

## Set for lower profitability in 2012

### ■ Monetary policy will remain challenging for banks this year

Global market conditions and continued pressure on the TRY forced the central bank (CBT) into announcing a second round of tightening measures at the end of last year. Given that the credit growth channel is where the CBT has been most effective with its monetary policy approach, it is unlikely that we will see a full reversal this year of the negatives for Turkish banks, such as the Regulatory Reserve Requirement (RRR) hikes and the higher cost of funding.

### ■ We expect limited ROE improvements in the Q4 2011 results

We expect Q4 aggregate earnings for the banks under our coverage to amount to TRY3.6bn, up 26% on a weak Q3 (16% excluding Isbank), but to be down 5% y/y for FY 11. This corresponds to an average ROE of 17%, versus 15% in Q3 11 and 19% in Q4 10.

### ■ 2012 EPS estimates remain largely unchanged; PTs cut on higher COE

We estimate banks will report 7% lower earnings in 2012 under our base case, implying a low ROAE of 14.3% versus 16.6% in 2011. This does not bode well for valuations in an environment of higher rates. We are lowering our Gordon growth model based price targets on average by 13%, to reflect a 12bps average reduction in sustainable ROAE assumptions and an 80bps increase in COE.

### ■ We downgrade Garanti to Neutral, Akbank to Sell

With this report, we are transferring coverage of Garanti, Akbank, Isbank and Yapi Kredi to Serhan Gok. We keep Halkbank on a Buy given its favourable positioning, high ROE and what we see as an attractive valuation. We downgrade Garanti to Neutral as we think most of the fundamental strengths are priced in. We downgrade Akbank to Sell as we cannot justify the valuation premium to peers on our ROAE estimates. We maintain our Neutral on Isbank, Yapi Kredi & Vakifbank

18 January 2012

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Table 1: Changes to estimates, price targets, rating and EPS estimate changes

	Price target (TRY)		Rating		EPS change (%)		
	Old	New	Old	New	2011E	2012E	2013E
Garanti	8.30	6.75	Buy	Neutral	11.4%	-3.8%	6.4%
Akbank	7.20	6.00	Neutral	Sell	-2.7%	6.1%	6.1%
Halkbank	14.00	14.00	Buy	Buy	4.9%	8.2%	0.6%
Isbank	4.70	3.60	Neutral	Neutral	-7.0%	-12.4%	-13.7%
Yapi Kredi	3.80	3.30	Neutral	Neutral	5.2%	4.3%	-2.2%
Vakifbank	3.60	2.85	Neutral	Neutral	5.1%	0.1%	-4.1%

Source: UBS estimates

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 46.

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## Set for lower profitability in 2012

Global market conditions and the continued pressure on the TRY forced the central bank into announcing a second round of tightening measures at the end of last year. The bank is determined to support the TRY to prevent a further deterioration of inflation trends. Turkish banks are now faced with an upward shift in rates and resulting squeeze in margins due to the maturity gap in their balance sheets. They are helped somewhat by the upward re-pricing of loans in 2011, higher yields from the floating portion of their securities portfolios, and the cut in the blended Regulatory Reserve Requirement (RRR) at the beginning of November 2011.

However, the sector's reliance on incremental deposit funding increased substantially after a year of robust loan growth, with the system loans-to-deposits ratio (LDR) coming close to 100%. While the loan re-pricing and higher CPI linker yields should improve Q4 net interest margins (NIM), Q1 2012 spreads are likely to come under considerable pressure from slower loan growth and additional increases in the cost of funding.

Our key 2012 assumptions for Turkish banks are for: 15% loan growth (down from 30% in 2011); 13% deposit growth; an 18bps slide in NIM; an 11% increase in net interest income (NII); a 32% increase in impairment charges; higher opex growth of 8-9% due to an increase in payroll expenses and branch openings; and a lower fee growth of 6-7%, due to regulation caps and accounting changes.

We believe that another potential challenge for some of the less well capitalised banks in the system, like Yapi Kredi and Vakifbank, will be maintaining their capital adequacy ratios (CARs) comfortably above the 12% threshold. While these banks are currently above 13%, Basel-II implementation planned this year could lower their CAR by 100-150bps, bringing them close to 12%.

### Cutting our earnings estimates and price targets

We estimate banks will report 7% lower earnings this year under such a base case, implying a low ROAE of 14.3%, down from 16.6% in 2011. This does not bode well for valuations in an environment of rising COE. Currency, inflation, and interest rate volatility risks around earnings prohibit a more bullish view at this point for Turkish banks, despite valuations now trending close to recent historical lows.

We are lowering our Gordon growth model based price targets on average by 13% for the Turkish banks, to reflect a 12bps average reduction in sustainable ROAE assumptions and an 80bps increase in COE. We calculate the COE at 15.5%, based on the 6-month average yield of the longest-duration (10-year) Turkish bond of 9.5% (previously 8.7%), plus the 6% equity risk premium assumption (unchanged) for Turkish equities.

In the current environment, we would prefer banks with low reliance on interbank funding, low loans-to-deposits ratios, high exposure to variable rate securities, and relatively low reliance on foreign (FX) funding.

[Turkish banks now face a squeeze in margins](#)

[Key assumptions for Turkish banks for 2012](#)

[We see banks reporting 7% lower earnings this year under our base case](#)

[Cutting our price targets on average by 13% for the Turkish banks](#)

## Stock recommendations and preferences

Given that it ranks well on most of the above criteria and offers decent upside potential to our price target, we continue to prefer **Halkbank (maintain Buy, PT TRY14.00)** in the Turkish banking space. Halkbank can offer a structurally higher net interest margin due to its leading position in the high-yielding SME segment, and hence a higher ROE (>20%) than peers. Halkbank has a best-in-class liquidity ratio and sufficient capital to support growth going forward. In addition, Halkbank managed to deliver stable margins and earnings throughout a volatile 2011, and we expect this to continue in 2012, supporting investor confidence in the bank.

We still prefer Halkbank (maintain Buy, TRY14.00) in the Turkish banking space

**Garanti (downgrade to Neutral, PT TRY6.75)** also fits most of the above investment criteria, and it is also likely to report the best Q4 results among its peers on improved core trends. Management's proven capability in proactively re-pricing the balance sheet should position it well in a year of macro volatility like 2012. However, we find these positives mostly priced in, with limited potential upside implied by our PT. The bank also trades at a 15% premium to Turkish peers on 2012E P/TB multiple. We therefore downgrade Garanti to Neutral from Buy and cut our price target to TRY6.75 from TRY8.30.

We downgrade Garanti to Neutral and cut our PT to TRY6.75 from TRY8.30

**Akbank's (downgrade to Sell, PT TRY6.00)** strong balance sheet and good positioning could lead to market share gains in the current environment, and the Bank's prudent provisioning and higher asset quality performance would add to these qualities in an environment of higher cost of risk, but we can not justify the premium to peers on our sustainable ROAE estimate versus the PB valuation. We downgrade the bank to Sell from Neutral and cut our price target to TRY6.0 from TRY7.20.

Downgrading Akbank to Sell from Neutral and cutting our PT to TRY6.00 from TRY7.20

**Isbank (maintain Neutral, PT TRY3.60)** shares some of Akbank's fundamental qualities, such as a strong balance sheet and good positioning for growth. But we think the valuation is not compelling enough to look past the negative impact on profitability of the monetary environment; we therefore remain Neutral on Isbank.

Maintaining our Neutral rating on Isbank; we cut our PT to TRY3.60 from TRY4.70

**We keep Yapi Kredi on Neutral (PT TRY3.30)** as well, despite its recent underperformance. Our main concern on Yapi Kredi compared to some of its peers is its relatively high loans-to-deposits ratio in local currency of 120-130%, and its relatively high reliance on foreign funding. Although Yapi Kredi is well managed and has a clear strategic focus on retail lending, we believe that its funding and capital positions prevent a more bullish view at this point.

We maintain our Neutral rating on Yapi Kredi, despite recent underperformance; we cut out PT to TRY3.30 from TRY3.80

**We keep Vakifbank on Neutral (PT TRY2.85)** owing to its lower liquidity and capital levels relative to peers, and execution risk that will make it more vulnerable in continuously volatile macro environment, in our view. However, we still like Vakifbank's attractive valuation (0.55x 2012E P/TBV, 43% discount to the sector) and believe it has a potential to re-rate closer to other Turkish peers over time.

We maintain our Neutral rating on Vakifbank; we cut out PT to TRY2.85 from TRY3.60

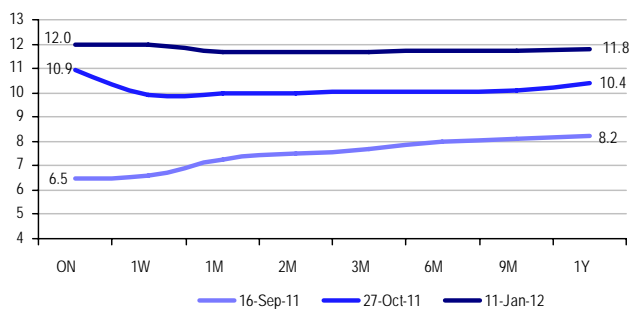
# Banking sector update

## Monetary policy remain challenging for banks

Global market conditions and the continuation of pressure on the TRY forced the Central Bank of Turkey (CBT) into announcing a second round of tightening measures at the end of last year. Following the introduction of the wide corridor of 12.5% overnight and 5.75% weekly repo rates at the end of October, the CBT warned against further volatility in liquidity management via the cancellation of the 5.75% weekly repo auctions and via direct, unsterilized interventions in the FX market on days the bank regards as ‘extraordinary’.

While it is at the CBT’s discretion as to which days it regards as extraordinary, it has been apparent from recent statements and market interventions that the bank is determined to strongly support the TRY to prevent a further deterioration of inflation trends. In fact, Governor Basci said in a recent speech that the Turkish lira would be among the currencies set to appreciate most in 2012 and would ‘beat’ the US dollar’s performance in 2012. Seven ‘extraordinary’ days of monetary policy in the past few weeks resulted in a 200bps jump in overnight interbank rates and a parallel shift in the yield curve.

Chart 1: TRLIBOR yield curve (%)



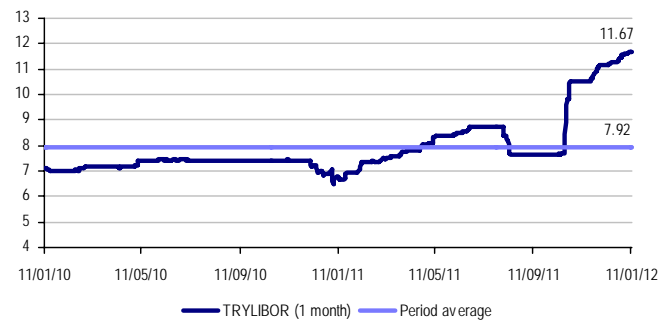
Source: Thomson Datastream, UBS estimates

The CBT’s direct FX intervention during the period amounted to \$5bn, alleviating the pressure on the lira. However, we have observed that the global flows into EM currencies and general risk appetite for EM assets have been a critical, *if not essential* part of the CBT’s success in defending the lira with the above framework. Also, bond yields have not fallen back much, despite the fact that the CBT shifted monetary policy back to normal in the past few days of trading, supplying the system with TRY30bn of liquidity at the 5.75% weekly policy rate. This lowers the estimated blended cost of CBT funding to banks from the high-end (12-15%) of the policy corridor to around 9%.

CBT continues tightening and maintains its unorthodox approach

Governor has promised lira would ‘beat’ dollars in 2012

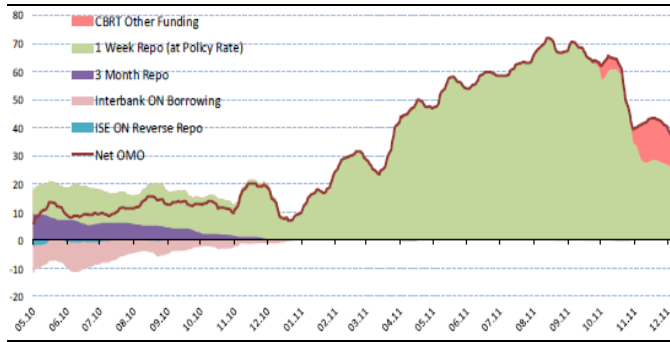
Chart 2: TRLIBOR development (%)



Source: Thomson Datastream, UBS estimates

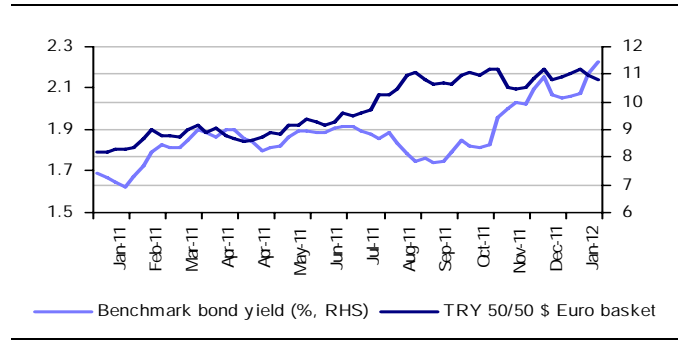
Risk appetite for EM currencies has been critical to CBT’s success in defending lira

Chart 3: Impact of CBT tightening on O/N interbank rates, %



Source: CBRT

Chart 4: TRY basket versus benchmark bond yields



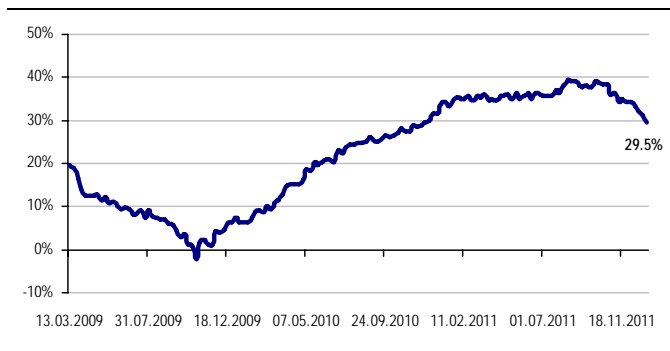
Source: ISE, UBS

### Much depends on CBT's success in defending lira

The global and European slowdown, negative base effects related to very high growth rates in 2010/2011, and the impact of CBT's tightening since October, are likely to lead to a visible slowdown in the Turkish economy in Q1 2012. There is evidence in recent economic data such as loan growth, the current account deficit numbers, and in forward-looking sentiment indicators, such as consumer confidence or PMI, that such a slowdown is underway. While the much-weaker lira should support the adjustment, the weak external environment and still high oil prices are likely to prevent a sharp contraction in the current account deficit. We expect Turkey's current account deficit to stabilise above 10% of GDP only in Q4 2011 and then narrow only slowly, to perhaps 7-8% of GDP by the end of the year.

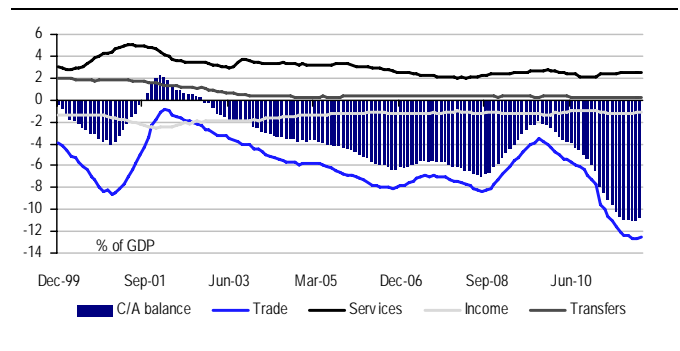
Slowdown in the Turkish economy is underway but external deficit remains high

Chart 5: Loan growth weekly readings (y/y %)



Source: BRSA, UBS estimates

Chart 6: C/A balance as % of GDP



Source: Bloomberg, UBS estimates

With the funding structure of the deficit still heavily skewed towards short-term and volatile sources of capital, Turkey remains exposed to the risk of sudden capital outflows, which could undermine asset markets and economic activity.

### TRY: Better policies, but serious outstanding issues

The TRY has started 2012 with a firm tone, lending credence to our identification of short EUR vs. TRY, BRL and INR as a top trade for 2012 (see *Emerging Markets Navigator - Outlook 2012* for details). We see three main drivers of the TRY's recent bounce. First, Turkey's current account deficit has shown more decisive signs of peaking. Encouragingly, there is more to this than just the peaking of global energy prices; we estimate that the growth rate of non-energy imports has slowed as the impact of previous tightening and FX

depreciation has fed through. Second, CBT Governor Basci has provided the TRY with explicit and strong verbal support, stating that the TRY has the potential to be one of the world's best-performing currencies in 2012 and that the CBT will not seek to curb its appreciation. Third, as a result of the CBT's additional monetary tightening since October, FX implied yields have risen to the highest in the mainstream EM FX space, at just under 10% annualised.

However, it is important to highlight that a number of serious issues remain outstanding for the Turkish economy and the TRY. Indeed, as a baseline view (assuming only modest capital inflows into EM) we believe there is limited scope for the TRY to appreciate: our bearish views on EURTRY incorporate a bearish view on EURUSD and attractive carry – more so than aggressive nominal TRY appreciation. We are forecasting USDTRY at 1.88 by end-Q1. Why are we advising caution? First, despite signs of stabilisation, it is important to bear the context in mind: that Turkey's current account position is likely to close the year at 8% of GDP, still comfortably the largest in EM.

The financing of the deficit has, in our view, shown little sign of improvement: over the last five months, FX reserves drawdowns have been a larger component of financing than FDI, with 'net errors and omissions' and short-term private external borrowing playing an increasingly important role. While this does show that Turkish corporates are able to access external funding, it also means that FX mismatches in the corporate sector and reliance on global credit conditions to finance Turkish growth remains elevated. Second, politicisation of monetary policy is a risk that we believe is under-priced. This relates to the view that high rates are the root cause of high inflation, and that the CBT should reduce the gap between market rates and the policy rate – highlighting the risk that the CBT's tightening efforts could only be temporary, which serves to reduce the effectiveness of future tightening efforts.

Overall, we do believe on a carry-adjusted basis the TRY is a decent investment on a multi-month view, but we would caution against extrapolating recent strength into a sustainable trend unless the issues in Europe meaningfully improve the state of global credit markets.

## Impaired visibility may 'freeze' banks in 1H

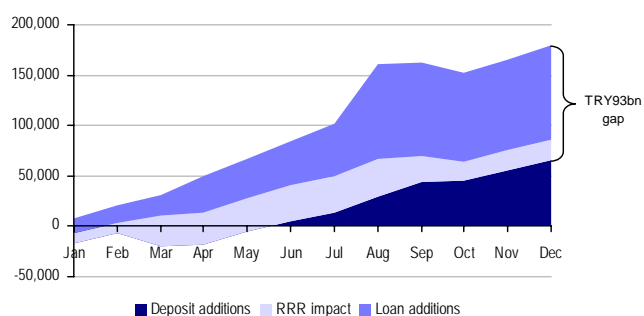
Turkish banks are now faced with both an upward shift in rates and the resulting squeeze in margins due to the maturity gap in their balance sheets. They are helped somewhat by the upward re-pricing of loans in 2011 around 500bps, higher yields from the floating portion of their securities portfolio, and the 210bp reduction in the blended Regulatory Reserve Requirement (RRR) at the beginning of November. However, the sector's reliance on incremental deposit funding increased substantially after a year of robust loan growth, with system LDR moving close to 100%.

