

**November 2, 2007****Price: TRY 3.06****Turkey****[Diversified Banks]**

Bloomberg: [TEBnk TI]

**Market Cap:**

USD 1,972.00 m

**Outstanding Shares:**

755.00 m

**Six Month Avg.****Daily Trading Vol.**

(USD m): 3.09

**52 Week High/Low:**

TRY 3.37 / TRY 1.64

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- TEB reported TRY 104,7 mn net profit on its 9M07 BRSA Bank Only financial statements, slightly lower than our expectations but indicating a 20% increase compared to 9M06. The deviation from our estimate stems mainly from higher provisions, while the loan and deposit growth and net interest income were slightly better than our estimates.
- In line with aggressive growth strategies, TEB have continued its branch expansion and opened additional 83 new branches in the first nine months of 2007, already exceeding the bank's annual target of 60 branches for 2007. Assuming the aggressive growth policy continues in the coming quarters, and with no global turbulence, the bank's management aim to increase TEB's branch network by 135% to 400 by the end of 2010, which would imply approximately 60 new branch openings each year.
- The fast branch expansion was one of the main drivers of above average growth rates. TEB has expanded its total asset size by 31% in 9M07 compared to 2006YE.
- The fast branch expansion supported high growth rates both on retail loans and deposits. With its limited branch network, retail banking was not a core area for TEB until 2005. However total retail loans constitute 17% of total lending as of 3Q07, compared to 14.8% at the end of 2006.
- The most impressive growth is observed in credit card business with 339% increase in 3Q07 compared to year-end 2006. In fact, the high growth in credit card business is mainly due to the low base effect, and credit cards still constitute only 3.2% of the total loan volume of the bank. It is also worth to mention that the improvement in the credit card business has started in the third quarter of 2006, when TEB and Garanti had an agreement that TEB could distribute the credit card brand name, "Bonus", of Garanti Bank.
- TEB's share in credit cards, though still small, has multiplied from 0.2% in 2006 to 0.9% in 3Q07. Although the credit card business will never be a core segment, we believe TEB may reach a market share of 1-2% in the coming years. Despite a slight decline in the share, housing loans expanded by 14% in 3Q and comprised 36% of TEB's total consumer loan book. Another high growing retail segment was general purpose loans with 14% quarterly growth rate, compounding to a ytd growth of 67%. Overall ytd growth of retail segment was 48% versus 29% growth of corp & commercial loans. However, in the third quarter, 16.5% growth in corporate & commercial loans was ahead of the retail loan growth.

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**TEB**
**3Q 2007 Financial Results**

<b>Current M.Cap.</b>	1,972 mn\$	<b>Rating</b>	BUY	<b>Current Price</b>	TRY 3.06	<b>Free Float</b>	15.8%
<b>Target M. Cap.</b>	2,350 mn\$	<b>Upside</b>	19.1%	<b>Target Price</b>	TRY 3.65	<b>Avr. Daily Volume (mn\$)</b>	6.5

<b>Ata Invest Estimations</b>	<b>09 06</b>	<b>2006</b>	<b>06 07</b>	<b>09 07</b>
Assets, TRY mn	7,440	8,282	9,587	10,826
Annual Change, %	37.2	52.7	34.2	45.5
Loans (Net), TRY mn	4,145	4,951	5,646	6,546
Annual Change, %	41.1	68.5	44.2	57.9
Securities, TRY mn	1,248	1,816	1,985	1,673
Annual Change, %	-1.2	43.8	57.1	34.1
Customer Deposits, TRY mn	4,764	5,302	6,172	7,058
Annual Change, %	51.7	68.8	34.2	48.2
Shareholders' Equity, TRYmn	523	552	628	670
Annual Change, %	11.6	17.7	27.3	28.0
Net Interest Income, TRY mn	211	305	237	381
Annual Change, %	24.5	39.2	81.3	80.7
Adj. Net Int. Inc., TRY mn	152	255	208	325
Annual Change, %	-14.5	3.0	283.6	114.2
Net Fees & Comm. Inc., TRY mn	54	77	58	92
Annual Change, %	98.8	89.8	73.9	72.7
Net Profit, TRY mn	87	106	69	105
Annual Change, %	37.8	34.3	9.7	19.8

