

Turkish Banks

Valuations Are Hard to Ignore

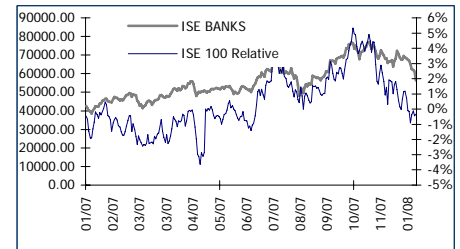
Upgrading the sector from Hold to BUY

- We are upgrading our recommendation, Akbank, Halkbank, YKB, Garanti and Isbank to BUY from HOLD due the recent weakness in the share prices and maintain our BUY recommendation in Sekerbank and Vakifbank.
- Following our downgrade in November 2007, the sector index fell by 17% and underperformed the ISE-100 by 4%. At present, we strongly believe that the declining stock prices released substantial value which no longer justifies a cautious view.
- We believe, the current valuation levels are approaching an oversold territory with some valuations nearing book values. **Based on the relative underperformance Akbank, Vakifbank, and Sekerbank are our top picks within our coverage universe.**

Cutting our 2008 EPS growth estimates from 17% to 14% on potentially higher funding and operating costs.

- Turkish banks are unscratched from the global subprime crisis with no exposure. However, the major pitfalls of the crisis are an increase in external funding costs (by around 50bps) and increasing reliance on deposit financing, as external financing should become scarce.
- Our downward revision is due to the increase in funding costs with higher deposit rates (see page 8) and increase in operational expenses on the back of aggressive branch expansion plans.
- Currently banks offer monthly deposit rates above 17%, 200bps above the CBT's current borrowing rate of 15.5%. We believe that increasing deposit rates reflect intensifying competition among major banks for market share and growth, toughened external funding conditions, and to an extent, lower utilization of the swap market.
- Our 2008 loan growth remains unchanged - We expect 28% and 32% growth in lending in 2008 and 2009, respectively, mainly driven by retail loans.
- In terms of profitability and fee generation, credit card loans and its related business (acquiring and issuing) should continue to provide the strongest value. The business has turned simply into a cash cow over the last two recent years.

	Rating	Share Price	Target Price	Upside	2008 P/BV	2008 P/E
Akbank	Buy	7.00	9.6	37%	1.8	10.8
Garanti	Buy	8.00	11.0	38%	2.0	9.4
Sekerbank	Buy	4.06	5.6	38%	1.6	8.4
Vakifbank	Buy	3.18	4.3	35%	1.3	8.1
Isbank	Buy	6.00	7.6	27%	1.3	9.6
YKB	Buy	3.36	4.3	28%	2.2	11.6
Halkbank	Buy	9.30	11.2	20%	2.6	9.5



Top picks

Akbank (AKBNK.IS), Upside:37%		BUY	
	2006	2007E	2008E
P/E	13.1	12.5	10.8
P/BV	3.0	2.0	1.8
ROE	22.2	19.2	17.5

Sekerbank (SKBNK.IS), Upside:38%		BUY	
	2006	2007E	2008E
P/E	31.2	13.5	8.4
P/BV	3.7	1.9	1.6
ROE	12.8	18.6	20.3

Vakifbank (VAKBN.IS), Upside:35%		BUY	
	2006	2007E	2008E
P/E	10.3	8.4	8.1
P/BV	1.8	1.5	1.3
ROE	17.4	19.6	17.7

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SUMMARY AND INVESTMENT CONCLUSION

We are upgrading our recommendation Akbank, Halkbank, YKB, Garanti and Isbank to BUY from HOLD due the recent weakness in the share prices and underperformance. We maintain our BUY rating in Sekerbank and Vakifbank. Following our downgrade in to Hold in November 2007, the sector index fell by 17% and underperformed the ISE by 4%. At present, we strongly believe that the declining stock prices released substantial value which no longer justifies a cautious view. Although, global markets remain under intense selling pressure, we feel current valuation levels are approaching an oversold territory with some valuations nearing book values. ***Based on the relative underperformance Akbank, Vakifbank, and Sekerbank are our top picks within our coverage universe.***

Turkish banks are unscratched from the global subprime crisis with no exposure. However, the major pitfalls of the subprime crisis for the Turkish banks are an increase in external funding costs by around 50bps and increasing reliance on deposit financing, as external financing should become scarce. On the other hand, none of the Turkish banks had an exposure in subprime loans and related derivatives.

We are cutting our 2008 EPS growth estimates from 17% to 14% on potentially higher funding and operating costs. Our EPS growth estimate is 17% in 2009. Our downward revision is due to the increase in funding costs with higher deposit rates (see page 6) and increase in operational expenses on the back of aggressive branch expansion plans. Our EPS growth does not take into account the strong dividend yield in Halkbank and Akbank.

Akbank (Buy, Target price TRY9.6, upside 37%) - Although Akbank does not have a margin drawback, its overcapitalization depresses its ROE. The management plans to resolve this with a generous dividend payout and a share buy-back (a key potential catalyst for the stock). The latter requires an amendment in the commercial code, which is planned to be passed in H1 2008. In 2008, we expect Akbank to achieve 27.6% loan growth, 17.5% ROE (without considering the share buy-back plans) and 16% earnings growth.

Sekerbank (Buy, Target price 5.6, upside 38%) - Sekerbank will complete the sale of its TRY155mn NPL stock in Q108, which should yield some TRY50mn. Following the rights issue in Q307, the bank is sufficiently capitalized. Sekerbank operates in a niche market, specialized in SME lending and micro-financing. It pursues an aggressive expansion strategy. Loan growth should reach 83% YoY when 2007 results are released. In 2008, we expect Sekerbank to achieve 43.3% loan growth, 20.3% ROE and 37% earnings growth. The stock trades on 1.7X P/BV (post-rights issue) on our 2008 estimates.

Vakifbank (Buy, Target price TRY4.3, upside 35%) - Vakifbank remains as an underrated value play mainly due to its quasi-state bank status and weak credit card operation. Increasing leverage and improvement in retail lending should lead to a re-rating as a major privatization play. Vakifbank shifted to an aggressive growth strategy since Q307. It is the cheapest large cap bank in our coverage universe with our 2008E P/BV of 1.3 and ROE of 17.7%.

TURKISH BANKS- KEY DATA AND VALUATION METRICS

	AKBNK	GARAN	ISCTR	VAKBN	YKBNK	HALKB	SKBNK
Key Data Metrics							
Price (TRY)	7.00	8.00	6.00	3.18	3.36	9.30	4.06
Target Price (TRY)	9.60	11.00	7.60	4.30	4.3	11.20	5.60
Mcap (\$ mn)	17,188	13,750	13,537	6,507	9,425	9,515	1,329
Target Mcap (\$ mn)	23,572	18,907	16,538	8,798	12,061	11,459	1,833
Target Upside (%)	37%	38%	27%	35%	28%	20%	38%
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY
Core Banking Target Val. (\$ mn)	22,766	18,260	12,636	8,303	10,427	11,278	1,793
Participation Target Value (\$mn)	806	647	3,902	496	1,634	180	40
Share Data							
Free Float %	36	52	33	25	24	25	30
Avg. Daily Volume (\$mn)	54,477	171,629	187,053	38,388	54,429	32,968	5,243
Absolute Performance							
1 week	-9.7%	-8.6%	-7.7%	-8.6%	-7.7%	-5.6%	-11.7%
1 month	-19.1%	-22.3%	-17.2%	-18.5%	-16.0%	-10.6%	-17.1%
1 year	-5.4%	46.5%	-6.4%	-9.6%	25.6%	-	132.2%
YTD	-19.5%	-23.8%	-18.4%	-23.2%	-18.4%	-	-21.9%
Relative Performance							
1 week	2.0%	3.3%	4.3%	3.2%	4.3%	6.7%	-0.3%
1 month	-2.3%	-6.2%	-0.1%	-1.5%	1.4%	8.0%	0.1%
1 year	-12.5%	35.5%	-13.4%	-16.4%	16.2%	-	114.7%
YTD	0.2%	-5.1%	1.7%	-4.3%	1.6%	-	-2.8%
Valuation Metrics							
P/E 06	14.1	17.7	14.9	10.3	22.5	13.5	25.9
P/E 07E	12.5	11.3	10.2	8.4	13.7	11.0	11.5
P/E 08E	10.8	9.4	9.7	8.1	11.6	9.5	8.5
P/E 09E	9.0	7.2	8.6	6.5	8.6	7.0	6.3
P/BV 06	3.0	3.6	1.8	1.8	3.4	3.0	3.7
P/BV 07E	2.0	2.5	1.5	1.5	2.7	2.9	1.9
P/BV 08E	1.8	2.0	1.3	1.3	2.2	2.6	1.5
P/BV 09E	1.6	1.6	1.1	1.1	1.7	2.1	1.2
P/Deposits (Current)	0.54	0.49	0.38	0.30	0.37	0.39	0.42
P/Assets (Current)	0.33	0.28	0.22	0.20	0.24	0.31	0.29
P/No. of branches (Current)	30.3	32.4	18.0	25.1	18.1	19.9	7.4
Risk Measures**							
CAR (tier-2 ratio)	20.4%	15.1%	20.8%	16.5%	12.9%	20.6%	18.2%
Leverage (Total Assets-Equity)/Equity	5.4	8.2	5.9	7.0	10.8	8.9	5.6
FX Position (Cumulative) TRYmn	-146.0	-58.7	-494.1	77.4	143.7	-63.3	9.0
Operational Data							
Branches (H107) #	692	519	918	317	636	585	219
Branches 9M07 #	698	545	929	329	660	586	230
2007YE	706	583	936	360	667	588	233
2008YE	782	728	960	480	807	592	260
2009YE	882	878	985	600	985	605	290
Personnel H107	12,832	12,919	18,909	7,828	13,101	10,538	3,643
Personnel 9M07	13,205	13,540	19,159	8,557	13,712	11,572	3,740
Key Financials							
Net Profit 2006 (TRY mn)	1,600	1,064	1,109	770	512	863	52
Net Profit Q107	435	377	367	219	188	238	31
Net Profit Q207	753	1,125	398	260	213	298	31
Net Profit Q307	385	482	594	330	232	278	47
Net Profit 2007E	1,898	2,370	1,744	1,053	842	1,059	141
Net Profit 2008E	1,956	1,941	1,711	984	991	1,224	192
Book Value 2006 (TRY mn)	7,041	4,670	9,410	4,463	3,425	3,831	437
Book Value 2007E	10,453	6,828	11,389	5,237	4,267	4,077	863
Book Value 2008E	11,745	8,294	13,099	5,906	5,258	4,401	1,055
Deposits 2006 (TRY mn)	34,202	30,139	46,399	24,842	31,127	27,188	3,047
Deposits 2007E	40,310	35,937	45,359	27,972	32,143	30,879	3,932
Deposits 2008E	46,605	44,331	50,623	32,843	34,878	35,774	5,136
Assets 2006 (TRY mn)	57,248	50,287	75,204	36,884	49,017	34,476	4,006
Assets 2007E	66,408	61,853	79,716	41,938	49,262	39,588	5,869
Assets 2008E	77,033	76,698	89,282	48,228	57,144	45,923	7,806
Profitability							
ROE 2006	23.9%	25.0%	11.9%	17.4%	15.1%	24.1%	12.8%
ROE Q107	22.0%	31.2%	15.4%	20.0%	21.6%	27.5%	27.5%
ROE Q207	32.6%	82.0%	16.1%	23.4%	23.2%	31.5%	25.9%
ROE Q307	15.6%	31.0%	22.5%	27.6%	23.5%	30.1%	28.1%
ROE 2007E	19.2%	28.0%	15.6%	21.7%	21.9%	27.0%	21.8%
ROE 2008E	17.5%	25.7%	14.0%	17.7%	20.8%	28.9%	20.0%
ROA 2006	2.9%	2.5%	1.6%	2.2%	1.4%	2.8%	1.4%
ROA Q107	2.9%	2.9%	1.9%	2.3%	1.6%	2.7%	2.9%
ROA Q207	4.7%	8.1%	2.1%	2.7%	1.8%	3.3%	2.6%
ROA Q307	2.4%	3.3%	3.1%	3.3%	1.9%	3.0%	3.6%
ROA 2007E	3.1%	4.2%	2.3%	2.7%	1.7%	2.9%	2.9%
ROA 2008E	3.0%	2.8%	2.0%	2.3%	1.9%	2.9%	2.8%
NIM 2006 %	4.8%	4.6%	4.0%	4.8%	4.5%	4.6%	7.0%
NIM Q107 %	4.9%	5.0%	3.9%	4.6%	4.3%	4.7%	9.3%
NIM Q207 %	5.2%	4.9%	3.6%	4.2%	4.5%	4.7%	7.2%
NIM 2007E %	5.1%	5.0%	4.0%	4.9%	4.3%	4.7%	9.1%
NIM 2008E %	5.0%	4.9%	4.1%	5.0%	4.6%	4.6%	9.0%
Free capital/Total Equity	86%	74%	36%	72%	45%	79%	74%
Before Tax ROE (annualised)	29.6%	56.1%	22.0%	27.3%	27.4%	35.5%	26.9%
Bank-Only ROE (annualised)	26.6%	52.0%	31.9%	26.6%	32.4%	-	25.2%
Bank-Only Before-Tax ROE (annualised)	32.3%	61.5%	39.5%	31.9%	39.4%	-	29.7%
Total BS Spread	1.8%	2.1%	2.4%	1.9%	2.7%	1.8%	3.8%

Sector Report

	AKBNK	GARAN	ISCTR	VAKBN	YKBNK	HALKB	SKBNK
Asset Quality**							
NPL ratio %	2.6%	2.3%	4.1%	5.4%	6.7%	6.8%	4.1%
NPL Coverage	100%	63%	100%	100%	80%	99%	100%
Total Provisions/NPLs	56%	30%	47%	19%	7%	11%	93%
Balance Sheet Breakdown**							
Loans/Assets	51.7%	58.3%	42.0%	52.0%	52.6%	42.0%	60.2%
Securities/Assets	38.1%	25.6%	32.0%	28.6%	26.4%	46.1%	23.0%
Liquid Assets/Assets	7.4%	11.6%	15.5%	14.3%	12.4%	8.8%	9.1%
Other Assets/Assets	2.7%	4.4%	10.5%	5.2%	8.6%	3.0%	7.7%
Deposits / Assets	61%	58%	57%	67%	66%	78%	70%
Borrowings / Assets	13.2%	14.3%	13.7%	12.0%	9.1%	2.4%	7.4%
Loan Breakdown (TRY mn)**							
Retail Loans (TRY mn)	11,432	12,673	11,048	5,817	9,453	3,442	490
Credit Card	3,527	5,165	3,105	543	6,072	236	77
Housing	3,674	3,863	3,526	2,165	1,951	1,405	196
Auto Loans	1,199	1,152	904	150	469	57	35
Other Consumer	3,032	2,493	3,513	2,959	961	1,744	182
Profit Breakdown**							
NII (TRY mn)	2,287	1,995	2,046	1,225	1,451	1,239	293
Adj. NII (For FX Gain/Loss)	2,407	1,929	1,973	1,342	1,589	1,423	358
NIM	5.2%	5.1%	4.0%	4.5%	4.4%	4.7%	8.8%
Adj. NIM (For FX loss)	5.4%	4.9%	3.9%	4.9%	4.8%	5.4%	10.8%
Adj. NIM (For FX loss and trading)	5.4%	4.8%	4.6%	5.0%	4.6%	4.6%	8.9%
Fee & Comm. (TRY mn)	723	942	855	246	726	243	90
On risky transaction	33	47	71	28	38	34	24
On riskless transaction	690	895	784	218	687	208	67
Total Loss Provisions	498	241	643	282	186	154	131
Loss Provisions / Pretax earnings	26%	10%	38%	29%	24%	15%	103%
Currency Breakdown**							
Total Assets	64,363	59,505	76,460	40,081	47,917	38,004	5,512
TRY %	62%	58%	64%	70%	62%	84%	81%
FX %	38%	42%	36%	30%	38%	16%	19%
Loans	33,302	34,715	32,125	20,833	25,204	15,980	3,319
TRY %	70%	57%	75%	73%	71%	84%	90%
FX %	30%	43%	25%	27%	29%	16%	10%
Securities	24,545	15,258	24,464	11,444	12,657	17,531	1,266
TRY %	62%	72%	53%	69%	50%	89%	79%
FX %	38%	26%	50%	34%	39%	10%	20%
Total Liabilities	64,363	59,505	76,460	40,081	47,917	38,004	5,512
TRY %	61%	55%	65%	69%	58%	78%	66%
FX %	39%	45%	35%	31%	42%	22%	34%
Deposits	39,089	34,602	43,499	26,936	31,517	29,707	3,860
TRY %	58%	49%	64%	77%	58%	74%	62%
FX %	42%	51%	36%	23%	42%	26%	38%
Growth**							
Last Quarter QoQ							
Loans	-0.2%	5.2%	3.2%	10.5%	4.9%	8.4%	10.6%
Securities	-6.0%	1.9%	-5.5%	3.7%	-7.7%	-2.3%	4.3%
Deposits	-2.3%	3.3%	-7.3%	4.3%	-0.7%	2.7%	-2.8%
Assets	-3.2%	3.5%	-0.6%	2.3%	0.2%	3.1%	11.6%
Annual 2007E							
Loans	24.7%	36.6%	15.5%	25.0%	18.8%	51.5%	83.0%
Securities	18.0%	4.4%	6.8%	12.5%	-22.0%	-4.0%	5.2%
Deposits	17.9%	19.2%	6.0%	12.6%	3.2%	13.6%	29.1%
Assets	16.0%	23.0%	9.0%	13.7%	0.5%	15.0%	46.5%
Efficiency**							
Cost / Income	33.8%	33.2%	39.8%	36.5%	64.5%	35.5%	47.3%
Fee & Comm / Costs	58.9%	73.3%	55.7%	34.2%	41.8%	37.7%	38.7%
Cost / IEA	2.8%	3.3%	3.0%	2.6%	5.3%	2.4%	7.0%
Cost / Assets	1.3%	1.6%	1.3%	1.2%	2.4%	1.2%	3.3%
Loans / Employees	2.5	2.6	1.7	2.4	1.8	1.4	0.9
Loans / Branches	48	64	35	63	38	27	14
Deposits / Employee	3.0	2.6	2.3	3.1	2.3	2.6	1.0
Deposits / Branches	56	63	47	82	48	51	17

