

Turkey: Banks

Equity Research

ROE's to increase long term, but not yet; maintain exposure to Akbank and Garanti

Turkish bank rally faded quickly

Turkish banks rallied post November elections, but the recovery was short-lived. Banks now trade at 0.8x 2016E book value, suggesting that the market doesn't expect any improvement from the current ROE of c.12%-13%. We disagree on that point, but also acknowledge short-term uncertainties for the sector.

We see ROE recovery in the medium term...

We continue to believe that banks will see a longer-term increase in share prices linked to recovery in returns on equity. The key delta in ROE should come from better net interest margins, as banks keep increasing their loan-to-deposit spreads, and lower cost growth, driven by lower fee rebates. Lower general provisions on consumer loans should provide an extra tailwind. We raise our 2016-18E EPS by 2%-6% on average on better net interest income and accounting changes for some banks. Overall, we forecast Turkish banks' ROE to reach c.15% by 2018, with the main improvements coming beyond 2016.

...but 2016 may prove challenging

The key risk we see for 2016 is monetary policy. In light of a potential December rate hike by the US Fed, the CBRT may have to act: Our economists believe the CBRT funding rate will increase to 12% next year, which would put temporary pressure on bank funding costs. Although we expect this pressure to be lower than historically, as banks have been increasing deposit costs in advance, we still foresee NIM contraction of 20 bp in 2016, and banks' 2016 aggregate ROE of just 11% (ex-one-offs). Longer term, however, higher rates should contribute to better NIMs driven by improving spreads for zero-cost liabilities. If the CBRT does not tighten, we believe risks could be even bigger, causing substantial under-performance in Turkish lira and local equity markets.

Prefer Akbank and Garanti

We raise our 12-month price targets by 3%-9%, linked to increases in our estimates and roll-forward of valuations. We continue to prefer banks with strong capital positions and high returns on equity such as Akbank and Garanti.

RATINGS AND 12-MONTH PRICE TARGET CHANGES

Bank	Price (TL)	Upside	Rating old	Rating new	PT (old)	PT (new)	Change
Akbank	7.08	37%	Buy	Buy	8.90	9.70	9%
Garanti	7.45	34%	Buy	Buy	9.20	10.00	9%
Halk	11.30	21%	Neutral	Neutral	12.60	13.70	9%
Isbank	4.81	21%	Neutral	Neutral	5.30	5.80	9%
Vakif	4.07	20%	Neutral	Neutral	4.50	4.90	9%
Yapi	3.46	4%	Sell	Sell	3.50	3.60	3%

Source: FactSet, Goldman Sachs Global Investment Research.

COVERAGE VIEW: NEUTRAL

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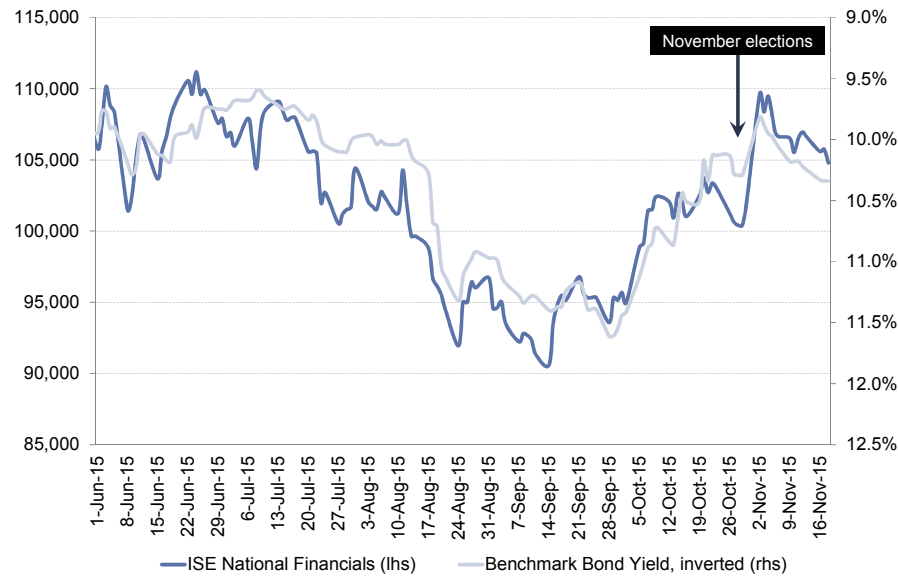
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Prices in this report are as of the close on November 24, 2015, unless otherwise noted.



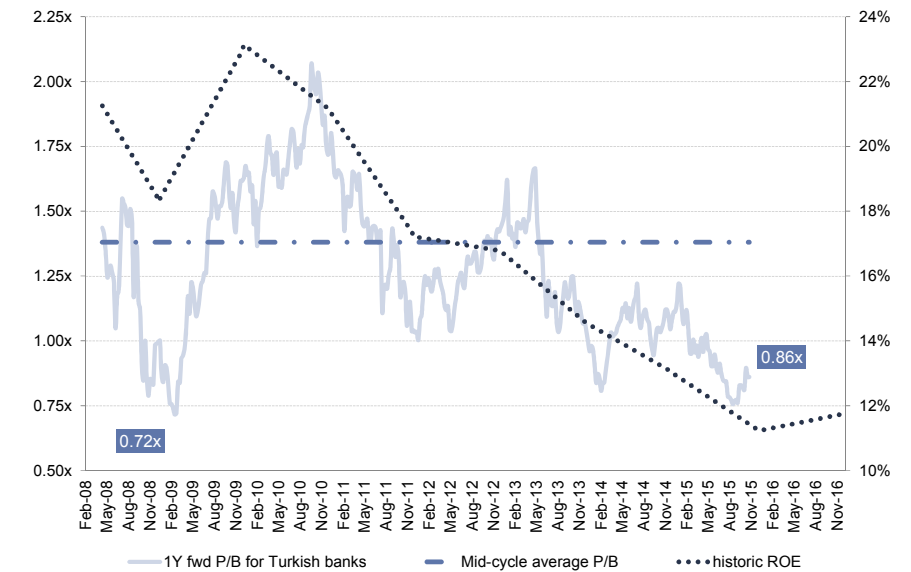
Turkish banks rallied post elections, but this proved short-lived

Exhibit 1: Both equity and fixed income rallied post November elections
 ISE National financials vs. benchmark bond yield



Source: Datastream, Goldman Sachs Global Investment Research.

