwide SME loan distribution capability, which provides additional business to the Bank.

Isbank C: Isbank, which has the highest amount of TRL deposits, is also one of the top players to benefit from NIM improvement. Owing to its solid reputation, Isbank's deposit performance is anticipated to continue to help it raise lower cost funding. While the Bank ranks third in overall loans, it commands the lead in TRL lending, particularly in the SME business. The TRL loan yields are relatively greater in amount, though their NPL ratios are significant as well. As Isbank had not shifted its securities to its held-to-maturity portfolio, it managed to record solid mark-to-market gains in 4Q08. The TRL3.75bn balance sheet long FX position/their swap contracts also helped this account in the stated quarter. Isbank passed almost the entire bond valuation gains through the P/L. The available-for-sale securities, which make up 84% of the total bond book, are set to continue to bolster profitability as rates diminish. We continue to credit the Bank for its safe haven status, and attractive valuation.

TEB: TEB is a value play with its low 0.5x 2009 P/B and 4.8x P/E. Soaring deposit costs that hit the Bank's financials in 4Q08 are set to be compensated by solid NIM improvement in 1Q09. Therefore, TEB is likely to feature as one of the leading banks in terms of bottom line enhancement on a sequential basis. The highly robust cash position, which makes up 24% of the assets, and the remarkable CAR of 16.5% are a source of comfort in such a challenging operating environment. We expect TEB's NPL ratio to climb from 2.2% to 4% in 2009 yoy, which will still be one of the lowest in the market. Up until 12% NPL ratio, we do not expect any need for cash capital support.

