

Bank Strategy CEE and Turkey

CEE banks to tap the economic recovery, Turkish banks - attractive valuations?

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Recommendations: We think that the Fed's decision to refrain from the tapering process and maintain its bond purchases will be supportive for the EM asset class in the short-term. Given the region's improving growth outlook, albeit on a gradual basis, we think that investors will be geared more towards growth orientation rather than risk aversion for CEE and Turkish banks. Among the banks that we cover, we prefer to have exposures mainly to Turkish and Polish banks. Our top picks are **BZ WBK**, **Halkbank** and **Yapi Kredi Bank** (all Buy recommendations), **Bank Pekao**, **Komercni banka**, **PKO BP** and **Raiffeisen Bank International** as well as **Garanti Bank**, **Isbank** and **Vakifbank** (all big caps with Accumulate recommendation).

Scorecard model: In this report we provide a detailed analytical framework to assess the relative attractiveness of the banking sectors and the bank stocks in our coverage universe. Our framework is based on a balanced score card model, which takes into account country-based and bank specific parameters. As a result of our score card model, Turkish, Czech and Austrian banking markets appear at the top of the list on the country-based parameters. On the bank specific parameters, five Turkish banks stood out among the Top-10 banks, while the recovery theme of the Polish banks is worth looking at as the anticipated acceleration in GDP growth in 2014 should lead the banks to benefit at the first stage.

Valuation: On average, the EG Sector Banks CEE are valued at 1.14x P/BV 13e and 1.08x P/BV 14e, with estimated ROE of 7.8% and 10.1%, respectively. Turkish banks, which offer higher ROE for both years (15.5% for 13e and 14.8% for 2014e) have a more attractive valuations (1.12x P/BV 13e and 0.98x P/BV 14e). In our view part of this discrepancy in valuation is explained by the earnings momentum. We expect a significant earnings and profitability increase in the EG Sector Banks CEE; excluding FHB, the CEE banks trade at 13x P/E for 13e and 10.2x for 14e due to their expected strong earnings momentum. The Turkish banks, on the other hand, trade at 7.6x of their 13e earnings and 7x of their 14e earnings.

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Valuation

Price performance

Share price performance CEE and TR banks vs. main bank indices

Company/Index	MCap. (EUR mn)	Performance (in LC terms)				
		1m	3m	6m	12m	ytd
Aik Banka (RS)	124	-1.9%	3.3%	-16.4%	-0.5%	-13.0%
Banca Transilvania (RO)	688	-2.0%	15.0%	9.7%	37.6%	27.0%
Bank Pekao (PL)	10,759	-3.4%	1.8%	4.7%	6.2%	2.6%
BRD Groupe SG (RO)	1,360	0.2%	9.6%	-2.3%	5.7%	7.3%
BRE Bank (PL)	4,213	-9.7%	8.3%	19.7%	32.3%	28.5%
BZ WBK (PL)	6,921	-9.5%	5.8%	15.4%	31.5%	28.3%
FHB (HU)	72	-1.2%	-13.7%	-12.5%	-34.0%	-15.9%
Komercijalna Banka (RS)	203	3.9%	3.8%	-15.1%	22.6%	-3.5%
Komercni banka (CZ)	6,235	0.1%	15.6%	6.8%	7.0%	5.2%
OTP (HU)	4,110	1.2%	-11.2%	-5.6%	7.4%	5.8%
PKO BP (PL)	11,326	-2.6%	3.1%	8.5%	0.0%	3.0%
Raiffeisen Bank International (AT)	4,804	-5.6%	-0.1%	-17.7%	-16.1%	-21.9%
Akbank (TR)	11,623	4.0%	-11.2%	-16.8%	7.2%	-12.0%
Albaraka Turk (TR)	568	-6.7%	-18.0%	-9.7%	17.5%	-1.2%
Bank Asya (TR)	642	-5.5%	-1.0%	-15.2%	-7.3%	-14.0%
Garanti Bank (TR)	12,583	6.4%	-9.9%	-15.8%	2.8%	-13.8%
Halkbank (TR)	7,016	3.5%	-18.8%	-22.3%	-0.7%	-14.6%
Isbank (TR)	8,954	3.5%	-13.1%	-21.4%	-6.4%	-14.2%
Sekerbank (TR)	713	-1.0%	3.8%	-2.6%	46.2%	5.6%
Turkiye Sinai Kalkinma Bankasi (TR)	961	0.0%	3.0%	-0.9%	16.4%	1.7%
Vakifbank (TR)	4,355	5.0%	-16.8%	-18.9%	10.5%	0.7%
Yapi Kredi Bank (TR)	7,426	1.1%	-8.8%	-15.7%	2.9%	-12.5%
Banks CEE (weighted)	50,816	-3.8%	4.0%	5.3%	8.9%	7.0%
Banks Turkey (weighted)	54,841	3.7%	-11.8%	-17.5%	3.3%	-11.6%
DJ EURO STOXX Banks	n.a.	0.9%	16.0%	9.5%	12.8%	12.5%
DJ STOXX Banks	n.a.	0.7%	11.3%	7.4%	19.9%	14.8%
S&P 500	n.a.	2.5%	4.4%	8.8%	15.8%	19.0%

Source: FactSet, Erste Group Research

Prices as of 16/09/13

Ytd performance of the CEE and Turkish banks was poor. CEE banks are up 7% ytd, vs. DJ EURO STOXX Banks' +12.5% ytd and DJ STOXX Banks' 14.8%. Turkish banks declined by 12% ytd. Both CEE and TR banks look even worse when compared with S&P 500 (CEE banks underperformed by 12% and Turkish banks by 30%). Raiffeisen Bank was the top laggard in the CEE region with 22% decline ytd while Halkbank fell the most amongst Turkish banks.

The weak performance of the CEE banks was caused by relatively fragile macro in the CEE region confirmed by the aggressive easing by National Bank of Poland which hurt the local banking market 13e earnings outlook. In Turkey the sell-off was caused by the political unease related to the Gezi Park developments, Syria concerns along with the Fed signalling stepping back from quantitative easing programmes.

The situation changed within the last month, with Turkish banks advancing by 3.7% with DJ EURO STOXX banks and DJ STOSS Banks being

relatively flat. The CEE banks, however, were down by 3.8% within last month, pulled down by BRE Bank and BZ WBK, which were correcting as the positive reaction on their 2Q13 earnings surprise was superseded by fears related to Polish pension funds reform and its impact on the equity market in general.

Peer group valuation

PG regression CEE and TR

Our peer group valuation and peer group regression comprise four banking segments: (a) our banking sector coverage consisting of twelve banks from the CEE region (AIK Banka, Banca Transilvania, BRD GSG, BRE Bank, BZ WBK, FHB, Komercijalna Banka, Komercni banka, OTP, Pekao, PKO BP, and Raiffeisen Bank International), (b) our banking sector coverage consisting of 10 banks from Turkey (Akbank, Garanti, Halkbank, Isbank, Vakifbank, Yapi Kredi Bank, TSKB, Sekerbank, Bank Asya and Albaraka Turk) (c) some 100% CEE plays like Handlowy and Millennium, and (d) some Western players with sizeable CEE exposure like UniCredit. However, the CEE exposure of most Western players is less than the pure CEE banks we cover. For peer group valuation reasons, we therefore refer to the mean of the CEE banks.

We present and look at the valuation of Turkish banks separately as the country has differentiating parameters such as growth, profitability of the sector, alongside being a higher interest rates market.

On average, the EG Sector Banks CEE are valued at 1.14x P/BV 13e and 1.08x P/BV 14e, with estimated ROE of 7.8% and 10.1%, respectively. Turkish banks, which offer higher ROE for both years (15.5% for 13e and 14.8% for 2014e) have a more attractive valuations (1.12x P/BV 13e and 0.98x P/BV 14e).

In our view part of this discrepancy in valuation is explained by the earnings momentum. We expect a significant earnings and profitability increase in the EG Sector Banks CEE; excluding FHB, the CEE banks trade at 13x P/E for 13e and 10.2x for 14e due to their expected strong earnings momentum. The Turkish banks, on the other hand, trade at 7.6x of their 13e earnings and 7x of their 14e earnings. We find this multiple attractive, yet it illustrates lower growth dynamics, which results from the fact that Turkish banks tapped into the bond markets for financing at the time of lower yields, which is now likely to hurt their NIMs.

Peer group valuation P/BV, P/E, dividend yield, ROE comparison

Company			P/BV			P/E			Dividend yield			ROE		
			2012	2013e	2014e	2012	2013e	2014e	2012	2013e	2014e	2012	2013e	2014e
Banks CEE and Turkey	Aik Banka	0.32	0.27	0.25	4.4	5.4	3.1	0.4%	0.3%	0.7%	7.5%	5.0%	8.4%	
	Banca Transilvania	0.75	1.04	0.97	6.0	7.4	7.1	0.0%	0.0%	0.0%	13.4%	14.5%	14.1%	
	Bank Pekao	1.88	1.94	1.91	14.9	16.3	14.4	5.0%	6.1%	7.0%	13.2%	11.9%	13.4%	
	BRD Groupe SG	0.99	1.06	1.05	nm	27.8	15.5	0.0%	0.0%	1.3%	-5.1%	3.8%	6.8%	
	BRE Bank	1.42	1.71	1.58	11.4	14.6	13.1	3.1%	2.7%	3.4%	13.6%	12.1%	12.5%	
	BZ WBK	2.55	2.04	1.91	12.3	18.1	15.3	3.1%	2.8%	3.3%	17.7%	13.9%	12.9%	
	FHB	0.53	0.51	0.51	nm	nm	180.3	0.0%	0.0%	0.0%	-8.7%	-14.8%	0.3%	
	Komercijalna Banka	0.39	0.34	0.32	5.5	4.6	4.0	0.0%	0.0%	0.0%	7.3%	7.8%	8.3%	
	Komercni banka	1.55	1.58	1.52	10.9	12.2	10.7	5.7%	5.5%	5.9%	15.8%	13.1%	14.4%	
	OTP	0.72	0.72	0.68	9.1	9.0	9.5	2.9%	3.0%	3.1%	8.3%	8.1%	7.3%	
	PKO BP	1.87	1.84	1.72	12.3	14.4	12.4	3.4%	4.7%	4.2%	15.8%	13.1%	14.4%	
	Raiffeisen Bank International	0.80	0.61	0.57	11.7	13.4	7.3	3.7%	2.3%	3.5%	7.0%	4.6%	8.1%	
	Akbank	1.61	1.41	1.25	11.9	9.2	8.4	1.2%	1.8%	2.9%	14.9%	15.4%	15.8%	
	Albaraka Turk	1.26	1.05	0.91	8.0	6.7	6.0	0.0%	1.7%	2.0%	17.3%	17.0%	16.1%	
	Bank Asya	0.85	0.67	0.60	10.4	7.7	6.1	0.0%	0.0%	0.0%	8.5%	9.1%	10.3%	
	Garanti Bank	1.83	1.47	1.29	12.7	9.8	8.4	1.5%	1.8%	2.3%	15.8%	15.5%	16.3%	
	Halkbank	1.78	1.36	1.16	8.4	7.0	6.5	1.4%	2.5%	2.6%	24.8%	20.6%	19.2%	
	Isbank	1.22	1.01	0.90	8.4	7.5	6.9	2.0%	2.8%	2.7%	16.3%	13.8%	13.8%	
	Sekerbank	0.99	0.92	0.82	7.5	8.1	7.3	0.0%	0.0%	0.0%	14.6%	12.2%	11.9%	
	Turkiye Sinai Kalkinma Bankasi	1.44	1.32	1.13	8.2	7.5	6.5	1.8%	2.3%	2.6%	19.7%	18.5%	18.7%	
	Vakifbank	0.97	0.93	0.82	7.9	7.1	6.3	0.3%	0.9%	1.0%	13.8%	13.4%	13.8%	
	Yapi Kredi Bank	1.34	1.02	0.93	11.8	5.7	7.9	1.3%	1.6%	2.8%	13.4%	19.1%	12.3%	
	Bank Handlow y	1.80	1.79	1.80	13.7	15.1	16.5	4.1%	5.7%	5.5%	13.1%	11.9%	10.9%	
	Bank Millennium	1.72	1.58	1.46	17.5	18.5	16.7	0.0%	1.1%	2.8%	9.8%	8.6%	8.7%	
	Getin Holding	1.54	1.44	1.29	30.4	14.9	11.8	0.0%	2.5%	0.0%	5.1%	9.7%	10.9%	
	ING Bank Slaski	1.68	1.55	1.48	16.4	18.1	15.8	0.0%	2.7%	2.7%	10.2%	8.6%	9.4%	
	Sberbank	1.39	1.16	0.99	6.2	6.1	5.5	2.6%	3.2%	3.5%	22.4%	19.1%	18.0%	
	VTB Bank	1.06	0.65	0.59	6.7	5.9	5.1	1.6%	2.9%	3.5%	15.7%	11.1%	11.5%	
CEE exposure	Erste Group	0.86	0.86	0.83	15.5	14.9	9.2	1.7%	1.7%	2.5%	5.6%	5.8%	9.0%	
	Intesa Sanpaolo	0.46	0.44		7.1	6.1		5.5%	6.6%	n.a.	6.6%	7.4%	n.a.	
	KBC Group	0.74	0.66		5.2	4.6		3.3%	3.8%	n.a.	14.9%	15.1%	n.a.	
	Societe Generale	0.66	0.60		5.8	5.2		5.9%	6.6%	n.a.	10.9%	11.5%	n.a.	
	UniCredit SpA	0.44	0.44	0.44	25.3	23.9	13.1	1.9%	1.9%	2.6%	1.7%	1.9%	3.3%	
Mean EG Sector Banks CEE		1.15	1.14	1.08	9.8	13.0	24.4	2.3%	2.3%	2.7%	8.8%	7.8%	10.1%	
Mean EG Sector Banks TR		1.33	1.12	0.98	9.5	7.6	7.0	1.0%	1.5%	1.9%	15.9%	15.5%	14.8%	
Mean CEE exposure		0.63	0.60	0.63	11.8	10.9	11.1	3.7%	4.1%	n.a.	8.0%	8.3%	n.a.	
Mean all banks		1.19	1.09	1.06	11.1	11.0	15.2	1.9%	2.5%	n.a.	11.5%	10.9%	n.a.	

Source: FactSet, Erste Group Research
Prices as of 16/09/13

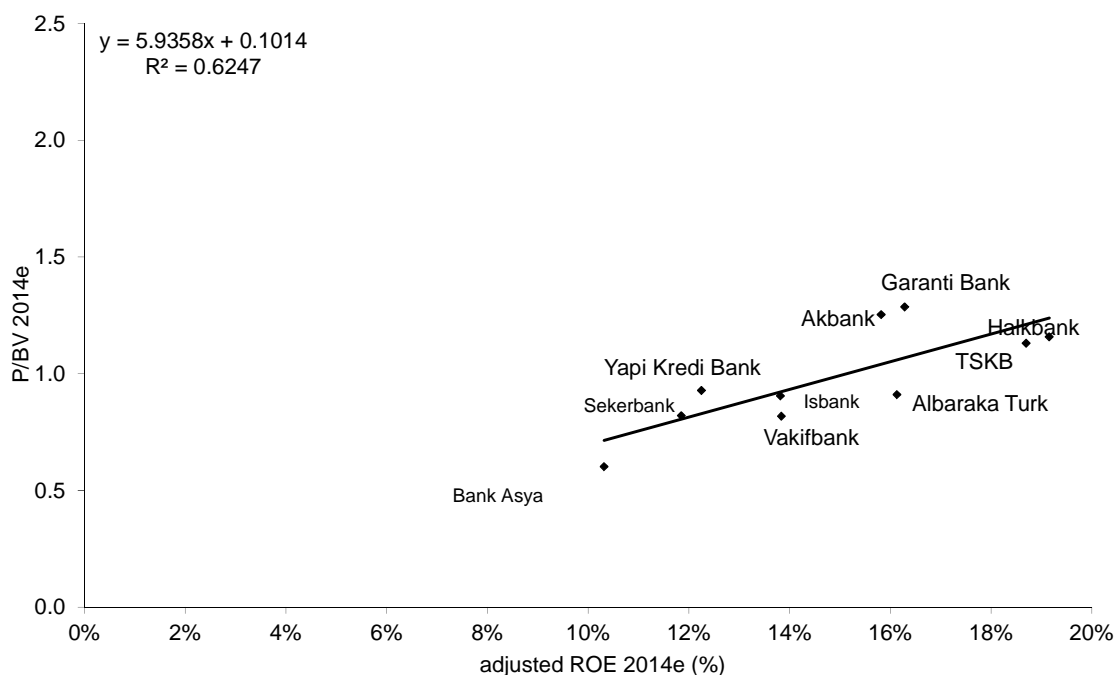
In the scatter charts below, we have presented correlations between the ROE and P/BV multiples for Turkish banks, and separately, for the banks domiciled in the CEE region alongside those offering some CEE exposure. Overall, it can be seen from those charts, that the distribution of the P/BV multiples is much smaller in Turkey (14e P/BV of 0.6 for Bank Asya to 1.29 for Garanti Bank) than in the CEE – related banks (14e P/BV of 0.25 for Aik Banka to 1.91 for BZ WBK). On the other hand, differences in profitability are also more obvious in the CEE than they are among Turkish banks.

Moreover, the coefficients of determination for CEE is relatively low (at 0.33), which indicates that there are other factors explaining the P/BV differences other than just ROE (such as growth, funding issues etc.). For

Turkey, the R2 is much higher at 0.62. Also, the R2 for Poland only grows to 0.42.

In addition, the regression line is steeper in the CEE (regression slope at 9 vs. 5.9 for Turkey), which indicates that more valuation premium is attached to higher ROE in CEE region than it is in Turkey. Again, when separating the Polish market only, the line becomes more flat that is the case of the entire CEE (slope of 5.9), which seems intuitive to us.

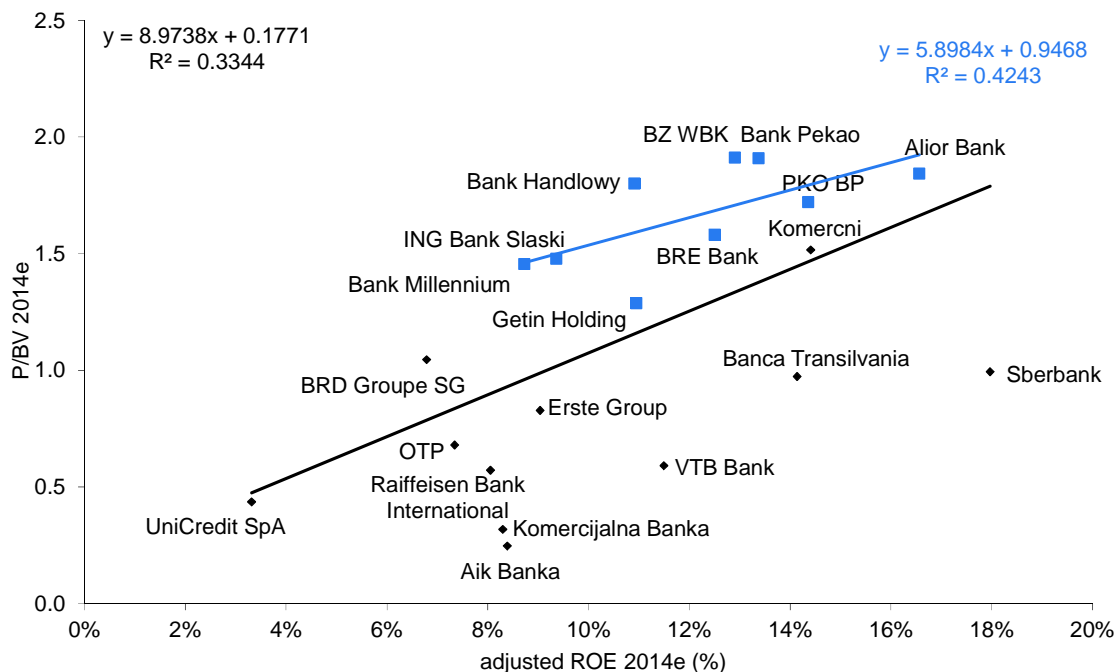
Peer group regression Turkish banks P/BV14e vs. ROE 2014e



Source: FactSet, Erste Group Research
Prices as of 16/09/13

Among Turkish banks, Halkbank, which is our top pick looks undervalued, as generating ROE of 19.2% it trades at 1.16x P/BV 14e. Garanti Bank seems to be most overvalued whilst it trades at 1.47x P/BV 13e generating ROE of 15.5% in that year. In case of Garanti, the premium is attached to the superior quality of the management team, its business model and high visibility of attaining greater profitability going forward.

**Peer group regression CEE banks and banks with CEE exposure
P/BV14e vs. ROE 2014e**

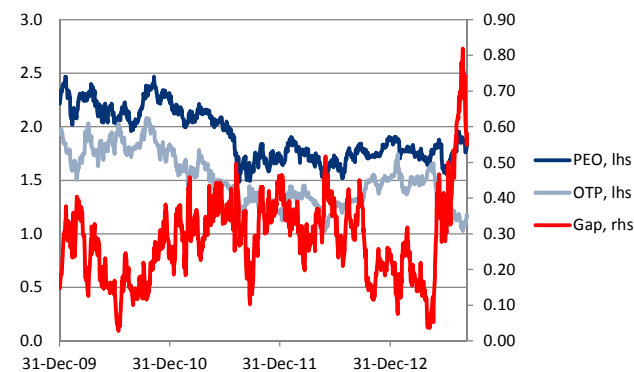


Source: FactSet, Erste Group Research
Prices as of 16/09/13

The regression chart above shows that Polish banks, along with Komercni are valued relatively high vs. other banks with CEE exposure accounting for their ROEs. However, we would be cautious before taking bets simply based on cross-country differences in the P/BV; historically, the valuation premium of Polish banks vs. the other regional banks has always been there. Using a strategy, which would rely on going long an a cheaper bank and shorting the more expensive one would not necessarily work.

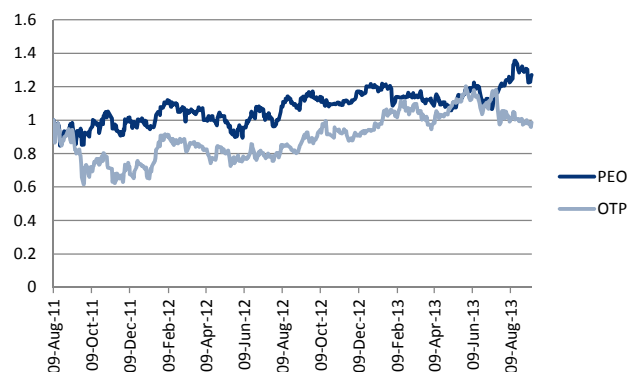
In the chart below we present a comparison of forward looking P/BV multiples for Pekao, historically one of the most expensive banks and OTP, one of the less expensive plays in the CEE universe along with the following performances of both stocks since August 2011, when the difference in the respective P/BV increased to 0.5x.

Forward P/BV of Pekao and OTP



Source: Bloomberg, Erste Group Research

Performance of Pekao vs. OTP



Therefore, we recommend taking a more extensive view and attempt to analyze why Polish banks have been traded at such a premium to their regional peers and then assess whether those factors are still valid. Whilst we could name at least four potential reasons for higher valuation, which are still binding (underpenetration of Polish banking market, inflow of EU funds, deposit – based funding and dividend paying tradition), we think that the factor, which could pull down the valuation are the changes to the pension funds system, which are to be implemented in the Polish government. We discuss the potential impact of those changes on the banking stocks in a greater detail in the Appendix.

Recommendations and target prices

CEE economies are gaining momentum in 2013 and outperforming core European economies, with growth rates mostly above the EU average. It is mainly an export-driven recovery, with the domestic components of GDP still lagging behind. On top of the relatively positive 2Q GDP data, leading indicators make us even more confident about the ongoing economic rebound in CEE. Banks, being the best proxy to economic activity on a broad basis, should be the primary recipients of this growth in our view.

Market: Although the promising macro data was only so far been confirmed in Poland, we also expect the Czech Republic and Romania to show a moderate loan growth. All in all, we see the structural benefits of countries like Poland and the Czech Republic providing the ground for accelerated growth in 2014 and beyond. Not only the diminishing risk costs but also accelerating revenue generation from rising volumes and improving net interest margins (rate hikes might start in the second half of 2014) as well as tight cost control might trigger bottom line growth starting next year.

Fundamentally, we also remain positive on the long-term economic outlook of Turkey and believe that Turkish banks will differentiate themselves positively on the back of a couple of factors: i) the strong macroeconomic landscape that they are operating in, ii) high growth potential both on the corporate and consumer side, iii) strong balance sheets with high capitalization ratios and liquidity conditions and iv) relatively high profitability and internal capital generation to fund the expected growth. Turkish banks have significantly de-rated on the P/BV multiples due to the fear of global rate rise and we believe these valuations present an attractive entry point.

Our top picks include three stocks, where our valuation models returned the highest upside potentials, i.e. Halkbank, Yapi Kredi Bank and BZ WBK.

We believe that Yapi Kredi Bank is a good proxy for the lucrative retail market in Turkey as the bank derives 56% of its revenues from its retail operations. We think that management's approach to selective loan growth without denting the profitability and achieving cross-selling, effective and proactive funding base and capital management, disciplined cost efficiency approach and strict focus on the asset quality are the major strategic pillars that create value in the bank. Last but not least, recent sale of its insurance arm contributes to its already-high total capital adequacy ratio, which was 15.8.

We view that Halkbank is a solid play, which will benefit from the retail loan demand and maintain its high profitability while attaining its growth. We remain confident on the three major profitability drivers as Halkbank operates with relatively high net interest margin and low cost/income ratio and cost of risk that result into high ROEs. Based on our 2014E estimates, Halkbank trades at 1.16x of its 2014E book value and 6.5x of its 2014E earnings.

Despite its outperformance, we continue to rate BZ WBK as a buy as we expect that its outstanding earnings momentum will continue to be boosted by the most recent acquisition of Kredyt Bank. We believe that the synergies will show up in BZ WBK's financials to a greater degree in 2014e and 2015e, which will warrant a higher valuation. In our ranking, BZ WBK earned most of its scores due to the expected CAGR of its earnings at 27% and its good risk parameters, while being relatively highly valued vs. its peers (14.3x P/E and 1.9x P/BV).

We rate Bank Pekao as "Accumulate" as we believe that the bank's best-in-class capitalization ratio puts the bank in a very comfortable situation for future growth, both organic and through acquisitions. We also think that Pekao will have a relatively high dividend yield (at ca. 6%) – while there is also the potential for payment of extra dividends providing a more favorable regulatory stance. In our ranking, the bank earns the most points for its low risk profile with a low L/D ratio and a high equity ratio and CAR.

In PKO BP, our Accumulate rating comes from our assumed synergies from the Nordea acquisition. Furthermore, since we also believe that if interest rates were to reverse, the bank should be able to improve its fundamentals. PKO derives its ranking due to growth and profitability factors (2013-2015e CAGR of net earnings at 19%), while the stock is relatively highly valued (1.7x P/BV 14e).

Raiffeisen Bank International's investment case is a regional recovery story as the bank generates 76% of its revenues from the CEE region and only 24% from Austria and other Western European countries. High scores attained in growth & profitability mainly due to the low and provisions-driven profit basis in 2013 (profit warning with higher risk cost guidance for FY13e) and valuation parameters outweigh the low score on its risk parameters. At this point in time, we would like to point out that RBI is trading at a discount of more than 40% to its CEE peers, but in line with other Western European banks suffering lower than 10% core tier 1. Moreover, the pay-back strategy of the EUR 1.75bn state capital, which will be phased out under Basel 3 at the end of 2017 is still unclear. Nevertheless, we incorporated an undercapitalization of EUR 1.5bn in our target price.

Lastly, we view Komerční as a solid growth play, which has a low risk profile and a high gearing on the recovery of the Eurozone thanks to export-driven corporate clients in the Czech Republic. We anticipate the bank to deliver mid-term earnings growth over the next two years and deliver an ROE of 15%. On the other hand, having a low loan/deposit ratio, limited exposure to

wholesale funding structures and low leverage enable the bank to have a favorable risk profile. We like Komercni also as a dividend play (currently 5.5% DY13e) and the relatively lower valuation multiples compared to its Polish peers (1.6x P/B13e vs. 1.9x for big 4 Polish banks).

Recommendations and performance

Company/Index	Recommendation	Current	Target	Potential
		price	price	up/down
Aik Banka (RS)	Accumulate	RSD 1,363.0	RSD 1,600.0	17.4%
Banca Transilvania (RO)	Accumulate	RON 1.391	RON 1.6	15.0%
Bank Pekao (PL)	Accumulate	PLN 171.9	PLN 195.0	13.4%
BRD Groupe SG (RO)	Hold	RON 8.7	RON 9.2	5.7%
BRE Bank (PL)	Hold	PLN 419.0	PLN 434	3.6%
BZ WBK (PL)	Buy	PLN 310.3	PLN 379.0	22.1%
FHB (HU)	Hold	HUF 328.0	HUF 351.0	7.0%
Komercijalna Banka (RS)	Accumulate	RSD 1,350.0	RSD 1,600.0	18.5%
Komercni banka (CZ)	Accumulate	CZK 4,220.0	CZK 4,700.0	11.4%
OTP (HU)	Hold	HUF 4,389.0	HUF 4,600.0	4.8%
PKO BP (PL)	Accumulate	PLN 38.0	PLN 42.3	11.6%
Raiffeisen Bank International (AT)	Accumulate	EUR 24.57	EUR 28.0	14.0%
Akbank (TR)	Hold	TRY 7.74	TRY 7.84	1.3%
Albaraka Turk (TR)	Accumulate	TRY 1.68	TRY 1.98	17.9%
Bank Asya (TR)	Accumulate	TRY 1.90	TRY 2.17	14.2%
Garanti Bank (TR)	Accumulate	TRY 7.98	TRY 8.90	11.5%
Halkbank (TR)	Buy	TRY 14.95	TRY 19.05	27.4%
Isbank (TR)	Accumulate	TRY 5.30	TRY 6.21	17.2%
Sekerbank (TR)	Hold	TRY 1.90	TRY 2.04	7.4%
Turkiye Sinai Kalkinma Bankasi (TR)	Accumulate	TRY 1.97	TRY 2.22	12.7%
Vakifbank (TR)	Accumulate	TRY 4.64	TRY 5.35	15.3%
Yapi Kredi Bank (TR)	Buy	TRY 4.55	TRY 5.55	22.0%

Source: FactSet, Erste Group Research
Prices as of 16/09/2013

Dividend discount models

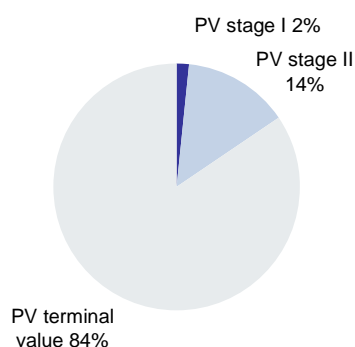
We continue to value all CEE banks with a Dividend Discount Model (DDM). As all the banks operate in emerging markets characterized by different stages of development in terms of financial intermediation and growth rates, we used a three-stage model to cope with the growth pattern. In the first stage, we explicitly forecast EPS until 2017. The second stage comprises an additional 10 years, gradually declining growth rates, profitability and the cost of equity to more sustainable levels. In the third stage, we determined the banks' terminal values by multiplying 2028 shareholders' equity by a P/BV derived from the Gordon Growth Model. By discounting these three components back to September 2013, using an appropriate cost of equity reflecting the increased country risk premiums, we arrive at the current fair value for the banks, which we compound by using the cost of equity to arrive at our 12-month target price.

DDM valuations CEE banks

AIK Banka

Dividend discount model in RSD	2013e	2014e	Stage I 2015e	2016e	2017e	Stage II 2018e-2027e	TV 2028ff
Total asset per share growth	0.9%	3.0%	3.5%	4.0%	4.5%	2.1%	
ROE	5.0%	8.4%	6.5%	6.4%	5.9%	8.4%	13.5%
BVPS	5,103	5,526	5,877	6,243	6,600		
Equity ratio	33.4%	35.1%	36.1%	36.8%	37.3%	50.5%	
EPS	372.9	462.9	483.0	491.2	544.5		
EPS growth	-29.3%	76.4%	-16.6%	4.1%	-2.1%	14.4%	3.0%
Payout ratio	1.7%	2.0%	2.0%	2.0%	2.0%	15.0%	
DPS	4.33	8.92	7.39	7.71	7.54		
Cost of equity	21.7%	21.2%	20.7%	19.7%	19.2%	17.8%	13.1%
PV stage I					21.4		
PV stage II						182.7	
Target P/BV							1.04
BVPS 2025e							13,216.4
PV terminal value							1,111.0
Equity value - DDM	1,315						
Equity value - DDM (12m)	1,600						

Equity value breakdown



Sensitivity of equity value (12m)

		Terminal value ROE				
		11.5%	12.5%	13.5%	14.5%	15.5%
Cost of equity	12.1%	1,463	1,606	1,749	1,892	2,034
	12.6%	1,400	1,535	1,670	1,806	1,941
	13.1%	1,342	1,471	1,600	1,729	1,857
	13.6%	1,291	1,413	1,536	1,659	1,781
	14.1%	1,244	1,361	1,478	1,595	1,712
		Terminal value growth				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	12.1%	1,729	1,738	1,749	1,760	1,774
	12.6%	1,659	1,664	1,670	1,677	1,685
	13.1%	1,595	1,597	1,600	1,603	1,606
	13.6%	1,537	1,537	1,536	1,536	1,535
	14.1%	1,484	1,481	1,478	1,475	1,471

Source: Erste Group Research

Banca Transilvania

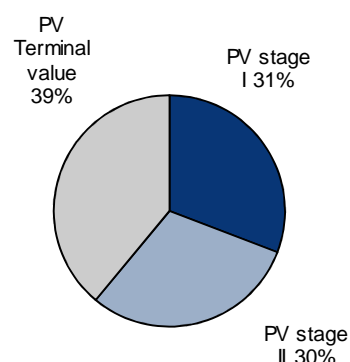
Residual income model in RON	2013e	2014e	Stage I 2015e	2016e	2017e	Stage II 2018e - 2027e	TV 2028f
Earnings	416	432	458	481	534		
Earnings growth	20%	4%	6%	5%	11%	8%	
Shareholders' Equity	2,954	3,154	3,376	3,613	3,894	6,152	
ROAE	14.5%	14.1%	14.0%	13.8%	14.2%	15.0%	15.0%
CoE	12.6%	12.6%	12.6%	12.6%	12.6%	13.2%	12.2%
Excess Equity Return (%)	2.0%	1.6%	1.5%	1.2%	1.7%	1.8%	2.9%
Excess Equity Return (EER)	56.2	48.3	48.0	42.4	63.0	815.38	
Terminal Value of EER							175.3
Present Value of EER	54.30	41.49	36.62	28.74	37.96	246.87	31.4
PV Stage I	199.10						
PV Stage II	246.87						
PV Terminal Value	31.38						
Equity Invested (2012)	2,779.4						
Fair Value	3,256.7						
No shares	2,206.4						
Target price	1.6						
Current price	1.391						
Up/Downside	15.4%						

Source: Erste Group Research

Bank Pekao

Dividend Discount Model in PLN	2013e	2014e	Stage I 2015e	2016e	2017e	Stage II 2018e-2027e	TV 2028ff
Total asset per share growth	-1.0%	2.6%	9.3%	2.9%	2.0%	2.5%	
ROE	11.9%	13.4%	15.8%	17.9%	20.0%	17.8%	15.5%
BVPS	89	90	92	95	97		
Equity ratio	17.8%	17.6%	16.5%	16.5%	16.5%	19.3%	
EPS	10.6	12.0	14.4	16.7	19.2		
EPS growth	-6.2%	13.2%	20.6%	15.9%	14.6%	2.7%	4.0%
Payout ratio	100.0%	100.0%	100.0%	100.0%	100.0%	65.0%	
DPS	10.6	12.0	14.4	16.7	19.2		
Cost of equity	10.4%	10.4%	10.4%	10.4%	10.4%	10.5%	10.7%
PV stage I					54		
PV stage II						53	
Target P/BV							1.7
BV/PS 2028e							174
PV Terminal value							69
Equity value - DDM	177						
Equity value - DDM (12m)	195						

Equity value breakdown



Sensitivity of equity value (12m)

		Terminal value ROE				
		13.5%	14.5%	15.5%	16.5%	17.5%
Cost of equity	9.7%	187	197	208	219	231
	10.2%	181	191	201	212	222
	11.3%	176	186	195	205	215
	11.2%	172	181	190	199	208
	11.7%	169	177	185	194	203

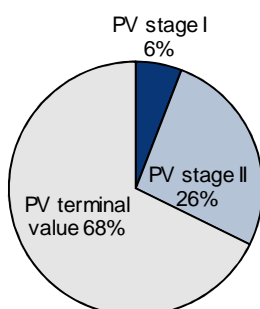
		Terminal value growth				
		3.0%	3.5%	4.0%	4.5%	5.0%
Cost of equity	9.7%	202	205	208	213	218
	10.2%	196	198	201	204	208
	10.7%	191	193	195	198	201
	11.2%	186	188	190	192	194
	11.7%	183	184	185	187	188

Source: Erste Group Research

BRD GSG

Dividend discount model in RON	2013e	2014e	Stage I 2015e	2016e	2017e	Stage II 2018e-2027e	TV 2028ff
Total asset per share growth	-3.9%	2.3%	3.6%	6.5%	6.5%	5.0%	0.0%
ROE	3.8%	6.8%	8.2%	13.8%	13.5%	16.3%	14.0%
BVPS	8.56	9.01	9.56	10.51	11.46		
Equity ratio	12.2%	12.1%	11.8%	11.6%	11.2%	17.7%	0.0%
EPS	0.31	0.56	0.69	1.18	1.19		
EPS growth	n.m.	79.2%	22.8%	71.9%	0.4%	8.8%	3.0%
Payout ratio	0.0%	20.0%	20.0%	20.0%	20.0%	40.0%	0.0%
DPS	0.00	0.11	0.14	0.24	0.24		
Cost of equity	12.6%	12.6%	12.6%	12.6%	12.6%	12.9%	12.2%
PV stage I					0.48		
PV stage II						2.16	
Target P/BV							1.20
BV/PS 2028e							27.2
PV terminal value							5.53
Equity value - DDM	8.17						
Equity value - DDM (12m)	9.20						

Equity value breakdown



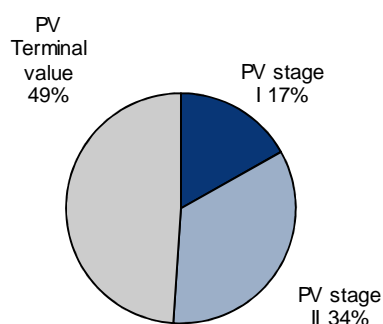
		Terminal value ROE				
		12.0%	13.0%	14.0%	15.0%	16.0%
Cost of equity	11.2%	8.7	9.3	10.0	10.6	11.2
	11.7%	8.4	9.0	9.6	10.2	10.8
	12.2%	8.1	8.6	9.2	9.8	10.3
	12.7%	7.8	8.3	8.9	9.4	10.0
	13.2%	7.6	8.1	8.6	9.1	9.6
		Terminal value growth				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	11.2%	9.8	9.9	10.0	10.1	10.2
	11.7%	9.4	9.5	9.6	9.7	9.8
	12.2%	9.1	9.2	9.2	9.3	9.3
	12.7%	8.8	8.8	8.9	8.9	9.0
	13.2%	8.6	8.6	8.6	8.6	8.6

Source: Erste Group Research

BRE Bank

Dividend Discount Model in PLN	2013e	2014e	Stage I 2015e	2016e	2017e	Stage II 2018e-2027e	TV 2028ff
Total asset per share grow th	4.5%	6.9%	7.3%	6.9%	5.5%	3.8%	
ROE	12.1%	12.5%	13.9%	14.4%	14.8%	14.0%	13.5%
BVPS	245	265	288	313	339		
Equity ratio	9.7%	9.8%	9.9%	10.1%	10.4%	11.3%	
EPS	28.7	31.9	38.4	43.4	48.3		
EPS grow th	0.0%	0.0%	0.0%	0.0%	0.0%	4.5%	4.0%
Payout ratio	40.0%	45.0%	45.0%	50.0%	50.0%	60.0%	
DPS	11.5	14.4	17.3	21.7	24.1		
Cost of equity	10.4%	10.4%	10.4%	10.4%	10.4%	10.5%	10.7%
PV stage I					66		
PV stage II						135	
Target P/BV							1.4
BVPS 2028e							585
PV Terminal value							192
Equity value - DDM	393						
Equity value - DDM (12m)	434						