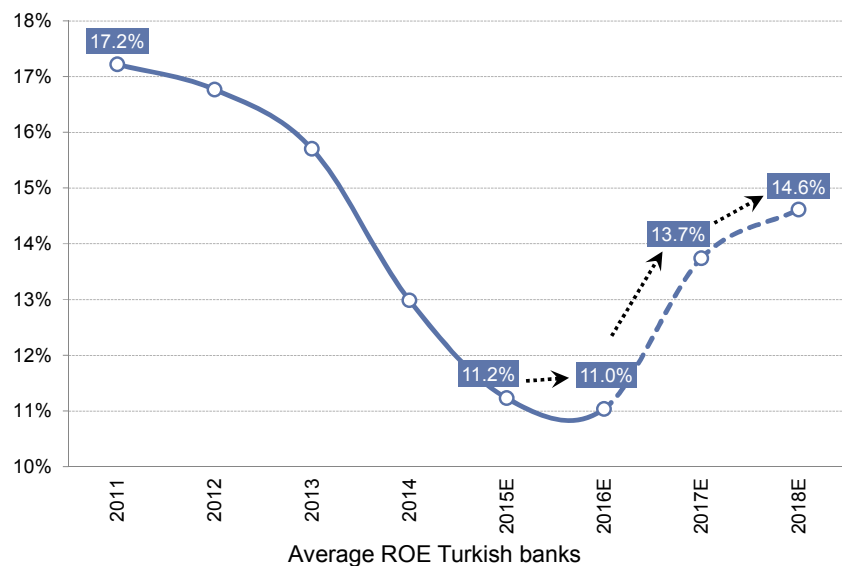
Exhibit 2: Turkish banks now trade largely in line with their 11%-12% ROE
 1-year forward PBV and historical ROE on a weekly basis



Source: FactSet, Goldman Sachs Global Investment Research.

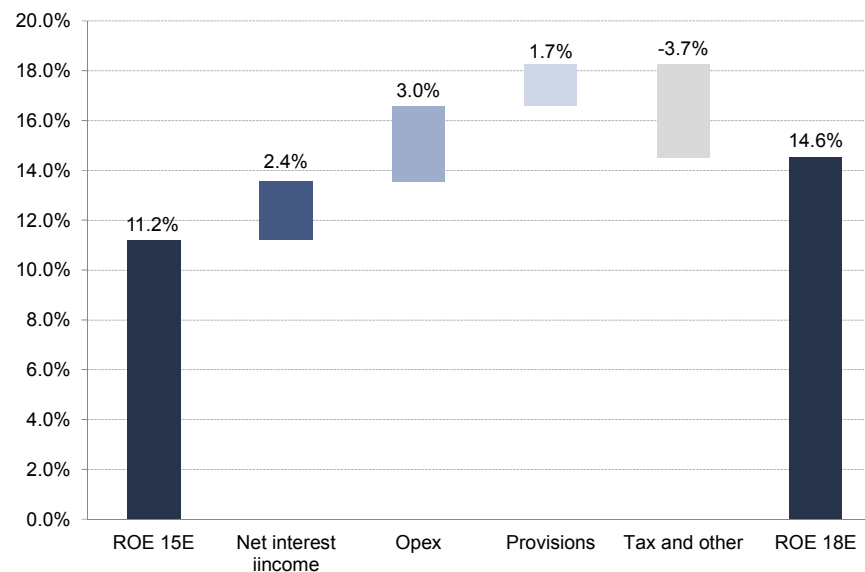
Recovery of returns is needed for further upside, we expect it from 2017

Exhibit 3: Further upside to be driven by ROE recovery...
ROE dynamics (ex one-offs)



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 4: ...which we expect from 2017
ROE decomposition

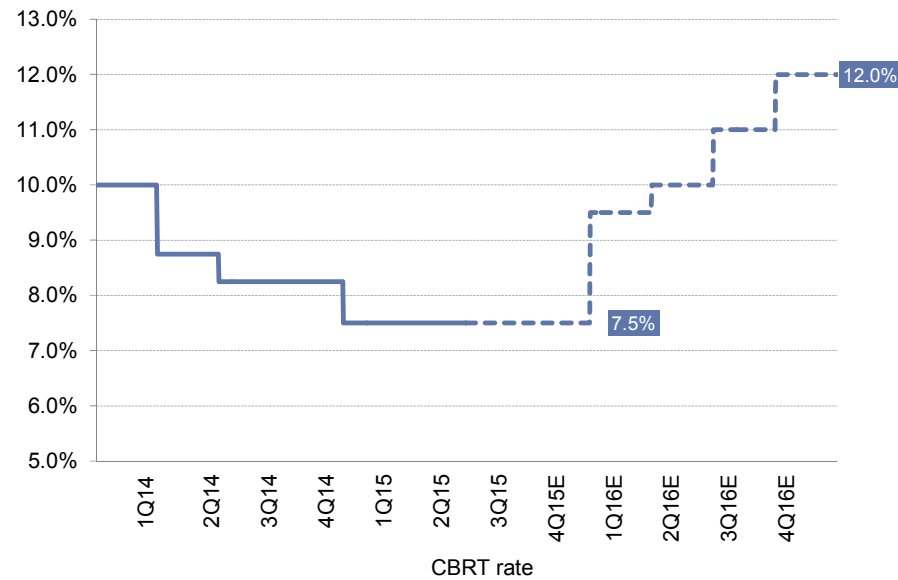


Source: Company data, Goldman Sachs Global Investment Research.



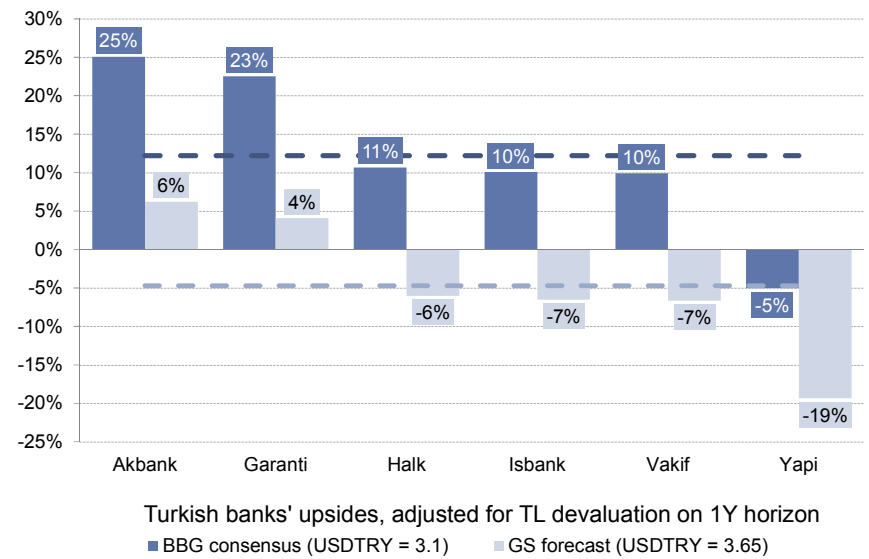
2016 may prove challenging, key risk is monetary policy

Exhibit 5: Aggressive rate hike can keep ROE levels subdued
CBRT policy rate dynamics



Source: CBRT, Goldman Sachs Global Investment Research.

