

VAKIFBANK TURKISH ECONOMY WEEKLY

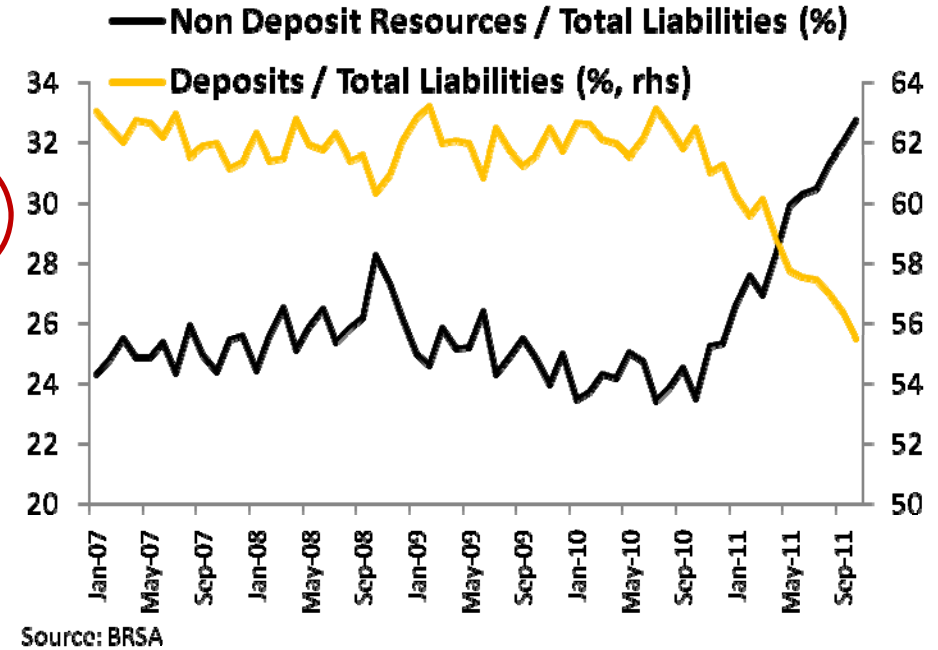
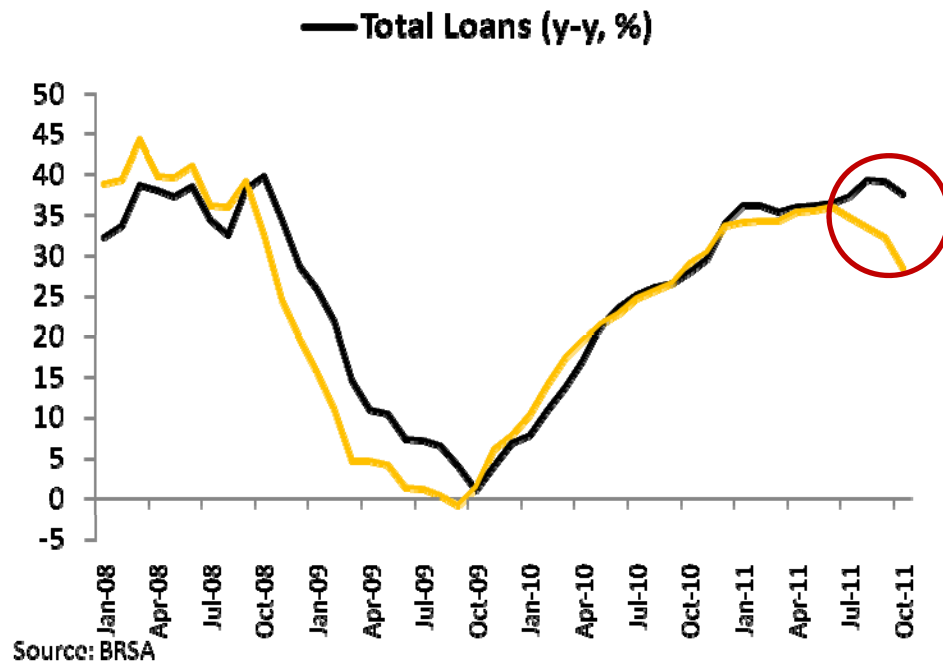
TURKISH BANKING SECTOR IN 2012