Low quality of external financing leaves Turkey exposed to capital outflows and keeps TRY under pressure

Carry trade appeal is back, but it remains to be seen if recent TRY strength is a sustainable trend

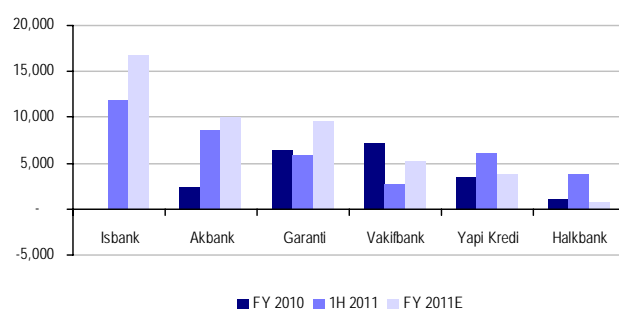
High loan growth of last year increased Turkish banks' reliance on incremental deposit funding

Chart 7: Gap between loan and deposit additions 9M 2011 (TRY m)



Source: BRSA, UBS estimates

Chart 8: Gap between loans & deposit additions by banks (TRY m)



Source: Company reports, UBS estimates

Given low visibility on the cost of deposit funding and consequent difficulty around pricing loans, we think the banks are likely to slow down lending substantially further in 1H 2012. In our base case, we do not expect a liquidity squeeze or credit crunch for the Turkish banks through the year. We still expect system loan growth to be around 15% (2011: 30%). However, the macro volatility during the first half could leave most of the projected growth to the second half.

**'Flexible' monetary policy could amplify, rather than soften Turkey's growth adjustment**

We think there is a risk that 'flexible' monetary policy could *amplify*, rather than soften Turkey's pending growth adjustment. It is unlikely that the central bank is unaware that such an outcome is possible. The CBT's influence on the credit growth channel is where the bank has been most effective with its monetary policy approach. With the current macro framework, it is unlikely that we will see a full reversal of the negatives for Turkish banks, such as cancellation of interest payments on reserves, RRR hikes and the monetary tightening. Monetary policy will remain challenging for banks in 2012.

**CBT is unlikely to loosen its grip on credit growth in 2012**

## Forecast changes

We have long been factoring in slowdown in loan growth, gradual rate hikes and asset quality deterioration into our 2012 and 2013 estimates for the Turkish banks. With this report, we are fine-tuning estimates; keeping our 2012 EPS flat, while lowering our 2013 EPS for the sector by 1%, as shown in the table below. See Pages 21-37 for detailed estimates for the banks under our coverage.

Table 2: Price target, rating and EPS estimate changes

	Price target (TRY)		Rating		EPS change (%)		
	Old	New	Old	New	2011E	2012E	2013E
Garanti	8.30	6.75	Buy	Neutral	11.4%	-3.8%	6.4%
Akbank	7.20	6.00	Neutral	Sell	-2.7%	6.1%	6.1%
Halkbank	14.00	14.00	Buy	Buy	4.9%	8.2%	0.6%
Isbank	4.70	3.60	Neutral	Neutral	-7.0%	-12.4%	-13.7%
Yapi Kredi	3.80	3.30	Neutral	Neutral	5.2%	4.3%	-2.2%
Vakifbank	3.60	2.85	Neutral	Neutral	5.1%	0.1%	-4.1%

Source: UBS estimates

Turkish banks have reacted to the CBT's tightening and related increase in their cost of funding with another round of 200-250bps hikes in their loan rates, taking the annual increase to 450-650bps in 2011. *See Q4 previews on pages 23-38.* While this move would provide them with ammunition to keep their Q4 NIM margin stable (also helped by higher yields on securities linked to CPI), Q1 2012 spreads are likely to remain under considerable pressure due to slower loan growth and additional increases in the cost of funding.

## 2012 outlook for Turkish banks

Our current framework for 2012 is for: 15% loan growth (down from 30% in 2011); 13% deposit growth; an 18bps slide in NIM; an 11% increase in NII, an 32% increase in impairment charges; higher opex growth of 8-9% due to increases in payroll expense and branch openings; and lower fee growth of 6-7% due to regulation caps and accounting changes. Another potential challenge for some of the less well capitalised banks in the system, like Yapi Kredi and Vakifbank, will be maintaining their CARs comfortably above the 12% threshold. While these banks are currently above 13%, Basel-II implementation planned this year could lower their CARs by 100-150bps, bringing them close to 12%.

We estimate the banks will report 7% lower earnings this year under this base case, implying a low ROAE of 14.3%, down from 16.6% in 2011. Bank managements agree with the general outline of our scenario. However, they remain more bullish on: (1) margins – which they see as stable to improving instead of our 18bps contraction estimate; and (2) asset quality trends – they agree about lower collections, but expect a lower increase in impairment costs.

## NIM performance key benchmark for the year

We beg to differ with managements' optimism on the delivery of stable margins, since we believe this would be very difficult unless yields fall substantially in H2 2012, easing the pressure of higher funding costs, which will pressure Q1 2012 results. Even in the event of lower interest rates in H2, Turkish banks could start competing for loan market shares, eventually erasing the windfall gains with more aggressive pricing of new loans. In the meanwhile, a sharp decline in liquidity levels has increased the cost of market funding for all banks. We expect that the banks with more constrained liquidity (higher LDRs and higher dependence on interbank funding), such as Yapi Kredi and Vakifbank, will be affected more than peers. In time, the banks should be able to gradually re-price their assets to offset the margin squeeze.

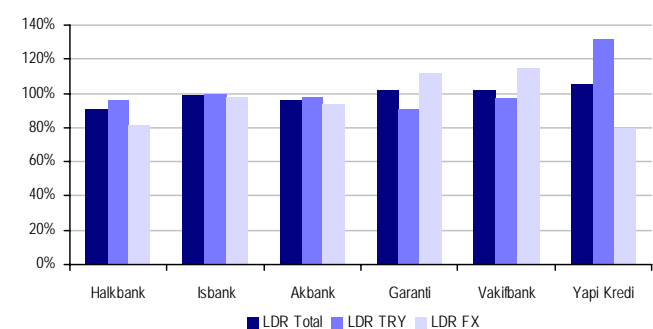
After a resilient Q4 2011, Turkish banks will feel the pain of tightening in Q1 results

Tightening impact, asset quality trends and regulation pressures render 2012 a challenging year for the system

We expect 7% lower earnings this year, with average ROAE falling to 14%

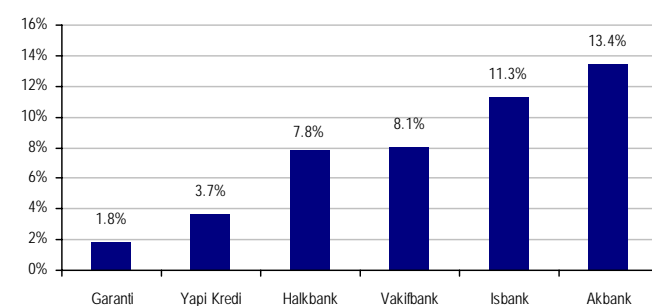
NIM expansion would be difficult to achieve this year

Chart 9: Turkish banks' LDR ratios<sup>1</sup> 9M 2011 (%)



Source: Company reports, UBS estimates. Note: 1 = Based on gross loans

Chart 10: Turkish banks' dependence on interbank funding 9M 2011 (% of total assets)



Source: Company reports, UBS estimates

## Don't expect an NPL increase like in 2009

We do not expect a major deterioration in the NPL trends for the Turkish banks this year based on relatively benign macro assumptions such as positive GDP growth (+1.3%) and a healthy lending appetite among some key players. In a scenario of positive GDP growth, we do not expect a major increase in the unemployment rate, with only a limited number of the currently employed labour force (100-200k people) losing their jobs. We expect this, plus strict regulation on credit card and consumer loans, to limit deterioration in the corresponding segments, which make up nearly one-third of the total loans in the system.

Secondly, a number of key players such as Akbank, Isbank, and Halkbank maintain a healthy lending appetite with respect to the SME segment. This is a big change in the system position versus 2012. Thus we think the risks related to TRY commercial loans (c40% of total loans) are modest. Nevertheless, we estimate a deterioration in the system trends, given the sharp slowdown in growth, and estimate a 32% increase in impairment costs this year. Our estimates on provisioning charges for individual banks are presented in the tables below.

Table 3: Turkish banks' gross impairments

	2006	2007	2008	2009	2010	2011E	2012E	2013E
Garanti	1.39%	1.01%	1.33%	3.23%	1.13%	1.06%	1.30%	1.40%
Halkbank	2.25%	1.50%	1.99%	2.22%	1.19%	0.95%	1.10%	1.18%
Vakifbank	2.02%	2.16%	2.34%	3.09%	2.47%	1.70%	1.70%	1.72%
Akbank	1.66%	2.10%	2.69%	2.40%	1.03%	1.07%	1.20%	1.30%
Isbank	3.24%	4.79%	3.86%	4.53%	1.95%	1.90%	1.90%	1.80%
Yapi Kredi	2.05%	1.59%	1.78%	4.19%	2.47%	1.65%	1.95%	1.80%
Average	2.10%	2.19%	2.33%	3.28%	1.71%	1.39%	1.53%	1.53%

Source: Company reports, UBS estimates

Table 4: Turkish banks' impairments adjusted for recoveries (estimated)

	2006	2007	2008	2009	2010	2011E	2012E	2013E
Garanti	-0.15%	-1.77%	0.53%	2.57%	-0.02%	0.11%	0.76%	0.90%
Halkbank	-1.74%	-0.93%	0.66%	1.13%	-0.05%	0.01%	0.26%	0.42%
Vakifbank	-1.40%	-0.74%	0.21%	1.16%	0.15%	-0.66%	-0.28%	-0.07%
Akbank	0.20%	0.90%	1.33%	1.52%	-0.39%	0.19%	0.60%	0.76%
Isbank	1.61%	2.79%	2.68%	2.98%	-0.21%	0.24%	0.71%	0.83%
Yapi Kredi	-0.12%	0.55%	0.57%	3.73%	0.17%	0.46%	1.25%	1.21%
Average	-0.27%	0.13%	1.00%	2.18%	-0.06%	0.06%	0.55%	0.68%

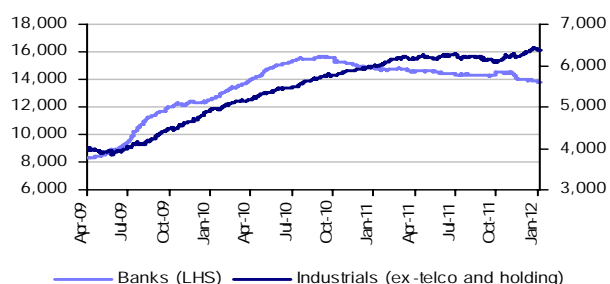
Source: Company reports, UBS estimates

## Consensus estimates continue sliding

Consensus earnings estimates for banks were trending down last year, and we have seen another round of downward revisions since the CBT's tightening started in October. This sits in contrast with earnings estimates for industrials, which have been improving recently (see Chart 11 and Chart 12). As we discussed earlier, the convergence of banks' earnings with the rest of the market depends on currency, monetary policy, and regulatory factors – which in turn depend on the pace of and shape of Turkey's growth adjustment.

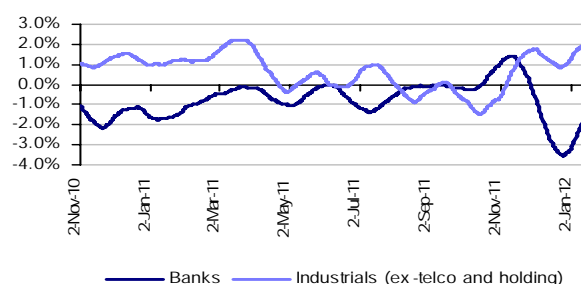
Turnaround in bank earnings depends on a successful soft landing

Chart 11: 12-month forward earnings estimates\*, TRY billion



Source: Bloomberg, UBS, \*aggregate estimates for Big-6 banks and MSCI industrials

Chart 12: 12-month forward earnings estimates\*, monthly ma



Source: Bloomberg, UBS, \*aggregate estimates for Big-6 banks and MSCI industrials

Following the latest round of cuts, consensus 2012-13 EPS estimates are now much closer to our more conservative numbers, but we are still 5% below consensus for 2012 and 4% below for 2013.

Table 5: New UBS estimates versus consensus

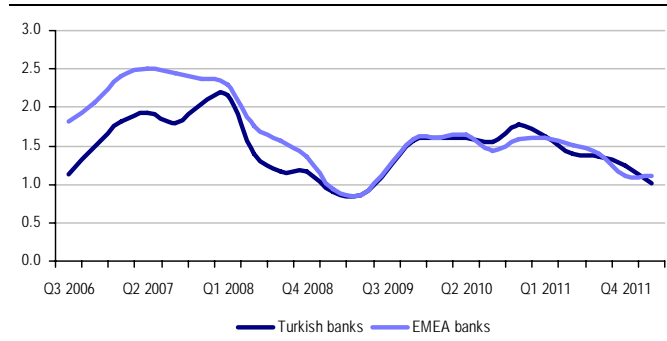
	AKBank	IsBank	Garanti	Yapi Kredi	Halkbank	Vakifbank
2011 UBS	0.65	0.50	0.75	0.49	1.55	0.50
2011 Consensus	0.65	0.53	0.73	0.45	1.59	0.50
%	0%	-6%	3%	8%	-3%	1%
2012 UBS	0.66	0.46	0.72	0.42	1.69	0.43
2012 Consensus	0.67	0.54	0.75	0.47	1.62	0.51
%	-1%	-15%	-4%	-10%	4%	-15%
2013 UBS	0.80	0.55	0.88	0.51	1.86	0.49
2013 Consensus	0.78	0.63	0.86	0.55	1.82	0.58
%	2%	-13%	3%	-7%	2%	-16%

Source: Bloomberg, UBS estimates

## Valuations approaching 2009 lows

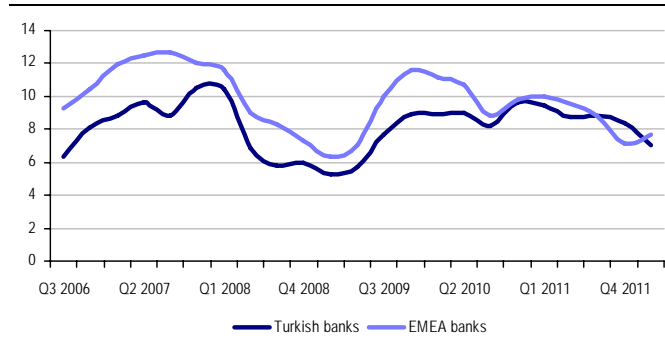
The sell-off in Turkish banks resulted in an underperformance versus EEMEA and GEM banks by 14% and 20% in the past 12-m period. Year to date, this trend has persisted, with Turkish banks remaining 2% and 4% behind in relative terms, respectively. Discounts to EMEA and GEM banks on 2012E P/B multiples are 12% and 23% and on 2012E PE multiples are 16% and 3%. Turkish banks are also trading close to 2009 lows, with 13% downside remaining to the 2009 trough of 0.85x 12-month forward P/B.

Chart 13: Turkish and EMEA banks 12-month forward P/BV



Source: IBES, Thomson Datastream

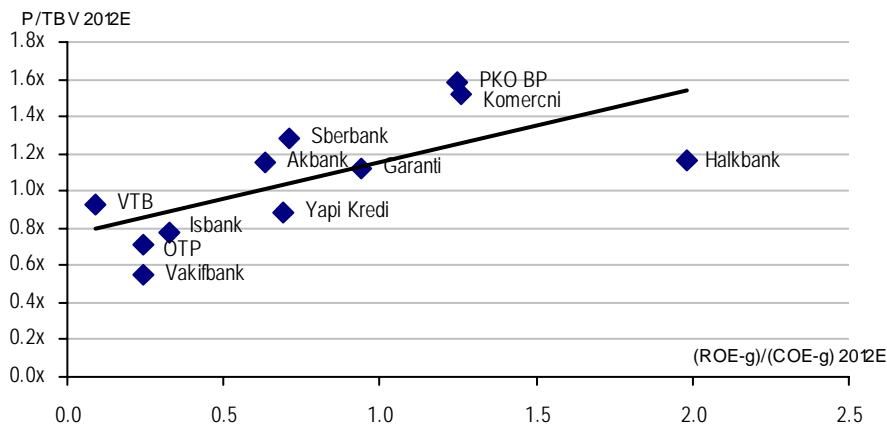
Chart 14: Turkish and EMEA banks 12-month forward P/E



Source: IBES, Thomson Datastream

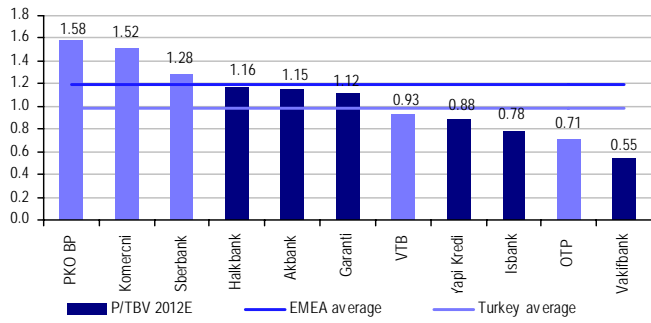
Turkish banks' underperformance versus EMEA and GEM banks looks justified if we compare P/TBs with risk adjusted ROEs. Also, while Turkish banks trade at a 16% discount to EMEA banks on 2012E PE, we estimate a 7% earnings contraction this year versus 2011, against the 7% increase estimate for EMEA banks during the same period.

Chart 15: Turkish banks 2012E P/TB (x) and ROEg/COEg (x)



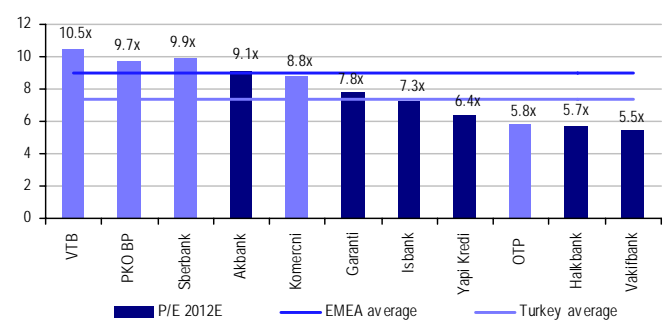
Source: UBS estimates

Chart 16: Turkish banks and selected EMEA peers P/TBV 2012E



Source: UBS estimates

Chart 17: Turkish banks and selected EMEA peers P/E 2012E



Source: UBS estimates

## No change in our cautious sector view

Turkish banks continue to face earnings pressure and are likely to report lower earnings and ROE numbers this year, in our view. This does not bode well for valuations in an environment of rising COE. Currency, inflation, and interest rate volatility risks around earnings prohibit a more bullish view at this point for Turkish banks, despite valuations now trending close to recent historical lows.

We reiterate that the sector remains well funded, well capitalized and bank balance sheets are clean. The mid-term growth potential of the Turkish banks remains unchanged. Underpenetrated lending markets, strong GDP growth potential, and high capital and liquidity levels mean that bank balance sheets and earnings are set to grow in the medium term. However, we also expect the market focus to be around earnings risks through the tightening cycle.

## PTs cut by 13% on lower ROAE and higher COE

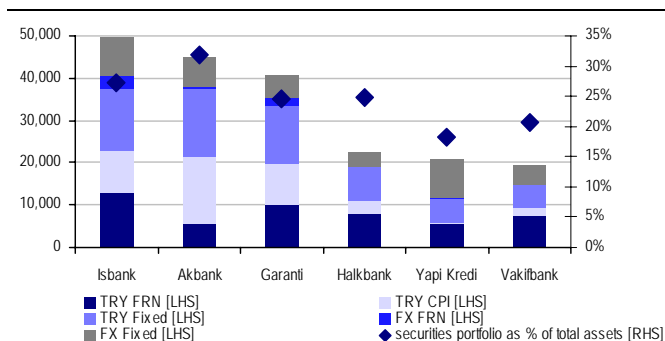
We are lowering our Gordon growth model based price targets on average by 13% for the Turkish banks, to reflect a 12bps average reduction in sustainable ROAE assumptions and an 80bps increase in COE. We calculate the COE at 15.5%, based on the 6-month average yield of the longest-duration (10-year) Turkish bond of 9.5% (previously 8.7%), plus the 6% equity risk premium assumption (unchanged) for Turkish equities.

## We are tactical buyers of selected names

In the current environment, we would prefer banks with:

- Low reliance on interbank funding (Chart 10) to alleviate the increase in costs through this channel after CBT tightening;
- Low loans to deposits ratios (Chart 9), which indicate lower reliance on higher-cost deposit funding;
- High exposure to CPI-linked securities and variable rate securities (Chart 18), to benefit from higher inflation trends in the Turkish economy; and
- Relatively low reliance on foreign (FX) funding (Chart 19).