Exhibit 6: 12m PT's adjusted for the TL devaluation
Upsides to our 12m PTs for Turkish banks adjusted for forecasted TL depreciation



Source: Bloomberg, Goldman Sachs Global Investment Research

Changes to our numbers

Exhibit 7: We increase NII to account for more aggressive repricing from banks. We cut provisions on lower general component (no impact of credit cards/consumer loan regulation from 2016) and decrease our opex forecast on lower fee rebate estimates

Summary of aggregate changes to our numbers

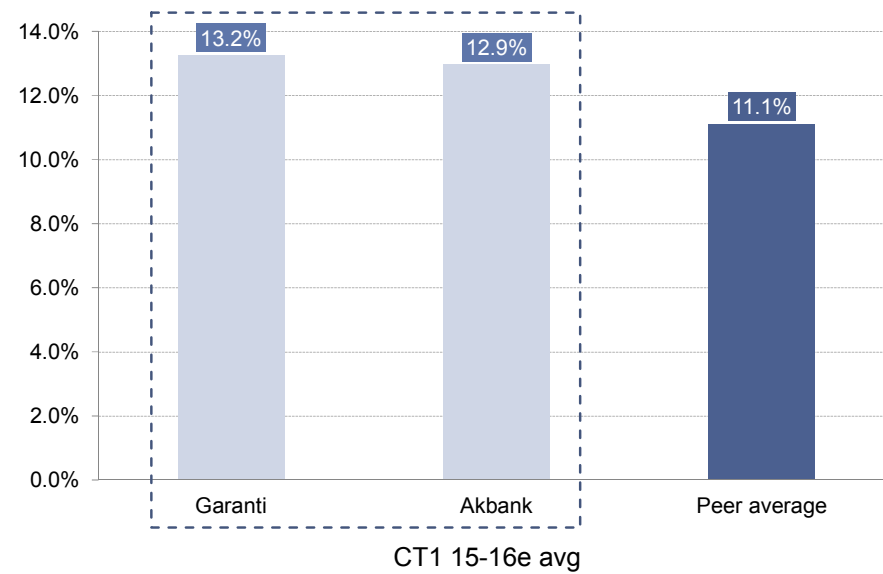
Aggregate (TL mn)	Old estimates				New estimates				Change (absolute)				Change (%)			
	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E
NII	42,927	48,428	58,083	67,991	43,824	48,974	59,535	69,628	897	546	1,452	1,638	2%	1%	3%	2%
Fees	12,356	14,347	16,036	17,413	12,316	14,097	15,815	17,176	-39	-250	-221	-236	0%	-2%	-1%	-1%
Trading / other	4,600	3,688	1,700	954	3,755	3,927	1,447	108	-845	239	-253	-846	-18%	6%	-15%	-89%
Revenues	59,883	66,463	75,819	86,358	59,896	66,998	76,798	86,913	13	535	979	555	0%	1%	1%	1%
Expenses	-28,396	-30,398	-32,592	-35,538	-28,184	-30,183	-32,628	-35,725	212	214	-36	-187	-1%	-1%	0%	1%
GOP	31,487	36,065	43,227	50,820	31,711	36,815	44,169	51,188	224	749	942	368	1%	2%	2%	1%
Provisions	-13,013	-14,330	-14,204	-15,179	-12,399	-13,862	-13,937	-14,936	613	468	268	243	-5%	-3%	-2%	-2%
Profit before tax	18,475	21,735	29,023	35,641	19,312	22,952	30,233	36,252	837	1,218	1,210	611	5%	6%	4%	2%
Tax	-3,917	-4,583	-6,128	-7,532	-4,117	-4,838	-6,383	-7,661	-201	-255	-255	-130	5%	6%	4%	2%
Net profit	14,558	17,152	22,895	28,109	15,195	18,114	23,850	28,590	637	963	955	481	4%	6%	4%	2%
Returns																
ROAE	10.8%	11.5%	13.7%	14.9%	11.2%	11.7%	13.7%	14.6%	0.4pp	0.2pp	0.0pp	-0.3pp				
ROAA	1.14%	1.17%	1.39%	1.55%	1.17%	1.17%	1.36%	1.47%	0.0pp	0.0pp	0.0pp	-0.1pp				

Source: Goldman Sachs Global Investment Research.

We maintain our preference for Akbank and Garanti

Exhibit 8: Akbank and Garanti are our top picks in Turkey, as they have the highest expected capital buffers...

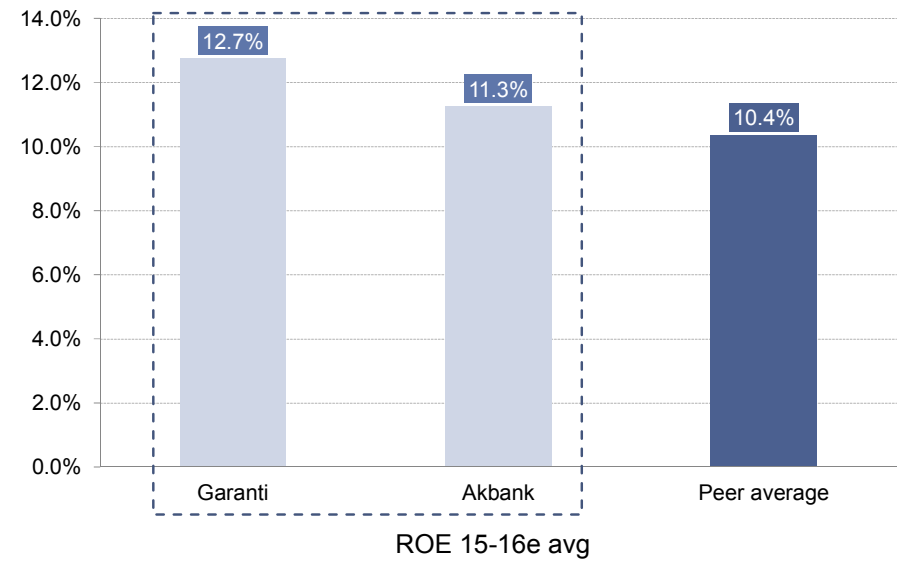
Turkish banks average 2015-16E CT1 ratio



Source: Goldman Sachs Global Investment Research.