Equity value breakdown



Sensitivity of equity value (12m)

		Terminal value ROE				
		11.5%	12.5%	13.5%	14.5%	15.5%
Cost of equity	9.7%	401	435	471	508	547
	10.2%	385	418	451	486	521
	11.3%	372	403	434	466	500
	11.2%	361	390	419	450	481
	11.7%	351	378	406	435	465
		Terminal value growth				
		3.0%	3.5%	4.0%	4.5%	5.0%
Cost of equity	9.7%	456	463	471	481	493
	10.2%	440	445	451	458	466
	10.7%	426	430	434	439	445
	11.2%	413	416	419	423	427
	11.7%	402	404	406	409	412

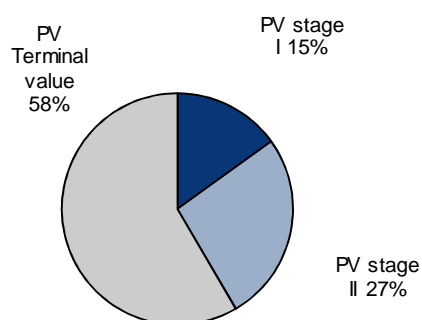
Source: Erste Group Research

BZ WBK

Dividend Discount Model

in PLN	2013e	2014e	Stage I 2015e	2016e	2017e	Stage II 2018e-2027e	TV 2028ff
Total asset per share growth	-1.6%	3.5%	11.3%	10.8%	11.4%	7.2%	
ROE	11.4%	12.7%	16.1%	18.4%	18.9%	17.0%	15.0%
BVPS	154	164	178	196	215		
Equity ratio	14.1%	14.6%	14.2%	14.1%	13.9%	14.4%	
EPS	17.2	20.3	27.6	34.5	38.9		
EPS growth	-18.3%	18.3%	36.1%	24.9%	12.9%	6.3%	4.0%
Payout ratio	50.0%	50.0%	50.0%	50.0%	50.0%	45.0%	
DPS	8.6	10.1	13.8	17.2	19.5		
Cost of equity	10.4%	10.4%	10.4%	10.4%	10.4%	10.5%	10.7%
PV stage I					52		
PV stage II						91	
Target P/BV							1.6
BV/PS 2028e							523
PV Terminal value							201
Equity value - DDM	344						
Equity value - DDM (12m)	379						

Equity value breakdown



Sensitivity of equity value (12m)

		Terminal value ROE				
		13.0%	14.0%	15.0%	16.0%	17.0%
Cost of equity	9.7%	354	385	418	453	489
	10.2%	337	367	397	429	463
	11.3%	323	351	379	409	441
	11.2%	311	337	364	392	421
	11.7%	301	325	351	377	405

		Terminal value growth				
		3.0%	3.5%	4.0%	4.5%	5.0%
Cost of equity	9.7%	400	408	418	430	445
	10.2%	383	390	397	406	417
	10.7%	368	373	379	386	395
	11.2%	355	359	364	369	376
	11.7%	344	347	351	355	359

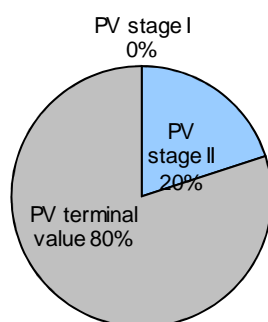
Source: Erste Group Research

FHB

Dividend discount model

in HUF	2013e	2014e	Stage I 2015e	2016e	Stage II 2017e 2018e-2027e	TV 2028ff
Total asset per share grow th	-3.6%	-1.2%	5.5%	2.4%	2.7%	1.6%
ROE	-14.8%	0.3%	4.0%	6.5%	7.2%	10.9%
BVPS	638.4	640.2	666.3	711.0	764.4	
Equity ratio	5.8%	5.9%	5.8%	6.1%	6.3%	8.8%
EPS	-102.2	1.8	26.0	44.7	53.5	
EPS grow th	45.5%	-101.8%	1331.5%	71.7%	19.6%	14.1%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	20.0%
DPS	0.00	0.00	0.00	0.00	0.00	
Cost of equity	15.0%	15.0%	15.0%	15.0%	15.0%	14.0%
PV stage I					0.0	
PV stage II						61.0
Target P/BV						0.97
BVPS 2028e						1,826
PV terminal value						244.0
Equity value - DDM	305					
Equity value - DDM (12m)	351					
Premium/Discount	0.0%					
Target price (12m)	351					
Current share price	328					
Up/Dow nside	6.6%					

Equity value breakdown



Sensitivity of equity value (12m)

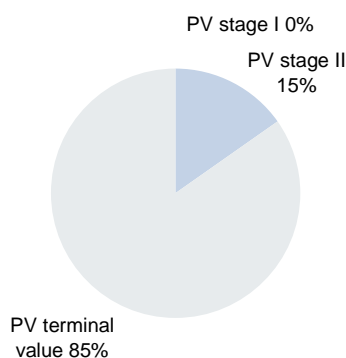
		Terminal value ROE				
		10.0%	11.0%	12.0%	13.0%	14.0%
Cost of equity	11.3%	315	350	385	420	455
	11.8%	301	334	367	400	433
	12.3%	288	320	351	382	413
	12.8%	277	307	336	366	396
	13.3%	267	295	323	352	380
		Terminal value growth				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	11.3%	382	383	385	386	388
	11.8%	366	366	367	367	368
	12.3%	352	351	351	350	350
	12.8%	339	338	336	335	334
	13.3%	327	325	323	322	320

Source: Erste Group Research

Komercijalna Banka

Dividend discount model in RSD	2013e	2014e	Stage I 2015e	2016e	2017e	Stage II 2018e-2027e	TV 2028ff
Total asset per share growth	7.5%	3.0%	3.5%	4.0%	4.5%	2.1%	
ROE	7.8%	8.3%	8.4%	8.1%	8.0%	10.0%	13.5%
BVPS	3,916	4,252	4,622	5,012	5,429		
Equity ratio	18.2%	19.2%	20.2%	21.1%	21.8%	33.7%	
EPS	292.2	339.0	371.8	392.5	418.5		
EPS growth	15.0%	16.0%	9.7%	5.6%	6.6%	12.3%	3.0%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	15.0%	
DPS	0.00	0.00	0.00	0.00	0.00		
Cost of equity	21.3%	20.8%	20.3%	19.3%	18.8%	17.3%	13.1%
PV stage I					0.0		
PV stage II						202.9	
Target P/BV							1.04
BVPS 2025e							12,644.5
PV terminal value							1,115.5
Equity value - DDM	1,318						
Equity value - DDM (12m)	1,600						

Equity value breakdown



Sensitivity of equity value (12m)

		Terminal value ROE				
		11.5%	12.5%	13.5%	14.5%	15.5%
Cost of equity	12.1%	1,462	1,606	1,749	1,892	2,035
	12.6%	1,399	1,535	1,670	1,806	1,942
	13.1%	1,342	1,471	1,600	1,729	1,857
	13.6%	1,290	1,413	1,536	1,659	1,781
	14.1%	1,243	1,360	1,478	1,595	1,712
		Terminal value growth				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	12.1%	1,729	1,738	1,749	1,760	1,774
	12.6%	1,659	1,664	1,670	1,677	1,685
	13.1%	1,595	1,597	1,600	1,602	1,606
	13.6%	1,537	1,536	1,536	1,535	1,535
	14.1%	1,483	1,481	1,478	1,474	1,471

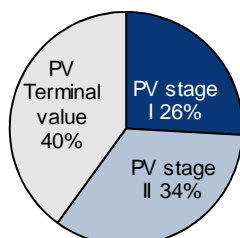
Source: Erste Group Research

Komerční banka

Dividend Discount Model in CZK

	2013e	2014ee	Stage I 2015ee	2016ee	2017ee	Stage II 2018e-2027e	TV 2028ff
Total asset per share growth	4.3%	6.0%	7.0%	7.0%	7.0%	2.6%	
ROE	12.8%	14.0%	15.7%	16.7%	16.9%	14.5%	12.0%
BVPS	2,748	2,863	3,017	3,189	3,409		
Equity ratio	12.6%	12.4%	12.2%	12.1%	12.1%	14.0%	
EPS	345.7	393.2	460.8	519.1	558.5		
EPS growth	-6.4%	13.7%	17.2%	12.6%	7.6%	5.4%	3.0%
Payout ratio	66.5%	63.6%	60.8%	61.6%	61.6%	60.0%	
DPS	230.0	250.0	280.0	320.0	344.2		
Cost of equity	8.4%	8.4%	8.8%	9.4%	10.2%	10.7%	10.6%
PV stage I					1,123		
PV stage II						1,480	
Target P/BV							1.2
BVPS 2028e							6,090
PV Terminal value							1,733
Equity value - DDM	4,335						
Equity value - DDM (12m)	4,700						

Equity value breakdown



Sensitivity of equity value (12m)

		Terminal value ROE				
		10.0%	11.0%	12.0%	13.0%	14.0%
Cost of equity	9.6%	4,503	4,744	4,984	5,224	5,464
	10.1%	4,385	4,608	4,832	5,055	5,279
	10.6%	4,282	4,491	4,700	4,908	5,117
	11.1%	4,192	4,388	4,584	4,780	4,976
	11.6%	4,112	4,297	4,481	4,666	4,850

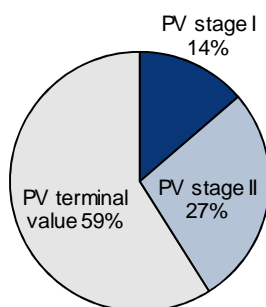
		Terminal value growth				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	9.6%	4,908	4,943	4,984	5,031	5,086
	10.1%	4,780	4,804	4,832	4,864	4,901
	10.6%	4,666	4,682	4,700	4,720	4,744
	11.1%	4,565	4,574	4,584	4,595	4,608
	11.6%	4,474	4,478	4,481	4,486	4,491

Source: Erste Group Research

OTP

Dividend discount model in HUF	2013e	2014e	Stage I 2015e	2016e	2017e	Stage II 2018e-2027e	TV 2028ff
Total asset per share growth	3.7%	1.8%	4.0%	6.1%	7.7%	2.8%	
ROE	8.2%	7.3%	7.3%	8.5%	9.3%	11.1%	12.0%
BVPS	6,154	6,482	6,817	7,237	7,724		
Equity ratio	15.6%	16.2%	16.3%	16.4%	16.2%	19.2%	
EPS	485.0	462.1	483.7	597.5	692.7		
EPS growth	6.1%	-4.7%	4.7%	23.5%	15.9%	10.2%	3.0%
Payout ratio	26.8%	29.2%	31.0%	30.0%	30.0%	35.0%	
DPS	130.0	135.0	150.0	179.3	207.8		
Cost of equity	14.0%	14.0%	14.0%	14.0%	14.0%	13.6%	12.0%
PV stage I					551.5		
PV stage II						1,104.6	
Target P/BV							1.01
BVPS 2028e							15,810
PV terminal value							2,377.2
Equity value - DDM	4,033						
Equity value - DDM (12m)	4,600						

Equity value breakdown



Sensitivity of equity value (12m)

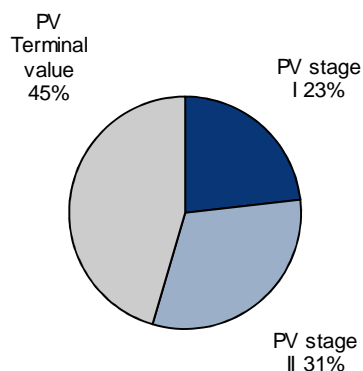
		Terminal value ROE				
		10.0%	11.0%	12.0%	13.0%	14.0%
Cost of equity	11.0%	4,262	4,601	4,941	5,280	5,619
	11.5%	4,122	4,441	4,760	5,079	5,398
	12.0%	3,997	4,298	4,600	4,901	5,202
	12.5%	3,886	4,171	4,456	4,742	5,027
	13.0%	3,785	4,056	4,327	4,598	4,869
		Terminal value growth				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	11.0%	4,901	4,920	4,941	4,964	4,992
	11.5%	4,742	4,750	4,760	4,771	4,783
	12.0%	4,598	4,599	4,600	4,601	4,601
	12.5%	4,469	4,463	4,456	4,449	4,441
	13.0%	4,351	4,340	4,327	4,314	4,298

Source: Erste Group Research

PKO BP

Dividend Discount Model in PLN	2013e	2014e	Stage I 2015e	2016e	2017e	Stage II 2018e-2027e	TV 2028ff
Total asset per share growth	5.9%	23.7%	7.0%	7.7%	6.0%	4.5%	
ROE	13.1%	14.4%	16.5%	18.0%	18.8%	16.7%	15.0%
BVPS	21	22	23	25	26		
Equity ratio	12.6%	10.9%	10.8%	10.6%	10.5%	11.6%	
EPS	2.6	3.1	3.8	4.3	4.8		
EPS growth	-12.1%	16.3%	22.8%	15.4%	9.7%	4.0%	4.0%
Payout ratio	30.0%	80.0%	80.0%	80.0%	80.0%	60.0%	
DPS	0.8	2.5	3.0	3.5	3.4		
Cost of equity	10.4%	10.4%	10.4%	10.4%	10.4%	10.5%	10.7%
PV stage I					9		
PV stage II						13	
Target P/BV							1.6
BV/PS 2028e							50
PV Terminal value							18
Equity value - DDM	40.4						
Equity value - DDM (12m)	44.6						
Equity value (12m) corrected for Nordea	42.3						

Equity value breakdown



Sensitivity of equity value (12m)

		Terminal value ROE				
		13.0%	14.0%	15.0%	16.0%	17.0%
Cost of equity	9.7%	40.0	42.9	45.9	49.0	52.2
	10.2%	38.5	41.2	44.0	46.9	49.9
	11.3%	37.2	39.7	42.3	45.1	47.9
	11.2%	36.1	38.5	40.9	43.5	46.1
	11.7%	35.1	37.4	39.7	42.1	44.6

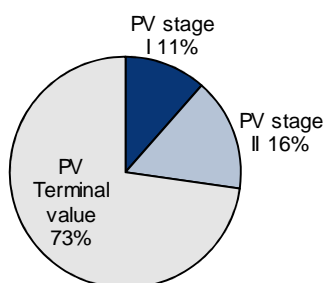
		Terminal value growth				
		3.0%	3.5%	4.0%	4.5%	5.0%
Cost of equity	9.7%	44.2	45.0	45.9	47.0	48.4
	10.2%	42.7	43.3	44.0	44.8	45.8
	10.7%	41.3	41.8	42.3	43.0	43.7
	11.2%	40.1	40.5	40.9	41.4	42.0
	11.7%	39.1	39.4	39.7	40.1	40.5

Source: Erste Group Research

Raiffeisen Bank International

Dividend Discount Model in EUR	Stage I					Stage II	TV
	2013e	2014e	2015e	2016e	2017e	2018e-2027e	2028ff
Total asset per share growth	-6.5%	-0.5%	0.6%	5.5%	6.5%	3.6%	
ROE	4.6%	8.0%	10.1%	13.8%	13.0%	9.0%	12.0%
BVPS	40.53	43.01	46.54	52.00	57.71		
Equity ratio	6.2%	6.6%	7.1%	7.5%	7.8%	10.0%	
EPS	1.82	3.33	4.52	6.79	7.12		
EPS growth	-32.5%	83.3%	35.5%	50.3%	4.8%	-0.2%	3.0%
Payout ratio	30.6%	26.1%	22.1%	20.1%	20.1%	20.0%	
DPS	0.56	0.87	1.00	1.36	1.43		
Cost of equity	11.5%	11.7%	12.0%	12.5%	13.0%	12.2%	11.4%
PV stage I					3.7		
PV stage II						5.1	
Target P/BV							1.1
BVPS 2028e							119
PV Terminal value							23.3
Equity value - DDM	32.0						
Equity value - DDM (12m)	35.7						
Undercapitalization of EUR 1.5 bn	-7.7						
Target price 12m	28.0						

Equity value breakdown



Sensitivity of equity value (12m)

		Terminal value ROE				
		10.0%	11.0%	12.0%	13.0%	14.0%
Cost of equity	10.4%	32.7	35.9	39.2	42.5	45.8
	10.9%	31.2	34.3	37.3	40.4	43.5
	11.4%	29.9	32.8	35.7	38.6	41.5
	11.9%	28.8	31.5	34.2	37.0	39.7
	12.4%	27.8	30.4	32.9	35.5	38.1

		Terminal value growth				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of equity	10.4%	38.6	38.9	39.2	39.6	40.0
	10.9%	37.0	37.1	37.3	37.6	37.8
	11.4%	35.5	35.6	35.7	35.8	35.9
	11.9%	34.2	34.2	34.2	34.3	34.3
	12.4%	33.0	33.0	32.9	32.9	32.8

Source: Erste Group Research

Scorecard model

In this section, we provide a detailed analytical framework to assess the relative attractiveness of the banking sectors and the bank stocks in our coverage universe. Our framework is based on a balanced score card model, which takes into account country-based and bank specific parameters. In identifying the relative positioning of the different countries in our country-based scorecard, we opted to focus on the macroeconomic factors and structural parameters of the banking sector in any given country. On the other hand, our bank scorecard model also incorporates risk, growth and profitability and valuation parameters. Lastly, we included a small cap adjustment factor in our model and multiplied the final scores of the banks, which have a market capitalization of less than EUR1.0bn with a coefficient of 0.5.

Country scorecard model

We built our country scorecard model by considering the macroeconomic and structural parameters of the banking sector. In identifying the parameters within these two sections, we also took into account growth and risk related parameters. Both our macroeconomic and banking market scorecard models incorporate 11 different parameters and we tried to focus on the forward-looking figures of the parameters as much as we could and incorporated the most recent figures when necessary. In deriving the output of the country-based scorecard, we assigned equal weights to the macroeconomic scorecard model and structural scorecard model.

Macroeconomic Factors			Structural Factors		
Parameter	Time Period	Weight	Parameter	Time Period	Weight
Avg. GDP growth	(2013E - 2014E)	10.0%	Customer loan growth	CAGR 2012-2015E	15%
Fiscal balance (% of GDP)	(2013E - 2014E)	10.0%	Loans/GDP	2013E	5%
Public sector debt (% of GDP)	(2013E - 2014E)	10.0%	Loans to households/GDP	2013E	5%
Current Account (% of GDP)	2013E	7.5%	FX loans/Total loans	latest	10%
Current Account (% of GDP)	2014E	7.5%	Loan/Deposit	2013E	10%
(CAD-FDI)/GDP	(2013E - 2014E)	10.0%	Wholesale funding/Total liabilities	latest	15%
External Debt	Latest, % of GDP	10.0%	NPL ratio	latest	5%
Unemployment	2013E	5.0%	NPL ratio	2014E	5%
Unemployment	2014E	5.0%	NPL coverage	%	5%
CPI %	(2013E - 2014E)	15.0%	Equity/Assets	latest	15%
CDS (5-year)	latest	10.0%	Total CAR	latest	10%

Source: Erste Group Research

Among the eight countries that we have incorporated into our model, Turkey has the highest average score followed by the Czech Republic and Austria. Although Turkey does not receive a high score on the macroeconomic parameters, its banking sector is far better than that of other countries and outweighs the relatively low score on the macroeconomic score.

- i. On the macroeconomic parameters, Austria receives the highest score due to the low risk-related parameters, followed by Romania and the Czech Republic. Romania ranks second in our model as we expect the country to attain the second highest GDP growth rate in the region after Turkey and since it also has a

relatively low risk profile in fiscal terms, sound balance of payments and good unemployment levels.

- ii. **On the banking sector's structural parameters, our model indicates that Turkey is the place to be both in terms of its growth potential and its banking system's financial strength.** After Turkish banks, the Czech Republic and Austria are the other markets that investors should be looking at, in our view.

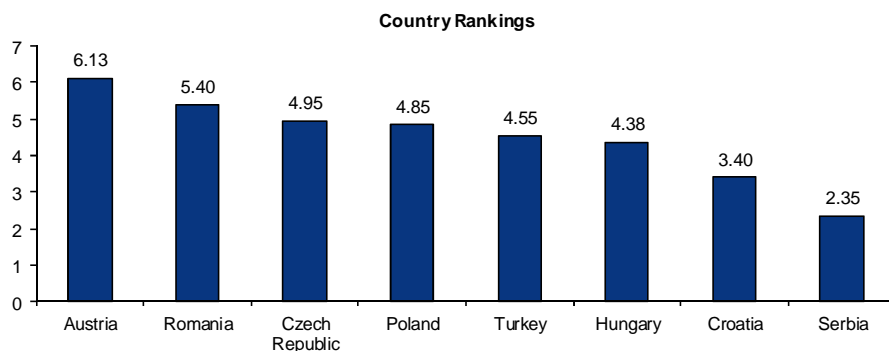
	Macroeconomic Factors		Structural Factors		Average Score
	Score	Ranking	Score	Ranking	
Turkey	4.55	5	6.55	1	5.55
Czech Republic	4.95	3	5.20	2	5.08
Austria	6.13	1	3.70	6	4.91
Poland	4.85	4	4.85	3	4.85
Romania	5.40	2	3.70	7	4.55
Hungary	4.38	6	3.25	8	3.81
Croatia	3.40	7	4.10	5	3.75
Serbia	2.35	8	4.65	4	3.50

Source: Erste Group Research

MACROECONOMIC PARAMETERS

	Avg. GDP growth	Fiscal bal. *	Public Debt *	CAD *		(CAD-FDI)/GDP	External	Unemployment		CPI %	CDS
	(2013-2014E)	(2013-2014E)	(2013-2014E)	2013E	2014E	(2013-2014E)	Debt (latest) *	2013E	2014E	(2013-2014E)	5-year
Weights	10.0%	10.0%	10.0%	7.5%	7.5%	10.0%	10.0%	5.0%	5.0%	15.0%	10.0%
Austria	1.1	-1.9	73.3	1.9	2.3	1.3	62.2	4.9	4.8	2.1	31.0
Croatia	0.0	-4.5	74.7	0.2	0.4	-3.0	102.3	16.9	17.2	2.5	329.3
Czech Republic	0.2	-3.0	46.7	-2.3	-1.8	-1.6	120.5	7.5	7.7	1.6	59.9
Hungary	0.7	-2.9	79.7	2.5	2.2	-5.6	126.9	10.5	10.5	2.4	292.7
Poland	1.8	-3.8	56.2	-2.9	-3.1	0.9	71.0	13.9	13.4	1.3	86.5
Romania	2.4	-2.7	37.7	0.1	-1.0	-0.7	75.3	6.9	6.8	3.6	196.1
Serbia	2.2	-4.7	63.4	-7.7	-7.4	4.5	86.2	24.0	23.1	6.9	n.a.
Turkey	3.9	-2.4	35.5	-7.3	-7.4	5.7	27.8	9.4	9.8	7.2	206.8
Scores											
Austria	4	8	3	7	8	3	7	8	8	6	8
Croatia	1	2	2	6	6	7	3	2	2	4	2
Czech Republic	2	4	6	4	4	6	2	6	6	7	7
Hungary	3	5	1	8	7	8	1	4	4	5	3
Poland	5	3	5	3	3	4	6	3	3	8	6
Romania	7	6	7	5	5	5	5	7	7	3	5
Serbia	6	1	4	1	1	2	4	1	1	2	1
Turkey	8	7	8	2	2	1	8	5	5	1	4

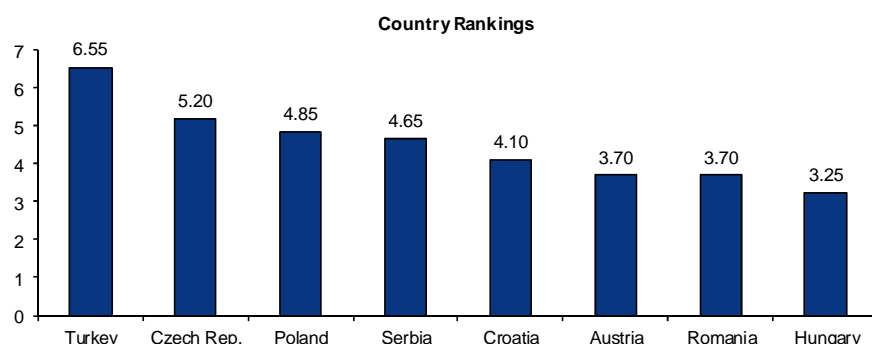
* % of GDP



Source: Erste Group Research

STRUCTURAL PARAMETERS OF THE BANKING MARKETS

	CAGR in Loans (2012-2015E)	Loans/ GDP 2013E	Household loans/GDP 2013E	FX Loans/Total Loans (latest)	Loan/Deposit (2013E)	Wholesale funding/Total liabilities	NPL ratio		NPL Coverage %	Equity/ Assets latest	Total CAR latest
							latest	2014E			
Weights	15.0%	5.0%	5.0%	10.0%	10.0%	15.0%	5.0%	5.0%	5.0%	15.0%	10.0%
Austria	3%	142%	43%	11%	124%	52%	3%	3%	72%	8%	16%
Croatia	3%	73%	36%	63%	109%	26%	14%	15%	43%	14%	21%
Czech Rep.	7%	64%	31%	15%	77%	19%	5%	5%	50%	7%	16%
Hungary	0%	54%	24%	56%	111%	42%	16%	17%	49%	9%	16%
Poland	8%	53%	36%	31%	110%	26%	9%	8%	68%	9%	15%
Romania	4%	48%	16%	46%	143%	33%	18%	20%	86%	8%	15%
Serbia	4%	61%	18%	61%	146%	25%	19%	17%	57%	21%	20%
Turkey	20%	66%	22%	28%	103%	21%	3%	3%	74%	12%	16%
Scores											
Austria	3	1	1	8	3	1	8	8	6	2	5
Croatia	2	2	2	1	6	4	4	4	1	7	8
Czech Rep.	6	4	4	7	8	8	6	6	3	1	3
Hungary	1	6	5	3	4	2	3	3	2	5	4
Poland	7	7	3	5	5	5	5	5	5	4	2
Romania	5	8	8	4	2	3	2	1	8	3	1
Serbia	4	5	7	2	1	6	1	2	4	8	7
Turkey	8	3	6	6	7	7	7	7	7	6	6



Source: Erste Group Research

Bank scorecard model

We formulated our bank-specific scorecard model in order to address investors' different views on banks' fundamental and valuation parameters. Accordingly, we focused on three categories, namely risk, growth & profitability and valuation, and analyzed the banks by using 15 parameters in these categories.

In setting the weights of these categories, we assigned higher weights to the growth & profitability and valuation parameters compared to the risk parameter. Given the region's improving growth outlook, albeit on a gradual basis, we think that investors will be geared more towards growth orientation rather than risk aversion.

Category	Category Weight (a)	Parameter	Ranking Criteria	Weight in Category (b)	Overall Weight (a) x (b)
Risk	25%	Loan/Deposit (2013E)	Low est ratio	25%	6.3%
		Wholesale Funding/Total Assets (2013E)	Low est ratio	25%	6.3%
		Equity/Assets (2013E)	Highest ratio	25%	6.3%
		Total CAR (2013E)	Highest ratio	25%	6.3%
Growth & Profitability	35%	Revenue Growth (2012-2014E)	Highest ratio	25%	8.8%
		Pre-provision income growth (2012-2014E)	Highest ratio	25%	8.8%
		Net Earnings Growth (2012-2014E)	Highest ratio	25%	8.8%
		Avg. ROE (2013-2015E)	Highest ratio	25%	8.8%
Valuation	40%	P/E (2014E)	Low est ratio	20%	8.0%
		P/BV (2014E)	Low est ratio	20%	8.0%
		Deviation of 12-mth fwd P/E from its L-T avg.	Low est ratio	10%	4.0%
		Deviation of 12-mth fwd P/BV from its L-T avg.	Low est ratio	20%	8.0%
		PEG (2013-2015E)	Low est ratio	10%	4.0%
		Earnings Yields - 10Y bonds	Highest ratio	10%	4.0%
		Upside to Target Price	Highest ratio	10%	4.0%

Source: Erste Group Research

As a result of our score card model, five Turkish banks stood out among the Top-10 banks, which have been highlighted our score card model. These banks stood out due to a combination of high scores received on growth & profitability as well as on valuation parameters. Although we do not see any major discrepancies in the scores received by Turkish banks, in our Top-10 list, we prefer **Yapi Kredi Bank** and **Halkbank** as they ranked at the top of the list thanks to their strong growth profile and stable profitability outlook as well as their attractive valuation levels.

- i. We believe that **Yapi Kredi Bank** is a good proxy for the lucrative retail market in Turkey as the bank derives 56% of its revenues from its retail operations. We think that management's approach to selective loan growth without denting profitability and achieving cross-selling, its effective and proactive funding base and capital management, its disciplined cost efficiency approach and strict focus on asset quality are the major strategic pillars that create value in the bank. Last but not least, the recent sale of its insurance arm contributes to its already-high total capital adequacy ratio, which was 15.8% on a bank-only basis as of 1H13, up by ca.80bp and provides ammunition for further growth. Based on our 2014E estimates, Yapi Kredi Bank trades at 0.93x of its 2014E P/BV and 7.9x of its 2014E earnings.
- ii. We view Halkbank as a solid play, which will benefit from the retail loan demand and maintain its high profitability while attaining growth. We remain confident on the three major profitability drivers as Halkbank operates with a relatively high net interest margin and low cost/income ratio and a cost of risk that result in high ROEs. Based on our 2014E estimates, Halkbank trades at 1.16x of its 2014E book value and 6.5x of its 2014E earnings.

The investment theme of Polish banks is more of a recovery story both at the macro level as well as on a bank-specific basis. We believe that the Polish economy will recover next year and anticipate GDP growth to accelerate to 2.4% in 2014 from its 2013 estimated level of 1.1%. Banks, being the best proxy to economic activity on a broad basis, should be the primary recipients of this growth and we remain positive on Polish banks. Among the banks in the Top-10 list, we rate **BZ WBK** as a **BUY** and **Bank Pekao** and **PKO BP** as **Accumulate**.

- i. Despite its outperformance, we continue to rate BZ WBK as a buy as we expect that its outstanding earnings momentum will continue to be boosted by the most recent acquisition of Kredyt Bank. We believe that the synergies will show up in BZ WBK's financials to a greater degree in 2014e and 2015e, which will warrant a higher valuation. In our ranking, BZ WBK earned most of its scores due to the expected CAGR of its earnings at 27% and its good risk parameters, while being relatively highly valued vs. its peers (14.3x P/E and 1.9x P/BV).
- ii. We rate Bank Pekao as "Accumulate" as we believe that the bank's best-in-class capitalization ratio puts the bank in a very comfortable situation for future growth, both organic and through acquisitions. We also think that Pekao will have a relatively high dividend yield (at ca. 6%) – while there is also the potential for payment of extra dividends providing a more favorable regulatory stance. In our ranking, the bank earns the most points for its low risk profile with a low L/D ratio and a high equity ratio and CAR.
- iii. In PKO BP, our Accumulate rating comes from our assumed synergies from the Nordea acquisition. Furthermore, since we also believe that if interest rates were to reverse, the bank should be able to improve its fundamentals. PKO derives its ranking due to growth and profitability factors (2013-2015e CAGR of net earnings at 19%), while the stock is relatively highly valued (1.7x P/BV 14e).

Raiffeisen Bank International's investment case is a regional recovery story as the bank generates 76% of its revenues from the CEE region and only 24% from Austria and other Western European countries.

High scores attained in growth & profitability mainly due to the low and provisions-driven profit basis in 2013 (profit warning with higher risk cost guidance for FY13e) and valuation parameters outweigh the low score on its risk parameters. At this point in time, we would like to point out that RBI is trading at a discount of more than 40% to its CEE peers, but in line with other Western European banks suffering lower than 10% core tier 1. Moreover, the pay-back strategy of the EUR 1.75bn state capital, which will be phased out under Basel 3 at the end of 2017 is still unclear. Nevertheless, we incorporated an undercapitalization of EUR 1.5bn in our target price.

Lastly, we view Komerční as a solid growth play, which has a low risk profile and a high gearing on the recovery of the Eurozone thanks to export-driven corporate clients in the Czech Republic. We anticipate the bank to deliver mid-term earnings growth over the next two years and deliver an ROE of 15%. On the other hand, having a low loan/deposit ratio, limited exposure to wholesale funding structures and low leverage enable the bank to have a favorable risk profile. We like Komerční also as a dividend play (currently 5.5% DY13e) and the relatively lower valuation

multiples compared to its Polish peers (1.6x P/B13e vs. 1.9x for big 4 Polish banks).

		Risk Factors		Growth & Profitability		Valuation			
Category Weight		25%		35%		40%		Avg.	Adj. Avg.
Bank		Score	Rank	Score	Rank	Score	Rank	Score	Score *
1	Yapi Kredi Bank	9.25	12	14	6	12.2	8	12.1	12.1
2	Halkbank	10.75	9	11	13	13.5	7	11.9	11.9
3	BZ WBK	14.25	6	18	1	5	19	11.9	11.9
4	Vakifbank	6.75	19	12.5	10	14.4	6	11.8	11.8
5	Raiffeisen Bank Intl.	4.25	21	12.75	8	15.4	5	11.7	11.7
6	Komercni	15	4	13	7	7.5	16	11.3	11.3
7	PKO	10.25	10	17.25	2	5.8	18	10.9	10.9
8	Garanti	8	16	14.75	4	8.4	15	10.5	10.5
9	Bank Pekao	16	3	11.25	12	3.8	21	9.5	9.5
10	Isbank	7.5	17	6.5	16	12.2	8	9.0	9.0
11	Akbank	7.5	17	10.25	15	8.5	14	8.9	8.9
12	OTP	14.5	5	2	21	11.2	10	8.8	8.8
13	BRE Bank	9.25	12	10.75	14	4.1	20	7.7	7.7
14	Aik Banka	19.5	2	6	18	19.7	1	14.9	7.4
15	Komercijalna Banka	19.75	1	4.75	20	19.7	2	14.5	7.2
16	BRD GSG	10	11	6.5	16	6.1	17	7.2	7.2
17	Bank Asya	6.75	19	15.75	3	17.1	3	14.0	7.0
18	Albaraka Turk	8.25	15	11.5	11	16.1	4	12.5	6.3
19	TSKB	12.5	7	14.25	5	10.9	11	12.5	6.2
20	Sekerbank	9	14	12.75	8	9.1	13	10.4	5.2
21	Banca Transilvania	11.75	8	5.5	19	10.3	12	9.0	4.5

* adjusted according to market capitalization factor

Source: Erste Group Research

RISK SCORECARD

		Loan/Deposits		Wholesale Funding/Total Assets		Equity/Assets		Total CAR		Avg. Score
Parameter Weight		25%		25%		25%		25%		
Bank		Score		Score		Score		Score		
1	Komercijalna Banka	89%	19	0%	20	18.2%	20	22.6%	20	19.75
2	Aik Banka	92%	16	0%	20	33.4%	21	35.5%	21	19.5
3	Bank Pekao	94%	15	3%	15	15.2%	17	18.7%	17	16
4	Komercni	83%	20	3%	16	12.6%	14	14.9%	10	15
5	OTP	109%	9	8%	12	15.6%	18	20.6%	19	14.5
6	BZ WBK	91%	17	1%	18	13.6%	15	14.6%	7	14.25
7	TSKB	106%	12	68%	1	15.9%	19	20.2%	18	12.5
8	Banca Transilvania	76%	21	1%	19	10.1%	5	13.6%	2	11.75
9	Halkbank	90%	18	12%	7	10.8%	7	15.6%	11	10.75
10	PKO	99%	13	7%	14	12.6%	13	13.3%	1	10.25
11	BRD GSG	111%	8	2%	17	12.3%	12	14.0%	3	10
12	BRE Bank	117%	4	8%	13	9.7%	4	18.2%	16	9.25
13	Yapi Kredi Bank	119%	3	17%	3	13.9%	16	17.7%	15	9.25
14	Sekerbank	108%	10	8%	11	12.1%	10	14.3%	5	9
15	Albaraka Turk	99%	14	13%	4	9.2%	3	15.7%	12	8.25
16	Garanti	113%	7	18%	2	12.0%	9	16.4%	14	8
17	Akbank	128%	1	13%	5	12.2%	11	16.0%	13	7.5
18	Isbank	117%	5	11%	8	11.4%	8	14.8%	9	7.5
19	Bank Asya	107%	11	10%	10	9.2%	2	14.1%	4	6.75
20	Vakifbank	115%	6	10%	9	10.1%	6	14.4%	6	6.75
21	Raiffeisen Bank Intl.	124%	2	12%	6	9.1%	1	14.7%	8	4.25

Source: Erste Group Research

GROWTH & PROFITABILITY SCORECARD

		Revenue Growth (2012-2014E)		Pre-provision income growth (2012-2014E)		Net Earnings Growth (2012-		Avg. ROE (2013- 2015E)		Avg. Score
Parameter Weight		25%		25%		25%		25%		
Bank		Score		Score		Score		Score		
1 BZ WBK	12%	18		25%	21	27%	18	15%	15	18.0
2 PKO	13%	20		16%	19	19%	16	15%	14	17.3
3 Bank Asya	14%	21		15%	17	28%	19	11%	6	15.8
4 Garanti	12%	17		14%	13	16%	12	16%	17	14.8
5 TSKB	12%	19		13%	11	13%	7	18%	20	14.3
6 Yapi Kredi Bank	12%	16		13%	12	16%	10	16%	18	14.0
7 Komerčni	11%	14		14%	16	15%	9	15%	13	13.0
8 Raiffeisen Bank Intl.	7%	6		18%	20	58%	21	10%	4	12.8
9 Sekerbank	11%	11		15%	18	19%	15	13%	7	12.8
10 Vakıfbank	11%	15		12%	10	18%	14	14%	11	12.5
11 Albaraka Turk	11%	13		11%	9	13%	5	17%	19	11.5
12 Bank Pekao	8%	7		14%	15	17%	13	14%	10	11.3
13 Halkbank	11%	12		10%	7	10%	4	20%	21	11.0
14 BRE Bank	10%	10		14%	14	16%	11	13%	8	10.8
15 Akbank	10%	9		10%	8	15%	8	16%	16	10.3
16 BRD GSG	0%	2		0%	2	49%	20	6%	2	6.5
17 İsbank	10%	8		8%	6	8%	3	14%	9	6.5
18 Aik Banka	4%	3		1%	3	22%	17	6%	1	6.0
19 Banca Transilvania	5%	4		7%	4	5%	2	14%	12	5.5
20 Komercijalna Banka	6%	5		7%	5	13%	6	8%	3	4.8
21 OTP	-1%	1		-6%	1	0%	1	10%	5	2.0

Source: Erste Group Research

VALUATION SCORECARD

		P/E (2014E)	P/BV (2014E)	Dev. of 12-mth fwd P/E from its L-T avg.	Dev. of 12-mth fwd P/BV from its L-T avg.	PEG (2013- 2015E)	Earnings Yield - 10Y bonds	Upside to Target Price	Avg. Score
Parameter	Weight	20%	20%	10%	20%	10%	10%	10%	
Bank		Score	Score	Score	Score	Score	Score	Score	Score
1 Ak Bank	3.1	21	0.2	-28%	18	14%	27%	17%	19.7
2 Komercijalna Banka	4.0	20	0.3	-51%	21	31%	19%	19%	19.7
3 Bank Asya	6.1	18	0.6	-24%	17	22%	7%	14%	17.1
4 Albaraka Turk	6.0	19	0.9	-28%	19	48%	7%	18%	18.1
5 Raiffeisen Bank Intl.	7.3	12	0.6	-15%	13	13%	12%	14%	15.4
6 Vakifbank	6.3	17	0.8	-17%	14	35%	3%	15%	14.4
7 Halkbank	6.5	15	1.2	-17%	15	87%	5%	27%	13.5
8 Isbank	6.9	14	0.9	-13%	11	87%	5%	17%	12.2
9 Yapi Kredi Bank	7.9	10	0.9	-6%	8	51%	3%	22%	12.2
10 OTP	9.5	7	0.7	-7%	9	n.m.	4%	5%	11.2
11 TSKB	6.5	16	1.1	-14%	12	49%	5%	13%	10.9
12 Banca Transilvania	7.1	13	1.0	-29%	20	145%	3%	15%	10.3
13 Sberbank	7.3	11	0.8	0%	5	39%	4%	7%	9.1
14 Akbank	8.4	9	1.3	-18%	16	57%	2%	1%	8.5
15 Garanti	8.4	8	1.3	-7%	10	51%	2%	12%	8.4
16 Komercni	10.7	6	1.5	-3%	7	69%	7%	11%	7.5
17 Bank Pekao	15.5	1	1.0	53%	1	32%	1%	6%	6.1
18 PKO	12.4	5	1.7	0%	4	64%	3%	12%	5.8
19 BZ WBK	15.3	2	1.9	10%	2	57%	2%	22%	5
20 BRE Bank	13.1	4	1.6	-2%	6	84%	3%	4%	4.1
21 BRD GSG	14.4	3	1.9	1%	3	85%	2%	13%	3.8

Source: Erste Group Research

Macro economic outlook

Real economy

Export-driven recovery, domestic demand picking up

The latest good news from the Eurozone also applies to CEE, where we see serious signs of recovery. CEE economies are gaining momentum in 2013 and outperforming core European economies, with growth rates mostly above the EU average. It is mainly an export-driven recovery, with the domestic components of GDP still lagging behind. However, both public and private domestic demand is starting to stabilize and contribute less negatively than in the past. The decline of investments has moderated, as companies need to gain more confidence about the prospects for recovery before they start to invest. High exports, enforced through a well performing German economy, led to low current account deficits (Hungary and Romania even have a positive C/A balance, see below).