**Strong growth maintained...**

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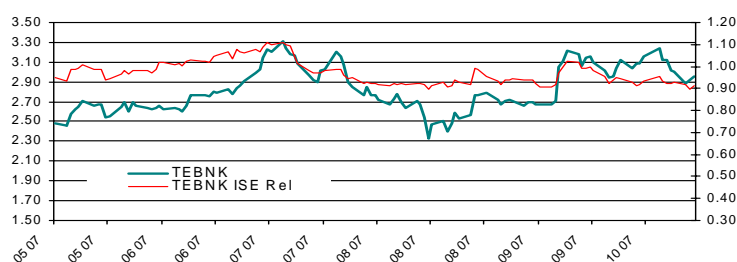
In line with aggressive growth strategies, TEB have continued its branch expansion and opened additional 83 new branches in the first nine months of 2007, already exceeding the bank's annual target of 60 branches for 2007. Assuming the aggressive growth policy continues in the coming quarters, and with no global turbulence, the bank's management aim to increase TEB's branch network by 135% to 400 by the end of 2010, which would imply approximately 60 new branch openings each year.

The fast branch expansion was one of the main drivers of above average growth rates. TEB has expanded its total asset size by 31% in 9M07 compared to 2006YE.

The fast branch expansion supported high growth rates both on retail loans and deposits. With its limited branch network, retail banking was not a core area for TEB until 2005. However total retail loans constitute 17% of total lending as of 3Q07, compared to 14.8% at the end of 2006.

The most impressive growth is observed in credit card business with 339% increase in 3Q07 compared to year-end 2006. In fact, the high growth in credit card business is mainly due to the low base effect, and credit cards still constitute only 3.2% of the total loan volume of the bank. It is also worth to mention that the improvement in the credit card business has started in the third quarter of 2006, when TEB and Garanti had an agreement that TEB could distribute the credit card brand name, "Bonus", of Garanti Bank.

<b>Key Valuation Metrics</b>	<b>09 06</b>	<b>2006</b>	<b>06 07</b>	<b>09 07</b>
P / E		26.11	24.90	23.65
P / BV		5.02	4.09	3.90
RoAE	21.6	21.3	20.1	20.5
RoAA	1.8	1.6	1.3	1.3
Spread	5.4	3.2	3.6	3.6
Net Interest Margin	7.5	4.8	5.3	5.4
Adjusted Net Interest Margin	7.0	4.0	5.2	4.9
Gross Loans / Cust. Dep.	87.6	94.0	92.1	93.5
NPL Ratio	0.9	0.9	1.3	1.6
NPL Provisioning	76.4	67.5	53.2	48.4
IEA / Total Assets	94.3	94.9	94.1	99.5
Net Loans / IEA	59.1	63.0	62.6	60.8
Securities / IEA	16.0	20.8	19.8	14.0
Free Capital / Sh. Equity	56.9	53.6	53.3	50.4
Cost / Income	64.1	63.3	66.7	65.1

**Relative Performance**


TEB's share in credit cards, though still small, has multiplied from 0.2% in 2006 to 0.9% in 3Q07. Although the credit card business will never be a core segment, we believe TEB may reach a market share of 1-2% in the coming years. Despite a slight decline in the share, housing loans expanded by 14% in 3Q and comprised 36% of TEB's total consumer loan book. Another high growing retail segment was general purpose loans with 14% quarterly growth rate, compounding to a ytd growth of 67%. Overall ytd growth of retail segment was 48% versus 29% growth of corp & commercial loans. However, in the third quarter, 16.5% growth in corporate & commercial loans was ahead of the retail loan growth.

TEB has historically enjoyed a good track record on loan quality and its NPL ratio. The high loan growth lifted the NPL ratio in 1H07, yet only to 1.6% - far lower than the sector average. Although this is still one of the lowest ratios in the sector, and the TEB's NPL ratio is significantly lower than the sector average of around 3.6%, the slight increase is mostly due to the aggressive increase in volume of the card business. TEB's NPL provisioning is also down from 68% to 48.4% as end of September 2007, relative to 2006 YE.