Exhibit 9: ...and ROEs

Turkish banks average 2015-16E ROE (ex one-offs)



Source: Goldman Sachs Global Investment Research.

We raise our 12m price targets by 8% on average. Garanti and Akbank remain top picks

Exhibit 10: We raise PTs on higher EPS and roll-forward of our valuations

Summary of 12-month price target changes and changes to our EPS

Bank	Price (TL)	Upside	Rating old	Rating new	PT (old)	PT (new)	Change
Akbank	7.08	37%	Buy	Buy	8.90	9.70	9%
Garanti	7.45	34%	Buy	Buy	9.20	10.00	9%
Halk	11.30	21%	Neutral	Neutral	12.60	13.70	9%
Isbank	4.81	21%	Neutral	Neutral	5.30	5.80	9%
Vakif	4.07	20%	Neutral	Neutral	4.50	4.90	9%
Yapi	3.46	4%	Sell	Sell	3.50	3.60	3%

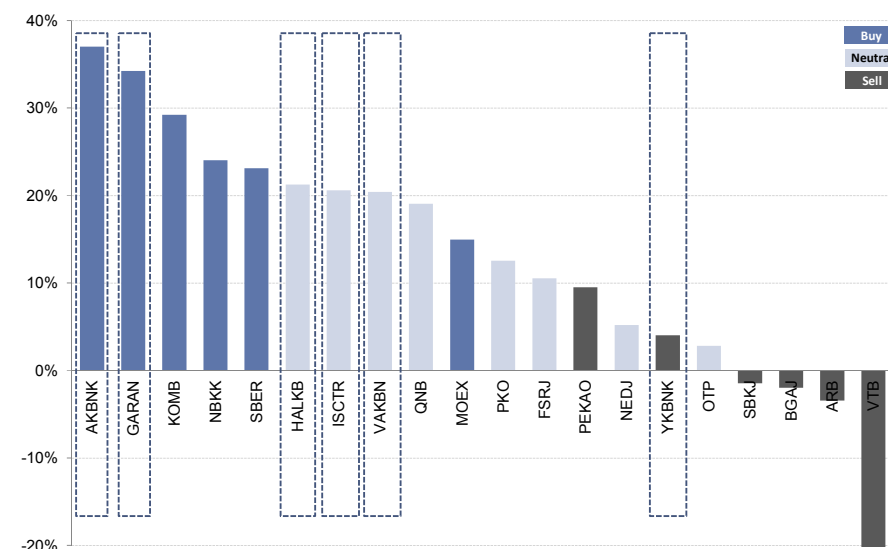
	Halk	Vakif	Garanti	Akbank	Yapi	Isbank	Avg
2015E EPS (Old)	1.77	0.71	0.78	0.66	0.40	0.64	--
2015E EPS (New)	1.88	0.73	0.84	0.71	0.42	0.63	--
Change	6%	3%	8%	7%	4%	-2%	4%
2016E EPS (Old)	2.21	0.66	0.93	0.77	0.54	0.75	--
2016E EPS (New)	2.35	0.69	0.97	0.80	0.59	0.80	--
Change	6%	4%	5%	3%	9%	7%	6%
2017E EPS (Old)	2.30	0.97	1.21	1.12	0.83	0.99	--
2017E EPS (New)	2.38	1.02	1.29	1.16	0.84	1.03	--
Change	3%	5%	7%	3%	1%	5%	4%
2018E EPS (Old)	2.82	1.28	1.45	1.41	1.01	1.17	--
2018E EPS (New)	2.94	1.29	1.48	1.43	1.02	1.18	--
Change	4%	1%	2%	2%	1%	1%	2%
Average for banks	5%	4%	5%	4%	4%	3%	

Ex one-offs.

Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 11: We maintain our ratings. Garanti and Akbank remain top picks

Upside distribution



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 12: Valuation methodologies and risks to our views and price targets

Bank	Methodology	Risks
Halk	Capital-adj ROE/COE	Upside: (1) stronger than expected NIM (2) better asset quality (3) higher than expected gains from sale of pension / insurance arms. Downside: (1) weaker margins driven by competitive pressures (2) weaker than expected fee income (3) loan quality deterioration (4) low / no gains from sale of subsidiaries, (3) adverse effect of regulation
Garanti	Capital-adj ROE/COE	Downside: (1) intensifying competition for TL deposits / NIM pressures and more prolonged loan-deposit pricing mismatch (2) slower than expected loan growth, (3) additional overheads on regulatory changes
Vakif	Capital-adj ROE/COE	Upside: (1) stronger than expected fee income generation (2) better execution on opex (3) better NIM, (4) positive regulatory changes. Downside: (1) worse than expected NIM affected by competitive pressure (2) weaker credit quality (3) higher than expected opex (4) overhang pressure from potential privatization, (5) adverse effect of regulation
Yapi	Capital-adj ROE/COE	Upside: (1) faster than expected loan growth (2) more stable cost of funds on the back of funding mix enhancement (3) better than expected opex execution (4) better loan quality, (4) positive regulatory changes
Isbank	Capital-adj ROE/COE	Upside: (1) better than expected NIM preservation (2) troubled loans recoveries ahead of our forecast, (3) positive regulatory changes. Downside: (1) slower than expected loan growth (2) greater external pressures on the funding side, (3) adverse effect of regulation.
Akbank	Capital-adj ROE/COE	Downside: (1) weaker than expected loan growth (2) worse than expected execution on NIM / fee generation (3) deterioration of the asset quality, (4) adverse effect of regulation

Source: Goldman Sachs Global Investment Research.