CE 2Q13: Czech economy out of recession, Poland accelerated to 0.8% y/y, Hungary still volatile

Turning to country details, growth of the Polish economy accelerated to 0.8% y/y in 2Q13, from 0.5% y/y in 1Q13, with the help of a slight recovery of household consumption. However, we expect that it will be net exports that drive this year's economic growth rate of 1.1%. The very strong Czech GDP data for 2Q of +0.6% q/q (-1.3% y/y) is probably the best news from the region, but should be seen in the light of the extremely poor 1Q data, which was strongly distorted by a temporary decline of inventories. The economy emerged from recession, but the full-year growth will remain in negative territory (-0.8%) this year. The Hungarian growth figures for 2Q13 came in at 0.5% y/y (+0.1% q/q), but the economy is still volatile and our forecast for this year is 0.2%.

SEE 2013f: Romania's C/A surplus to support export-driven GDP growth of 2.5%, Turkey with different dynamics to +3.6%

The ongoing external rebalance of the Romanian economy should have a positive effect on that country's GDP growth. The annualized C/A deficit shrank to an estimated 1.2% of GDP at the end of June 2013, from 3.9% of GDP in 2012, supported by stronger export of services. We expect the Romanian economy to expand 2.5% this year. Finally, Turkey has to be considered to be following different dynamics than the other CEE countries, with a strong domestic market and less export exposure to core Europe. However, the possible military intervention in Syria and pressure on the currency by US FED tapering are a bigger problem for the Turkish economy than for other CEE countries. Our growth forecast for 2013 is 3.6%.

Real GDP growth (%)	2011	2012	2013f	2014f
Czech Republic	1.8	-1.2	-0.8	1.3
Hungary	1.6	-1.7	0.2	1.2
Poland	4.3	1.9	1.1	2.4
Romania	2.2	0.7	2.5	2.3
Serbia	1.6	-1.7	1.8	2.5
Turkey	8.8	2.2	3.6	4.2

C/A (%GDP)	2011	2012	2013f	2014f
Czech Republic	-2.7	-2.5	-2.3	-1.8
Hungary	0.8	1.7	2.5	2.2
Poland	-4.7	-3.5	-2.9	-3.1
Romania	-4.5	-3.9	0.1	-1.0
Serbia	-9.1	-10.5	-7.7	-7.4
Turkey	-9.7	-6.0	-7.3	-7.4

Source: Erste Group Research

Leading indicators positive

On top of the relatively positive 2Q GDP data, leading indicators make us even more confident about the ongoing economic rebound in CEE. Manufacturing PMI data arrived in the expansion zone for all CEE countries (above the 50 threshold) for the first time in a while in August. Polish industrial output increased 6% in July, after an overall negative performance in 1H13. Consumer confidence, which had been a primary source of the dismal performance of household consumption in CEE until 1Q13, improved

considerably in the Czech Republic and Poland in July-August. Retail sales have already been growing in Poland and July figures for the Czech Republic and Hungary are also positive.

Monetary policy

**PL finished, HU continues,
RO just started rate-cutting cycle**

Strong CB action in several CEE countries has stimulated the economy in 2013. In recent months, we experienced rate-cutting cycles in Poland and Hungary (reduction of 225bp in PL, 320bp in HU). While the cycle has ended in Poland, even the global increase of yields and risk premiums did not prevent the Hungarian central bank from making further rate cuts. We see limited room for more monetary easing, given the approaching decline of asset purchases by the US FED and uncertainties surrounding the planned FX debt relief program. The Romanian central bank is in full easing mode. It decided to take a bold step and cut the key rate 50bp to 4.50% in August. Disinflation in July and planned cuts of the VAT rate in September should keep the NBR in easing mode. We thus think that the NBR will continue to cut rates and foresee the key rate at 4% in December.

**TR unlikely to tighten monetary
policy; prefers IR over currency
stability**

In Turkey, the CB is unlikely to tighten monetary policy in the near future, despite a rather high inflation outlook (7.4% 2013 eoy) and a weak lira. The CBT believes that the global policy outlook poses significant risk and prefers interest rate stability at the expense of currency volatility. The CBT is also not preparing any new tools for FX sales, which creates upside risks to our 2.03 USDTRY year-end forecast.

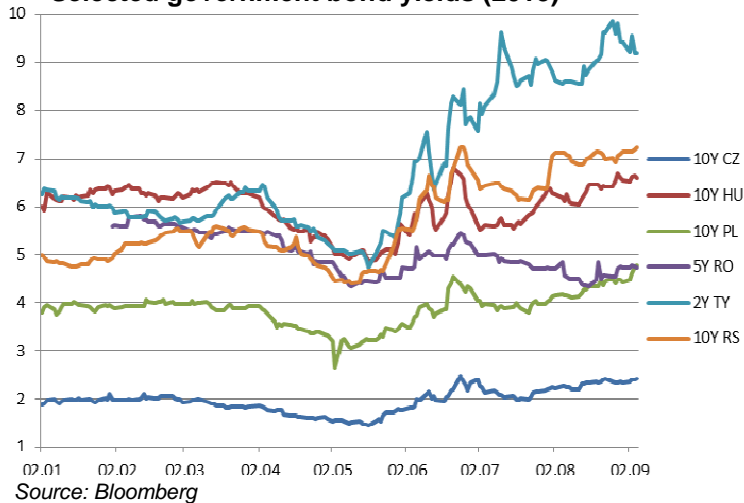
Inflation at low levels

Inflation reached (record) low levels in some CEE economies in 1H13 (HU, PL, CZ). Average inflation forecasts for 2013 are low or at least lower than the year before throughout the spectrum (with Romania as the sole exception). However, the economic recovery should lead to an increase in inflation near target levels by the end of the year.

Fixed income and foreign exchange

**FX and FI markets expected to
remain volatile in near future**

The better than expected economic development should normally translate into a reduction of risk premiums and currency appreciation. However, global factors such as the FED's tapering and rising concerns about possible military intervention in Syria increase risk aversion, with a negative impact on emerging markets. Among CEE countries, Turkey has been hit the hardest, due to its high dependence on portfolio capital inflows and potential exposure to the conflict. The TRY has lost 15% in absolute terms since May and underperformed its peers by almost 6% during this period. Should any military intervention joined by Turkey be short lived, then the consequences for Turkey could be less material. In the event that the attacks turn into a long-lasting war, Turkey would feel the pain not only from higher energy prices, but also from weaker consumer and business sentiment, in addition to lower tourism revenues.

Selected government bond yields (2013)


FX	Current	2013Q4	2014Q1	2014Q2	2014Q3
EURCZK	25.76	25.47	25.18	24.96	24.74
forwards		25.74	25.65	25.53	25.49
EURHUF	301.3	295.0	292.5	290.0	287.5
forwards		304.5	306.8	309.1	311.6
EURPLN	4.28	4.15	4.07	4.04	4.02
forwards		4.31	4.33	4.36	4.39
EURRON	4.47	4.50	4.50	4.49	4.48
forwards		4.52	4.55	4.59	4.62
EURRSD	114.3	116.0	116.0	116.0	116.0
forwards		-	-	-	-
USDTRY	2.07	2.03	2.03	2.05	2.04
forwards		2.12	2.16	2.21	2.26

Given that the recovery of the Czech economy is mainly export-driven, while inflation remains low, FX interventions are still not fully off the table (although their likelihood has declined). Any appreciation of the CZK closer to the 25-25.50 range or a decline of inflation below 1% (currently 1.4%) may trigger CNB action.

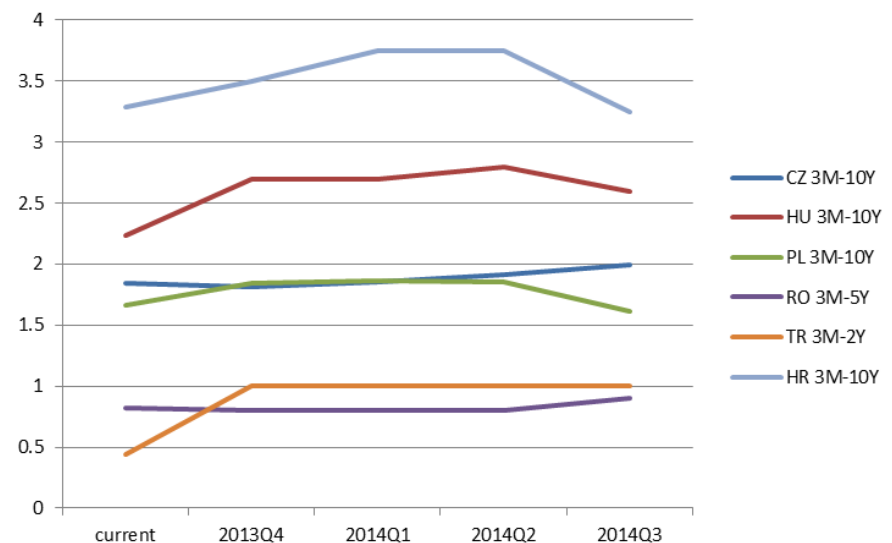
Rally on bond market stopped by Fed announcement

We witnessed a rally on bond markets until mid-May, due to strong central bank action taking pressure off the Eurozone debt crisis. Sentiment changed with the announcement by the FED that it would stop the bond purchasing program in the near future, which led to jittery market reactions which were only calmed down by announcements of the ECB and FED that policy would still be accommodative in future. We think that there will still be some downward correction in yields in the near future. However, our expectation of a further recovery of the Eurozone economy will lead to gradually higher yields on FI markets in the medium run. Bond markets are expected to be moved less by the debt crisis/ safe haven flows, but rather by interest rate expectations and economic developments, which would be a clear structural break from past movements. However both, FI and FX markets should exhibit high volatility in the near future.

Yield curves steepened with improving economies

We saw a steepening of yield curves everywhere in the region over the last month, in accordance with yield curve developments in the Eurozone and the USA. In the case of Hungary, the yield difference of 10Y and 3M government papers has been down to almost 0.5% at the start of the year, while it was at 3% at beginning of September. The reason for the general trend has to be seen in improving macroeconomic conditions and, connected to that, the announcements of the Fed in May and June that it may taper the bond-buying program in the coming months. The bond purchase program kept the long end of the curve artificially low.

Short and long term government paper yield difference (forecasts)



Source: Erste Group Research

Fiscal policy

CZ early election in October; news on FX debt relief program in HU expected in autumn

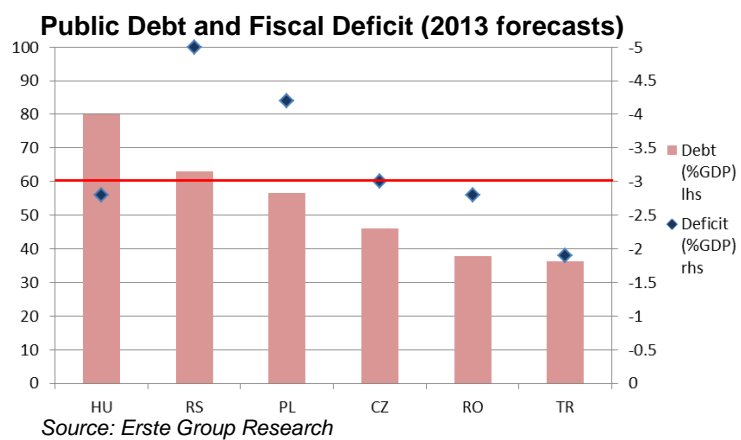
The consolidation measures carried out in previous years are showing success. Hungary and Romania left the Excessive Deficit Procedure (EDP) of the European Commission in June, while the Czech Republic is on track to leave by the end of 2013. The result of the Czech early election at the end of October should not have any great impact on the plan to exit EDP or on fixed income markets in general, but some industries (banks, telecoms, utilities) could face a risk of increased taxes. Hungary is expected to meet the deficit forecast of -2.8% this year, which should mean that the Hungarian government will implement further unorthodox consolidation measures. However, the upcoming elections in 2014 mean that there is some uncertainty about this. Another important topic is the new FX debt relief program. There is currently very little information available, but the new program might cause market tensions. Romania, on the other hand, agreed with the IMF on a new precautionary loan worth 4bn EUR.

Polish government scales down private pension pillar

Slippage in tax revenues due to the economic downturn leaves it unclear as to when Poland will be able to meet its nominal fiscal targets. Legislative debt ceilings limit the possibilities for fiscal policy, so the Polish government proposed changes to the pension system in early September. The debt part collected by Open Pension Funds (OPF) will be moved to the pay-as-you-go system, and within three months everyone will have to make a declaration as to whether they want to stay in OPF or to move to the national system, which could leave OPF with very little funds left. After the change to the pension system, public debt will drop to around 47% of GDP (2013 forecast is at 56.5%).

IMF deal still on hold in Serbia

Disappointing fiscal performance in Serbia (deficit of -6.4% of GDP in 2012) led the IMF to suspend a loan in February 2012 and there was still no progress made on a new agreement. While the favorable external financing situation has helped Serbia to finance its debt so far, risk remains unchanged and the country still has to prioritize a sound fiscal deficit (expected at -5% in 2013).

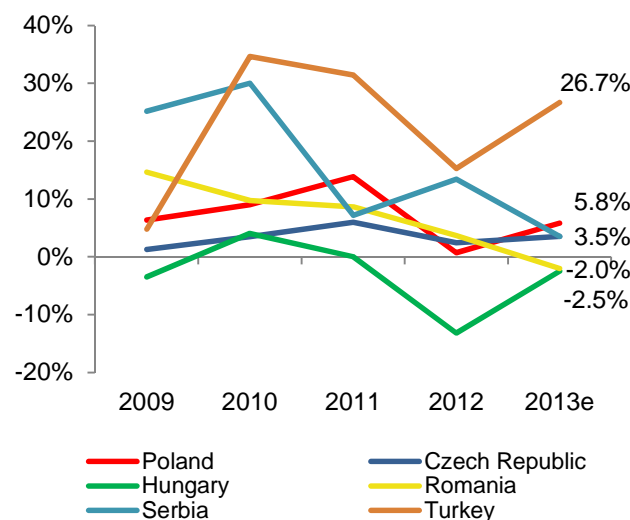


	Public Debt (%GDP)			Budget Balance (%GDP)		
	2012	2013f	2014f	2012	2013f	2014f
Czech Republic	45.9	46.0	47.3	-4.4	-3.0	-3.0
Hungary	79.2	80.0	79.3	-1.9	-2.8	-2.9
Poland	55.6	56.5	55.9	-3.9	-4.2	-3.5
Romania	37.8	37.8	37.7	-2.9	-2.8	-2.5
Serbia	59.3	63.0	63.9	-6.4	-5.0	-4.5
Turkey	36.1	36.2	34.8	-2.0	-1.9	-2.9

Market developments in CEE

Given promising macro data showing up in some CEE countries for 2Q13, the most recent local national bank data (as of July 2013) only in the case of Poland confirmed the improving loan growth trends. Unfortunately, the Czech Republic and Romania did not fully prove the earlier data, mainly due to ongoing weak demand from corporates. Therefore, the retail segment remained the main contributor to growth in most countries. In Romania housing loans were the only growth segment, whereas corporate and consumer loans contracted. While in Poland the investment loans for the second month in a row improved, which is actually a good sign for economic recovery, the remaining corporate segments performed modestly. In Hungary we probably saw deleveraging reaching the bottom in 2Q13 mainly due to the Funding for Growth Scheme which pushes SME loan demand and some volume increase will be visible in the coming quarters. Still, as of year-end 2013 we expect Hungarian loan volumes to contract 2.5% y/y, followed by Romania (-2.0% y/y). We expect the Czech Republic and Poland to show moderate growth this year (+3.5% y/y, +5.8% y/y, respectively) with accelerating pace in 2014, however, still in the single digits.

Loan growth dynamics 2009-2013e



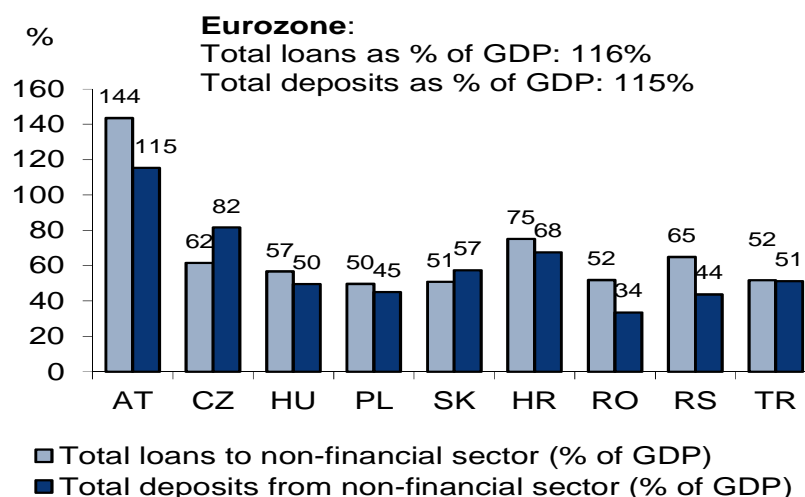
Source: Local central banks, Erste Group Research

Concerning asset quality, we have seen stabilizing NPL ratios in the Czech Republic (6.0%) and improvements in Poland (8.8%) but further deterioration in Hungary (18%) and Romania (20.9%), however, with diminishing pace in Hungary. The good news for Romania and Hungary is the further decreasing reliance on external funding. While Hungary was able to halve the external funding in five years, the reliance of Romanian banks on wholesale funding from parent banks remained high, although the FX loans/deposit ratio has been on a descending path since end-2011.

All in all, we see the structural benefits of countries like Poland and the Czech Republic providing the ground for accelerated growth in 2014 and beyond. Not only the diminishing risk costs but also accelerating revenue generation from rising volumes and improving net interest margins (rate hikes might start in the second half of 2014) as well as tight cost control

might trigger bottom line growth starting next year. Threats for the profitability of banks in those countries could come from the fiscal side rather than the operating side (banking tax discussions, corporate tax increase). In Hungary, Romania and Serbia the major challenge is the reduction of risk costs and finding a balance between growth, margins and risk costs for optimized and sustainable profitability. Capitalization issues at least should not hold back these developments.

Penetration rates of loans and deposits 2012



Czech Republic

CZ: Loan growth pace diminished to +3.5%, due to flat corporate loans

The CNB data for the end of July still does not indicate an improved loan growth trend. In contrast, the annual growth rate dropped to +3.5% (vs. +4.6% as of end-March). The main reason is the decelerating corporate loan growth pace to almost zero, with a negative sequential pace of -1.5% q/q (vs. +2.2% q/q in 1Q13). On the other hand, the retail loan growth pace was confirmed at +3.4% (+1.1% q/q). This is mainly driven by a stable housing loan growth rate of +3.2% y/y (+0.9% q/q), whereas consumer loan volumes further declined (-1.0% y/y). Customer deposits were flat over 1Q13, but showed 4.8% annual growth, keeping the loan/deposit ratio at a favorable 75%.

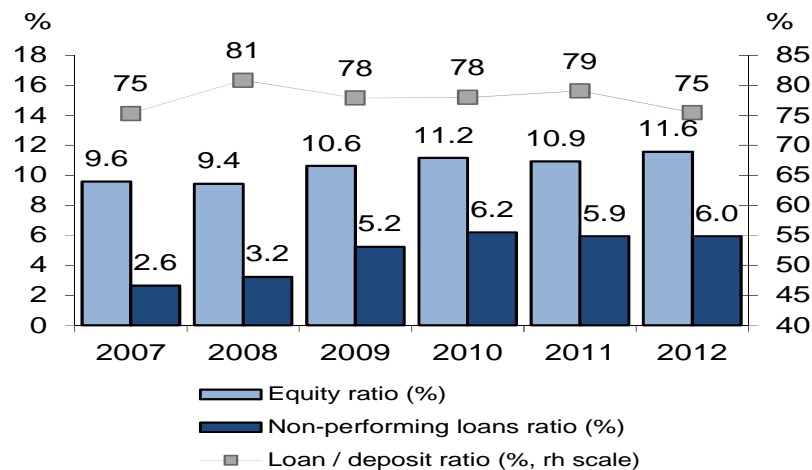
Asset quality stable with 6.0% NPL ratio

The asset quality trends were mainly stable. The non-performing loan growth pace diminished to 4.7% y/y (from 5.3% at the end of March), which implies a flat NPL volume q/q. The NPL ratio still stands at 6.0%. However, the loss category of NPLs increased its growth pace to 9.2% (vs. 8.3% in 1Q13), moving the loss NPL ratio up 10bp to 3.5%.

Yields picked up since end of May

The major banking system characteristics remain unchanged, with low FX exposure (16.5%) and funding from deposits. The Czech banking sector runs one of the lowest loan/deposit ratios in CEE, at 75%, which leads to banks investing the deposit overhang in bonds. However the re-investment yields have been under pressure for several years, with 10y bonds coming down to 1.5% at the end of May 2013, from 5.9% in 2009. But yields have picked up since May, to 2.44% for 10y bonds, which should improve investment yields in 2H13.

CZ: Asset quality and funding quality



Source: CNB, Erste Group Research

Banking sector data (July 2013)

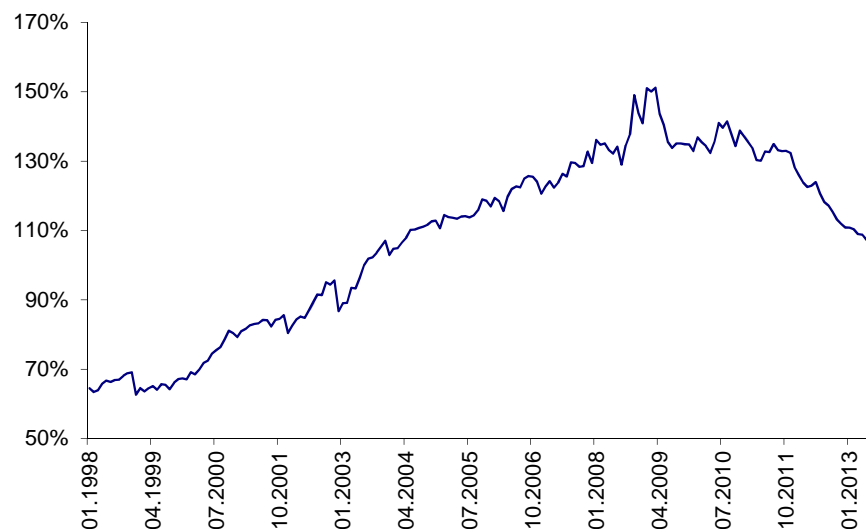
(CZK bn)	2010	2011	2012	31.03.13	30.06.13	31.07.13
Total assets	4,331	4,611	4,778	4,938	4,885	4,898
Total loans to non-financial sector	2,175	2,304	2,360	2,410	2,425	2,424
Loans to private enterprises	780	828	835	854	841	836
Loans to households	1,028	1,095	1,132	1,132	1,145	1,149
Housing loans	832	854	886	887	895	899
Consumer loans	163	159	157	156	157	158
Total deposits from non-financial sector	2,788	2,914	3,128	3,233	3,225	3,263
Total assets y/y (%)	2.7	6.5	3.6	4.3	1.9	1.9
Total loans to non-financial sector y/y (%)	3.5	6.0	2.4	4.6	3.5	3.5
Loans to private enterprises y/y (%)	-0.3	6.2	0.9	2.6	0.1	0.2
Loans to households y/y (%)	9.3	6.5	3.4	3.1	3.4	3.4
Housing loans y/y (%)	4.5	2.7	3.8	3.4	3.2	3.2
Consumer loans y/y (%)	2.5	-2.5	-1.3	-1.7	-1.0	-1.0
Total deposits from non-financial sector y/y (%)	3.3	4.5	7.3	7.0	4.8	4.8
Loan / deposit ratio (%)	78.0	79.1	75.5	74.5	75.2	74.3
FX loan exposure (%)	13.8	14.9	14.6	16.0	16.5	16.3
Non-performing loans ratio (%)	6.2	5.9	6.0	6.0	6.0	6.0
Non-performing loans ratio (%) - loss	2.89	3.10	3.44	3.38	3.47	3.52

Source: CNB, Erste Group Research

Hungary**Hungarian banking sector has strong deleveraging**

Since the peak was reached at a loan to deposit ratio of around 150%, strong deleveraging has been visible in the Hungarian banking sector, thanks to the improved saving activity of households and at the same time the paying back of loans taken out earlier. The final repayment of FX mortgages, at the end of 2011 and beginning of 2012, accelerated this movement, as did the reduction in personal income taxes. By the beginning of this summer, the loan to deposit ratio fell to 107%, a level last seen in mid-2004, at the beginning of the FX lending boom. The most probable reason that the loan to deposit ratio increased to 109% by the end of July was that the central bank initiated the Funding for Growth Scheme (FGS), in which banks included in the scheme received funding from the National Bank of Hungary (NBH) at an interest rate of 0% and were allowed to lend the funds at 2.5% to SMEs in the value of HUF 425bn and HUF 325bn for new HUF loans and for exchanged FX loans, respectively, from June until the end of August. Because of the success of FGS program, it was extended by HUF 2,000bn this September, with an expiry date of December 31, 2014, and in tranches of HUF 500bn. This means that deleveraging has most probably reached its bottom this summer and that some increase will be visible in the coming quarters.

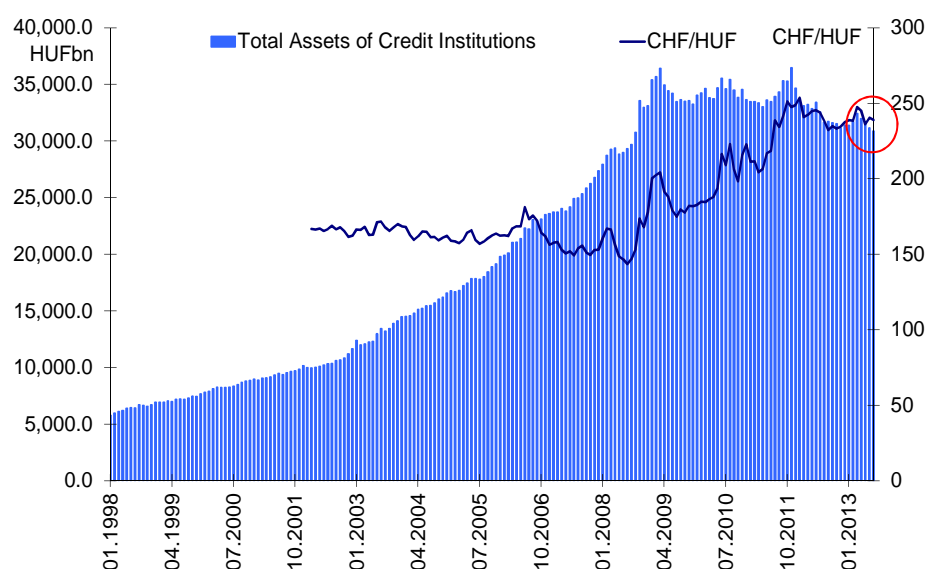
Loan to Deposit ratio



Source: NBH, Erste Research

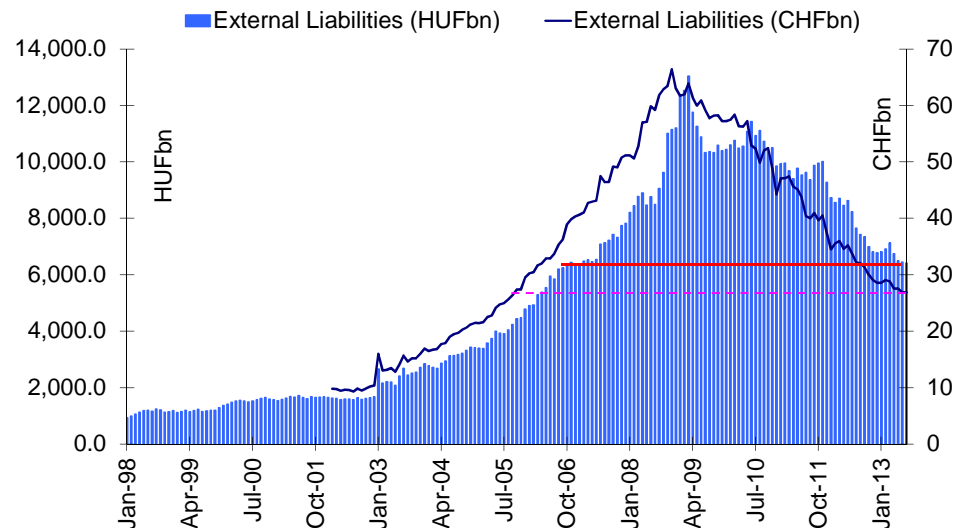
The total assets of banks showed almost continuous decline (-13.2%) from the peak of HUF 35,500bn in mid-2010 to now, due to weak demand from households and other market players, while the increased risk aversion of banks also did not help. The total asset value of banks has had a strong correlation with the CHF/HUF FX rate from the beginning of 2012 until now. Two to three months ago, this correlation was broken. The assets of banks declined further, while the FX rate of CHF/HUF increased. Overall, the total assets of banks have experienced many years of contraction and there will most probably be some revival in this ratio, for which the FGS program can be thanked. As a consequence, we expect a 2.5% decline in the loan book this year, after the approx. 6% fall in the first half of the year. Growth of 1% is likely next year, with a subsequent +3% in 2015.

Total Assets of Credit Institutions versus FX rate



Source: NBH, Erste Research

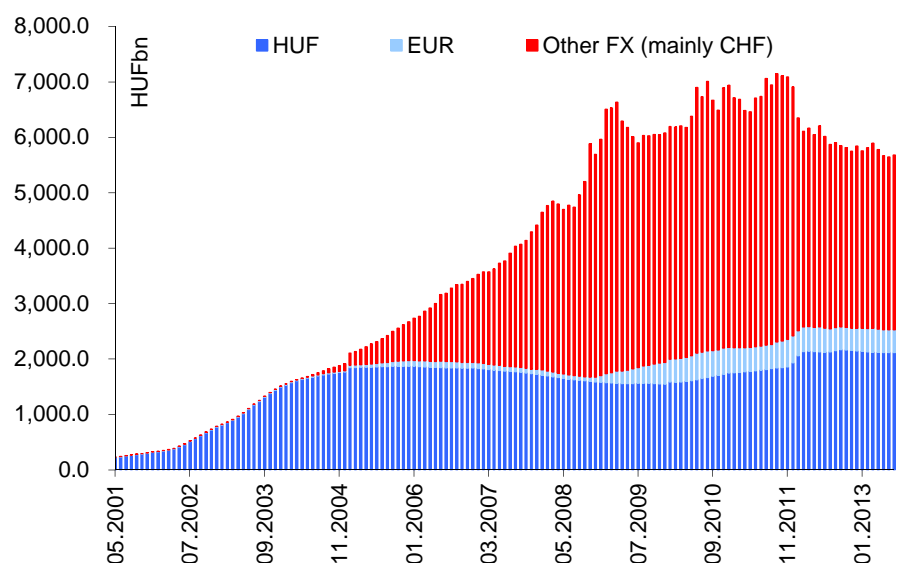
External Liabilities of Credit Institutions in Hungary in HUF and in CHF



Source: NBH, Erste Research

External financing of the banking sector reached its peak just at the beginning of financial crisis, with a value of CHF 66bn or EUR 43bn. Since then, strong adjustment has been seen, with external funding showing a continuous decrease. By the end of July, external financing fell to CHF 26.8bn, or EUR 21.5bn, meaning that it has approx. halved in less than five years. In CHF terms, the present level is the same as it was in 2004, while in HUF terms it is on the 2006 level, due to the depreciation of the Hungarian currency since then. This external funding mainly comes from EMU banks with subsidiaries in Hungary. Austrian banks had an especially high exposure to Hungary, although this is significantly less right now and this fact improves the flexibility of these banks.

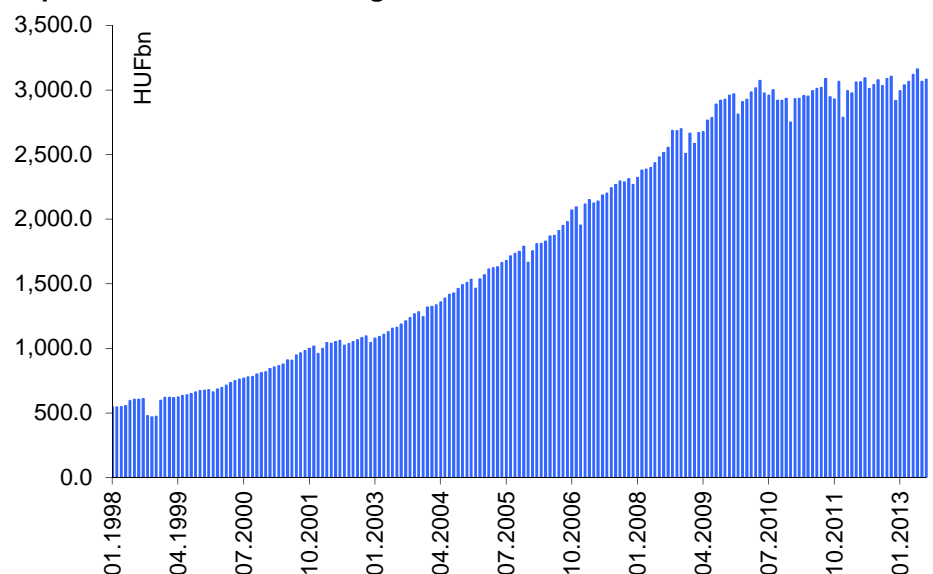
Breakdown of Households Mortgage Loans



Source: NBH, Erste Research

Until the beginning of the crisis, banking sector equity had increased dynamically; in roughly 10 years, it had increased to six times the level it was in 1998. In 2008-09, the financial crisis had its first effect on the profitability of banks, while political movements had further negative effects on the P&L of banks. First, the banking tax deteriorated the profitability of financial institutions from 2011. The tax causes an annual cost of some HUF 130bn for the banking sector and, according to present legislation, there is no end date set for it. The final repayment at the end of 2011 and beginning of 2012 caused overall losses for banks of HUF 370bn on the gross level, but 30% of this was deducted from the banking tax, causing a net loss of HUF 260bn for the banking system. In 2013, a new tax emerged called the FTT (Financial Transaction Tax), which is 60bp on cash withdrawals and 30bp on electronic payments. As most of this cost can be passed on, it has a limited effect on P&Ls. On the other hand, the government introduced a one-off tax which was based on the FTT paid for the period January- April and banks had to pay 208% of that, or some HUF 75bn. Most banks accounted this amount in 2Q13 (OTP paid and accounted it in 2Q13, while FHB paid it in 2Q13, but accounts it proportionally in each quarter in this year). It is therefore no surprise that the banking sector posted a loss of HUF 49.7bn in 2Q13, after profit of HUF 73bn in 1Q13 (4Q12 was also a loss-making period, with a loss of HUF 31.4bn, according to data from the market watch dog).

Capital and Reserves of Hungarian Credit Institutions



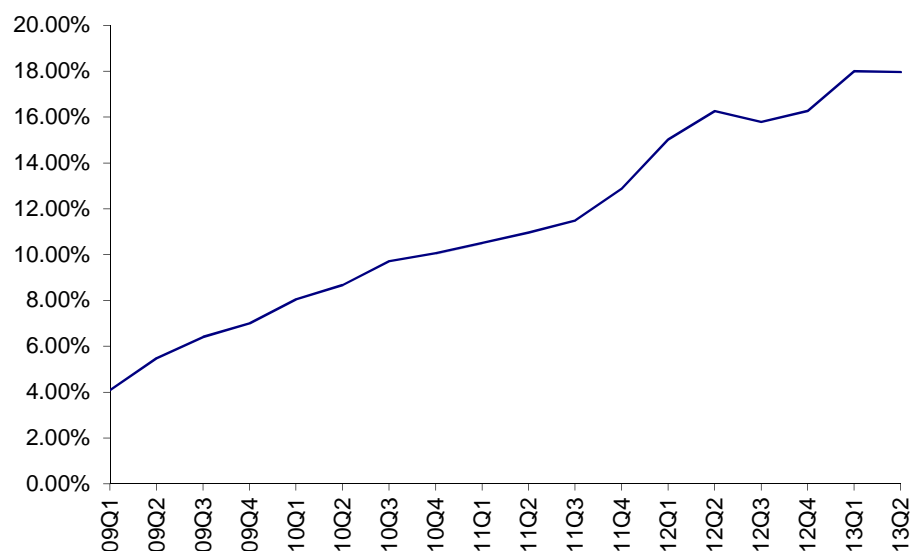
Source: NBH, Erste Research

The business environment was also a drag on profit, as the NPL ratio showed a dynamic increase to around 18% by 2Q13, from the 4% visible in 1Q09, at the beginning of the crisis. In the last four quarters, the NPL formation has slowed down and is expected to be saturated in the coming quarters, if no further shock comes from abroad or from the political side in Hungary. This slowdown of formation is not being helped by the recently announced relief plan for FX mortgage borrowers; this has increased the uncertainty on the market, as the details are as yet unknown. Banks must provide a solution for the FX mortgage 'problem' by the beginning of November. The corner points of the plan are: (i) change FX mortgage loans to HUF (either only home loans or also home equity loans; this is still unclear) in one or more steps, and (ii) reduce the monthly installments of FX debtors to the same level as if they had originally had HUF loans. It seems

that a costless solution is there, but the final solution could also cause huge losses. What we are certain is that there are uncertainties surrounding the plan.

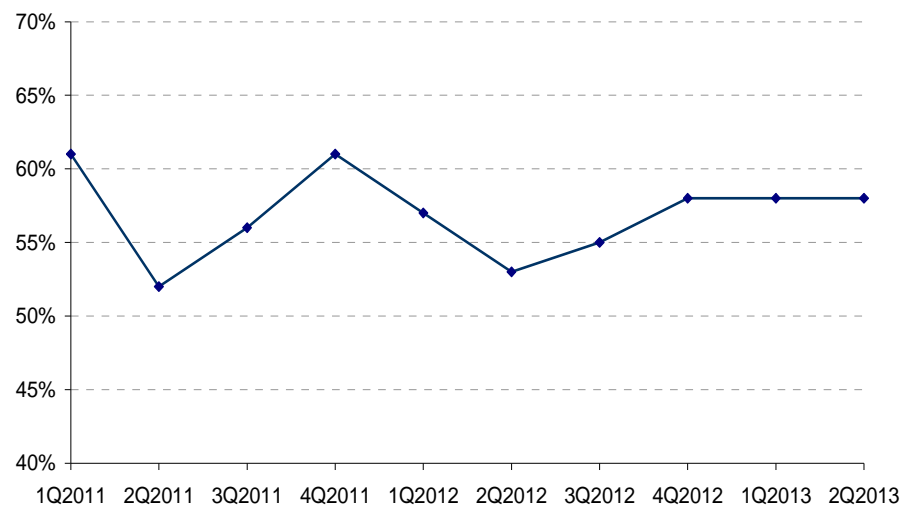
The NPL coverage ratio in the Hungarian banking system was 58% in 2Q13. The headline is misleading, as OTP has a very high coverage ratio of over 80%, while other banks have significantly less coverage. Without OTP, the average coverage of bad loans is 53% in the banking system. The NPL coverage ratio lags a bit behind this figure, as it stood at 52% by the end of June. As the NPL formation is slowing down in the coming quarters, banks will most probably gradually increase their bad loan coverage to around 60%. This means that provisioning could start to decline in only 3-4 quarters for most banks (excluding OTP, which is in a better situation than the others).