T. Vakıflar Bankası T.A.O

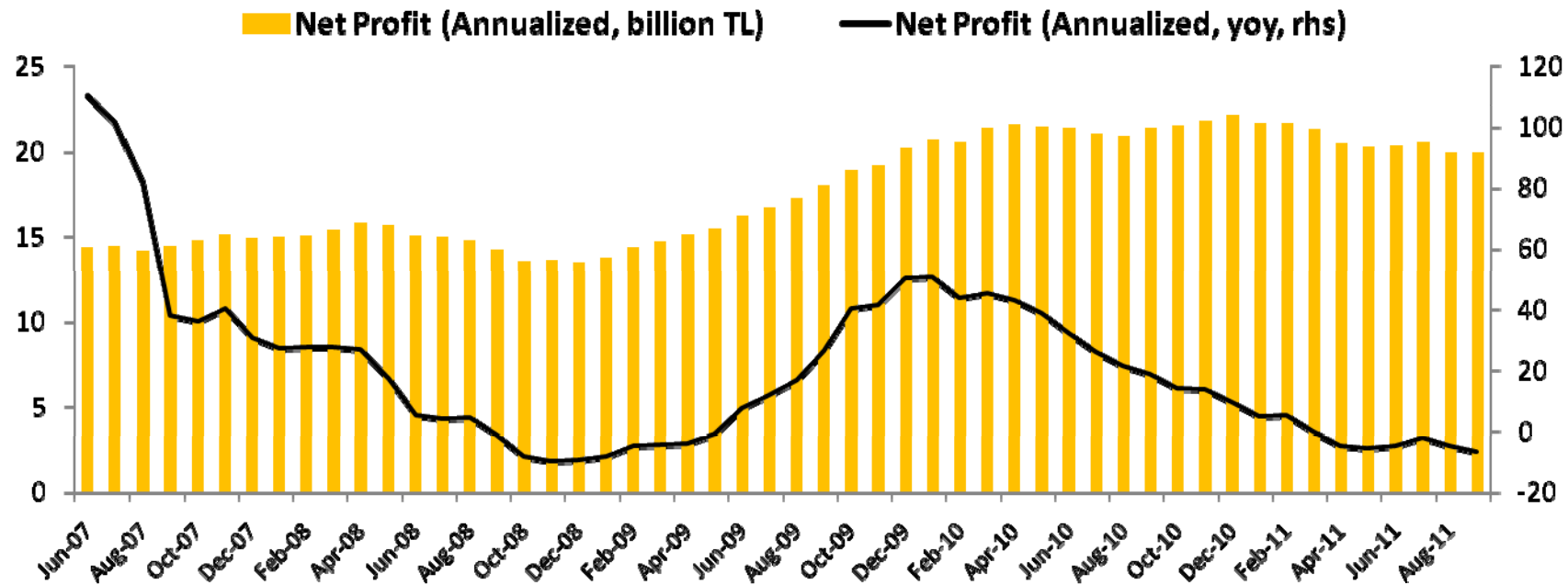


The ratio of deposits to total liabilities has dropped to all time low level...





- 🚩 In order to curb total loan growth, CBRT started to use unconventional monetary policy tools such as required reserve ratios (RRR's). In addition to CBRT measures, BRSA increased general provisioning and the risk weighting on general purpose loans.
- 🚩 Total assets of Turkish banking sector has reached TL 1,217 billion as of October 2011. Total loans increased by 37.5% YoY in October 2011. The ratio of non-performing loans to total loans decreased to 2.8%.
- 🚩 Non-deposit resources, which constituted 32.7% of total liabilities were TL 398 billion as of October 2011.

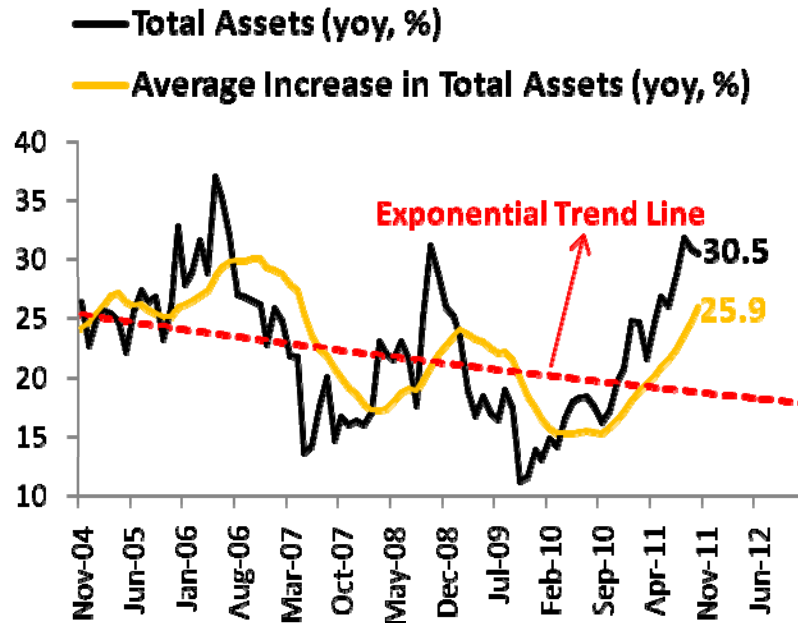
Net profit of Turkish banks continues to decrease ...



Source: BRSA


-  New measures taken by CBRT and BRSA caused a decline in net profit of the banking sector in the 2011.
-  Net profit of Turkish banking sector decreased by 11.7% in the Jan. – Oct. 2011 period compared to the same period of last year. In October 2011 annualized net profit decreased by 7.3% YoY.

We expect yearly increase in total assets will slowdown in 2012...