Chart 18: Turkish banks' sovereign portfolio breakdown by type of security (TRYm and %) 9M 2011

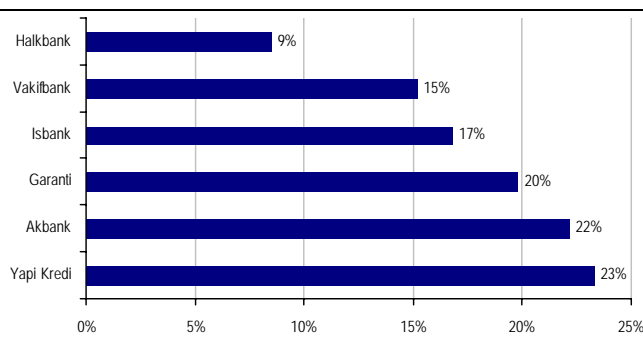


Source: Company reports, UBS estimates

We remain cautious on Turkish banks

Market likely to remain focused on short-term earnings pressure rather than the mid-term growth story

Chart 19: Reliance on FX wholesale funding as % of liabilities



Source: Company reports, UBS estimates

- A good track record in managing deteriorating asset quality, given the expected slowdown in GDP growth from c7% to c1%.

- A good management track record in pricing their balance sheet.

Given that it ranks well on most of the above criteria and offers decent upside potential to our price target, we continue to prefer **Halkbank (Buy, PT TRY14.00)** in the Turkish banking space. Halkbank offers a structurally higher net interest margin due to its leading position in the high-yielding SME segment and, as a result, a higher ROE (>20%) than peers. Halkbank is also perceived by the market as one of the highest quality banks, with a best-in-class liquidity ratio and sufficient capital to support future growth. In addition, Halkbank managed to deliver stable margins and earnings throughout a volatile 2011, and we expect this trend to continue in 2012, supporting investors' confidence in the bank. Therefore we believe that Halkbank is better positioned than its competitors and should be trading at a premium to Turkish peers, justified by structurally higher ROEs, stronger liquidity and low volatility of earnings. Halkbank is currently trading at 1.2x 2012E P/TBV, a slight premium to other Turkish banks, which corresponds to 60% higher 2012E ROE.

**Halkbank remains our most preferred bank in the space**

**Garanti (Neutral, PT TRY6.75)** fits most of the above criteria, and it is also likely to report the best Q4 results (please see previews on page 23) on core trends. Management's proven capability in proactively re-pricing the balance sheet should position it well in a year of macro volatility like 2012. However, we find these positives mostly priced in, with limited potential upside implied by our PT. The bank also trades at a 15% premium to Turkish peers on 2012E P/TB multiple. We therefore downgrade Garanti to Neutral from Buy.

**We downgrade Garanti to Neutral from Buy**

**Isbank (Neutral, PT TRY3.60)** shares some of Akbank's fundamental qualities, such as a strong balance sheet and good positioning for growth. But we think the valuation is not compelling enough to look past the negative impact of the monetary environment on profitability; we therefore remain Neutral on Isbank.

**...keep Yapi Kredi and Isbank on Neutral...**

We keep **Yapi Kredi on Neutral (PT TRY3.30)**. Our main concern on Yapi Kredi compared with some of its peers remains its relatively high loans-to-deposits ratio (LDR) in local currency of c120-130%, and its relatively high reliance on foreign funding. Although Yapi Kredi is well managed and has a clear strategic focus on retail lending, we believe that its funding and capital positions prevent a more bullish view at this point. The Bank is seeking to raise funding through subordinated loan deals and we think it may consider selling down non-core assets instead of doing a rights issue.

**Akbank's (Sell, PT TRY6.00)** strong balance sheet and good positioning are also interesting, and the bank's prudent provisioning and higher asset quality performance would add to these qualities in an environment of higher cost of risk, but we cannot justify the premium to peers on our sustainable ROAE estimate versus the P/B valuation. We downgrade Akbank to Sell from Neutral.

**...downgrade Akbank to Sell on valuation**

We keep **Vakifbank on Neutral (PT TRY2.85)** owing to its liquidity – which is lower than some peers' – and capital levels and execution risk, which will make it more vulnerable in a volatile macro environment, in our view. However, we still like Vakifbank's attractive valuation (0.55x 2012E P/TBV, a 43% discount to the sector) and believe it has the potential to re-rate closer to its Turkish peers over time.

**...and cut our PT for Vakifbank from TRY3.60 to TRY2.85 and remain Neutral**

Table 6: Turkish banks' relative valuations

TRY	P/E		P/TBV		ROE		Dividend yield	
	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E
Akbank	9.1x	9.1x	1.26x	1.15x	14.1%	13.1%	3.3	3.3
Garanti	7.6x	7.8x	1.27x	1.12x	17.7%	15.1%	2.9	2.5
Halkbank	6.3x	5.7x	1.37x	1.16x	23.8%	21.9%	3.5	4.4
Isbank	6.7x	7.3x	0.84x	0.78x	13.1%	11.1%	4.5	4.1
Vakifbank	4.6x	5.5x	0.61x	0.55x	14.0%	10.6%	1.1	0.9
Yapi Kredi	5.5x	6.4x	1.02x	0.88x	18.2%	13.5%	0.0	0.0
Turkey average	7.1x	7.4x	1.10x	0.98x	16.6%	14.3%	3.0	2.9
Poland average	11.2x	10.7x	1.60x	1.44x	15.0%	14.5%	2.2	5.7
SA average	11.2x	9.5x	1.82x	1.64x	15.5%	16.8%	4.2	5.0
Russia average	5.9x	10.0x	1.32x	1.20x	25.9%	12.9%	2.2	1.7
EMEA average	8.3x	9.0x	1.32x	1.19x	17.4%	14.3%	2.9	3.6
GEM average	8.5x	7.8x	1.53x	1.35x	19.9%	19.0%	3.7	4.4

Source: UBS estimates

## Key catalysts

- TRY strength** – The CBT recently said an 'extraordinary' period in the markets was over and that monetary policy would soon 'normalise'. Governor Basci is very confident that the tightening and intervention have been successful in containing TRY weakness, and sees 'speculation' as the main source of the problem. In his view, market expectations will adjust now that players have seen the strength of the CBT's options. With no end in sight to the CBT's unorthodox approach, monetary policy remains directly linked to TRY strength in the short term now that CBT has explicitly stated it will not tolerate currency weakness due to negative inflation repercussions. The CBT's success in defending the TRY remains the key catalyst for the Turkish market.
- Lower inflation and yields** – The CBT's success in taming inflation, which was in the double digits at end-2011, remains a crucial point for delivery of base equity earnings this year. This is especially true for banks, which rely on windfall gains from lower funding costs in H2 to maintain their full year margins in-line, or above those of 2011. In a year of slowing loan growth, asset quality deterioration and worse operating metrics, lower funding costs in H2 are a key driver of banks' earnings.
- Earnings-positive regulatory change** – 2012 could see a reversal of measures introduced last year such as higher required reserve ratios for banks and lack of interest payments in Lira denominated required reserves, which was effective throughout 2011. The resulting EPS traction could be significant for ISE earnings.

## Risks

- Hard landing** – It remains to be seen how effective CBT policies would be in terms of withstanding a global sell-off in EM currencies. We think that continued tightening of monetary policy should further curb credit growth in

Q1 and produce stronger signs of slowdown in the economy, leading to an improvement in the current account deficit. However, a deeper recession is still on the cards (we currently estimate 1.3% GDP growth this year) and would constitute earnings and valuation risk for the ISE.

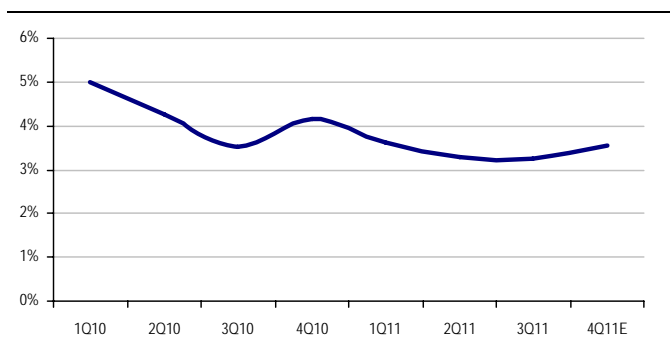
- **Export weakness due to recession in Europe** – Europe remains Turkey’s most important trading partner, accounting for nearly half of its exports and 40% of its imports. A further deterioration in European demand would constitute an external risk for Turkey’s macro balances this year.
- **Deterioration in private sector balance sheet** – The Turkish private sector successfully rolled over 73% of its external debt during the 2008 crisis. The external debt service estimate for the private sector is US\$45bn, and even a smaller rollover ratio this year should not lead to a big financing gap. However, the cost of refinancing and payments on existing loans is going up, parallel to higher interest and exchange rates. This may cause some damage to the SME segment, which may cause higher impairments for the banking system.

## Q4 11 results preview

We expect the Turkish banks to deliver slightly better Q4 11 numbers compared to Q3 11. We believe that higher funding costs, resulting from central bank actions in October, will be partially offset by the positive impact of loan repricing which started in early 2011, higher security yields and the favourable effect from CPI-linked securities. In terms of volumes, we expect a significant reduction in loan growth q/q; Chart 21 shows that on a system level, loan growth decreased to 3.2% from 8.4% a quarter earlier. Therefore year-end loan growth for the system should come down to 30% from 34% y/y run rate in Q3. We expect asset quality trends to remain stable; however, as the recoveries pool is drying out there should be a reduction in loan-loss recovery revenues across all banks. In addition, we expect higher trading revenues in Q4, supported by the reversal of trading losses on swap positions. We also forecast higher cost growth in Q4 vs Q3 largely due to a seasonal impact.

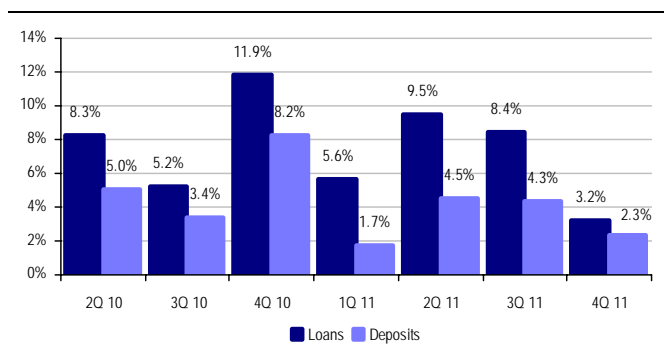
We expect aggregate earnings for the banks under our coverage to amount to TRY3.6bn, up 26% on a weak Q3 (16% excluding Isbank) but down 5% y/y for FY 11 (Chart 22). This corresponds to an average ROE of 17%, versus 15% in Q3 11 and 19% in Q4 10 (Chart 23).

Chart 20: Turkish banks' NIM development (%)



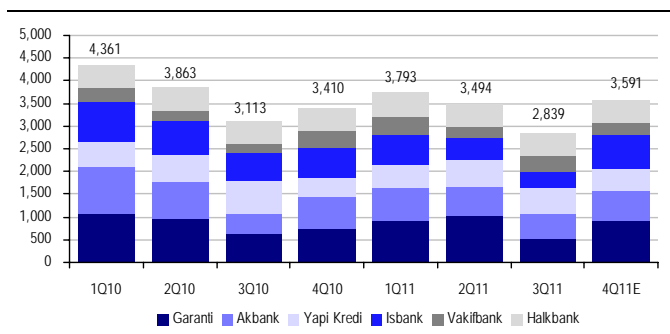
Source: BRSA, company reports, UBS estimates

Chart 21: System loan and deposit growth (q/q)



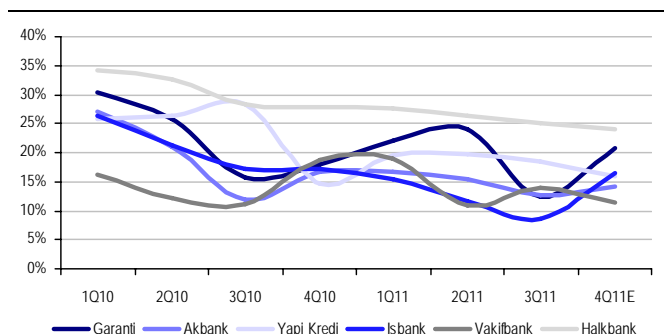
Source: BRSA, UBS estimates

Chart 22: Net profit breakdown per bank (TRY m)



Source: Company reports, UBS estimates

Chart 23: Turkish banks' ROE (%)



Source: Company reports, UBS estimates

Of the banks under our coverage, we expect Garanti to report one of the strongest Q4 numbers owing to its resilient loan spreads and a sharp increase in CPI linker yields, supported by an aggressive accounting of the latter. We expect Akbank also to benefit from higher CPI-linked coupons, but due to more benign

**Garanti is likely to deliver one of the strongest Q4 11 results**

accounting treatment, the benefit will likely be lower than for Garanti, and somewhat offset by lower other income and higher expenses and impairments.

Despite a significant quarterly improvement, we expect Isbank to miss FY 11 consensus estimates, largely due to higher-than-expected increase in general loan-loss provisions. Higher loan-loss provisions may also negatively affect Yapi Kredi's Q4 result, which may choose to report higher-than-expected general provisions to leave more room for earnings growth in 2012. We expect Halkbank to deliver another set of resilient results with ROE of 24% and net income up 1.6% q/q. Vakifbank, however, may experience a weaker quarter, largely driven by lower income from loan-loss recoveries and seasonally higher expenses. Please see company sections below for more details.

**Table 7: Turkish banks – key Q4 11E UBS estimates**

	Q4 11E NIM change (q/q)	Q4 11E Loan growth (% q/q)	Q4 11E net profit (TRYm)	Q4 11E net profit (% q/q)	FY 11E net profit (% y/y)	FY 11E ROE (%)
Garanti	0.89%	4.0%	933	75.0%	0.2%	19.4%
Akbank	0.37%	4.1%	653	16.2%	-13.2%	14.1%
Halkbank	0.18%	2.3%	512	1.6%	2.1%	25.3%
Isbank	0.07%	2.8%	737	96.8%	-23.8%	12.9%
Yapi Kredi	-0.03%	2.0%	490	-10.7%	-4.9%	18.5%
Vakifbank	-0.04%	3.0%	265	-16.0%	6.3%	13.7%

Source: UBS estimates. Note1: Halkbank and Vakifbank estimates are based on BRSA solo numbers, other are based on BRSA consolidated.

## Companies section

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# Garanti

## Downgrade to Neutral, price target TRY6.75

### Investment case

Garanti fits most of the criteria we regard as key strengths for the current banking environment, such as low reliance on interbank funding, low loans/deposits ratio, high exposure to variable-rate securities and relatively low reliance on foreign (FX) funding. Management's proven capability in proactively re-pricing the balance sheet should be valuable in a period of macro volatility such as this year is likely to bring. It is also likely to report the best Q4 results on core trends. However, we find these positives mostly priced in, with limited potential upside implied by our PT. The bank also trades at a 15% premium to Turkish peers on 2012E P/TB multiple. We therefore downgrade Garanti to Neutral.

### Risks relative to peers

Garanti's quarterly NII/NIM remains volatile, and this is likely to continue given that the bank has relatively high exposure to CPI-linkers. Garanti's accounting treatment of CPI-linkers causes more quarterly volatility than at other exposed banks, such as Isbank and Akbank. In addition, Garanti's strong position in credit cards means that relevant spreads may be squeezed by the regulatory price cap should the policy interest rate start going up.

### Valuation

We value Garanti using a Gordon Growth Model (GGM) and cross-check the results against our Dividend Discount Model (DDM). We cut sustainable ROE from 18.5% to 17.7%, in-line with our forecast changes, and increase our cost of equity assumption to 15.5% from 14.7% to reflect higher long-term bond yields. This results in a reduction of our price target from TRY8.30 to TRY6.75.

**Table 8: Garanti GGM valuation**

Sustainable ROE	17.7%
Cost of equity (COE)	15.5%
LT growth	9.0%
Implied price:book	1.33
BVPS – 2012E	5.05
Total value per share (TRY)	6.75

Source: UBS estimates

### Forecasts

To reflect better-than-expected NII trends, we increase our 2011 bottom line by 11% and lower it for 2012 by c4%. The cut to our 2012 net income estimate stems from lower loan growth, a higher cost of funding, and lower trading income and NPL collection assumptions. Garanti has a proven track record of managing its balance sheet well during macro volatility, and we expect the same

in this year: resilient loan spreads and the high proportion of CPI linkers in its securities portfolio should help the bank defend its NIM in an environment of increasing funding costs. We have lowered our impairment costs for this year (and collection estimate). However, we still expect a c50% increase from a low base. Our revised forecasts for Garanti are shown in the table below.

**Table 9: Garanti revised forecasts 2011-13E**

TRYm	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Net interest income	5,170	5,198	5,644	6,814	-4.4%	0.5%	8.6%	20.7%
Net fees	1,910	2,139	2,246	2,426	3.0%	12.0%	5.0%	8.0%
Trading income	402	315	300	300	-55.2%	-21.7%	-4.8%	0.0%
Other income	888	965	670	747	102.0%	8.6%	-30.6%	11.5%
<b>Total income</b>	<b>8,371</b>	<b>8,618</b>	<b>8,860</b>	<b>10,286</b>	<b>-2.6%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>16.1%</b>
Total expenses	-3,382	-3,450	-3,719	-3,942	14.6%	2.0%	7.8%	6.0%
Impairment	-696	-860	-1,285	-1,661	-59.4%	23.5%	49.4%	29.3%
Income from associates	10	12	16	19	8.2%	20.3%	33.3%	18.8%
Profit before tax and MI	4,303	4,320	3,872	4,702	9.2%	0.4%	-10.4%	21.5%
Tax	-901	-907	-813	-988	7.3%	0.7%	-10.4%	21.5%
Minority interests	-21	-25	-29	-33	50.3%	20.0%	15.0%	15.0%
<b>Profit after tax and MI (stated)</b>	<b>3,381</b>	<b>3,388</b>	<b>3,030</b>	<b>3,682</b>	<b>9.6%</b>	<b>0.2%</b>	<b>-10.6%</b>	<b>21.5%</b>
<i>One-off items (after tax)</i>	<i>0</i>	<i>-247</i>	<i>0</i>	<i>0</i>	<i>na</i>	<i>na</i>	<i>-100.0%</i>	<i>na</i>
<b>Profit after tax and MI (adj.)</b>	<b>3,381</b>	<b>3,141</b>	<b>3,030</b>	<b>3,682</b>	<b>9.6%</b>	<b>-7.1%</b>	<b>-3.5%</b>	<b>21.5%</b>
<b>EPS (TRY)</b>	<b>0.81</b>	<b>0.81</b>	<b>0.72</b>	<b>0.88</b>	<b>9.6%</b>	<b>0.2%</b>	<b>-10.6%</b>	<b>21.5%</b>
Normalised EPS (TRY)	0.81	0.75	0.72	0.88	9.6%	-7.1%	-3.5%	21.5%
DPS (TRY)	0.14	0.16	0.14	0.18	62.9%	18.9%	-10.6%	21.5%
<b>Normalised eratios</b>								
Net interest margin	4.09%	3.42%	3.20%	3.37%				
Net interest margin after impairment	3.54%	2.86%	2.47%	2.55%				
Cost to income	40.4%	41.5%	42.0%	38.3%				
LLP to avg loans	1.13%	1.06%	1.30%	1.40%				
Commissions ratio	22.82%	25.75%	25.35%	23.58%				
ROA (after tax, pre MI)	2.69%	2.09%	1.73%	1.84%				
ROE (after tax, MI & hybrids)	22.3%	17.7%	15.1%	16.2%				
RoRWAs	4.00%	2.83%	2.23%	2.35%				
Core tier 1 ratio	15.7%	14.0%	13.9%	13.7%				
Loans to deposits	89%	101%	102%	107%				
Loans to assets	51%	55%	57%	60%				

Source: Garanti, UBS estimates

## Q4 11 preview

We expect Garanti to report one of the strongest Q4 numbers owing to its resilient loan spreads and sharp increase in CPI linker yields supported by an aggressive accounting of the later. We forecast NII to be up almost 40% q/q due to the favourable impact of CPI-linkers, higher securities yields in its FRN portfolio and timely loan re-pricing which started at the beginning of 2011. As a result, we expect NIM to expand by c100bp to 4%. We expect fees to decrease 8% q/q due to significantly slower loan growth in the quarter. For expenses we forecast a 4% increase q/q but only 2% y/y for FY 2011, in-line with the company's budget. Garanti's asset quality should remain stable, with the NPL ratio at 2% and cost of risk at 90bp. We expect loan growth to decrease significantly to 4.1% from 8.4% in Q3, and deposit growth of c3%, resulting in an LDR ratio of c100.