NPL ratio on household loans (%)



Source: NBH, Erste Research

NPL coverage of Hungarian banks (%)



Source: NBH, Erste Research

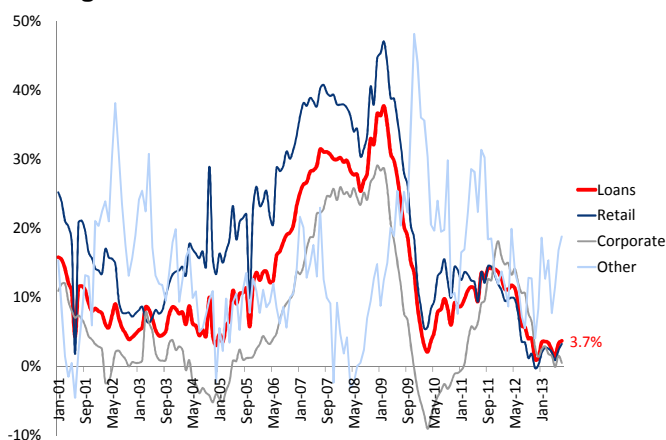
Poland

Sector outlook

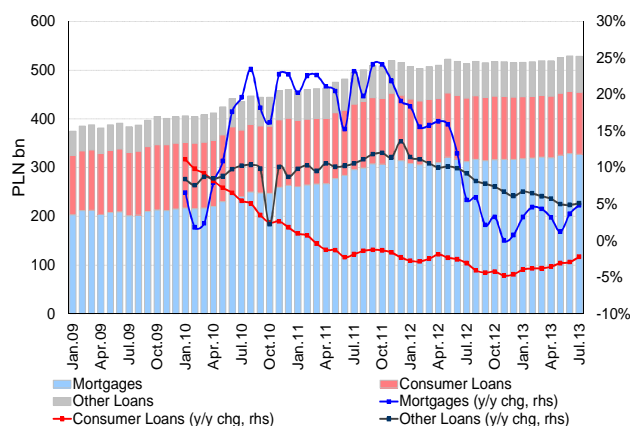
Lending volumes in Poland remain moderate

The dynamics of the main banking volumes, which are the main determinant of banks' current and next quarters' profitability and growth were far from satisfactory in 2013. Total loans were up by 3.7% y/y in July 2013 (including the public institutions), with retail and corporate loans up by 3.3% and 0.5% y/y, respectively. In corporate loans, some positive developments are visible (investment loans have been slightly increasing for the second month in a row, after six months of y/y declines.

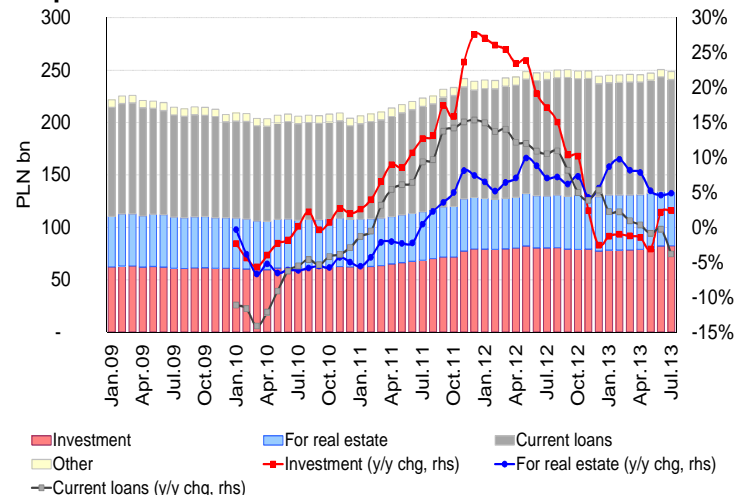
Loan growth



Retail loans



Corporate loans



Source: National Bank of Poland, Erste Group Research

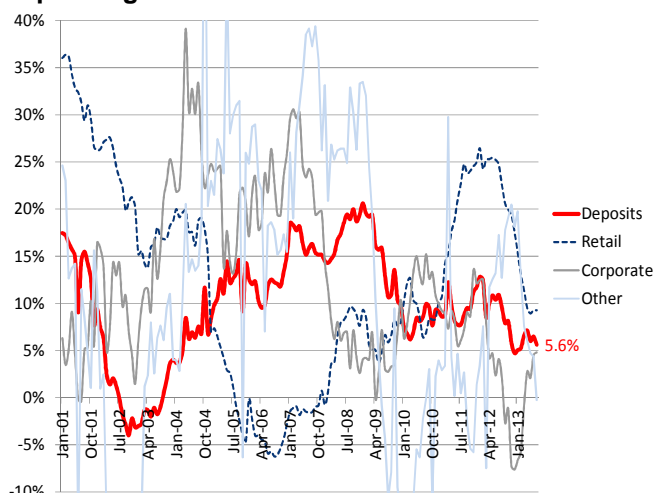
We believe that the retail lending will speed up towards the end of 2013e

Our base case scenario is that relaxing the regulatory stance vs. consumer loans, along with the all-time low money market rate, will cause retail loans to start to pick up in the coming months, which should induce growing consumption going forward. As far as corporate loans are concerned, we would not expect a significant pick-up until the end of this year, although some base effects may show up in December 2013. We would expect that the pickup in corporate loans should be driven by increased consumption and hence enhanced investments, which should be additionally supported by EU-financed projects.

The deposits are growing at 5.6%, a shift from term to current is observable

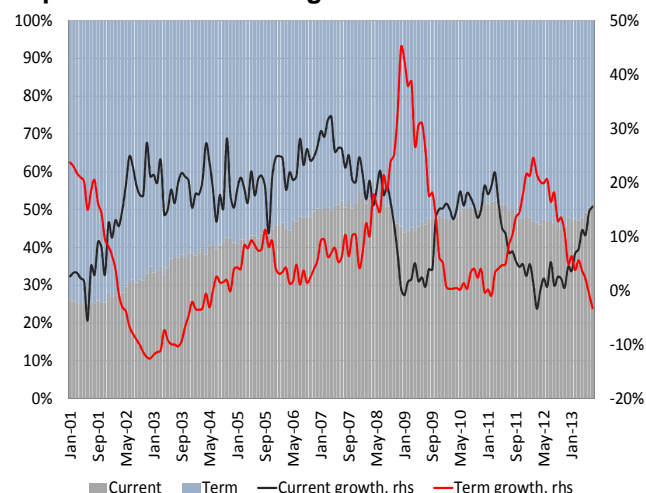
The total growth of deposits amounted to 5.6% y/y in July 2013 and the contribution was more from the retail side (9% y/y) than the corporates (+4% y/y). As far as the duration, due to record-low money market rates and aggressive re-pricing by the banks, term deposits were down by 3.2% y/y and current deposits were up by 15.5% y/y. As a result, many banks were able to optimize their NIMs as they were replacing more expensive funding with cheaper funding. Due to these developments the L/D ratio remained at a relatively high level (111%).

Deposits growth



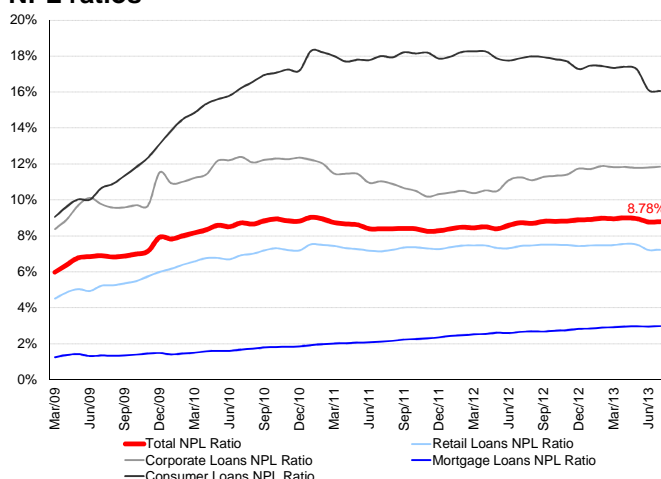
Source: National Bank of Poland, Erste Group Research

Deposits structure and growth



Contrary to earlier fears of a more profound impact due to the slowdown in the Polish economy on banks' NPL and the cost of risk, none of those developments were observed so far.

NPL ratios

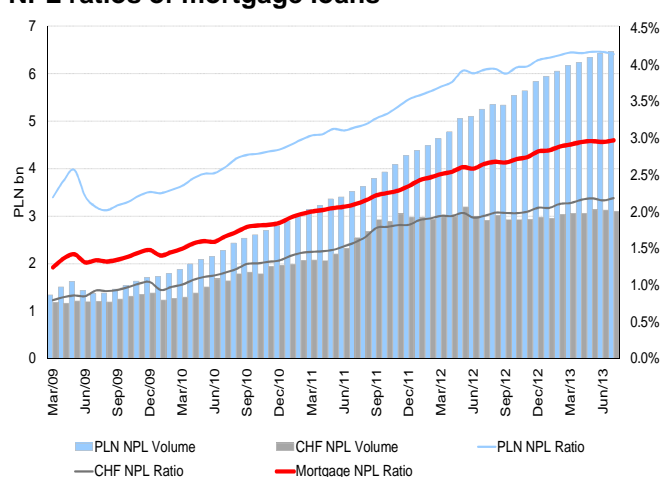


Source: National Bank of Poland, Erste Group Research

Credit quality remains under control

The total NPL ratio stood at 8.78% in July 2013, with corporate NPLs slightly below 12% and the retail loans ratio at 7.2%. Among the retail loans, traditionally mortgage loans had the lowest NPLs at 2.97% (stable m/m) and consumer NPL ratios were at 16.2%. The reduction within the last month most likely resulted from the sale of the NPL portfolios executed by a few banks.

NPL ratios of mortgage loans



Cost containment and stable risk cost should induce good 3Q13e results

The cost side is showing some positive developments, down 4% y/y and down 8% m/m in July 2013, while the annualized cost of risk stood at 0.7% in July 2013 vs. 0.76% in 2Q13. All in all, given the July numbers we expect to see some positive developments in the 3Q13e figures for Polish banks.

In our view, the key factors that will determine the future for Polish banks and the performance of banking stocks will include:

- Interest rate changes, which will have a significant impact on banks' profitability and valuation (discussed in the next section),
- Regulatory environment, which will support or impair the fee income generation and other lines of the P&L,
- Ability to enhance banks' cost effectiveness,
- Mergers and acquisitions, and
- Dividends

Banks experience regulatory headwinds both from the EU and local regulators

The European Union's new initiative, which is aimed at eliminating or at least slightly reducing the interchange rates in the EU, would have a negative impact on the profitability of the banking sector in Poland. The interchange NFC is estimated at ca. 10% in the scale of the whole sector and therefore, abolishing the interchange, would mean that the sector's net profit declines by ca. 8% based on our estimates. Such a development would also, in our view, very much change the entire business model of the card payments. However, we think that banks would be able to recoup part of that loss in the form of higher banking card charges and in addition, they would profit on increased cash free payments.

Additional banking tax possible next year

Polish banks are also expected to pay an additional contribution to a stability fund, which will be created in the BFG (Banking Guarantee Fund). The maximum amount of the fee is to amount to 0.2% of RWAs, which was previously estimated at PLN 1.6-1.8bn in the scale of the whole sector. We would not expect that the Banking Guarantee Fund will levy the special tax in full next year, yet a fee similar to the one which is currently paid by banks (0.1% of RWAs) could be imposed as of next year.

Fees for stability fund

	Absolute value (PLN mn)		% of forecasted net profit	
	Expected	Maximum	Expected	Maximum
BRE Bank	62	123	4.1%	8.3%
BZ WBK	84	169	4.1%	8.2%
Pekao	104	208	3.0%	6.0%
PKO BP	157	314	3.8%	7.7%

Source: Companies, KNF, Erste Group Research

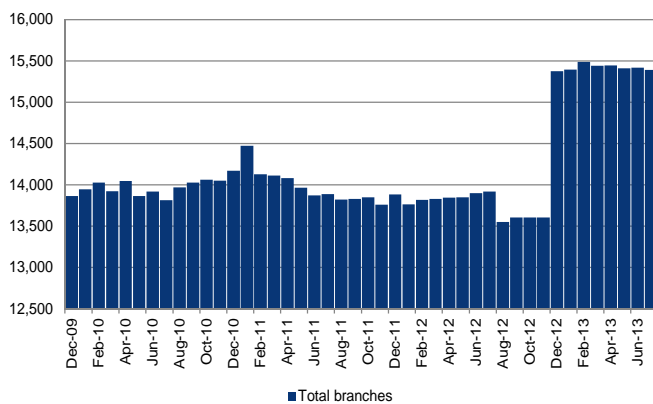
The focus on cost containment will be the key

Although Polish banks are quite effective, with the cost to income average at 52% in July 2013, we would see cost cutting in the banking branches network along with future mergers and acquisitions activity as two very important ways to improve the cost effectiveness.

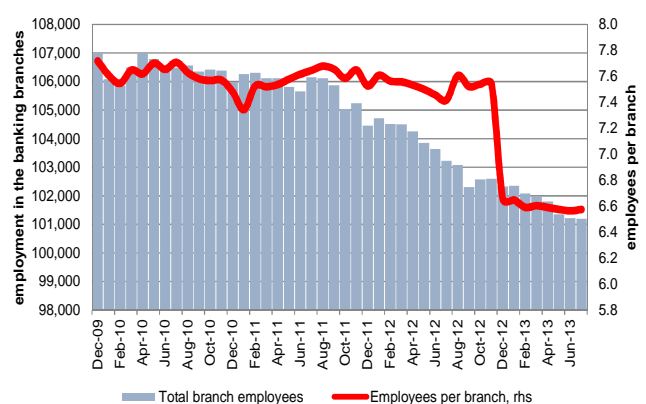
Branch network optimisation can provide viable cost savings going forward

We think that closing down branches and making them leaner (i.e. employing less people) creates significant potential for many Polish banks. Retail activity has very much shifted to electronic channels, yet banks' branch networks, which were in place before that change took place, is in our view, currently underutilized.

Number of bank branches



Employment in branches



Source: Polish FSA, Erste Group Research

That number of branches has not been really growing over the crisis. They amounted to 15.4k including the partner branches, which imply ca. 380 branches per 1m of population vs. the 460 EU average, however, that number may come down as some countries like Spain have already begun downsizing. Employment has come down by almost 6k people since 2009.

Since more and more customers will be using bank branches only for initiating and closing certain transactions, with payment related issues being taken care of by the e-channels, we would expect that the process will continue. We would, however, not expect a dramatic decrease in the number of branches, but rather a change in their focus and a drop in the number of their employees. Recently, Deloitte Polska has conducted an analysis based on the TNS research and concluded that taking into account the number of customer visits to bank branches, the number of people employed in the bank branches, is 80% too high. Reducing the number of employees could result in ca. PLN 5bn in savings based on the average salary as part of that same analysis.

In our view, the story, which is starting to be played in the market, is more significant for those banks which have built their networks in boom times, such as Bank Millennium. In the case of PKO BP, we think that although it runs 1,200 branches, its customers are also making more visits and it would be less prone to cut down the costs in its branches, which was actually also confirmed by one of its board members. The story has less relevance for BRE as well since the bank runs only 180 branches and its customers are using the e-channels more. We think, however, that the story may be more appealing for Pekao SA and BZ WBK.

Mergers and acquisitions in the banking market support efficiency, but are not welcome by the regulator

M&A activity is being actively pursued by PKO BP and Getin. We think that it would make a lot of sense from the perspective of Pekao SA to use its capital on acquisition in case it is unable to pay out in the form of dividends (the press recently speculated on the acquisition of BGZ from Rabobank). The regulator has also recently made some remarks that Poland has reached an optimal concentration level and that it will not be very likely to approve any further mergers.

Pekao should be one of the highest yielding stocks in our universe

The dividend payments from 2012 profits were subject to a 75% cap imposed by the regulator. This was particularly painful for Bank Handlowy and Pekao, which had very high Tier 1 ratios (close to 20% at the end of 2Q13). We would expect that this cap be raised to at least 100% unconsolidated net profit for 2013, but the news on that issue should

emerge within the next couple of months. If so, then Pekao would be the highest yielding stock at 6.1% still with significant M&A capacity. We expect that due to the acquisition of Nordea, the dividend from PKO BP would be lower (DY = 2.1%). BRE and BZ WBK are also unlikely to pay extremely high dividends (we expect DY of 2.7% and 2.8%, respectively).

Assessing the impact of rising interest rates on Polish banks

Tighter liquidity in the global market is likely to hurt both banks' fundamentals and their valuations

The Fed's recent comment on earlier 'tapering' to start already in September 2013 has raised a wave of concerns over the impact of the global tightening on the economy, bank results in general and their valuations. Although in general, the sensitivity of banks to rising interest rates is featured by how fast the banks' assets, which are composed of loan assets and securities re-price vs. their liabilities (i.e. deposits and bank debt) during interest rate change, there is no straightforward answer to the question about what the impact of increasing the rates would have on banks and whether it is worthwhile to invest in banking stocks when the interest rates are rising.

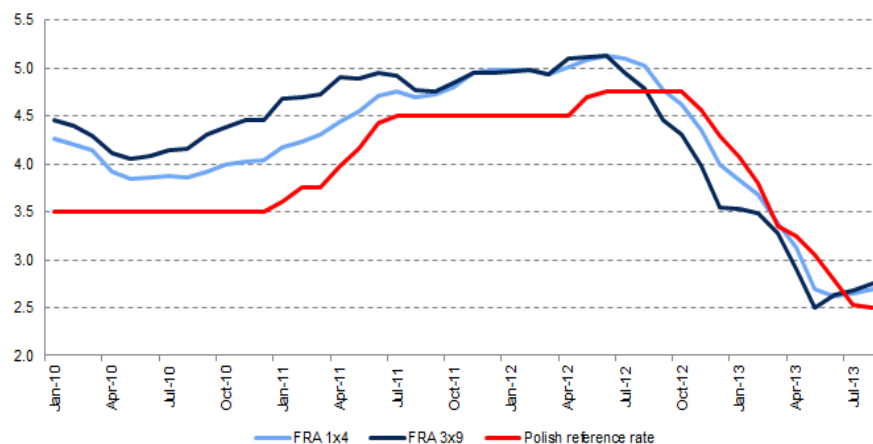
We look at the significance of NII as a whole, the funding structure, the re-pricing gap and duration of bond portfolios to assess the potential impact of the yield shifts

In analyzing which bank (if any), in particular, would be the best positioned for a potential increase in interest rates, we examine the banks' statements along with the footnotes, which include the sensitivity of the banks' capital, as seen by themselves. In general, we look at:

- The significance of the NII to the revenues as a whole. Banks which have the highest proportion of the NII in total revenues would be the most sensitive to rate shifts.
- The funding structure – we perceive a higher share of deposits as safer vs. wholesale funding.
- The re-pricing gap analysis – banks which currently have the highest difference between average duration liabilities and assets (i.e. how many months of lag do the liabilities have vis-à-vis the re-pricing of assets) and the sensitivity to the rates change as guided by banks or based on our observations of historical revaluations of the AFS portfolios.
- The size and duration of the banks' securities portfolio to total assets – the larger the portfolio and the more focused it is on long-term fixed-rate government bonds, the higher the negative reaction to the rate increase.

The cuts in the repo rate by the National Bank of Poland have led to a decrease in the money market rates.

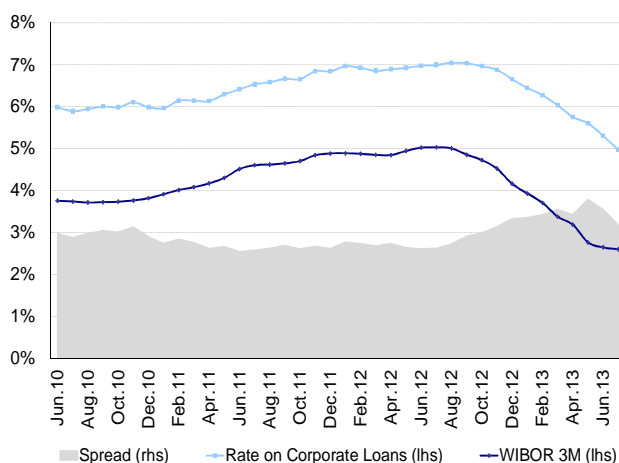
Interest rate changes in Poland



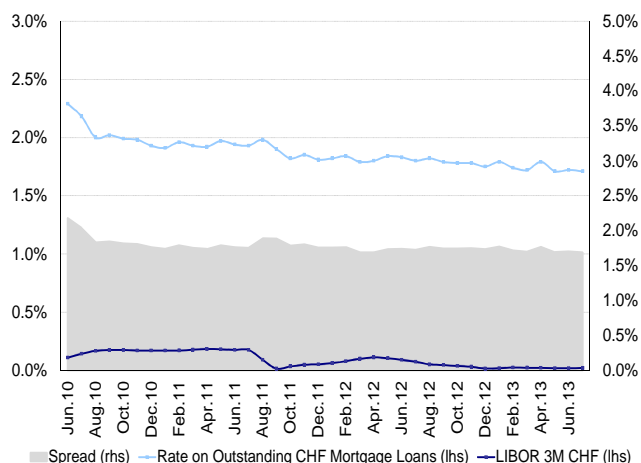
Source: Companies, Erste Group Research

Since the majority of loans in the Polish banking system are floating-rate and therefore linked to 3M or 1M money market rates (WIBOR, LIBOR, EURIBOR), unsurprisingly their prices moves in tandem with those rates. Moreover, 75% of total corporate loans and 66% of retail loans are denominated in PLN and hence WIBOR is the most important indicator of the loan price. The FX component of the retail loans is mainly the FX denominated mortgages (53% of total mortgage loans) with CHF accounting for ca. 80% of the total.

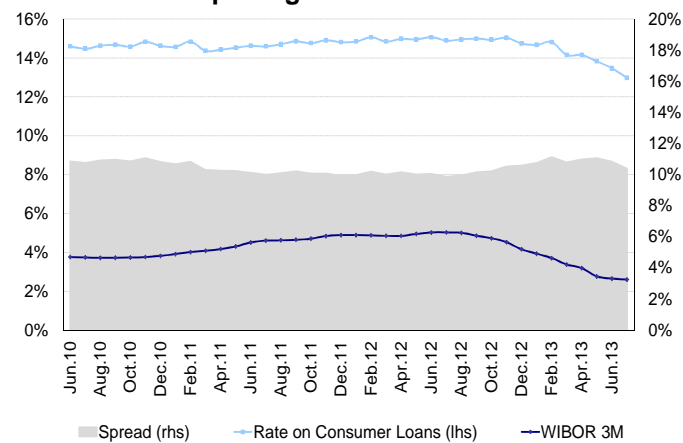
Corporate loans pricing



CHF mortgage pricing



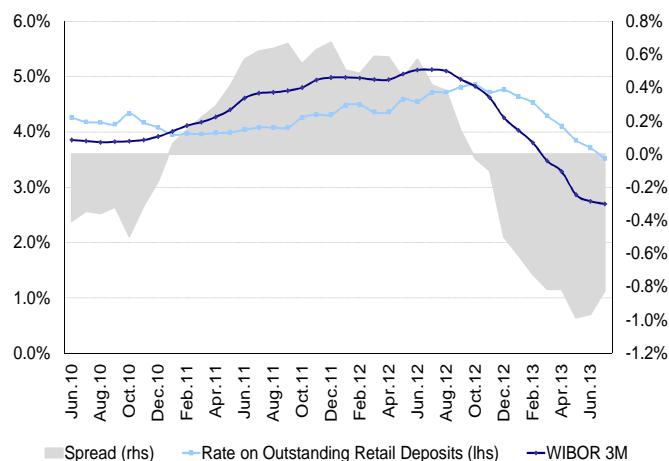
Consumer loan pricing



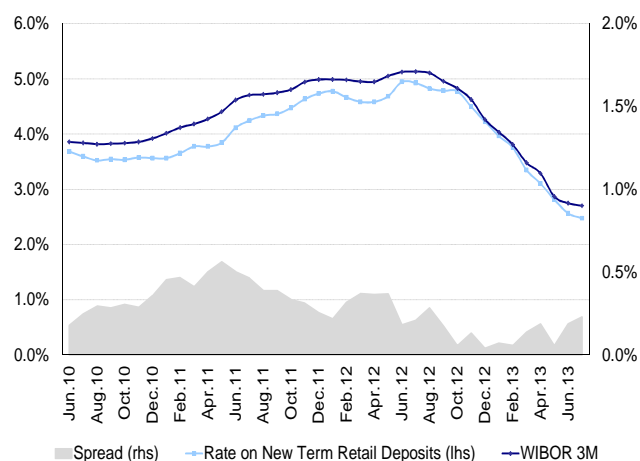
Source: National Bank of Poland, Erste Group Research

The charts above show that the re-pricing of banks' assets is relatively quick when the rates change. On the deposits side, however, the re-pricing is much slower as depicted in the graphs below.

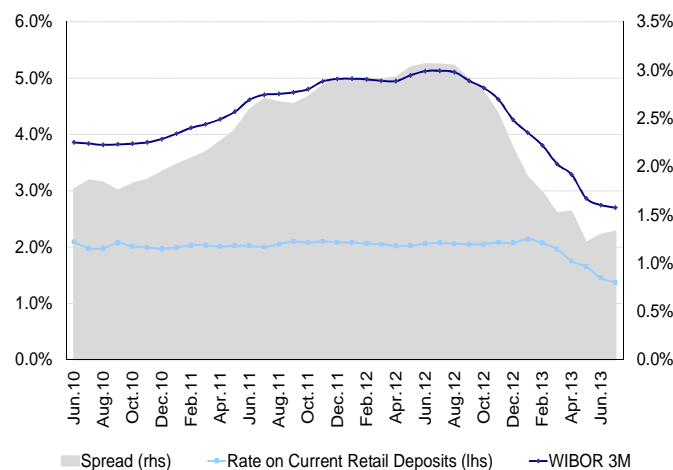
Rates on outstanding term deposits



Rates on new term deposits



Rates on current deposits

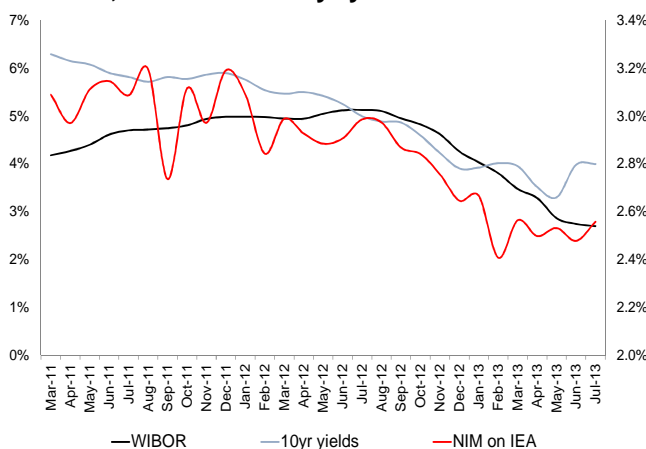


Source: National Bank of Poland, Erste Group Research

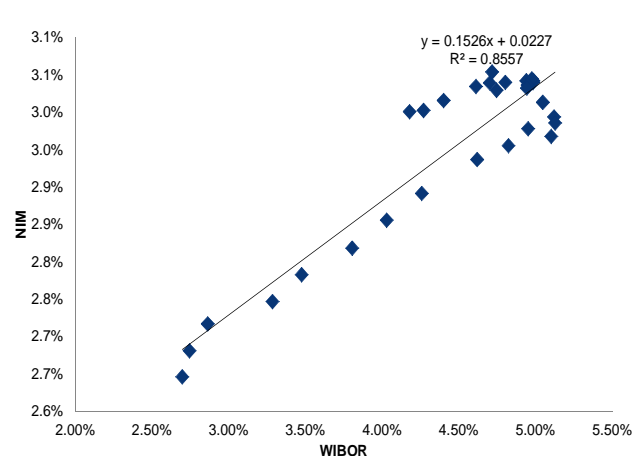
As can be seen from the chart above, when the WIBOR started to nose dive at the time when the NBP was cutting the rates, the spreads on the outstanding term deposits started to turn negative already in October 2012 (see the chart to the left), although the rates on the new term deposits matched the movements of WIBOR (chart in the middle). This is part of the reason why banks lost their NIMs. Another reason is that since part of the current deposits has a rate of 0.1% declining market rates meant an immediate drop in the passive margin. The chart to the right presents all the current deposits (including the savings accounts).

Looking at the entire NIM, however, the relationship to the WIBOR is similar to those with the 10yr bond yields.

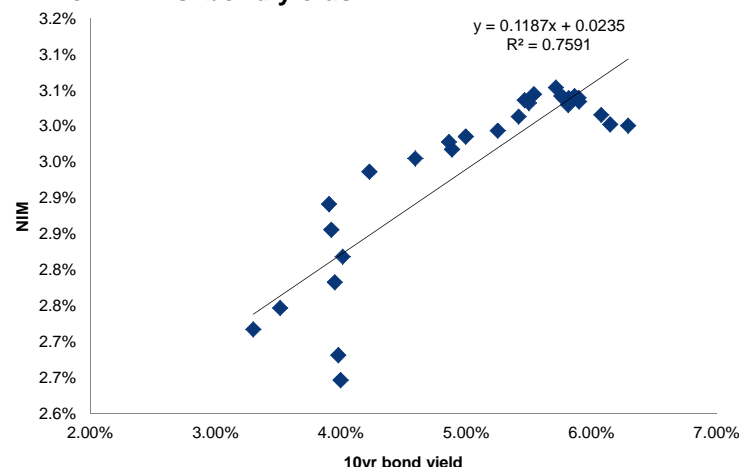
12m NIM, WIBOR and 10 yr yield



NIM on IEA vs. WIBOR



NIM on IEA vs. bond yields



Source: National Bank of Poland, Erste Group Research

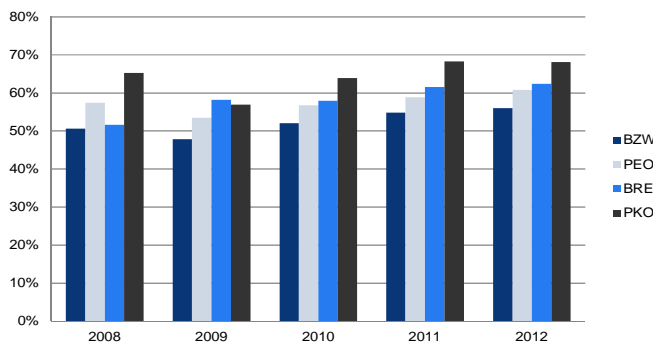
We would expect this relationship to hold in the future as well, i.e. in case of the growth in interest rates, banks should enjoy an increase in their rates. On the other side of the coin, banks have accumulated ca. PLN 215bn (15% of the total assets) in debt securities available for sale, which are revalued through equity until they are sold. This means that potential yield increases will imply that banks will book mark-to-market losses on their bond portfolios.

We will examine individual banks sensitivities to the rate increase by the four criteria mentioned above.

The significance of the NII on revenues and the financing structure

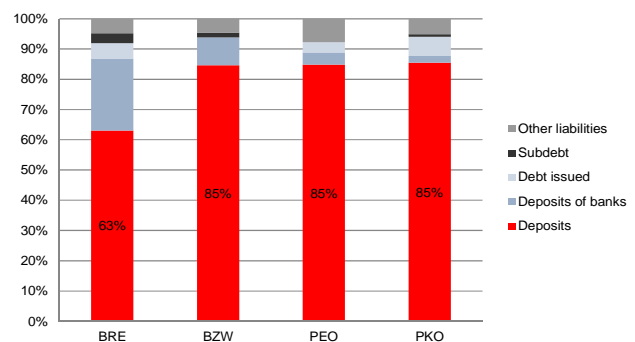
PKO has the highest proportion of the NII (68%), while in the case of BZW, it had the lowest in 2012 at 56%. Potentially then, the impact of the changes in rates was most strongly felt by PKO.

Share of NII in total revenues



Source: Polish FSA, Erste Group Research

Financing structure, 2Q13

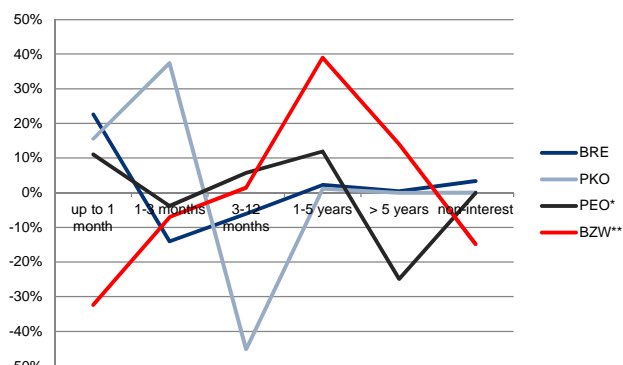


In the case of all three banks except BRE, the share of deposits in total liabilities was identical at 85% in 2Q13. BRE, compared to the other banks, has utilized much more bank financing, which is tied to its CHF mortgage portfolio. Over half of its liabilities to banks will mature in one-five years. Among BZW, PEO and PKO, the latter two seem to have safer funding structures.

The re-pricing gap analysis and NIM sensitivity

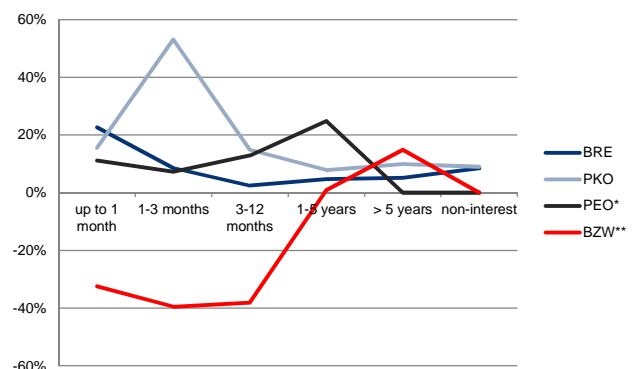
Unfortunately, very limited data is available concerning the re-pricing gap in the statements of Polish banks. In fact, only BRE provides investors with a full disclosure of its re-pricing gap, while PKO provides that data on a net basis and Pekao and BZ WBK disclose only the liquidity gap, which is not very meaningful for our purposes as the maturity of assets and liabilities rarely matches their re-pricing period (as most assets and liabilities are priced off WIBOR). The chart below shows a cumulated re-pricing gap as a percentage of banks' assets.

Re-pricing gap as a % of total assets



Source: Companies, Erste Group Research, * for Pekao we presented an adjusted liquidity gap, ** for BZ WBK the available data is for BZ (excluding Kredyt Bank) and presents liquidity gap as well

Re-pricing gap, cumulated, as a % of total assets



In the chart above we can see that in the case of PKO BP, a large portion of its assets relative to liabilities re-price in a one-three months' time interval, while for BRE the case is very different since in the same interval, more

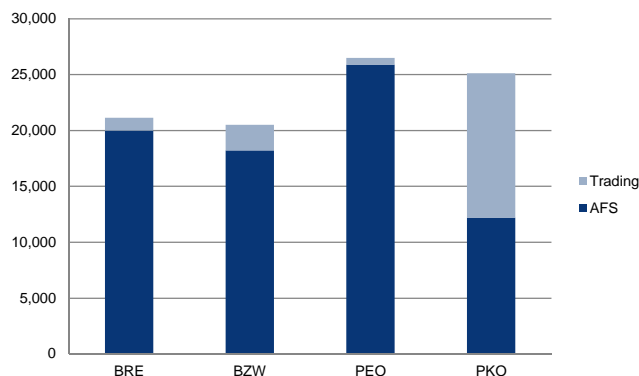
liabilities re-price relative to assets. In PKO, the negative re-pricing gap is created only in a 3-12 month time interval and the negative re-pricing gap in this period accounts for 45% of assets. Based on the given data we can roughly estimate that the difference between the duration of assets and liabilities (re-pricing wise, not maturity-wise) amounts to ca. plus five months for BRE, while in case of PKO BP it is minus five months, which indicates that its liabilities re-price five months slower than the assets, on average. In case of Pekao and BZ WBK we presented the liquidity gap on the chart, but think drawing any conclusions from that relative to PKO and BRE would not be appropriate.

Based on our analysis and the banks' own estimates, we estimate that the impact of a 100bps move in the rates on the NIM would be around 30-40bps for PKO BP, 20-30bps for Pekao and BRE and ca. 10-20bps for BZ WBK.

Bond portfolio duration analysis

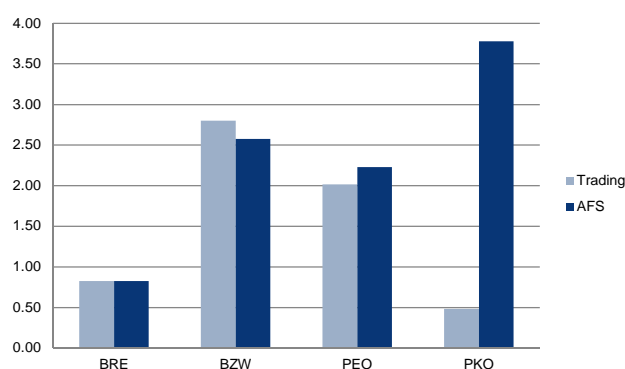
Again, due to the lack of the detailed re-pricing gap, we base our observation on the contract maturities of the bonds held by the banks. The summary is presented in the chart below.

Trading and AFS portfolios, PLN mn



Source: Companies, Erste Group Research

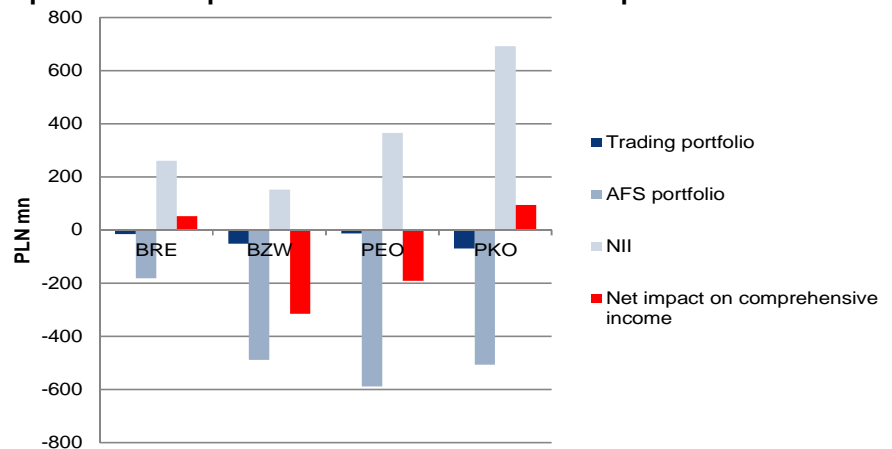
Duration of trading and AFS portfolios, years



It seems that PKO BP has the longest duration of its AFS portfolio. Yet, looking at the actual AFS revaluations, which historically were lower than the implied ones, leads us to conclude that the actual duration of its AFS portfolio is shorter (especially in case of PKO BP), whether it is due to applied hedging instruments or due to the fact that the instruments are floating rates and we have based our analysis on the liquidity gap.

All in all, based on our analysis, it seems that the comprehensive income of BZ WBK would be the most negatively affected in case the rates go up, while PKO BP would again be the main winner. The largely negative impact on BZ WBK results from the relatively long duration of its AFS portfolio inherited from Kredyt Bank and relatively low sensitivity of its NIM to the rate movement. However, it is the bank's stated policy that it is in the process of rebuilding its portfolio and hence the actual timing of the rates increases.

Impact of a 100bps movement on the banks' comprehensive income



Source: Companies, Erste Group Research

Romania

RO: Housing loans are only loan segment with growth

According to the monthly bulletin released by the National Bank of Romania, private credit remained in negative territory, mainly as a result of the 7.2% y/y drop of loans in FC, which holds a major stake of 62% in total nongovernmental credit. Positive development over the first seven months of 2013 was seen in terms of housing loans; this item remained the only triggering force, with a roughly 5% YTD advance that largely stemmed from the 5.1% YTD increase of the FC loan (given that their weight accounts for about 93% of housing loan stock).