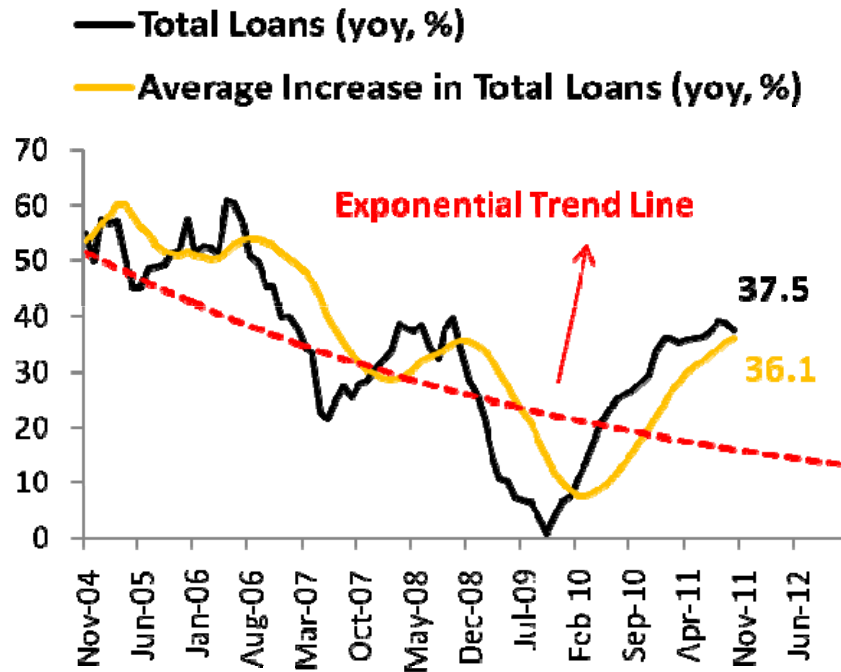


Source: BRSA, VakifBank

Total Assets (yoy, %)		
2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
15.0	18.7	9.9


 As a result of the slowdown in real GDP growth rate, loans and equities of banking sector, we expect total assets to lose some pace and increase by 15% on a yearly basis in 2012.

We expect a downward trend in yearly increase of loans in 2012...

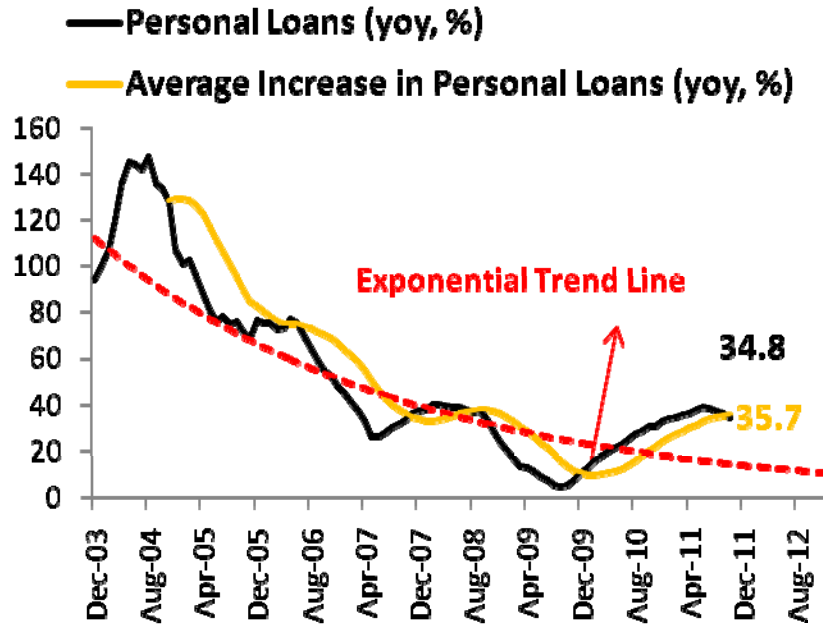


Source: BRSA, VakifBank

Total Loans (yoy, %)		
2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
16.6	22.1	7.3


 We expect that total loans will increase by 16.6% on a yearly basis in 2012. Our alternative scenario 1 is also possible with the strong domestic demand and continued depreciation in TL. However, with the rise of reversal risks for growth, loans could slowdown sharply.

Parallel to the slowdown in growth, we expect that yearly increasing rate of personal loans will decrease in 2012...

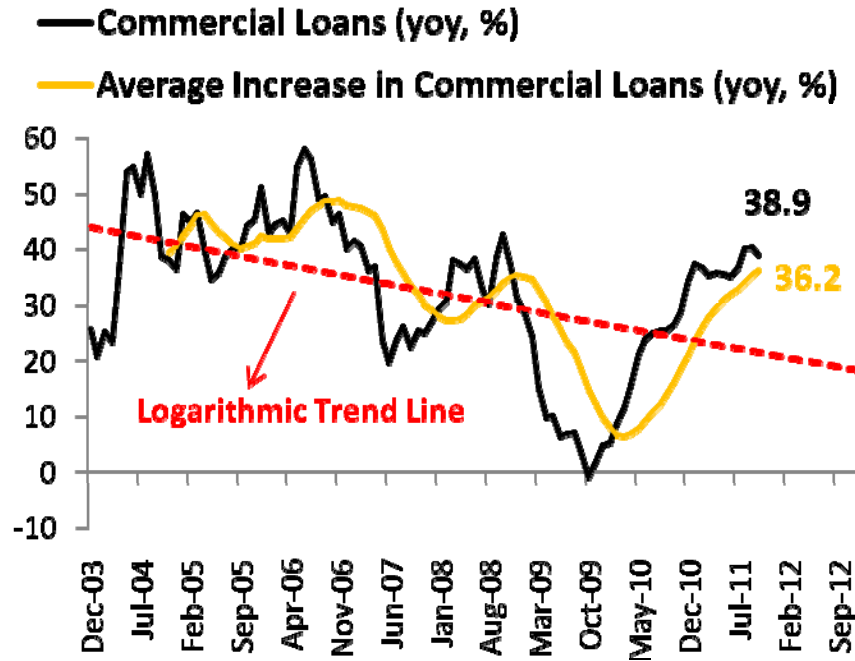


Personal Loans (yoy, %)		
2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
17.2	19.1	13.2