Table 10: Garanti Q4 2011 results preview (based on BRSA consolidated accounts)

TRYm	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11E	% q/q	FY 10	FY 11E	% y/y
Net interest income	1,397	1,128	1,210	1,197	1,664	38.9%	5,170	5,198	0.5%
Net fees	457	560	513	556	510	-8.4%	1,910	2,139	12.0%
Trading income	30	259	76	-69	50	na	402	315	-21.7%
Other income	178	344	484	87	50	-42.4%	888	965	8.6%
<b>Total income</b>	<b>2,062</b>	<b>2,291</b>	<b>2,282</b>	<b>1,771</b>	<b>2,273</b>	<b>28.4%</b>	<b>8,371</b>	<b>8,618</b>	<b>2.9%</b>
Total expenses	-942	-833	-831	-876	-910	3.9%	-3,382	-3,450	2.0%
Impairment	-172	-267	-197	-192	-203	5.6%	-696	-860	23.5%
Income from associates	1	5	2	0	6	na	10	12	20.3%
Profit before tax and MI	949	1,195	1,256	703	1,166	65.9%	4,303	4,320	0.4%
Tax	-211	-282	-240	-164	-221	34.6%	-901	-907	0.7%
Minority Interests (MI)	-5	-2	-5	-6	-12	109.3%	-21	-25	20.0%
<b>Profit after tax and MI (stated)</b>	<b>732</b>	<b>911</b>	<b>1,010</b>	<b>533</b>	<b>933</b>	<b>75.0%</b>	<b>3,381</b>	<b>3,388</b>	<b>0.2%</b>
<i>One-off items (after tax)</i>	<i>0</i>	<i>0</i>	<i>-247</i>	<i>0</i>	<i>0</i>	<i>na</i>	<i>0</i>	<i>-247</i>	<i>na</i>
<b>Profit after tax and MI (adj.)</b>	<b>732</b>	<b>911</b>	<b>763</b>	<b>533</b>	<b>933</b>	<b>75.0%</b>	<b>3,381</b>	<b>3,141</b>	<b>-7.1%</b>
<b>Balance sheet items and key ratios:</b>									
Assets	136,784	137,367	154,208	164,118	166,780	1.6%	136,784	166,780	21.9%
Loans	70,158	76,313	81,594	88,487	92,077	4.1%	70,158	92,077	31.2%
Deposits	79,070	81,395	84,529	88,637	91,326	3.0%	79,070	91,326	15.5%
Equity	16,621	16,327	17,129	17,357	18,804	8.3%	16,621	18,804	13.1%
Net interest margin	4.28%	3.29%	3.32%	3.01%	4.02%			3.42%	
Impairment rate	1.02%	1.46%	1.00%	0.91%	0.90%			1.06%	
ROE	18.1%	22.1%	24.2%	12.4%	20.7%			19.1%	
Loans to deposits	88.7%	93.8%	96.5%	99.8%	100.8%			100.8%	
NPLs	3.1%	2.4%	2.3%	2.0%	2.1%			2.1%	

Source: Garanti, UBS estimates

# Halkbank

Buy, price target TRY14.00

## Investment case

Halkbank is our most preferred banking stock in Turkey. Halkbank can offer a structurally higher net interest margin due to its leading position in the high-yielding SME segment, and hence a higher ROE (>20%) than peers. Halkbank is also perceived by the market as one of the highest-quality banks, with a best-in-class liquidity ratio and sufficient capital to support growth going forward. In addition, Halkbank managed to deliver stable margins and earnings throughout a volatile 2011, and we expect this to continue in 2012, supporting investor confidence in the bank. We therefore believe Halkbank is better positioned than its competitors and should trade at a premium to its Turkish peers, justified by structurally higher ROEs, stronger liquidity and low volatility of earnings. Halkbank is currently trading at 1.2x 2012E P/TBV, a slight premium to other Turkish banks, for 50% higher 2012E ROE.

## Risks relative to peers

Halkbank is strategically focused on the SME lending market. Should competition in this segment intensify significantly, it could compromise the bank's competitive advantage and put pressure on margins. In addition, Halkbank is in the government's privatisation pipeline, and we expect another 25% stake to come to the market in the next couple of years. Theoretically this could create a share overhang and put pressure on Halkbank's share price. That said, we believe investor demand for liquid Turkish banks is high, and any such disposal should be absorbed easily by the market.

## Valuation

We value Halkbank using a Gordon Growth Model (GGM) and cross-check the results against our Dividend Discount Model (DDM). We increase our sustainable ROE assumption for the bank from 18.7% to 19.9%, in-line with our forecast changes, and increase the cost of equity to 15.5% from 14.7% to reflect higher long-term bond yields. As a result we leave our price target remains unchanged at TRY14.00.

**Table 11: Halkbank GGM valuation**

Sustainable ROE	19.9%
Cost of equity (COE)	15.5%
LT growth	9.0%
Implied price:book	1.68
BVPS – 2012E (TRY)	8.37
<b>Total value per share (TRY)</b>	<b>14.0</b>

Source: UBS estimates

## Forecasts

We increase our FY 2011 and FY 2012 estimates for Halkbank by 5% and 8%, respectively, to reflect slightly better NII trends in Q4 and a better competitive positioning for the bank in 2012. Our revised forecasts for Halkbank are shown in the table below.

**Table 12: Halkbank revised forecasts 2011-13E**

TRYm	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Net interest income	3,212	3,317	3,906	4,490	2.7%	3.2%	17.8%	14.9%
Net fees	510	688	750	841	12.4%	35.0%	9.0%	12.1%
Trading income	133	199	173	172	na	49.1%	-13.0%	-0.6%
Other income	599	598	647	698	49.1%	-0.2%	8.3%	7.9%
<b>Total income</b>	<b>4,455</b>	<b>4,802</b>	<b>5,477</b>	<b>6,202</b>	<b>11.3%</b>	<b>7.8%</b>	<b>14.1%</b>	<b>13.2%</b>
Total expenses	-1,654	-1,902	-2,163	-2,444	27.1%	15.0%	13.7%	13.0%
Impairment	-458	-479	-671	-861	-29.0%	4.5%	40.1%	28.3%
Income from associates	11	1	2	5	187.7%	-90.8%	100.0%	150.0%
Profit before tax and MI	2,353	2,421	2,645	2,902	14.3%	2.9%	9.2%	9.7%
Tax	-510	-484	-529	-580	29.6%	-5.0%	9.2%	9.7%
Minority interests	-1	-0	-0	-0	-15.3%	-38.1%	0.0%	0.0%
<b>Profit after tax and MI (stated)</b>	<b>1,843</b>	<b>1,937</b>	<b>2,115</b>	<b>2,321</b>	<b>10.7%</b>	<b>5.1%</b>	<b>9.2%</b>	<b>9.7%</b>
<b>EPS (TRY)</b>	<b>1.47</b>	<b>1.55</b>	<b>1.69</b>	<b>1.86</b>	<b>10.7%</b>	<b>5.1%</b>	<b>9.2%</b>	<b>9.7%</b>
<b>DPS (TRY)</b>	<b>0.32</b>	<b>0.34</b>	<b>0.42</b>	<b>0.56</b>	<b>34.6%</b>	<b>7.7%</b>	<b>24.1%</b>	<b>31.7%</b>
<b>Normalised ratios</b>								
Net interest margin	4.80%	3.98%	3.90%	3.86%				
Net interest margin after impairment	4.1%	3.4%	3.2%	3.1%				
Cost to income	37.1%	39.6%	39.5%	39.4%				
LLP to avg loans	1.2%	1.0%	1.1%	1.2%				
Commissions ratio	11.4%	14.3%	13.7%	13.6%				
ROA (after tax, pre MI)	2.8%	2.32%	2.11%	1.99%				
ROE (after tax, MI & hybrids)	28.1%	23.9%	21.9%	20.6%				
RoRWAs	4.5%	3.6%	3.1%	2.9%				
Core tier 1 ratio	15.0%	13.6%	13.7%	13.5%				
Loans to deposits	81.2%	85.7%	88.5%	94.7%				
Loans to assets	60.7%	60.4%	61.3%	63.8%				

Source: Halkbank, UBS estimates

## Q4 11 preview

We expect Halkbank to deliver another set of strong results in Q4 11 with ROE of 24% and a net income increase of 2% q/q. We expect the net interest margin to widen by 18 bps to 4% and net interest income to rise 8.5% q/q and 3% y/y for FY 2011. We forecast 35% y/y growth in fees, broadly in line with company guidance. We estimate 16% lower other income q/q due to lower loan-loss recoveries and 4% higher expenses, but in-line with company guidance of 15% y/y cost growth. We expect asset quality to remain stable, with an NPL ratio of 2.9% and a slight increase in cost of risk to 115bp. In addition, we expect a significant reduction in loan growth to 2.3% from 6.7% in Q3 and c6% deposit growth in the quarter. For FY 11 we expect Halkbank to deliver c2% bottom-line growth (based on BRSA solo estimates), which is equivalent to 25% ROE, by far the highest in the sector.

**Table 13: Halkbank Q4 2011 results preview (based on BRSA solo accounts)**

TRYm	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11E	% qoq	FY 10	FY 11E	% yoy
Net interest income	822	734	791	846	918	8.5%	3,191	3,289	3.1%
Net fees	133	158	182	195	176	-9.9%	526	711	35.2%
Trading income	-49	98	-2	48	46	-4.0%	115	190	65.6%
Other income	285	163	210	132	110	-16.5%	631	614	-2.7%
<b>Total income</b>	<b>1,190</b>	<b>1,153</b>	<b>1,180</b>	<b>1,221</b>	<b>1,250</b>	<b>2.4%</b>	<b>4,463</b>	<b>4,804</b>	<b>7.6%</b>
Total expenses	-427	-414	-425	-433	-450	3.9%	-1,495	-1,722	15.2%
Impairment	-131	-86	-116	-140	-160	14.1%	-458	-502	9.5%
Income from associates	0	0	0	0	0	na	0	0	na
Profit before tax and MI	632	653	639	648	640	-1.2%	2,510	2,580	2.8%
Tax	-131	-128	-127	-144	-128	-11.0%	-499	-527	5.6%
Minority Interests (MI)	0	0	0	0	0	na	0	0	na
<b>Profit after tax and MI (stated)</b>	<b>500</b>	<b>525</b>	<b>512</b>	<b>504</b>	<b>512</b>	<b>1.6%</b>	<b>2,011</b>	<b>2,053</b>	<b>2.1%</b>
<i>One-off items (after tax)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>na</i>	<i>0</i>	<i>0</i>	<i>na</i>
<b>Profit after tax and MI (adj.)</b>	<b>500</b>	<b>525</b>	<b>512</b>	<b>504</b>	<b>512</b>	<b>1.6%</b>	<b>2,011</b>	<b>2,053</b>	<b>2.1%</b>
<b>Balance sheet items and key ratios:</b>									
Assets	72,942	77,978	85,562	90,714	92,075	1.5%	72,942	92,075	26.2%
Loans	44,296	47,567	51,562	55,035	56,301	2.3%	44,296	56,301	27.1%
Deposits	54,782	56,360	58,256	62,314	66,053	6.0%	54,782	66,053	20.6%
Equity	7,445	7,805	7,826	8,299	8,811	6.2%	7,445	8,811	18.4%
Net Interest Margin	4.61%	3.89%	3.87%	3.84%	4.02%			3.99%	
Cost of risk	1.24%	0.75%	0.93%	1.05%	1.15%			1.00%	
Net cost of risk	-0.91%	-0.38%	-0.42%	0.26%	0.52%			0.02%	
ROE	27.7%	27.5%	26.2%	25.0%	23.9%			25.3%	
Loans to deposits	80.9%	84.4%	88.5%	88.3%	85.2%			85.2%	
NPLs	3.8%	3.5%	3.1%	2.9%	2.9%			2.9%	

Source: Halkbank, UBS estimates

# Akbank

## Downgrade to Sell, price target TRY6.00

### Investment case

We like Akbank's strong balance sheet and capital levels. Depending on the risk appetite, Akbank could leverage these strengths to gain market share from its less funded peers in the current environment. The bank's prudent provisioning and higher asset quality performance add to these qualities in an environment of higher cost of risk, but we cannot justify the premium to peers on our sustainable ROAE estimate versus the current PB valuation. Akbank currently trades at 1.15 times 2012E PB, 17% premium to Turkish peers, while its estimated 2012 ROAE is 13.1% compared to peer average of 14.3%. We downgrade to the bank to Sell on valuation grounds.

We like Akbank's strong balance sheet and capital levels

### Risks relative to peers

Management's conservatism may lead to lower-than-expected loan growth, although this does not seem to be the case at the moment. In addition, Akbank has higher NII volatility due to higher exposure to government securities and CPI-linkers. Other risks such as asset quality, liquidity, and capital are muted relative to peers.

### Valuation

We value Akbank using a Gordon Growth Model (GGM) and cross-check the results against our Dividend Discount Model (DDM). We cut sustainable ROE from 16.9% to 16.5%, in line with our forecast changes, and increase our cost of equity to 15.5% from 14.7% to reflect higher long-term bond yields. As a result, we decrease our price target from TRY7.20 to TRY6.00 and downgrade Akbank to Sell from Neutral.

Table 14: Akbank GGM valuation

Sustainable ROE	16.5%
Cost of Equity (COE)	15.5%
Long-term growth	9.0%
Implied Price:Book	1.15
BVPS – 2012E (TRY)	5.22
<b>Total value per share (TRY)</b>	<b>6.00</b>

Source: UBS estimates

### Forecasts

We decrease our bottom line estimate for Akbank by 3% for 2011 and increase 2012 and 2013 estimates by c6%. The bank is the best positioned among peers to resist increased cost of funding pressures, thanks to a high portion of CPI linkers in its securities portfolio and its higher liquidity, rendering Akbank less reliant on expensive incremental deposit funding. The bank is likely to be the least affected by worsening asset quality trend among Turkish banks, thanks to

its prudent approach and higher quality loan portfolio mix. However, we still expect substantially higher impairment charges and lower collections, leading to limited earnings upside versus our previous estimates.

Our revised forecasts for Akbank are shown in the table below.

**Table 15: Akbank revised forecasts 2011-13E**

TRYm	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Net interest income	4,431	4,109	4,563	5,537	-6.2%	-7.3%	11.1%	21.3%
Net fees	1,358	1,630	1,736	1,874	2.6%	20.0%	6.5%	8.0%
Trading income	80	73	98	134	-29.1%	-9.1%	34.4%	36.2%
Other income	903	734	610	653	76.0%	-18.7%	-16.9%	7.0%
<b>Total income</b>	<b>6,773</b>	<b>6,546</b>	<b>7,007</b>	<b>8,198</b>	<b>1.5%</b>	<b>-3.3%</b>	<b>7.0%</b>	<b>17.0%</b>
Total expenses	-2,483	-2,583	-2,776	-2,943	9.8%	4.0%	7.5%	6.0%
Impairment	-525	-715	-975	-1,267	-53.3%	36.3%	36.3%	30.0%
Income from associates	0	0	0	0	na	na	na	na
Profit before tax and MI	3,765	3,248	3,256	3,987	14.5%	-13.7%	0.2%	22.5%
Tax	-754	-633	-635	-778	33.2%	-16.0%	0.2%	22.5%
Minority interests	0	0	0	0	na	na	na	na
<b>Profit after tax and MI (stated)</b>	<b>3,010</b>	<b>2,614</b>	<b>2,621</b>	<b>3,210</b>	<b>10.6%</b>	<b>-13.2%</b>	<b>0.2%</b>	<b>22.5%</b>
<i>One-off items (after tax)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
<b>Profit after tax and MI (adj.)</b>	<b>3,010</b>	<b>2,614</b>	<b>2,621</b>	<b>3,210</b>	<b>9.7%</b>	<b>-13.2%</b>	<b>0.2%</b>	<b>22.5%</b>
<b>EPS (TRY)</b>	<b>0.75</b>	<b>0.65</b>	<b>0.66</b>	<b>0.80</b>	<b>10.6%</b>	<b>-13.2%</b>	<b>0.2%</b>	<b>22.5%</b>
Normalised EPS (TRY)	0.75	0.65	0.66	0.80	9.7%	-13.2%	0.2%	22.5%
DPS (TRY)	0.14	0.20	0.20	0.28	5.5%	37.6%	0.2%	42.9%
<b>Normalised Ratios</b>								
Net Interest Margin	3.98%	3.11%	3.04%	3.24%				
Net Interest Margin after impairment	3.50%	2.57%	2.39%	2.50%				
Cost to Income	36.7%	39.5%	39.6%	35.9%				
LLP to Average Loans	1.03%	1.07%	1.20%	1.30%				
Commissions Ratio	20.05%	24.90%	24.77%	22.87%				
ROA (after tax, pre MI)	2.70%	1.98%	1.75%	1.88%				
ROE (after tax, MI & hybrids)	18.6%	14.1%	13.1%	14.7%				
RoRWAs	3.83%	2.57%	2.17%	2.37%				
Core Tier I Ratio	18.4%	15.6%	15.7%	15.2%				
Loans to Deposits	81%	95%	97%	104%				
Loans to Assets	48%	53%	55%	59%				

Source: Akbank, UBS estimates

## Q4 2011 preview

We expect Akbank to deliver a stronger set of results for Q4 11 relative to a weak Q3 11. We forecast NIM increase by 37bp to 3.24% and a 19% increase in net interest income, largely driven by positive effect of CPI-linked securities. In addition, we expect the bottom line to be supported by the reversal of a Q3 trading losses and-still solid fee growth, which we forecast at 8% q/q. Positive trends may be somewhat offset by lower other income, seasonally higher expenses and impairments. We estimate Akbank's loan growth to decrease to c4% from 5.6% in Q3 and deposit growth to remain c3.5%. For FY 2011, we expect Akbank's earnings to decrease by 13%, which implies ROE of 14%.