** Based on 9M07 financials, Halkbank 2006 figures and ratios are based on consolidated financials

*** Based on unconsolidated BRSA financials.

**** Garanti, Akbank, Vakifbank P/E and P/BV is adjusted for one-off gains

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Garanti (Buy, Target price TRY11.0, upside 38%) - GE Consumer finance's (GECF) sale of the 5% stake back to Dogus appears to be an equity withdrawal and the underlining factor in the recent underperformance of Garanti shares. To a certain extent, this should have been perceived as GECF's declining commitment to Garanti. Minority investors may have been disappointed with the deal price, which may have appeared as a fair value. However, even in the absence of GECF, Garanti would be the strongest retail franchise in the Turkish banking system with a superb operational performance. Garanti switched to an aggressive retail branch expansion policy, which will enable strong loan and balance sheet growth, thereby inflating C/I ratio modestly. In 2008, we expect Garanti to achieve 37.4% loan growth, 25.7% ROE and 20.6% earnings growth. **However, Garanti bank share is likely to underperform the market, until Dogus Group completes the sale of 94.5mn Garanti shares recently quoted at the ISE.**

Isbank (Buy, Target price TRY7.6, upside 27%) - Isbank's operational performance has been disappointing. In 2007, it has lost market share both in the asset and deposits. Although we upgrade the stock Buy from Hold from the valuation perspective, we still believe Isbank has a lack of earnings momentum and catalyst, which is unlikely to lead a long-term outperformance. The large non-core participation portfolio of Isbank continues to be a drag on profitability and ROE. Therefore, asset disposal remains still as the key to unleash value for its shareholders and we will remain pessimistic on its value creation until the management decides on a key strategic change on this event.

YKB (Buy, Target price TRY4.3, upside 28%) - YKB remains a restructuring story and trades 23% below our target value of TRY4.30 per share. The restructuring following the merger has been almost completed. YK Securities and YKB Nederland N.V., the remaining subsidiaries under KFS, will be acquired by YKB via cash for US\$159mn and 97.5mn, respectively. KFS will then inject the cash via a rights issue of some 7%. Thus, minority investors will be indirectly paying for these participations in the rights issue. We continue to believe that YKB remains the most undercapitalized top tier bank. Hence, we doubt whether the aggressive branch expansion plan is a right strategy, as it would delay the rationalization of the branch network and the recapitalization. YKB still trails top tier banks in terms of branch and personnel efficiency. Still, we expect NIM of YKB to remain stable in the next 3 years, as it has still the highest deposit costs among top six banks.

Halkbank (Buy, Target price TRY11.2, upside 20%) - Halkbank is the most unlevered bank among the top tier banks, which means that it has tremendous potential to grow its balance sheet. In our view, Halkbank will achieve the highest lending growth in 2008 (and has in 2007) and reach an impressive ROE of 27.0% in 2007 and 28.9% in 2008. The stock fully deserves its outperformance due to its superb operational efficiency and performance. Our conservative fair value estimate for Halkbank is TRY 11.2 per share, a potential upside of 20%.

KEY DEVELOPMENTS IN THE SECTOR

Q407 loan growth was relatively strong reaching 8% QoQ, driven by home and cash consumer loans. Credit card lending also picked up reaching 7.2% QoQ on the back of banks' aggressive marketing strategies involving increasing installment payments. Total TRY lending growth fell just shy of 30%, whereas M&As and project financing boosted FX denominated lending growth to an impressive 18.2% in FY07 despite the strength of TRY.

Table 1. Segmental Loan Growth Data (FY07)

TRYmn	2006 (1)	Q107 (2)	H107 (3)	3Q07 (4)	Q407 (5)	chg. (5)/(1)	chg. (5)/(4)	chg. (5)/(3)	% Share in Total
Total Loans	215.0	225.6	238.6	251.6	271.9	26.5	8.0%	17.0%	100%
TL Loans	156.5	164.1	174.9	188.5	202.7	29.5	7.6%	20.4%	75%
FX loans	58.5	61.5	63.7	63.2	69.2	18.2	9.5%	8.0%	25%
Segmental Breakdown									
Loans to the Household I+II	67.1	69.9	77.2	83.6	91.8	36.8	9.9%	24.5%	34%
Consumer Loans (I) =a+b+c	45.9	48.6	53.8	59.3	65.8	43.3	10.9%	29.2%	24%
Home Loans (a)	22.2	23.3	25.5	28.2	30.9	39.4	9.7%	27.1%	11%
Car Loans (b)	6.4	6.0	5.9	5.8	5.9	-7.4	2.7%	-9.9%	2%
Other Consumer Loans (c)	17.4	19.3	22.4	25.4	29.0	67.0	14.2%	46.2%	11%
Credit Cards (II)	21.2	21.3	23.4	24.2	26.0	22.8	7.2%	14.5%	10%
Commercial Instalment Loans	24.0	24.8	28.1	29.9	32.3	34.3	7.9%	24.5%	12%
Other Corporate Loans	123.9	130.9	133.3	138.2	147.8	19.3	7.0%	11.5%	54%

Source: TEB Investments

Our 2008 loan growth estimate remains unchanged - We expect 28% and 32% growth in lending in 2008 and 2009, respectively, mainly driven by retail loans. However, those who are projecting a much higher lending growth in excess of 30% in 2008 may well be disappointed. Mortgage loans should be the driving force of loan growth with our estimated growth rate of 40% in 2008 and 45% in 2009. This will be followed by cash consumer loans with an almost equal growth rate. However, in terms of profitability and fee generation, credit card loans and its related business (acquiring and issuing) should continue to provide the strongest value. The business has turned simply into a cash cow over the last two recent years. Credit card lending is the highest margin business amongst all segments and the backbone of profitability. Among top tier banks, **Halkbank and Garanti Bank** will lead lending growth with 43% and 37.4% respectively, followed by **Akbank, Vakifbank, and YKB** with an almost equal loan growth of 28% YoY. Among small caps, **Sekerbank** should continue to grow aggressively with an estimated lending growth of 43% YoY in 2008. Isbank will trail with an estimated loan growth of 21% YoY in 2008.

Table 2. Deposit and Securities Growth (FY07)

TRYmn	2006 (1)	Q107 (2)	H107 (3)	Q307 (4)	Q407 (5)	chg. (5)/(1)	chg. (5)/(4)	chg. (5)/(3)
Securities	107.9	120.8	119.5	117.5	113.6	5.2	-3.4	-5.0
Total Deposits	308.4	319.0	330.9	332.5	350.6	13.7	5.5	5.9
<i>FX deposits</i>	119.3	122.6	122.4	119.0	123.1	3.2	3.4	0.6
<i>TRY deposits</i>	189.1	196.4	208.5	213.4	227.5	20.3	6.6	9.1
Public Sector Banks								
Total Deposits	110.5	115.2	117.8	121.2	123.5	11.8	1.9	4.8
<i>FX deposits</i>	27.0	27.4	27.6	26.9	26.9	-0.3	0.2	-2.7
<i>TRY Deposits</i>	83.5	87.8	90.2	94.3	96.6	15.7	2.4	7.1
Securities	58.7	58.3	58.0	59.4	54.6	-7.1	-8.1	-6.0
Private Deposit Banks								
Total Deposits	197.9	203.8	213.1	211.3	227.1	14.8	7.5	6.6
<i>FX deposits</i>	92.3	95.2	94.8	92.2	96.2	4.3	4.4	1.5
<i>TRY Deposits</i>	105.6	108.6	118.3	119.1	130.9	23.9	9.9	10.6
Securities	49.2	62.5	61.5	58.2	59.0	19.8	1.5	-4.0

Source: TEB Investment, BRSA

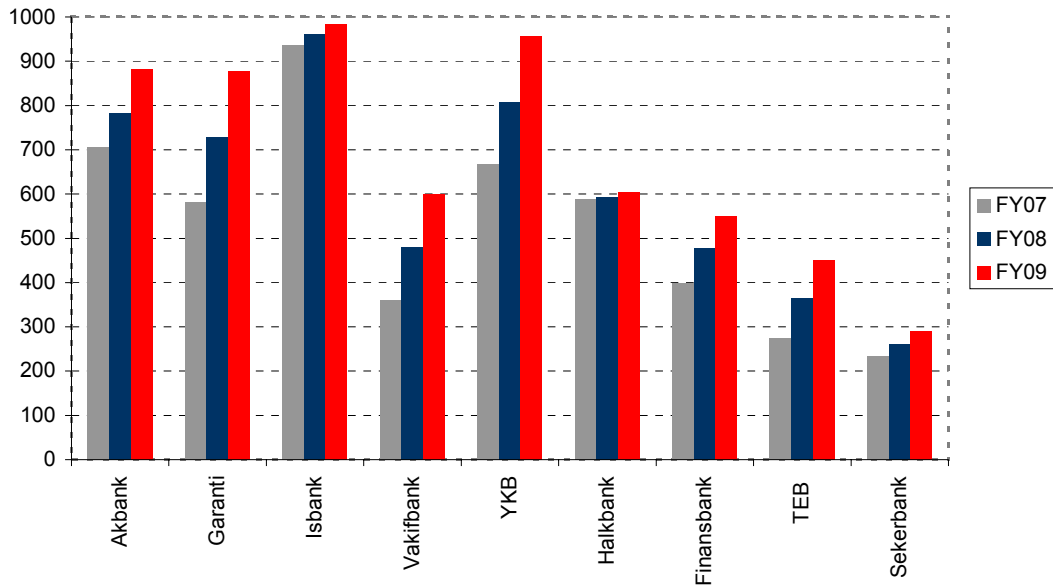
Total deposit growth was 13.7% in FY07 - TRY deposit growth was particularly strong at 20.3%, whereas FX deposit growth remained at a meager 3.2% YoY. However, the detailed data reveals that a major portion of deposit growth was in Q407 at the expense of higher funding costs. The hunt for savings deposits turned into a deposit war in Q407 reaching as much as 20% for monthly deposits in December'07, mostly for window dressing purposes.

We believe, rising deposit rates have not normalized until yet. Currently banks offer monthly deposit rates above 17%, 200bps above the CBT's current borrowing rate of 15.5%. We believe that increasing deposit rates reflect intensifying competition among major banks for market share and growth, toughened external funding conditions, and to an extent, lower utilization of the swap market. One of the relatively large banks, which used to rely heavily on cross-currency swap funding for TRY creation started to shift into deposit funding in Q307, increasing the pressure on rates. Although the swap market is well alive, Turkish banks have reduced their utilization and maturity to 1-2 years with the increase in swap funding rates. On the demand side, foreign banks' willingness to offer swap funding (to open a long TRY position) has also decreased with the subprime crisis. All in all, banks are relying much more on TRY deposits for funding growth. As the growth of TRY deposits could at best reach 20% compared to our estimated 32% TRY loan growth in 2008, the upward pressure on TRY deposit rates should be inevitable throughout this year. Thus, we expect monthly deposit rates to cruise at 150bps above the CBT borrowing rate on average in 2008. **Major banks with a strong deposit franchise, and demand deposit base, such as Garanti Akbank, could shoulder this burden.** However, several mid-sized banks will witness a squeeze in their margins.

The branch network expansion has been the key strategy of several banks to extend retail loans and collect additional deposits. Garanti has the most aggressive branch expansion strategy, planning to open 300 new branches in the next two years. YKB has redefined its strategy with the change of the CEO and started to pursue an aggressive branch expansion policy, planning to add 300 in the next two years. Prior of its privatization, Vakifbank has also launched an aggressive balance sheet growth policy dominated by rapid increase of the branch network. Vakifbank added 31 new branches on top the existing 329 in H207 and will increase its branch network to 480 from 360 in 2008 and to 600 in 2009. Akbank plans to add 100 retail branches in 2008. TEB and Finansbank already continue to pursue aggressive branch expansion policies. In general, these branches are mainly small retail branches for deposit collection and extending retail loans. The percentage increase in the number of branches of these banks will reach 14% in 2008 and 13% in 2009. Nevertheless, such a strong

expansion requires extensive new staff hirings. We estimate that the combined number of personnel will increase by 10% in 2009 and an additional 9% in 2009.

Fig 1. Branch Expansion Plans

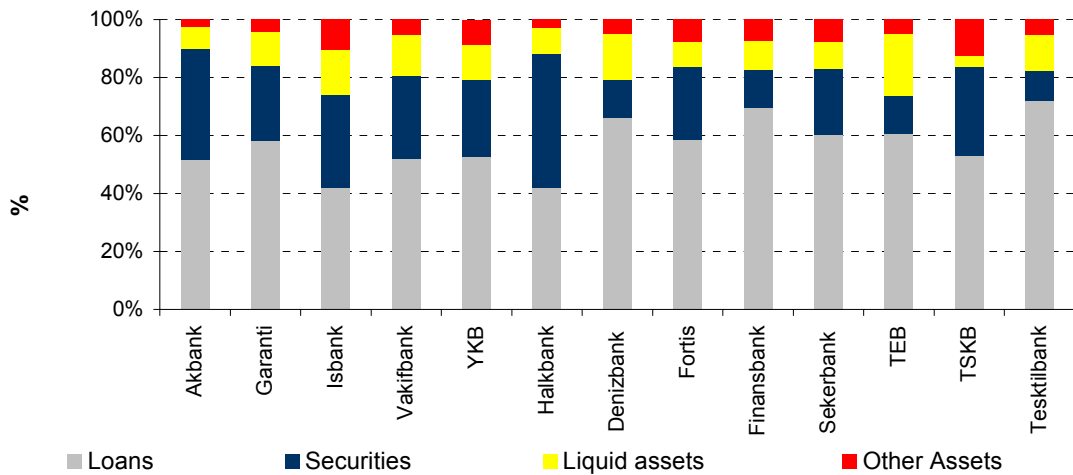


Source: TEB Investment, BRSA

The quest for growth creates margin pressures. Most bank managements believe to secure above market growth rate on deposit and loan market via aggressive branch expansion. While this is inevitable in a highly competitive environment and would enhance franchise value in the long term (for those who can survive the competition), some near term targets may well fall short of initial projections as it could hurt margins more than expected. Even if margin pressures remain bearable, efficiency should decline with soaring cost/income ratios, which could create a drag on ROEs.

