

Resilient ROE performance

■ Q4 2011 results came-in broadly in-line with expectations

Halkbank reported Q4 2011 net profit of TRY504m, flat q/q and +0.7% y/y, missing consensus and UBSe by a minor 1.6%. For FY 2011 net profit came in at TRY2.1bn, +1.7% y/y.

■ Strong income trends...

NII was very strong, up 30% q/q and 20% ahead of expectations. NIM expanded by 100 bp q/q to 4.85%, for FY 2011. NIM came-in at 4.2%, significantly ahead of 3.5% sector average. Fee income growth came-in at 38% for 2011, ahead of the company guidance. Trading and other income also came-in ahead at TRY 64m and TRY 140m (+34% and +6% q/q). Costs were in-line, up 5% q/q and 15% for 2011.

■ ...were offset by discretionary impairment charge

Credit costs came-in significantly higher than expected at 250 bp, +145bp q/q. The increase was largely due to a one-off discretionary provision of TRY186m. Excluding the provision, cost of risk increased by 11 bp to 116bp. Total provisions coverage increased by 13% to 159% in the quarter. NPL ratio remained flat at 2.9%. Loan and deposit grew by 2% and 6% q/q. LDR improved by 3.5% q/q to 85% vs sector at 98%. CAR decreased by 20 bp to 14.3%.

■ Valuation

Halkbank delivered 2011 ROE of 25.4%, the highest among peers. During the conference call, management reiterated 2012 guidance of high single digit net income growth and ROE above 20% which is in-line with our forecast of 9.2% growth and 22% ROE. We therefore maintain our Buy rating and TRY14.00 PT. Our price target is GGM-derived.

Highlights (TRYm)	12/09	12/10	12/11E	12/12E	12/13E
Revenues	4,003	4,455	4,802	5,477	6,202
Pre-tax profits	2,059	2,353	2,421	2,645	2,902
Net income	1,665	1,843	1,937	2,115	2,321
EPS (UBS, TRY)	1.33	1.47	1.55	1.69	1.86
Net DPS (UBS, TRY)	0.24	0.32	0.34	0.42	0.56

Profitability & Valuation	5-yr hist av.	12/10	12/11E	12/12E	12/13E
ROE (UBS)	27.6	28.1	23.8	21.9	20.6
P/Op x	-	5.4	5.2	4.6	4.0
P/BVPS x	-	2.1x	1.7x	1.4x	1.3x
PE (UBS) x	-	8.2	7.8	7.2	6.5
Net dividend yield %	-	2.6	2.8	3.5	4.6

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of TRY12.10 on 16 Feb 2012 19:33 EST

Margarita Streltses
Analyst
margarita.streltses@ubs.com
+44-20-7567 5356

Serhan Gok
Analyst
serhan.gok@ubs.com
+90-212-319 2065

Turkey

Banks, Ex-S&L

 12-month rating **Buy**
Unchanged

 12m price target TRY14.00/US\$7.92
Unchanged

Price TRY12.10/US\$6.84

RIC: HALKB.IS BBG: HALKB TI

17 February 2012

Trading data (local/US\$)

52-wk range	TRY13.55-9.26/US\$8.83-4.94
Market cap.	TRY15.1bn/US\$8.55bn
Shares o/s	1,250m (ORD)
Free float	25%
Avg. daily volume ('000)	7,225
Avg. daily value (m)	TRY77.3

Balance sheet data 12/11E

Common equity	TRY8.88bn
P/BV	1.7x
Tier one capital ratio	13.6%

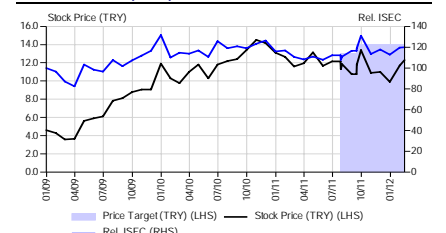
Forecast returns

Forecast price appreciation	+15.7%
Forecast dividend yield	3.5%
Forecast stock return	+19.2%
Market return assumption	14.4%
Forecast excess return	+4.8%

EPS (UBS, TRY)

	12/11E	12/10	Actual
	UBS	Cons.	
Q1	-	0.42	0.42
Q2E	-	0.41	0.40
Q3E	-	0.40	0.36
Q4E	-	0.43	0.29
12/11E	1.55	1.60	
12/12E	1.69	1.62	

Performance (TRY)


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Q4 2011 results review

Halkbank reported Q4 2011 net profit of TRY504m, flat q/q and +0.7% y/y, missing consensus and UBSe by a minor 1.6%. For FY 2011 net profit came in at TRY2.1bn, +1.7% y/y.