**We expect Akbank to deliver stronger Q4 results**

**Table 16: Akbank Q4 11 results preview (based on BRSA consolidated accounts)**

TRYm	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11E	% q/q	FY 10	FY 11E	% y/y
Net interest income	1,281	1,093	897	968	1,150	18.8%	4,431	4,109	-7.3%
Net fees	350	368	454	388	420	8.3%	1,358	1,630	20.0%
Trading income	-56	143	-20	-50	0	na	80	73	-9.1%
Other income	127	146	246	192	150	-22.3%	903	734	-18.7%
<b>Total income</b>	<b>1,701</b>	<b>1,750</b>	<b>1,577</b>	<b>1,498</b>	<b>1,721</b>	<b>14.8%</b>	<b>6,773</b>	<b>6,546</b>	<b>-3.3%</b>
Total expenses	-678	-613	-619	-612	-739	20.8%	-2,483	-2,583	4.0%
Impairment	-99	-209	-120	-176	-211	20.1%	-525	-715	36.3%
Income from associates	0	0	0	0	0	na	0	0	na
Profit before tax and MI	924	928	838	711	770	8.4%	3,765	3,248	-13.7%
Tax	-202	-200	-167	-149	-116	-22.1%	-754	-633	-16.0%
Minority Interests (MI)	0	0	0	1	-1	na	0	0	na
<b>Profit after tax and MI (stated)</b>	<b>722</b>	<b>728</b>	<b>671</b>	<b>562</b>	<b>653</b>	<b>16.2%</b>	<b>3,010</b>	<b>2,614</b>	<b>-13.2%</b>
<i>One-off items (after tax)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>na</i>	<i>0</i>	<i>0</i>	<i>na</i>
<b>Profit after tax and MI (adj.)</b>	<b>722</b>	<b>728</b>	<b>671</b>	<b>562</b>	<b>653</b>	<b>16.2%</b>	<b>3,010</b>	<b>2,614</b>	<b>-13.2%</b>
<b>Balance sheet items and key ratios:</b>									
Assets	120,070	120,526	129,526	139,948	144,100	3.0%	120,070	144,100	20.0%
Loans	57,733	63,016	69,141	73,005	75,993	4.1%	57,733	75,993	31.6%
Deposits	71,708	70,294	74,517	77,274	79,955	3.5%	71,708	79,955	11.5%
Equity	17,935	17,145	17,680	17,903	19,031	6.3%	17,935	19,031	6.1%
Net Interest Margin	4.43%	3.64%	2.87%	2.87%	3.24%			3.11%	
Cost of risk	0.72%	1.38%	0.73%	0.99%	1.13%			1.07%	
Net cost of risk	-0.02%	0.61%	-0.47%	0.12%	0.49%			0.19%	
ROE	16.7%	16.6%	15.4%	12.6%	14.1%			14.1%	
Loans to deposits	80.5%	89.6%	92.8%	94.5%	95.0%			95.0%	

Source: Akbank, UBS estimates

# Isbank

Neutral, TRY3.60

## Investment case

We are Neutral on Isbank because its corporate structure is less straightforward than that of peers. In addition, NIM trends and credit cost development is sometimes less clear than for peers. We also think that valuation is not compelling enough to look past negative impact of complicated monetary environment on profitability. However, we believe that Isbank is well placed to take advantage of the Turkish market's growth potential, as it has a strong capital base and one of the most liquid balance sheets among peers.

Isbank's corporate structure is less straightforward than that of peers

## Risks relative to peers

Isbank's loan growth may prove to be restricted by the bank's culture, although this does not seem to be the case at the moment. Also its loans-to-deposits ratio (LDR) has increased significantly over the past year, which may restrict growth going forward. Potentially lower visibility on credit cost development than for peers and lack of clarity regarding trends may be a concern for investors going forward.

## Valuation

We value Isbank using a Gordon Growth Model (GGM) and cross-check the results against our Dividend Discount Model (DDM). We cut sustainable ROE from 15.1% to 14.4%, in line with our forecast changes, and increase our cost of equity to 15.5% from 14.7% to reflect higher long-term bond yields. As a result, we decrease our price target from TRY4.70 to TRY3.60. We keep the stock on Neutral.

Table 17: Isbank GGM valuation

Sustainable ROE	14.4%
Cost of Equity (COE)	15.5%
Long-term growth	9.0%
Implied Price:Book	0.84
BVPS – 2012E (TRY)	4.30
Total value per share (TRY)	3.60

Source: UBS estimates

## Forecasts

While we expect a significant improvement in our quarterly estimates, we decrease our bottom line estimates for Isbank by 7% for 2011, 12% for 2012 and 14% for 2013 to reflect higher margin pressure. We decrease NIM by 22bps, 30bps and 13bps for 2011, 2012, and 2013, respectively, which leads to NII reductions of 6%, 8%, and 3%, respectively. We expect Isbank to leverage its relatively better liquidity position among peers to report higher loan growth in 2012-13, which should partly limit negative NIM impact versus our earlier

estimates. Also, Isbank is likely to report a lower increase in its impairments costs this year from the high base in 2011.

Our revised forecasts for Isbank are shown in the table below.

**Table 18: Isbank revised forecasts 2011-13E**

TRYm	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Net interest income	5,411	5,306	6,053	7,211	-5.7%	-1.9%	14.1%	19.1%
Net fees	998	1,150	1,231	1,304	-13.9%	15.2%	7.0%	6.0%
Trading income	293	296	460	500	-47.4%	1.1%	55.4%	8.7%
Other income	4,072	4,293	3,897	3,847	11.1%	5.4%	-9.2%	-1.3%
<b>Total income</b>	<b>10,774</b>	<b>11,045</b>	<b>11,641</b>	<b>12,862</b>	<b>-3.1%</b>	<b>2.5%</b>	<b>5.4%</b>	<b>10.5%</b>
Total expenses	-5,672	-6,235	-6,671	-7,072	5.1%	9.9%	7.0%	6.0%
Impairment	-1,186	-1,561	-1,945	-2,218	-49.8%	31.6%	24.6%	14.0%
Income from associates	5	4	4	4	na	na	na	na
Profit before tax and MI	3,921	3,254	3,029	3,577	16.4%	-17.0%	-6.9%	18.1%
Tax	-689	-683	-591	-697	12.0%	-0.8%	-13.6%	18.1%
Minority interests	-293	-330	-367	-422	14.9%	12.7%	11.3%	15.0%
<b>Profit after tax and MI (stated)</b>	<b>2,939</b>	<b>2,241</b>	<b>2,071</b>	<b>2,457</b>	<b>17.7%</b>	<b>-23.8%</b>	<b>-7.6%</b>	<b>18.6%</b>
<i>One-off items (after tax)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
<b>Profit after tax and MI (adj.)</b>	<b>2,939</b>	<b>2,241</b>	<b>2,071</b>	<b>2,457</b>	<b>17.7%</b>	<b>-23.8%</b>	<b>-7.6%</b>	<b>18.6%</b>
<b>EPS (TRY)</b>	<b>0.65</b>	<b>0.50</b>	<b>0.46</b>	<b>0.55</b>	<b>6.7%</b>	<b>-23.8%</b>	<b>-7.6%</b>	<b>18.6%</b>
Normalised EPS (TRY)	0.65	0.50	0.46	0.55	6.7%	-23.8%	-7.6%	18.6%
DPS (TRY)	0.15	0.15	0.14	0.16	na	-2.7%	-7.6%	18.6%
<b>Normalised Ratios</b>								
Net Interest Margin	3.87%	3.19%	3.15%	3.27%				
Net Interest Margin after impairment	3.02%	2.25%	2.14%	2.27%				
Cost to Income	52.6%	56.4%	57.3%	55.0%				
LLP to Average Loans	1.95%	1.90%	1.90%	1.80%				
Commissions Ratio	9.26%	10.41%	10.57%	10.14%				
ROA (after tax, pre MI)	2.31%	1.55%	1.27%	1.31%				
ROE (after tax, MI & hybrids)	19.8%	13.1%	11.1%	12.2%				
RoRWAs	2.99%	1.77%	1.37%	1.43%				
Core Tier I Ratio	16.3%	13.6%	13.3%	12.2%				
Loans to Deposits	78%	97%	98%	108%				
Loans to Assets	46%	52%	54%	58%				

Source: Isbank, UBS estimates

## Q4 11 preview

We expect Isbank to deliver significantly stronger Q4 11 results versus a very weak Q3 11. We expect better results to be driven by all P&L lines. We expect NIM to widen slightly by 7bps, and NII growth of 8%. We also expect 20% fee growth in the quarter, leading to 15% growth for FY 2011. We also forecast lower costs q/q, resulting in FY cost growth of 10%. We expect impairments to remain elevated due to higher general loan-loss provisions, but cost of risk to fall slightly to 188bps. We forecast loan growth of 2.8% and deposit growth of 2.1% in Q4 2011. As a result of the above dynamics, we forecast a bottom line of TRY737m, almost double the Q3 level. For FY 2011, we estimate bottom line of TRY2,240m, down 24% y/y.

We expect better results to be driven by all P&L lines

Table 19: Q4 2011 results preview (based on BRSA consolidated accounts)

TRYm	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11E	% q/q	FY 10	FY 11E	% y/y
Net interest income	1,341	1,311	1,277	1,304	1,413	8.3%	5,411	5,306	-1.9%
Net fees	285	235	296	282	337	19.8%	998	1,150	15.2%
Trading income	-73	129	15	-29	180	na	293	296	1.1%
Other income	1,145	992	1,087	1,093	1,121	2.6%	4,072	4,293	5.4%
<b>Total income</b>	<b>2,698</b>	<b>2,667</b>	<b>2,676</b>	<b>2,650</b>	<b>3,052</b>	<b>15.2%</b>	<b>10,774</b>	<b>11,045</b>	<b>2.5%</b>
Total expenses	-1,533	-1,452	-1,699	-1,638	-1,446	-11.7%	-5,672	-6,235	9.9%
Impairment	-255	-345	-325	-449	-442	-1.7%	-1,186	-1,561	31.6%
Income from associates	1	1	3	3	-3	na	5	4	-16.8%
Profit before tax and MI	910	872	655	566	1,161	105.3%	3,921	3,254	-17.0%
Tax	-119	-192	-133	-136	-223	63.6%	-689	-683	-0.8%
Minority Interests (MI)	-111	-46	-28	-55	-201	na	-293	-330	12.7%
Profit after tax and MI (stated)	681	635	494	375	737	96.8%	2,939	2,241	-23.8%
<i>One-off items (after tax)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>na</i>	<i>0</i>	<i>0</i>	<i>na</i>
Profit after tax and MI (adj.)	681	635	494	375	737	96.8%	2,939	2,241	-23.8%
<b>Balance sheet items and key ratios:</b>									
Assets	150,811	158,494	168,924	182,180	189,467	4.0%	150,811	189,467	25.6%
Loans	69,078	76,295	83,289	92,544	95,135	2.8%	69,078	95,135	37.7%
Deposits	88,477	91,211	90,910	95,746	97,757	2.1%	88,477	97,757	10.5%
Equity	16,337	16,495	17,302	17,766	18,503	4.1%	16,337	18,503	13.3%
Net Interest Margin	3.67%	3.39%	3.12%	2.97%	3.04%			3.12%	
Cost of risk	1.55%	1.90%	1.63%	2.05%	1.88%			1.90%	
Net cost of risk	-4.01%	-2.47%	-2.73%	-1.93%	-1.94%			-2.28%	
ROE	17.2%	15.5%	11.7%	8.5%	16.3%			12.9%	
Loans to deposits	78.1%	83.6%	91.6%	96.7%	97.3%			97.3%	
NPL ratio (%)	3.4%	3.0%	2.7%	2.4%	2.5%			2.5%	

Source: Isbank, UBS estimates

# Yapi Kredi

Neutral, TRY3.30

## Investment case

We keep Yapi Kredi on Neutral. Our main concern on Yapi Kredi compared with some of its peers remains its relatively high loans-to-deposits ratio (LDR) in local currency of c120-130%, and its relatively high reliance on foreign funding. Although Yapi Kredi is well managed and has a clear strategic focus on retail lending, we believe that its funding and capital positions prevent a more bullish view at this point.

Our main concern on Yapi Kredi is its relatively high loans-to-deposits ratio

## Risks relative to peers

Lower liquidity and capital levels may put pressure on Yapi Kredi's growth in the near term. In addition, its strong position in credit cards means that relevant spreads may be squeezed by the price caps once interest rates start going up. Lastly, Yapi Kredi's higher relative exposure to credit cards may result in higher cost of risk under an economic slowdown/recession scenario. The Bank is seeking to raise funding through subordinated loan deals and we think it may consider selling down non-core assets instead of doing a rights issue.

## Valuation

We value Yapi Kredi using a Gordon Growth Model (GGM) and cross-check the results against our Dividend Discount Model (DDM). We increase our sustainable ROE slightly from 15.5% to 16.0%, in line with our forecast changes, and increase our cost of equity to 15.5% from 14.7% to reflect higher long-term bond yields. As a result, we decrease our price target from TRY3.80 to TRY3.30 and remain Neutral.

Table 20: GGM valuation

Sustainable ROE	16.0%
Cost of Equity (COE)	15.5%
Long-term growth	9.0%
Implied Price:Book	1.07
BVPS – 2012E (TRY)	3.09
<b>Total Value per share (TRY)</b>	<b>3.30</b>

Source: UBS estimates

## Forecasts

We increase our bottom line estimates for Yapi Kredi by 5% for 2011 and 4% for 2012 and decrease it by 2% for 2013. We now forecast 14% earnings reduction in 2012 due to lower NIM, lower NPL collections and higher impairments. Due to its lower liquidity, Yapi Kredi has the highest exposure to cost of funding pressures among the Big-4, and is likely to report the highest NIM squeeze after Vakifbank.

Our revised forecasts for Yapi Kredi are shown in the table below.

**Table 21: Yapi Kredi revised forecasts 2011-13E**

TRYm	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Net interest income	3,582	3,733	4,029	4,639	-8.1%	4.2%	7.9%	15.1%
Net fees	1,738	1,994	2,134	2,343	10.8%	14.7%	7.0%	9.8%
Trading income	-32	-68	80	80	na	110.7%	na	0.0%
Other income	1,355	929	650	650	na	-31.4%	-30.0%	0.0%
<b>Total income</b>	<b>6,643</b>	<b>6,588</b>	<b>6,892</b>	<b>7,711</b>	<b>9.5%</b>	<b>-0.8%</b>	<b>4.6%</b>	<b>11.9%</b>
Total expenses	-2,693	-2,909	-3,141	-3,342	7.3%	8.0%	8.0%	6.4%
Impairment	-1,162	-1,027	-1,445	-1,575	-29.7%	-11.6%	40.7%	9.0%
Income from associates	6	14	14	15	18.5%	118.1%	0.0%	7.0%
Profit before tax and MI	2,794	2,666	2,320	2,809	46.4%	-4.6%	-13.0%	21.1%
Tax	-539	-520	-464	-562	51.7%	-3.6%	-10.8%	21.1%
Minority interests	-7	-8	-14	-16	-34.8%	19.9%	75.0%	14.3%
<b>Profit after tax and MI (stated)</b>	<b>2,248</b>	<b>2,138</b>	<b>1,842</b>	<b>2,231</b>	<b>45.7%</b>	<b>-4.9%</b>	<b>-13.9%</b>	<b>21.2%</b>
<i>One-off items (after tax)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
<b>Profit after tax and MI (adj.)</b>	<b>2,248</b>	<b>2,138</b>	<b>1,842</b>	<b>2,231</b>	<b>45.7%</b>	<b>-4.9%</b>	<b>-13.9%</b>	<b>21.2%</b>
<b>EPS (TRY)</b>	<b>0.52</b>	<b>0.49</b>	<b>0.42</b>	<b>0.51</b>	<b>45.7%</b>	<b>-4.9%</b>	<b>-13.9%</b>	<b>21.2%</b>
Normalised EPS (TRY)	0.52	0.49	0.42	0.51	45.7%	-4.9%	-13.9%	21.2%
DPS (TRY)	0.00	0.00	0.00	0.00	na	na	na	na
<b>Normalised Ratios</b>								
Net Interest Margin	4.35%	3.59%	3.29%	3.26%				
Net Interest Margin after impairment	2.94%	2.60%	2.11%	2.15%				
Cost to Income	40.5%	44.2%	45.6%	43.3%				
LLP to Average loans	2.47%	1.65%	1.95%	1.80%				
Commissions Ratio	26.17%	30.27%	30.96%	30.38%				
ROA (after tax, pre MI)	2.74%	2.06%	1.52%	1.58%				
ROE (after tax, MI & hybrids)	23.5%	18.2%	13.5%	14.2%				
RoRWAs	3.22%	2.38%	1.72%	1.78%				
Core Tier I Ratio	11.7%	11.4%	11.6%	11.3%				
Loans to Deposits	99%	105%	104%	112%				
Loans to Assets	59%	61%	60%	62%				

Source: Yapi Kredi, UBS estimates

## Q4 11 preview

We expect Yapi Kredi to deliver weaker Q4 and FY results. We expect a 5.8% increase in Net Interest Income and a 9% increase in fees on the quarter to be offset by seasonally higher expenses and higher loan-loss provisions. We expect costs to increase 11% q/q, but to be 8% higher on a full-year basis, in line with the company guidance. We also expect cost of risk to rise by c110bp due to an increase in general loan loss provisions, which may allow more room for earnings growth in 2012. We forecast loan growth to decrease to 2% from 6.7% in Q3 and deposit growth to fall 1% from 12% in the previous quarter, resulting in LDR of c105%. As a result of the above dynamics, we expect net income of TRY490m in Q4 11, -11% q/q and -5% y/y for FY 2011.

Table 22: Yapi Kredi Q4 2011 results preview (based on BRSA consolidated accounts)

TRYm	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11E	% q/q	FY 10	FY 11E	% y/y
Net interest income	878	885	834	979	1,035	5.8%	3,582	3,733	4.2%
Net fees	467	451	471	512	560	9.2%	1,738	1,994	14.7%
Trading income	-30	50	-22	-95	0	-100.0%	-32	-68	110.7%
Other income	485	320	222	187	200	7.3%	1,355	929	-31.4%
<b>Total income</b>	<b>1,800</b>	<b>1,706</b>	<b>1,504</b>	<b>1,582</b>	<b>1,795</b>	<b>13.4%</b>	<b>4,842</b>	<b>6,588</b>	<b>36.0%</b>
Total expenses	-739	-711	-688	-715	-795	11.2%	-2,693	-2,909	8.0%
Impairment	-573	-313	-138	-191	-386	101.9%	-1,162	-1,027	-11.6%
Income from associates	2	2	6	3	3	10.3%	6	14	118.1%
Profit before tax and MI	490	684	685	679	618	-9.1%	2,794	2,666	-4.6%
Tax	-106	-153	-116	-127	-124	-2.4%	-539	-520	-3.6%
Minority Interests (MI)	-2	0	-2	-3	-3	8.5%	-7	-8	19.9%
Profit after tax and MI (stated)	382	531	567	549	490	-10.7%	2,248	2,138	-4.9%
<i>One-off items (after tax)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>na</i>	<i>0</i>	<i>0</i>	<i>na</i>
Profit after tax and MI (adj.)	382	531	567	549	490	-10.7%	2,248	2,138	-4.9%
<b>Balance sheet items and key ratios:</b>									
Assets	92,814	97,580	107,517	115,899	118,217	2.0%	92,814	118,217	27.4%
Loans	54,676	57,017	64,151	68,425	69,794	2.0%	54,676	69,794	27.7%
Deposits	55,207	56,059	58,686	65,855	66,513	1.0%	55,207	66,513	20.5%
Equity	10,683	11,143	11,709	11,943	12,433	4.1%	10,683	12,433	16.4%
Net Interest Margin	4.02%	3.72%	3.25%	3.51%	3.54%			3.54%	
Impairment rate	4.45%	2.24%	0.91%	1.15%	2.23%			1.65%	
ROE	14.7%	19.5%	19.8%	18.6%	16.1%			18.5%	
Loans to deposits	99.0%	101.7%	109.3%	103.9%	104.9%			104.9%	

Source: Yapi Kredi, UBS estimates

# Vakifbank

Neutral, TRY2.85

## Investment case

We keep Vakifbank on Neutral owing to its lower liquidity and capital levels relative to peers, and execution risk that will make it more vulnerable in continuously volatile macro environment, in our view. However, we still like Vakifbank's attractive valuation (0.55x 2012E P/TBV, 43% discount to the sector) and believe it has a potential to re-rate closer to other Turkish peers over time.

Three weaknesses: liquidity, capital levels, execution risk

## Risks relative to peers

Vakifbank's liquidity (loan-to-deposit ratio) is somewhat worse than that of most peers. Although it is still below 100%, at 99%, it may constrain Vakifbank's plans to expand into more profitable business segments. Vakifbank's cost management is much less efficient than peers', with a cost-to-average assets ratio a significant 1pp higher than for other Turkish banks. Going forward, Vakifbank may be negatively affected by competition from peers for fees. Its share of credit cards is just around 3%, and its fee base is not as well diversified as some competitors', which means Vakifbank might not be able to grow its fee income as quickly as some other Turkish banks. Lastly, Vakifbank is in the government's privatisation pipeline, and we expect another 25% stake to come to the market in the next couple of years. Theoretically, this could create a share overhang and put pressure on Vakifbank's share price. That said, we believe investor demand for liquid Turkish banks is high, and any such disposal should be absorbed easily by the market.