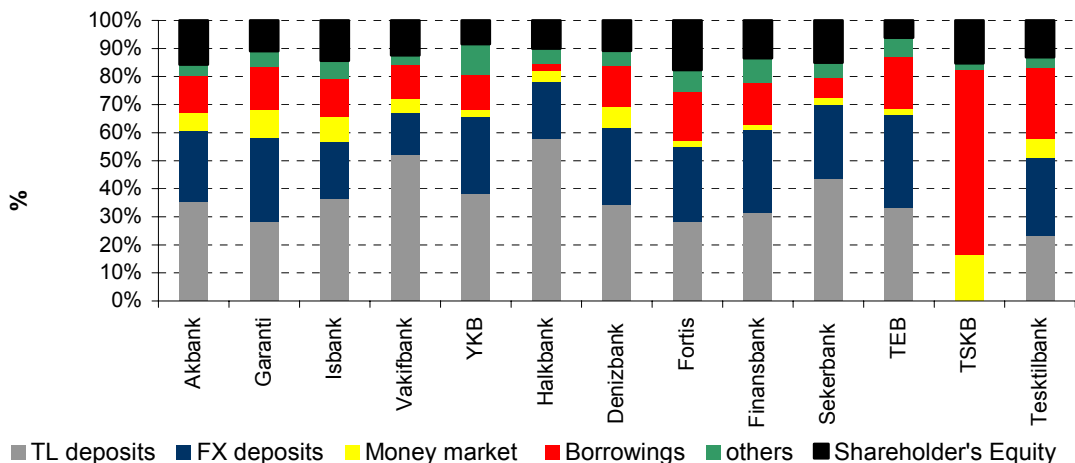
The Asset and Liability Structure: How much room for growth?

Securities continue to have a relatively high share in total assets and this provides room to grow the lending business. Among the top six banks, Halkbank has the largest securities portfolio with 46.1% followed by Akbank with 38.1%, Isbank (32.0%) Vakifbank (28.6%) YKB (26.4%). Garanti has the smallest securities portfolio with a 25.6% share in total assets and the highest loans to assets ratio with 58.3%. Loans constitute a relatively higher share of total assets among mid and small sized banks. In general, the share of securities in total assets among Turkish banks is still relatively very high. Therefore, banks have relatively high flexibility to grow their loan books via reducing their securities portfolio.

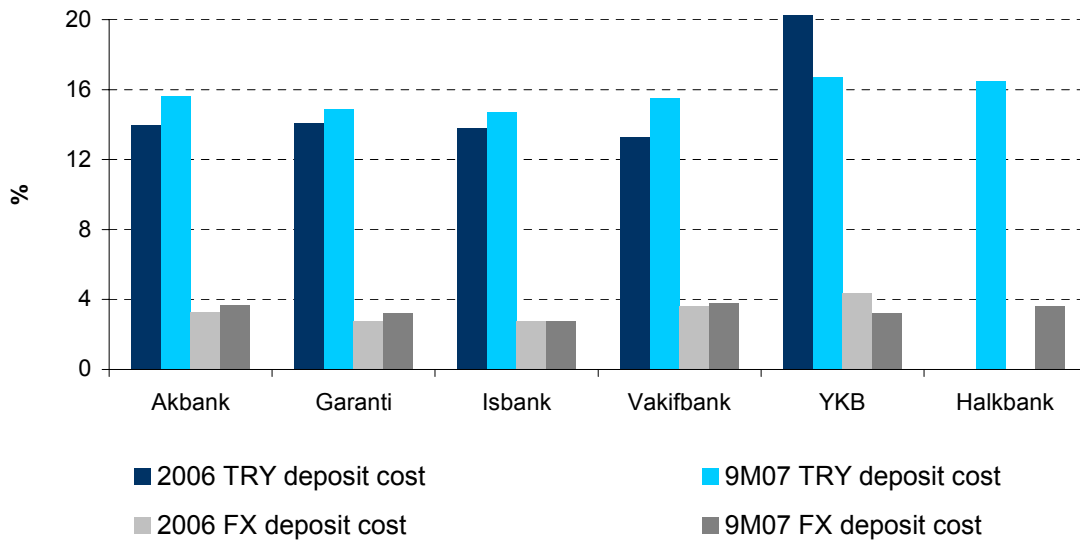
Fig. 2 Asset Structure of Turkish Banks 9M07


Source: Company Reports, TEB Investments

Halkbank seems to be the most advantageous in terms of balance sheet composition to attain higher loan growth. The majority of Turkish banks achieve their external funding through syndication loans. Considering that none of the banks aim to increase its external funding in 2008, increasing deposits remain as the major alternative for growing the balance sheets. TRY5bn out of the TRY17.5bn securities portfolio of Halkbank will be redeemed in 2008, enabling the bank with ample liquidity to grow its loan book. As for Garanti and Akbank, TRY deposit growth remains crucial for balance sheet growth.

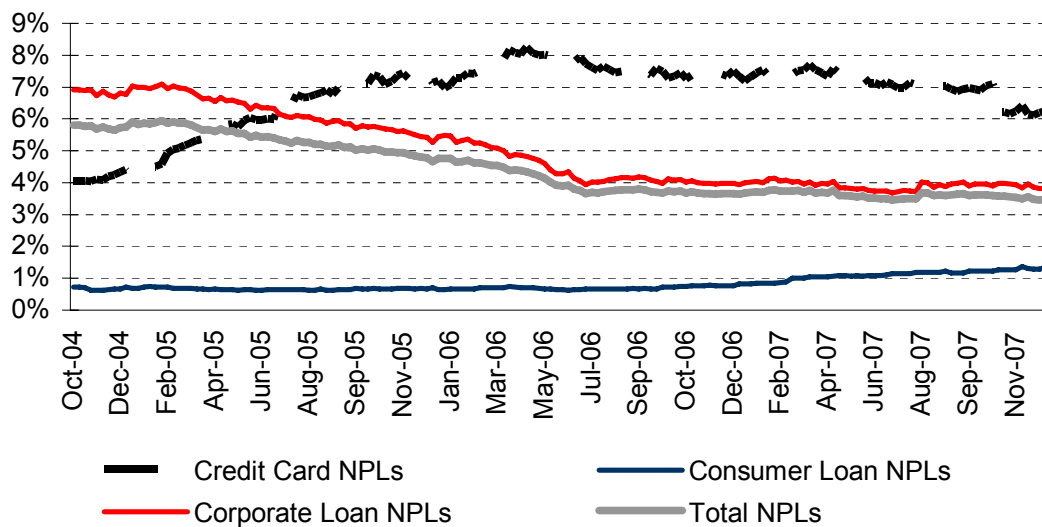
Fig. 3 Liability Structure of Turkish Banks 9M07


Source: Company Reports, TEB Investments

Fig. 4 Cost of Deposits


Source: Company Reports, TEB Investment

Isbank and Garanti have the lowest blended deposit costs among top tier banks. This is mainly due to their strong retail franchise, which is reflected as a high share of demand deposits in the total deposit base. Isbank and Garanti have lowest FX deposit costs.. YKB and Halkbank perform worst in terms of both TRY and FX deposit costs. With the increasing saving deposit costs, demand deposits became more important than ever in order to keep the blended deposit costs under control.

Fig. 5 Gross NPLs of the Turkish Banking Sector


Source: BRSA

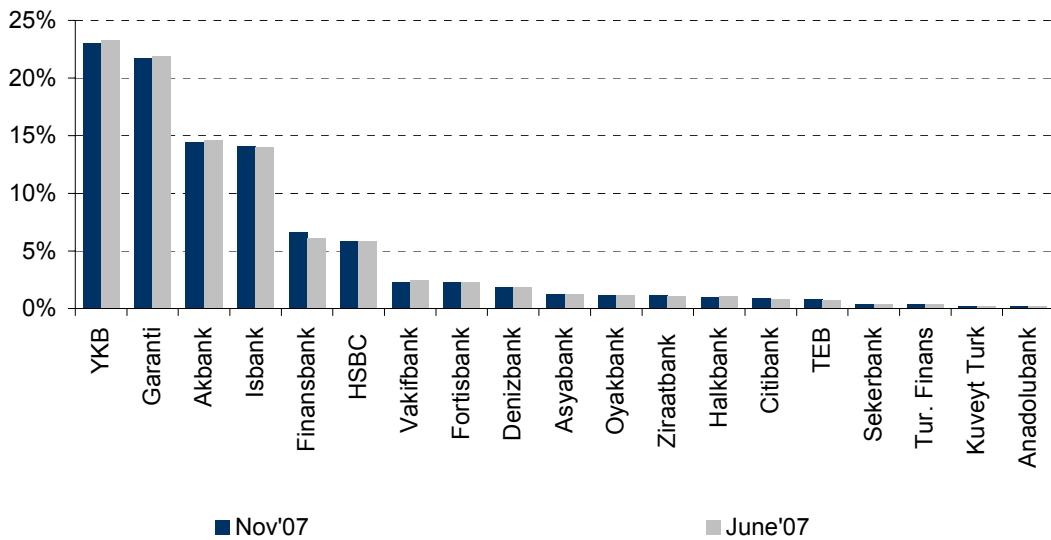
Gross NPL's of the sector has remained fairly stable in H207. Corporate sector gross NPLs remained fairly stable at 3.8% in H207. The sharp decline of credit card NPLs has offset the

increase in consumer loan NPLs. Credit card NPL's fell by 0.8% throughout H207 to 6.3%, whereas consumer loan NPLs rose to 1.3% by 0.2pp. The increase in consumer loan NPLs occurs mainly in cash consumer loans, whereas the NPL level of home loans is still negligible. Overall provisioning in the sector remained more than adequate at 89%, with most of the banks still sticking to 100% provisioning policy.

The Credit Card Business

The market shares remain broadly unchanged since June'07. The first five major players continue to control 80% of the market share both in the issuing and acquiring side as of November'07. Garanti and YKB lead the market on the acquiring side with 23.6 and 21.9% market share, losing 0.2% and 0.4% market share, respectively. On the other hand, TEB and Isbank have gained 0.3pp and 0.2pp on the acquiring side reaching 1.4% and 14.1% market share, respectively. On the issuing side, YKB and Garanti have lost insignificant market shares of 0.3% and 0.2% respectively. Finansbank captured 0.5% market share and attained 6.6% overall market share in the January-November'07 period.

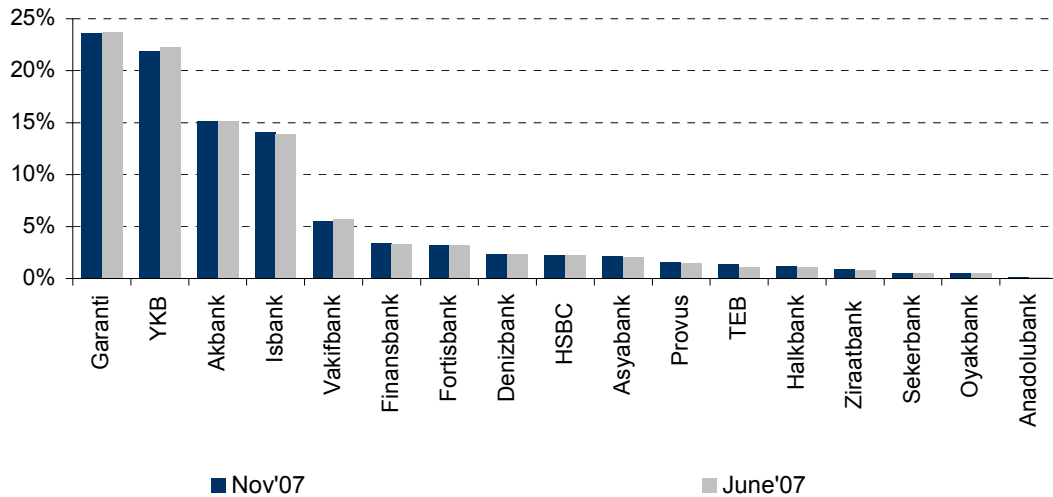
Fig. 6 Issuing market share



Source: Interbank Card Center, TEB Investments

The clustering around major credit card brands continues. Vakifbank's co-branding agreement with the YKB and Halkbank's co-branding agreement with HSBC's advantage show that the market continues to cluster among major brands via co-branding agreements. Vakifbank's co-branding agreement should boost its issuing volume and fee income, as it is already relatively strong on the acquiring side. Vakifbank will pay a fee per issuing volume, boosting YKB's fee income. Halkbank aims to capture market share both on the acquiring and on the issuing side. Therefore, it has chosen HSBC's advantage card in order to limit the overlapping on the acquiring side.

We believe that Halkbank, TEB, Finansbank will continue to capture additional market share both on the issuing and acquiring side. However, the first 5-6 players are likely to continue to dominate the credit card market both on the issuing and acquiring side in the coming years.

Fig. 7 Acquiring market share


Source: Interbank Card Center, TEB Investments

Valuation

The Gordon growth model is our key valuation methodology. We used a two stage 'Gordon Growth Model', to derive our bank only target book values. Using multiple stages allows us differentiate for the growth and profitability of various periods. Our first stage is between 2007-2010 where we have explicit income statement and balance sheet forecasts for each bank. Our stage is between 2011-2020, where banks are still assumed to be in a relatively strong growth phase, while we no longer use explicit forecasts. In this period the ROE's begin to decline, however the dividend payouts increase.

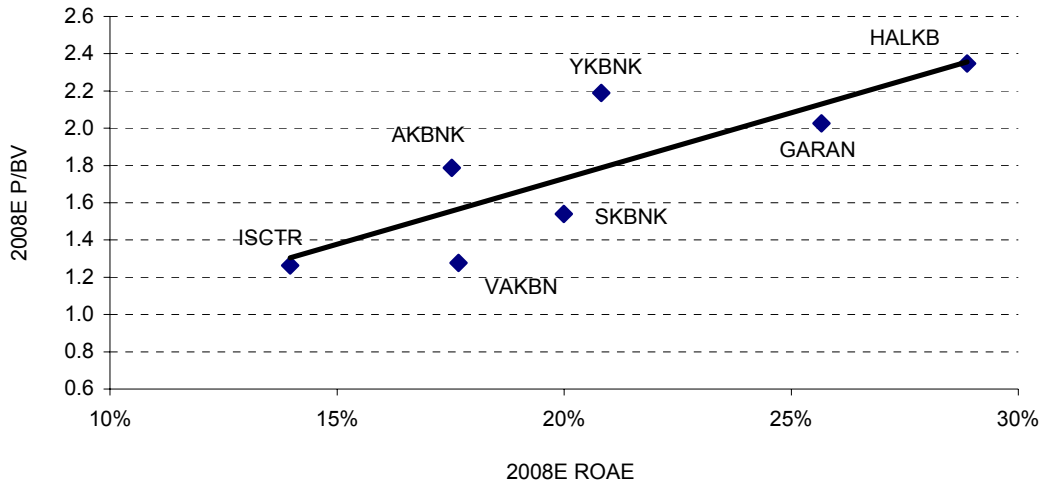
Our proxy for nominal risk free rate is the 7-year TRY denominated bond, which currently trades at 16.7% annualized yield. We assume that the nominal risk free rate will decline to 15.0% in 2008 and to 13.5% in 2009. Between 2010-2020, we assume an 11% average risk free rate, which would decline to 6.5% in the terminal stage. The risk premium, assumed to be 5% until 2020, declines to 4.0% in the terminal stage. Although these rates may seem too aggressive, they look plausible under a real convergence scenario.

Each model is explicitly available where we discuss the relevant bank covered in this report which begins on page 16.