Table 1: Halkbank Q4 results versus consensus (BRSA solo)

TRYm	Q4 2011
Actual	504
Consensus	512
Actual vs consensus	-1.6%

Source: Halkbank, UBS

Strong core income trends for Halkbank were largely offset by higher than expected impairments. NII was very strong, up 30% q/q and 20% ahead of UBSe. NIM expanded by 100 bp to 4.85%. Fee income growth came-in at 38% for FY11, ahead of company guidance. Trading and other income were also strong at TRY 64m and TRY 140m (+34% and +6% q/q). Costs were in-line, up 5% q/q and 15% y/y for FY11. Credit costs came-in significantly higher than expected up 145 bp q/q driven by large commercial loans and discretionary provision of TRY186m. FY11 ROE came-in at 25.4%, the highest among peers.

Table 2: Q4 11 results versus UBS estimates (BRSA solo)

TRYm	Actual					Actual		UBSe	Actual vs. UBSe
	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	% qoq	% yoy		
Net interest income	822	734	791	846	1,102	30.3%	34.1%	918	20.0%
Net fees	133	158	182	195	193	-1.2%	45.5%	176	9.7%
Trading income	-49	98	-2	48	64	33.5%	na	46	39.1%
Other income	285	163	210	132	140	6.3%	-50.8%	110	27.3%
Total income	1,190	1,153	1,180	1,221	1,499	22.8%	26.0%	1,250	19.9%
Total expenses	-427	-414	-425	-433	-453	4.6%	6.0%	-450	0.7%
Impairment	-131	-86	-116	-140	-348	148.1%	165.5%	-160	117.5%
Profit before tax and MI	632	653	639	648	698	7.8%	10.5%	640	9.1%
Tax	-131	-128	-127	-144	-193	34.2%	46.9%	-128	50.8%
Profit after tax and MI (stated)	500	525	512	504	504	0.0%	0.7%	512	-1.6%

Balance sheet items and key ratios:

Loans	44,296	47,567	51,562	55,035	56,216	2.1%	26.9%	56,301	-0.2%
Deposits	54,782	56,360	58,256	62,314	66,247	6.3%	20.9%	66,053	0.3%
Equity	7,445	7,805	7,826	8,299	8,640	4.1%	16.1%	8,811	-1.9%
Net Interest Margin	4.61%	3.89%	3.87%	3.84%	4.85%			4.02%	
Cost of risk	1.24%	0.75%	0.93%	1.05%	2.50%			1.15%	
ROE	27.7%	27.5%	26.2%	25.0%	23.8%			23.9%	
Loans to deposits	80.9%	84.4%	88.5%	88.3%	84.9%			85.2%	

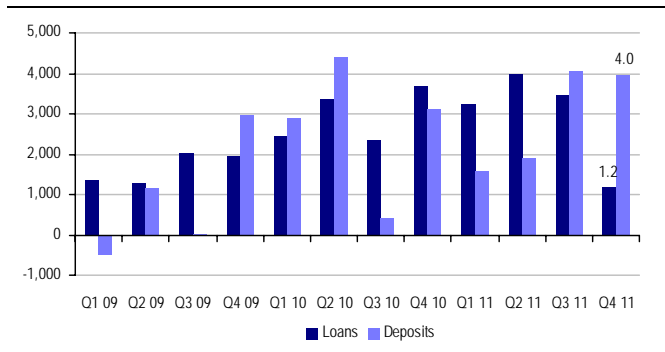
Source: Halkbank, UBS estimates

Volumes

In Q4 2011 Halkbank delivered net loan growth of 2.1% q/q, slightly below the system level of 3%. For FY 2011 the loan growth came-in at 27% (vs the sector at 30%). Deposit growth came-in at 6.3% q/q, ahead of the system at 2%. For FY 2011 the deposit growth came-in at 21% (vs the sector at 13%). As a result of the above dynamics, Halkbank's loans-to-deposits ratio improved by 3.5% on the quarter to 85% which is the lowest among Turkish banks and compares favourably to the system average of c98%.