	TRLmn	AKBNK	GARAN	ISCTR	YKBNK	HALKB	VAKBN	ASYAB	TEBNK	TSKB	TEKST	SKBNK
	4/16/2009			**$Last:**	1.568							
Fundamental	Mcap $mn	10,138	7,819	7,417	5,266	3,363	2,582	798	554	271	126	314
	Target Mcap $mn	11,146	10,674	9,384	6,131	5,546	3,118	1,112	793	384	134	313
	Price TRL	5.30	2.92	4.22	1.90	4.22	1.62	1.39	0.79	0.85	0.47	1.23
	Number of Shares	3,000	4,200	2,757	4,347	1,250	2,500	900	1,100	500	420	400
	Mcap	15,900	12,264	11,633	8,259	5,275	4,050	1,251	869	425	197	492
	Trading Volume $mn	35.6	172.0	71.9	28.7	36.1	25.2	8.7	3.4	0.7	0.6	2.6
	Daily Return	1.9%	2.7%	1.4%	2.1%	4.7%	3.7%	3.6%	1.3%	0.0%	4.3%	3.3%
	Wtd Return	-4.4%	1.4%	0.5%	0.5%	4.3%	-2.8%	4.4%	-1.2%	-1.2%	0.0%	6.7%
	YtD Return	13.0%	15.4%	6.2%	-7.6%	-3.9%	43.6%	24.1%	-2.4%	-7.6%	2.1%	16.5%
	Float	25%	56%	33%	18%	25%	25%	46%	20%	54.0%	25.0%	30.8%
	Major Shareholder	SA 41	D 30	PF 41.5	KFS 81.8	PA 75	VGM 75	OT 8%	FS84.3	Is 52	GSD 75	PF-T34%
	Number of Branches	868	716	1,033	842	618	522	149	334	4	61	250
	Number of Personnel	15,789	16,378	20,316	15,023	11,208	11,208	3,802	6,367	689	1,558	4,059
Valuation	Target Price TRL	5.83	3.99	5.34	2.21	6.96	1.96	1.94	1.13	1.21	0.50	1.23
	Upside	9.9%	36.5%	26.5%	16.4%	64.9%	20.7%	39.4%	43.2%	41.8%	6.1%	-0.1%
	LT Rating	HOLD	BUY	BUY	HOLD	BUY	BUY	BUY	BUY	BUY	HOLD	HOLD
	Type of Financials	Cons	Cons	B.Only	Cons	B.Only	B.Only	B.Only	Cons	B.Only	B.Only	B.Only
	2008 P/B	1.40	1.26	1.23	1.20	1.23	0.71	0.89	0.56	0.57	0.44	0.50
	2009F P/B	1.26	1.07	1.09	1.03	1.04	0.63	0.77	0.50	0.50	0.43	0.45
	2010F P/B	1.11	0.94	0.96	0.87	0.88	0.56	0.66	0.44	0.44	0.41	0.39
	2008 P/E	8.9	6.5	7.7	6.5	5.2	5.4	5.1	4.6	3.6	15.7	3.4
	2009F P/E	9.3	7.1	8.3	7.1	5.2	5.6	5.8	4.8	4.2	21.3	3.9
	2010F P/E	7.3	5.5	6.3	5.8	4.5	4.5	4.7	3.7	3.6	8.3	3.3
	2008F Book	11,331	9,743	9,449	6,864	4,289	5,671	1,404	1,548	750	450	975
	2009F Book	12,667	11,480	10,687	8,032	5,095	6,393	1,619	1,729	854	459	1,100
	2010F Book	14,385	13,101	12,066	9,446	6,027	7,296	1,888	1,985	964	483	1,251
	2008 Net Profit	1,782	1,879	1,509	1,261	1,018	753	247	187	119	13	144
	2009F Net Profit	1,709	1,737	1,403	1,169	1,009	723	216	181	102	9	125
	2010F Net Profit	2,186	2,231	1,839	1,417	1,178	906	269	233	117	24	151
Profitability	2008 NIM	4.5%	4.1%	4.4%	4.8%	4.8%	4.4%	7.3%	5.6%	4.7%	5.8%	9.5%
	2009 NIM	4.7%	4.5%	4.9%	5.0%	5.0%	4.8%	7.1%	6.0%	3.7%	5.9%	9.1%
	2010 NIM	4.5%	4.5%	4.8%	4.9%	4.8%	4.8%	6.7%	5.8%	3.7%	6.1%	8.3%
	2008 ROA	2.2%	2.1%	1.7%	2.0%	2.2%	1.6%	3.4%	1.2%	2.1%	0.4%	2.0%
	2009F ROA	1.8%	1.8%	1.4%	1.6%	1.9%	1.4%	2.5%	1.1%	1.7%	0.3%	1.5%
	2008 ROE	16.2%	24.6%	15.1%	21.9%	23.5%	13.8%	21.8%	14.8%	16.0%	3.0%	16.7%
	2009F ROE	14.2%	19.4%	13.9%	15.7%	21.5%	12.0%	14.3%	11.0%	12.7%	2.0%	13.5%
Financials	Loans	49,963	55,505	47,610	43,305	25,836	30,502	6,381	10,269	3,884	1,606	4,800
	Securities	28,361	27,386	25,164	15,385	18,334	11,500	54	2,157	1,782	394	2,314
	Deposits+Repo	66,406	69,113	70,545	45,076	42,662	38,807	5,843	10,698	806	1,641	5,991
	Sh. Eq.	11,331	8,206	9,449	6,816	4,289	5,671	1,404	1,405	750	450	867
	Assets	93,093	99,038	97,551	70,872	51,096	52,193	8,109	17,137	6,209	2,953	8,041
	Net Profit	1,782	1,879	1,509	1,261	1,018	753	247	187	119	13	144
Growth	Loan G. QoQ	-0.8%	5.7%	4.1%	6.8%	5.9%	1.0%	5.2%	-8.3%	3.1%	-29.6%	0.9%
	Securities Q. QoQ	13.1%	21.9%	3.1%	16.7%	1.4%	2.4%	0.0%	18.0%	12.0%	7.7%	10.0%