The "bank-only" P/BV versus ROE's is a valuable yardstick in measuring comparable valuations. Note the BRSA bank-only financials are distorted as the impact of participations is fully reflected on balance sheets. For instance, while Is Bank does not lag its peers on core banking profitability and valuation, it is punished by the low return of its participations. Hence, this proves Isbank can enhance value via disposals and asset sales. According to our 2008 bank only estimates (Figure 8), Garanti and Halkbank are outliers with substantially high ROE and below trendline P/BV. Halkbank is even more so, as the multiples do not take into account Halkbank's generous dividend yield of 7% in 2008. Vakifbank also score favorably, albeit not as much as Garanti. On the other hand, YKB and Isbank appear to trade at a premium. Although, we have a straight line depicting the P/BV vs. the ROE relationship, we believe that the

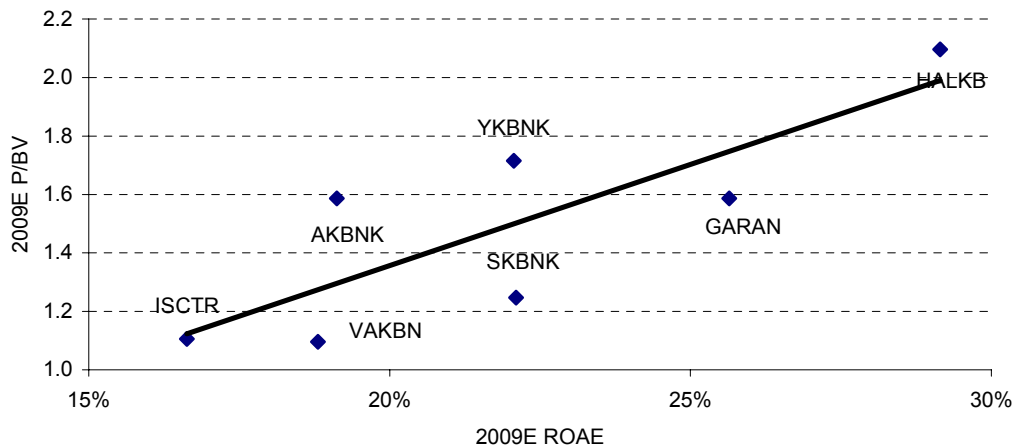
relationship is not a linear one. Banks with lower profitability (ROE) below or close to the CBT's policy rate, trade at a discount to the linear P/BV ROAE relationship. Increasing profitability above the policy rate boosts banks valuation also more than proportionally.

Fig. 8 P/BV vs. ROE (2008E BRSA Bank-Only)



Source: Company Reports, TEB Investment

Fig. 9 P/BV vs. ROE (2008E BRSA Bank-Only)



Source: Company Reports, TEB Investments

International Comparables

Turkish banks look relatively at discount to their counterparts in other emerging markets. However, the difference seems to have narrowed substantially. One should take into account the returns in excess of the policy rate rather than absolute profitability, which also explains the discount of Turkish banks. (The figures below are consensus estimates for Turkish and comparable emerging market banks.)

Table 3. International Comparison of Turkish Banks, Consensus Estimates

Name of the Bank	Country	P/EPS		ROE	
		2007E	2008E	2007E	2008E
Erste Bank	Austria	10.4	8.7	14.1%	15.4%
Kreditanstalt	Austria	15.8	14.8	13.9%	16.3%
Zachodni WBK	Poland	13.1	11.4	23.4%	23.5%
OTP Bank	Hungary	10.0	8.8	24.3%	23.4%
ABSA	South Africa	7.6	6.6	27.0%	26.0%
Nedbank	South Africa	8.1	7.1	20.6%	21.6%
Leumi	Israel	7.7	8.4	16.2%	13.7%
Banco Do Brazil	Brazil	12.4	10.0	25.0%	26.7%
Bradesco	Brazil	12.4	10.8	27.4%	26.3%
Sberbank	Russia	18.3	14.1	23.6%	21.8%
USBN	Russia	10.4	NA	15.9%	19.5%
Akbank	Turkey	10.0	8.0	25.4%	23.1%
Garanti	Turkey	8.4	8.2	32.6%	26.4%
Isbank	Turkey	10.8	8.6	16.1%	17.4%
Vakifbank	Turkey	8.4	7.1	21.1%	21.6%
YKB	Turkey	13.9	9.8	22.9%	24.1%
Halkbank	Turkey	10.5	8.9	26.5%	26.6%
Sekerbank	Turkey	12.5	8.4	17.0%	20.1%

Source Bloomberg, TEB Investment

Akbank

Time to exploit overcapitalization

Upgraded
Buy

Upgrading from Hold to Buy due recent price weakness

- We upgrade Akbank to Buy from Hold due to its strong underperformance, reducing our target price to TRY9.6 per share from TRY10, implying an upside of 39%.
- Akbank remains as a safe bet with a small participation portfolio and lack of non-core participations along with an efficient cost structure.

ROE suffers from overcapitalization

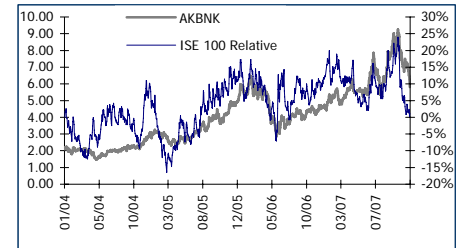
- Akbank continues to have the strongest capital base among top tier Turkish banks. This provides tremendous potential for leveraging and growth.
- In order to increase its leverage, Akbank will opt for a dividend payout ratio of some 45% for the next 2-3 years, implying a generous dividend yield of 4% in 2008.
- Totally aware of the fact that this would not suffice, Akbank's management also plans a share buy back in 2008, which requires the amendment to the commercial code, enabling share buy-back.
- The subprime crisis and its impact on Akbank's minority shareholder Citibank makes inorganic growth in the near future very difficult, if not impossible. Therefore, we don't expect Akbank to bid in the upcoming Halkbank privatization.

Disappointing 3Q07 results.

- Akbank's 3Q07 results were disappointing, as increasing loan loss provisions depressed the bottomline.
- Akbank will open some 100 small retail branches in both 2008 and 2009, which will improve its retail lending growth with minor impact on operating costs.

Key Data (TRY mn)	2006	2007E	2008E	2009E
Net Interest Income	2,540	3,082	3,488	3,961
Fee Income	807	976	1,172	1,394
Net Income*	1,600	1,898	2,147	2,455
EPS (TRY)	0.53	0.63	0.72	0.82
Dividend per share	0.15	0.22	0.28	0.32
Dividend Yield (%)	2.10	3.14	4.07	4.60
Equity	7,041	10,453	11,745	13,234
Free Capital	5,442	8,992	10,282	11,598
P/E	13.1	12.5	10.8	9.0
P/BV	3.0	2.0	1.8	1.6

2007E figure includes TRY270mn one-off income from asset disposals (pre-tax)



Stock Data	As of Jan 22 st
Bloomberg	AKBNK.TI
Reuters	AKBNK.IS
Close (YTL)	7.00
Target Price (YTL)	9.60
Mkt cap (USDm)	17,188
Free float (%)	28.7
Key Owners (%)	Sabancı Holding 31.38%
International Holders as a % of Free Float	73.3
Shares Outstanding	3,000,000
Avg. 6m Daily Vol. (\$m)	59.6
ISE-100 (TRY)	44,594

Performance	1M	3M	12M
Absolute (%)	-19.1%	-30.3%	-5.4%
Relative (%)	-2.3%	-13.1%	-12.5%

Key Ratios (%)	2007	2008E	2009E
NIM	5.1	5.0	4.8
ROE	19.2	17.5	18.6
ROA	3.1	3.0	2.9
Loans/Assets	53.2	58.5	65.5
Loan Growth	24.7	27.6	32.1

Valuation
Table 4. Gordon growth Model For Akbank

	2007E	2008E	2009E	2010E	2011-2020	Terminal
Growth					11.4%	6.1%
Beta	1.06	1.06	1.06	1.06	1.03	1.00
Dividend payout Ratio					30%	55%
Core Bank ROE					18.2%	14.0%
Risk free Rate	16.5%	15.0%	13.5%	13.0%	10.5%	6.5%
Market Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%
Required Return (discount rate)		20.3%	18.8%	18.3%	15.7%	10.5%
Dividend per share		0.22	0.28	0.32		
Bank-only Target P/BV				2.57		
Bank Only Book Value (TRYmn)				14,097		
Bank Only Target Value (TRYmn)				36,271		
Bank Only Target Value (TRYmn)		25,808				
Fair Value of Participations		985				
Total Fair Value (TRYmn)		26,793				
Number of Shares		3,000,000,000				
Fair value per share		8.9				
Present Value of Dividends (2008-2009)		0.7				
Target Price		9.62				
Current share price		7.00				
Upside		37.4				

Table 5. Warranted Equity Method

Warranted Equity Method	
Sustainable bank only ROE	23.5%
Growth	7.00%
Risk free rate	8.0%
Beta	1.06
Equity Risk Premium	5%
Cost of Equity	13.3%
Benchmark P/BV (2007)	2.6
2007E Equity	10,428
Target Bank Only MCAP (TRY mn)	27,312
Fair Value of Participations (TRY mn)	985
Total Fair Value (TRY mn)	28,296
Current MCAP (TRY mn)	21,000
Upside	35%

Financials
Table 6. Balance Sheet and Income Statement (Unconsolidated TR GAAP Financials)

Income Statement in TRY Millions	2006	2007E	2008E	2009E	2010E	9M07	9M06
Interest Income	6,587	8,364	9,289	10,241	11,328	6,154	4,765
On loans	3,930	5,220	6,107	7,364	8,758	3,779	2,819
On Securities	2,431	2,843	2,869	2,529	2,191	2,160	1,784
On Money Market	2	4	5	6	6	0	2
On Banks	73	99	113	128	135	68	53
On Reserve Deposits	148	193	189	209	232	143	105
Other	3	5	6	6	7	4	2
Interest Expense	4,047	5,282	5,801	6,280	6,877	3,867	2,871
On deposits	3,177	3,966	4,469	4,743	5,077	2,932	2,268
On Money Market	428	791	801	902	972	551	278
On Funds Borrowed	436	513	518	619	810	374	323
Other	5	12	14	16	18	10	2
Net Interest Income	2,540	3,082	3,488	3,961	4,452	2,287	1,893
Net FX (loss)/gain	-90	130	70	60	50	120	-75
Adjusted Net Int. Income	2,450	3,212	3,558	4,021	4,502	2,407	1,818
Total Non-interest Income	1,495	1,546	1,804	2,115	2,461	1,228	1,105
Net trading income	147	5	5	6	6	1	126
Net Fees and Commissions	807	976	1,172	1,394	1,645	723	585
Income From Participations	76	33	38	44	52	32	76
Other Non Interest Income	465	532	589	671	759	472	318
Total Operating Income	3,945	4,758	5,362	6,137	6,963	3,634	2,923
Total Provisions	431	640	739	897	1,104	498	291
Loan Loss provisions	374	557	643	785	973	440	263
Other Provisions	56	83	96	112	131	58	29
Net Operating Expense	1,577	1,731	1,956	2,190	2,431	1,227	1,090
Income Before Tax and Mon. item	1,937	2,388	2,667	3,049	3,427	1,909	1,542
Monetary gain / (loss)	0	0	0	0	0	0	0
Taxation charge / (credit)	336	489	520	595	668	335	261
Net Income	1,600	1,898	2,147	2,455	2,759	1,574	1,281
Balance Sheet							
Cash and Central Bank	4,543	3,719	4,699	5,090	6,063	3,106	4,377
Securities	20,367	24,040	23,264	22,089	20,245	24,600	20,525
Banks	2,177	1,660	2,311	2,272	2,320	1,677	1,585
Interbank	0	0	0	0	0	0	0
Loans	28,337	35,329	45,064	59,539	74,654	33,302	27,815
Gross NPLs	594	906	1,061	1,277	1,524	883	506
Loan Loss Reserves	594	906	1,061	1,277	1,524	883	506
Participations	902	764	693	727	791	770	942
Fixed Assets	698	697	770	909	1,054	692	675
Other Assets	225	199	231	273	316	217	379
Total Assets	57,248	66,408	77,033	90,899	105,443	64,363	56,298
Deposits	34,202	40,310	46,605	54,630	63,266	39,089	35,972
Interbank	4,921	4,383	5,623	6,817	7,908	4,164	3,549
Borrowed Funds	9,209	8,633	9,937	12,544	15,184	8,493	8,546
Other Payables	780	930	1,155	1,363	1,582	846	1,003
Provisions	362	465	578	727	844	464	333
Other Liabilities	734	1,229	1,387	1,591	1,793	1,178	261
Subordinated Loans	0	0	0	0	0	0	0
Equity	7,041	10,453	11,745	13,234	14,888	10,129	6,635
Total Liabilities	57,248	66,408	77,033	90,899	105,443	64,363	56,298

*2007E income figure includes TRY270mn pre-tax one-off gain from tax reversal



Table 7. Key Ratios

Key Ratios and Multiples

Balance Sheet Breakdown	2006	2007E	2008E	2009E	2010E	9M07	9M06
Cash & Central Bank	7.9%	5.6%	6.1%	5.6%	5.8%	4.8%	7.8%
Securities	35.6%	36.2%	30.2%	24.3%	19.2%	38.2%	36.5%
Loans	49.5%	53.2%	58.5%	65.5%	70.8%	51.7%	49.4%
Deposits	59.7%	60.7%	60.5%	60.1%	60.0%	60.7%	63.9%
Equity	12.3%	15.7%	15.2%	14.6%	14.1%	15.7%	11.8%
Profitability Ratios							
ROE	23.9%	21.7%	19.3%	19.7%	19.6%	24.4%	26.3%
ROA	2.9%	3.1%	3.0%	2.9%	2.8%	3.5%	3.1%
NIM	4.8%	5.1%	5.0%	4.8%	4.6%	5.2%	4.8%
Adj. NIM	4.9%	5.4%	5.1%	4.9%	4.7%	5.4%	4.9%
Yield on IEA	12.4%	13.9%	13.3%	12.5%	11.8%	14.2%	12.2%
Cost of IBL	8.7%	10.4%	10.0%	9.2%	8.6%	10.6%	8.1%
Net interest spread	3.7%	3.5%	3.2%	3.2%	3.2%	3.6%	4.1%
Before Tax ROE	28.9%	27.3%	24.0%	24.4%	24.4%	29.6%	31.6%
Bank-only ROE	25.4%	23.6%	20.3%	20.5%	20.4%	26.6%	28.1%
Before Tax Bank Only ROE	32.0%	30.1%	25.6%	25.8%	25.7%	32.3%	33.8%
Efficiency Ratios							
Cost/Income	40.0%	36.4%	36.5%	35.7%	34.9%	33.8%	37.3%
Cost/ Assets	2.8%	2.6%	2.5%	2.4%	2.3%	2.7%	2.7%
Fees and Commission/Cost	51.2%	56.4%	59.9%	63.7%	67.7%	58.9%	53.7%
Fees and Commissions/Assets	1.5%	1.6%	1.6%	1.7%	1.7%	1.6%	1.4%
Operating Income/Av. IEA	7.4%	7.9%	7.7%	7.5%	7.2%	8.2%	7.4%
Asset Quality& Capital							
CAR	20.7	NA	NA	NA	NA	20.4	17.3
NPL ratio	2.1%	2.5%	2.3%	2.1%	2.0%	2.6%	1.8%
NPL provision coverage	100%	100%	100%	100%	100%	100%	100%
IEA/IBL	114%	121%	121%	120%	120%	121%	113%
Leverage	7.3	7.1	5.4	5.6	5.9	5.4	7.5
Free Capital/Total Equity	82%	77%	86%	88%	88%	86%	76%

Garanti

Soon singing alone?

Upgrading to Buy

- Garanti Bank shares underperformed the market by 8% in the last one-month. We upgrade the stock to Buy from Hold with a target price of TRY11 per share.
- **However, Dogus Holding has very recently quoted 94.5mn shares in the ISE for sale, which will form drag on the share performance.**

GE Consumer Finance withdraws equity from the partnership

- Last month, GECF, has sold 5% of its stake to Doguş Group, reducing its stake to 20.9% at a 25% discount to the than trading MCAP, implying a price of TRY8.20 per share. Both the distribution of the seats at the Board level and the ownership of founder shares remained unchanged.
- Thus, the transaction so far seems to be a simple equity withdrawal from GECF in order to utilize attractive opportunities emerging with the subprime crisis. To some extent, this has reduced GECF's commitment in Garanti Bank.
- Minority investors were disappointed with the deal price, which may imply a fair valuation in the eyes of GECF. However, we believe that the deal would have no impact on the strong operational performance of Garanti Bank.

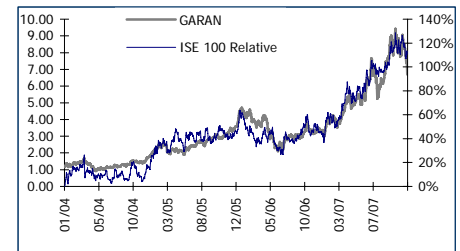
Gearing up with new branch openings.

- The new branch openings, planned to reach 150 each in both 2008 and 2009 will strengthen its lead in retail and total loans. With the current balance sheet structure, strong loan growth rates of around 35-40% would have not been attainable without the additional contribution of these branches.
- This will inflate the C/I ratio to around 45% level.
- The founder shares issue is still a headache for minority investors.