Corporate and consumer loan contraction continued

Moreover, in order to improve lending activity, and in addition to the cut on August 5 of the key interest rate by 50bp to 4.5% for loans denominated in RON, the Central Bank has recently taken the decision to fully shift loans to the governmental "Prima casa" program to LC. With regard to consumer loans, developments, as expected, remained in negative territory, with an 8.9% y/y contraction due to scarcer lending demand. The corporate segment continued its descending path, recording YTD and y/y loan volume contraction of 2.7%. The sluggish corporate loans production recorded in the last year suggest that the economic environment remains intricate.

Deposits grew y/y and YTD

On the deposits side, a monthly decrease of 0.9% can be seen, the slight drop mostly being determined by the decrease of both the LC and FC households deposits, which together hold an aggregated weight of 63% in total deposits. However, in both YTD and y/y terms, the deposit stock remained in a positive territory. For the first half of 2013, domestic banks reported aggregated net profit of RON 1.15bn from the RON 200mn loss reported in the corresponding period of 2012.

Romanian Banking Sector - Development of loans and deposits (July 2013)

RON mn	31.12.11	31.12.12	31.05.13	30.06.13	31.07.13	m/m	YTD	y/y
Private credit	223,037.1	225,874.3	221,658.8	224,159.2	221,432.3	-1.2%	-2.0%	-4.4%
Private credit (RON)	81,658.7	84,722.8	84,004.1	84,293.3	83,877.4	-0.5%	-1.0%	0.7%
Private credit (FC)	141,378.4	141,151.5	137,654.7	139,865.9	137,554.9	-1.7%	-2.5%	-7.2%
Households	104,258.0	104,461.4	102,901.2	104,066.5	103,315.3	-0.7%	-1.1%	-3.7%
Households (RON)	35,047.4	34,377.5	34,059.0	33,920.7	33,982.9	0.2%	-1.1%	-1.1%
Households (FC)	69,210.6	70,083.9	68,842.2	70,145.8	69,332.4	-1.2%	-1.1%	-4.9%
Housing	33,381.9	37,067.0	37,879.7	38,884.0	38,867.1	0.0%	4.9%	6.5%
Housing (RON)	1,515.8	1,832.1	2,031.7	2,087.8	2,175.8	4.2%	18.8%	34.3%
Housing (FC)	30,935.7	34,425.6	35,322.4	36,225.5	36,185.0	-0.1%	5.1%	7.2%
Consumer loans & other	70,874.2	67,394.4	65,021.4	65,182.6	64,448.3	-1.1%	-4.4%	-8.9%
Consumer loans & other (RON)	33,530.0	32,545.4	32,027.3	31,833.1	31,807.1	-0.1%	-2.3%	-2.8%
Consumer loans & other (FC)	37,344.2	34,849.0	32,994.2	33,349.6	32,641.2	-2.1%	-6.3%	-14.2%
Corporate	118,775.6	121,412.9	118,757.7	120,092.6	118,117.0	-1.6%	-2.7%	-2.7%
Corporate (RON)	46,607.8	50,345.3	49,945.1	50,372.5	49,894.5	-0.9%	-0.9%	5.4%
Corporate (FC)	72,167.8	71,067.6	68,812.6	69,720.1	68,222.5	-2.1%	-4.0%	-7.9%
Deposits	187,291.3	197,294.4	201,886.3	202,165.2	200,408.7	-0.9%	1.6%	2.9%
Deposits (RON)	124,533.5	125,453.8	128,923.8	129,069.6	127,826.8	-1.0%	1.9%	0.9%
Households	72,101.8	74,799.1	76,341.2	77,060.8	76,825.7	-0.3%	2.7%	1.6%
Corporate (including fin. nonmonetary instit)	52,431.7	50,654.7	52,582.6	52,008.8	51,001.1	-1.9%	0.7%	-0.2%
Deposits (FC)	62,757.8	71,840.6	72,962.4	73,095.6	72,581.9	-0.7%	1.0%	6.7%
Households	40,651.7	47,421.7	48,471.6	48,860.2	48,634.4	-0.5%	2.6%	7.6%
Corporate (including fin. nonmonetary instit)	22,106.1	24,418.9	24,490.8	24,235.4	23,947.5	-1.2%	-1.9%	5.0%

Source: National Bank of Romania, Erste Group Research

NPL ratio further increased to 20.9%

Apart from the contraction of loan volume, a significant topic remains asset quality development, with the NPLs (90-days overdue loans as percentage of total loans) remaining on an ascending path and advancing to 20.9% from the 18% reported at end-2012. This development was favored by the weak lending activity, which did not support the reporting base.

Heavy reliance on wholesale funding from parent banks

With regard to the funding of domestic banks and given the limited growth potential of deposits, it is expected that local banks will continue to rely, to a large extent, on wholesale funding from parent banks. Despite the systematic contraction of the FX loans/deposits ratio, and although it was on a descending path since end-2011, it was still at an elevated level of approx. 190% at the end of July, suggesting that local banks still rely on substantial parent funding.

Romanian Banking Sector - Key financial ratios

Indicator	31.12.09	31.12.10	31.12.11	31.12.12	31.05.13	30.06.13	31.07.13
Households Loan Deposit Spread (pp, RON)	7.54	7.65	7.75	7.95	7.96	7.89	7.73
Households Loan Deposit Spread (pp, EUR)	4.14	3.89	3.82	2.54	2.68	2.72	2.75
Corporate Loan Deposit Spread (pp, RON)	6.99	5.12	4.89	5.19	5.00	4.95	5.03
Corporate Loan Deposit Spread (pp, EUR)	3.07	3.00	3.01	2.34	2.63	2.67	2.72
Loan/Deposit ratio (Total)	119.2%	118.0%	119.1%	114.5%	109.8%	110.9%	110.5%
FX Loan/Deposit ratio	184.7%	206.3%	225.3%	196.5%	188.7%	191.3%	189.5%
LC Loan/Deposit ratio	77.6%	68.2%	65.6%	67.5%	65.2%	65.3%	65.6%
Households Loan/Deposit ratio (RON)	65.6%	55.9%	48.6%	46.0%	44.6%	44.0%	44.2%
Households Loan/Deposit ratio (EUR)	161.1%	166.2%	170.3%	147.8%	142.0%	143.6%	142.6%
Corporate Loan/Deposit ratio (RON)	107.5%	99.8%	107.5%	122.2%	119.7%	123.6%	121.5%
Corporate Loan/Deposit ratio (EUR)	264.2%	315.1%	378.8%	355.7%	342.1%	348.7%	347.4%
NPL ratio	7.9%	11.9%	14.3%	18.2%	20.2%	20.3%	20.9%

Source: National Bank of Romania, Erste Group Research

Serbia

Serbian banking sector in last nine months: turbulence, forced consolidation and new names

There were 31 banks operating in Serbia at the end of 2Q13, compared to 33 one year ago. Two banks, Agrobanka and Razvojna Banka Vojvodine (RBV), were de-licensed by the National Bank of Serbia (NBS) and later declared bankrupt. Healthy assets and both insured and uninsured deposits of those banks have been transferred to state-owned Postanska Banka Stedionica, while the whole process has cost tax payers some EUR 600mn. There were many people arrested and indicted in both cases. Although the events cast a shadow over the whole banking sector, as both banks had regular auditors' reports, there were no major withdrawals of deposits. However, the listed banks faced significant pressure on their share prices. In April, Belgium's KBC bank exited the Serbian market by selling its banking license to Norwegian mobile telecom provider Telenor, while the Serbian subsidiary of Société Générale bought the loan portfolio and deposits. Furthermore, Russia's VTB Bank formally became the owner of the Serbian subsidiary of Bank of Moscow, looking to support Russian investments in Serbia. In late 2012, Russia's Sberbank also entered the Serbian market, after the acquisition of Austria-based Volksbank International.

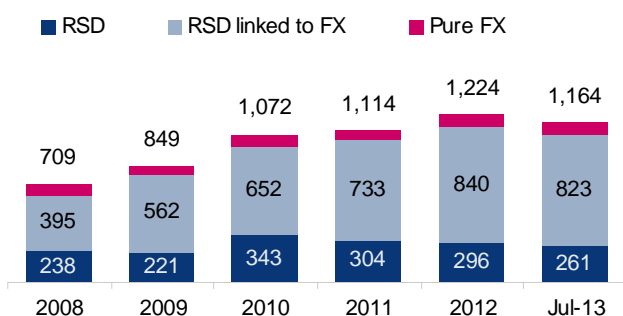
Sector is very fragmented, but banks owned by state might face more consolidation

There are 21 banks owned by foreign entities, while seven banks are majority-owned by the state and three banks are owned by domestic entities. Banks owned by foreign banking groups participate in the sector's assets with 75%. Italian banking groups hold 23% of total assets, followed by Austrian banks with 16%, Greek banks with 15%, French banks with 10%, while the remaining 11% are subsidiaries owned by banking groups from other countries. There are 14 banks with market shares of less than 1.5% in terms of total assets.

Corporate loans drop, retail slightly offsets, deposits look firm

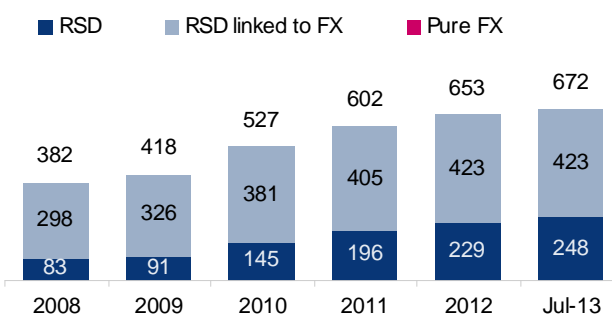
According to data for 2Q13 and July 2013, published by the NBS, total net assets of the banking sector amounted to RSD 2,882bn (+2.5% y/y). The estimated net value of the total loan portfolio is at RSD 1,759bn, representing a decrease of 0.4% y/y. Corporate loans fell 1.6% y/y, while retail loans were up 2% y/y. On the deposit side, households' savings totaled RSD 945bn at the end of 2Q13, representing a rise of 4.4% y/y. Corporate deposits increased at the same pace to RSD 429bn. Total capital of the banks recorded a 3.4% y/y increase to RSD 588bn. Given the fact that 75% of loans and 98% of households' deposits are indexed to EUR or pure FX, the local currency appreciation of 1.4% in the last 12 months slightly modifies the levels of change for the observed categories.

Corporate loans, gross RSD bn



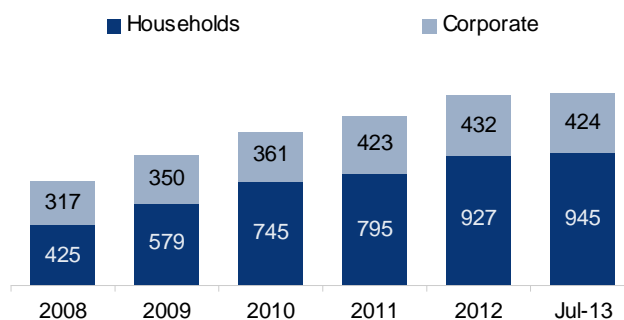
Source: NBS, ERSTE Group Research

Retail loans, gross RSD bn



Source: NBS, ERSTE Group Research

Deposits RSD bn

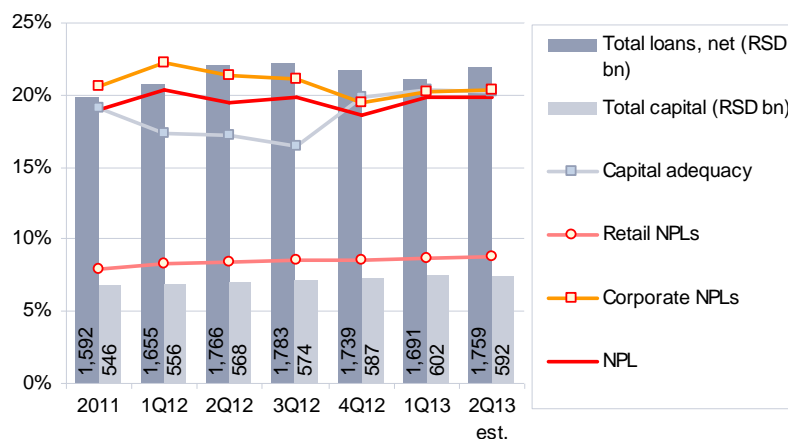


Source: NBS, ERSTE Group Research

Non-performing loans at high level

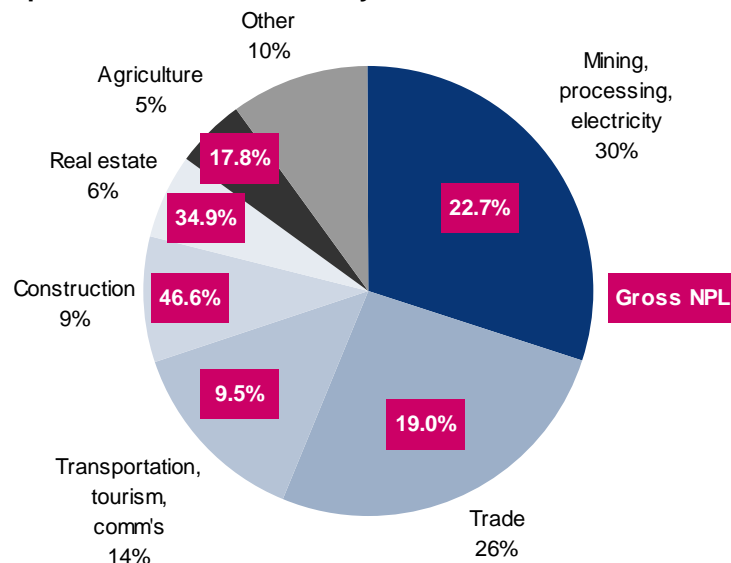
Serbia's NPL ratio continues to be among the highest in the region. According to NBS data for 2Q13, the level of NPLs is at 19.9% of total gross loans. The corporate sector contributed 20.2%, while the retail sector was at 8.7%. NPLs peaked in 1Q12, when the aggregate level was at 20.4%. The reading at the end of 2Q13 was a small surprise, as the consensus estimate was that portfolio quality would continue to worsen, mostly due to developments at a couple of troubled banks under state ownership, as well as reported losses from bigger public companies and other large companies. According to NBS data, the indicator of NPL coverage with loan loss reserves at the end of 2Q13 amounted to 115.9%, while at the end of 2012 the coverage level was at 120.7%.

Development of Capital adequacy and NPL



Source: National Bank of Serbia, ERSTE Group Research

Corporate loans breakdown by sector



Data as of 2Q13, NPL as of 1Q13

Source: NBS, ERSTE Group Research

Capital adequacy ratio sees stable development

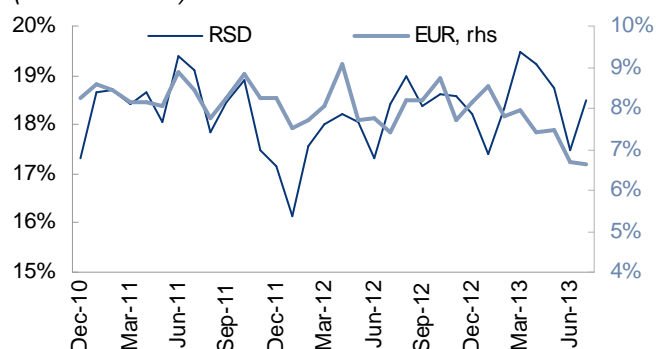
The capital adequacy ratio (CAR) of the banking sector at the end of 2Q13 was at 20.2% (the minimum required level is 12%), having fallen 30bp compared to the end of 2012. The regulations on bank capital have been harmonized with Basel II standards since the beginning of 2012. The banking sector in Serbia can be considered strongly capitalized.

Interest margins partially hit by new regulation

The new law on penalty interest rates and calculation of compounded interest, which took effect in 2013, has already hit the margins of banks with low-quality loan portfolios. We see this as a one-off effect and expect net interest margins to stabilize at the levels recorded in 1Q13. We also expect deposit rates to shrink further, enabling the banks to maintain high margins on loans, and overall interest margins. A similar trend is expected to continue throughout 2H13, as well as an increased tendency towards lowering of deposit interest rates.

Interest rates - Total loans (weighted)

(new business)



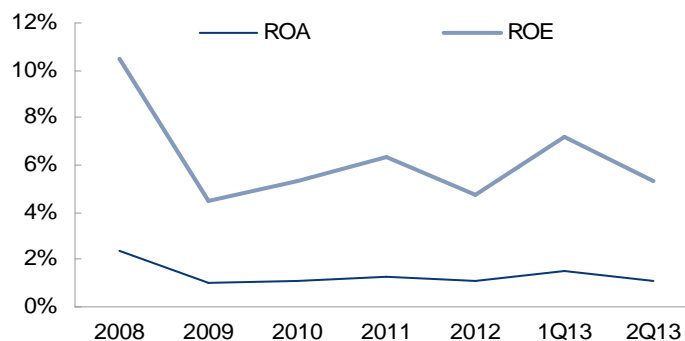
Source: NBS survey

Profitability improving in 2013, despite challenges

NBS data shows the level of ROA at 1.1% at the end of 2Q13, while ROE is at 5.3%. Of course, the losses of Agrobanka and RBV are excluded from this calculation. For comparison, at the end of 2012, ROA stood at 1%,

while ROE was about 4.7%. The cost/income ratio (CIR) has improved and currently stands at 68%, compared to 73% at the end of 2012. This is a result of cost cutting measures taken by almost all banks.

Serbian banking sector - Profitability



Source: NBS

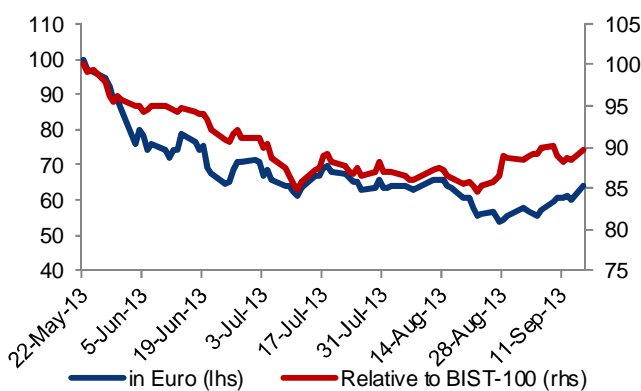
Outlook remains cautious

The economy entered 2013 strongly, with 1Q13 GDP expanding 2.1% y/y. The structure suggests a negative contribution from all domestic demand components, while net exports were an expectedly robust positive driver, with exports growing 21% y/y, followed only by modest import expansion. The 2Q13 GDP flash estimate (0.7% y/y) suggests some moderation of growth, while we do not see a significant change in the structure, i.e. anticipating the strongest support from net exports (the automotive sector). Moreover, the 2H13 figures should be supported by the low agricultural base from 2012, which suggests some acceleration vs. 2Q13 and confirms our GDP forecast at 1.8% for 2013. Considering the weak domestic demand, we expect banks to resume their cautious approach to lending and see a flat performance in 2013.

Turkey

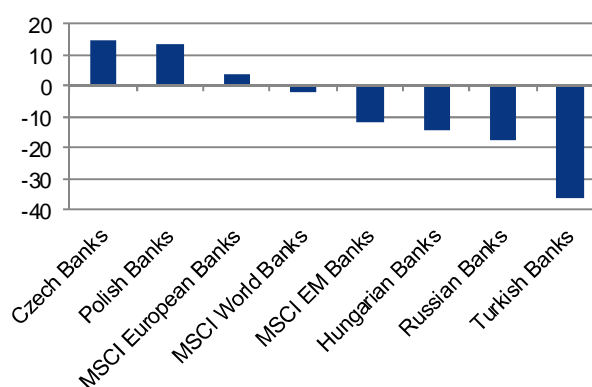
The Turkish banking index declined by 35% since May 22 in EUR terms and was the banking index which declined the most among the large cap emerging market banking markets. This is due mainly to the worries associated with the rising global interest rates and to a lesser extent by the worries associated with Syria and the repercussions of the Gezi Park protests throughout Turkey.

TURKISH BANKS DECLINED MASSIVELY



Source: Bloomberg, Erste Group Research

RELATIVE PERFORMANCE OF TURKISH BANKS



We remain positive on Turkish banks on their long-term outlook...

Fundamentally, we remain positive on the long-term economic outlook and believe that Turkish banks will differentiate themselves positively on the back of a couple of factors: i) the strong macroeconomic landscape that they are operating in, ii) high growth potential both on the corporate and consumer side, iii) strong balance sheets with high capitalization ratios and liquidity conditions and iv) relatively high profitability and internal capital generation to fund the expected growth.

... and also acknowledge that there could be short-term headwinds as well

On the other hand, we also think that the road ahead could be rather bumpy in the short-term due to the uncertainties associated with the global interest rates and the risk appetite of global investors as Turkey's saving gap forced the country to rely on foreign savings. Hence, in the short-term we think that Turkish banks will remain sensitive to global interest rates and their repercussions mainly on banks' net interest margins and to a lesser extent on their book values. We think that these negative expectations have been priced in banking stock prices to a large extent as the 12-month forward looking P/BV multiples of Turkish banks have de-rated to 1.13x from 1.63x in mid-May.

We expect domestic bond yields, on average, to peak in 1Q14

Based on the aforementioned outlook and considering the inflation dynamics, we anticipate benchmark bond yields to reach their peak level, on a quarterly average basis, in 1Q14 and thereafter will be gradually declining. At this stage, we would like to underline the fact that our expectation is subject to a high degree of change on the back of incoming data.

Severe NIM compression in 2H13 vs. 1H13....

Regarding the impact of the aforementioned scenario on banks' financials we estimate severe margin compression in 2H13, declining by 70bp compared to 1H13. The NIM compression will be predominantly driven by higher funding costs resulting in declining loan-deposit spreads, especially in 3Q13 and to a lesser extent on lower interest income earned from CPI-linked bonds. Based on our interest rate outlook scenario, which assumes that peak levels will be reached in 1Q14 on a quarterly average basis, we expect net interest margins to improve starting from 2Q14. We base our expectation on the fact that upward pricing in loans has started and banks' experiencing gradual declines in their funding costs should enable them to have a better NIM outlook beyond 1Q14. We would like to state that our expectation is highly dependent on several factors, i.e. the global interest rate environment, loan demand and the pace of upward loan re-pricing. As a conclusion, we estimate a 16bp y/y NIM compression in 2014 for banks that are under our coverage, declining to 4.4%. For the medium-term, we forecast the NIM to converge to 4.3% by 2016. For the impact of the rising interest rates on banks' book values, please refer to "*Assessing the impact of rising interest rates on Turkish banks*" section on page 66.

NIM Forecasts

	2011	2012	2013E	2014E	2015E	2016E
Akbank	3.7%	4.1%	4.1%	3.9%	3.9%	3.9%
Garanti	4.0%	4.5%	4.4%	4.2%	4.2%	4.2%
Halkbank	4.8%	5.3%	5.1%	5.1%	5.0%	4.9%
Isbank	3.7%	4.2%	4.3%	4.2%	4.1%	4.1%
Vakifbank	4.0%	4.9%	4.9%	4.7%	4.7%	4.7%
Yapi Kredi Bank	4.1%	4.8%	4.6%	4.4%	4.5%	4.5%
TSKB	4.5%	4.6%	4.6%	4.5%	4.4%	4.3%
Sekerbank	4.7%	6.5%	6.0%	5.7%	5.6%	5.5%
Bank Asya	4.8%	5.6%	5.1%	4.9%	4.7%	4.6%
Albaraka Turk	4.8%	5.0%	5.1%	5.0%	4.8%	4.8%
Average	4.0%	4.6%	4.6%	4.4%	4.4%	4.3%

Source: Erste Group Research

We anticipate loan growth to decelerate to 16% y/y in 2014

As for the key performance metrics, we estimate 24% y/y loan growth in 2013 and project loan growth to decelerate to 16% in 2014. On the funding front, we estimate 12% y/y deposit growth and envisage Turkish banks to keep their focus on funding base diversification via tapping into bond markets and utilizing a higher share of money market funding. With regards to fee income generation, we anticipate a deceleration in fee income, which will be in line with the slower loan growth and estimate 18% y/y growth in 2014 vs. the 26% estimated for 2013. We would like to express our reservation with the draft Consumer Protection Law, which is being discussed, as it may have a negative impact on our fee income growth estimate. As we do not have any information regarding the details of the law, we refrain from making any comments associated to the draft law.

We expect credit quality to remain strong in 2014

On the credit quality front, as we do not expect any major slowdown in economic activity, we do not envisage any major deterioration in credit quality. Nevertheless, we think that there could be some downside risks associated with credit quality, mainly stemming from the depreciation of the TRY and the higher interest rate environment. We estimate the specific cost of risk to remain almost flat at 110bp in 2014 and forecast a ca.9bp y/y decline in the gross cost of risk, down to 135bp. At the bottom line, we fine-tuned our estimates for 2013E and 2014E net earnings and now estimate 10% y/y earnings growth in 2014, excluding the one-off income registered by Yapi Kredi Bank for the sale of its insurance arm. On an unadjusted basis, we estimate only 4% y/y earnings growth.

Net Earnings Estimate Revisions

	2012	2013E			2014E		
		Old	New	Chg.	Old	New	Chg.
Akbank	2,950	3,178	3,368	6%	3,661	3,690	1%
Garanti	3,070	3,601	3,427	-5%	4,163	3,983	-4%
Halkbank	2,595	2,736	2,688	-2%	2,963	2,864	-3%
Isbank	3,310	3,342	3,196	-4%	3,529	3,449	-2%
Vakifbank	1,460	1,588	1,631	3%	1,876	1,844	-2%
Yapi Kredi Bank *	1,913	2,332	3,470	49%	2,617	2,493	-5%
TSKB	307	324	342	6%	338	393	16%
Sekerbank	240	244	236	-3%	278	259	-7%
Bank Asya	190	268	223	-17%	340	279	-18%
Albaraka Turk	192	207	226	9%	238	250	5%
Total & Averages	16,229	17,821	18,807	6%	20,002	19,505	-2%
Total & Averages **	16,229	17,821	17,626	-1%	20,002	19,505	-2%

* 2013 net earnings estimate includes TRY1,181mn one-off gain from the sale of insurance arm

** Excluding Yapi Kredi Bank's one-off income

Source: Erste Group Research

Key Performance Metrics (Coverage universe only)

TRY mn	2012	2013E	Chg. y/y	2014E	Chg. y/y	2015E	Chg. y/y
Net Interest Income	32,532	36,859	13%	41,045	11%	45,793	12%
Fee income	9,128	11,508	26%	13,536	18%	15,976	18%
Trading income	2,528	1,953	-23%	828	-58%	728	-12%
Other income	4,458	6,113	37%	5,292	-13%	5,583	6%
Total revenues	48,647	56,434	16%	60,701	8%	68,079	12%
Operating expenses	19,976	23,412	17%	26,171	12%	28,669	10%
Pre-provision inc.	28,671	33,022	15%	34,530	5%	39,410	14%
Provisions	7,980	9,896	24%	10,300	4%	11,088	8%
EBT	20,691	23,126	12%	24,230	5%	28,321	17%
Taxes	4,462	4,319	-3%	4,725	9%	5,543	17%
Net Earnings	16,229	18,807	16%	19,505	4%	22,778	17%
Loans	538,361	668,321	24%	775,126	16%	902,076	16%
Securities	192,413	190,072	-1%	195,443	3%	185,168	-5%
Deposits	529,335	612,467	16%	683,738	12%	766,353	12%
Equity	114,192	121,950	7%	137,869	13%	156,796	14%
Total Assets	826,531	965,497	17%	1,075,084	11%	1,193,702	11%
Key Ratios							
NIM	4.6%	4.6%	-0.1%	4.4%	-0.2%	4.4%	0.0%
LLP/Avg. loans	0.9%	1.1%	0.2%	1.1%	0.0%	1.0%	-0.1%
Gross cost of risk	1.4%	1.4%	0.1%	1.3%	-0.1%	1.3%	-0.1%
NPL ratio	2.6%	2.6%	0.0%	2.6%	0.0%	2.5%	-0.1%
ROA	2.0%	1.4%	-0.5%	2.0%	0.5%	0.5%	-1.4%
ROE	16.2%	14.9%	-1.3%	15.0%	0.1%	15.5%	0.4%
Core banking ROE *	18.5%	17.0%	-1.5%	16.8%	-0.2%	17.1%	0.3%

* adjusted for one-off gain in Yapi Kredi Bank

Source: Erste Group Research

When we compare our net earnings and book value estimates with the ones that are available on Bloomberg, we remain higher than the consensus by 7% and 5%, respectively on 2013 and 2014 net earnings estimates. Our preliminary assessment reveals that our estimates incorporate higher revenues compared to the consensus.

Sanity check with the consensus

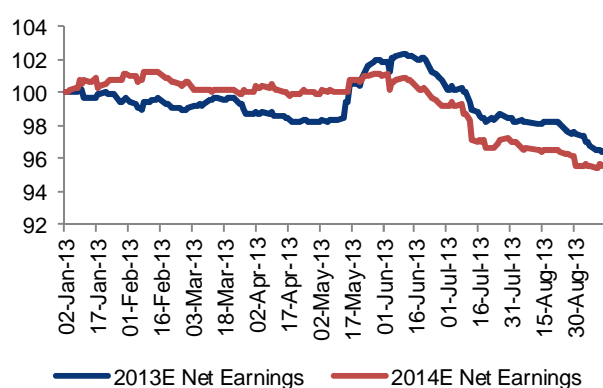
TRY mn	2013E Net Earnings			2014E Net Earnings		
	Erste	BBG	Dev.	Erste	BBG	Dev.
Akbank	3,368	3,205	5%	3,690	3,451	7%
Garanti	3,427	3,513	-2%	3,983	3,824	4%
Halkbank	2,688	2,613	3%	2,864	2,685	7%
Isbank	3,196	3,162	1%	3,449	3,283	5%
Vakifbank	1,631	1,515	8%	1,844	1,638	13%
Yapi Kredi Bank *	3,470	2,558	36%	2,493	2,545	-2%
TSKB	342	329	4%	393	360	9%
Sekerbank	236	216	9%	259	252	3%
Bank Asya	223	230	-3%	279	282	-1%
Albaraka Turk	226	220	3%	250	245	2%
Total & Averages	18,807	17,562	7%	19,505	18,565	5%

* 2013 net earnings estimate includes TRY1,181mn one-off gain from the sale of insurance arm

Source: Bloomberg, Erste Group Research

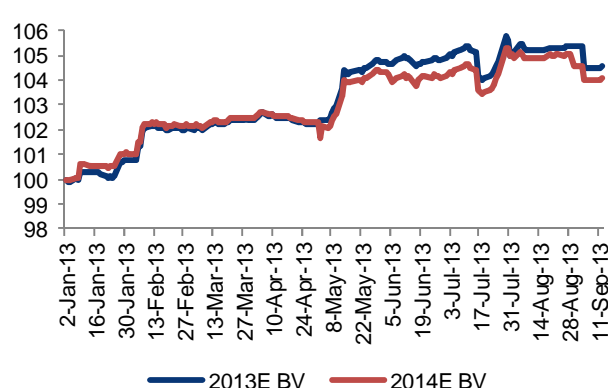
When we take into account the aggregate estimates for the banking index, we see that despite the downward revisions to 2013 and 2014 net earnings estimates, the book value estimates for 2013 and 2014 have remained almost flat. We think that there is a potential downward revision to book values on the back of earnings revisions and given the fact that the current benchmark bond yield is still above its 1H13 level of 7.7%, there could be further declines in the mark-to-market reserves of the available for sale securities. Having said that, we would also say that there could be re-classifications to Held-to-Maturity portfolios from Available for Sale portfolios, which may result in lower than expected declines in the book values.

NET EARNINGS REVISIONS (BANKING INDEX)



Source: Bloomberg, Erste Group Research

BOOK VALUE REVISIONS (BANKING INDEX)



Our revised models indicate 13% upside potential for bank coverage

On valuation grounds, we have factored in our revised macroeconomic estimates and reflected the negative repercussions of the higher interest rates into our models. In our valuation process, we used the Gordon Growth Model to value the core banking operations and added the participation portfolio thereafter. In our Gordon Growth Model, we assumed a cost of equity of 16.4%, which we derive from the 9.0% risk-free rate and 7.15% risk premium. On the other hand, our sustainable ROE levels vary between 14% and 20%. As for long-term growth, we assumed a 10% nominal growth rate, which we believe is consistent with long-term growth and inflation levels. Consequently, we estimate a 14% return potential on a market capitalization weighted basis for the banks that we cover.

Based on our revised valuations, we raise **Yapi Kredi Bank** to **Buy** from **Accumulate** and also upgrade **Garanti Bank**, **Vakifbank**, **Bank Asya** and **Albaraka Turk** to **Accumulate** from **Hold** and **Sekerbank** to **Hold** from **Reduce**.

KEY VALUATION METRICS

	Sustainable ROE	Target P/BV	Current price	12-mth target price			Return potential	Recommendation	
				Old	New	Chg.		Old	New
Akbank	18.0%	1.30	7.74	9.20	7.84	-15%	1%	Hold	Hold
Garanti	19.5%	1.54	8.00	9.61	8.89	-8%	11%	Hold	Accumulate
Halkbank	20.2%	1.66	14.95	21.12	19.05	-10%	27%	Buy	Buy
Isbank	17.0%	1.13	5.30	6.99	6.21	-11%	17%	Accumulate	Accumulate
Vakifbank	16.0%	0.97	4.64	4.80	5.35	11%	15%	Hold	Accumulate
Yapi Kredi Bank	17.1%	1.16	4.55	5.58	5.55	0%	22%	Accumulate	Buy
TSKB	19.6%	1.43	1.97	2.31	2.22	-4%	13%	Accumulate	Accumulate
Sekerbank	15.5%	0.89	1.90	1.61	2.04	27%	7%	Reduce	Hold
Bank Asya	14.0%	0.65	1.90	2.12	2.17	2%	14%	Hold	Accumulate
Albaraka Turk	16.9%	1.12	1.68	1.73	1.98	14%	18%	Hold	Accumulate
Average						-7%	14%		

Source: Erste Group Research

Target Prices - Sanity check with consensus

	Target Price		
	Erste	Bloomberg	Difference
Akbank	7.84	8.37	-6%
Garanti	8.89	9.05	-2%
Halkbank	19.05	19.02	0%
Isbank	6.21	5.78	7%
Vakifbank	5.35	4.97	8%
Yapi Kredi Bank	5.55	5.04	10%
TSKB	2.22	2.41	-8%
Sekerbank	2.04	1.91	7%
Bank Asya	2.17	2.22	-2%
Albaraka Turk	1.98	2.07	-4%
Average			1%

Source: Bloomberg, Erste Group Research

Based on consensus estimates, Turkish banks are trading at 1.13x of their 12-month forward looking P/BV multiple, which indicates that the current valuation level is between -1 and -2 standard deviations from its average since 2010. We regard the current level of the multiples as attractive for investors to build a position for the long-term.

HISTORICAL 12-MONTH FORWARD LOOKING P/BV MULTIPLES



Source: Bloomberg, Erste Group Research

Assessing the impact of rising interest rates on Turkish banks

Turkish banks will inevitably be exposed to the rising interest rates and the magnitude of the impact will be dependent on the asset-liability structure and the change in interest rates. In order to address the aforementioned adversities, we think that it would be appropriate to focus on the repricing gap analysis, which will provide us with a clear guidance regarding how Turkish banks will be impacted at the net interest margin level.

Having said that, we think that it is more important to shed light on the impact on the book value, which incorporates the impact of rising interest rates on profitability and the changes in the mark-to-market gains/losses registered from the available for sale securities. In order to address the case without having any bias, we prefer to use the sensitivity analysis, which is required by the Banking Regulatory and Supervisory Authority from the banks on a monthly basis and are reported to the public every quarter. This sensitivity analysis is aimed at gauging the impact of a 500bp increase/decrease in TRY interest rates as well as a 200bp increase/decrease in USD and EUR interest rates on banks' book values. Since 68% of banking system assets were in TRY as of July 2013, we prefer to focus on the impact of the rising TRY rates on book values.

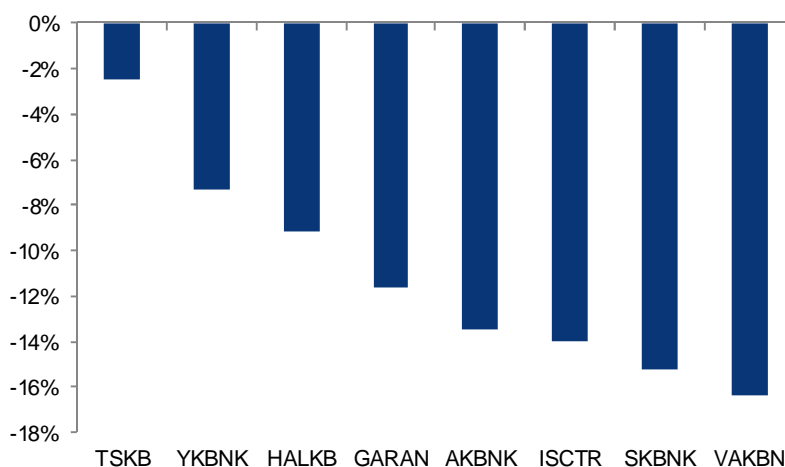
Asset-liability breakdown based on repricing dates

As of 1H13	<1M	1-3M	3-12M	1-5Y	>5Y	Non interest earning/bearing	Total
Assets							
Akbank	22%	17%	24%	18%	8%	12%	100%
Garanti	15%	12%	18%	25%	13%	17%	100%
Halkbank	32%	13%	16%	17%	5%	18%	100%
Isbank	22%	10%	21%	24%	7%	15%	100%
Sekerbank	31%	6%	17%	27%	3%	16%	100%
TSKB	24%	32%	29%	7%	3%	6%	100%
Vakifbank	25%	10%	23%	15%	10%	16%	100%
Yapi Kredi Bank	16%	26%	19%	12%	9%	18%	100%
Average	21%	15%	20%	19%	9%	16%	100%
Liabilities							
Akbank	40%	17%	11%	5%	3%	24%	100%
Garanti	43%	12%	8%	6%	3%	28%	100%
Halkbank	43%	16%	9%	2%	2%	28%	100%
Isbank	45%	13%	8%	3%	2%	29%	100%
Sekerbank	48%	15%	10%	2%	0%	25%	100%
TSKB	34%	26%	16%	3%	4%	17%	100%
Vakifbank	44%	17%	9%	4%	2%	25%	100%
Yapi Kredi Bank	36%	15%	10%	11%	2%	26%	100%
Average	42%	15%	9%	5%	2%	27%	100%

* Includes off-balance sheet items

Source: Erste Group Research

Based on banks' 1H13 results, Yapi Kredi Bank and Halkbank will be the least impacted bank among the large cap banks, while TSKB will be the least impacted bank among our coverage universe, thanks to having no duration mismatch in its lending and funding and also by having a lower share of securities in its asset composition. On the flipside, Vakifbank and Isbank will be the most impacted banks among the large cap banks. In addition, participation banks will not be impacted by the rising interest rates due to their unique business models.

IMPACT OF A 500BP INCREASE IN TRY RATES ON BOOK VALUES (1H13)


Source: Company Data

Appendix: Pension funds holdings in Polish banking stocks

The on-going change in the Polish open pension funds (OPF) system has led us to examine the significance of Polish private pension funds as the shareholders of Polish banks.

The changes, which will be included in the new legislative act proposed by the government, will mean significant changes to all classes of assets currently held by the pension funds. Since the government holds the majority in parliament, we would treat the suggested changes as a given.

Previously the government considered three options, which were recommended by the Ministry of Labor and Social Policy:

- Remission of debt collected by OPF.
- Free choice – every pension fund member would make a declaration whether he/she and his/her accumulated assets would remain in the system.
- Free choice – similar to the “free choice” above, however, remaining in the OPF system would mean an additional contribution charged to the gross salary.

On top of that, the funds accumulated in the pension funds by each pensioner 10 years or less before retirement are to be gradually transferred to ZUS (10% each year). The pensions paid by ZUS would be lifetime pensions and they would be valorized.

As Prime Minister Donald Tusk communicated, the government will go with the hybrid of those options. Treasury bond investments will be remitted and OPF members will have to make a declaration whether they will stay or leave the system. However, the decision will only be binding for **NEW** contributions, while accumulated assets will stay in the system. As previously verbalized, 10 years before retirement, the assets will be moved to the public system.