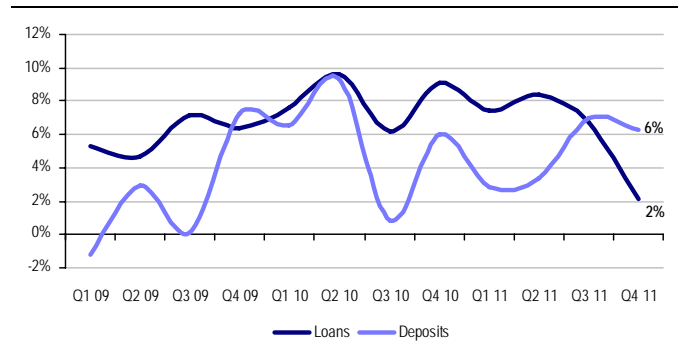
LDR improved to 85%

Chart 1: Net loan and deposit volume additions (q/q, TRY bn)



Source: Halkbank

Chart 2: Net loan and deposit growth (q/q, %)



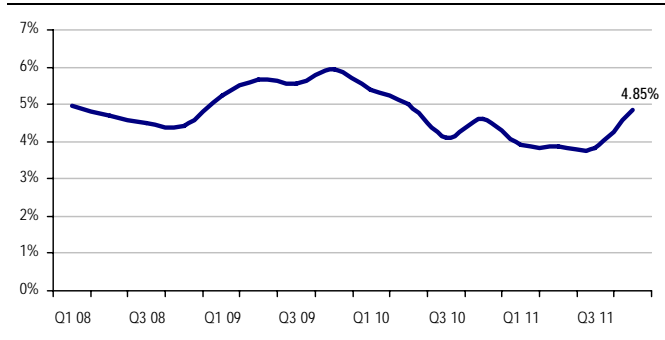
Source: Halkbank

Halkbank's securities portfolio increased by 1% to 26% of total assets. The proportion of CPI linked securities increased by c4% to c18% of the total securities portfolio.

NIM spiked at 4.85% in Q4 11

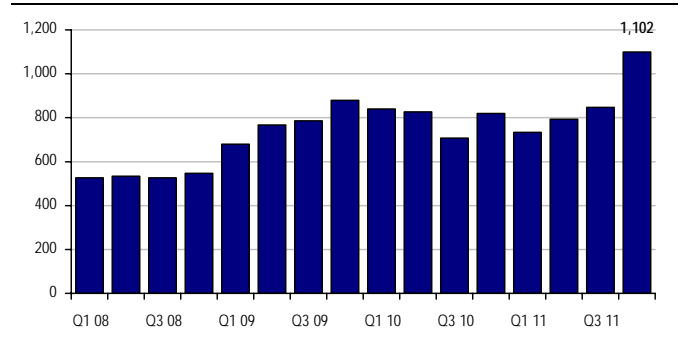
Halkbank's Net Interest Margin (NIM) increased by 100 bp in the quarter to 4.85% driven by both securities and loan yields. The yield on securities increased by 280 bp, which was significantly impacted by the yield on CPI-linkers which increased by 17% in the quarter to 24%. Loan yields also improved by 50 bp, while blended deposit cost increased only by 10 bp. As a result, loan spread increased by 40 bp.

Chart 3: Halkbank NIM quarterly development (%)



Source: Halkbank

Chart 4: Halkbank NII quarterly development (TRYm)



Source: Halkbank

Positive NIM dynamics resulted in net interest income growth of 30% q/q and 34% y/y. For the full year 2011, net interest income increased by 9% while NIM came-in at 4.2% versus sector average of 3.5%. Management expects NIM to remain largely flat y/y in 2012, significantly above the sector average.