Source: BRSA, VakifBank

 We expect that yearly increasing rate of personal loans will be 17.2% in 2012. However, if the slowdown in domestic demand becomes harder, more slowdown is possible in personal loans.

Slowdown is expected in commercial loans...

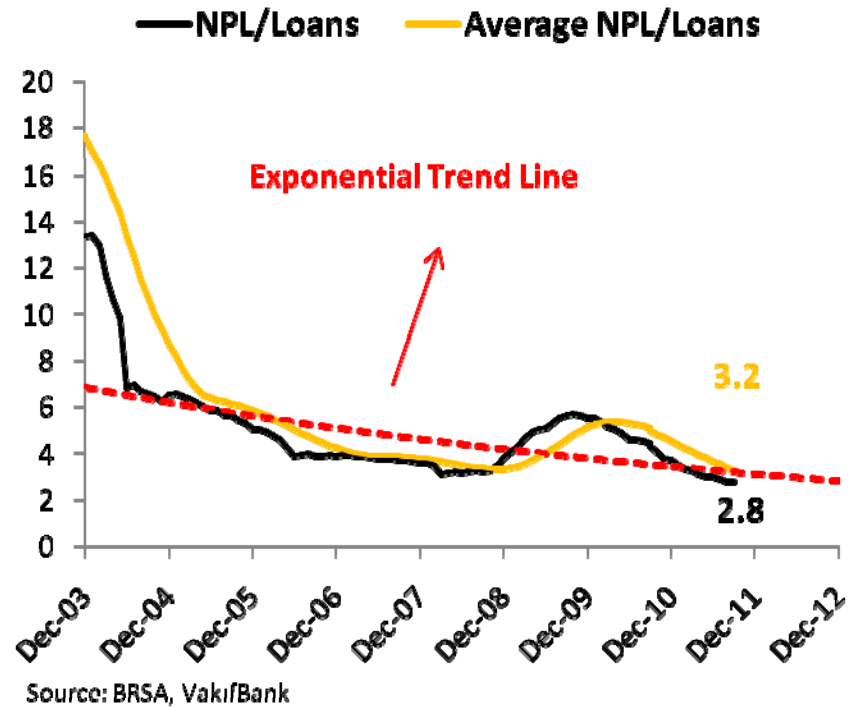


Source: BRSA, VakifBank

Commercial Loans (yoy, %)		
2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
16.4	23.6	4.4


- Under the base scenario, we expect commercial loans to increase by 16.4 in 2012. Under the higher growth conditions, scenario 1 is also possible.

We expect NPL to increase in 2012...

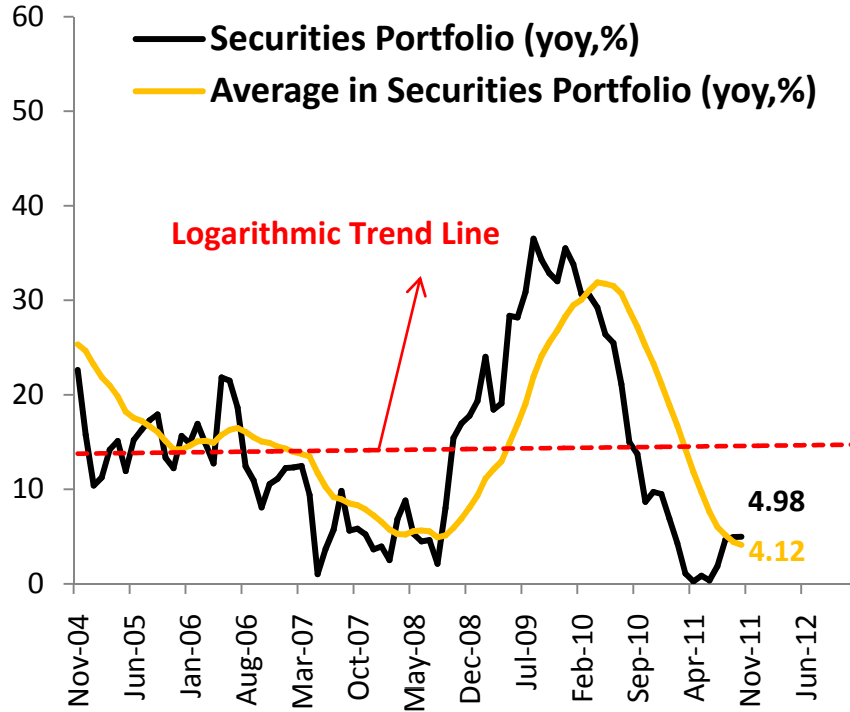


NPL (Gross, yoy, %)		
2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
12.8	4.6	39.8

NPL Ratio (%)		
2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
2.1	1.8	2.8

-  According to our base scenario, real GDP growth is expected to decrease to 2.5% and unemployment rate to rise to 10.7%. Under these assumptions, we expect NPL to increase again in 2012 and yearly increasing rate to be 12.8% and NPL/Loans to be 2.1%.