Exhibit 13: Our 12-month price target for Garanti is TL10.0

Valuation methodology and price target summary

GARANTI: Capital adjusted ROE/COE valuation			
2018 Core Tier 1 ratio	%	14.0%	
Core Tier 1 target	%	12.0%	
2018 excess capital per share	TL	1.47	
2018 ROE	%	17.8%	adjusted for excess capital
2018 BVPS	TL	8.91	excluding excess capital
COE	%	14.5%	
Assumed growth rate	%	4.6%	
Target P/B multiple	x	1.3x	
Implied value BVPS (2018)	TL	11.86	
Implied value + excess capital	TL	13.33	2018 per share
Time adjustment factor	x	2.1x	
Price target	TL	10.00	12-month horizon
Stock price, November 24, 2015	TL	7.45	
Upside to PT	%	34%	

Source: Company data, FactSet, Goldman Sachs Global Investment Research.

Exhibit 14: Our 12-month price target for Akbank is TL9.7

Valuation methodology and price target summary

AKBANK: Capital adjusted ROE/COE valuation			
2018 Core Tier 1 ratio	%	13.8%	
Core Tier 1 target	%	12.0%	
2018 excess capital per share	TL	1.31	
2018 ROE	%	18.4%	adjusted for excess capital
2018 BVPS	TL	8.38	excluding excess capital
COE	%	14.5%	
Assumed growth rate	%	4.6%	
Target P/B multiple	x	1.4x	
Implied value BVPS (2018)	TL	11.68	
Implied value + excess capital	TL	12.98	2018 per share
Time adjustment factor	x	2.1x	
Price target	TL	9.70	12-month horizon
Stock price, November 24, 2015	TL	7.08	
Upside to PT	%	37%	

Source: Company data, FactSet, Goldman Sachs Global Investment Research.



Exhibit 15: Our 12-month price target for Halk is TL13.7

Valuation methodology and price target summary

HALK: Capital adjusted ROE/COE valuation			
2018 Core Tier 1 ratio	%	12.0%	
Core Tier 1 target	%	12.0%	
2018 excess capital per share	TL	0.08	
2018 ROE	%	14.6%	adjusted for excess capital
2018 BVPS	TL	21.32	excluding excess capital
COE	%	16.0%	
Assumed growth rate	%	4.6%	
Target P/B multiple	x	0.9x	
Implied value BVPS (2018)	TL	18.72	
Implied value + excess capital	TL	18.80	2018 per share
Time adjustment factor	x	2.1x	
Price target	TL	13.70	12-month horizon
Stock price, November 24, 2015	TL	11.30	
Upside to PT	%	21%	

Source: Company data, FactSet, Goldman Sachs Global Investment Research.

Exhibit 16: Our 12-month price target for Vakifbank is TL4.9

Valuation methodology and price target summary

VAKIF: Capital adjusted ROE/COE valuation			
2018 Core Tier 1 ratio	%	10.9%	
Core Tier 1 target	%	12.0%	
2018 excess capital per share	TL	-1.02	
2018 ROE	%	12.7%	adjusted for excess capital
2018 BVPS	TL	10.80	excluding excess capital
COE	%	16.0%	
Assumed growth rate	%	4.6%	
Target P/B multiple	x	0.7x	
Implied value BVPS (2018)	TL	7.69	
Implied value + excess capital	TL	6.67	2018 per share
Time adjustment factor	x	2.1x	
Price target	TL	4.90	12-month horizon
Stock price, November 24, 2015	TL	4.07	
Upside to PT	%	20%	

Source: Company data, FactSet, Goldman Sachs Global Investment Research.

Exhibit 17: Our 12-month price target for Isbank is TL5.8

Valuation methodology and price target summary

ISBANK: Capital adjusted ROE/COE valuation			
2018 Core tier 1 ratio	%	11.8%	
Core tier 1 target	%	12.0%	
2018 excess capital per share	TL	-0.12	
2018 ROE	%	13.5%	adjusted for excess capital
2018 BVPS	TL	9.24	excluding excess capital
COE	%	15.0%	
Assumed growth rate	%	4.6%	
Target P/B multiple	x	0.9x	
Fair value BVPS (2018)	TL	7.89	
Fair value + excess capital	TL	7.77	2018 per share
Time adjustment factor	x	2.1x	
Price target	TL	5.80	12-month horizon
Stock price, November 24, 2015	TL	4.81	
Upside to PT	%	21%	

Source: Company data, FactSet, Goldman Sachs Global Investment Research.

Exhibit 18: Our 12-month price target for Yapi is TL3.6

Valuation methodology and price target summary

YAPI KREDİ: Capital adjusted ROE/COE valuation			
2018 Core tier 1 ratio	%	10.0%	
Core tier 1 target	%	12.0%	
2018 excess capital per share	TL	-1.39	
2018 ROE	%	12.3%	adjusted for excess capital
2018 BVPS	TL	8.76	excluding excess capital
COE	%	15.5%	
Assumed growth rate	%	4.6%	
Target P/B multiple	x	0.7x	
Fair value BVPS (2018)	TL	6.22	
Fair value + excess capital	TL	4.84	2018 per share
Time adjustment factor	x	2.1x	
Price target	TL	3.60	12-month horizon
Stock price, November 24, 2015	TL	3.46	
Upside to PT	%	4%	

Source: Company data, FactSet, Goldman Sachs Global Investment Research.

Vakif: Summary financials

Exhibit 22: Vakif financial forecasts

Profit and Loss Statement, TL mn	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
NI	4,790	4,651	5,546	6,123	7,430	8,922	10,206	17%	-3%	19%	10%	21%	20%	14%	16%
Fees	687	709	886	1,036	1,192	1,311	1,442	53%	3%	25%	17%	15%	10%	10%	13%
Trading income, dividends	286	289	198	194	22	-281	-396	-27%	1%	-32%	-2%	-89%	-1397%	41%	-
Other operating income	708	1,346	995	1,044	1,226	1,406	1,596	13%	90%	-26%	5%	17%	15%	14%	13%
Revenues	6,470	6,996	7,624	8,397	9,869	11,359	12,848	17%	8%	9%	10%	18%	15%	13%	14%
Staff expenses	-1,112	-1,233	-1,404	-1,568	-1,747	-1,945	-2,164	21%	11%	14%	12%	11%	11%	11%	11%
Other operating expenses	-1,518	-1,877	-2,225	-2,384	-2,574	-2,810	-3,124	13%	24%	19%	7%	8%	9%	11%	9%
Total operating expenses	-2,630	-3,110	-3,629	-3,952	-4,322	-4,755	-5,288	16%	18%	17%	9%	9%	10%	11%	10%
Gross operating profit	3,840	3,886	3,996	4,445	5,547	6,604	7,560	17%	1%	3%	11%	25%	19%	14%	17%
Credit costs	-1,857	-1,672	-1,627	-2,222	-2,274	-2,458	-2,696	32%	-10%	-3%	37%	2%	8%	10%	13%
Net operating profit	1,983	2,214	2,369	2,223	3,273	4,146	4,864	5%	12%	7%	-6%	47%	27%	17%	20%
Other income/losses	0	0	0	0	0	0	0	-	-	-	-	-	-	-	-
PBT	1,983	2,214	2,369	2,223	3,273	4,146	4,864	5%	12%	7%	-6%	47%	27%	17%	20%
Tax	-397	-460	-537	-489	-720	-912	-1,070	-7%	16%	17%	-9%	47%	27%	17%	19%
Net profit	1,586	1,753	1,831	1,734	2,553	3,234	3,794	9%	11%	4%	-5%	47%	27%	17%	20%
Dividends to preferred shares	0	0	0	0	0	0	0	-	-	-	-	-	-	-	-
Minorities	0	0	0	0	0	0	0	-	-	-	-	-	-	-	-
Net profit to common shareholders	1,586	1,753	1,831	1,734	2,553	3,234	3,794	9%	11%	4%	-5%	47%	27%	17%	20%