	Volume, TRY mn				Growth Rates		
	3Q06	2006	1H07	3Q07	QoQ	YtD	YoY
Loans	4,145	4,951	5,646	6,546	15.9%	32.2%	57.9%
Performing Loans	4,137	4,937	5,611	6,492	15.7%	31.5%	56.9%
Non-Performing Loans	36	45	74	104	39.6%	131.5%	190.3%
NPL Provisioning	27	30	40	50	27.0%	65.9%	83.9%
<i>NPL Ratio</i>	0.9%	0.9%	1.3%	1.6%			
<i>NPL Provisioning Ratio</i>	76.4%	67.5%	53.2%	48.4%			
Corporate & Commercial Loans	3,512	4,215	4,684	5,455	16.5%	29.4%	55.3%
Retail Loans	633	737	961	1,091	13.4%	48.0%	72.3%
Consumer Loans	603	689	796	882	10.8%	28.0%	46.2%
Housing Loans	278	303	342	390	13.9%	28.7%	40.1%
Auto Loans	192	211	196	199	1.2%	-5.8%	3.3%
General Purpose Loans	133	175	258	293	13.9%	67.3%	121.2%
Credit Card Loans	30	48	165	209	26.4%	339.4%	603.1%

TEB's security portfolio only comprises 14% of its total assets, and 60% of its securities are FRNs, composing predominantly of available for sale securities, with a share of 92% in total security portfolio as of 3Q07.

### Very impressive deposit growth

With a 13.5% growth in 3Q alone, the deposit volume expanded by 32.7% in 9M07. Benefiting from the branch expansion, the customer deposits rose by 33.1% ytd and 48.2% yoy, also increasing its market share to 2.2% as of 3Q07. Additional deposits were the main source of balance sheet growth in 3Q07. Yet share of demand deposits declined from 17% to 14%.

	Volume, TRY mn				Growth Rates		
	3Q06	2006	1H07	3Q07	QoQ	YtD	YoY
Deposits	4,888	5,426	6,346	7,201	13.5%	32.7%	47.3%
Bank Deposits	125	124	174	143	-18.0%	15.3%	14.7%
Customer Deposits	4,764	5,302	6,172	7,058	14.4%	33.1%	48.2%
LC	1,596	2,348	2,983	3,567	19.6%	52.0%	123.5%
FC	3,167	2,954	3,189	3,490	9.4%	18.2%	10.2%
Customer Time Deposits	3,895	4,290	5,086	6,046	18.9%	40.9%	55.2%
Customer Demand Deposits	868	1,012	1,086	1,012	-6.8%	0.0%	16.6%
<i>Demand Deposit Ratio</i>	18.2%	19.1%	17.6%	14.3%			

In July the Bank obtained a US\$100 mn borrowing through IFC (International Finance Corporation), which is a perpetual bond with 10th year maturity, which was an additional support for the funding base. Furthermore, TEB Mali Yatirimlar extended TRY 90 mn as a subordinated loan to the bank in August 2007.

As of 3Q07, the TEB's capital adequacy ratio was 13.98%. The capital increase of YTL was not reflected to 9M results, as the procedure was completed early in October. The capital increase is expected to improve the CAR of the bank.

Aggressive branch expansion has boosted the cost to income ratio to 65% above the sector level. Considering that bank's costs remain high with the new branch openings, we expect the cost to income ratio to remain near their current levels in the coming quarters as well.

The bank's net interest income soared by 80.7% compared to 1H06. Fees and commission income rose by 72.7% compared to 1H06. The main driver was the credit card segment with a 43% share in commission income. Despite the aggressive growth rates, the bank maintained its spread at 3.6% and NIM increased slightly from 5.3% to 5.4%, keeping the trailing ROE at around 20.5%.

At US\$ 1,972 mn current market capitalization, TEB trades with a 19.1% upside potential with respect to our target market capitalization. With its 2007 P/E and P/BV multiples of 17.22 and 2.73 respectively, we maintain our **"Buy"** recommendation for the stock.

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