Key Data (TRY mn)	2006	2007E	2008E	2009E	2010E
Net Interest Income	1,902	2,680	3,234	3,866	4,592
Fee Income	1,014	1,268	1,560	1,903	2,302
Net Income*	1,064	2,370	1,941	2,270	2,664
EPS (TRY)	0.51	1.13	0.92	1.08	1.27
Dividend Yield (%)	0.63	0.63	0.74	1.04	1.49
Equity	4,670	6,828	8,294	10,176	12,386
Free Capital	2,879	4,854	5,907	7,277	8,960
P/E	17.7	11.4	9.4	8.0	6.9
P/BV	3.6	2.5	2.0	1.7	1.4

2007E figure includes TRY910mn one-off income from asset disposals (pre-tax)

Upgraded Buy



Stock Data	As of Jan 22 st
Bloomberg	GARAN.TI
Reuters	GARAN.IS
Close (YTL)	8.05
Target Price (YTL)	11.00
Mkt cap (USDm)	13,750
Free float (%)	48.63
Key Owners (%)	Dogus Group 30.15 GE Consumer Finance 20.85%
International Holders as a % of Free Float	82.9
Shares Outstanding	2,100,000,000
Avg. 6m Daily Vol. (\$m)	155
ISE-100 (TRY)	44,594

Performance	1M	3M	12M
Absolute (%)	-22.3%	-20.8%	46.5%
Relative (%)	-6.2%	-1.2%	35.5%

Key Ratios (%)	2007E	2008E	2009E
NIM	5.0	4.9	4.6
ROE	28.0	25.7	24.6
ROA	4.2	2.8	2.6
Loans/Assets	60.0	66.5	73.5
Loan Growth	36.6	37.4	40.4

Valuation
Table 8. Gordon Growth Model for Garanti

	2007E	2008E	2009E	2010E	2011-2020	Terminal
Growth					13.5%	6.8%
Beta	1.17	1.17	1.17	1.17	1.05	1.00
Dividend payout Ratio					25%	50%
Core Bank ROE					18.0%	14.2%
Risk free Rate	16.5%	14.5%	13.0%	12.5%	10.5%	6.5%
Market Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%
Required Return (discount rate)		20.4%	18.9%	18.4%	15.8%	10.5%
Dividend per share		0.12	0.11	0.12		
Bank-only Target P/BV					2.8	
Bank Only Book Value (TRYmn)				10,787		
Bank Only Target Value (TRYmn)				30,673		
Bank Only Target Value (TRYmn)		21,715				
Fair Value of Participations		758				
Total Fair Value (TRYmn)		22,472				
Number of Shares		2,100,000,000				
Fair value per share		10.70				
Present Value of Dividends (2008-2009)		0.30				
Target Price		11.00				
Current share price		8.00				
Upside		37.5				

Table 9. Warranted Equity Method

Warranted Equity Method	
Sustainable bank only ROE	26.0%
Growth	9.50%
Risk free rate	8.0%
Beta	1.17
Equity Risk Premium	5%
Cost of Equity	13.9%
Benchmark P/BV (2008)	3.8
2008E Equity	5,880
Target Bank Only MCAP (TRY mn)	22,305
Fair Value of Participations (TRY mn)	758
Total Fair Value (TRY mn)	23,063
Current MCAP (TRY mn)	16,800
Upside	37%

Financials
Table 10. Balance Sheet and Income Statement (Unconsolidated TR GAAP Financials)

Income Statement in TRY Millions	2006	2007E	2008E	2009E	2010E	9M07	9M06
Interest Income	5,063	7,019	8,356	9,814	11,659	5,154	3,568
On loans	2,859	4,138	5,466	7,129	9,454	2,976	2,071
On Securities	1,692	2,131	2,053	1,809	1,279	1,608	1,164
On Money Market	2	5	6	7	7	4	1
On Banks	114	238	282	258	243	188	70
On Reserve Deposits	126	182	201	240	282	134	88
Other	270	325	347	372	394	244	174
Interest Expense	3,161	4,334	5,122	5,948	7,067	3,159	2,211
On deposits	2,317	3,022	3,562	4,091	4,771	2,197	1,659
On Money Market	449	719	850	1,027	1,250	521	272
On Funds Borrowed	392	585	702	821	1,034	434	277
Other	4	8	9	10	12	6	2
Net Interest Income	1,902	2,685	3,234	3,866	4,592	1,995	1,357
Net FX (loss)/gain	-81	-80	-60	-50	-60	-65	-89
Adjusted Net Int. Income	1,821	2,605	3,174	3,816	4,532	1,929	1,267
Total Non-interest Income	1,299	2,346	1,884	2,277	2,734	1,941	1,039
Net trading income	25	-35	-37	-40	-43	-51	84
Net Fees and Commissions	1,014	1,268	1,560	1,903	2,302	942	756
Income From Participations	47	52	58	66	74	49	46
Other Non Interest Income	213	1,061	303	348	401	1,001	153
Total Operating Income	3,120	4,951	5,058	6,093	7,265	3,871	2,306
Total Provisions	325	317	383	481	606	241	289
Loan Loss provisions	166	167	207	276	366	128	180
Other Provisions	159	150	176	205	240	112	109
Net Operating Expense	1,465	1,797	2,265	2,774	3,329	1,284	1,035
Income Before Tax and Mon. item	1,329	2,836	2,411	2,838	3,330	2,346	982
Monetary gain / (loss)	0	0	0	0	0	0	0
Taxation charge / (credit)	266	462	470	568	666	361	191
Net Income	1,064	2,374	1,941	2,270	2,664	1,985	791
Balance Sheet							
Cash and Central Bank	5,277	4,248	5,052	6,257	7,167	4,405	5,277
Securities	14,395	15,030	14,726	12,760	8,036	15,307	14,395
Banks	896	2,474	2,301	2,435	2,679	2,503	896
Interbank	0	0	0	0	0	0	0
Loans	27,165	37,112	51,004	71,593	98,624	34,413	27,165
Gross NPLs	637	854	1,094	1,387	1,655	806	637
Loan Loss Reserves	451	525	662	825	968	504	451
Participations	605	619	690	779	913	587	605
Fixed Assets	1,001	1,027	1,266	1,558	1,826	1,001	1,001
Other Assets	762	1,014	1,227	1,461	1,826	987	762
Total Assets	50,287	61,853	76,698	97,406	121,757	59,505	50,287
Deposits	30,139	35,937	44,331	55,619	68,793	34,602	30,139
Interbank	4,814	6,309	7,746	10,617	13,759	5,949	4,814
Borrowed Funds	7,890	8,845	11,121	14,708	19,116	8,538	7,890
Other Payables	1,327	1,670	1,994	2,435	2,922	1,640	1,327
Provisions	427	557	1,227	1,461	1,826	548	427
Other Liabilities	4,670	7,005	8,748	10,785	0	1,135	1,019
Subordinated Loans	0	588	575	682	852	609	0
Equity	4,670	6,832	8,297	10,179	12,389	6,485	4,670
Total Liabilities	50,287	61,853	76,698	97,406	121,757	59,505	50,287

*2007E income figure includes TRY910mn pre-tax one-off gain from the sales of insurance, pension fund and custody business.

Table 11. Key Ratios of Garanti

Key Ratios and Multiples

Balance Sheet Breakdown	2006	2007E	2008E	2009E	2010E	9M07	9M06
Cash & Central Bank	10.5%	6.9%	6.6%	6.4%	5.9%	7.4%	8.9%
Securities	28.6%	24.3%	19.2%	13.1%	6.6%	25.7%	28.7%
Loans	54.0%	60.0%	66.5%	73.5%	81.0%	57.8%	55.5%
Deposits	59.9%	58.1%	57.8%	57.1%	56.5%	58.1%	61.3%
Equity	9.3%	11.0%	10.8%	10.5%	10.2%	10.9%	9.2%
Profitability Ratios							
ROE	25.0%	41.3%	25.7%	24.6%	23.6%	47.5%	25.6%
ROA	2.5%	4.2%	2.8%	2.6%	2.4%	4.8%	2.5%
NIM	4.7%	5.0%	4.9%	4.6%	4.4%	5.1%	4.5%
Adj. NIM	4.5%	4.8%	4.7%	4.5%	4.3%	4.8%	4.5%
Yield on IEA	12.4%	13.1%	12.6%	11.7%	11.1%	12.8%	11.8%
Cost of IBL	8.6%	9.1%	8.9%	8.2%	7.7%	8.8%	7.9%
Net interest spread	3.8%	4.0%	3.7%	3.6%	3.4%	4.0%	3.9%
Before Tax ROE	31.2%	49.3%	31.9%	30.7%	29.5%	56.1%	31.8%
Bank-only ROE	26.2%	39.5%	26.2%	24.9%	24.0%	52.0%	29.2%
Before Tax Bank Only ROE	33.1%	47.3%	32.8%	31.4%	30.2%	61.5%	36.3%
Efficiency Ratios							
Cost/Income	47.0%	36.3%	44.8%	45.5%	45.8%	33.2%	44.9%
Cost/ Assets	3.4%	3.2%	3.3%	3.2%	3.0%	3.1%	3.3%
Fees and Commission/Cost	69.2%	70.5%	68.9%	68.6%	69.2%	73.3%	73.1%
Fees and Commissions/Assets	2.3%	2.3%	2.3%	2.2%	2.1%	2.3%	2.4%
Operating Income/Av. IEA	7.6%	9.2%	7.6%	7.3%	6.9%	9.8%	7.6%
Asset Quality & Capital							
CAR	14.1	NA	NA	NA	NA	15.1	12.1
NPL ratio	2.3%	2.3%	2.1%	1.9%	1.7%	2.3%	1.5%
NPL provision coverage	71%	62%	61%	60%	59%	63%	76%
IEA/IBL	111%	115%	115%	115%	114%	114%	114%
Leverage	9.8	8.1	8.2	8.6	8.8	8.2	9.8
Free Capital/Total Equity	62%	71%	71%	72%	72%	70%	56%

Isbank

Still waiting for a key disposal

Upgrading to BUY

- We upgrade Isbank to 'Buy' from Hold due its recent underperformance.
- However, we still believe that Isbank has a lack of earnings momentum and catalyst, which is unlikely to lead a long-term lasting outperformance.

Still difficult to find a point for enthusiasm other than the price

- Isbank's 9M07 bottomline improved mainly due to NPL provision reversals and one-off tax reversal figure.
- 9M07 loan growth remained at 7.7%, trailing the market. On the deposit side, Isbank has lost considerable market share in deposits throughout 9M07, registering a decline of 1.7% in deposits. With increasing branch penetration of other major and mid-sized banks such as Garanti, TEB and YKB, Isbank will be under increasing pressure on the deposit side, which may erode its major cheap funding advantage.
- With the segmental branch restructuring to be completed this year, we expect a relatively better loan growth performance from Isbank in 2008-2009.

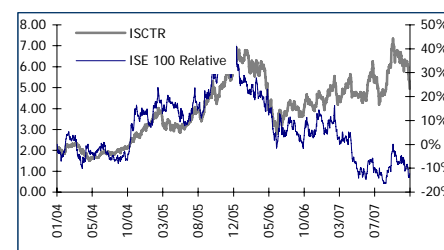
Participations reveal hidden asset value

- Isbank does not lack profitability at its core banking operation. However, it has been disappointingly slow in disposing its non-core participations. Although these have substantial hidden value, this may not be unleashed until their disposal.
- Although Isbank's CEO has announced that they may dispose assets worth of US\$2bn, the current valuations and market conditions are likely to be a deterrent.

Key Data (TRY mn)	2006	2007E	2008E	2009E	2010E
Net Interest Income	2,521	2,831	2,986	3,333	3,752
Fee Income	1,045	1,191	1,405	1,644	1,907
Net Income*	1,109	1,744	1,711	1,929	2,187
EPS (TRY)	0.40	0.63	0.62	0.70	0.79
Dividend Yield	0.00	0.00	0.00	0.00	0.00
Equity	9,410	11,389	13,099	15,029	17,216
Free Capital	2,934	4,134	5,108	6,453	7,654
P/E	14.9	10.2	9.7	8.6	7.6
P/BV	1.8	1.5	1.3	1.1	1.0

2007E figure includes TRY153mn one-off income from tax reversal (pre-tax)

Upgraded
Buy



Stock Data	As of Jan 22 st
Bloomberg	ISCTR.TI
Reuters	ISCTR.IS
Close (YTL)	6.00
Target Price (YTL)	7.60
Mkt cap (USDmn)	13,537
Free float (%)	30.4
Key Owners (%)	PENSION FUND 41.54, CHP 28.09
International Holders as a % of Free Float	59.1
Shares Outstanding	2,756,555,000
Avg. 6m Daily Vol. (\$m)	188.8
ISE-100 (TRY)	44,594

Performance	1M	3M	12M
Absolute (%)	-17.2%	-24.5%	-6.4%
Relative (%)	-0.1%	-5.8%	-13.4%

Key Ratios (%)	2007E	2008E	2009E
NIM	4.0	3.9	3.9
ROE	16.8	14.0	13.7
ROA	2.3	2.0	2.0
Loans/Assets	42.6	45.8	49.1
Loan Growth	13.9	20.4	21.1

Valuation
Table 12. Gordon Growth Model for Isbank

	2007E	2008E	2009E	2010E	2010-2019	Terminal
Growth					10.90%	5.60%
Beta	1.08	1.08	1.08	1.08	1.04	1.00
Dividend payout Ratio					25%	55%
Core Bank ROE					16.0%	13.3%
Risk free Rate	16.5%	14.5%	13.0%	12.5%	10.5%	6.5%
Market Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%
Required Return (discount rate)		19.9%	18.4%	17.9%	15.7%	10.5%
Dividend per share		0.00	0.00	0.00		
Bank-only Target P/BV					2.1	
Bank Only Book Value (TRYmn)				10,116		
Bank Only Target Value (TRYmn)				21,730		
Bank Only Target Value (TRYmn)		15,566				
Fair Value of Participations		5,268				
Total Fair Value (TRYmn)		20,835				
Number of Shares		2,756,555,000				
Fair value per share		7.6				
Present Value of Dividends (2008-2009)		0.0				
Target Price		7.6				
Current share price		6.00				
Upside		26.0				

Table 13. Warranted Equity method

Warranted Equity Method	
Sustainable bank only ROE	21.7%
Growth	7.00%
Risk free rate	8.0%
Beta	1.08
Equity Risk Premium	5%
Cost of Equity	13.4%
Benchmark P/BV (2007)	2.5
2007E Equity	6,155
Target Bank Only MCAP (TRY mn)	15,617
Fair Value of Participations (TRY mn)	5,268
Total Fair Value (TRY mn)	20,885
Current MCAP (TRY mn)	16,539
Upside	26%

Financials
Table 14. Balance Sheet and Income Statement (Unconsolidated TR GAAP Financials)

Income Statement in TRY Millions	2006	2007E	2008E	2009E	2010E	9M07	9M06
Interest Income	7,575	9,202	9,517	10,120	10,899	6,720	5,500
On loans	4,116	5,182	5,713	6,490	7,354	3,761	2,957
On Securities	2,962	3,354	3,114	2,930	2,811	2,462	2,215
On Money Market	20	4	5	6	6	4	17
On Banks	148	270	258	234	237	199	84
On Reserve Deposits	210	280	308	332	355	210	144
Other	121	112	120	128	136	84	82
Interest Expense	5,054	6,370	6,531	6,787	7,147	4,673	3,543
On deposits	3,995	4,798	4,767	4,958	5,182	3,558	2,789
On Money Market	351	624	777	788	779	414	245
On Funds Borrowed	695	918	947	996	1,136	677	497
Other	14	30	40	45	50	24	12
Net Interest Income	2,521	2,831	2,986	3,333	3,752	2,046	1,957
Net FX (loss)/gain	-134	-110	-40	-50	-60	-73	-98
Adjusted Net Int. Income	2,387	2,721	2,946	3,283	3,692	1,973	1,858
Total Non-interest Income	2,011	2,471	2,572	2,936	3,335	1,888	1,521
Net trading income	198	520	468	491	516	391	146
Net Fees and Commissions	1,045	1,191	1,405	1,644	1,907	855	748
Income From Participations	117	140	161	187	219	137	72
Other Non Interest Income	651	620	538	614	693	506	555
Total Operating Income	4,398	5,192	5,518	6,218	7,027	3,861	3,379
Total Provisions	909	849	953	1,076	1,236	643	874
Loan Loss provisions	388	462	513	579	678	346	282
Other Provisions	521	386	440	498	557	297	592
Net Operating Expense	1,858	2,150	2,440	2,745	3,074	1,536	1,337
Income Before Tax and Mon. item	1,631	2,194	2,125	2,397	2,717	1,683	1,168
Monetary gain / (loss)	0	0	0	0	0	0	0
Taxation charge / (credit)	521	450	414	467	530	323	451
Net Income	1,109	1,744	1,711	1,929	2,187	1,360	717
Balance Sheet							
Cash and Central Bank	5,596	6,616	7,276	8,475	9,561	6,353	4,233
Securities	26,358	25,350	25,892	27,240	27,482	24,762	24,359
Banks	6,454	5,819	5,803	5,549	6,298	5,465	5,319
Interbank	0	0	0	0	0	0	0
Loans	29,818	33,959	40,891	49,536	59,888	32,125	29,289
Gross NPLs	1,164	1,415	1,615	1,903	2,172	1,359	1,104
Loan Loss Reserves	1,164	1,415	1,615	1,903	2,172	1,359	1,104
Participations	4,695	5,421	5,982	6,356	7,100	5,284	4,594
Fixed Assets	1,781	1,833	2,009	2,220	2,462	1,766	1,771
Other Assets	502	717	1,429	1,513	1,718	705	597
Total Assets	75,204	79,716	89,282	100,889	114,509	76,460	70,161
Deposits	46,399	45,359	50,623	56,901	63,781	43,499	44,087
Interbank	5,364	7,095	8,125	8,676	9,619	6,744	2,923
Borrowed Funds	10,530	10,841	11,875	14,326	17,176	10,480	11,634
Other Payables	1,157	1,475	1,696	1,715	1,947	1,425	509
Provisions	1,843	2,073	2,321	2,472	2,748	1,998	1,166
Other Liabilities	501	1,475	1,607	1,715	1,947	1,311	365
Subordinated Loans	0	0	0	0	0	0	0
Equity	9,410	11,389	13,099	15,029	17,216	11,004	9,477
Total Liabilities	75,204	79,716	89,282	100,889	114,509	76,460	70,161

*2007E income figure includes TRY125mn pre-tax one-off tax reversal figure.