Per share data	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
Number of shares (mn), eop	2,500	2,500	2,500	2,500	2,500	2,500	2,500	-	-	-	-	-	-	-	-
Ordinary shares	2,500	2,500	2,500	2,500	2,500	2,500	2,500	0%	0%	0%	0%	0%	0%	0%	0%
Stated EPS	0.63	0.70	0.73	0.60	1.02	1.29	1.52	9%	11%	4%	-5%	47%	27%	17%	20%
GS EPS	0.66	0.59	0.52	0.69	1.02	1.29	1.52	14%	-12%	-11%	32%	47%	27%	17%	30%
DPS	0.04	0.04	0.04	0.03	0.05	0.06	0.08	0%	0%	-8%	-5%	47%	27%	17%	20%
BVPS	5.0	5.9	6.8	7.6	8.5	9.8	11.2	6%	17%	15%	11%	13%	15%	15%	13%
TBVPs	5.0	5.9	6.7	7.5	8.5	9.7	11.2	6%	17%	15%	11%	13%	15%	15%	14%

Valuation	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
P/E	7.0x	6.3x	6.0x	6.4x	4.3x	3.4x	2.9x	-8%	-10%	-4%	6%	-32%	-21%	-15%	-17%
GS P/E	6.6x	7.5x	8.4x	6.4x	4.3x	3.4x	2.9x	-12%	13%	12%	-24%	-32%	-21%	-15%	-23%
P/BV	0.9x	0.7x	0.7x	0.6x	0.5x	0.5x	0.4x	-6%	-15%	-13%	-10%	-12%	-13%	-13%	-12%
P/TBV	0.9x	0.8x	0.7x	0.6x	0.5x	0.5x	0.4x	-5%	-15%	-13%	-10%	-12%	-13%	-13%	-12%
Dividend yield	0.9%	0.9%	0.8%	0.6%	1.2%	1.5%	1.7%	0%	0%	-8%	-5%	47%	27%	17%	20%

Key operational ratios	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
NI / avg interest earning assets	4.26%	3.40%	3.29%	3.09%	3.31%	3.50%	3.56%	-16bp	-86bp	-12bp	-19bp	21bp	20bp	6bp	-
Fee / gross loans	0.90%	0.76%	0.75%	0.72%	0.74%	0.74%	0.74%	18bp	-14bp	-1bp	-3bp	1bp	0bp	0bp	-
Cost / Income	41%	44%	48%	47%	44%	42%	41%	0pp	4pp	3pp	-1pp	-3pp	-2pp	-1pp	-
Credit costs / avg gross loans	196bp	167bp	125bp	144bp	131bp	129bp	130bp	32bp	-29bp	-42bp	-20bp	-14bp	-2bp	1bp	-
Effective tax rate	20.0%	20.8%	22.7%	22.0%	22.0%	22.0%	22.0%	-3pp	1pp	2pp	-1pp	0pp	0pp	0pp	-

Key profitability ratios	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
GS RoAE	13.7%	10.9%	8.5%	9.6%	12.7%	14.1%	14.4%	0pp	-3pp	-2pp	1pp	3pp	1pp	0pp	-
GS RoA	1.41%	1.02%	0.74%	0.84%	1.09%	1.22%	1.28%	-10bp	-38bp	-28bp	10bp	25bp	13bp	6bp	-
GS RoRWA	1.72%	1.25%	0.92%	1.05%	1.37%	1.53%	1.60%	-14bp	-47bp	-33bp	13bp	32bp	17bp	7bp	-

Distribution network	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
Number of employees	13,959	14,853	15,243	15,763	16,263	16,763	17,263	8%	6%	3%	3%	3%	3%	3%	3%
Number of branches	859	893	920	964	994	1,024	1,054	15%	4%	3%	5%	3%	3%	3%	3%
Employee / branch	16	17	17	16	16	16	16	-6%	2%	0%	-1%	0%	0%	0%	0%
Avg. staff cost, thousand TL	300	83	92	99	107	116	125	12%	4%	11%	8%	8%	8%	8%	8%

*) Compounded annual growth rate for the 2015-2019E

Source: Company data, FactSet, Goldman Sachs Global Investment Research.