Debt investments, which will be shifted to the public pay-as-you-go system (ZUS), in practice, will mean that they will be cancelled. In exchange every member of the system will receive a “promise” from the state that the cancelled amount, valorized each year, will be paid in the form of monthly pension payments when that person retires. Since pension funds members currently are not aware of what their assets have been invested in, their holdings in the private pension funds will be proportionately cut.

The proposed changes will have an important impact on the Polish equity market in at least four ways:

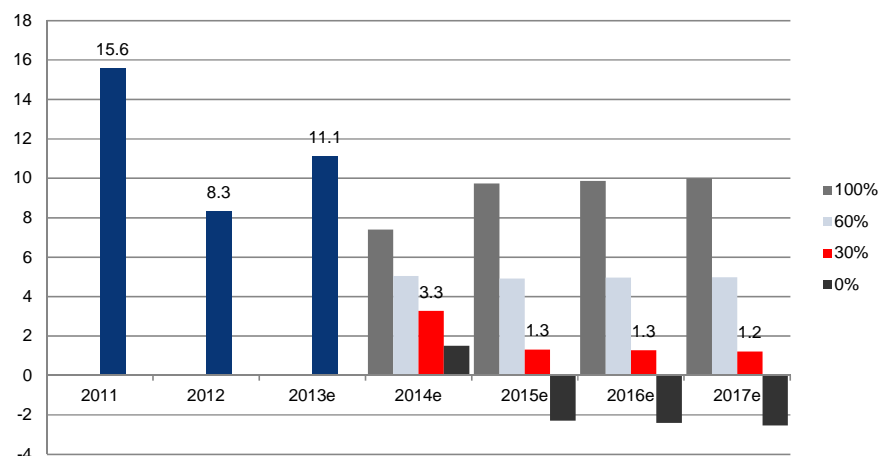
- Depending on the number of people that choose to stay or quit, **the amount of flows**, which are transferred to the pension funds each month, **will be different**.
- **OPF will have to transfer at least PLN 4.4bn of its assets in 2014e** as they are required to transfer part of the assets belonging

to those who will retire within 10 years. The Ministry of Finance is estimating that the flows in 2015e will amount to PLN 2.3bn

- The **internal benchmark will be abolished** between the pension funds, which should lead to a situation when pension funds will compete more against one another and we would expect that their strategies will now be different from one another.
- The **fees that the pension funds charge their members will be cut by half**. We think that this will trigger consolidation, which can also result in partial rebuilding of equity portfolios.

Until now, pension funds were only net buyers in the equity and debt market as the system is relatively young and the members are currently in their productive ages. We have performed a sensitivity analysis of the net flows to pension funds following the changes, depending on the percentage of the current members who chose to remain in the system. We have adopted an assumption that pension funds will have redemptions of PLN 4.4bn in 2014e and PLN 2.3bn in 2015e. The calculations are presented on the chart below.

Net transfers to pension funds depending on the percentage of their current members remaining in the system



Source: Deputy Minister's of Finance comments, Polish FSA, Erste Group Research

Since the changes are expected to be effective in 2H14, pension funds will enjoy the "normal" flows in 1H14, while the transfers in 2H14 will depend on the choices of their members. Therefore, the inflows will be higher than since the beginning of 2015e (when the voluntariness effect will be fully phased). Redemptions will be higher in 2014e than going forward, as their effects will cumulate for all the members who have less than 10 years until retirement (i.e. at age of 55 for women, 50% of the assets will be transferred to ZUS).

Hence, in case 30% member choose to stay, the net transfers to pension funds would drop to PLN 3.3bn and to PLN 1.3bn in 2015e. In fact, transfers to pension funds would be positive in 2014 even if everyone left the system.

The bottom line is that flows to pension fund system will be smaller, and domestic mutual funds as well as international investors may become more significant marginal buyers. Hence, the valuation premium is likely to

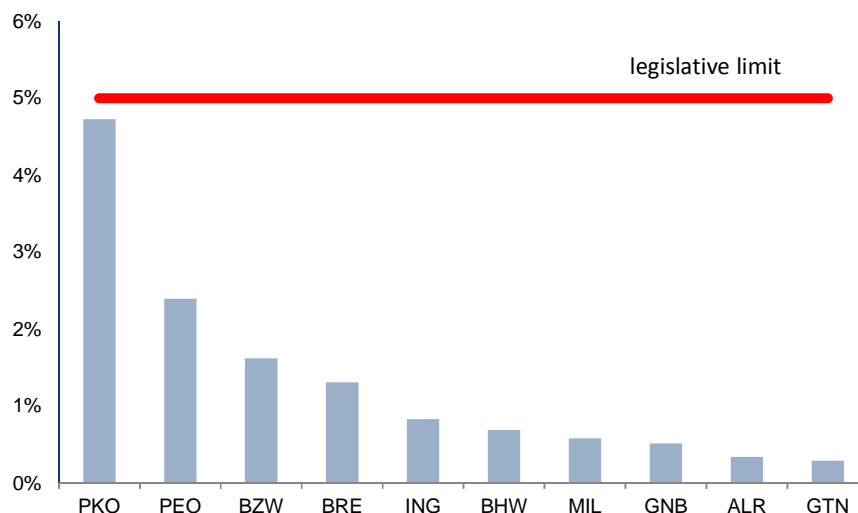
decrease as those investors will look at those stocks to a greater degree from the perspective of a peer table or the P/BV vs. ROE/growth charts. However, since we believe that the economy will be improving going forward, it is not necessarily a given that pension funds will opt to scale back the most on banking stocks. In fact, pension funds would seek dividend paying low-risk banks, which have the potential to be similar to bond-like investments. Such banks would especially be attractive to pensions funds as they would be prohibited from investing in Treasury bonds.

This is why we believe that looking at banks from the fundamental viewpoint and assessing their dividend payment capacity will be the key. If our expectation is that Polish banking stocks will also be played more by global investors than in the past, we have to assess their susceptibility to global conditions.

Pension funds managed assets of PLN 287bn as of the end of August 2013. PLN 116.5 (40.5% of the total amount) was invested in stocks. We have examined what the ownership of the stocks looked like. All our calculations are based on 2012 disclosures by the pension funds, corrected, where possible by their 1H13 disclosures. Subsequently, we have examined how significant the pension funds are as shareholders for each bank.

We estimate that pension funds owned banks worth PLN 38bn at the end of August 2013, which translated into 13% of their total assets or 33% of their equity portfolios. They significantly increased their holdings in PKO, PEO and BZW following the placements which took place in 2013.

Percent of pension funds' assets invested in banking stocks

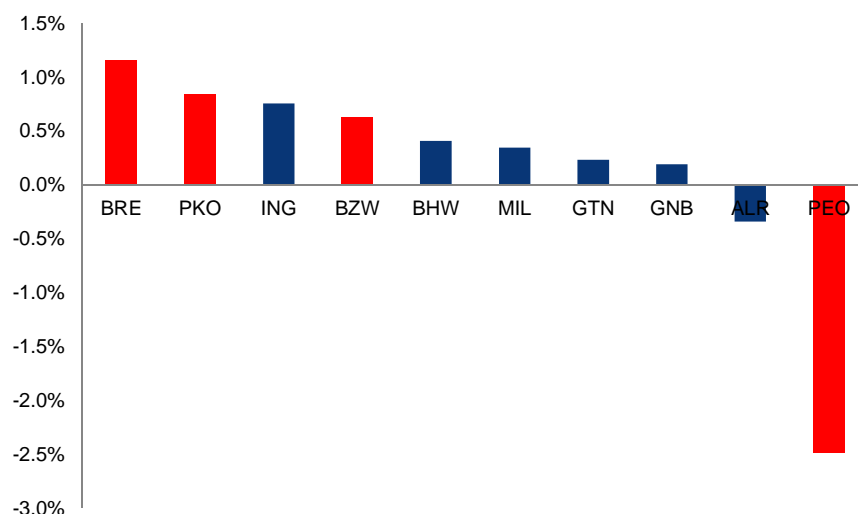


Source: Pension funds, Erste Group Research

Unsurprisingly, the largest position among the banking stocks was PKO BP, where (based on end-August prices) the pension funds held PLN 13.5bn or 4.73% of their assets. The second largest was Pekao, where pension funds had PLN 6.8bn or 2.39% of total assets.

PKO BP's share in the OPFs' equity assets stood at 11.6% and was 0.8% higher than the bank's share in the broad market index (WIG). Pekao was the stock where the OPFs were heavily (relative to other banks) underweight vs. the index (see chart below).

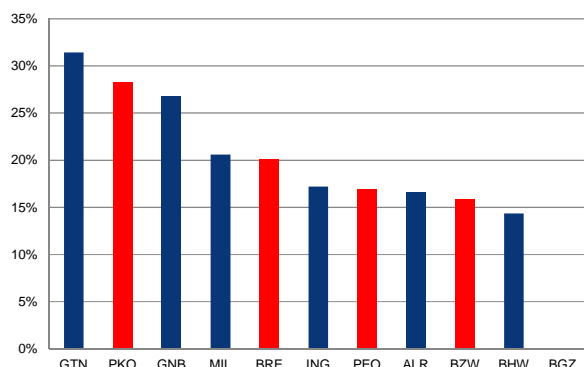
Over/underweight of pension funds in banking stocks vs. WIG



Source: Pension funds, Warsaw Stock Exchange, Erste Group Research

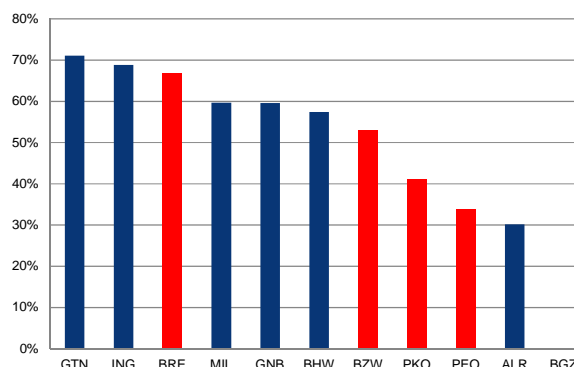
We also looked at how the pension funds holdings related to the banks' market capitalizations and their free floats. The rankings are presented in the charts below.

OPFs share in market capitalization



Source: Pension funds, Warsaw Stock Exchange, Erste Group Research

OPFs share in free float



Looking at the market capitalization, pension funds mostly held Getin, PKO BP and Getin Noble Bank. Subtracting the stakes of the main shareholders and based on the free float, however, the situation changes to the disadvantage of ING Bank Slaski and BRE, which now rank as second and third. In case of Getin, 70% of the free float is held by the OPFs. Among the stocks that we cover, BRE has the highest pension fund membership at 67%, while the share in the free float is the lowest in Pekao (34%).

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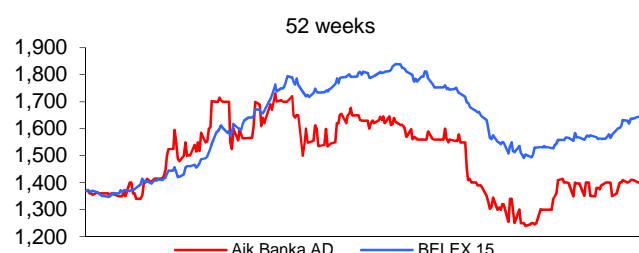
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Accumulate

RSD mn	2012	2013e	2014e	2015e
Net interest Income	7,540.9	6,439.7	6,613.3	6,840.1
Net fee/com. inc.	782.8	626.7	645.5	666.5
Total Income	10,170.9	7,729.1	8,846.4	8,318.3
EBT	4,009.8	2,869.1	5,108.8	4,261.3
Net result after min.	3,641.85	2,605.14	4,638.80	3,869.25
EPS (RSD)	357.42	252.82	445.98	372.00
BVPS (RSD)	4,932.81	5,102.83	5,526.19	5,876.90
Tang. BVPS (RSD)	4,932.81	5,102.83	5,526.19	5,876.90
Div./share (RSD)	6.62	4.33	8.92	7.39
ROE (%)	7.50	5.04	8.39	6.52
P/E (x)	4.4	5.4	3.1	3.7
P/BV(x)	0.3	0.3	0.2	0.2
Dividend Yield	0.4%	0.3%	0.7%	0.5%

Share price (RSD) close as of 16/09/2013	1,363.0
Number of shares (mn)	10.4
Market capitalization (RSD mn / EUR mn)	14,177 / 124
Enterprise value (RSD mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in RSD	-0.5%	-16.4%	3.3%	-1.9%

Reuters	AIKB.BEL	Free float	67.1%
Bloomberg	AIKB SG	Shareholders	ATE Bank (20.3%)
Div. Ex-date	15/05/13		SUNOKO LTD (12.57%)
Target price	1,600.0	Homepage:	www.aikbanka.rs

Analyst:

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New management vs. old challenges

Based on revised estimates for 2013e-2017e and changes of risk-free and equity risk premium rates incorporated in the DDM model, we reiterate an Accumulate recommendation for AIK Banka, but we lower the 12-month target price to RSD 1,600.00.

Our positive stance on the bank is supported by low relative valuations. With 0.27x BV13e, AIK Banka is not just valued well below its book value, but is also traded at a significant discount to the peer group of banks with CEE exposure.

We have adjusted our estimates significantly, following the bank's latest performance, regulatory impact on NIM, development of the domestic currency against the EUR and high level of net provisions.

Looking at the longer perspective, we expect slowed growth in a challenging environment, but also see potential in positive developments related to Serbia's accession to EU.

Also, we expect new management to further consolidate the bank's portfolio and improve performance in the coming years.

The Greek ATEbank stake (20.3% of common shares, 25% of preferred), now owned by the Piraeus Group, remains in focus, as the current second largest shareholder might be a potential buyer.

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, RSD mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	6,641.7	6,351.4	7,540.9	6,439.7	6,613.3	6,840.1
Risk provisions for loans and advances	-1,968.0	-2,628.7	-3,454.6	-1,935.6	-585.7	-679.5
Net interest Income (after risk prov.)	4,673.7	3,722.6	4,086.3	4,504.1	6,027.6	6,160.6
Net fees & commission income	731.5	933.0	782.8	626.7	645.5	666.5
Dividend income	0.1	9.9	0.0	0.0	0.0	0.0
Trading result	2,632.5	723.7	1,335.8	146.2	1,066.0	284.8
Result on financial instruments	0.0	18.5	0.0	0.0	0.0	0.0
Other income	598.2	370.0	511.4	516.5	521.7	526.9
Total Income	10,604.0	8,406.5	10,170.9	7,729.1	8,846.4	8,318.3
Other administrative expenses	-1,680.4	-1,661.5	-1,808.0	-1,952.7	-2,118.6	-2,309.3
Depreciation and amortization	-149.5	-190.4	-243.2	-273.5	-296.0	-298.9
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	6,197.7	3,309.5	4,009.8	2,869.1	5,108.8	4,261.3
Extraordinary result	0.8	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	6,198.5	3,309.5	4,009.8	2,869.1	5,108.8	4,261.3
Income taxes	-607.6	-335.8	-368.0	-264.0	-470.0	-392.0
Profit / loss after taxes	5,590.8	2,973.7	3,641.8	2,605.1	4,638.8	3,869.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net result after minorities	5,590.8	2,973.7	3,641.8	2,605.1	4,638.8	3,869.3
Adjusted profit/loss before taxes	6,198.5	3,309.5	4,009.8	2,869.1	5,108.8	4,261.3
Adjusted net profit/loss	5,590.8	2,973.7	3,641.8	2,605.1	4,638.8	3,869.3
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, RSD mn, 31/12)						
Cash and balances with central banks	26,053.6	44,121.3	40,065.2	43,302.8	46,621.1	50,353.2
Loans and advances to banks (net)	36,513.4	6,361.8	4,667.5	4,714.2	4,770.8	4,837.6
Loans and advances to customers (net)	67,041.8	67,881.2	70,131.0	71,236.8	73,798.9	76,842.9
Interest-earning financial assets	3,945.4	11,737.6	25,972.7	26,210.6	25,162.1	24,155.7
Interest-earning assets	133,554.2	130,101.8	140,836.5	145,464.4	150,353.0	156,189.3
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	71.2	55.2	49.5	50.5	51.0	51.5
Intangible assets	45.4	48.5	66.7	68.1	68.8	69.4
Tangible assets	2,857.0	9,044.7	9,575.9	9,767.4	9,865.1	9,963.8
Other assets	5,055.6	3,943.4	3,823.8	3,632.6	3,414.6	3,209.7
TOTAL ASSETS	141,583.4	143,193.5	154,352.3	158,982.9	163,752.4	169,483.7
Deposits from banks	9,547.9	4,860.8	4,581.7	3,971.8	1,362.3	-625.3
Deposits from customers	83,858.1	86,952.6	95,414.5	97,799.9	100,733.9	104,763.2
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	93,405.9	91,813.4	99,996.2	101,771.6	102,096.2	104,137.9
LT provisions	665.2	499.6	696.8	703.7	710.8	717.9
Other liabilities	3,344.4	4,050.2	3,397.4	3,431.3	3,465.6	3,500.3
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	97,415.5	96,363.2	104,090.3	105,906.7	106,272.6	108,356.1
Shareholders' equity	44,167.9	46,830.3	50,262.0	53,076.2	57,479.8	61,127.6
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	141,583.4	143,193.5	154,352.3	158,982.9	163,752.4	169,483.7
--						
Other figures						
Tangible shareholders' equity	44,167.9	46,830.3	50,262.0	53,076.2	57,479.8	61,127.6
Off-balance sheet items	113,583.7	118,180.5	121,092.0	0.0	0.0	0.0
Year-end no. of shares outstanding (mn)	9.60	10.03	10.19	10.40	10.40	10.40
Average no. of shares outstanding (mn)	9.60	9.79	10.19	10.30	10.40	10.40
Fully diluted no. of shares outstanding (mn)	9.60	9.79	10.19	10.30	10.40	10.40
No. of employees (FTE)	478	500	507	527	543	550
No. of branches	60	60	60	60	60	60
Payout ratio	4.1%	1.9%	1.9%	1.7%	2.0%	2.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, RSD mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	10.0%	9.6%	9.5%	8.2%	8.1%	8.0%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-6.3%	-6.8%	-5.5%	-5.3%	-5.3%	-5.3%
Yield on assets - cost of funds (Interest spread)	3.7%	2.8%	4.0%	2.9%	2.8%	2.7%
Net. int. income/avg. assets (Net interest margin)	5.3%	4.5%	5.1%	4.1%	4.1%	4.1%
Net fee and commission margin (avg. total assets)	0.6%	0.7%	0.5%	0.4%	0.4%	0.4%
ROE	13.4%	6.5%	7.5%	5.0%	8.4%	6.5%
ROA	4.5%	2.1%	2.4%	1.7%	2.9%	2.3%
Operating margin	4.9%	2.3%	2.7%	1.8%	3.2%	2.6%
Efficiency						
Cost/Income ratio	23.0%	29.4%	26.6%	37.8%	35.6%	40.6%
Cost/avg. Assets ratio	1.9%	1.7%	1.8%	1.9%	2.0%	2.0%
Personnel expenses/total income	-5.7%	-7.3%	-6.4%	-9.0%	-8.3%	-9.2%
Avg. staff costs (RSD)	1,268,838	1,260,513	1,301,507	1,350,461	1,378,263	1,407,653
Balance sheet structure						
Loans deposit ratio	93.7%	94.2%	91.1%	92.0%	92.4%	92.4%
Loans/total assets	55.5%	57.2%	56.3%	56.6%	56.8%	57.1%
Deposits/total assets	59.2%	60.7%	61.8%	61.5%	61.5%	61.8%
Capital adequacy						
Equity ratio	31.2%	32.7%	32.6%	33.4%	35.1%	36.1%
Capital adequacy ratio	33.0%	30.1%	34.7%	35.5%	37.4%	38.4%
Asset quality						
Non-performing loans ratio	21.4%	24.5%	25.5%	25.6%	26.4%	26.9%
Non-performing loans coverage ratio	68.3%	69.8%	75.6%	81.3%	78.4%	76.7%
Risk provisions/loans to customers (gross)	14.6%	17.1%	19.3%	20.8%	20.7%	20.6%
Risk provisions/avg. customer loans (Risk costs)	2.7%	3.3%	4.1%	2.2%	0.6%	0.7%
Risk earnings ratio	29.6%	41.4%	45.8%	30.1%	8.9%	9.9%
Income statement structure						
Net interest income / total income	62.6%	75.6%	74.1%	83.3%	74.8%	82.2%
Net fee and commission income / total income	6.9%	11.1%	7.7%	8.1%	7.3%	8.0%
Net trading result / total income	24.8%	8.6%	13.1%	1.9%	12.1%	3.4%
Non-interest income / total income	37.4%	24.4%	25.9%	16.7%	25.2%	17.8%
Personnel expenses / total operating expenses	25.0%	25.0%	24.2%	23.9%	23.4%	22.8%
Effective tax rate	-9.8%	-10.1%	-9.2%	-9.2%	-9.2%	-9.2%
Growth Rates						
(IFRS, RSD mn, 31/12)						
Loans and advances to customers (net)	21.1%	1.3%	3.3%	1.6%	3.6%	4.1%
Deposits from customers	42.4%	3.7%	9.7%	2.5%	3.0%	4.0%
Total assets	29.4%	1.1%	7.8%	3.0%	3.0%	3.5%
Total liabilities	38.5%	-1.1%	8.0%	1.7%	0.3%	2.0%
Shareholders'equity	13.0%	6.0%	7.3%	5.6%	8.3%	6.3%
Net interest Income	-12.8%	-4.4%	18.7%	-14.6%	2.7%	3.4%
Net fees & commission income	19.4%	27.5%	-16.1%	-19.9%	3.0%	3.3%
Total Income	-1.0%	-20.7%	21.0%	-24.0%	14.5%	-6.0%
Personnel expenses	-12.5%	1.3%	6.3%	6.5%	5.6%	4.3%
Total expenses	20.8%	1.2%	9.6%	8.0%	7.8%	7.2%
Operating profit	0.6%	-46.6%	21.2%	-28.4%	78.1%	-16.6%
Net result after minorities	0.2%	-46.8%	22.5%	-28.5%	78.1%	-16.6%

Source: Company data, Erste Group estimates

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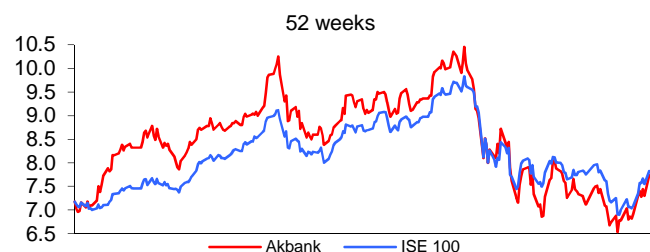
ERSTE GROUP

Akbank

Hold

TRY mn	2012	2013e	2014e	2015e
Net interest Income	5,200.3	6,019.2	6,667.6	7,414.3
Net fee/com. inc.	1,735.1	2,240.3	2,673.1	3,184.5
Total Income	7,808.3	9,438.5	10,269.6	11,477.8
EBT	3,803.1	4,210.6	4,612.6	5,538.5
Net result after min.	2,949.86	3,368.47	3,690.10	4,430.80
EPS (TRY)	0.74	0.84	0.92	1.11
BVPS (TRY)	5.48	5.48	6.18	7.04
Tang. BVPS (TRY)				
Div./share (TRY)	0.10	0.14	0.23	0.25
ROE (%)	14.95	15.36	15.82	16.76
P/E (x)	11.9	9.2	8.4	7.0
P/BV(x)	1.6	1.4	1.3	1.1
Dividend Yield	1.2%	1.8%	2.9%	3.2%

Share price (TRY) close as of 16/09/2013	7.74
Number of shares (mn)	4,000.0
Market capitalization (TRY mn / EUR mn)	30,960 / 11,623
Enterprise value (TRY mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in TRY	7.2%	-16.8%	-11.2%	4.0%

Reuters	AKBNK.IS	Free float	41.3%
Bloomberg	AKBNK TI	Shareholders	Sabanci Holding (48.8%)
Div. Ex-date	29/03/13		
Target price	7.84	Homepage:	www.akbank.com

Strong business model with premium multiples

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Recent developments: Akbank posted 13% q/q loan growth in 2Q13 mainly growing in the selected loan segments and increased its TRY securities by 18% q/q. Akbank reduced its FRN securities in its portfolio by 21% q/q, while increasing its fixed rate securities book by 77% q/q and CPI-linked bond portfolio by 9% q/q. Its NIM declined by 39bp q/q to 4.28%, while its 1H13 NIM stood at 4.44% vs. 4.12% at the end of 2012. Separately, given its strong retail franchise, recent credit card and overdraft accounts regulations may weigh on margins, but the negative impact will be limited in our view.

Outlook: We strongly believe that Akbank has the necessary balance sheet strength to weather any adversities associated with the rising interest rates. Moreover, we believe that Akbank's NIM should expand strongly as soon as the asset repricings are completed thanks to its strong free funds position. We estimate its 2H13 NIM at 3.84% vs. 4.4% in 1H13 and this will bring down the 2013 NIM to 4.1%, remaining almost flat in y/y terms. For 2014, we estimate 16% y/y loan growth and pencilled in a 15bp y/y NIM contraction. We project 10% y/y earnings growth and estimate its ROE at 16% in 2014.

Recommendation: We remain confident and positive on Akbank's business model, however, on valuation grounds, the positive outlook is already priced as the stock trades at 1.3x of its 2014E book value with an estimated ROE of 16%. We base our target price on the Gordon Growth Model, which assumes an 18% sustainable ROE and therefore, set our price target price at TRY7.84, which indicates almost no upside. We retain our "Hold" recommendation for the moment.

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AKBANK

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	2,857	2,395	2,950	3,368	3,690	4,431	5,434	6,725
<i>Growth in Net Income</i>	5%	-16%	23%	14%	10%	20%	23%	24%
Less:								
<i>Dividend Income</i>	27	50	56	29	29	29	29	29
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted net income	2,829	2,344	2,894	3,339	3,661	4,402	5,405	6,696
<i>Growth in Net Income</i>	5%	-17%	23%	15%	10%	20%	23%	24%
Book Value	17,565	17,554	21,913	21,938	24,716	28,147	31,582	35,855
<i>Growth in Shareholders' Equity</i>	24%	0%	25%	0%	13%	14%	12%	14%
Less:								
<i>Participations</i>	896	1,018	587	616	616	616	616	616
<i>Dividend Income</i>	27	50	56	29	29	29	29	29
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted Book Value	16,642	16,486	21,270	21,293	24,071	27,503	30,937	35,211
<i>ROE (Reported)</i>	18.0%	13.6%	14.9%	15.4%	15.8%	16.8%	18.2%	19.9%
<i>ROE (Adjusted)</i>	18.9%	14.2%	15.3%	15.7%	16.1%	17.1%	18.5%	20.2%

Sustainable Core ROE (2014-2017)	18.0%
Sustainable long-term growth	10.0%
Cost of Equity	16.2%
Target P/BV @ YE13	1.30
Banking Value	27,658
Participations	616
Value of Akbank by 2013	28,274
Value of Akbank as of now	27,007
Value of Akbank 12-mth forward	31,369
# of shares	4,000
Target Price (TRY)	7.84
Current market cap.	30,960
Upside potential	1%

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	4,276.8	3,992.9	5,200.3	6,019.2	6,667.6	7,414.3
Risk provisions for loans and advances	-518.8	-648.1	-1,107.6	-1,717.1	-1,746.8	-1,686.6
Net interest Income (after risk prov.)	3,758.0	3,344.8	4,092.8	4,302.1	4,920.7	5,727.7
Net fees & commission income	1,309.1	1,578.5	1,735.1	2,240.3	2,673.1	3,184.5
Dividend income	27.3	50.5	55.7	29.0	29.0	29.0
Trading result	32.9	-119.2	400.1	700.0	250.0	150.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	863.5	580.7	417.0	450.0	650.0	700.0
Total Income	6,509.6	6,083.5	7,808.3	9,438.5	10,269.6	11,477.8
Other administrative expenses	-875.2	-1,269.0	-1,568.1	-1,430.2	-1,621.5	-1,781.0
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	3,574.0	3,001.2	3,803.1	4,210.6	4,612.6	5,538.5
Extraordinary result						
Profit / loss before taxes	3,574.0	3,001.2	3,803.1	4,210.6	4,612.6	5,538.5
Income taxes	-717.5	-606.7	-853.2	-842.1	-922.5	-1,107.7
Profit / loss after taxes	2,856.5	2,394.5	2,949.9	3,368.5	3,690.1	4,430.8
Minority interests						
Net result after minorities	2,856.5	2,394.5	2,949.9	3,368.5	3,690.1	4,430.8
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	6,096.0	13,876.4	16,662.8	16,725.4	18,898.2	22,328.1
Loans and advances to banks (net)	1,783.9	2,818.8	2,698.2	2,563.3	2,307.0	2,076.3
Loans and advances to customers (net)	52,895.5	70,306.1	87,656.3	109,215.4	126,120.6	147,881.6
Interest-earning financial assets	49,879.3	43,655.6	46,108.5	47,817.2	50,208.0	47,697.6
Interest-earning assets	110,654.7	130,656.9	153,125.9	176,321.3	197,533.9	219,983.7
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	896.0	1,017.8	586.9	615.5	615.5	615.5
Intangible assets	92.7	100.6	112.6	112.6	112.6	112.6
Tangible assets	888.2	785.9	796.1	776.2	796.2	816.2
Other assets	651.0	990.7	1,232.1	1,375.9	1,507.1	1,627.6
TOTAL ASSETS	113,182.6	133,551.8	155,853.5	179,201.5	200,565.3	223,155.5
Deposits from banks	7,378.3	10,275.1	10,745.7	11,540.5	4,612.4	5,210.7
Deposits from customers	59,788.6	66,539.1	75,359.0	85,533.7	104,124.5	117,619.4
Debt securities issued	24,108.3	34,058.9	40,216.9	50,848.4	56,549.5	60,242.1
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	91,275.2	110,873.2	126,321.6	147,922.6	165,286.5	183,072.2
LT provisions	821.7	1,077.2	1,473.3	2,125.1	2,494.2	2,987.9
Other liabilities	3,520.6	4,047.2	6,146.0	7,216.2	8,069.0	8,948.1
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	95,617.5	115,997.6	133,940.9	157,263.9	175,849.6	195,008.1
Shareholders' equity	17,565.1	17,554.3	21,912.7	21,937.6	24,715.7	28,147.4
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	113,182.6	133,551.8	155,853.5	179,201.5	200,565.3	223,155.5
--						
Other figures						
Tangible shareholders' equity						
Off-balance sheet items	10,364.9	14,635.0	18,822.5	23,296.2	26,073.5	29,010.2
Year-end no. of shares outstanding (mn)	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
Average no. of shares outstanding (mn)	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
Fully diluted no. of shares outstanding (mn)	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
No. of employees (FTE)	15,330	15,339	16,315	17,317	18,169	18,596
No. of branches	913	927	962	1,016	1,066	1,091
Payout ratio	18.9%	23.8%	14.2%	16.9%	24.7%	22.5%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	8.5%	7.5%	8.0%	8.0%	8.2%	8.2%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-5.2%	-5.1%	-5.1%	-5.3%	-5.6%	-5.5%
Yield on assets - cost of funds (Interest spread)	3.3%	2.5%	2.8%	2.8%	2.7%	2.6%
Net. int. income/avg. assets (Net interest margin)	4.1%	3.2%	3.6%	3.6%	3.5%	3.5%
Net fee and commission margin (avg. total assets)	1.3%	1.3%	1.2%	1.3%	1.4%	1.5%
ROE	18.0%	13.6%	14.9%	15.4%	15.8%	16.8%
ROA	2.7%	1.9%	2.0%	2.0%	1.9%	2.1%
Operating margin	3.4%	2.4%	2.6%	2.5%	2.4%	2.6%
Efficiency						
Cost/Income ratio	37.1%	40.0%	37.1%	37.2%	38.1%	37.1%
Cost/avg. Assets ratio	2.3%	2.0%	2.0%	2.1%	2.1%	2.0%
Personnel expenses/total income	-23.7%	-19.2%	-17.0%	-22.0%	-22.3%	-21.5%
Avg. staff costs (TRY)	102,626	75,986	84,010	123,726	128,986	134,461
Balance sheet structure						
Loans deposit ratio	88.5%	105.8%	116.4%	127.8%	121.3%	125.9%
Loans/total assets	46.7%	52.7%	56.3%	61.0%	63.0%	66.3%
Deposits/total assets	52.8%	49.8%	48.4%	47.7%	51.9%	52.7%
Capital adequacy						
Equity ratio	15.5%	13.1%	14.1%	12.2%	12.3%	12.6%
Capital adequacy ratio	20.6%	17.0%	18.6%	16.0%	16.0%	15.8%
Asset quality						
Non-performing loans ratio	2.4%	1.8%	1.3%	1.3%	1.5%	1.5%
Non-performing loans coverage ratio	0.0%	7.4%	8.3%	7.6%	7.6%	7.6%
Risk provisions/loans to customers (gross)	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
Risk provisions/avg. customer loans (Risk costs)	1.1%	1.1%	1.4%	1.7%	1.5%	1.2%
Risk earnings ratio	12.1%	16.2%	21.3%	28.5%	26.2%	22.7%
Income statement structure						
Net interest income / total income	65.7%	65.6%	66.6%	63.8%	64.9%	64.6%
Net fee and commission income / total income	20.1%	25.9%	22.2%	23.7%	26.0%	27.7%
Net trading result / total income	0.5%	-2.0%	5.1%	7.4%	2.4%	1.3%
Non-interest income / total income	34.3%	34.4%	33.4%	36.2%	35.1%	35.4%
Personnel expenses / total operating expenses	63.8%	47.9%	45.9%	59.3%	58.5%	58.1%
Effective tax rate	-20.1%	-20.2%	-22.4%	-20.0%	-20.0%	-20.0%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	33.2%	32.9%	24.7%	24.6%	15.5%	17.3%
Deposits from customers	14.3%	11.3%	13.3%	13.5%	21.7%	13.0%
Total assets	18.8%	18.0%	16.7%	15.0%	11.9%	11.3%
Total liabilities	17.9%	21.3%	15.5%	17.4%	11.8%	10.9%
Shareholders'equity	23.8%	-0.1%	24.8%	0.1%	12.7%	13.9%
Net interest Income	-6.9%	-6.6%	30.2%	15.7%	10.8%	11.2%
Net fees & commission income	2.3%	20.6%	9.9%	29.1%	19.3%	19.1%
Total Income	-1.3%	-6.5%	28.4%	20.9%	8.8%	11.8%
Personnel expenses	9.5%	-24.4%	14.1%	56.5%	10.0%	8.0%
Total expenses	10.7%	0.7%	19.0%	21.2%	11.4%	8.8%
Operating profit	8.4%	-16.0%	26.7%	10.7%	9.5%	20.1%
Net result after minorities	4.8%	-16.2%	23.2%	14.2%	9.5%	20.1%

Source: Company data, Erste Group estimates

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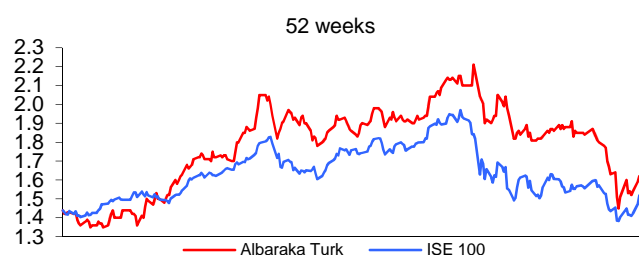
ERSTE GROUP

Albaraka Turk

from Hold to Accumulate

TRY mn	2012	2013e	2014e	2015e
Net interest Income	485.9	615.3	698.6	764.3
Net fee/com. inc.	113.4	133.8	147.1	169.2
Total Income	705.6	872.2	969.1	1,073.8
EBT	241.2	282.6	312.8	358.0
Net result after min.	191.84	226.08	250.24	286.41
EPS (TRY)	0.21	0.25	0.28	0.32
BVPS (TRY)	1.35	1.60	1.85	2.13
Tang. BVPS (TRY)				
Div./share (TRY)	0.00	0.03	0.03	0.04
ROE (%)	17.26	17.00	16.13	16.03
P/E (x)	8.0	6.7	6.0	5.3
P/BV(x)	1.3	1.0	0.9	0.8
Dividend Yield	0.0%	1.7%	2.0%	2.2%

Share price (TRY) close as of 16/09/2013	1.68
Number of shares (mn)	900.0
Market capitalization (TRY mn / EUR mn)	1,512 / 568
Enterprise value (TRY mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in TRY	17.5%	-9.7%	-18.0%	-6.7%

Reuters	ALBRK.IS	Free float	23.0%
Bloomberg	ALBRK TI	Shareholders	Albaraka Group (54.1%)
Div. Ex-date	05/04/11		Islamic Development Bank (7.84%)
Target price	1.98	Homepage:	www.albarakatürk.com.tr

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An attractively valued growth story

Recent developments: After strengthening its capital base by borrowing USD200mn in subordinated debt, Albaraka Turk attained 11% q/q growth in loans, mainly driven by TRY loans. On top of declining loan yields, down 72bp q/q, the lower income earned from its real-estate projects, (Albaraka Turk had previously established a JV with a contractor), led Albaraka Turk to register a ca.50bp q/q contraction in its net profit share margin. Despite the contraction in quarterly core revenues in 2Q13, Albaraka Turk still managed to post a 16% ROE in its 1H13 results.

Outlook: After attaining 14% y-t-d growth in 1H13, we expect Albaraka Turk to deliver 26% y/y growth in loans, followed by 16% y/y growth in 2014. On the margin outlook, we project the bank to have a better margin profile in 2H13 compared to 1H13 thanks to the contribution of the income from the real estate joint-venture. We estimate 2013 net profit margin share at 5.2% and forecast a 2014 figure of 5.0%. After the strong earnings growth foreseen in 2013 by 18% y/y, we project 2014 earnings growth at 11% y/y.

Recommendation: We maintain our positive stance on Albaraka Turk's operations and think that the investment community underestimates the bank's profitability outlook. Albaraka Turk trades at 0.9x of its 2014E book value with an ROE of 16%. We set our target price via the Gordon Growth Model at TRY1.98, indicating 18% upside potential. We raise our rating to "Accumulate" from Hold.