Fees and other income

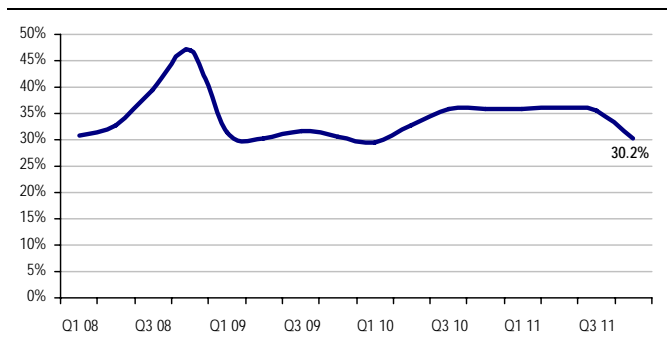
Fee income in Q4 came-in at TRY193m (TRY2m lower than in Q3), which was 10% ahead of expectations. As a result, FY 2011 fee income growth came-in at 38%, significantly ahead of the company guidance of 15-18% fee income growth that was given in February 2011. For 2012, however, in light of changing regulation on fee amortization, the management expects fee income to remain largely flat y/y.

Trading and other income also came-in ahead of expectations in Q4 2011 at TRY64m and TRY140m, up 34% and 6% q/q.

Expenses

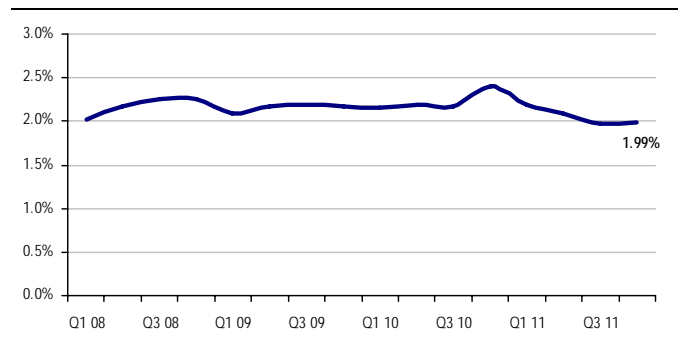
Halkbank's expenses came-in in-line with expectations, up 5% q/q and 15% y/y for 2011. However, due to a significant income growth, cost-to-income ratio improved by 5.3% to 30.2%, while cost-to-assets ratio remained flat, just slightly below 2%.

Chart 5: Halkbank's cost-to-income ratio (%)



Source: Halkbank

Chart 6: Halkbank's cost-to-average assets (%)



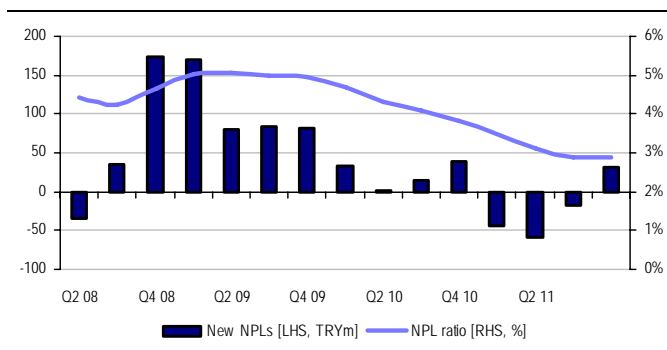
Source: Halkbank

Asset quality

In Q4 2011 the cost of risk increased considerably by 145 bp to 250 bp. The increase was largely due to a one-off discretionary provision of TRY186m. Excluding the provision, cost of risk increased by 11 bp to 116 bp driven by the temporary deterioration in larger commercial loans segment, which according to management came back on track in Q1 2012.

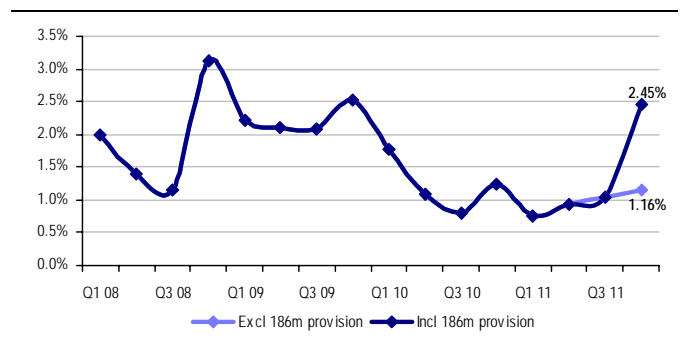
Increase in cost of risk due to TRY186m discretionary provision

Chart 7: Halkbank's NPL generation and NPL ratio



Source: Halkbank, UBS estimates

Chart 8: Halkbank's cost of risk (%)



Source: Halkbank

Gross NPL formation was positive for the first time in 2011. NPL ratio, however, remained flat at 2.9%. Specific provisions coverage remained largely stable at 84%, while total provisions coverage increased from 146% to 159% in the quarter.