	Deposit G. QoQ	7.3%	12.3%	13.3%	10.3%	7.2%	3.1%	5.1%	-10.0%	0.0%	-12.9%	-1.9%
	Asset G. QoQ	5.5%	11.1%	6.0%	7.6%	7.2%	4.4%	6.6%	-1.1%	19.7%	-8.3%	2.2%
	Net Pr. G. QoQ (Q)	-29.0%	-20.7%	27.8%	-55.9%	-59.6%	92.4%	36.8%	0.0%	-33.7%	-54.1%	-39.9%
	Loan G. yoy	23.0%	31.8%	40.1%	34.3%	42.6%	30.0%	38.4%	20.8%	10.1%	-22.9%	32.8%
	Securities G. yoy	9.6%	45.0%	1.8%	6.0%	15.0%	5.3%	0.0%	15.1%	1.9%	32.4%	74.2%
	Deposit G. yoy	31.9%	32.7%	30.9%	30.6%	30.6%	28.6%	24.4%	28.2%	0.0%	-5.3%	42.8%
	Asset G. yoy	29.1%	30.1%	21.7%	26.3%	27.0%	23.1%	29.5%	22.9%	27.1%	1.7%	32.1%
	Net Pr. G. yoy (C)	-12.7%	-22.1%	-11.3%	45.0%	-10.0%	-26.9%	11.4%	27.1%	-19.3%	-70.4%	17.5%
Capital	CAR	17.0%	14.9%	15.2%	14.2%	14.5%	14.3%	13.4%	16.5%	21.1%	17.9%	14.7%
	Free Capital	10,463	7,888	4,401	3,676	2,690	4,031	856	1,261	535	296	611
	Free Capital/Assets	11.2%	8.0%	4.5%	5.2%	5.3%	7.7%	10.6%	7.4%	8.6%	10.0%	7.6%
	Sh. Eq./Assets	12.2%	8.3%	9.7%	9.6%	8.4%	10.9%	17.3%	8.2%	12.1%	15.2%	10.8%
As.Qual.	NPL Ratio	2.3%	2.4%	4.4%	4.3%	4.7%	4.6%	4.9%	2.2%	0.7%	3.3%	4.8%
	NPL Coverage	100%	64%	100%	63%	83%	94%	61%	53%	100%	44%	64%
	Total Provisions/NPL	157%	116%	234%	169%	113%	123%	89%	117%	372%	66%	130%
	Loans/Deposits	75%	80%	67%	96%	61%	79%	109%	96%	482%	98%	80%
	IEA/IBL	113%	108%	108%	108%	107%	109%		105%	108%	112%	112%
Effic.	Cost/Income	46.6%	52.7%	53.2%	60.1%	43.5%	52.1%	49.6%	72.9%	23.6%	75.1%	77.1%
	Net Fees/Cost	50.5%	56.9%	42.7%	54.2%	36.9%	35.3%	58.0%	29.8%	7.4%	20.3%	22.0%
	Cost/IEA	2.5%	2.9%	3.1%	3.9%	2.0%	2.6%	5.1%	4.8%	0.9%	4.6%	5.6%
	Loans/Employee	3.2	3.4	2.3	2.9	2.3	2.7	1.7	1.6	5.6	1.0	1.2
	Loans/Branch	57.6	77.5	46.1	51.4	41.8	58.4	42.8	30.7	971.0	26.3	19.2
	Deposits/Employee	4.2	4.2	3.5	3.0	3.8	3.5	1.5	1.7	1.2	1.1	1.5
	Deposits/Branch	76.5	96.5	68.3	53.5	69.0	74.3	39.2	32.0	201.6	26.9	24.0
Breakdown	Core Liq. Ratio	14.1%	12.7%	19.1%	11.5%	10.0%	8.9%	15.4%	19.1%	2.4%	13.4%	6.8%
	Loans	53.7%	56.0%	48.8%	61.1%	50.6%	58.4%	78.7%	59.9%	62.6%	54.4%	59.7%
	Securities	30.5%	27.7%	25.8%	21.7%	35.9%	22.0%	0.7%	12.6%	28.7%	13.3%	28.8%
	Trading Sec/Tot S.	0.9%	4.7%	1.8%	5.4%	0.6%	0.4%	0.0%	4.7%	1.5%	2.1%	4.1%
	Avail. for Sale/T.S	26.6%	66.9%	84.4%	12.0%	12.9%	69.4%	0.0%	57.3%	98.5%	5.4%	35.4%
	Held to Mat./Tot S.	72.5%	28.4%	13.8%	82.6%	86.5%	30.2%	0.0%	38.0%	0.0%	92.5%	60.5%
	Deposits+Repo	71.3%	69.8%	72.3%	63.6%	83.5%	74.4%	72.1%	62.4%	13.0%	55.6%	74.5%
	Demand Dep./Dep	12.8%	15.3%	12.5%	14.0%	9.4%	13.7%	17.2%	16.9%	0.0%	5.3%	11.0%
	Sh. Eq.	12.2%	8.3%	9.7%	9.6%	8.4%	10.9%	17.3%	8.2%	12.1%	15.2%	10.8%
FX/Total	Loans	46.9%	47.9%	31.1%	38.5%	25.3%	36.0%	4.3%	34.1%	58.0%	18.0%	12.5%
	Securities	31.2%	20.5%	50.8%	52.6%	16.6%	27.6%	0.0%	10.1%	24.3%	6.3%	7.2%
	Deposits	49.3%	49.8%	36.4%	43.7%	32.9%	31.5%	38.3%	46.5%	0.0%	38.1%	31.4%
	BS. FX Position	-39.2	1,477.6	3,750.4	1,728.2	-1,256.7	144.1	413.3	461.0	69.6	-185.8	-836.8
	Net FX Position	-12.8	-214.8	363.9	344.3	-169.4	147.7	15.2	169.5	34.2	4.5	10.9
	BS FX /Sh.Eq.	-0.3%	18.0%	39.7%	25.4%	-29.3%	2.5%	29.4%	32.8%	9.3%	-41.3%	-96.5%
	Net FX /Sh.Eq.	-0.1%	-2.6%	3.9%	5.1%	-3.9%	2.6%	1.1%	12.1%	4.6%	1.0%	1.3%
M.Sh.	Loans	13.2%	14.2%	12.9%	10.7%	7.0%	8.2%	1.7%	2.5%	1.0%	0.4%	1.3%
	Securities	14.6%	14.1%	13.0%	7.9%	9.5%	5.9%	0.0%	1.1%	0.9%	0.2%	1.2%
	Deposits	12.7%	12.7%	14.0%	9.7%	8.9%	8.2%	1.3%	2.3%	0.0%	0.3%	1.3%
	Assets	12.7%	13.5%	13.3%	9.7%	7.0%	7.1%	1.1%	2.3%	0.8%	0.4%	1.1%