Table 15. Key Ratios of Isbank

Balance Sheet Breakdown	2005	2006	2007E	2008E	2009E	H107	H106
Cash	9.8%	7.4%	7.8%	7.8%	7.4%	7.9%	6.6%
Securities	35.1%	35.0%	34.3%	32.5%	31.2%	33.7%	36.1%
Loans	34.3%	39.6%	42.0%	45.5%	48.9%	40.5%	41.8%
Deposits	58.4%	61.7%	60.0%	59.0%	56.5%	61.0%	59.8%
Equity	14.6%	12.5%	13.4%	13.2%	13.3%	13.1%	11.7%
Profitability Ratios							
ROE	13.7%	11.9%	15.3%	13.0%	15.1%	15.7%	10.2%
ROA	2.3%	1.6%	2.0%	1.7%	2.0%	2.0%	1.3%
NIM	5.8%	4.0%	3.9%	3.9%	4.0%	3.8%	4.5%
Yield on IEA	12.1%	12.2%	12.4%	11.7%	10.9%	12.9%	11.7%
Cost of IBL	7.5%	8.9%	9.4%	8.7%	7.7%	10.0%	7.9%
Net interest spread	4.7%	3.3%	3.0%	3.0%	3.2%	2.9%	3.8%
Before Tax ROE	21.9%	17.4%	18.4%	16.1%	18.9%	19.3%	18.7%
Bank-only ROE	29.7%	21.5%	25.8%	19.8%	22.0%	25.6%	20.2%
Before Tax Bank Only ROE	48.6%	32.7%	31.6%	25.2%	28.0%	32.6%	73.7%
Efficiency Ratios							
Cost/Income	44.1%	42.2%	43.8%	44.0%	39.6%	40.1%	36.8%
Cost/ Assets	2.5%	2.6%	2.5%	2.4%	2.3%	2.6%	2.6%
Fees and Commission/Cost	42.6%	56.2%	51.3%	57.1%	62.5%	55.8%	58.6%
Fees and Commissions/Assets	1.7%	1.5%	1.5%	1.6%	1.6%	2.9%	3.1%
Operating Income/Av. IEA	4.2%	2.6%	2.6%	2.4%	2.7%	5.5%	5.4%
Asset Quality & Capital							
CAR	25.0%	23.9%	NA	NA	NA	18.9%	18.5%
NPL ratio	4.6%	3.8%	4.2%	4.0%	3.9%	4.4%	3.4%
NPL provision coverage	100%	100%	100%	100%	100%	100%	100%
IEA/IBL	110%	109%	111%	111%	111%	111%	110%
Leverage	5.9	7.0	6.5	6.5	6.5	6.6	7.6
Free Capital/Total Equity	30%	31%	38%	43%	50%	33%	31%

Vakifbank

Too cheap too ignore

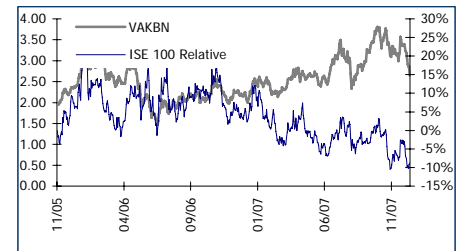
Maintained
Buy

Reiterating our "Buy" recommendation

- We reiterate our Buy recommendation on Vakifbank with a price target of TRY4.3, indicating a 28% upside.

Make-Up for privatization

- Vakifbank has finally signed credit card co-branding agreement with the YKB's World Card program. Vakifbank will replace its 2mn cards with World branded cards. This will improve Vakifbank's issuing volume and address its weakness in fee income in the medium term.
- Furthermore, Vakifbank has launched an aggressive expansion policy prior to its privatization, aiming to expand its branch network and grow its balance sheet and loan book.
- It has increased its branch network to 360 by the end of 2007 from 313 at the start of the year. It will add ca. 120 branches in 2008 and another 120 in 2009.
- We expect strong loan growth of some 8.5% in Q407, which will bring the FY07 loan growth 25% YoY.
- The increasing branch network will also shield Vakifbank from deposit withdrawals in the post public sector deposit liberalization era. Currently, state deposits constitute close to 20% of the total deposit base of Vakifbank. The government still delays the liberalization process of state deposits.
- The increase in branch network will inflate the C/I ratio to 42% in 2008 and 43% in 2008.
- Considering the premium of Halkbank over Vakifbank in terms of P/BV multiples, Vakifbank could be appealing for some incumbent banks such as Akbank as well as for foreign banks with no foothold in Turkey.



Stock Data	As of Jan 22 st
Bloomberg	VAKBN.TI
Reuters	VAKBN.IS
Close (YTL)	3.18
Target Price (YTL)	4.30
Mkt cap (USDm)	6,507
Free float (%)	25.2
Key Owners	FOUNDATIONS 58.45
International Holders as a	
% of Free Float	84.2
Shares Outstanding	2,500,000,000
Avg. 6m Daily Vol. (\$m)	38.0
ISE-100 (TRY)	44,594

Performance	1M	3M	12M
Absolute (%)	-18.5%	-24.6%	-7.7%
Relative (%)	-3.6%	-7.8%	-18.6%

Key Ratios (%)	2007E	2008E	2009E
NIM	4.9	5.0	4.7
ROE	21.7	17.7	17.0
ROA	19.6	17.7	17.0
Loans/Assets	53.8	59.5	65.3
Loan Growth	25.0	27.2	27.3

Key Data (TRY mn)	2006	2007E	2008E	2009E	2010E
Net Interest Income	1,585	1,752	2,023	2,233	2,506
Fee Income	288	329	381	480	601
Net Income*	770	951	984	1,071	1,189
EPS (TRY)	0.37	0.50	0.47	0.51	0.57
Dividend Yield (%)	5.02	4.84	3.97	3.72	4.04
Equity	4,463	5,237	5,906	6,681	7,549
Free Capital	3,164	3,790	4,290	4,863	5,496
P/E	10.3	8.4	8.1	7.4	6.7
P/BV	1.8	1.5	1.3	1.2	1.1

2007E figure includes TRY125mn one-off income from tax reversal (pre-tax)

Valuation
Table 16. Gordon Growth Model for Vakifbank

	2007E	2008E	2009E	2010E	2010-2020	Terminal
Growth					10.0%	5.00%
Beta	1.1	1.1	1.1	1.1	1.05	1.00
Dividend payout Ratio					30%	55%
Core Bank ROE					16.3%	12.5%
Risk free Rate	16.5%	14.5%	13.0%	12.5%	11.0%	6.5%
Equity Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%
Required Return (discount rate)		20.0%	18.5%	18.0%	16.3%	10.5%
Dividend per share		0.15	0.14	0.15		
Bank-only Target P/BV				1.8		
Bank Only Book Value (TRYmn)				7,549		
Bank Only Target Value (TRYmn)				13,384		
Bank Only Target Value (TRYmn)		9,572				
Fair Value of Participations		596				
Total Fair Value (TRYmn)		10,167				
Number of Shares		2,500,000,000				
Fair value per share		4.07				
Present Value of Dividends (2008-2009)		0.27				
Target Price		4.34				
Current share price		3.18				
Upside		36.4				

Table 17. Warranted Equity Method

Warranted Equity Method	
Sustainable bank only ROE	18.0%
Growth	7.50%
Risk free rate	8.0%
Beta	1.1
Equity Risk Premium	5%
Cost of Equity	13.5%
Benchmark P/BV (2007)	1.8
2008E Equity	5,906
Target Bank Only MCAP (TRY mn)	10,335
Fair Value of Participations (TRY mn)	596
Total Fair Value (TRY mn)	10,930
Current MCAP (TRY mn)	7,950
Upside	37%

Financials
Table 18. Balance Sheet and Income Statement (Unconsolidated TR GAAP Financials)

Income Statement in TRY Millions	2006	2007E	2008E	2009E	2010E	9M07	9M06
Interest Income	4,409	5,488	6,167	6,723	7,419	3,944	3,119
On loans	2,487	3,260	3,979	4,764	5,645	2,329	1,779
On Securities	1,415	1,586	1,496	1,320	1,195	1,173	969
On Money Market	265	282	378	302	236	161	202
On Banks	119	192	91	92	76	155	81
On Reserve Deposits	124	162	217	238	258	121	88
Other	0	6	7	7	7	5	0
Interest Expense	2,824	3,736	4,144	4,490	4,913	2,719	2,010
On deposits	2,560	3,307	3,659	3,966	4,281	2,399	1,820
On Money Market	58	143	192	194	230	114	38
On Funds Borrowed	203	269	272	307	378	191	149
Other	3	17	20	23	23	15	2
Net Interest Income	1,585	1,752	2,023	2,233	2,506	1,225	1,110
Net FX (loss)/gain	2	130	100	100	100	117	-39
Adjusted Net Int. Income	1,588	1,882	2,123	2,333	2,606	1,342	1,071
Total Non-interest Income	694	796	763	937	1,127	630	470
Net trading income	45	50	40	58	62	43	28
Net Fees and Commissions	288	329	381	480	601	246	218
Income From Participations	17	36	40	46	51	35	6
Other Non Interest Income	343	381	302	353	413	306	218
Total Operating Income	2,281	2,677	2,887	3,271	3,733	1,971	1,541
Total Provisions	323	364	439	532	637	282	179
Loan Loss provisions	161	244	302	375	455	188	118
Other Provisions	162	120	137	157	182	94	61
Net Operating Expense	935	1,014	1,217	1,399	1,609	719	609
Income Before Tax and Mon. item	1,023	1,300	1,231	1,339	1,486	970	752
Monetary gain / (loss)	0	0	0	0	0	0	0
Taxation charge / (credit)	253	247	246	268	297	161	196
Net Income	770	1,053	984	1,071	1,189	809	556
Balance Sheet							
Cash and Central Bank	2,783	1,615	1,929	2,210	2,216	1,585	2,252
Securities	10,435	11,743	11,092	10,909	10,819	11,464	9,993
Banks	3,063	1,803	1,929	1,958	1,304	1,847	2,737
Interbank	872	2,097	2,218	1,678	1,695	2,303	1,250
Loans	18,043	22,562	28,696	36,532	46,144	20,833	16,667
Gross NPLs	1,002	1,213	1,415	1,661	1,848	1,131	1,070
Loan Loss Reserves	1,002	1,213	1,415	1,661	1,848	1,131	1,070
Participations	409	545	603	671	750	541	584
Fixed Assets	890	902	1,013	1,147	1,304	862	872
Other Assets	389	671	748	839	945	647	506
Total Assets	36,884	41,938	48,228	55,945	65,176	40,081	34,862
Deposits	24,842	27,972	32,843	38,042	44,189	26,936	23,567
Interbank	1,370	2,181	2,218	2,573	2,868	1,931	1,014
Borrowed Funds	4,997	5,116	5,691	6,993	8,603	4,797	4,934
Other Payables	318	419	482	504	587	433	361
Provisions	391	461	531	559	652	442	470
Other Liabilities	502	545	579	615	717	549	345
Subordinated Loans	0	0	0	0	0	0	0
Equity	4,463	5,237	5,906	6,681	7,549	4,993	4,170
Total Liabilities	36,884	41,938	48,228	55,945	65,176	40,081	34,862

*2007E income figure includes TRY125mn pre-tax one-off tax reversal gain.

Table 19. Key Ratios of Vakifbank

Key Ratios and Multiples

Balance Sheet Breakdown	2006	2007E	2008E	2009E	2010E	9M07	9M06
Cash & Central Bank	7.5%	3.9%	4.0%	4.0%	3.4%	4.0%	6.5%
Securities	28.3%	28.0%	23.0%	19.5%	16.6%	28.6%	28.7%
Loans	53.8%	59.5%	65.3%	70.8%	0.0%	52.0%	47.8%
Deposits	66.7%	68.1%	68.0%	67.8%	0.0%	67.2%	67.6%
Equity	12.5%	12.2%	11.9%	11.6%	0.0%	12.5%	12.0%
Profitability Ratios							
ROE	17.4%	21.7%	17.7%	17.0%	16.7%	22.8%	17.4%
ROA	2.2%	2.7%	2.2%	2.1%	2.0%	2.8%	2.2%
NIM	5.1%	4.9%	5.0%	4.7%	4.5%	4.4%	4.5%
Adj. NIM	5.3%	5.4%	5.3%	5.0%	4.8%	5.0%	4.5%
Yield on IEA	14.2%	15.2%	15.2%	14.1%	13.2%	14.8%	12.6%
Cost of IBL	9.7%	11.2%	10.9%	10.2%	9.5%	11.6%	9.3%
Net interest spread	4.5%	4.0%	4.3%	4.0%	3.7%	3.2%	3.3%
Before Tax ROE	25.2%	27.7%	23.2%	22.3%	21.9%	27.3%	23.5%
Bank-only ROE	18.9%	22.3%	18.4%	17.7%	17.3%	24.4%	20.0%
Before Tax Bank Only ROE	24.8%	26.9%	22.4%	21.5%	21.1%	29.3%	27.1%
Efficiency Ratios							
Cost/Income	41.0%	37.9%	42.2%	42.8%	43.1%	36.5%	39.6%
Cost/ Assets	2.7%	2.6%	2.7%	2.7%	2.7%	2.5%	2.4%
Fees and Commission/Cost	30.8%	32.4%	31.3%	34.3%	37.3%	34.2%	35.7%
Fees and Commissions/Assets	0.8%	0.8%	0.8%	0.9%	1.0%	0.9%	0.9%
Operating Income/Av. IEA	7.3%	7.4%	7.1%	6.9%	6.7%	2.6%	2.5%
Asset Quality& Capital							
CAR	19.7	NA	NA	NA	NA	16.5	20.1
NPL ratio	5.3%	5.1%	4.7%	4.4%	3.9%	5.2%	4.0%
NPL provision coverage	100%	100%	100%	100%	100%	100%	100%
IEA/IBL	109%	107%	107%	108%	109%	114%	115%
Leverage	7.3	7.0	7.2	7.4	7.6	7.0	7.4
Free Capital/Total Equity	71%	72%	73%	73%	73%	71.9%	65.1%

YKB

Fighting on all fronts

Upgrading to Buy from Hold

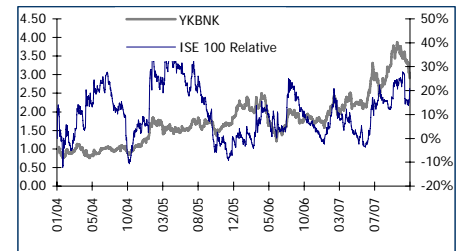
- We upgrade our recommendation on YKB to Buy from Hold following its massive underperformance coverage of YKB with a 'Buy' recommendation and a target price of TRY 4.3 per share, implying an upside of 23%.