We expect securities portfolio to increase in 2012...



Source:BRSA VakifBank

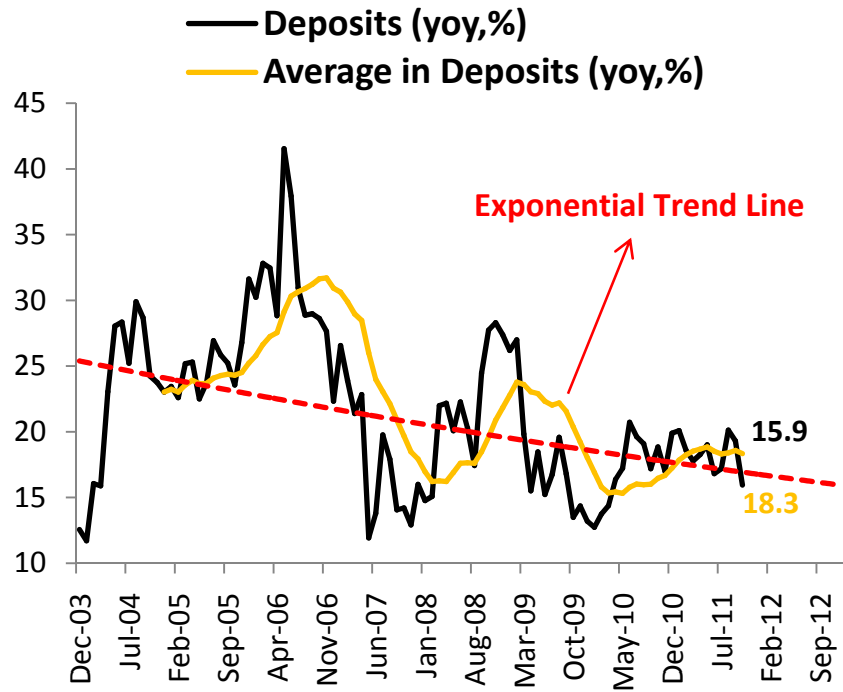
SP (Treasury)	2012	SP (Model)	2011	2012
billion TL	288.181	billion TL	299.859	334.043
yoy-%	-3.9	yoy-%	3.7	11.4
Difference: 2012-2011 (billion TL)	-11.678			

Securities Portfolio (yoy. %) 2012 Forecast

Base Scenario	Scenario 1	Scenario 2
11.4	6.9	13.8


- Securities portfolio started to contract in 2010 with the downward movement of policy rates and continued its' movement in 2011. While treasury financing programme indicates the securities portfolio will decrease by 3.9%, we expect that yearly increasing rate of securities portfolio will be 11.4% in 2012.

We expect deposits to increase...

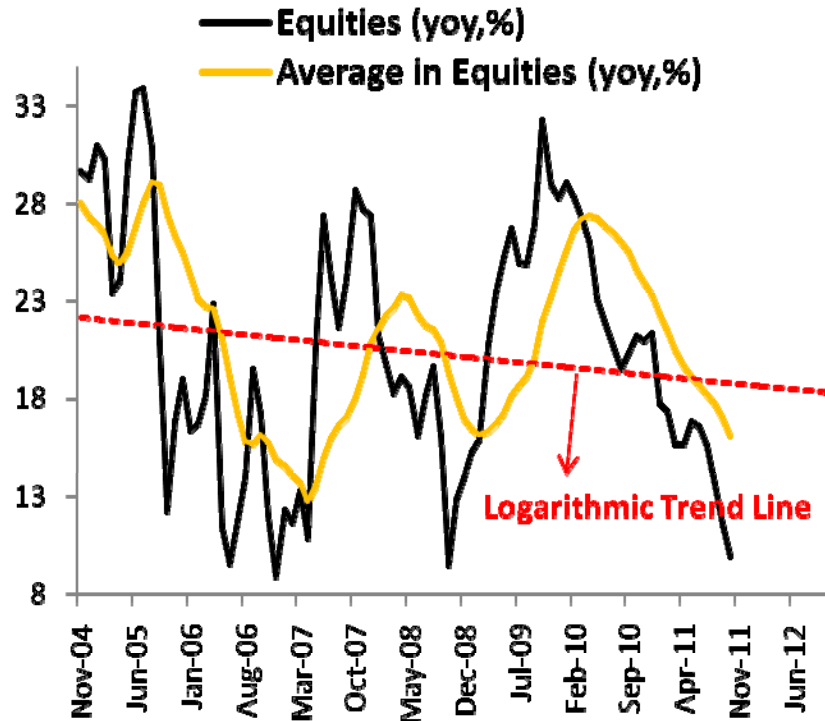


Source: BRSA, VakifBank

Deposits (yoy,%) 2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
17.3	19.1	14.1

 Deposits which constitute 56% of banking sector funding sources, have followed a fluctuating course between a narrow band in 2011 and its yearly increase has fallen to 15.9%. According to our base scenario which is based on the expectation of CBRT's 75 bps policy rate cut, deposits will increase by 17.3% following a fluctuating course.