## Valuation

We value Vakifbank using a Gordon Growth Model (GGM) and cross-check the results against our Dividend Discount Model (DDM). We decrease our sustainable ROE estimate from 13.9% to 13.4% in-line with our long term estimates changes, and increase our cost of equity to 15.5% from 14.7% to reflect higher long-term bond yields. As a result, we decrease our price target from TRY3.60 to TRY2.85 and remain Neutral.

Table 23: Vakifbank GGM valuation

Sustainable ROE	13.4%
Cost of Equity (COE)	15.5%
Long-term growth	9.0%
Implied Price:Book	0.68
BVPS – 2012E (TRY)	4.19
Total Value per share (TRY)	2.85

Source: UBS estimates

## Forecasts

To reflect a slightly better fee growth and asset quality trends in 2011, we increase our FY 2011 estimates for Vakifbank by 5%. However, to reflect a new regulatory environment that will negatively affect fee growth, tighter liquidity and slower loan growth, we decrease our 2013 estimates by 4% and keep 2012 estimates largely unchanged. We expect a 14.8% reduction in earnings in 2012, driven by higher funding costs, lower fee growth and higher expenses. Our revised forecasts are shown in the table below.

**Table 24: Vakifbank revised forecasts 2011-13E**

TRYm	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Net interest income	2,855	3,060	3,295	3,856	-10.4%	7.2%	7.7%	17.0%
Net fees	447	537	569	637	3.3%	20.0%	6.0%	12.0%
Trading income	321	90	160	160	52.6%	-72.0%	77.8%	0.0%
Other income	1,144	1,498	1,513	1,634	45.0%	31.0%	1.0%	8.0%
<b>Total income</b>	<b>4,767</b>	<b>5,185</b>	<b>5,537</b>	<b>6,287</b>	<b>3.2%</b>	<b>8.8%</b>	<b>6.8%</b>	<b>13.6%</b>
Total expenses	-2,365	-2,708	-3,114	-3,456	14.3%	14.5%	15.0%	11.0%
Impairment	-976	-864	-1,041	-1,258	-3.3%	-11.5%	20.5%	20.8%
Income from associates	21	10	10	10	-10.8%	-51.6%	0.0%	0.0%
Profit before tax and MI	1,447	1,623	1,392	1,583	-7.4%	12.2%	-14.3%	13.7%
Tax	-313	-325	-278	-317	17.2%	3.7%	-14.3%	13.7%
Minority interests	31	-50	-50	-50	na	na	0.0%	0.0%
<b>Profit after tax and MI (stated)</b>	<b>1,164</b>	<b>1,249</b>	<b>1,063</b>	<b>1,216</b>	<b>-10.1%</b>	<b>7.3%</b>	<b>-14.8%</b>	<b>14.4%</b>
<b>EPS (TRY)</b>	<b>0.47</b>	<b>0.50</b>	<b>0.43</b>	<b>0.49</b>	<b>-10.1%</b>	<b>7.3%</b>	<b>-14.8%</b>	<b>14.4%</b>
<b>DPS (TRY)</b>	<b>0.01</b>	<b>0.02</b>	<b>0.02</b>	<b>0.05</b>	<b>-73.5%</b>	<b>82.0%</b>	<b>-14.8%</b>	<b>128.7%</b>
<b>Normalised Ratios</b>								
Net Interest Margin	3.96%	3.58%	3.29%	3.34%				
Net Interest Margin after impairment	2.6%	2.6%	2.3%	2.3%				
Cost to Income	49.6%	52.2%	56.2%	55.0%				
LLP to Avg Loans	2.5%	1.7%	1.7%	1.7%				
Commissions Ratio	9.4%	10.3%	10.3%	10.1%				
ROA (after tax, pre MI)	1.61%	1.46%	1.06%	1.05%				
ROE (after tax, MI & hybrids)	14.9%	14.0%	10.6%	11.0%				
RoRWAs	2.2%	1.9%	1.4%	1.4%				
Core Tier I Ratio	13.4%	12.6%	12.4%	12.2%				
Loans to Deposits	92.8%	97.9%	101.2%	107.3%				
Loans to Assets	58.1%	60.6%	62.0%	64.5%				

Source: Vakifbank, UBS estimates

## Q4 2011 preview

We expect Vakifbank to deliver weak Q4 11 compared to Q3 11, due to the depletion of the loan loss recoveries pool, lower fees and higher expenses. We expect NIM to decrease slightly in the quarter to 3.25% and NII to increase by 2% q/q (3% y/y for FY 11). We expect fees to decrease by 15% q/q due to much slower loan growth and other income to decrease by 30% as the recoveries pool dries out. This, however, should be partially offset by the reversal of the trading losses recorded in Q3. We forecast seasonally higher costs, up 5% q/q and 14% y/y for FY 11. We expect Vakifbank's loans and deposits to grow at around 3% and 4% respectively, improving LDR slightly to 98%. We forecast a 20bps improvement in NPL ratio and a slight increase in the cost of risk to 1.54%. The net cost of risk should, however, increase significantly, by c50bps due to lower loan-loss recoveries. Our estimated bottom line comes down to TRY265m, 16% lower q/q. On a full-year basis, we expect Vakifbank to deliver TRY1,230m, up 6% y/y, based on BRSA solo numbers.

We expect Vakifbank to deliver weak Q4 results

Table 25: Q4 2011 results preview (based on BRSA solo accounts)

TRYm	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11E	qoq	FY 10	FY 11E	yoy
Net interest income	706	700	662	723	736	2%	2,730	2,822	3%
Net fees	135	118	153	142	120	-15%	443	533	20%
Trading income	156	38	4	-26	15	na	316	31	-90%
Other income	204	280	208	264	185	-30%	636	937	47%
<b>Total income</b>	<b>1,201</b>	<b>1,136</b>	<b>1,027</b>	<b>1,103</b>	<b>1,056</b>	<b>-4%</b>	<b>4,126</b>	<b>4,322</b>	<b>5%</b>
Total expenses	-468	-452	-484	-486	-510	5%	-1,690	-1,933	14%
Impairment	-233	-182	-222	-205	-215	5%	-973	-824	-15%
Income from associates	0	0	0	0	0	na	0	0	na
Profit before tax and MI	500	502	321	412	331	-20%	1,463	1,566	7%
Tax	-107	-93	-81	-95	-66	-31%	-306	-336	10%
Minority Interests (MI)	0	0	0	0	0	na	0	0	na
<b>Profit after tax and MI (stated)</b>	<b>393</b>	<b>409</b>	<b>240</b>	<b>316</b>	<b>265</b>	<b>-16%</b>	<b>1,157</b>	<b>1,230</b>	<b>6.3%</b>
<b>Balance sheet items and key ratios:</b>									
Assets	73,962	76,291	86,319	89,255	91,933	3.0%	73,962	91,933	24%
Loans	44,861	46,962	52,780	54,976	56,626	3.0%	44,861	56,626	26%
Deposits	47,701	48,652	53,245	55,560	57,783	4.0%	47,701	57,783	21%
Equity	8,559	8,778	9,013	9,148	9,412	2.9%	8,559	9,412	10%
Net Interest Margin	3.87%	3.73%	3.26%	3.29%	3.25%			3.40%	
Cost of risk	2.16%	1.59%	1.78%	1.52%	1.54%			1.62%	
Net cost of risk	0.65%	-0.37%	0.45%	-0.05%	0.48%			0.58%	
ROE	18.7%	18.9%	10.8%	13.9%	11.4%			13.7%	
Loans to deposits	94.0%	96.5%	99.1%	98.9%	98.0%			98.0%	
NPLs	4.8%	4.5%	3.9%	3.6%	3.4%			3.4%	

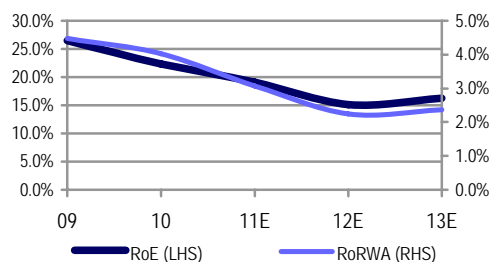
Source: Vakifbank, UBS estimates

## Garanti Bank

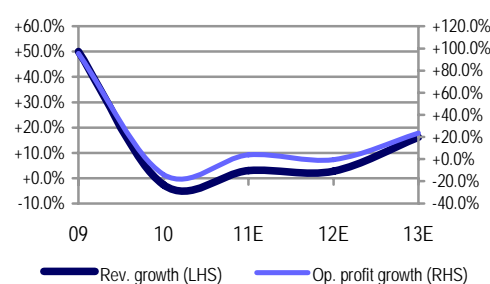
Per share (TRY)	12/09	12/10	12/11E	12/12E	12/13E
EPS (stated)	0.73	0.81	0.81	0.72	0.88
EPS (UBS adjusted)	0.73	0.81	0.75	0.72	0.88
GOPS	1.34	1.19	1.23	1.22	1.51
DPS	0.08	0.14	0.16	0.14	0.18
BVPS (stated)	3.25	3.96	4.48	5.05	5.76
BVPS (adjusted)	3.24	3.94	4.47	5.04	5.75
<b>Profit &amp; Loss (TRYm)</b>					
Net interest income	5,406	5,170	5,198	5,644	6,814
Other income	3,192	3,201	3,419	3,216	3,473
<b>Total revenues</b>	<b>8,598</b>	<b>8,371</b>	<b>8,618</b>	<b>8,860</b>	<b>10,286</b>
Expenses	(2,823)	(3,382)	(3,450)	(3,719)	(3,942)
Operating profit	5,775	4,989	5,168	5,140	6,344
Provisions and other items	(1,716)	(696)	(860)	(1,285)	(1,661)
Profit before tax	4,069	4,303	4,320	3,872	4,702
Pre-exceptional net income	3,086	3,381	3,141	3,030	3,682
<b>Capital dynamics (TRYm)</b>					
Risk-weighted assets	73,722	95,357	126,753	145,043	168,363
Tier one capital	12,203	14,981	17,691	20,115	23,060
Total capital	14,126	17,228	19,939	22,362	25,308
Tier one ratio	16.6%	15.7%	14.0%	13.9%	13.7%
Total capital ratio	19.2%	18.1%	15.7%	15.4%	15.0%
Net profit after tax	3,215	3,381	3,388	3,030	3,682
Tier 1 requirement	10.0%	10.0%	10.0%	10.0%	10.0%
Less: Working capital requirement	2,163	3,140	1,829	2,332	2,510
Less: Dividends	350	570	678	606	736
<b>Surplus capital generated</b>	<b>702</b>	<b>(329)</b>	<b>881</b>	<b>92</b>	<b>435</b>
Surplus capital generation ratio	7.4%	-2.7%	5.9%	0.5%	2.2%
<b>Balance sheet (TRYm)</b>					
Assets	116,334	136,784	166,780	185,953	218,654
Customer loans	53,477	70,158	92,077	105,566	131,654
Customer deposits	68,782	79,070	91,326	103,199	122,806
Funds under management					
Loans : assets	46.0%	51.3%	55.2%	56.8%	60.2%
Deposits : assets	59.1%	57.8%	54.8%	55.5%	56.2%
Loans : deposits	77.7%	88.7%	100.8%	102.3%	107.2%
Shareholders funds : assets	11.76%	12.22%	11.34%	11.48%	11.11%
<b>Asset quality (TRYm)</b>					
Non-performing assets	2,295	2,233	1,965	2,690	3,765
Total risk reserves	1,868	1,804	1,473	2,017	2,824
NPLs : loans	4.29%	3.18%	2.13%	2.55%	2.86%
NPL coverage	81%	81%	75%	75%	75%
Provision charge : average loans	3.23%	1.13%	1.06%	1.30%	1.40%
Net NPLs : shareholders' funds	3.1%	2.6%	2.6%	3.2%	3.9%
<b>Profitability</b>					
Net interest margin (avg assets)	5.02%	4.09%	3.42%	3.20%	3.37%
Provisions : operating profit	29.7%	14.0%	16.6%	25.0%	26.2%
RoE	26.4%	22.3%	19.1%	15.1%	16.2%
RoAdjE					
RoRWA	4.48%	4.02%	3.07%	2.25%	2.37%
RoA	2.88%	2.69%	2.25%	1.73%	1.84%
<b>Productivity</b>					
Cost : income ratio	34.3%	40.4%	40.0%	42.0%	38.3%
Costs : average assets	2.6%	2.7%	2.3%	2.1%	1.9%
Compensation expense ratio	16.4%	21.1%	20.9%	22.3%	19.7%
<b>Momentum</b>					
Revenue growth	+50.1%	-2.6%	+2.9%	+2.8%	+16.1%
Operating profit growth	+95.5%	-13.6%	+3.6%	-0.5%	+23.4%
Net profit growth	+71.9%	+9.6%	-7.1%	-3.5%	+21.5%
Dividend growth	NM	+62.9%	+18.9%	-10.6%	+21.5%
<b>Value*</b>					
<b>UBS bank valuation</b>					
Leveraged P/E					
Risk tendency P/E					
Merger P/E					
Market capitalisation (TRYm)	17,599	31,002	29,544	24,444	24,444
<b>Conventional valuation</b>					
Market cap./Revenues	2.0x	3.7x	3.4x	2.8x	2.4x
Market cap./Operating profit	3.0x	6.2x	5.7x	4.8x	3.9x
P/E (stated)	5.7x	9.2x	8.7x	8.1x	6.6x
P/E (UBS adjusted)	5.7x	9.2x	9.4x	8.1x	6.6x
Dividend yield (net)	2.00%	1.84%	2.29%	2.48%	3.01%
P/BV (stated)	1.3x	1.9x	1.6x	1.2x	1.0x
P/BV (adjusted)	1.3x	1.9x	1.6x	1.2x	1.0x

Garanti Bank is the second-largest private sector bank in the country in terms of total assets. The bank offers the full spectrum of financial products and services through a 838-strong branch network, and is ranked first in the credit card, mortgage and business loan market. Garanti is known internationally for its innovative products, especially in the credit card segment. It is widely considered to be one of the best-managed banks in Turkey. BBVA, the Spanish bank, owns 24.9% of Garanti's ordinary shares and enjoys joint control at the board level with the Dogus Group, which also owns 24.9%.

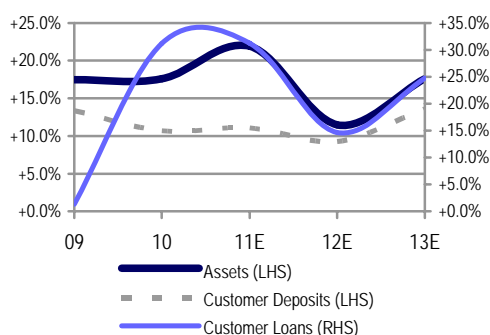
### Profitability (RoE & RoRWA)



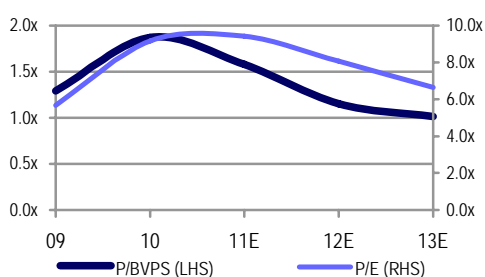
### Momentum (Revenue & Operating profit growth)



### Balance Sheet Growth



### Value (P/Adj. BVPS & P/Adj. EPS)



Source: UBS estimates, \* Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of TRY5.82 on 16/01/2012

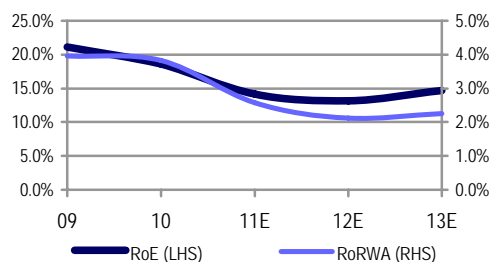
## Akbank

Per share (TRY)	12/09	12/10	12/11E	12/12E	12/13E
EPS (stated)	0.68	0.75	0.65	0.66	0.80
EPS (UBS adjusted)	0.69	0.75	0.65	0.66	0.80
GOPS	1.10	1.07	0.99	1.06	1.31
DPS	0.14	0.14	0.20	0.20	0.28
BVPS (stated)	3.61	4.48	4.76	5.22	5.74
BVPS (adjusted)	3.60	4.46	4.74	5.20	5.72
<b>Profit &amp; Loss (TRYm)</b>					
Net interest income	4,725	4,431	4,109	4,563	5,537
Other income	1,950	2,342	2,437	2,444	2,661
<b>Total revenues</b>	<b>6,675</b>	<b>6,773</b>	<b>6,546</b>	<b>7,007</b>	<b>8,198</b>
Expenses	(2,261)	(2,483)	(2,583)	(2,776)	(2,943)
Operating profit	4,414	4,289	3,963	4,231	5,255
Provisions and other items	(1,124)	(525)	(715)	(975)	(1,267)
Profit before tax	3,289	3,765	3,248	3,256	3,987
Pre-exceptional net income	2,744	3,010	2,614	2,621	3,210
<b>Capital dynamics (TRYm)</b>					
Risk-weighted assets	69,243	87,878	115,280	132,787	151,880
Tier one capital	13,797	16,173	18,004	19,838	21,925
Total capital	14,570	17,518	19,348	21,183	23,269
Tier one ratio	19.9%	18.4%	15.6%	14.9%	14.4%
Total capital ratio	21.0%	19.9%	16.8%	16.0%	15.3%
Net profit after tax	2,723	3,010	2,614	2,621	3,210
Tier 1 requirement	410.0%	410.0%	410.0%	410.0%	410.0%
Less: Working capital requirement	76,404	112,346	71,777	78,283	97,919
Less: Dividends	540	570	784	786	1,123
<b>Surplus capital generated</b>	<b>(74,221)</b>	<b>(109,906)</b>	<b>(69,947)</b>	<b>(76,448)</b>	<b>(95,833)</b>
Surplus capital generation ratio	-639.1%	-796.6%	-432.5%	-424.6%	-483.1%
<b>Balance sheet (TRYm)</b>					
Assets	102,833	120,070	144,100	156,220	185,220
Customer loans	44,604	57,733	75,993	86,488	108,511
Customer deposits	60,954	71,708	79,955	89,549	104,773
Funds under management					
Loans : assets	43.4%	48.1%	52.7%	55.4%	58.6%
Deposits : assets	59.3%	59.7%	55.5%	57.3%	56.6%
Loans : deposits	73.2%	80.5%	95.0%	96.6%	103.6%
Shareholders funds : assets	14.05%	14.95%	13.22%	13.37%	12.40%
<b>Asset quality (TRYm)</b>					
Non-performing assets	1,785	1,280	1,314	1,675	1,989
Total risk reserves	1,785	1,280	1,314	1,675	1,989
NPLs : loans	4.00%	2.22%	1.73%	1.94%	1.83%
NPL coverage	100%	100%	100%	100%	100%
Provision charge : average loans	2.40%	1.03%	1.07%	1.20%	1.30%
Net NPLs : shareholders' funds	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Profitability</b>					
Net interest margin (avg assets)	4.82%	3.98%	3.11%	3.04%	3.24%
Provisions : operating profit	25.5%	12.2%	18.1%	23.0%	24.1%
RoE	21.1%	18.6%	14.1%	13.1%	14.7%
RoAdjE					
RoRWA	3.96%	3.83%	2.57%	2.11%	2.26%
RoA	2.78%	2.70%	1.98%	1.75%	1.88%
<b>Productivity</b>					
Cost : income ratio	33.9%	36.7%	39.5%	39.6%	35.9%
Costs : average assets	2.3%	2.2%	2.0%	1.8%	1.7%
Compensation expense ratio	16.3%	17.5%	19.3%	19.4%	17.0%
<b>Momentum</b>					
Revenue growth	+19.0%	+1.5%	-3.3%	+7.0%	+17.0%
Operating profit growth	+31.9%	-2.8%	-7.6%	+6.8%	+24.2%
Net profit growth	+74.6%	+9.7%	-13.2%	+0.2%	+22.5%
Dividend growth	+50.1%	+5.5%	+37.6%	+0.2%	+42.9%
<b>Value*</b>					
<b>UBS bank valuation</b>					
Leveraged P/E					
Risk tendency P/E					
Merger P/E					
Market capitalisation (TRYm)	20,515	31,412	28,871	24,880	24,880
<b>Conventional valuation</b>					
Market cap./Revenues	3.1x	4.6x	4.4x	3.6x	3.0x
Market cap./Operating profit	4.6x	7.3x	7.3x	5.9x	4.7x
P/E (stated)	7.5x	10.4x	11.1x	9.5x	7.8x
P/E (UBS adjusted)	7.4x	10.4x	11.1x	9.5x	7.8x
Dividend yield (net)	2.64%	1.82%	2.71%	3.16%	4.52%
P/BV (stated)	1.4x	1.7x	1.5x	1.2x	1.1x
P/BV (adjusted)	1.4x	1.8x	1.5x	1.2x	1.1x

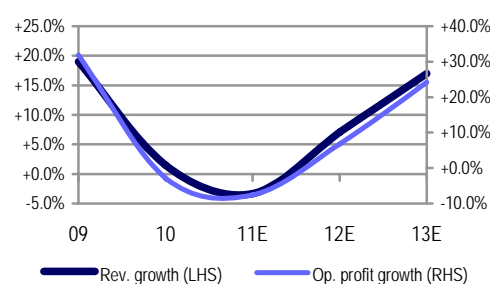
Source: UBS estimates, \* Historical valuations are based on an "average for the year" share price. Current & future valuations are based on a share price of TRY6.22 on 16/01/2012

Akbank is one of Turkey's largest banks, with the highest equity Tier 1 ratio and the strongest capital base among peers. The bank offers the full spectrum of financial products and services, but has a longer-standing tradition in business lending. Akbank operates the third-largest branch network in Turkey, with 878 units as of end-September 2009. It is widely considered to be one of the most innovative and best-managed banks in Turkey. The bank is controlled by Sabanci Holdings (44%), and the Sabanci family (7%). Citigroup acquired a strategic 20% stake in 2007.