Restructuring almost completed

- YKB and Koc Financial Services have almost completed the restructuring process; YK Securities and YKB Nederland N.V., the remaining subsidiaries under KFS, which will be acquired by YKB via cash for US\$159mn and 97.5mn, respectively. KFS will then inject the cash via a rights issue of some 7%. Thus, minority investors will be indirectly paying for these participations in the rights issue.
- Although, YKB has released the costly deposits from the Kocbank are, it has still the highest TRY deposit costs among top-tier banks.
- Currently, YKB still undergoes a restructuring by optimizing its branch network. However, the new CEO has reversed the strategy and announced an aggressive branch expansion policy, targeting higher market share rather than concentrating solely on costs.
- In 9M07, YKB has opened 65 branches on top of the existing 605, bringing the total numbers to 660. However, this has brought the improvement in C/I ratio to a halt and thus slowed down the recapitalization process of YKB.
- YKB remains the most leveraged banks in the Turkish banking universe. In that perspective, although the ongoing sales of its fixed assets would be of help to boost its free equity, it may simply not be sufficient for its ambitious growth plans.
- The co-branding agreement with Vakifbank will boost its fee income.

Key Data (TRY mn)	2006	2007E	2008E	2009E	2010E
Net Interest Income	1,759	1,954	2,233	2,659	3,094
Fee Income	852	1,079	1,327	1,620	1,960
Net Income*	512	842	991	1,205	1,422
EPS (TRY)	0.24	0.40	0.47	0.57	0.68
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.00
Equity	3,425	4,267	5,258	6,463	7,885
Free Capital	935	1,907	2,552	3,441	4,475
P/E	28.9	13.7	11.6	9.6	8.1
P/BV	3.4	2.7	2.2	1.8	1.5

Upgraded Buy



Stock Data	As of Jan 22 st
Bloomberg	YKBNK.TI
Reuters	YKBNK.IS
Close (YTL)	3.36
Target Price (YTL)	4.30
Mkt cap (USDm)	9,425
Free float (%)	24
Key Owners	KFS 81.8%
International Holders as a % of Free Float	37.6
Shares Outstanding	3,427,051,284
Avg. 6m Daily Vol. (\$m)	93.9
ISE-100 (TRY)	44,594

Performance	1M	3M	12M
Absolute (%)	-16.0%	-22.9%	25.6%
Relative (%)	1.4%	-3.8%	16.2%

Key Ratios (%)	2007E	2008E	2009E
NIM	4.3	4.6	4.7
ROE	21.9	20.8	20.6
ROA	1.7	1.9	1.9
Loans/Assets	53.5	59.0	64.0
Loan Growth	18.8	27.9	26.4

Valuation
Table 20. Gordon Growth Model for YKB

	2007E	2008E	2009E	2010E	2010-2020E	Terminal
Growth					13.60%	6.30%
Beta	1.29	1.25	1.20	1.15	1.10	1.00
Dividend payout Ratio					25%	55%
Core Bank ROE					18.1%	14.0%
Risk free Rate	16.5%	14.0%	13.0%	12.5%	10.5%	6.5%
Market Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%
Required Return (discount rate)		20.3%	19.0%	18.3%	16.0%	10.5%
Dividend per share		0.00	0.00	0.00		
Bank-only Target P/BV				2.8		
Bank Only Book Value (TRYmn)				6,188		
Bank Only Target Value (TRYmn)				17,322		
Bank Only Target Value (TRYmn)		12,310				
Fair Value of Participations		2,133				
Total Fair Value (TRYmn)		14,443				
Number of Shares		3,427,051,284				
Fair value per share		4.2				
Present Value of Dividends (2008-2009)		0.0				
Target Price		4.21				
Current share price		3.36				
Upside		25.4				

Financials
Table 21. Balance Sheet and Income Statement (Unconsolidated TR GAAP Financials)

Income Statement in TRY Millions	2006	2007E	2008E	2009E	2010E	9M07	9M06
Interest Income	4,986	5,969	6,489	7,282	8,136	4,409	2,371
On loans	3,421	3,949	4,677	5,612	6,610	2,904	1,764
On Securities	1,295	1,683	1,465	1,302	1,136	1,249	494
On Money Market	18	5	6	7	7	6	3
On Banks	90	99	103	100	99	67	36
On Reserve Deposits	146	191	193	213	233	142	65
Other	15	42	45	48	51	41	8
Interest Expense	3,226	4,015	4,256	4,623	5,043	2,958	1,419
On deposits	2,698	3,393	3,664	3,989	4,308	2,470	1,200
On Money Market	236	234	186	190	219	199	114
On Funds Borrowed	279	380	396	434	503	284	103
Other	14	8	9	10	12	6	1
Net Interest Income	1,759	1,954	2,233	2,659	3,094	1,451	952
Net FX (loss)/gain	-208	160	150	160	170	138	-41
Adjusted Net Int. Income	1,552	2,114	2,383	2,819	3,264	1,589	911
Total Non-interest Income	1,496	1,591	1,905	2,289	2,721	1,103	667
Net trading income	258	-70	-74	-79	-86	-63	51
Net Fees and Commissions	852	1,079	1,327	1,620	1,960	726	477
Income From Participations	42	40	47	54	62	39	43
Other Non Interest Income	345	542	604	695	785	402	97
Total Operating Income	3,048	3,705	4,288	5,108	5,985	2,691	1,579
Total Provisions	340	259	318	385	458	186	235
Loan Loss provisions	214	165	210	259	313	118	98
Other Provisions	126	94	107	125	145	68	137
Net Operating Expense	1,998	2,423	2,738	3,218	3,748	1,737	1,083
Income Before Tax and Mon. item	710	1,023	1,231	1,506	1,778	768	261
Monetary gain / (loss)	0	0	0	0	0	0	0
Taxation charge / (credit)	197	181	240	301	356	136	221
Net Income	512	842	991	1,205	1,422	632	40
Balance Sheet							
Cash and Central Bank	4,081	3,517	4,272	4,991	5,500	3,682	1,991
Securities	16,425	12,808	12,514	11,850	10,905	12,704	7,438
Banks	1,963	1,970	1,714	1,664	1,714	1,945	1,605
Interbank	0	246	0	0	0	304	0
Loans	22,192	26,355	33,715	42,606	53,666	24,892	14,422
Gross NPLs	1,714	1,802	2,076	2,242	2,353	1,766	1,088
Loan Loss Reserves	1,402	1,487	1,713	1,850	1,941	1,454	886
Participations	838	837	1,029	1,132	1,285	817	730
Fixed Assets	1,340	1,207	1,314	1,498	1,714	1,199	1,259
Other Assets	1,865	2,069	2,314	2,563	2,843	2,063	488
Total Assets	49,017	49,262	57,144	66,572	77,890	47,606	27,933
Deposits	31,127	32,119	37,429	43,339	50,239	31,517	18,220
Interbank	3,357	1,379	1,543	1,598	2,181	1,037	2,440
Borrowed Funds	4,600	4,483	5,029	6,125	7,633	4,363	1,405
Other Payables	2,312	2,315	2,571	2,863	3,193	2,280	2,028
Provisions	1,604	1,601	1,829	2,097	2,376	1,577	1,199
Other Liabilities	1,032	1,330	1,486	1,664	1,869	1,318	153
Subordinated Loans	1,559	1,773	2,000	2,397	2,492	1,775	925
Equity	3,425	4,267	5,258	6,463	7,885	4,050	1,764
Total Liabilities	49,017	49,262	57,144	66,572	77,890	47,917	28,134



Table 22. Key Ratios of YKB

Key Ratios and Multiples

Balance Sheet Breakdown	2006	2007E	2008E	2009E	2010E	9M07	9M06
Cash & Central Bank	8.3%	7.1%	7.5%	7.5%	7.1%	7.7%	7.1%
Securities	33.5%	26.0%	21.9%	17.8%	14.0%	26.5%	26.4%
Loans	45.3%	53.5%	59.0%	64.0%	68.9%	51.9%	51.3%
Deposits	63.5%	65.2%	65.5%	65.1%	64.5%	65.8%	64.8%
Equity	7.0%	8.7%	9.2%	9.7%	10.1%	8.5%	6.3%
Profitability Ratios							
ROE	20.4%	21.9%	20.8%	20.6%	19.8%	22.5%	3.2%
ROA	1.4%	1.7%	1.9%	1.9%	2.0%	1.7%	0.2%
NIM	5.4%	4.3%	4.6%	4.7%	4.6%	4.4%	5.3%
Adj. NIM	4.9%	5.4%	5.1%	4.9%	4.7%	4.6%	5.3%
Yield on IEA	15.2%	13.3%	13.3%	12.8%	12.2%	13.5%	13.1%
Cost of IBL	10.7%	10.0%	9.9%	9.3%	8.7%	10.4%	8.7%
Net interest spread	4.5%	3.3%	3.4%	3.5%	3.5%	3.1%	4.5%
Before Tax ROE	28.3%	26.6%	25.9%	25.7%	24.8%	27.4%	20.8%
Bank-only ROE	27.5%	26.9%	24.9%	24.3%	23.0%	27.5%	4.5%
Before Tax Bank Only ROE	38.0%	32.7%	30.9%	30.4%	28.8%	33.4%	29.7%
Efficiency Ratios							
Cost/Income	65.6%	65.4%	63.9%	63.0%	62.6%	64.5%	68.6%
Cost/ Assets	4.1%	4.9%	4.8%	4.8%	4.8%	4.8%	5.6%
Fees and Commission/Cost	42.6%	44.5%	48.5%	50.3%	52.3%	41.8%	44.1%
Fees and Commissions/Assets	2.3%	2.2%	2.5%	2.6%	2.7%	2.0%	2.4%
Operating Income/Av. IEA	9.3%	8.2%	8.8%	9.0%	9.0%	8.1%	8.7%
Asset Quality& Capital							
CAR	12.3	NA	NA	NA	NA	12.9	10.5
NPL ratio	7.2%	6.4%	5.8%	5.0%	4.2%	6.6%	5.0%
NPL provision coverage	83%	83%	83%	83%	83%	82%	81%
IEA/IBL	111%	113%	114%	115%	115%	113%	118%
Leverage	13.3	10.5	9.9	9.3	8.9	10.8	14.9
Free Capital/Total Equity	-6%	18%	27%	35%	42%	14%	-25%

HALKBANK

Who would be the Suitor?

Upgraded to Buy

- We upgrade our recommendation for Halkbank to 'BUY' from 'Hold' with a price TRY11.20 indicating 20% upside. Halkbank trades at 2008E P/BV of 2.6X and P/E of 9.5X.

A dividend play

- Before, the privatization, Halkbank will distribute all of its distributable profit in 2008, implying a dividend yield of 7.6%.

Suitor warranted. Privatization is less certain.

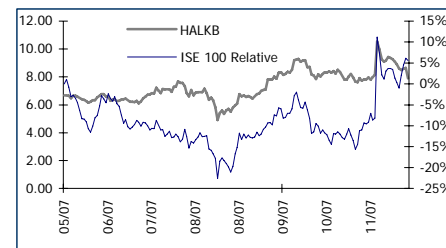
- Following subprime issues, the two major candidates, Garanti and Akbank are not likely to bid for Halkbank, as their foreign partners strive for cash. We believe that funds from gulf could emerge as the potential bidders for Halkbank. However, there needs to be a competitive tender mechanism.
- Therefore, the government may be forced to restructure the privatization scheme, reducing the block sale from 75% to less demanding levels such as 25-30% and combining with an SPO.

The most unlevered among Turkish Banks.

- Halkbank is without any doubt the most unlevered bank in the Turkish banking sector.
- The share of securities on the asset side will decline to the somewhere at around 44% by the end of 2007, comparable to the size of its loan book. With the ongoing redemption of its non-marketable securities portfolio (TRY4.7bn in 2008), Halkbank will have ample resources to increase its loan book.
- Loan book growth will reach 52% in 2007 and 43% 2008, the highest growth in the top tier 6 banks.
- Such a balance sheet structure makes Halkbank less vulnerable to funding pressures despite its relatively higher deposit costs.

Key Data (TRY mn)	2006	2007E	2008E	2009E	2010E
Net Interest Income	1,370	1,701	1,889	2,174	2,424
Fee Income	232	327	438	547	678
Net Income*	863	1,059	1,224	1,450	1,654
EPS (TRY)	0.69	0.85	0.98	1.16	1.32
Dividend Yield (%)	2.55	6.28	7.74	2.63	3.12
Equity	3,780	4,077	4,401	5,545	6,837
Free Capital	2,930	3,198	3,423	4,452	5,595
P/E	13.5	11.0	9.5	8.0	7.0
P/BV	3.1	2.9	2.6	2.1	1.7

Upgraded Buy



Stock Data	As of Jan 22 st
Bloomberg	HALKB.TI
Reuters	HALKB.IS
Close (YTL)	9.30
Target Price (YTL)	11.20
Mkt cap (USDm)	9,515
Free float (%)	24.98
Key Owners	TREASURY 74.98
International Holders as a % of Free Float	84.2
Shares Outstanding	1,250,000,000
Avg. 6m Daily Vol. (\$m)	31.8
ISE-100 (TRY)	44,594

Performance	1M	3M	12M
Absolute (%)	-10.6%	-4.1%	NA
Relative (%)	8.0%	19.6%	NA

Key Ratios (%)	2007E	2008E	2009E
NIM	4.7	4.6	4.5
ROE	27.0	28.9	29.1
ROA	2.9	2.9	2.9
Loans/Assets	44.5	55.0	61.5
Loan Growth	51.5	43.4	29.8

Valuation
Table 23 Gordon Growth Model for Halkbank

	2007E	2008E	2009E	2010E	2011-2020	Terminal
Growth					12.8%	6.1%
Beta	1	1	1	1	1.00	1.00
Dividend payout Ratio					25%	55%
Core Bank ROE					18.0%	13.2%
Risk free Rate	16.5%	14.5%	13.0%	12.5%	10.5%	6.5%
Market Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%
Required Return (discount rate)		19.5%	18.0%	17.5%	15.5%	10.5%
Dividend per share		0.72	0.24	0.29		
Bank-only Target P/BV				2.5		
Bank Only Book Value (TRYmn)				6,837		
Bank Only Target Value (TRYmn)				17,167		
Bank Only Target Value (TRYmn)		12,382				
Fair Value of Participations		220				
Total Fair Value (TRYmn)		12,602				
Number of Shares	1,250,000,000					
Fair value per share		10.08				
Present Value of Dividends (2008-2009)		1.14				
Target Price		11.22				
Current share price		9.30				
Upside		20.6				

Table 24 Warranted Equity method

Warranted Equity Method	
Sustainable bank only ROE	25.5%
Growth	8.00%
Risk free rate	8.0%
Beta	1
Equity Risk Premium	5%
Cost of Equity	13.0%
Benchmark P/BV (2008)	3.5
2008E Equity	3,970
Target Bank Only MCAP (TRY mn)	13,895
Fair Value of Participations (TRY mn)	220
Total Fair Value (TRY mn)	14,115
Current MCAP (TRY mn)	11,625
Upside	21%

Financials
Table 25. Balance Sheet and Income Statement (Unconsolidated TR GAAP Financials)