We expect equities to increase parallel to our net profit expectation...

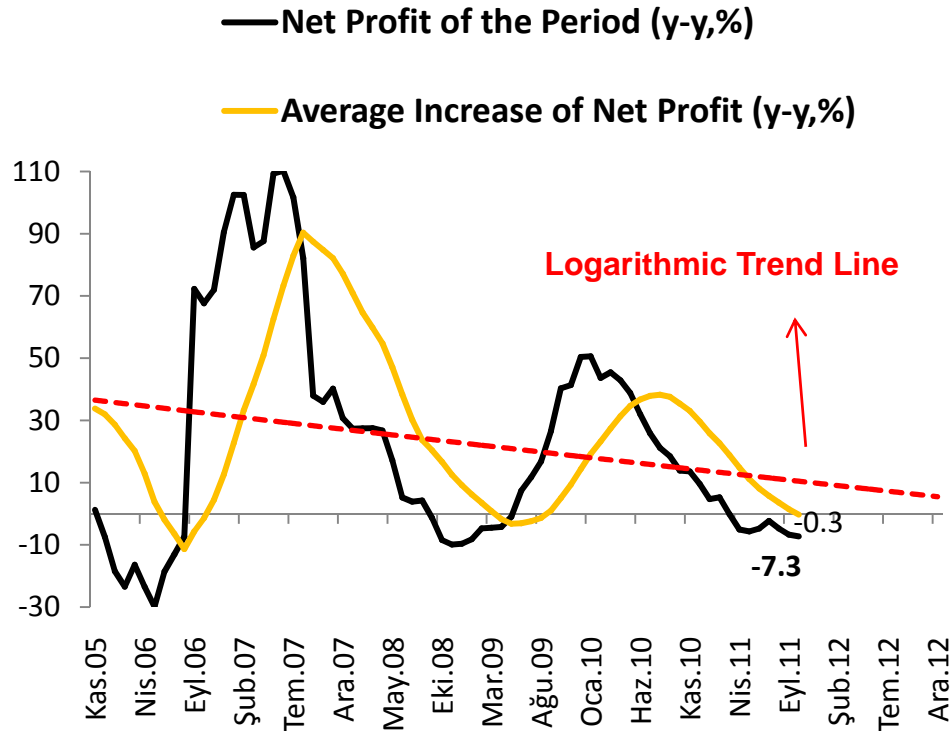


Source: BRSA, VakifBank

Equities (yoy,%) 2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
12.9	9.7	14.7

- Equities constituting 12% of banking sector funding sources has decreased sharply with the slowing of net profits. Hence, we expect equities to increase by 12.9% parallel to our expectation of an increase in net profit at the end of the 2012.

We expect a limited increase in net profits in line with our 2012 rate cut expectation...



Source: BRSA, VakifBank

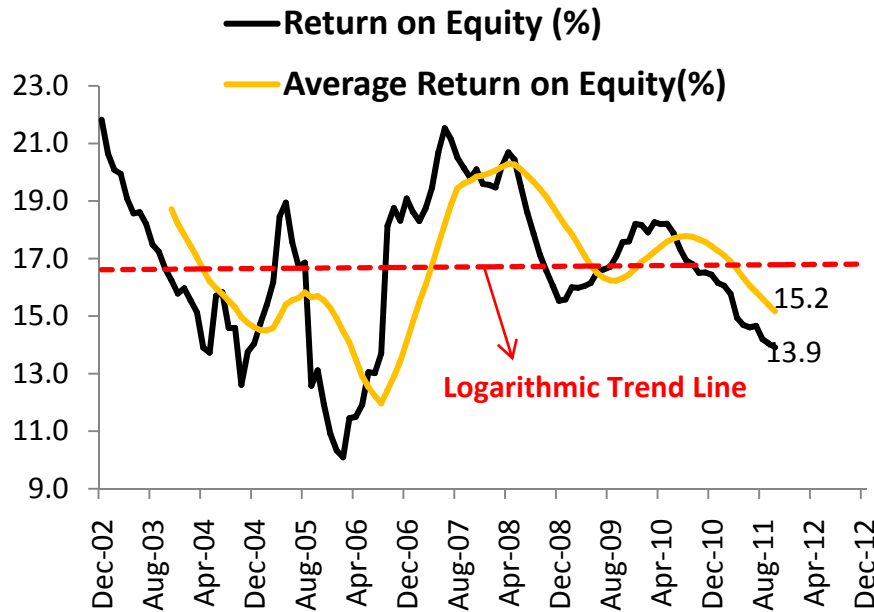
Net Profit of the Period(yoy, %)