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ALBARAKA TURK

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	134	160	192	226	250	286	360	430
<i>Growth in Net Income</i>	<i>27%</i>	<i>19%</i>	<i>20%</i>	<i>18%</i>	<i>11%</i>	<i>14%</i>	<i>26%</i>	<i>19%</i>
Less:								
<i>Dividend Income</i>	0	0	1	1	1	1	1	1
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted net income	134	160	191	225	249	285	359	429
<i>Growth in Net Income</i>	<i>27%</i>	<i>20%</i>	<i>19%</i>	<i>18%</i>	<i>11%</i>	<i>15%</i>	<i>26%</i>	<i>20%</i>
Book Value	853	1,004	1,218	1,441	1,661	1,914	2,222	2,587
<i>Growth in Shareholders' Equity</i>	<i>20%</i>	<i>18%</i>	<i>21%</i>	<i>18%</i>	<i>15%</i>	<i>15%</i>	<i>16%</i>	<i>16%</i>
Less:								
<i>Participations</i>	2	3	4	4	4	4	4	4
<i>Dividend Income</i>	0	0	1	1	1	1	1	1
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted Book Value	850	1,001	1,213	1,436	1,656	1,908	2,217	2,582
<i>ROE (Reported)</i>	<i>17.1%</i>	<i>17.2%</i>	<i>17.3%</i>	<i>17.0%</i>	<i>16.1%</i>	<i>16.0%</i>	<i>17.4%</i>	<i>17.9%</i>
<i>ROE (Adjusted)</i>	<i>17.2%</i>	<i>17.3%</i>	<i>17.3%</i>	<i>17.0%</i>	<i>16.1%</i>	<i>16.0%</i>	<i>17.4%</i>	<i>17.9%</i>

Sustainable Core ROE (2014-2017)	16.9%
Sustainable long-term growth	10.0%
Cost of Equity	16.2%
Target P/BV @ YE13	1.12
Banking Value	1,602
Participations	4
Value of Albaraka Turk by 2013	1,607
Value of Albaraka Turk as now	1,535
Value of Albaraka Turk 12-mth forw	1,782
# of shares	900
Target Price (TRY)	1.98
Current market cap.	1,512
Upside potential	18%

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Albaraka Turk | Banking | Turkey

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	316.2	385.6	485.9	615.3	698.6	764.3
Risk provisions for loans and advances	-105.1	-106.3	-122.4	-204.0	-223.3	-237.8
Net interest Income (after risk prov.)	211.1	279.3	363.5	411.3	475.3	526.6
Net fees & commission income	82.9	90.3	113.4	133.8	147.1	169.2
Dividend income	0.3	0.0	0.8	1.0	1.0	1.0
Trading result	16.0	21.2	20.4	20.0	10.0	10.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	56.9	55.5	85.1	102.1	112.4	129.2
Total Income	472.3	552.7	705.6	872.2	969.1	1,073.8
Other administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	165.7	202.2	241.2	282.6	312.8	358.0
Extraordinary result						
Profit / loss before taxes	165.7	202.2	241.2	282.6	312.8	358.0
Income taxes	-31.6	-42.0	-49.4	-56.5	-62.6	-71.6
Profit / loss after taxes	134.0	160.2	191.8	226.1	250.2	286.4
Minority interests						
Net result after minorities	134.0	160.2	191.8	226.1	250.2	286.4
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	701.0	1,051.2	1,300.6	2,259.9	2,861.7	3,648.6
Loans and advances to banks (net)	731.0	1,307.5	1,037.1	827.0	868.4	911.8
Loans and advances to customers (net)	6,296.8	7,287.0	9,100.1	11,430.8	13,292.7	15,211.5
Interest-earning financial assets	435.3	521.5	524.6	744.5	781.7	781.7
Interest-earning assets	8,164.1	10,167.2	11,962.4	15,262.2	17,804.5	20,553.6
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	2.0	3.1	4.3	4.3	4.3	4.3
Intangible assets	2.2	5.3	7.1	8.3	8.3	8.3
Tangible assets	192.3	231.1	294.3	290.5	305.5	320.5
Other assets	45.7	54.2	59.6	107.5	125.1	144.2
TOTAL ASSETS	8,406.3	10,460.9	12,327.7	15,672.7	18,247.8	21,030.9
Deposits from banks	0.0	0.0	0.0	0.0	0.0	0.0
Deposits from customers	6,881.6	8,044.7	9,225.0	11,579.1	13,766.0	16,118.7
Debt securities issued	374.8	1,053.3	1,393.8	1,668.4	1,752.3	1,820.6
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	7,256.4	9,098.0	10,618.8	13,247.4	15,518.3	17,939.3
LT provisions	101.8	146.2	135.8	209.9	231.7	270.7
Other liabilities	195.5	212.4	354.7	367.5	430.1	497.2
Subordinated liabilities	0.0	0.0	0.0	406.6	406.7	410.2
Total liabilities	7,553.7	9,456.6	11,109.3	14,231.4	16,586.8	19,117.4
Shareholders' equity	852.6	1,004.3	1,218.3	1,441.3	1,661.0	1,913.5
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB., EQUITY	8,406.3	10,460.9	12,327.7	15,672.7	18,247.8	21,030.9
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Other figures						
Tangible shareholders' equity						
Off-balance sheet items	4,196.0	5,198.1	5,213.3	6,194.8	7,212.6	8,312.7
Year-end no. of shares outstanding (mn)	900.00	900.00	900.00	900.00	900.00	900.00
Average no. of shares outstanding (mn)	900.00	900.00	900.00	900.00	900.00	900.00
Fully diluted no. of shares outstanding (mn)	900.00	900.00	900.00	900.00	900.00	900.00
No. of employees (FTE)	2,175	2,601	2,758	3,261	3,966	4,670
No. of branches	109	123	137	162	197	232
Payout ratio	8.0%	8.4%	0.0%	11.5%	12.2%	11.8%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	9.3%	8.4%	9.0%	0.0%	0.0%	0.0%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-5.5%	-4.7%	-5.2%	0.0%	0.0%	0.0%
Yield on assets - cost of funds (Interest spread)	3.7%	3.7%	3.8%	0.0%	0.0%	0.0%
Net. int. income/avg. assets (Net interest margin)	4.3%	4.1%	4.3%	4.4%	4.1%	3.9%
Net fee and commission margin (avg. total assets)	1.1%	1.0%	1.0%	1.0%	0.9%	0.9%
ROE	17.1%	17.2%	17.3%	17.0%	16.1%	16.0%
ROA	1.8%	1.7%	1.7%	1.6%	1.5%	1.5%
Operating margin	2.2%	2.1%	2.1%	2.0%	1.8%	1.8%
Efficiency						
Cost/Income ratio	42.7%	44.2%	48.5%	44.2%	44.7%	44.5%
Cost/avg. Assets ratio	2.7%	2.6%	3.0%	2.8%	2.6%	2.4%
Personnel expenses/total income	-42.7%	-44.2%	-48.5%	-44.2%	-44.7%	-44.5%
Avg. staff costs (TRY)	98,063	102,245	127,606	128,123	119,834	110,683
Balance sheet structure						
Loans deposit ratio	91.9%	90.7%	98.9%	99.2%	97.0%	94.7%
Loans/total assets	75.2%	69.8%	74.0%	73.3%	73.2%	72.6%
Deposits/total assets	81.9%	76.9%	74.8%	73.9%	75.4%	76.6%
Capital adequacy						
Equity ratio	10.1%	9.6%	9.9%	9.2%	9.1%	9.1%
Capital adequacy ratio	14.1%	12.5%	13.0%	15.7%	15.8%	15.7%
Asset quality						
Non-performing loans ratio	3.0%	2.4%	2.4%	2.5%	2.2%	1.9%
Non-performing loans coverage ratio	14.3%	7.6%	11.2%	19.4%	19.4%	19.4%
Risk provisions/loans to customers (gross)	0.4%	0.2%	0.3%	0.5%	0.4%	0.4%
Risk provisions/avg. customer loans (Risk costs)	1.9%	1.6%	1.5%	2.0%	1.8%	1.7%
Risk earnings ratio	33.2%	27.6%	25.2%	33.2%	32.0%	31.1%
Income statement structure						
Net interest income / total income	66.9%	69.8%	68.9%	70.5%	72.1%	71.2%
Net fee and commission income / total income	17.6%	16.3%	16.1%	15.3%	15.2%	15.8%
Net trading result / total income	3.4%	3.8%	2.9%	2.3%	1.0%	0.9%
Non-interest income / total income	33.1%	30.2%	31.1%	29.5%	27.9%	28.8%
Personnel expenses / total operating expenses	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Effective tax rate	-19.1%	-20.8%	-20.5%	-20.0%	-20.0%	-20.0%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	34.4%	15.7%	24.9%	25.6%	16.3%	14.4%
Deposits from customers	25.9%	16.9%	14.7%	25.5%	18.9%	17.1%
Total assets	31.0%	24.4%	17.8%	27.1%	16.4%	15.3%
Total liabilities	32.4%	25.2%	17.5%	28.1%	16.6%	15.3%
Shareholders'equity	20.0%	17.8%	21.3%	18.3%	15.2%	15.2%
Net interest Income	2.8%	22.0%	26.0%	26.6%	13.5%	9.4%
Net fees & commission income	2.7%	8.9%	25.5%	18.0%	10.0%	15.0%
Total Income	7.1%	17.0%	27.7%	23.6%	11.1%	10.8%
Personnel expenses	13.6%	21.2%	40.0%	12.8%	12.3%	10.4%
Total expenses	13.6%	21.2%	40.0%	12.8%	12.3%	10.4%
Operating profit	25.7%	22.0%	19.3%	17.2%	10.7%	14.5%
Net result after minorities	27.3%	19.5%	19.8%	17.9%	10.7%	14.5%

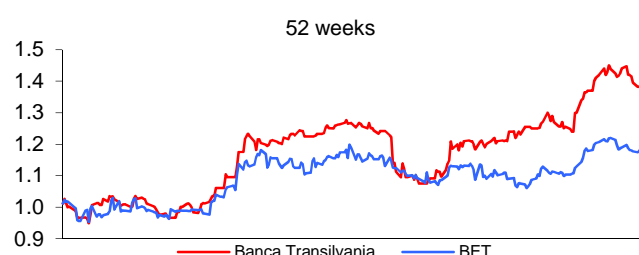
Source: Company data, Erste Group estimates

Banca Transilvania

Accumulate

RON mn	2012	2013e	2014e	2015e
Net interest Income	968.7	972.5	1,007.6	1,057.9
Net fee/com. inc.	437.4	419.2	459.9	482.8
Total Income	1,640.0	1,583.9	1,681.1	1,755.6
EBT	371.0	495.2	513.9	545.0
Net result after min.	346.66	416.17	431.84	458.01
EPS (RON)	0.18	0.19	0.20	0.21
BVPS (RON)	1.46	1.34	1.43	1.53
Tang. BVPS (RON)	1.46	1.34	1.43	1.53
Div./share (RON)	0.00	0.00	0.00	0.00
ROE (%)	13.41	14.52	14.14	14.03
P/E (x)	6.0	7.4	7.1	6.7
P/BV(x)	0.8	1.0	1.0	0.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Share price (RON) close as of 16/09/2013	1.39
Number of shares (mn)	2,206.4
Market capitalization (RON mn / EUR mn)	3,069 / 688
Enterprise value (RON mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in RON	37.6%	9.7%	15.0%	-2.0%

Reuters	BATR.BX	Free float	71.1%
Bloomberg	TLV RO	Shareholders	EBRD (14.6%)
Div. Ex-date			SIFs (14.3%)
Target price	1.60	Homepage:	http://www.bancatransilvania.ro

Good funding base set for future growth

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Play on above market growth and lower CoR. We keep Banca Transilvania on Accumulate and lift our target price to RON 1.60 from RON 1.34, reflecting our positive stance on the bank's ability to further grow above the market in a profitable way and to keep risk costs under control thanks to improving asset quality.

Better than expected 2Q13 due to lower provisions. BT's better than expected 2Q13 performance (unconsolidated) was mainly the result of decreasing risk costs by 31% annually and 14% sequentially. Operating income growth of 5.6% q/q (flat y/y) was driven by 6% top line and 10% NFC income growth, whereas the trading result was down 13% q/q.

ROE of 14% still far from LT potential. Profitability is far from normalized, due to the still-high risk costs. We continue to run a conservative forecast scenario, estimating the risk cost ratio hovering at about 1.4% over the detailed forecast period, consistent with our assumption of a gradual increase in the individually impaired loans coverage ratio. The operating profit before provisions we see consolidating from RON 754mn in 2012 to RON 1,034mn in 2017 (IFRS, consolidated), resulting in growth of 37%.

Good funding base set for volume growth. The bank enjoys a strong domestic funding base, with a net L/D ratio of 64% at the end of 2Q13 (IFRS unconsolidated), which makes it well positioned to capitalize on loan market opportunities. Loan stock has increased faster than the market average in recent years, with BT's market share advancing 2.7pp since 2008, to 8% at the end of 2012; the goal of management and main shareholders is to reach the 10% threshold in two years.

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, RON mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	996.3	913.8	968.7	972.5	1,007.6	1,057.9
Risk provisions for loans and advances	-600.8	-315.8	-384.5	-255.1	-284.6	-307.2
Net interest Income (after risk prov.)	395.5	598.0	584.3	717.4	723.0	750.7
Net fees & commission income	374.9	402.7	437.4	419.2	459.9	482.8
Dividend income	0.0	0.0	0.0	0.0	0.0	0.0
Trading result	119.0	111.6	147.7	156.0	164.0	164.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	44.0	61.5	86.2	36.3	49.6	50.9
Total Income	1,541.9	1,489.7	1,640.0	1,583.9	1,681.1	1,755.6
Other administrative expenses	-265.9	-364.4	-400.4	-317.3	-343.4	-361.7
Depreciation and amortization	-60.9	-63.8	-54.7	-75.1	-76.7	-61.3
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	-41.0	0.0	0.0	0.0	0.0	0.0
Operating profit	200.0	355.4	369.8	495.2	513.9	545.0
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	204.7	355.4	371.0	495.2	513.9	545.0
Income taxes	-24.5	-58.2	-24.5	-79.2	-82.2	-87.2
Profit / loss after taxes	180.2	297.2	346.5	416.0	431.6	457.8
Minority interests	-0.2	0.2	0.2	0.2	0.2	0.2
Net result after minorities	180.0	297.5	346.7	416.2	431.8	458.0
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, RON mn, 31/12)						
Cash and balances with central banks	3,701.1	4,550.3	5,579.1	4,557.5	4,889.7	5,248.5
Loans and advances to banks (net)	1,237.2	779.0	1,405.2	515.0	515.0	515.0
Loans and advances to customers (net)	12,439.4	14,185.0	15,563.9	16,407.5	17,545.5	18,763.2
Interest-earning financial assets	3,893.8	5,958.1	6,545.9	7,233.8	7,893.8	8,695.8
Interest-earning assets	21,271.5	25,472.4	29,094.1	28,713.8	30,844.0	33,222.4
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	0.0	0.0	25.9	70.0	70.0	70.0
Intangible assets	57.2	70.9	81.8	84.2	89.6	94.1
Tangible assets	287.6	297.5	334.6	307.4	305.3	319.5
Other assets	114.0	167.9	174.8	190.0	190.0	190.0
TOTAL ASSETS	21,730.3	26,008.7	29,711.2	29,365.4	31,498.9	33,896.0
Deposits from banks	1,926.5	2,844.2	3,081.9	925.0	920.0	920.0
Deposits from customers	17,279.1	20,257.3	23,167.1	25,139.0	27,152.1	29,326.3
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	19,205.6	23,101.4	26,249.0	26,064.0	28,072.1	30,246.3
LT provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	177.1	255.4	358.4	76.0	0.0	0.0
Subordinated liabilities	257.6	260.1	288.8	267.2	267.2	267.2
Total liabilities	19,640.3	23,616.9	26,896.2	26,407.2	28,339.3	30,513.5
Shareholders' equity	2,087.9	2,389.8	2,779.4	2,954.4	3,154.5	3,376.4
Minorities	2.1	2.0	35.6	4.0	5.0	6.0
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	21,730.3	26,008.7	29,711.2	29,365.4	31,498.9	33,896.0
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Other figures						
Tangible shareholders' equity	2,079.5	2,389.4	2,779.0	2,954.2	3,154.6	3,376.5
Off-balance sheet items	2,684.0	3,179.8	3,544.3	3,780.9	4,076.1	4,390.7
Year-end no. of shares outstanding (mn)	1,477.92	1,773.66	1,903.04	2,206.44	2,206.44	2,206.44
Average no. of shares outstanding (mn)	1,477.92	1,773.66	1,903.04	2,206.44	2,206.44	2,206.44
Fully diluted no. of shares outstanding (mn)	1,477.92	1,773.66	1,903.04	2,206.44	2,206.44	2,206.44
No. of employees (FTE)	6,914	7,151	7,086	7,086	7,157	7,228
No. of branches	536	555	550	550	550	556
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, RON mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	9.4%	7.9%	7.5%	7.1%	7.3%	7.2%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-4.9%	-4.4%	-4.4%	-4.2%	-4.4%	-4.3%
Yield on assets - cost of funds (Interest spread)	4.5%	3.5%	3.1%	3.0%	3.0%	2.9%
Net. int. income/avg. assets (Net interest margin)	4.8%	3.8%	3.5%	3.3%	3.3%	3.2%
Net fee and commission margin (avg. total assets)	1.8%	1.7%	1.6%	1.4%	1.5%	1.5%
ROE	9.2%	13.3%	13.4%	14.5%	14.1%	14.0%
ROA	0.9%	1.2%	1.2%	1.4%	1.4%	1.4%
Operating margin	1.0%	1.5%	1.3%	1.7%	1.7%	1.7%
Efficiency						
Cost/Income ratio	48.1%	54.9%	54.0%	52.6%	52.5%	51.5%
Cost/avg. Assets ratio	3.6%	3.4%	3.2%	2.8%	2.9%	2.8%
Personnel expenses/total income	-24.2%	-26.2%	-26.3%	-27.9%	-27.5%	-27.4%
Avg. staff costs (RON)	56,964	55,494	60,482	62,257	64,952	66,783
Balance sheet structure						
Loans deposit ratio	80.3%	78.8%	76.8%	75.5%	75.4%	75.2%
Loans/total assets	63.9%	61.4%	59.9%	64.7%	65.0%	65.1%
Deposits/total assets	79.5%	77.9%	78.0%	85.6%	86.2%	86.5%
Capital adequacy						
Equity ratio	9.6%	9.2%	9.5%	10.1%	10.0%	10.0%
Capital adequacy ratio			13.5%	13.6%	13.8%	13.9%
Asset quality						
Non-performing loans ratio	33.0%	17.5%	18.8%	17.2%	15.5%	14.4%
Non-performing loans coverage ratio	31.5%	63.7%	66.9%	79.0%	92.4%	103.8%
Risk provisions/loans to customers (gross)	10.4%	11.2%	12.6%	13.6%	14.3%	14.9%
Risk provisions/avg. customer loans (Risk costs)	4.5%	2.1%	2.3%	1.4%	1.4%	1.4%
Risk earnings ratio	60.3%	34.6%	39.7%	26.2%	28.2%	29.0%
Income statement structure						
Net interest income / total income	64.6%	61.3%	59.1%	61.4%	59.9%	60.3%
Net fee and commission income / total income	24.3%	27.0%	26.7%	26.5%	27.4%	27.5%
Net trading result / total income	7.7%	7.5%	9.0%	9.8%	9.8%	9.3%
Non-interest income / total income	34.9%	38.7%	40.9%	38.6%	40.1%	39.7%
Personnel expenses / total operating expenses	50.4%	47.7%	48.6%	52.9%	52.4%	53.2%
Effective tax rate	-12.0%	-16.4%	-6.6%	-16.0%	-16.0%	-16.0%
Growth Rates						
(IFRS, RON mn, 31/12)						
Loans and advances to customers (net)	5.8%	14.0%	9.7%	5.4%	6.9%	6.9%
Deposits from customers	15.3%	17.2%	14.4%	8.5%	8.0%	8.0%
Total assets	10.8%	19.7%	14.2%	-1.2%	7.3%	7.6%
Total liabilities	10.5%	20.2%	13.9%	-1.8%	7.3%	7.7%
Shareholders'equity	14.1%	14.5%	16.3%	6.3%	6.8%	7.0%
Net interest Income	32.1%	-8.3%	6.0%	0.4%	3.6%	5.0%
Net fees & commission income	1.1%	7.4%	8.6%	-4.2%	9.7%	5.0%
Total Income	17.1%	-3.4%	10.1%	-3.4%	6.1%	4.4%
Personnel expenses	6.9%	4.5%	10.3%	2.5%	4.9%	3.8%
Total expenses	3.4%	10.4%	8.2%	-5.9%	5.9%	2.4%
Operating profit	83.7%	77.7%	4.1%	33.9%	3.8%	6.1%
Net result after minorities	30.1%	65.3%	16.5%	20.1%	3.8%	6.1%

Source: Company data, Erste Group estimates

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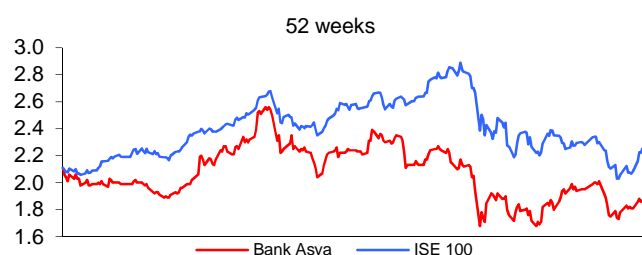
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Bank Asya

from Hold to Accumulate

TRY mn	2012	2013e	2014e	2015e
Net interest Income	880.3	1,055.3	1,212.0	1,358.5
Net fee/com. inc.	287.3	315.3	383.0	463.3
Total Income	1,332.8	1,546.8	1,779.1	2,024.6
EBT	245.4	279.2	348.5	456.8
Net result after min.	190.39	223.36	278.79	365.44
EPS (TRY)	0.21	0.25	0.31	0.41
BVPS (TRY)	2.61	2.85	3.16	3.56
Tang. BVPS (TRY)				
Div./share (TRY)	0.00	0.00	0.00	0.00
ROE (%)	8.49	9.10	10.32	12.09
P/E (x)	10.4	7.7	6.1	4.7
P/BV(x)	0.8	0.7	0.6	0.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Share price (TRY) close as of 16/09/2013	1.90
Number of shares (mn)	900.0
Market capitalization (TRY mn / EUR mn)	1,710 / 642
Enterprise value (TRY mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in TRY	-7.3%	-15.2%	-1.0%	-5.5%

Reuters	ASYAB.IS	Free float	53.4%
Bloomberg	ASYAB TI	Shareholders	Ortadogu Tekstil (12.2%)
Div. Ex-date	17/05/10		Forum Tekstil (9.63%)
Target price	2.17	Homepage:	www.asyabank.com.tr

Coming out of its shell

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Recent developments: After strengthening its capital base by borrowing USD 300mn in sub-ordinated debt at the end of 1Q13, Bank Asya became more focused on lending activities in 2Q13 and attained 14% q/q loan growth. While achieving strong loan growth, its net profit share margin remained flat q/q at 4.8% in 2Q13 as the bank reduced its participation account costs. As for credit quality, its specific cost of risk rose by 48bp q/q to 227bp and remained high in our banking coverage context.

Outlook: We expect management to keep its focus on growth with the RWA optimization process, which will eventually result in higher ROEs. We can see the outcomes of these management practices in the bank's 2Q13 results. We estimate 34% y/y loan growth in 2013 (1H13: 20% y-t-d) and forecast another 20% y/y in 2014 without encountering any problem in its capital adequacy ratio. We also estimate 14% y/y growth in pre-provision income and thanks to the declining provisions charges, mainly stemming from the stabilization in the NPL inflows, we estimate a 25% y/y recovery at the bottom line in 2014. Consequently, we project the bank's core banking ROE to improve to 11.5% from 10.2% in 2013. In the medium-term, we project its core banking ROE to converge to the mid-teen levels.

Recommendation: We view Bank Asya as a pure restructuring and growth play. Based on our conservative assumptions on the margins and cost of risk, we think that Bank Asya can easily deliver a core banking ROE of 14%. We derive our target price based on the Gordon Growth Model as we think that it is the best tool to capture the value in Bank Asya. Our valuation model indicates a target price of TRY2.17, pointing to 14% upside potential. We upgrade the stock to "Accumulate" from "Hold."

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BANK ASYA

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	260	216	190	223	279	365	458	617
<i>Growth in Net Income</i>	-14%	-17%	-12%	17%	25%	31%	25%	35%
Less:								
<i>Dividend Income</i>	0	0	3	3	3	3	3	3
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted net income	260	216	187	220	275	362	455	614
<i>Growth in Net Income</i>	-14%	-17%	-13%	18%	25%	31%	26%	35%
Book Value	1,942	2,137	2,349	2,562	2,841	3,207	3,665	4,282
<i>Growth in Shareholders' Equity</i>	14%	10%	10%	9%	11%	13%	14%	17%
Less:								
<i>Participations</i>	232	252	278	294	294	294	294	294
<i>Dividend Income</i>	0	0	3	3	3	3	3	3
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted Book Value	1,710	1,886	2,067	2,265	2,543	2,909	3,367	3,984
<i>ROE (Reported)</i>	14.2%	10.6%	8.5%	9.1%	10.3%	12.1%	13.3%	15.5%
<i>ROE (Adjusted)</i>	16.1%	12.0%	9.5%	10.2%	11.5%	13.3%	14.5%	16.7%

Sustainable Core ROE (2014-2017)	14.0%
Sustainable long-term growth	10.0%
Cost of Equity	16.2%
Target P/BV @ YE13	0.65
Banking Value	1,467
Participations	294
Value of Bank Asya by 2013	1,762
Value of Bank Asya as now	1,683
Value of Bank Asya 12-mth forward	1,954
# of shares	900
Target Price (TRY):	2.17
Current market cap.	1,710
Upside potential	14%

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	593.5	631.2	880.3	1,055.3	1,212.0	1,358.5
Risk provisions for loans and advances	-167.5	-228.2	-413.8	-471.8	-511.3	-533.7
Net interest Income (after risk prov.)	426.1	403.0	466.5	583.5	700.7	824.7
Net fees & commission income	249.4	259.8	287.3	315.3	383.0	463.3
Dividend income	0.0	0.0	3.4	3.4	3.4	3.4
Trading result	45.0	39.1	25.8	30.0	30.0	30.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	134.2	130.5	136.0	142.8	150.6	169.4
Total Income	1,022.1	1,060.7	1,332.8	1,546.8	1,779.1	2,024.6
Other administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	324.3	269.1	245.4	279.2	348.5	456.8
Extraordinary result						
Profit / loss before taxes	324.3	269.1	245.4	279.2	348.5	456.8
Income taxes	-64.3	-53.0	-55.0	-55.8	-69.7	-91.4
Profit / loss after taxes	260.0	216.1	190.4	223.4	278.8	365.4
Minority interests						
Net result after minorities	260.0	216.1	190.4	223.4	278.8	365.4
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	2,085.0	1,679.7	2,689.6	3,601.2	3,956.2	5,013.1
Loans and advances to banks (net)	186.6	359.4	405.5	269.9	283.4	297.5
Loans and advances to customers (net)	11,060.3	13,451.5	16,307.4	21,877.0	26,169.8	30,315.9
Interest-earning financial assets	474.2	857.9	800.2	927.7	974.1	1,022.8
Interest-earning assets	13,806.0	16,348.5	20,202.7	26,675.8	31,383.4	36,649.3
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	231.6	251.6	278.4	294.5	294.5	294.5
Intangible assets	10.4	11.0	13.8	13.1	13.1	13.1
Tangible assets	353.5	112.8	128.1	124.6	139.6	154.6
Other assets	111.9	466.2	767.0	795.8	934.5	1,089.5
TOTAL ASSETS	14,513.4	17,190.1	21,390.0	27,903.8	32,765.0	38,200.9
Deposits from banks	0.0	0.0	0.0	0.0	0.0	0.0
Deposits from customers	11,166.6	12,397.0	15,741.9	20,814.8	24,981.0	29,584.0
Debt securities issued	622.2	1,737.0	1,815.4	2,507.2	2,633.3	2,785.8
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	11,788.8	14,134.1	17,557.3	23,322.0	27,614.2	32,369.8
LT provisions	177.4	192.2	257.1	361.4	440.8	518.4
Other liabilities	605.6	726.4	1,226.4	1,141.1	1,351.8	1,584.6
Subordinated liabilities	0.0	0.0	0.0	516.8	517.0	521.5
Total liabilities	12,571.8	15,052.7	19,040.8	25,341.3	29,923.8	34,994.3
Shareholders' equity	1,941.7	2,137.4	2,349.3	2,562.4	2,841.2	3,206.7
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	14,513.4	17,190.1	21,390.0	27,903.8	32,765.0	38,200.9
--						
Other figures						
Tangible shareholders' equity						
Off-balance sheet items	11,166.6	9,348.8	7,976.9	9,208.2	10,812.5	12,606.3
Year-end no. of shares outstanding (mn)	900.00	900.00	900.00	900.00	900.00	900.00
Average no. of shares outstanding (mn)	900.00	900.00	900.00	900.00	900.00	900.00
Fully diluted no. of shares outstanding (mn)	900.00	900.00	900.00	900.00	900.00	900.00
No. of employees (FTE)	4,266	4,542	5,064	6,073	7,082	7,586
No. of branches	175	200	251	301	351	376
Payout ratio	11.5%	0.0%	0.0%	0.0%	0.0%	0.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	9.7%	8.5%	9.2%	0.0%	0.0%	0.0%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-5.8%	-5.0%	-5.0%	0.0%	0.0%	0.0%
Yield on assets - cost of funds (Interest spread)	3.9%	3.5%	4.2%	0.0%	0.0%	0.0%
Net. int. income/avg. assets (Net interest margin)	4.5%	4.0%	4.6%	4.3%	4.0%	3.8%
Net fee and commission margin (avg. total assets)	1.9%	1.6%	1.5%	1.3%	1.3%	1.3%
ROE	14.2%	10.6%	8.5%	9.1%	10.3%	12.1%
ROA	2.0%	1.4%	1.0%	0.9%	0.9%	1.0%
Operating margin	2.5%	1.7%	1.3%	1.1%	1.1%	1.3%
Efficiency						
Cost/Income ratio	51.9%	53.1%	50.5%	51.4%	51.7%	51.1%
Cost/avg. Assets ratio	4.1%	3.6%	3.5%	3.2%	3.0%	2.9%
Personnel expenses/total income	-51.9%	-53.1%	-50.5%	-51.4%	-51.7%	-51.1%
Avg. staff costs (TRY)	127,167	127,922	140,241	142,915	139,759	141,003
Balance sheet structure						
Loans deposit ratio	100.3%	111.0%	105.0%	106.8%	106.3%	103.8%
Loans/total assets	77.2%	80.1%	77.3%	79.7%	81.0%	80.4%
Deposits/total assets	76.9%	72.1%	73.6%	74.6%	76.2%	77.4%
Capital adequacy						
Equity ratio	13.4%	12.4%	11.0%	9.2%	8.7%	8.4%
Capital adequacy ratio	13.3%	13.3%	13.6%	14.1%	13.7%	12.8%
Asset quality						
Non-performing loans ratio	4.0%	4.5%	3.9%	4.4%	3.8%	3.4%
Non-performing loans coverage ratio	32.1%	50.4%	34.2%	37.0%	37.0%	37.0%
Risk provisions/loans to customers (gross)	1.3%	2.3%	1.3%	1.6%	1.4%	1.2%
Risk provisions/avg. customer loans (Risk costs)	1.7%	1.8%	2.7%	2.4%	2.1%	1.9%
Risk earnings ratio	28.2%	36.2%	47.0%	44.7%	42.2%	39.3%
Income statement structure						
Net interest income / total income	58.1%	59.5%	66.1%	68.2%	68.1%	67.1%
Net fee and commission income / total income	24.4%	24.5%	21.6%	20.4%	21.5%	22.9%
Net trading result / total income	4.4%	3.7%	1.9%	1.9%	1.7%	1.5%
Non-interest income / total income	41.9%	40.5%	33.9%	31.8%	31.9%	32.9%
Personnel expenses / total operating expenses	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Effective tax rate	-19.8%	-19.7%	-22.4%	-20.0%	-20.0%	-20.0%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	32.4%	21.6%	21.2%	34.2%	19.6%	15.8%
Deposits from customers	22.2%	11.0%	27.0%	32.2%	20.0%	18.4%
Total assets	25.0%	18.4%	24.4%	30.5%	17.4%	16.6%
Total liabilities	27.0%	19.7%	26.5%	33.1%	18.1%	16.9%
Shareholders'equity	13.7%	10.1%	9.9%	9.1%	10.9%	12.9%
Net interest Income	-1.1%	6.3%	39.5%	19.9%	14.9%	12.1%
Net fees & commission income	-3.5%	4.2%	10.6%	9.8%	21.5%	21.0%
Total Income	-3.1%	3.8%	25.7%	16.1%	15.0%	13.8%
Personnel expenses	15.5%	6.2%	19.6%	18.1%	15.5%	12.5%
Total expenses	15.5%	6.2%	19.6%	18.1%	15.5%	12.5%
Operating profit	-14.3%	-17.0%	-8.8%	13.8%	24.8%	31.1%
Net result after minorities	-13.7%	-16.9%	-11.9%	17.3%	24.8%	31.1%

Source: Company data, Erste Group estimates

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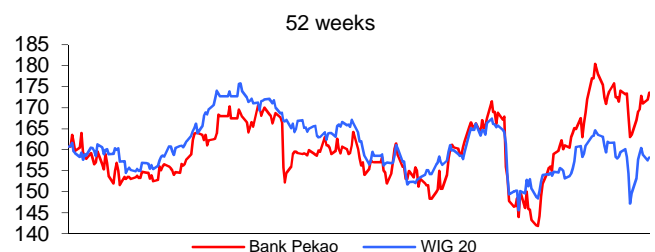
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Bank Pekao

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PLN mn	2012	2013e	2014e	2015e
Net interest Income	4,805.4	4,556.8	5,101.1	5,901.1
Net fee/com. inc.	2,256.9	2,372.4	2,478.7	2,542.3
Total Income	8,064.0	7,849.0	8,370.6	9,236.1
EBT	3,680.3	3,458.0	3,888.0	4,687.9
Net result after min.	2,955.70	2,774.11	3,139.76	3,787.62
EPS (PLN)	11.26	10.57	11.96	14.43
BVPS (PLN)	89.03	88.83	90.07	92.45
Tang. BVPS (PLN)				
Div./share (PLN)	8.39	10.57	11.96	14.43
ROE (%)	13.24	11.89	13.37	15.81
P/E (x)	14.9	16.3	14.4	11.9
P/BV(x)	1.9	1.9	1.9	1.9
Dividend Yield	5.0%	6.1%	7.0%	8.4%

Share price (PLN) close as of 16/09/2013	171.9
Number of shares (mn)	262.5
Market capitalization (PLN mn / EUR mn)	45,119 / 10,759
Enterprise value (PLN mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in PLN	6.2%	4.7%	1.8%	-3.4%

Reuters	PEO.WA	Free float	49.9%
Bloomberg	PEO.PW	Shareholders	Unicredit S p.a. (50.1%)
Div. Ex-date		Aberdeen Asset Management plc	(5.02%)
Target price	195.0	Homepage:	www.pekao.com.pl

Looking to optimize its capital base

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Accumulate. Bank Pekao's balanced growth strategy and prudent approach to risk resulted first and foremost in the bank's significant overcapitalization, a relatively low L/D of 89% and relatively high provision coverage. We believe that the bank is well positioned for the expected pick up in loan volumes as it has sufficient resources to grow. We think that the bank has the potential to surprise positively in its 3Q13 results and a potentially higher dividend and/or an acquisition could be solid catalysts for the stock price. We, therefore, rate the stock as Accumulate.

Surplus capital of PLN 8bn. Pekao built up surplus capital that more than fulfils the regulatory requirements with Core Tier 1 at 19% as of the end of June 2013. Based on the normalized ROE calculated by Pekao, the bank holds approx. PLN 8bn in excess funds, which affects its rate of return on equity. We argue that the current situation results in the bank's potential undervaluation when using the DDM - as the excess capital cannot be paid out to shareholders and is therefore "hidden." We believe that the effective utilization of this capital buffer by way of increased lending action, acquisition or dividend will have a positive impact on the bank's valuation.

Impact of IR change. We computed that a 100bp change in the money market growth rate would result in a 26bp change in the NII, i.e. this would increase the bank's net interest income by ca. 13%. However, since Pekao SA has a relatively large fixed income portfolio with an approximate duration of 2.2 years, we would assume that a 100 change in interest rates (assuming a parallel shift) would result in comprehensive income being ca. 7% lower than our assumptions. Therefore, we would assume that the bank is not well positioned for a rate increase, especially if the interest rate curve was to steepen (which would then hurt the AFS portfolio more than it would profit the net interest income).

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Outlook

We expect that the regulatory cap on banks' dividends will be raised to 100%

In our view, the regulator, which capped the dividend payments at 75% of banks' 2012 unconsolidated profits will limit the distribution to below 100%, and based on our assumption the DY amounts to almost 6%. We also think that Pekao SA would be more generous in its distributions to its shareholders providing that the cap were to be removed – it is quite possible that in such a case, a dividend payout ratio would exceed 100%. The AGM changed the statute which now authorizes the MB to pay out advance dividends before the end of the financial year.

An acquisition could potentially add value

As far as acquisitions – although we currently see no perfect fit for Pekao SA in the Polish market, we think that it is in the bank's interest to use the capital in a more efficient way. The local press has recently reported that the bank may be interested in the acquisition of BGZ Bank (book value of ca. 3.5bn), which may be put up for sale by Dutch Rabobank. , Pekao's officials have not, however, commented on these media reports. That said, we think that should this acquisition occur, it would be warmly welcomed by the market, but obviously subject to a check on the pricing merit. Although BGZ's profitability leaves much to be desired, we think that it is an interesting asset with exposure to the Polish farming business and without too much overlap with Pekao's existing network. In addition, Pekao is viewed by the market as being very efficient in extracting synergies in banking mergers.

Solid 2Q13 results have been boosted by the sale of the bond portfolio

After 2Q13 Pekao presented solid results with interest and fee and commission income slightly above the market consensus. The contraction in the NIM in the second quarter, which resulted from falling interest rates, was lower than we had expected, and should stabilize or gradual rebound in the second half of the year. On the balance sheet, its total PLN 150.8bn in assets were up 1.9% q/q, including 2.5% growth in the group loan book. Loan growth was tipped towards the retail segment, where the book grew 2.9% q/q, while corporate loans grew by 1.4%. Those balance sheet moves left the bank liquid and overcapitalized. The bank's balance sheet remains liquid with a loan-to-deposit ratio at 89%, lower than its main peer PKO (L/D at 100%) and much lower than BRE (L/D at 116%). As its main goal for 2013, the bank aims to strengthen its dominant position in the corporate and public sector segments as well as increasing the number of acquired clients coupled with a higher market share in consumer loans.

For 2013e, we estimate that net profits will amount to almost PLN 2.8bn, down 6% y/y, which is in line with management guidance. We do not assume further gains on the AFS portfolio being accumulated on the P&L as bonds yields have reversed in 3Q13.

Changes to estimates

Consolidated, IFRS (PLN, mn)	2013e			2014e			2015e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
Net interest income	4,556.8	5,123.5	-11.1%	5,101.1	5,808.6	-12.2%	5,901.1	n.a.	n.a.
Net provisions	-676.9	-510.5	32.6%	-666.2	-514.0	29.6%	-660.0	n.a.	n.a.
Net fee & commission inc.	2,372.4	2,743.6	-13.5%	2,478.7	2,881.0	-14.0%	2,542.3	n.a.	n.a.
Total income	7,680.6	8,987.9	-14.5%	8,198.7	9,882.9	-17.0%	9,060.5	n.a.	n.a.
Pre-tax profit	3,458.0	4,146.0	-16.6%	3,888.0	4,547.1	-14.5%	4,687.9	n.a.	n.a.
Net profit	2,774.1	3,329.2	-16.7%	3,139.8	3,626.8	-13.4%	3,787.6	n.a.	n.a.
EPS	11.96	12.65	-5.4%	11.96	13.75	-13.0%	14.43	n.a.	n.a.
DPS	11.96	7.58	57.8%	11.96	9.61	24.5%	14.43	n.a.	n.a.
BVPS	88.8	92.8	-4.3%	90.1	96.7	-6.8%	92.4	n.a.	n.a.