We expect cost of risk to stabilise around 120 bp for 2012/13. According to management we should not expect any significant deterioration in the asset quality in 2012, but they prefer to stay on the safer side, therefore incurred a discretionary provision to offset any unexpected deterioration in the asset quality.

Equity movement and capital

Halkbank's equity increased by 4% on the quarter and 16% y/y in 2011, while total capital ratio decreased by 20 bp to 14.3% q/q. Despite the slight deterioration, Halkbank capital ratios are still quite strong and are significantly ahead of the regulator's guidance of 12% CAD for expanding banks. The management expects Basel II impact of c-110bp% and dividend pay out of c15%, subject to regulatory approval.

Forecast

Halkbank's Q4 2011 results were broadly in-line with our expectations. We therefore leave our estimates unchanged. During the conference call, the management has reiterated 2012 guidance of high single digit net income growth and ROE above 20% which is in-line with our forecast of 9.2% net income growth and 22% ROE for 2012.

Table 3: Halkbank forecast 2011-13E (BRSA consolidated)

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%
Total income	4,455	4,802	5,477	6,202	11.3%	7.8%	14.1%	13.2%
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%
Profit after tax and MI (stated)	1,843	1,937	2,115	2,321	10.7%	5.1%	9.2%	9.7%
EPS (TRY)	1.47	1.55	1.69	1.86	10.7%	5.1%	9.2%	9.7%
DPS (TRY)	0.32	0.34	0.42	0.56	34.6%	7.7%	24.1%	31.7%
Normalised Ratios								
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 I 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

■ Halkbank

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.

■ Statement of Risk

The Turkish economic environment appears to be relatively stable compared with 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; and (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 ¹	IB Services ²
Buy	Buy	57%	36%
Neutral	Hold/Neutral	37%	35%
Sell	Sell	7%	17%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
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.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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Equity Price Targets have an investment horizon of 12 months.

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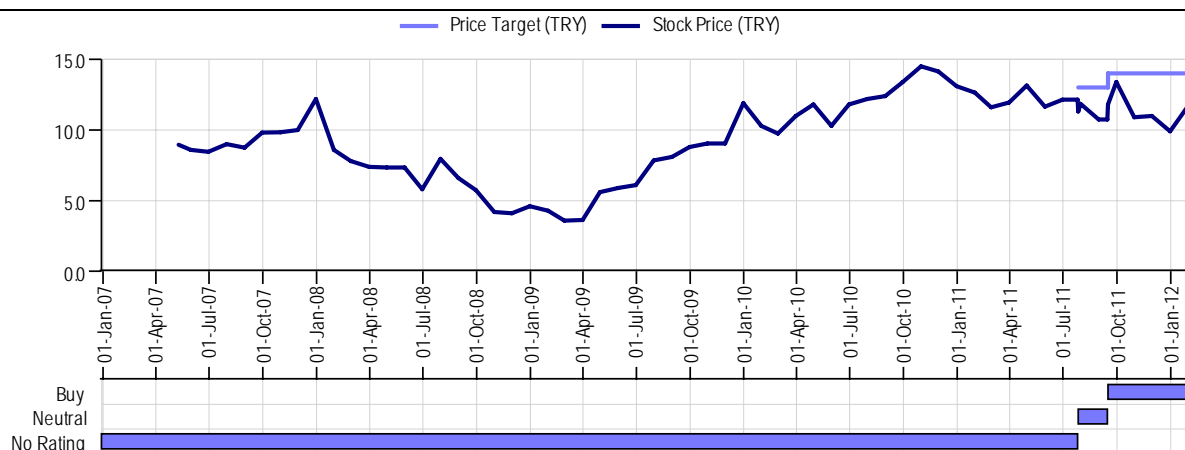
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Halkbank	HALKB.IS	Buy	N/A	TRY12.30	15 Feb 2012

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

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Halkbank (TRY)



Source: UBS; as of 15 Feb 2012

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