2012 Forecast

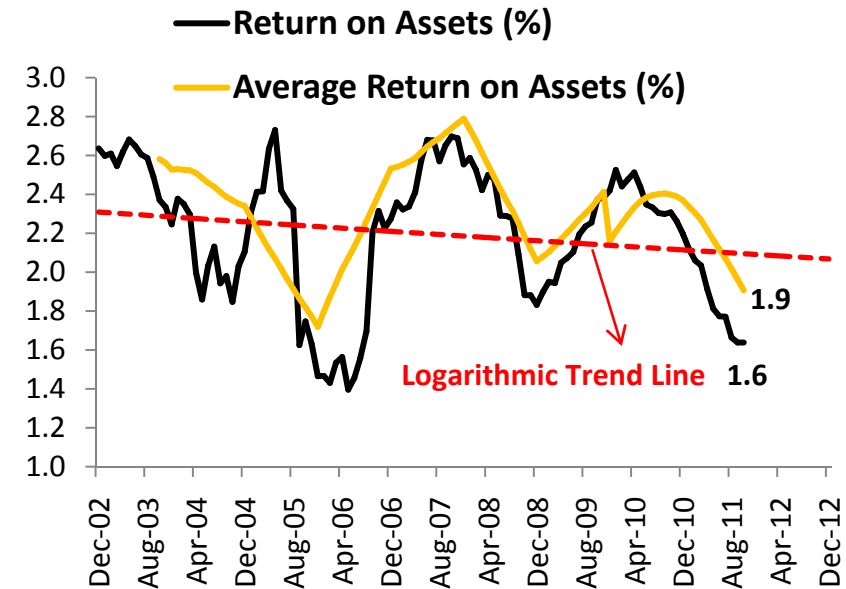
Base Scenario	Scenario 1	Scenario 2
2.1	-10.2	8.6

- After the significant fall in 2011, we expect net profit to increase 2.1% in 2012 on a yearly basis in line with our base scenario forecasts.
- Our expectations for 2.5% growth, inflation outlook and CBRT's 75 bps policy rate cut in 2012 are determinant on our net profit forecast.
- The expected channels of profit increase are, increase in income from securities portfolio, decrease in cost of deposits and time inconsistency between credit interest rates and market interest rates.
- Intense competition in the sector will be a constraint on profit increase.

We expect a slight decrease in ROE and ROA...



Source:BRSA, VakifBank



Source:BRSA, VakifBank

Return on Equity

2012 Forecast

Base Scenario	Scenario 1	Scenario 2
12.2	11.1	12.8

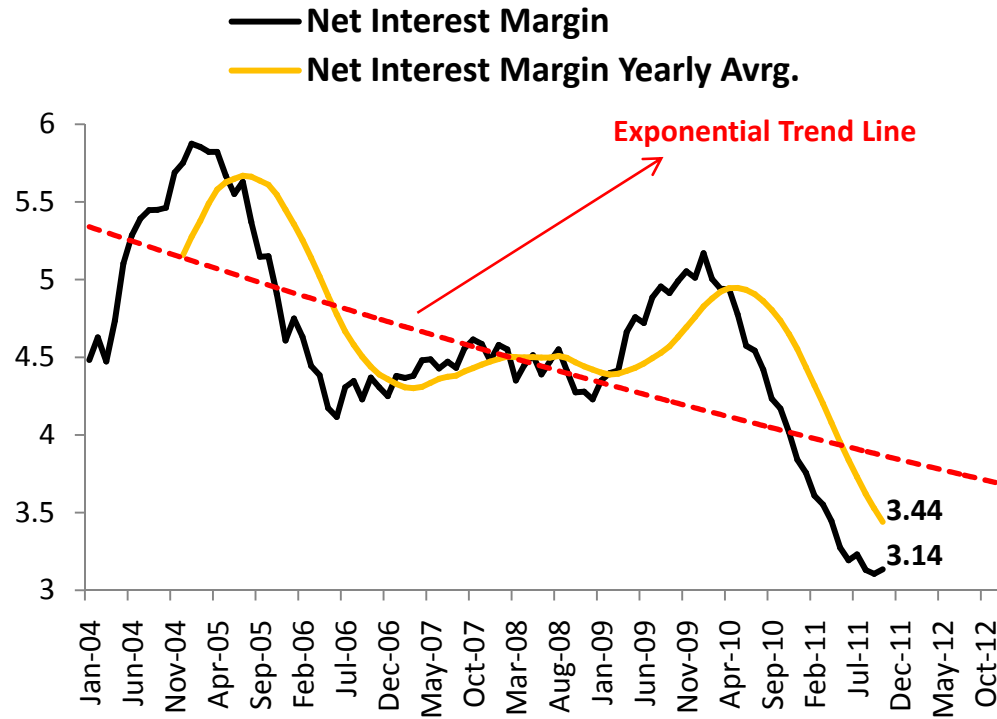
Return on Assets

2012 Forecast

Base Scenario	Scenario 1	Scenario 2
1.4	1.2	1.6

- ✓ According to our forecasts for equities, total assets and net profit, we expect a slight decrease in Return On Equity (ROE) and Return on Assets (ROA) in 2012.
- ✓ Our expectations for ROE and ROA are 12.2% and 1.4% consecutively.

Our net interest margin forecast for 2012 is 3.5%...