Source: EFGI, The Banks

EFG Istanbul Securities Equity Rating System

12-month Rating:

Our 12-month rating system comprises the following designations: BUY (B), HOLD (H), SELL (S). The absolute upside to target value implied by the current market capitalisation is the main determinant of our rating system. Valuation tools employed most frequently are Discounted Cash Flow (DCF) and international peer group comparison, though other metrics such as historical relative valuation, price to book, return on equity, replacement value are also used wherever appropriate. Our analysts set the fair/target values with a 12-month investment horizon. Comparing the upside in a specific stock with the market's upside (determined through the aggregate upside of our coverage based on free float Mcaps), in addition to taking other yardsticks into consideration, analysts recommend BUY (B), HOLD (H), SELL (S) based on their 12-month total return views.

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Our investment horizon for industry ratings is again 12 months. This rating gives an indication as to how the analyst sees that particular industry for the next 12-month period in terms of growth, profitability, pricing power, competitive dynamics etc. The rating in this category thus reflects our analyst's assessment of the conjunctural outlook for the industry, without involving any specific benchmarks. The ratings employed are **Attractive (A), Neutral (N), Cautious (C).**

Attractive (A): Due to improving sector related fundamentals and/or attractive valuations, the sector index is expected to perform better than the ISE-100 in the next 12-months

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Outperform (O)	>=10%
Marketperform (M)	<+10% & >-10%
Underperform (U)	<=-10%

Outperform (O): If 3-month total return is expected to exceed the ISE-100 (sector index if specified) by more than 10%
Marketperform (M): If 3-month total return is expected to be in line (+/- 10%) with the ISE-100 (Peerperform if sector index is specified)
Underperform (U): If 3-month total return is expected to be below the ISE-100 (sector index if specified) by more than 10%

*To have a more balanced distribution of ratings, EFGI has requested that analysts maintain **at least 20% of their ratings as Underperform** and **no more than 25% as Outperform**, subject to change depending on market conditions.*

Other Qualifiers Utilised:

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Our equity **market call** has an investment horizon of 3-12 months. **Our market calls are** BUY, NEUTRAL, SELL.

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