Isbank: Summary financials

Exhibit 23: Isbank financial forecasts

Profit and Loss Statement, TL mn	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
NI	6,655	7,454	8,136	10,078	12,010	13,925	15,446	12%	12%	23%	10%	19%	16%	11%	14%
Fees	1,919	2,004	2,297	2,619	2,933	3,198	3,422	12%	4%	15%	14%	12%	8%	9%	10%
Trading income, dividends	674	780	-464	-488	-1,052	-1,488	-1,709	-33%	16%	-159%	5%	116%	41%	15%	30%
Other operating income	1,038	1,012	990	1,301	1,356	1,259	1,308	-11%	-3%	-3%	33%	4%	-7%	4%	7%
Revenues	10,296	11,250	11,950	13,509	15,247	16,864	18,467	5%	9%	6%	13%	13%	11%	10%	11%
Staff expenses	-2,276	-2,456	-2,582	-2,789	-3,017	-3,294	-3,531	25%	8%	5%	8%	8%	8%	8%	8%
Other operating expenses	-2,687	-3,239	-3,703	-3,861	-4,110	-4,500	-4,933	1%	21%	14%	4%	6%	9%	10%	7%
Total operating expenses	-4,963	-5,695	-6,285	-6,651	-7,128	-7,794	-8,464	11%	15%	10%	6%	7%	9%	9%	8%
Gross operating profit	5,324	5,554	5,665	6,859	8,119	9,099	10,003	0%	4%	2%	21%	18%	12%	10%	15%
Credit costs	-1,467	-1,323	-2,158	-2,340	-2,307	-2,456	-2,667	21%	-10%	63%	8%	-1%	6%	9%	5%
Net operating profit	3,857	4,231	3,507	4,518	5,813	6,643	7,335	-6%	10%	-17%	29%	29%	14%	10%	20%
Other income/losses	0	0	0	0	0	0	0	—	—	—	—	—	—	—	—
PBT	3,857	4,231	3,507	4,518	5,813	6,643	7,335	-6%	10%	-17%	29%	29%	14%	10%	20%
Tax	-693	-849	-674	-904	-1,163	-1,329	-1,467	-14%	22%	-21%	34%	29%	14%	10%	21%
Net profit	3,163	3,382	2,833	3,615	4,650	5,315	5,868	-4%	7%	-16%	28%	29%	14%	10%	20%
Dividends to preferred shares	0	0	0	0	0	0	0	—	—	—	—	—	—	—	—
Minorities	0	0	0	0	0	0	0	—	—	—	—	—	—	—	—
Net profit to common shareholders	3,163	3,382	2,833	3,615	4,650	5,315	5,868	-4%	7%	-16%	28%	29%	14%	10%	20%

Pat share data	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
Number of shares (mn), eop	4,500	4,500	4,500	4,500	4,500	4,500	4,500	—	—	—	—	—	—	—	—
ordinary shares	4,500	4,500	4,500	4,500	4,500	4,500	4,500	0%	0%	0%	0%	0%	0%	0%	0%
Stated EPS	0.70	0.75	0.63	0.80	1.03	1.18	1.30	-4%	7%	-16%	28%	29%	14%	10%	20%
GS EPS	0.70	0.75	0.59	0.80	1.03	1.18	1.30	-4%	7%	-21%	36%	29%	14%	10%	22%
DPS	0.17	0.16	0.10	0.13	0.21	0.24	0.26	14%	-8%	-33%	28%	55%	14%	10%	26%
BVPS	5.2	6.5	6.6	7.4	8.2	9.1	10.1	4%	24%	1%	12%	10%	12%	11%	11%
BPVS	5.2	6.5	6.5	7.6	8.4	9.4	10.5	3%	24%	1%	16%	11%	12%	11%	13%

Valuation	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
P/E	7.3x	6.9x	8.2x	6.4x	5.0x	4.4x	4.0x	5%	-6%	19%	-22%	-22%	-13%	-9%	-17%
GS P/E	7.3x	6.9x	8.7x	6.4x	5.0x	4.4x	4.0x	5%	-6%	27%	-26%	-22%	-13%	-9%	-18%
P/BV	1.0x	0.8x	0.8x	0.7x	0.6x	0.6x	0.5x	-4%	-20%	-1%	-11%	-9%	-10%	-10%	-10%
P/TBV	1.0x	0.8x	0.8x	0.7x	0.6x	0.5x	0.5x	-3%	-19%	-1%	-14%	-10%	-10%	-10%	-11%
Dividend yield	3.3%	3.0%	2.0%	2.6%	4.0%	4.6%	5.1%	14%	-8%	-33%	28%	55%	14%	10%	26%

Key operational ratios	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
NI / avg interest earning assets	3.73%	3.62%	3.70%	3.44%	3.58%	3.74%	3.75%	-14bp	-11bp	8bp	-20bp	14bp	18bp	20p	—
Fee / gross loans	1.57%	1.41%	1.33%	1.25%	1.26%	1.27%	1.27%	-18bp	-17bp	-8bp	-8bp	1bp	1bp	0bp	—
Cost / income	48%	51%	53%	49%	47%	46%	46%	3 pp	2 pp	2 pp	-3 pp	-2 pp	-1 pp	0 pp	—
Credit costs / avg gross loans	100bp	89bp	118bp	106bp	94bp	94bp	95bp	0bp	-11bp	28bp	-11bp	-12bp	-1bp	1bp	—
Effective tax rate	18.0%	20.1%	19.2%	20.0%	20.0%	20.0%	20.0%	-2 pp	2 pp	-1 pp	1 pp	0 pp	0 pp	0 pp	—

Key profitability ratios	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
GS RoAE	13.7%	13.2%	9.2%	11.0%	12.8%	13.1%	13.0%	-3 pp	0 pp	-4 pp	2 pp	2 pp	0 pp	0 pp	—
GS ROA	1.64%	1.52%	1.00%	1.15%	1.30%	1.34%	1.35%	-36bp	-11bp	-52bp	15bp	15bp	4bp	1bp	—
GS RoRWA	1.84%	1.56%	1.11%	1.29%	1.45%	1.50%	1.51%	-45bp	-28bp	-45bp	18bp	17bp	5bp	1bp	—

Distribution network	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
Number of employees	24,188	24,083	24,677	24,915	24,955	24,995	25,035	-2%	0%	2%	1%	0%	0%	0%	0%
Number of branches	1,309	1,358	1,383	1,395	1,403	1,411	1,419	5%	4%	2%	1%	1%	1%	1%	1%
Employee / branch	18	18	18	18	18	18	18	-6%	-4%	1%	0%	0%	0%	0%	0%
Avg. staff cost, thousand TL	94	102	105	112	121	131	141	27%	8%	3%	7%	8%	8%	8%	8%

* Compounded annual growth rate for the 2015-2019E

Source: Company data, FactSet, Goldman Sachs Global Investment Research.