Income Statement in TRY Millions	2006	2007E	2008E	2009E	2010E	9M07	9M06
Interest Income	4,564	5,773	6,324	6,949	7,568	4,213	3,176
On loans	1,513	2,610	3,615	4,625	5,541	1,849	1,023
On Securities	2,849	2,890	2,430	2,016	1,712	2,172	2,011
On Money Market	4	4	5	6	6	10	3
On Banks	53	85	93	120	112	44	36
On Reserve Deposits	140	178	174	174	189	132	98
Other	5	7	7	8	8	5	4
Interest Expense	3,195	4,072	4,435	4,775	5,144	2,974	2,239
On deposits	3,065	3,831	4,101	4,396	4,727	2,790	2,148
On Money Market	52	157	237	258	269	112	36
On Funds Borrowed	54	72	84	104	130	53	37
Other	25	12	14	16	18	19	18
Net Interest Income	1,370	1,701	1,889	2,174	2,424	1,239	937
Net FX (loss)/gain	-180	210	150	130	120	184	-308
Adjusted Net Int. Income	1,190	1,911	2,039	2,304	2,544	1,423	629
Total Non-interest Income	853	520	746	941	1,152	388	843
Net trading income	-34	-240	-190	-175	-170	-223	24
Net Fees and Commissions	232	327	438	547	678	243	168
Income From Participations	14	20	23	27	31	19	14
Other Non Interest Income	641	414	476	542	613	349	637
Total Operating Income	2,042	2,431	2,785	3,245	3,697	1,811	1,471
Total Provisions	202	205	254	312	374	154	107
Loan Loss provisions	0	124	161	203	246	99	58
Other Provisions	202	81	93	109	128	56	50
Net Operating Expense	723	894	1,011	1,132	1,257	644	514
Income Before Tax and Mon. item	1,117	1,332	1,521	1,801	2,066	1,013	850
Monetary gain / (loss)	0	0	0	0	0	0	0
Taxation charge / (credit)	254	273	297	351	403	199	208
Net Income	863	1,059	1,224	1,450	1,663	814	641
Balance Sheet							
Cash and Central Bank	2,551	2,724	2,801	3,306	3,755	2,663	NA
Securities	18,139	17,419	15,154	14,395	13,343	17,535	NA
Banks	1,079	633	1,378	1,333	1,365	689	NA
Interbank	0	0	0	0	0	0	NA
Loans	11,630	17,617	25,257	32,789	41,890	15,965	NA
Gross NPLs	1,085	1,124	1,414	1,617	1,882	1,058	NA
Loan Loss Reserves	1,070	1,124	1,414	1,617	1,882	1,043	NA
Participations	135	146	152	160	186	142	NA
Fixed Assets	715	732	827	933	1,055	703	NA
Other Assets	160	317	354	400	465	293	NA
Total Assets	34,425	39,588	45,923	53,316	62,060	37,990	NA
Deposits	27,188	30,879	35,774	41,107	47,476	29,707	NA
Interbank	672	1,584	2,112	2,293	2,669	1,483	NA
Borrowed Funds	873	930	1,148	1,546	1,924	911	NA
Other Payables	271	317	367	427	496	316	NA
Provisions	378	416	505	560	621	412	NA
Other Liabilities	1,263	1,386	1,607	1,813	2,017	1,344	NA
Subordinated Loans	0	0	0	0	0	0	NA
Equity	3,780	4,077	4,401	5,545	6,846	3,832	NA
Total Liabilities	34,425	39,588	45,923	53,316	62,060	38,004	NA

Table 26. Key Ratios of Halkbank

Key Ratios and Multiples							
Balance Sheet Breakdown	2006	2007E	2008E	2009E	2010E	9M07	9M06
Cash & Central Bank	7.4%	6.9%	6.1%	6.2%	6.1%	7.0%	NA
Securities	52.7%	44.0%	33.0%	27.0%	21.5%	46.1%	NA
Loans	33.8%	44.5%	55.0%	61.5%	67.5%	42.0%	NA
Deposits	79.0%	78.0%	77.9%	77.1%	76.5%	78.2%	NA
Equity	11.0%	10.3%	9.6%	10.4%	11.0%	10.1%	NA
Profitability Ratios							NA
ROE	24.4%	27.0%	28.9%	29.1%	26.8%	28.5%	NA
ROA	2.8%	2.9%	2.9%	2.9%	2.9%	3.0%	NA
NIM	4.6%	4.7%	4.6%	4.5%	4.3%	4.7%	NA
Adj. NIM	3.9%	4.7%	4.5%	4.4%	4.2%	4.6%	NA
Yield on IEA	15.4%	16.1%	15.2%	14.4%	13.5%	15.8%	NA
Cost of IBL	12.2%	12.9%	12.2%	11.4%	10.6%	13.4%	NA
Net interest spread	3.2%	3.2%	3.0%	3.0%	2.9%	2.5%	NA
Before Tax ROE	31.6%	33.9%	35.9%	36.2%	33.3%	35.5%	NA
Bank-only ROE	24.6%	27.4%	29.4%	29.5%	27.1%	29.0%	NA
Before Tax Bank Only ROE	32.2%	35.1%	37.1%	37.3%	34.2%	36.1%	NA
Efficiency Ratios							NA
Cost/Income	35.4%	36.8%	36.3%	34.9%	34.0%	35.5%	NA
Cost/ Assets	2.1%	2.3%	2.2%	2.1%	2.0%	2.4%	NA
Fees and Commission/Cost	32.0%	36.5%	43.3%	48.3%	54.0%	37.7%	NA
Fees and Commissions/Assets	0.8%	0.9%	1.0%	1.1%	1.2%	0.9%	NA
Operating Income/Av. IEA	6.9%	6.8%	6.7%	6.7%	6.6%	6.9%	NA
Asset Quality& Capital							NA
CAR	32.0	NA	NA	NA	NA	20.6	NA
NPL ratio	8.5%	6.0%	5.3%	4.7%	4.3%	6.2%	NA
NPL provision coverage	100%	100%	100%	100%	100%	99%	NA
IEA/IBL	112%	115%	114%	115%	116%	111%	NA
Leverage	7.1	8.1	8.7	9.4	8.6	8.9	NA
Free Capital/Total Equity	77%	77%	78%	78%	80%	78%	NA

SEKERBANK

Niche player

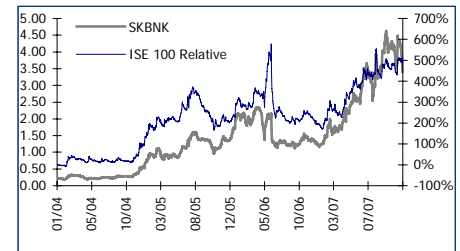
Maintained
Buy

Buy Maintained

- We maintain our 'Buy' recommendation for Sekerbank by trimming down our price target to TRY5.6 per share from TRY6.0 per share, implying an upside of 38%.
- Sekerbank will complete the sale of its TRY155mn NPL write-offs in Q108. With an expected 30% recovery rate, it may generate additional TRY50mn fresh equity.

Growth at Full Steam

- Sekerbank is a pure SME bank with a strong franchise in suburban Turkey. It focuses on agriculture, construction and tourism in order to create value chain.
- It is the fastest growing bank in Turkey. The bank has shown impressive operational performance, increasing its loan book by 66.4% in 9M07. This has been achieved by utilizing the existing branch network. We estimate its loan growth to reach 43% in 2008.
- Sekerbank cooperates with the World Bank and the German KfW in microfinancing. It has already secured several syndication loans at favorable terms.
- As a niche player operating in high risk segments and equipped with strong credit monitoring and evaluation skills, it has the highest margin in the Turkish banking universe.
- It is also penetrating aggressively into retail lending. The cobranding agreement with Garanti's Bonus Card scheme will boost its credit card lending.
- Sekerbank may opt for a small rights issue of TRY100mn (6%) in Q208 to strengthen the equity from strong growth.



Stock Data	As of Jan 22 st
Bloomberg	SKBNK.TI
Reuters	SKBNK.IS
Close (YTL)	4.08
Target Price (YTL)	5.6
Mkt cap (\$mn)	1,329
Free float (%)	29.5
Key Owners	BTA, PENSION FUND
International Holders as a % of Free Float	15.6
Shares Outstanding	400,000,000
Avg. 6m Daily Vol. (\$mn)	5.9
ISE-100 (TRY)	44,594

Performance	1M	3M	12M
Absolute (%)	-17.1%	-16.5%	132.2%
Relative (%)	0.1%	4.2%	114.7%

Key Ratios (%)	2007E	2008E	2009E
NIM	9.1	9.0	8.4
ROE	18.6	20.3	18.6
ROA	2.8	2.8	2.4
Loans/Assets	62.2	67.0	72.0
Loan Growth	83.0	43.3	34.3

Key Data (TRY mn)	2006	2007E	2008E	2009E	2010E
Net Interest Income	234	417	575	693	802
Fee Income	102	125	151	181	216
Net Income*	52	141	194	214	246
EPS (TRY)	0.13	0.35	0.48	0.54	0.62
Dividend Yield (%)	0.00	0.00	0.00	0.00	0.00
Equity	437	859	1,048	1,257	1,498
Free Capital	251	639	770	944	1,118
P/E	31.2	13.5	8.4	7.6	6.6
P/BV	3.7	1.9	1.6	1.3	1.1

2007E figure includes TRY25mn one-off income from Tax reversal (pre-tax)

Valuation
Table 27. Gordon growth Model For Sekerbank

	2007E	2008E	2009E	2010E	2010-2019	Terminal
Growth					12.20%	5.60%
Beta	1	1	1	1	1.00	1.00
Dividend payout Ratio					25%	55%
Core Bank ROE					17.0%	12.8%
Risk free Rate	16.5%	14.5%	13.0%	12.5%	10.5%	6.5%
Market Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%
Required Return (discount rate)		19.5%	18.0%	17.5%	15.5%	10.5%
Dividend per share		0.00	0.00	0.00		
Bank-only Target P/BV					2.2	
Bank Only Book Value (TRYmn)				1,388		
Bank Only Target Value (TRYmn)				3,000		
Bank Only Target Value (TRYmn)		2,164				
Fair Value of Participations		60				
Total Fair Value (TRYmn)*		2,224				
Number of Shares		400,000,000				
Fair value per share*		5.6				
Present Value of Dividends (2008-2009)		0.0				
Target Price		5.56				
Current share price		4.06				
Upside		36.9				

Table 28. Warranted Equity Method

Warranted Equity Method	
Sustainable bank only ROE	22.0%
Growth	10.00%
Risk free rate	11.0%
Beta	1
Equity Risk Premium	5%
Cost of Equity	16.0%
Benchmark P/BV (2008)	2.0
2008E Equity	1,055
Target Bank Only MCAP (TRY mn)	2,109
Fair Value of Participations (TRY mn)	60
Total Fair Value (TRY mn)	2,169
Current MCAP (TRY mn)	1,624
Upside	34%

Financials
Table 29. Balance Sheet and Income Statement (Unconsolidated TR GAAP Financials)

Income Statement in TRY Millions	2006	2007E	2008E	2009E	2010E	9M07	9M06
Interest Income	503	889	1,170	1,409	1,659	647	361
On loans	323	651	939	1,198	1,485	467	219
On Securities	152	183	179	151	108	151	123
On Money Market	1	4	5	6	6	0	1
On Banks	4	18	13	16	18	5	3
On Reserve Deposits	13	22	22	25	29	16	10
Other	9	11	12	13	13	8	7
Interest Expense	269	472	601	729	855	355	190
On deposits	239	400	489	573	647	311	170
On Money Market	1	53	79	110	139	31	15
On Funds Borrowed	4	12	25	37	57	8	2
Other	25	7	8	10	12	4	3
Net Interest Income	234	417	569	679	804	293	171
Net FX (loss)/gain	-19	80	60	50	60	65	10
Adjusted Net Int. Income	215	497	629	729	864	358	182
Total Non-interest Income	272	174	207	231	280	135	152
Net trading income	11	-75	-55	-45	-55	-64	9
Net Fees and Commissions	102	125	151	181	216	90	73
Income From Participations	4	1	1	1	2	1	4
Other Non Interest Income	155	123	110	94	118	107	66
Total Operating Income	487	671	836	961	1,144	493	333
Total Provisions	152	177	232	291	368	131	110
Loan Loss provisions	83	107	151	196	257	85	60
Other Provisions	69	70	81	95	111	47	51
Net Operating Expense	259	324	370	418	468	233	190
Income Before Tax and Mon. item	76	169	234	252	308	128	33
Monetary gain / (loss)	0	0	0	0	0	0	0
Taxation charge / (credit)	24	28	46	49	60	19	21
Net Income	52	141	189	203	248	109	12
Balance Sheet							
Cash and Central Bank	307	399	550	722	882	405	272
Securities	1,172	1,233	1,249	1,142	797	1,270	1,211
Banks	283	147	234	244	270	97	176
Interbank	1	0	0	0	0	0	0
Loans	1,995	3,651	5,230	7,025	9,559	3,319	1,515
Gross NPLs	246	152	207	270	357	142	236
Loan Loss Reserves	246	152	207	270	357	142	236
Participations	60	73	94	98	123	72	46
Fixed Assets	126	147	183	215	257	142	86
Other Assets	63	220	265	312	368	207	61
Total Assets	4,006	5,869	7,806	9,758	12,256	5,512	3,367
Deposits	3,047	3,932	5,074	6,245	7,660	3,860	2,660
Interbank	270	358	624	888	1,213	125	113
Borrowed Funds	57	423	546	956	1,385	406	47
Other Payables	9	12	16	20	25	10	28
Provisions	84	106	129	141	165	104	90
Other Liabilities	104	182	234	278	325	177	72
Subordinated Loans	0	0	0	0	0	0	0
Equity	437	859	1,048	1,257	1,498	830	356
Total Liabilities	4,006	5,869	7,806	9,758	12,256	5,512	3,367

Table 30. Key Ratios of Sekerbank

Key Ratios and Multiples

Balance Sheet Breakdown	2006	2007E	2008E	2009E	2010E	9M07	9M06
Cash & Central Bank	7.7%	6.8%	7.1%	7.3%	7.2%	7.4%	8.1%
Securities	29.3%	21.0%	16.0%	11.8%	6.5%	23.0%	36.0%
Loans	49.8%	62.2%	67.0%	72.0%	78.0%	60.2%	45.0%
Deposits	76.1%	67.0%	64.8%	64.0%	62.5%	70.0%	79.0%
Equity	10.9%	14.6%	15.3%	12.9%	12.2%	15.1%	10.6%
Profitability Ratios							
ROE	12.8%	21.8%	19.8%	17.6%	18.0%	22.9%	4.4%
ROA	1.4%	2.9%	2.8%	2.3%	2.3%	3.0%	0.5%
NIM	7.0%	9.1%	9.0%	8.3%	7.8%	8.8%	7.4%
Adj. NIM	6.8%	9.2%	9.0%	8.3%	7.8%	8.9%	8.2%
Yield on IEA	15.1%	19.4%	18.4%	17.2%	16.1%	19.5%	16.4%
Cost of IBL	8.9%	11.6%	11.0%	10.2%	9.3%	14.1%	9.7%
Net interest spread	6.2%	7.8%	7.5%	7.0%	6.8%	5.5%	6.7%
Before Tax ROE	18.7%	26.1%	24.6%	21.9%	22.4%	26.9%	11.9%
Bank-only ROE	13.9%	24.2%	21.6%	19.1%	19.5%	25.2%	4.5%
Before Tax Bank Only ROE	21.6%	29.1%	26.9%	23.8%	24.3%	29.7%	12.3%
Efficiency Ratios							
Cost/Income	53.2%	48.3%	44.2%	43.5%	40.9%	47.3%	57.1%
Cost/ Assets	6.5%	5.5%	4.7%	4.3%	3.8%	6.5%	7.8%
Fees and Commission/Cost	39.5%	38.5%	40.9%	43.4%	46.1%	38.7%	38.2%
Fees and Commissions/Assets	2.9%	2.5%	2.2%	2.1%	2.0%	2.5%	3.0%
Operating Income/Av. IEA	14.6%	14.6%	13.2%	11.7%	11.1%	14.8%	14.4%
Asset Quality & Capital							
CAR	16.7	NA	NA	NA	NA	18.2	17.5
NPL ratio	11.0%	4.0%	3.8%	3.7%	3.6%	4.1%	10.7%
NPL provision coverage	100%	100%	100%	100%	100%	100%	100%
IEA/IBL	109%	115%	116%	113%	112%	113%	113%
Leverage	7.4	8.2	5.8	6.5	6.8	5.6	8.5
Free Capital/Total Equity	60%	57%	74%	74%	75%	74%	63%

TEB Investment: Stock Rating Definitions

TEB Rating	Definition*	Investment Horizon
BUY	Stock return is > 20%	1 year
HOLD	Stock return ranges between -10% and 20%	1 year
SELL	Stock return is < -10%	1 year

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