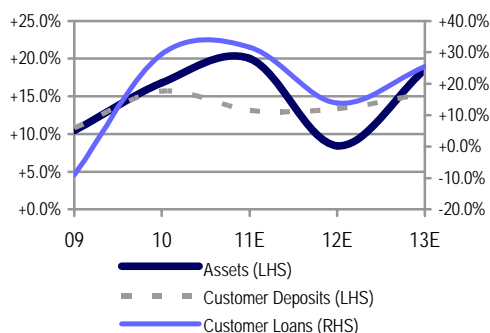
### Profitability (RoE & RoRWA)



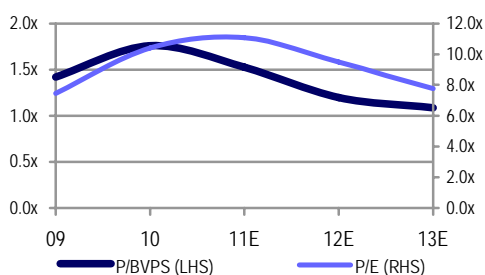
### Momentum (Revenue & Operating profit growth)



### Balance Sheet Growth



### Value (P/Adj. BVPS & P/Adj. EPS)

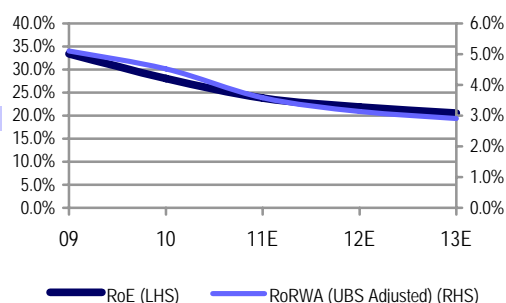


## Halkbank

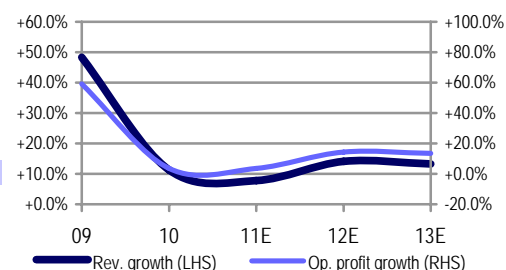
Per share (TRY)	12/09	12/10	12/11E	12/12E	12/13E
EPS (reported, basic)	1.33	1.47	1.55	1.69	1.86
EPS (UBS adjusted, diluted)	1.33	1.47	1.55	1.69	1.86
GOPS	2.16	2.24	2.32	2.65	3.01
Net DPS	0.24	0.32	0.34	0.42	0.56
BVPS (stated)	4.62	5.89	7.10	8.37	9.67
BVPS (adjusted)	4.62	5.89	7.10	8.37	9.67
<b>Profit &amp; Loss (TRYm)</b>					
Net interest income	3,129	3,212	3,317	3,906	4,490
Other income	874	1,242	1,485	1,571	1,712
<b>Total revenues</b>	<b>4,003</b>	<b>4,455</b>	<b>4,802</b>	<b>5,477</b>	<b>6,202</b>
Expenses	(1,302)	(1,654)	(1,902)	(2,163)	(2,444)
<b>Operating profit</b>	<b>2,701</b>	<b>2,801</b>	<b>2,900</b>	<b>3,314</b>	<b>3,758</b>
Provisions	(646)	(458)	(479)	(671)	(861)
Other pre-tax items	4	11	1	2	5
<b>Profit before tax</b>	<b>2,059</b>	<b>2,353</b>	<b>2,421</b>	<b>2,645</b>	<b>2,902</b>
Tax	(393)	(510)	(484)	(529)	(580)
Other post-tax items	(1)	(1)	(0)	(0)	(0)
<b>Reported net income</b>	<b>1,665</b>	<b>1,843</b>	<b>1,937</b>	<b>2,115</b>	<b>2,321</b>
<b>Pre-exceptional net income</b>	<b>1,665</b>	<b>1,843</b>	<b>1,937</b>	<b>2,115</b>	<b>2,321</b>
<b>Capital adequacy (TRYm)</b>					
Tier one capital	5,521	6,915	8,426	10,012	11,637
Total capital	5,616	7,143	8,653	10,240	11,865
Risk-weighted assets	35,482	46,146	61,846	73,087	86,475
Tier one ratio	15.6%	15.0%	13.6%	13.7%	13.5%
Total capital ratio	15.8%	15.5%	14.0%	14.0%	13.7%
Equity	5,770	7,366	8,877	10,463	12,088
Tangible equity	5,770	7,366	8,877	10,463	12,088
Equity to assets	9.5%	10.1%	9.5%	9.8%	9.6%
Tangible equity to assets	9.5%	10.1%	9.5%	9.8%	9.6%
Core tier one capital					
<b>Balance sheet (TRYm)</b>					
Assets	60,783	73,027	93,707	106,697	126,240
Customer loans	32,458	44,296	56,562	65,453	80,520
Customer deposits	43,879	54,554	66,011	73,932	85,022
Loans : assets	53.4%	60.7%	60.4%	61.3%	63.8%
Deposits : assets	72.2%	74.7%	70.4%	69.3%	67.3%
Loans : deposits	74.0%	81.2%	85.7%	88.5%	94.7%
Shareholders funds : assets	9.50%	10.10%	9.48%	9.81%	9.58%
<b>Asset quality (TRYm)</b>					
Non-performing assets	1,668	1,758	1,681	2,152	2,647
Total risk reserves	1,358	1,465	1,395	1,786	2,197
NPLs : loans	4.93%	3.84%	2.90%	3.20%	3.20%
NPL coverage	81.4%	83.3%	83.0%	83.0%	83.0%
Provision charge : average loans	2.22%	1.19%	0.95%	1.10%	1.18%
Net NPAs : shareholders' funds	5.4%	4.0%	3.2%	3.5%	3.7%
<b>Profitability</b>					
Net interest margin (avg assets)	5.60%	4.80%	3.98%	3.90%	3.86%
Provisions : operating profit	23.9%	16.4%	16.5%	20.3%	22.9%
RoE (UBS adjusted)	33.4%	28.1%	23.8%	21.9%	20.6%
RoAdjE	33.4%	28.1%	23.8%	21.9%	20.6%
RoRWA (UBS adjusted)	5.11%	4.52%	3.59%	3.14%	2.91%
RoA	2.98%	2.76%	2.32%	2.11%	1.99%
<b>Productivity</b>					
Cost : income ratio	32.5%	37.1%	39.6%	39.5%	39.4%
Costs : average assets	2.3%	2.5%	2.3%	2.2%	2.1%
Compensation expense ratio	19.2%	20.9%	22.7%	22.6%	22.7%
<b>Momentum</b>					
Revenue growth	+48.3%	+11.3%	+7.8%	+14.1%	+13.2%
Operating profit growth	+59.2%	+3.7%	+3.5%	+14.3%	+13.4%
Net income (UBS adjusted) growth	+63.8%	+10.7%	+5.1%	+9.2%	+9.7%
Net dividend growth	+15.4%	+34.6%	+7.7%	+24.1%	+31.7%
Total asset growth	+19.2%	+20.1%	+28.3%	+13.9%	+18.3%
Loan growth	+25.6%	+36.5%	+27.7%	+15.7%	+23.0%
Deposit growth	+9.0%	+24.3%	+21.0%	+12.0%	+15.0%
<b>Value*</b>					
Market cap./Revenues	2.1x	3.4x	3.1x	2.3x	2.0x
Market cap./Operating profit	3.1x	5.4x	5.1x	3.8x	3.3x
P/E (stated)	5.0x	8.2x	7.6x	5.9x	5.4x
P/E (UBS adjusted)	5.0x	8.2x	7.6x	5.9x	5.4x
Dividend yield (net)	3.54%	2.61%	2.89%	4.22%	5.56%
P/BV (stated)	1.4x	2.1x	1.7x	1.2x	1.0x
P/BV (adjusted)	1.4x	2.1x	1.7x	1.2x	1.0x

Halkbank is Turkey's seventh-largest bank by total assets on a consolidated basis. It is uniquely positioned as an SME lending franchise, which represent 36% of Halkbank's loan book, corresponding to 12.5% market share in SME lending. Because of its high exposure to SMEs, Halkbank has in the past been able to achieve the highest ROE among Turkish banks, also supported by strong liquidity and capital levels. Currently, Halkbank is 75% owned by the Privatisation Administration of Turkey and has 25% free float. The government intends to privatise another 25% in the next couple of years.

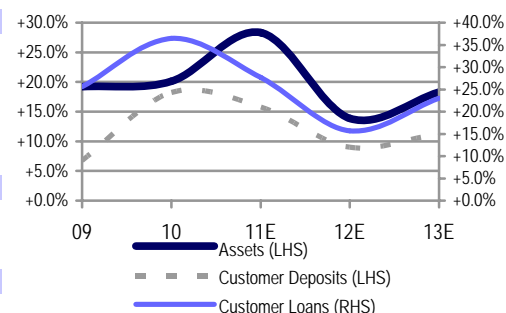
Profitability (RoE & RoRWA (UBS Adjusted))



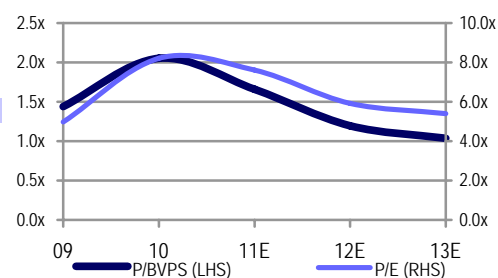
Momentum (Revenue & Operating profit growth)



Balance Sheet Growth



Value (P/Adj. BVPS & P/Adj. EPS)



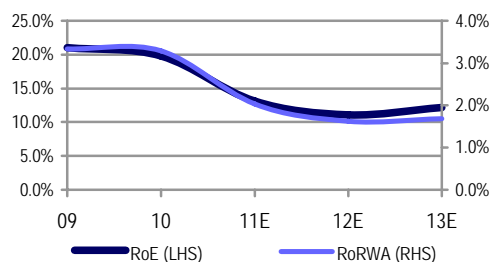
Source: UBS estimates, \* Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of TRY10.02 on 16/01/2012

## Isbank

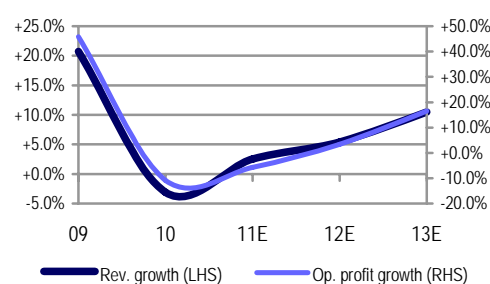
Per share (TRY)	12/09	12/10	12/11E	12/12E	12/13E
EPS (stated)	0.61	0.65	0.50	0.46	0.55
EPS (UBS adjusted)	0.61	0.65	0.50	0.46	0.55
GOPS	1.27	1.13	1.07	1.10	1.29
DPS	0.12	0.15	0.15	0.14	0.16
BVPS (stated)	2.97	3.63	3.98	4.30	4.68
BVPS (adjusted)	2.96	3.62	3.97	4.29	4.67
<b>Profit &amp; Loss (TRYm)</b>					
Net interest income	5,740	5,411	5,306	6,053	7,211
Other income	5,382	5,363	5,739	5,588	5,651
<b>Total revenues</b>	<b>11,122</b>	<b>10,774</b>	<b>11,045</b>	<b>11,641</b>	<b>12,862</b>
Expenses	(5,398)	(5,672)	(6,235)	(6,671)	(7,072)
Operating profit	5,725	5,102	4,810	4,970	5,790
Provisions and other items	(2,364)	(1,186)	(1,561)	(1,945)	(2,218)
Profit before tax	3,368	3,921	3,254	3,029	3,577
Pre-exceptional net income	2,498	2,939	2,241	2,071	2,457
<b>Capital dynamics (TRYm)</b>					
Risk-weighted assets	86,220	110,259	143,444	158,187	185,490
Tier one capital	15,127	17,982	19,551	21,001	22,721
Total capital	15,633	19,351	20,919	22,369	24,089
Tier one ratio	17.5%	16.3%	13.6%	13.3%	12.2%
Total capital ratio	18.1%	17.6%	14.6%	14.1%	13.0%
Net profit after tax	2,498	2,939	2,241	2,071	2,457
Tier 1 requirement	10.0%	10.0%	10.0%	10.0%	10.0%
Less: Working capital requirement	2,404	3,318	1,474	2,730	2,539
Less: Dividends	551	691	672	621	737
<b>Surplus capital generated</b>	<b>(457)</b>	<b>(1,070)</b>	<b>94</b>	<b>(1,280)</b>	<b>(819)</b>
Surplus capital generation ratio	-3.6%	-7.1%	0.5%	-6.5%	-3.9%
<b>Balance sheet (TRYm)</b>					
Assets	128,916	150,811	181,574	202,804	237,808
Customer loans	52,760	69,078	95,192	109,516	136,883
Customer deposits	72,055	88,477	97,767	111,454	127,058
Funds under management					
Loans : assets	40.9%	45.8%	52.4%	54.0%	57.6%
Deposits : assets	55.9%	58.7%	53.8%	55.0%	53.4%
Loans : deposits	73.2%	78.1%	97.4%	98.3%	107.7%
Shareholders funds : assets	11.87%	12.59%	11.47%	11.12%	10.35%
<b>Asset quality (TRYm)</b>					
Non-performing assets	2,818	2,464	2,441	3,737	5,112
Total risk reserves	2,818	2,464	2,441	3,737	5,112
NPLs : loans	5.34%	3.57%	2.56%	3.41%	3.73%
NPL coverage	100%	100%	100%	100%	100%
Provision charge : average loans	4.53%	1.95%	1.90%	1.90%	1.80%
Net NPLs : shareholders' funds	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Profitability</b>					
Net interest margin (avg assets)	4.78%	3.87%	3.19%	3.15%	3.27%
Provisions : operating profit	41.3%	23.2%	32.4%	39.1%	38.3%
RoE	21.0%	19.8%	13.1%	11.1%	12.2%
RoAdjE					
RoRWA	3.33%	3.29%	2.03%	1.62%	1.68%
RoA	2.29%	2.31%	1.55%	1.27%	1.31%
<b>Productivity</b>					
Cost : income ratio	48.5%	52.6%	56.4%	57.3%	55.0%
Costs : average assets	4.5%	4.1%	3.8%	3.5%	3.2%
Compensation expense ratio	22.5%	27.8%	31.1%	31.9%	29.8%
<b>Momentum</b>					
Revenue growth	+20.7%	-3.1%	+2.5%	+5.4%	+10.5%
Operating profit growth	+45.9%	-10.9%	-5.7%	+3.3%	+16.5%
Net profit growth	+57.2%	+17.7%	-23.8%	-7.6%	+18.6%
Dividend growth	+198.9%	+25.4%	-2.7%	-7.6%	+18.6%
<b>Value*</b>					
<b>UBS bank valuation</b>					
Leveraged P/E					
Risk tendency P/E					
Merger P/E					
Market capitalisation (TRYm)	14,418	23,919	21,324	15,637	15,637
<b>Conventional valuation</b>					
Market cap./Revenues	1.3x	2.2x	1.9x	1.3x	1.2x
Market cap./Operating profit	2.5x	4.7x	4.4x	3.1x	2.7x
P/E (stated)	5.2x	8.1x	9.5x	7.5x	6.3x
P/E (UBS adjusted)	5.2x	8.1x	9.5x	7.5x	6.3x
Dividend yield (net)	3.84%	2.90%	3.16%	3.99%	4.73%
P/BV (stated)	1.1x	1.5x	1.2x	0.8x	0.7x
P/BV (adjusted)	1.1x	1.5x	1.2x	0.8x	0.7x

Turkiye Is Bankasi (Isbank) was established in 1924 by Kemal Ataturk with a mission to support Turkey's economic development. Today, Isbank is the largest private sector bank in the country in terms of assets, deposits, and branches. Isbank's branch network consists of more than 1,000 units. Following the divestments from 47 participations since 2002, Isbank still controls 64% of Sisecam, a leading glass products manufacturer (net sales of US\$2.9bn in 2008), and owns 14% of mobile operator, Avea. The bank's core shareholders are its employee pension fund and the Republican People's Party (RPP).