Yapi Kredi: Summary financials

Exhibit 24: Yapi Kredi financial forecasts

Profit and Loss Statement, TL mn	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
Nil	4,664	5,606	6,906	8,087	9,818	11,441	12,657	4%	20%	23%	17%	21%	17%	11%	16%
Fees	2,066	2,201	2,608	3,026	3,389	3,660	3,953	14%	10%	19%	16%	12%	8%	8%	11%
Trading income, dividends	248	-242	-897	-923	-1,299	-1,466	-1,379	72%	-198%	271%	3%	41%	13%	-6%	11%
Other operating income	1,680	597	1,003	867	969	1,063	1,165	397%	-64%	68%	-14%	12%	10%	10%	4%
Revenues	8,598	8,163	9,620	11,057	12,878	14,698	16,396	28%	-5%	18%	15%	16%	14%	12%	14%
Staff expenses	-1,330	-1,563	-1,807	-1,990	-2,170	-2,355	-2,554	8%	17%	16%	10%	9%	8%	8%	9%
Other operating expenses	-2,009	-2,367	-2,961	-3,204	-3,501	-3,925	-4,367	14%	18%	25%	8%	9%	12%	11%	10%
Total operating expenses	-3,339	-3,930	-4,769	-5,194	-5,671	-6,290	-6,921	12%	18%	21%	9%	9%	11%	10%	10%
Gross operating profit	5,259	4,232	4,851	5,863	7,207	8,408	9,475	41%	-20%	15%	21%	23%	17%	13%	18%
Credit costs	-1,475	-1,862	-2,507	-2,612	-2,603	-2,781	-3,078	14%	26%	35%	4%	0%	7%	11%	5%
Net operating profit	3,784	2,370	2,344	3,251	4,603	5,627	6,397	54%	-37%	-1%	39%	42%	22%	14%	29%
Other income/losses	0	0	0	0	0	0	0	-	-	-	-	-	-	-	-
PBT	3,784	2,370	2,344	3,251	4,603	5,627	6,397	54%	-37%	-1%	39%	42%	22%	14%	29%
Tax	-581	-525	-525	-683	-967	-1,182	-1,343	8%	-10%	0%	30%	42%	22%	14%	26%
Net profit	3,203	1,845	1,819	2,568	3,637	4,445	5,053	67%	-42%	-1%	41%	42%	22%	14%	29%
Dividends to preferred shares	0	0	0	0	0	0	0	-	-	-	-	-	-	-	-
Minorities	0	0	0	0	0	0	0	-	-	-	-	-	-	-	-
Net profit to common shareholders	3,203	1,845	1,819	2,568	3,637	4,445	5,053	67%	-42%	-1%	41%	42%	22%	14%	29%

Per share data	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
Number of shares (mn), eop	4,347	4,347	4,347	4,347	4,347	4,347	4,347	-	-	-	-	-	-	-	-
ordinary shares	4,347	4,347	4,347	4,347	4,347	4,347	4,347	0%	0%	0%	0%	0%	0%	0%	0%
Stated EPS	0.74	0.42	0.42	0.59	0.84	1.02	1.16	67%	-42%	-1%	41%	42%	22%	14%	29%
GS EPS	0.46	0.42	0.42	0.59	0.84	1.02	1.16	5%	-9%	-1%	41%	42%	22%	14%	29%
DPS	0.09	0.09	0.02	0.06	0.08	0.10	0.12	29%	3%	-77%	182%	42%	22%	14%	54%
BVPS	4.0	4.4	5.2	5.7	6.4	7.4	8.4	3%	10%	18%	9%	14%	15%	14%	13%
TBVPS	3.7	4.1	4.9	5.3	6.1	7.0	8.0	3%	11%	19%	9%	14%	15%	15%	13%

Valuation	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
P/E	5.0x	8.7x	8.8x	6.2x	4.4x	3.6x	3.2x	-40%	74%	1%	-29%	-29%	-18%	-12%	-23%
GS P/E	7.9x	8.7x	8.8x	6.2x	4.4x	3.6x	3.2x	-5%	9%	1%	-29%	-29%	-18%	-12%	-23%
P/BV	0.9x	0.8x	0.7x	0.7x	0.6x	0.5x	0.4x	-3%	-10%	-15%	-8%	-12%	-13%	-13%	-11%
P/TBV	1.0x	0.9x	0.8x	0.7x	0.6x	0.5x	0.5x	-3%	-10%	-16%	-8%	-13%	-13%	-13%	-12%
Dividend yield	2.4%	2.5%	0.6%	1.6%	2.3%	2.6%	3.2%	29%	3%	-77%	182%	42%	22%	14%	54%

Key operational ratios	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
Nil / avg interest earning assets	3.78%	3.70%	3.49%	3.38%	3.64%	3.80%	3.78%	-51bp	-8bp	-21bp	-11bp	26bp	16bp	3bp	-
Fee / gross loans	2.39%	2.08%	1.88%	1.79%	1.79%	1.77%	1.76%	-11bp	-31bp	-20bp	-9bp	-1bp	-1bp	-2bp	-
Cost / Income	39%	48%	50%	47%	44%	43%	42%	-6 pp	9 pp	1 pp	-3 pp	-3 pp	-1 pp	-1 pp	-
Credit costs / avg gross loans	158bp	162bp	170bp	148bp	131bp	129bp	131bp	-2bp	5bp	8bp	-23bp	-17bp	-2bp	2bp	-
Effective tax rate	15.3%	22.1%	22.4%	21.0%	21.0%	21.0%	21.0%	-7 pp	7 pp	0 pp	-1 pp	0 pp	0 pp	0 pp	-

Key profitability ratios	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
GS ROAE	11.8%	10.2%	8.6%	11.0%	13.9%	14.9%	14.8%	-2 pp	-2 pp	-2 pp	2 pp	3 pp	1 pp	0 pp	-
GS ROA	1.50%	1.14%	0.85%	1.00%	1.26%	1.39%	1.42%	-18bp	-36bp	-28bp	14bp	26bp	13bp	3bp	-
GS RoRWA	1.60%	1.23%	0.94%	1.09%	1.38%	1.52%	1.56%	-15bp	-37bp	-29bp	15bp	29bp	14bp	4bp	-

Distribution network	2013	2014	2015E	2016E	2017E	2018E	2019E	13/12	14/13	15/14E	16/15E	17/16E	18/17E	19/18E	CAGR*
Number of employees	15,096	17,178	18,236	18,430	18,430	18,430	18,430	1%	14%	6%	1%	0%	0%	0%	0%
Number of branches	949	1,003	1,025	1,037	1,049	1,061	1,073	2%	6%	2%	1%	1%	1%	1%	1%
Employee / branch	16	17	18	18	18	17	17	-1%	8%	4%	0%	-1%	-1%	-1%	-1%
Avg. staff cost, thousand TL	88	91	99	108	118	128	139	6%	3%	9%	9%	9%	9%	8%	9%

*) Compounded annual growth rate for the 2015-2019E

Source: Company data, FactSet, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

We, Dmitry Trembovolsky and Igor Gerasimov, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Dmitry Trembovolsky: EMEA New Markets-Financials.

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