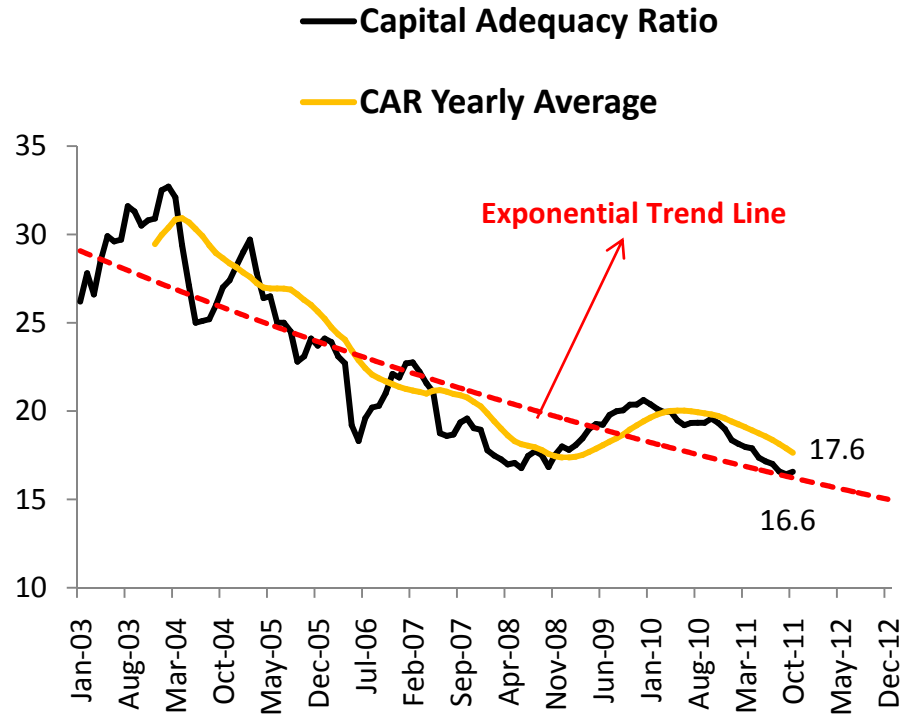


Net Interest Margin		
2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
3.5	3.0	3.6

Source:BRSA, VakifBank

 We expect net interest margin to be 3.5% in 2012 with a slight increase from 2011 figures. In addition to interest income and expenses in 2012, high competition in the sector will define the level of net interest margin in 2012.

Banking sector CAR is expected to be 16.9%...



Source:BRSA, VakifBank

Capital Adequacy Ratio		
2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
16.9	15.2	17.8

- ✓ Capital Adequacy Ratio (CAR) of Turkish banking sector which was 20.6% in 2009 and 19% in 2010 has fallen to 16.6% by October 2011.
- ✓ We expect it to rise to 16.9% in 2012 parallel to our interest rate forecasts.

Forecast for 2012



	Base Scenario	Scenario 1	Scenario 2
Real GDP Growth (%)	2.5	5.1	-0.8
Unemployment Rate (%)	10.7	9.5	12.4
Total Assets (yoy, %)	15.0	18.7	9.9
Total Loans (yoy, %)	16.6	22.1	7.3
Personal Loans (yoy, %)	17.2	19.1	13.2
Commercial Loans (yoy, %)	16.4	23.6	4.4
NPL (Gross, yoy, %)	12.8	4.6	39.8
NPL Ratio (%)	2.1	1.8	2.8
Securities Portfolio (yoy, %)	11.4	6.9	13.8
Deposits (yoy, %)	17.3	19.1	14.1
Equities (yoy, %)	12.9	9.7	14.7
Net Profit (yoy, %)	2.1	-10.2	8.6
Return on Equities (%)	12.2	11.1	12.8
Return on Assets (%)	1.4	1.2	1.6
Net Interest Margin (%)	3.5	3.0	3.6
Capital Adequacy Ratio (%)	16.9	15.2	17.8

Serkan Özcan

Chief Economist

+ 90 312 455 7087

serkan.ozcan@vakifbank.com.tr

Cem Erođlu

Senior Economist

+ 90 212 398 1898

cem.eroglu@vakifbank.com.tr

Nazan Kılıç

Economist

+ 90 212 398 1902

nazan.kilic@vakifbank.com.tr

Ümit Ünsal

Economist

+ 90 212 398 1899

umit.unsal@vakifbank.com.tr

Emine Özgü Özen

Researcher

+ 90 212 398 1890

emineozgu.ozen@vakifbank.com.tr

Naime Dođan

Researcher

+ 90 212 398 1892

naime.dogan@vakifbank.com.tr

Fatma Özlem Kanbur

Researcher

+ 90 212 398 1891

fatmaozlem.kanbur@vakifbank.com.tr

T. Vakıflar Bankası T.A.O

www.vakifbank.com.tr

Vakıfbank Economic Research

ekonomik.arastirmalar@vakifbank.com.tr

The information in this report has been obtained by Türkiye Vakıflar Bankası T.A.O. from sources believed to be reliable. However, Türkiye Vakıflar Bankası T.A.O. cannot guarantee the accuracy, adequacy, or completeness of such information, and cannot be responsible for the results of investment decisions made on account of this report. This document is not a solicitation to buy or sell any of the securities mentioned. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This report is to be distributed to professional emerging markets investors only.