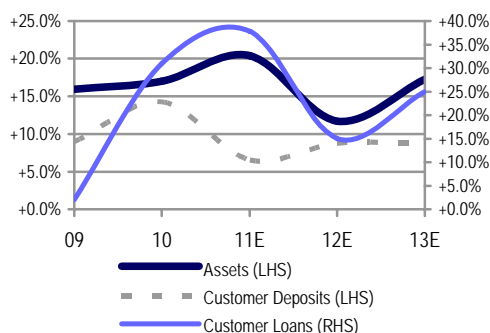
### Profitability (RoE & RoRWA)



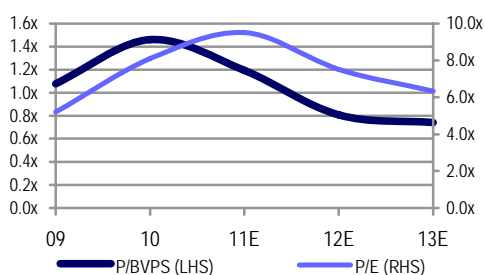
### Momentum (Revenue & Operating profit growth)



### Balance Sheet Growth



### Value (P/Adj. BVPS & P/Adj. EPS)



Source: UBS estimates, \* Historical valuations are based on an "average for the year" share price. Current & future valuations are based on a share price of TRY3.46 on 16/01/2012

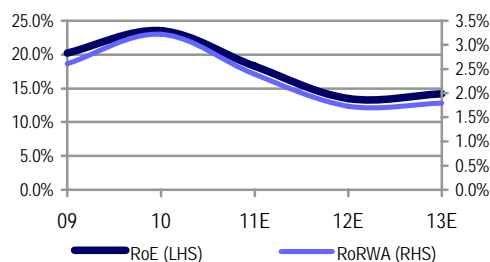
## Yapi Kredi Bank

Per share (TRY)	12/09	12/10	12/11E	12/12E	12/13E
EPS (stated)	0.35	0.52	0.49	0.42	0.51
EPS (UBS adjusted)	0.35	0.52	0.49	0.42	0.51
GOPS	0.82	0.91	0.85	0.86	1.01
DPS	0.00	0.00	0.00	0.00	0.00
BVPS (stated)	1.94	2.46	2.93	3.36	3.87
BVPS (adjusted)	1.66	2.17	2.66	3.09	3.61
<b>Profit &amp; Loss (TRYm)</b>					
Net interest income	3,897	3,582	3,733	4,029	4,639
Other income	2,169	3,061	2,855	2,864	3,073
<b>Total revenues</b>	<b>6,066</b>	<b>6,643</b>	<b>6,588</b>	<b>6,892</b>	<b>7,711</b>
Expenses	(2,510)	(2,693)	(2,909)	(3,141)	(3,342)
Operating profit	3,555	3,949	3,679	3,751	4,370
Provisions and other items	(1,652)	(1,162)	(1,027)	(1,445)	(1,575)
Profit before tax	1,908	2,794	2,666	2,320	2,809
Pre-exceptional net income	1,543	2,248	2,138	1,842	2,231
<b>Capital dynamics (TRYm)</b>					
Risk-weighted assets	60,446	79,250	100,154	114,171	136,473
Tier one capital	7,076	9,276	11,415	13,256	15,488
Total capital	9,983	12,228	14,366	16,208	18,439
Tier one ratio	11.7%	11.7%	11.4%	11.6%	11.3%
Total capital ratio	16.5%	15.4%	14.3%	14.2%	13.5%
Net profit after tax	1,543	2,248	2,138	1,842	2,231
Tier 1 requirement	10.0%	10.0%	10.0%	10.0%	10.0%
Less: Working capital requirement	1,880	2,090	1,402	2,230	2,255
Less: Dividends	0	0	0	0	0
<b>Surplus capital generated</b>	<b>(337)</b>	<b>157</b>	<b>736</b>	<b>(388)</b>	<b>(23)</b>
Surplus capital generation ratio	-6.1%	2.2%	7.9%	-3.4%	-0.2%
<b>Balance sheet (TRYm)</b>					
Assets	71,734	92,814	115,119	129,740	155,083
Customer loans	39,271	54,676	69,842	78,360	96,667
Customer deposits	43,375	55,207	66,524	75,173	86,223
Funds under management					
Loans : assets	54.7%	58.9%	60.7%	60.4%	62.3%
Deposits : assets	60.5%	59.5%	57.8%	57.9%	55.6%
Loans : deposits	90.5%	99.0%	105.0%	104.2%	112.1%
Shareholders funds : assets	11.83%	11.58%	11.14%	11.31%	10.91%
<b>Asset quality (TRYm)</b>					
Non-performing assets	2,623	1,908	1,705	2,729	2,962
Total risk reserves	2,215	1,475	1,193	1,910	2,074
NPLs : loans	6.68%	3.49%	2.44%	3.48%	3.06%
NPL coverage	84%	77%	70%	70%	70%
Provision charge : average loans	4.19%	2.47%	1.65%	1.95%	1.80%
Net NPLs : shareholders' funds	4.8%	4.0%	4.0%	5.6%	5.3%
<b>Profitability</b>					
Net interest margin (avg assets)	5.47%	4.35%	3.59%	3.29%	3.26%
Provisions : operating profit	46.5%	29.4%	27.9%	38.5%	36.1%
RoE	20.2%	23.5%	18.2%	13.5%	14.2%
RoAdjE					
RoRWA	2.61%	3.23%	2.39%	1.73%	1.79%
RoA	2.18%	2.74%	2.06%	1.52%	1.58%
<b>Productivity</b>					
Cost : income ratio	41.4%	40.5%	44.2%	45.6%	43.3%
Costs : average assets	3.5%	3.3%	2.8%	2.6%	2.3%
Compensation expense ratio	23.8%	23.2%	25.9%	27.0%	25.3%
<b>Momentum</b>					
Revenue growth	+26.9%	+9.5%	-0.8%	+4.6%	+11.9%
Operating profit growth	+60.1%	+11.1%	-6.8%	+1.9%	+16.5%
Net profit growth	+19.0%	+45.7%	-4.9%	-13.9%	+21.2%
Dividend growth	NM	NM	NM	NM	NM
<b>Value*</b>					
<b>UBS bank valuation</b>					
Leveraged P/E					
Risk tendency P/E					
Merger P/E					
Market capitalisation (TRYm)	10,894	18,993	17,457	12,128	12,128
<b>Conventional valuation</b>					
Market cap./Revenues	1.8x	2.9x	2.6x	1.8x	1.6x
Market cap./Operating profit	3.1x	4.8x	4.7x	3.2x	2.8x
P/E (stated)	7.0x	8.4x	8.2x	6.6x	5.4x
P/E (UBS adjusted)	7.0x	8.4x	8.2x	6.6x	5.4x
Dividend yield (net)	0.00%	0.00%	0.00%	0.00%	0.00%
P/BV (stated)	1.3x	1.8x	1.4x	0.8x	0.7x
P/BV (adjusted)	1.5x	2.0x	1.5x	0.9x	0.8x

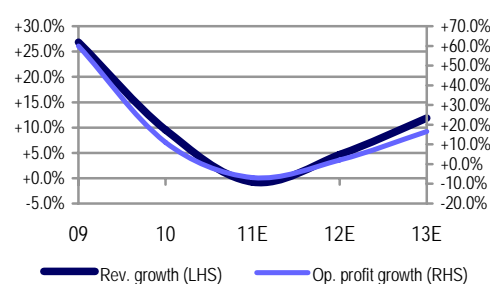
Source: UBS estimates, \* Historical valuations are based on an "average for the year" share price. Current & future valuations are based on a share price of TRY2.79 on 16/01/2012

Yapi Kredi is the fourth-largest private sector bank in Turkey in terms of total assets. Yapi is a universal bank, offering the full spectrum of financial products and services, but is more focused on retail than peers. Today's Yapi Kredi is the result of a merger between Yapi Kredi and Kocbank, which was completed in 2006. The bank operates more than 830 branches throughout Turkey and has a particularly strong presence in the credit card market. Yapi Kredi is controlled by Koc Financial Services (KFS), a holding company jointly owned by the Koc Group, a Turkish conglomerate, and Italy's UniCredit Bank.

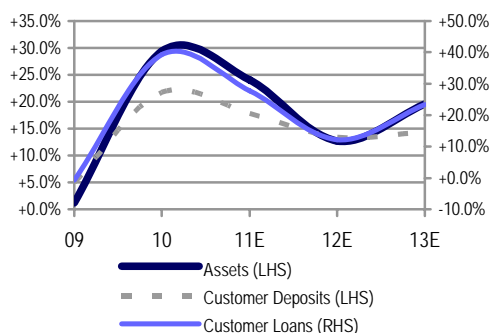
### Profitability (RoE & RoRWA)



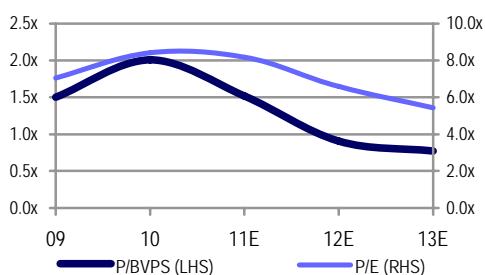
### Momentum (Revenue & Operating profit growth)



### Balance Sheet Growth



### Value (P/Adj. BVPS & P/Adj. EPS)

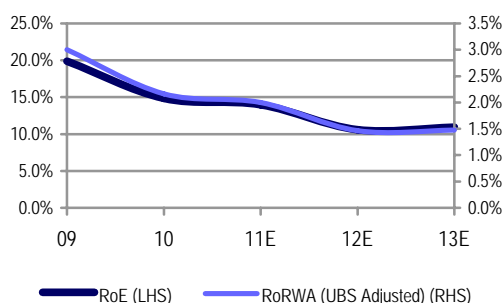


### Vakifbank

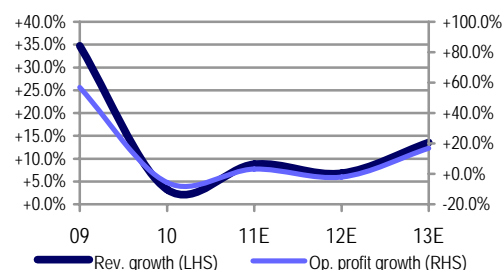
Per share (TRY)	12/09	12/10	12/11E	12/12E	12/13E
EPS (reported, basic)	0.52	0.47	0.50	0.43	0.49
EPS (UBS adjusted, diluted)	0.52	0.47	0.50	0.43	0.49
GOPS	1.02	0.96	0.99	0.97	1.13
Net DPS	0.05	0.01	0.02	0.02	0.05
BVPS (stated)	2.94	3.33	3.81	4.22	4.66
BVPS (adjusted)	2.94	3.33	3.81	4.22	4.66
<b>Profit &amp; Loss (TRYm)</b>					
Net interest income	3,186.18	2,855.14	3,060.29	3,294.90	3,855.95
Other income	1,432.05	1,911.73	2,124.70	2,241.87	2,431.17
<b>Total revenues</b>	<b>4,618.23</b>	<b>4,766.87</b>	<b>5,184.98</b>	<b>5,536.77</b>	<b>6,287.12</b>
Expenses	(2,069.71)	(2,364.86)	(2,707.76)	(3,113.92)	(3,456.45)
<b>Operating profit</b>	<b>2,548.52</b>	<b>2,402.01</b>	<b>2,477.22</b>	<b>2,422.84</b>	<b>2,830.66</b>
Provisions	(1,009.70)	(976.18)	(863.80)	(1,041.08)	(1,257.97)
Other pre-tax items	23.19	20.68	10.00	10.00	10.00
<b>Profit before tax</b>	<b>1,562.01</b>	<b>1,446.51</b>	<b>1,623.43</b>	<b>1,391.76</b>	<b>1,582.70</b>
Tax	(267.28)	(313.15)	(324.69)	(278.35)	(316.54)
Other post-tax items	0.01	30.94	(50.00)	(50.00)	(50.00)
<b>Reported net income</b>	<b>1,294.74</b>	<b>1,164.30</b>	<b>1,248.74</b>	<b>1,063.41</b>	<b>1,216.16</b>
<b>Pre-exceptional net income</b>	<b>1,294.74</b>	<b>1,164.30</b>	<b>1,248.74</b>	<b>1,063.41</b>	<b>1,216.16</b>
<b>Capital adequacy (TRYm)</b>					
Tier one capital	6,822.12	7,843.44	9,029.75	10,039.99	11,134.53
Total capital	7,028.46	8,150.50	9,336.80	10,347.04	11,441.58
Risk-weighted assets	46,207.96	58,461.92	71,396.52	80,753.84	90,904.17
Tier one ratio	14.8%	13.4%	12.6%	12.4%	12.2%
Total capital ratio	15.2%	13.9%	13.1%	12.8%	12.6%
Equity	7,338.03	8,336.29	9,525.28	10,544.32	11,655.79
Tangible equity	7,338.03	8,336.29	9,525.28	10,544.32	11,655.79
Equity to assets	11.3%	11.2%	10.4%	10.1%	9.6%
Tangible equity to assets	11.3%	11.2%	10.4%	10.1%	9.6%
Core tier one capital					
<b>Balance sheet (TRYm)</b>					
Assets	67,356.38	76,834.90	93,942.79	106,255.03	124,526.18
Customer loans	34,527.95	44,616.24	56,947.26	65,894.09	80,380.96
Customer deposits	45,100.87	48,052.77	58,143.85	65,121.11	74,889.28
Loans : assets	51.3%	58.1%	60.6%	62.0%	64.5%
Deposits : assets	67.0%	62.5%	61.9%	61.3%	60.1%
Loans : deposits	76.6%	92.8%	97.9%	101.2%	107.3%
Shareholders funds : assets	11.25%	11.17%	10.39%	10.15%	9.55%
<b>Asset quality (TRYm)</b>					
Non-performing assets	2,266.47	2,342.98	2,186.32	2,742.16	3,342.24
Total risk reserves	2,129.42	2,315.71	2,142.60	2,659.89	3,175.13
NPLs : loans	6.18%	4.99%	3.70%	4.00%	4.00%
NPL coverage	94.0%	98.8%	98.0%	97.0%	95.0%
Provision charge : average loans	3.09%	2.47%	1.70%	1.70%	1.72%
Net NPAs : shareholders' funds	1.8%	0.3%	0.4%	0.8%	1.4%
<b>Profitability</b>					
Net interest margin (avg assets)	5.23%	3.96%	3.58%	3.29%	3.34%
Provisions : operating profit	39.6%	40.6%	34.9%	43.0%	44.4%
RoE (UBS adjusted)	19.9%	14.9%	14.0%	10.6%	11.0%
RoAdjE	19.9%	14.9%	14.0%	10.6%	11.0%
RoRWA (UBS adjusted)	3.00%	2.17%	2.00%	1.46%	1.48%
RoA	2.12%	1.57%	1.52%	1.11%	1.10%
<b>Productivity</b>					
Cost : income ratio	44.8%	49.6%	52.2%	56.2%	55.0%
Costs : average assets	3.4%	3.3%	3.2%	3.1%	3.0%
Compensation expense ratio	21.9%	24.9%	27.0%	30.3%	29.2%
<b>Momentum</b>					
Revenue growth	+34.8%	+3.2%	+8.8%	+6.8%	+13.6%
Operating profit growth	+56.9%	-5.7%	+3.1%	-2.2%	+16.8%
Net income (UBS adjusted) growth	+63.6%	-10.1%	+7.3%	-14.8%	+14.4%
Net dividend growth	NM	-73.5%	+82.0%	-14.8%	+128.7%
Total asset growth	+23.5%	+14.1%	+22.3%	+13.1%	+17.2%
Loan growth	+11.7%	+29.2%	+27.6%	+15.7%	+22.0%
Deposit growth	+19.6%	+6.5%	+21.0%	+12.0%	+15.0%
<b>Value*</b>					
Market cap./Revenues	1.3x	2.1x	1.7x	1.1x	1.0x
Market cap./Operating profit	2.4x	4.2x	3.6x	2.5x	2.2x
P/E (stated)	4.7x	8.6x	7.1x	5.8x	5.1x
P/E (UBS adjusted)	4.7x	8.6x	7.1x	5.8x	5.1x
Dividend yield (net)	2.12%	0.34%	0.70%	0.86%	1.98%
P/BV (stated)	0.8x	1.2x	0.9x	0.6x	0.5x
P/BV (adjusted)	0.8x	1.2x	0.9x	0.6x	0.5x

Vakifbank is the sixth-largest Turkish bank by total assets on a consolidated basis. It was established in 1954 with the purpose of managing the income of Turkish foundations. The General Directorate of Foundations currently holds 75% of Vakifbank and 25% is free float. Vakifbank continues to be in the government privatisation pipeline and we expect another 20-25% of the bank to be privatised in the next couple of years. Vakifbank used to be more focused on large corporate lending, although it has been increasingly shifting its focus to SME, consumer loans and mortgages since the beginning of 2010.

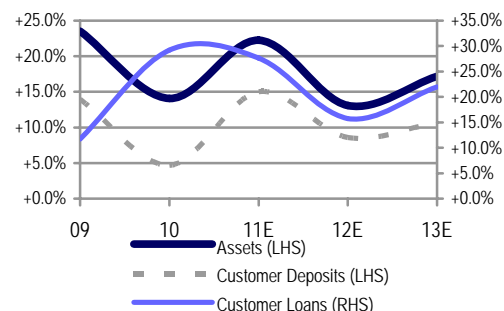
Profitability (RoE & RoRWA (UBS Adjusted))



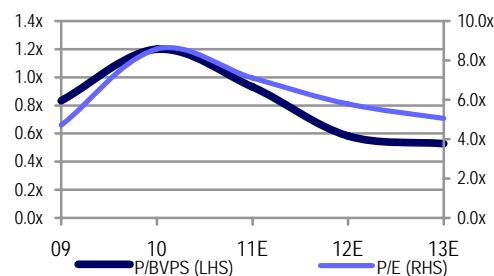
Momentum (Revenue & Operating profit growth)



Balance Sheet Growth



Value (P/Adj. BVPS & P/Adj. EPS)



Source: UBS estimates, \* Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of TRY2.46 on 16/01/2012

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### ■ Akbank Investment Case

We like Akbank's strong balance sheet and capital levels. Depending on the risk appetite, Akbank could leverage these strengths to gain market share from its less funded peers in the current environment. The bank's prudent provisioning and higher asset quality performance add to these qualities in an environment of higher cost of risk, but we cannot justify the premium to peers on our sustainable ROAE estimate versus the current PB valuation.

### ■ Garanti Bank Investment Case

Garanti fits most of the criteria we regard as key strengths for the current banking environment. Management's proven capability in proactively re-pricing the balance sheet should be valuable in a period of macro volatility such as this year is likely to bring. It is also likely to report the best Q4 results on core trends. However, we find these positives mostly priced in. The bank also trades at a premium to Turkish peers on 2012E P/TB.

### ■ Halkbank Investment Case

We think that the evolution of the domestic environment in Turkey has put Halkbank in a winning position because: (1) it can offer structurally higher ROE than other Turkish banks due to its leading position in the high-yielding SME segment; and (2) it is perceived by the market as one of the highest-quality banks, with a best-in-class liquidity ratio and sufficient capital level to support future growth.

### ■ Isbank Investment Case

We think Isbank's corporate structure is less straightforward than those of its peers. In addition, NIM trends and credit cost development is sometimes less clear than for peers. We also think that valuation is not compelling enough to look past the negative impact on profitability of a complex monetary environment. However, we believe that Isbank is well placed to take advantage of the Turkish market's growth potential, as it has a strong capital base and one of the most liquid balance sheets among peers.

### ■ Vakifbank Investment Case

We are cautious on Vakifbank due to its lower liquidity and capital levels relative to peers, and execution risk that we think will make it more vulnerable in volatile macro environment. However, we still like Vakifbank's attractive valuation and believe it has the potential to re-rate closer to other Turkish peers over time.

### ■ **Yapi Kredi Bank Investment Case**

Our main concerns on Yapi Kredi compared to some of its peers remain its relatively high loans-to-deposits ratio (LDR) in local currency of c120-130%, and its relatively high reliance on foreign funding. Although Yapi Kredi is well managed and has a clear strategic focus on retail lending, we believe that its funding and capital positions prevent a more bullish view at this point.

### ■ **Statement of Risk**

The Turkish economic environment appears to be relatively stable compared to the past and has so far weathered the global crisis well. However, Turkey remains an emerging market and is therefore vulnerable to (1) currency volatility, which may occasionally be substantial; (2) political risk; (3) potentially adverse global shocks. Turkish bank earnings are affected by movements in interest rates, the TRY and other currencies, the level of economic growth and activity levels in the capital markets, and can be negatively affected by a slowing of the economy and reduced levels of, and activity in, the capital markets. These companies are also subject to regulatory, legislative and judicial risk particularly relating to potential changes in accounting practices, liability arising from perceived conflicts of interest, or damaged corporate clients. These companies are dependent on market and transaction volumes and are subject to technology and operational risk, both of which can impact financial results. Additionally, changes in market structure can adversely impact their ability to compete.

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UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	57%	36%
Neutral	Hold/Neutral	37%	35%
Sell	Sell	7%	17%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	12%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2011.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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## Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Akbank <sup>5, 16</sup>	AKBNK.IS	Neutral	N/A	TRY6.22	16 Jan 2012
Garanti Bank <sup>5, 16, 20</sup>	GARAN.IS	Buy (CBE)	N/A	TRY5.82	16 Jan 2012
Halkbank	HALKB.IS	Buy	N/A	TRY10.02	16 Jan 2012
Isbank <sup>4</sup>	ISCTR.IS	Suspended	N/A	TRY3.46	16 Jan 2012
Vakifbank <sup>16</sup>	VAKBN.IS	Suspended	N/A	TRY2.46	16 Jan 2012
Yapi Kredi Bank <sup>5, 20, 22</sup>	YKBNK.IS	Neutral (CBE)	N/A	TRY2.79	16 Jan 2012

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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