Source: Company data, Erste Group Research

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	4,103.7	4,557.9	4,805.4	4,556.8	5,101.1	5,901.1
Risk provisions for loans and advances	-537.9	-537.9	-669.5	-676.9	-666.2	-660.0
Net interest Income (after risk prov.)	3,565.7	4,019.9	4,136.0	3,879.9	4,434.9	5,241.1
Net fees & commission income	2,368.0	2,448.9	2,256.9	2,372.4	2,478.7	2,542.3
Dividend income	76.2	80.3	61.6	59.6	57.7	56.1
Trading result	584.2	595.1	510.1	479.4	492.4	505.7
Result on financial instruments	148.4	59.1	243.4	185.0	35.0	15.0
Other income	164.4	175.8	186.5	195.9	205.7	215.9
Total Income	7,444.9	7,917.1	8,064.0	7,849.0	8,370.6	9,236.1
Other administrative expenses	-1,314.3	-1,355.4	-1,353.0	-1,310.2	-1,357.7	-1,394.3
Depreciation and amortization	-391.7	-377.5	-368.8	-368.8	-368.8	-368.8
Impairment of goodwill						
Other expenses	-148.7	-107.5	-107.5	-118.2	-124.1	-130.3
Operating profit	3,101.9	3,592.5	3,658.0	3,438.0	3,888.0	4,687.9
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	3,101.5	3,592.9	3,680.3	3,458.0	3,888.0	4,687.9
Income taxes	-571.2	-683.9	-715.0	-674.3	-738.7	-890.7
Profit / loss after taxes	2,530.3	2,909.1	2,965.3	2,783.7	3,149.3	3,797.2
Minority interests	-5.1	-9.7	-9.6	-9.6	-9.6	-9.6
Net result after minorities	2,525.2	2,899.4	2,955.7	2,774.1	3,139.8	3,787.6
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)						
Cash and balances with central banks	5,969.3	4,886.2	9,207.4	5,524.5	5,911.2	6,206.7
Loans and advances to banks (net)	6,258.8	5,586.1	4,053.8	4,864.6	5,205.1	5,465.4
Loans and advances to customers (net)	77,803.7	92,816.4	95,081.5	100,493.8	107,841.4	117,302.7
Interest-earning financial assets	33,181.7	32,517.0	32,334.6	32,463.4	34,208.1	35,918.5
Interest-earning assets	123,213.5	135,805.6	140,677.4	143,346.3	153,165.8	164,893.3
Non-interest earning assets	14.9	17.5	18.3	18.3	18.3	18.3
Equity holdings	214.6	186.3	168.4	144.0	144.0	144.0
Intangible assets	697.2	703.4	669.4	669.4	669.4	669.4
Tangible assets	5,068.7	4,704.5	4,044.7	4,128.2	4,215.9	4,308.0
Other assets	4,880.9	5,172.8	5,371.5	5,597.4	5,700.2	5,822.0
TOTAL ASSETS	134,089.9	146,590.1	150,949.8	153,903.6	163,913.6	175,855.1
Deposits from banks	7,641.1	5,900.6	7,782.7	5,837.0	7,004.4	8,405.3
Deposits from customers	99,807.2	108,437.0	107,992.6	112,402.3	120,637.5	129,521.8
Debt securities issued	1,177.2	3,043.9	4,758.7	4,044.9	4,328.1	4,544.5
Trading liabilities	2,377.1	4,228.3	4,105.5	4,222.1	4,500.4	4,713.0
Interest-bearing liabilities	110,217.9	119,888.7	123,154.8	124,774.0	134,634.0	145,268.8
LT provisions	305.9	313.9	359.5	395.5	435.0	478.5
Other liabilities	2,524.4	3,309.5	2,492.0	3,593.9	3,275.1	3,835.3
Subordinated liabilities						
Total liabilities	113,832.9	125,233.2	127,491.0	130,495.6	140,180.5	151,498.4
Shareholders' equity	20,174.1	21,271.5	23,366.5	23,315.8	23,640.9	24,264.5
Minorities	82.9	85.5	92.2	92.2	92.2	92.2
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	134,089.9	146,590.1	150,949.8	153,903.6	163,913.6	175,855.1
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Other figures						
Tangible shareholders' equity						
Off-balance sheet items	158.6	173.2	176.9	180.4	192.1	206.1
Year-end no. of shares outstanding (mn)	262.36	262.38	262.47	262.47	262.47	262.47
Average no. of shares outstanding (mn)	262.35	262.37	262.39	262.47	262.47	262.47
Fully diluted no. of shares outstanding (mn)	262.35	262.37	262.39	262.47	262.47	262.47
No. of employees (FTE)	20,783	20,357	19,816	19,716	19,616	19,516
No. of branches	1,073	1,051	1,040	1,040	1,041	1,042
Payout ratio	70.7%	48.7%	74.5%	100.0%	100.0%	100.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	5.3%	5.7%	6.0%	5.0%	5.3%	5.8%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-2.2%	-2.5%	-2.9%	-2.1%	-2.2%	-2.4%
Yield on assets - cost of funds (Interest spread)	3.1%	3.2%	3.1%	2.9%	3.2%	3.4%
Net. int. income/avg. assets (Net interest margin)	3.1%	3.2%	3.2%	3.0%	3.2%	3.5%
Net fee and commission margin (avg. total assets)	1.8%	1.7%	1.5%	1.6%	1.6%	1.5%
ROE	13.1%	14.0%	13.2%	11.9%	13.4%	15.8%
ROA	1.9%	2.1%	2.0%	1.8%	2.0%	2.2%
Operating margin	2.3%	2.6%	2.5%	2.3%	2.4%	2.8%
Efficiency						
Cost/Income ratio	51.1%	47.8%	46.3%	47.6%	45.6%	42.1%
Cost/avg. Assets ratio	2.9%	2.7%	2.5%	2.4%	2.4%	2.3%
Personnel expenses/total income	-26.2%	-24.6%	-23.7%	-24.7%	-23.5%	-21.6%
Avg. staff costs (PLN)	93,636	94,611	94,955	97,994	99,954	101,953
Balance sheet structure						
Loans deposit ratio	82.0%	89.7%	92.4%	93.8%	93.7%	94.8%
Loans/total assets	61.0%	66.3%	66.1%	68.5%	69.0%	69.8%
Deposits/total assets	74.4%	74.0%	71.5%	73.0%	73.6%	73.7%
Capital adequacy						
Equity ratio	15.1%	14.6%	15.5%	15.2%	14.5%	13.9%
Capital adequacy ratio	17.6%	17.0%	19.0%	18.7%	17.5%	16.3%
Asset quality						
Non-performing loans ratio	6.5%	6.2%	7.2%	7.7%	7.5%	7.2%
Non-performing loans coverage ratio	76.2%	73.2%	64.7%	61.2%	61.8%	61.3%
Risk provisions/loans to customers (gross)	5.0%	4.5%	4.7%	4.7%	4.6%	4.4%
Risk provisions/avg. customer loans (Risk costs)	0.7%	0.6%	0.7%	0.7%	0.6%	0.6%
Risk earnings ratio	13.1%	11.8%	13.9%	14.9%	13.1%	11.2%
Income statement structure						
Net interest income / total income	55.1%	57.6%	59.6%	58.1%	60.9%	63.9%
Net fee and commission income / total income	31.8%	30.9%	28.0%	30.2%	29.6%	27.5%
Net trading result / total income	7.8%	7.5%	6.3%	6.1%	5.9%	5.5%
Non-interest income / total income	44.9%	42.4%	40.4%	41.9%	39.1%	36.1%
Personnel expenses / total operating expenses	51.3%	51.4%	51.0%	51.9%	51.5%	51.3%
Effective tax rate	-18.4%	-19.0%	-19.4%	-19.5%	-19.0%	-19.0%
Growth Rates						
(IFRS, PLN mn, 31/12)						
Loans and advances to customers (net)	1.9%	19.3%	2.4%	5.7%	7.3%	8.8%
Deposits from customers	2.6%	8.6%	-0.4%	4.1%	7.3%	7.4%
Total assets	2.7%	9.3%	3.0%	2.0%	6.5%	7.3%
Total liabilities	1.4%	10.0%	1.8%	2.4%	7.4%	8.1%
Shareholders'equity	10.3%	5.4%	9.8%	-0.2%	1.4%	2.6%
Net interest Income	7.9%	11.1%	5.4%	-5.2%	11.9%	15.7%
Net fees & commission income	3.5%	3.4%	-7.8%	5.1%	4.5%	2.6%
Total Income	2.7%	6.3%	1.9%	-2.7%	6.6%	10.3%
Personnel expenses	5.1%	-0.2%	-2.0%	1.6%	1.5%	1.5%
Total expenses	0.8%	-0.5%	-1.3%	-0.1%	2.2%	1.9%
Operating profit	5.4%	15.8%	1.8%	-6.0%	13.1%	20.6%
Net result after minorities	4.7%	14.8%	1.9%	-6.1%	13.2%	20.6%

Source: Company data, Erste Group estimates

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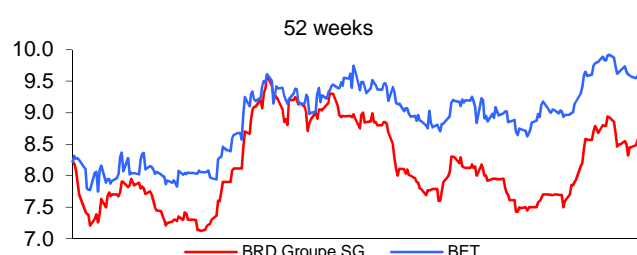
ERSTE GROUP

BRD Groupe SG

Hold

RON mn	2012	2013e	2014e	2015e
Net interest Income	1,946.1	1,813.7	1,804.0	1,828.0
Net fee/com. inc.	792.0	716.6	713.7	724.7
Total Income	3,045.6	2,727.5	2,684.4	2,720.6
EBT	-329.5	262.2	468.1	575.3
Net result after min.	-298.75	218.26	391.18	481.45
EPS (RON)	-0.43	0.31	0.56	0.69
BVPS (RON)	8.19	8.21	8.32	8.46
Tang. BVPS (RON)	8.12	8.14	8.25	8.39
Div./share (RON)	0.00	0.00	0.11	0.14
ROE (%)	-5.08	3.82	6.79	8.23
P/E (x)	nm	27.8	15.5	12.6
P/BV(x)	1.0	1.1	1.0	1.0
Dividend Yield	0.0%	0.0%	1.3%	1.6%

Share price (RON) close as of 16/09/2013	8.70
Number of shares (mn)	696.9
Market capitalization (RON mn / EUR mn)	6,063 / 1,360
Enterprise value (RON mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in RON	5.7%	-2.3%	9.6%	0.2%

Reuters	BRDX.BB	Free float	63.3%
Bloomberg	BRD RO	Shareholders	Société Générale (60.2%)
Div. Ex-date			SIFs (18.5%)
Target price	9.20	Homepage:	http://www.brd.ro/en/the-bank

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Small step-ups in challenging environment

We stick to our Hold recommendation for BRD GSG, in line with our prudent stance on this stock. This is mainly due to the still challenging market conditions, with weak solvable demand and tough competition for deposits, which will put pressure on Romanian banks' NIMs. The target price, computed based on our dividend discount model, is RON 9.20.

Risk costs in 2Q13 still on elevated level. BRD-GSG returned for 1H13 better than expected figures, mainly due to net cost of risk decreasing by 7.8% y/y. The 1H13 net profit was up 58% y/y from the depressed 1H12 level. The sustainable income sources, however, prolonged the annual decrease with -8.8% y/y (NII) and -2.5% y/y (net F&C income). Despite the improvements cost of risk still was on an elevated level of 4%.

Our valuation is sensitive to assumptions regarding NPL coverage development, which we assumed to increase to 95% in 2017, from about 50% at the end of 2012. Based on our forecast scenario, ROE will exceed 13% starting in 2016.

We expect further pressure on NIM and net F&C margin in the medium term, as is the case for all Romanian banks, given the poor solvable demand as well as the tough competition for deposits, and the requirement to lower reliance on funding from parent banks. In the case of BRD GSG, the weight of deposits from customers in total liabilities increased from 69% as of the end of 2011 to 73.7% as of the end of 2012, while the weight of loans from affiliates adjusted from 15.6% to 11.7%.

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, RON mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	2,323.4	2,178.9	1,946.1	1,813.7	1,804.0	1,828.0
Risk provisions for loans and advances	-882.9	-1,222.5	-1,943.0	-1,110.2	-878.6	-790.7
Net interest Income (after risk prov.)	1,440.4	956.4	3.1	703.5	925.4	1,037.4
Net fees & commission income	791.7	768.1	792.0	716.6	713.7	724.7
Dividend income	0.2	19.6	17.2	0.0	0.0	0.0
Trading result	422.0	332.0	342.7	208.8	160.0	160.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	1.0
Other income	47.9	-56.7	-52.4	-11.5	6.8	6.9
Total Income	3,585.2	3,242.0	3,045.6	2,727.5	2,684.4	2,720.6
Other administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortization	-131.6	-146.0	-161.8	-159.3	-142.7	-149.9
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	-644.9	-610.5	-597.7	-508.3	-475.6	-457.8
Operating profit	1,226.7	554.8	-329.5	262.2	468.1	575.3
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	1,226.7	554.8	-329.5	262.2	468.1	575.3
Income taxes	-217.9	-56.4	38.9	-42.0	-74.9	-91.9
Profit / loss after taxes	1,008.8	498.5	-290.6	220.3	393.2	483.5
Minority interests	-0.9	-2.2	-8.2	-2.0	-2.0	-2.0
Net result after minorities	1,007.9	496.3	-298.8	218.3	391.2	481.5
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, RON mn, 31/12)						
Cash and balances with central banks	10,040.9	9,405.3	9,383.8	8,001.0	8,201.2	8,525.4
Loans and advances to banks (net)	662.0	1,035.0	394.5	751.9	751.9	751.9
Loans and advances to customers (net)	33,115.0	32,565.8	32,370.8	32,099.1	32,326.0	33,044.1
Interest-earning financial assets	4,081.5	4,877.0	4,549.0	4,329.9	4,992.3	5,671.9
Interest-earning assets	47,899.4	47,883.1	46,698.1	45,181.9	46,271.3	47,993.4
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	85.8	313.8	535.0	250.0	250.0	250.0
Intangible assets	147.8	144.6	135.5	117.3	101.9	84.7
Tangible assets	1,177.1	1,180.8	1,084.9	970.1	975.3	987.5
Other assets	356.8	356.8	437.1	450.0	450.0	450.0
TOTAL ASSETS	49,666.9	49,879.1	48,890.6	46,969.2	48,048.5	49,765.6
Deposits from banks	11,648.1	11,985.3	9,772.9	6,200.0	5,200.0	4,700.0
Deposits from customers	30,024.6	30,217.9	31,785.7	33,400.1	35,401.1	37,522.1
Debt securities issued	737.3	0.0	0.0	0.0	0.0	0.0
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	42,410.1	42,203.2	41,558.6	39,600.1	40,601.1	42,222.1
LT provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	643.5	713.4	677.6	710.0	710.0	710.0
Subordinated liabilities	864.2	874.2	892.1	898.0	898.0	898.0
Total liabilities	43,917.8	43,790.7	43,128.3	41,208.1	42,209.1	43,830.1
Shareholders' equity	5,707.7	6,044.8	5,710.5	5,721.2	5,799.4	5,895.5
Minorities	41.4	43.6	51.8	40.0	40.0	40.0
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	49,666.9	49,879.1	48,890.6	46,969.2	48,048.5	49,765.6
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Other figures						
Tangible shareholders' equity	5,657.6	5,994.7	5,660.4	5,671.0	5,749.3	5,845.4
Off-balance sheet items	0.0	0.0	0.0	0.0	0.0	0.0
Year-end no. of shares outstanding (mn)	696.90	696.90	696.90	696.90	696.90	696.90
Average no. of shares outstanding (mn)	696.90	696.90	696.90	696.90	696.90	696.90
Fully diluted no. of shares outstanding (mn)	696.90	696.90	696.90	696.90	696.90	696.90
No. of employees (FTE)	9,227	8,747	8,700	8,700	8,700	8,700
No. of branches	937	937	915	925	928	928
Payout ratio	12.4%	23.4%	0.0%	0.0%	20.0%	20.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, RON mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	7.8%	7.2%	6.7%	6.6%	6.7%	6.6%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-3.2%	-3.0%	-3.0%	-3.0%	-3.2%	-3.1%
Yield on assets - cost of funds (Interest spread)	4.6%	4.2%	3.8%	3.6%	3.6%	3.5%
Net. int. income/avg. assets (Net interest margin)	4.7%	4.4%	3.9%	3.8%	3.8%	3.7%
Net fee and commission margin (avg. total assets)	1.6%	1.5%	1.6%	1.5%	1.5%	1.5%
ROE	19.0%	8.4%	-5.1%	3.8%	6.8%	8.2%
ROA	2.1%	1.0%	-0.6%	0.5%	0.8%	1.0%
Operating margin	2.5%	1.1%	-0.7%	0.5%	1.0%	1.2%
Efficiency						
Cost/Income ratio	41.2%	45.2%	47.0%	49.7%	49.8%	49.8%
Cost/avg. Assets ratio	3.0%	2.9%	2.9%	2.8%	2.8%	2.8%
Personnel expenses/total income	-19.5%	-21.8%	-22.1%	-25.2%	-26.8%	-27.5%
Avg. staff costs (RON)	75,760	78,798	77,093	79,023	82,700	85,847
Balance sheet structure						
Loans deposit ratio	115.9%	116.1%	114.5%	111.2%	108.0%	105.8%
Loans/total assets	70.1%	70.4%	74.4%	79.1%	79.6%	79.8%
Deposits/total assets	60.5%	60.6%	65.0%	71.1%	73.7%	75.4%
Capital adequacy						
Equity ratio	11.6%	12.2%	11.8%	12.3%	12.2%	11.9%
Capital adequacy ratio	15.2%	14.9%	13.9%	14.0%	14.5%	14.7%
Asset quality						
Non-performing loans ratio	13.0%	16.7%	21.1%	22.3%	21.8%	20.9%
Non-performing loans coverage ratio	37.1%	43.1%	52.2%	60.9%	70.7%	80.5%
Risk provisions/loans to customers (gross)	4.8%	7.2%	11.0%	13.6%	15.4%	16.8%
Risk provisions/avg. customer loans (Risk costs)	2.5%	3.5%	5.4%	3.0%	2.3%	2.0%
Risk earnings ratio	38.0%	56.1%	99.8%	61.2%	48.7%	43.3%
Income statement structure						
Net interest income / total income	64.8%	67.2%	63.9%	66.5%	67.2%	67.2%
Net fee and commission income / total income	22.1%	23.7%	26.0%	26.3%	26.6%	26.6%
Net trading result / total income	11.8%	10.2%	11.3%	7.7%	6.0%	5.9%
Non-interest income / total income	35.2%	32.8%	36.1%	33.5%	32.8%	32.8%
Personnel expenses / total operating expenses	47.4%	48.3%	47.0%	50.7%	53.8%	55.1%
Effective tax rate	-17.8%	-10.2%	-11.8%	-16.0%	-16.0%	-16.0%
Growth Rates						
(IFRS, RON mn, 31/12)						
Loans and advances to customers (net)	-1.9%	-1.7%	-0.6%	-0.8%	0.7%	2.2%
Deposits from customers	1.6%	0.6%	5.2%	5.1%	6.0%	6.0%
Total assets	2.9%	0.4%	-2.0%	-3.9%	2.3%	3.6%
Total liabilities	1.3%	-0.3%	-1.5%	-4.5%	2.4%	3.8%
Shareholders'equity	16.4%	5.9%	-5.5%	0.2%	1.4%	1.7%
Net interest Income	3.8%	-6.2%	-10.7%	-6.8%	-0.5%	1.3%
Net fees & commission income	-2.3%	-3.0%	3.1%	-9.5%	-0.4%	1.5%
Total Income	-2.9%	-9.6%	-6.1%	-10.4%	-1.6%	1.3%
Personnel expenses	-5.4%	1.3%	-5.0%	2.2%	4.7%	3.8%
Total expenses	-9.9%	-0.7%	-2.2%	-5.4%	-1.3%	1.3%
Operating profit	-15.4%	-54.8%	nm	nm	78.5%	22.9%
Net result after minorities	-12.1%	-50.8%	nm	nm	79.2%	23.1%

Source: Company data, Erste Group estimates

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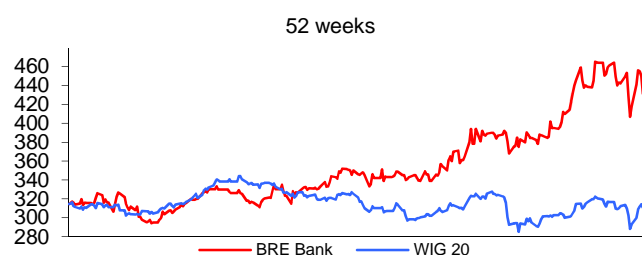
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Hold

PLN mn	2012	2013e	2014e	2015e
Net interest Income	2,233.6	2,208.2	2,492.5	2,871.4
Net fee/com. inc.	839.9	900.4	934.4	978.5
Total Income	3,764.6	3,804.5	4,156.5	4,637.3
EBT	1,472.1	1,513.7	1,681.0	2,021.4
Net result after min.	1,203.23	1,210.40	1,344.25	1,616.55
EPS (PLN)	28.57	28.74	31.92	38.38
BVPS (PLN)	229.85	245.37	264.97	288.16
Tang. BVPS (PLN)				
Div./share (PLN)	10.00	11.49	14.36	17.26
ROE (%)	13.57	12.09	12.50	13.87
P/E (x)	11.4	14.6	13.1	10.9
P/BV(x)	1.4	1.7	1.6	1.5
Dividend Yield	3.1%	2.7%	3.4%	4.1%

Share price (PLN) close as of 16/09/2013	419.0
Number of shares (mn)	42.2
Market capitalization (PLN mn / EUR mn)	17,669 / 4,213
Enterprise value (PLN mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in PLN	32.3%	19.7%	8.3%	-9.7%

Reuters	BREP.WA	Free float	30.4%
Bloomberg	BRE PW	Shareholders	Commerzbank AG (70.0%)
Div. Ex-date	10/05/13		ING Pension Fund (5.43%)
Target price	434	Homepage:	www.brebank.pl

Successful retail growth story – yet still wholesale funded

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Hold recommendation maintained. We like BRE's product offering, its strategy and its story, which relies on its young customer base, increasing exposure to high-margin retail assets and its ability to leverage its long-lasting business connections with corporate clients. These should enable the bank to tap the part of lending volumes, which will be directed at companies exposed to EU funding. However, we think that all this has already been taken into account by investors as the stock has grown by 32% and a 3% dividend was paid out on top of that. Therefore, we would wait for a more attractive entry point as we would expect that towards the end of the year the focus may shift towards a reliance on wholesale funding and the leverage, which, due to the enhanced CHF mortgage lending action in the past, is quite high in the case of BRE.

Strong 2Q13 figures on the NIM optimization. After pursuing its strategy of securing long term sources of financing and an increased reliance on deposits, the bank's loan to deposit ratio came down to 116% in 2012. In 2Q13, the bank has been more aggressive in deposit pricing, which supported the bank's net income. A more profitable mix of lending products also profited the active margin – as a result, BRE was one of the few banks which not only improved its NII in absolute terms, but also its NIM.

Reliance on wholesale funding. Currently, wholesale funding represents ca. 30% of the group's liabilities vs. ca. 10% for the other three banks that we cover. This results from a strategy of issuing long term financing and assuming subordinated loans from Commerzbank against its CHF 6bn mortgage portfolio. While we do not think that it is a problem per se, in the bumpy times that emerging markets are currently facing, it might be viewed as a risk factor by international investors.

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Outlook

Retail division is growing in significance

Although the retail segment's assets accounted for 40% of the total (liabilities 37%), 57% of the bank's gross profit is generated in this segment. BRE has been very successful in building its retail franchise, although it is pursuing a slightly different strategy than its peers – currently the bank operates 180 branches in Poland vs. 900, 1000 and 1,200 for BZW, PEO and PKO, respectively.

BRE bank has the highest loan to deposit ratio among its peers

The bank operates at a relatively high level of L/D (116% in 2012, the highest among the banks that we cover). BRE has a large mortgage portfolio (41% of its total loan book), which in our view, may limit further expansion. This also results in a very thin NIM (2.2% of total assets in 2012) vs. its peers, which we mainly attribute to the large CHF mortgage portfolios. Splitting that to yields on assets and funding costs, BRE is at the bottom of both of these rankings as on the one hand it has a large mortgage portfolio denominated by CHF (where the rates are lower) and on the other, it is financed by EUR and CHF liabilities. In our view, this is partly due to the fact that it makes limited use of swaps.

Reliance on bank's financing will, in our view, increase the bank's susceptibility to potential liquidity tightening

We think BRE is relatively neutrally positioned towards milder rate increases. We estimate that the NIM's sensitivity to the rate increases would be at ca. 25 bps vs. a 100 bps change. Moreover, its securities portfolio, although representing 20% of assets, has a relatively low duration estimated at 0.8 years and therefore, we would think that these two factors may offset one another. However, in potential periods of tightened liquidity in the global market, we think that the bank's reliance on wholesale funding and the bank funding, in particular, may turn out to be an important draw on the bank's performance.

In our view the bank will deliver the top of the interval in its own estimates

We assume that BRE will generate ca. PLN 1.2bn, which is the top interval of its guidance, which it had shared with the press. We would expect that in the coming quarters, the results will be supported by further increases in the NII due to the re-pricing of longer-term deposits, which will be maturing in 3Q13 and 4Q13 and supported by the normalization of the cost of risk. Our 2014e forecasts include an increase of the WIBOR, which will likely support the bank's NII. We also assume that the bank will be able to enjoy a growth in lending volumes – we assume 7% growth in the lending action in 2014e.

Change in estimates

Consolidated, IFRS (PLN, mn)	2013e			2014e			2015e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
Net interest income	2,208.2	2,478.3	-10.9%	2,492.5	2,799.7	-11.0%	2,871.4	n.a.	n.a.
Net provisions	-392.8	-386.0	1.8%	-421.7	-434.5	-3.0%	-454.4	n.a.	n.a.
Net fee & commission inc.	900.4	937.3	-3.9%	934.4	1,017.7	-8.2%	978.5	n.a.	n.a.
Total income	3,607.2	4,255.1	-15.2%	3,945.4	4,792.3	-17.7%	4,408.3	n.a.	n.a.
Pre-tax profit	1,513.7	1,463.3	3.4%	1,681.0	1,683.2	-0.1%	2,021.4	n.a.	n.a.
Net profit	1,211.0	1,118.5	8.3%	1,344.2	1,303.2	3.2%	1,616.5	n.a.	n.a.
EPS	28.74	26.58	8.1%	31.92	30.96	3.1%	38.38	n.a.	n.a.
DPS	11.49	10.63	8.1%	14.35	12.39	15.9%	17.26	n.a.	n.a.
BVPS	245.4	219.9	11.6%	265.0	238.5	11.1%	288.2	n.a.	n.a.

Source: Company data, Erste Group Research

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	1,811.0	2,167.9	2,233.6	2,208.2	2,492.5	2,871.4
Risk provisions for loans and advances	-634.8	-373.5	-444.6	-392.8	-421.7	-454.4
Net interest Income (after risk prov.)	1,176.2	1,794.5	1,789.0	1,815.4	2,070.9	2,417.0
Net fees & commission income	745.9	840.0	839.9	900.4	934.4	978.5
Dividend income	8.2	15.1	13.9	8.0	8.2	8.5
Trading result	410.7	346.7	356.5	307.9	399.3	430.4
Result on financial instruments	45.1	12.0	45.0	60.0	10.0	10.0
Other income	311.3	317.4	275.7	320.0	312.1	338.6
Total Income	3,332.1	3,699.0	3,764.6	3,804.5	4,156.5	4,637.3
Other administrative expenses	-629.8	-654.9	-650.8	-669.8	-767.4	-808.2
Depreciation and amortization	-236.9	-208.8	-195.6	-190.0	-195.7	-201.6
Impairment of goodwill						
Other expenses	-207.6	-178.2	-186.5	-197.3	-211.1	-229.0
Operating profit	872.5	1,467.1	1,472.1	1,513.7	1,681.0	2,021.4
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	872.5	1,467.1	1,472.1	1,513.7	1,681.0	2,021.4
Income taxes	-211.6	-322.7	-268.3	-302.7	-336.2	-404.3
Profit / loss after taxes	660.9	1,144.4	1,203.8	1,211.0	1,344.8	1,617.1
Minority interests	-19.3	-9.5	-0.6	-0.6	-0.6	-0.6
Net result after minorities	641.6	1,135.0	1,203.2	1,210.4	1,344.3	1,616.6
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)						
Cash and balances with central banks	2,359.9	1,038.4	4,819.2	2,501.9	2,677.0	2,810.9
Loans and advances to banks (net)	2,507.3	4,008.9	3,944.6	4,339.0	4,642.8	4,874.9
Loans and advances to customers (net)	59,374.1	67,851.5	67,059.3	70,943.7	75,899.3	82,342.6
Interest-earning financial assets	23,179.8	23,343.4	23,632.8	26,151.3	27,984.8	29,386.1
Interest-earning assets	87,421.0	96,242.1	99,455.9	103,935.9	111,203.9	119,414.5
Non-interest earning assets	206.0	191.5	314.2	314.2	314.2	314.2
Equity holdings	0.3	0.0	0.0	0.0	0.0	0.0
Intangible assets	427.8	436.8	436.1	436.1	436.1	436.1
Tangible assets	777.6	832.5	773.9	812.6	853.2	895.9
Other assets	1,206.0	1,172.8	1,256.0	1,295.2	1,340.6	1,394.6
TOTAL ASSETS	90,038.8	98,875.6	102,236.0	106,793.9	114,148.0	122,455.2
Deposits from banks	28,727.1	27,390.8	21,110.9	21,110.9	18,999.8	18,999.8
Deposits from customers	47,151.0	54,244.4	57,983.6	62,763.4	68,755.7	75,274.7
Debt securities issued	1,371.8	1,736.0	4,892.3	5,136.9	5,496.5	5,771.3
Trading liabilities	1,363.5	1,862.7	3,476.7	3,650.5	3,906.1	4,101.4
Interest-bearing liabilities	78,613.4	85,233.9	87,463.5	92,661.7	97,158.1	104,147.2
LT provisions	175.3	153.2	213.3	213.3	213.3	213.3
Other liabilities	1,162.7	1,959.7	1,626.9	171.1	1,966.4	2,126.3
Subordinated liabilities	3,010.1	3,456.2	3,222.3	3,383.4	3,620.2	3,801.3
Total liabilities	82,961.5	90,803.0	92,526.1	96,429.6	102,958.0	110,288.1
Shareholders' equity	6,909.3	8,048.8	9,685.5	10,339.8	11,165.5	12,142.6
Minorities	168.0	23.9	24.5	24.5	24.5	24.5
Hybrid capital						
Other reserves/equity						
TOTAL LIAB., EQUITY	90,038.8	98,875.6	102,236.0	106,793.9	114,148.0	122,455.2
--						
Other figures						
Tangible shareholders' equity						
Off-balance sheet items	319.8	509.0	662.1	691.7	739.3	793.1
Year-end no. of shares outstanding (mn)	42.09	42.10	42.14	42.14	42.14	42.14
Average no. of shares outstanding (mn)	36.68	42.09	42.12	42.12	42.12	42.12
Fully diluted no. of shares outstanding (mn)	36.68	42.09	42.12	42.12	42.12	42.12
No. of employees (FTE)	6,018	6,295	6,138	6,138	6,138	6,138
No. of branches	178	183	183	183	183	183
Payout ratio	0.0%	0.0%	35.0%	40.0%	45.0%	45.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	4.1%	4.2%	4.6%	4.0%	4.1%	4.4%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-2.1%	-2.1%	-2.6%	-2.1%	-2.1%	-2.2%
Yield on assets - cost of funds (Interest spread)	2.0%	2.1%	2.0%	1.9%	2.1%	2.2%
Net. int. income/avg. assets (Net interest margin)	2.1%	2.3%	2.2%	2.1%	2.3%	2.4%
Net fee and commission margin (avg. total assets)	0.9%	0.9%	0.8%	0.9%	0.8%	0.8%
ROE	11.6%	15.2%	13.6%	12.1%	12.5%	13.9%
ROA	0.8%	1.2%	1.2%	1.2%	1.2%	1.4%
Operating margin	1.0%	1.6%	1.5%	1.4%	1.5%	1.7%
Efficiency						
Cost/Income ratio	54.8%	50.2%	49.1%	49.9%	49.4%	46.6%
Cost/avg. Assets ratio	2.1%	2.0%	1.8%	1.8%	1.9%	1.8%
Personnel expenses/total income	-22.5%	-22.1%	-21.6%	-22.1%	-21.2%	-19.9%
Avg. staff costs (PLN)	129,579	132,646	131,104	137,004	143,306	150,328
Balance sheet structure						
Loans deposit ratio	131.1%	129.5%	120.0%	117.2%	114.4%	113.2%
Loans/total assets	68.7%	71.0%	68.1%	68.9%	68.9%	69.6%
Deposits/total assets	52.4%	54.9%	56.7%	58.8%	60.2%	61.5%
Capital adequacy						
Equity ratio	7.9%	8.2%	9.5%	9.7%	9.8%	9.9%
Capital adequacy ratio	15.9%	15.0%	18.7%	18.2%	18.4%	18.4%
Asset quality						
Non-performing loans ratio	5.3%	4.7%	5.2%	5.0%	5.0%	5.0%
Non-performing loans coverage ratio	74.6%	72.7%	69.6%	71.2%	70.4%	68.7%
Risk provisions/loans to customers (gross)	4.0%	3.4%	3.6%	3.6%	3.5%	3.4%
Risk provisions/avg. customer loans (Risk costs)	1.1%	0.6%	0.6%	0.5%	0.6%	0.6%
Risk earnings ratio	35.1%	17.2%	19.9%	17.8%	16.9%	15.8%
Income statement structure						
Net interest income / total income	54.3%	58.6%	59.3%	58.0%	60.0%	61.9%
Net fee and commission income / total income	22.4%	22.7%	22.3%	23.7%	22.5%	21.1%
Net trading result / total income	12.3%	9.4%	9.5%	8.1%	9.6%	9.3%
Non-interest income / total income	45.7%	41.4%	40.7%	42.0%	40.0%	38.1%
Personnel expenses / total operating expenses	41.1%	43.9%	44.1%	44.3%	42.8%	42.7%
Effective tax rate	-24.3%	-22.0%	-18.2%	-20.0%	-20.0%	-20.0%
Growth Rates						
(IFRS, PLN mn, 31/12)						
Loans and advances to customers (net)	13.2%	14.3%	-1.2%	5.8%	7.0%	8.5%
Deposits from customers	10.2%	15.0%	6.9%	8.2%	9.5%	9.5%
Total assets	11.1%	9.8%	3.4%	4.5%	6.9%	7.3%
Total liabilities	8.1%	9.5%	1.9%	4.2%	6.8%	7.1%
Shareholders'equity	67.7%	16.5%	20.3%	6.8%	8.0%	8.8%
Net interest Income	9.2%	19.7%	3.0%	-1.1%	12.9%	15.2%
Net fees & commission income	25.4%	12.6%	-0.0%	7.2%	3.8%	4.7%
Total Income	10.3%	11.0%	1.8%	1.1%	9.3%	11.6%
Personnel expenses	15.5%	8.8%	-0.2%	3.2%	4.6%	4.9%
Total expenses	6.4%	1.8%	-0.6%	2.7%	8.2%	5.2%
Operating profit	316.7%	68.2%	0.3%	2.8%	11.1%	20.2%
Net result after minorities	397.6%	76.9%	6.0%	0.6%	11.1%	20.3%

Source: Company data, Erste Group estimates

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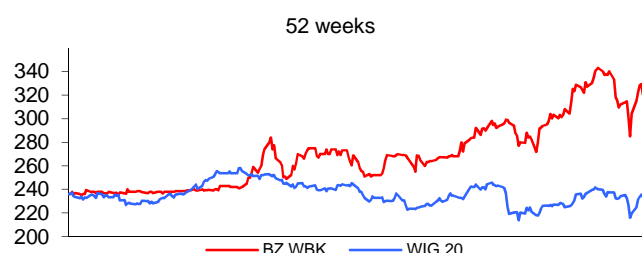
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BZ WBK

Buy

PLN mn	2012	2013e	2014e	2015e
Net interest Income	2,301.1	3,163.0	3,652.7	4,474.1
Net fee/com. inc.	1,385.0	1,796.8	1,758.3	1,908.7
Total Income	4,136.3	5,585.6	5,981.1	7,006.0
EBT	1,837.4	2,005.4	2,342.9	3,188.1
Net result after min.	1,434.25	1,604.31	1,897.72	2,582.32
EPS (PLN)	19.63	17.15	20.29	27.61
BVPS (PLN)	94.97	152.12	162.27	176.07
Tang. BVPS (PLN)	94.97	134.07	144.22	158.02
Div./share (PLN)	7.60	8.58	10.14	13.80
ROE (%)	17.66	13.88	12.91	16.32
P/E (x)	12.3	18.1	15.3	11.2
P/BV(x)	2.5	2.0	1.9	1.8
Dividend Yield	3.1%	2.8%	3.3%	4.4%

Share price (PLN) close as of 16/09/2013	310.3
Number of shares (mn)	93.5
Market capitalization (PLN mn / EUR mn)	29,027 / 6,921
Enterprise value (PLN mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in PLN	31.5%	15.4%	5.8%	-9.5%

Reuters	BZWB.WA	Free float	30.0%
Bloomberg	BZW PW	Shareholders	Banco Santander (70.0%)
Div. Ex-date			ING Pension Fund (5.3%)
Target price	379.0	Homepage:	www.bzwbk.pl

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Successful Post-Merger Integration: Realizing the Synergies

Justified outperformance in 2013. After the acquisition of Kredyt Bank in January 2013, BZ WBK became Poland's third largest universal bank. The acquisition provided significant room for increase in the efficiency of Kredyt Bank's assets, which are being well utilized by BZ WBK. After the first half-year of integration, the bank managed to maintain excellent effectiveness together with the strict cost control, which was the hallmark of the old BZ WBK. Assuming moderate lending growth in 2014 and a realization of the synergies, we remain positive on the stock and maintain our Buy rating raising the TP to PLN 379, despite the bank's significant outperformance.

Raised synergies guidance. The fully phased synergy guidance has been revised upwards by 15% to PLN 537mn. Moreover, the budget for integration costs in 2013 was decreased to approx. PLN 230m from the PLN 270m previously indicated. Strong 2Q13 results proved that the bank has the potential to increase effectiveness of its ex-Kredyt Bank assets. The process of integration will be fully completed by the end of 2014.

Improving the NIM. Despite the unfavorable market environment with falling interest rates, BZ WBK managed to improve the NIM on total assets in the second quarter of 2013 by almost 7%. The noticeable improvement was driven by close management of funding costs, including particularly the repricing of the ex-KB deposits portfolio and a product mix focused on high margin loans. Additionally, higher net interest income was bolstered by the market trend of swapping term deposits with current deposits by retail clients.

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Outlook

Solid performance from 2Q13 should be maintained

BZ WBK positively surprised the market with its second quarter results, which beat consensus estimates on both the revenue and cost lines. We expect further improvement in the NIM in the coming quarters as BZ WBK remains focused on the growth of high margin products, particularly loans to SMEs and consumer loans to retail clients. BZ WBK plans to outpace the market loan growth excluding mortgage loans, where it intends to remain below or close to the market. Moreover, interest costs should benefit from the shift from term to current deposits. The re-pricing of the ex-KB deposits portfolio should be fully visible in the bank's third quarter results, which will also contribute to the NIM hike. BZ WBK's fee and commission income remains stable supported by increasing distribution fees and a higher rate of cross-selling, which offset the flat current account and money transfer fees. The bank's management focuses on intensifying the cross-selling rate among ex-KB clients.

Disposal of Asset Management units for PLN 157m

In July BZ WBK announced that it will sell its 50% stake in BZ WBK Asset Management (AM), which in turn is an owner of a 100% stake in BZ WBK TFI, for PLN 157mn and thus dispose of its share in the asset management units. The decision resulted from the strategy of Banco Santander, the major shareholder of BZ WBK, which sold 50% of its AM business in 11 countries to Warburg Pincus and General Atlantic. Despite the fact that the transaction amount is relatively low in our view, BZ WBK said that the new agreement will have a positive impact on the level of fees generated from the distribution of investment funds and is expected to exceed the current income level. As a result of the transaction, the 2013e pre-tax earnings will be supported by a one-off gain of PLN 150mn. Going forward we believe that sale of AM units will have a slightly negative impact on fee income.

Synergies guidance raised by 15%

Integration with ex-KB is progressing smoothly with operational integration having almost been completed and the bank already having a fully combined product offering. BZ WBK conducted the rationalization of its branch network (50 branches closed in the first half of 2013), reduced its headcount and renegotiated contracts with suppliers of external services. That said, integration of processes together with rebranding campaign are still being carried out. The bank recently announced that integration costs in 2H13 will be similar to those incurred in 1H13, which amounted to PLN 115m. This indicates a noticeably lower integration costs budget than we had previously assumed (PLN 270m in FY13e). The current guidance for synergies to be fully utilized in 2015 stands at PLN 130-140mn in revenue synergies (vs. the previous PLN 125mn guidance) and PLN 381-417mn in cost synergies (vs. the previous PLN 340mn guidance).

Change to estimates

Consolidated, IFRS (PLN, mn)	2013e			2014e			2015e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
Net interest income	3,163.0	3,142.6	0.6%	3,652.7	3,537.9	3.2%	4,474.1	4,066.9	10.0%
Net provisions	-812.3	-791.5	2.6%	-879.9	-867.9	1.4%	-982.6	-959.0	2.5%
Net fee & commission inc.	1,796.8	1,805.2	-0.5%	1,758.3	1,921.7	-8.5%	1,908.7	2,096.6	-9.0%
Total income	5,585.6	5,573.6	0.2%	5,981.1	6,029.8	-0.8%	7,006.0	6,786.8	3.2%
Pre-tax profit	2,005.4	1,942.7	3.2%	2,342.9	2,448.0	-4.3%	3,188.1	3,045.1	4.7%
Net profit	1,604.3	1,534.7	4.5%	1,897.7	1,982.8	-4.3%	2,582.3	2,466.5	4.7%
EPS	17.15	16.41	4.5%	20.29	21.20	-4.3%	27.61	26.37	4.7%
DPS	8.57	8.20	4.6%	10.14	10.60	-4.3%	13.80	13.18	4.7%
BVPS	152.1	151.8	0.2%	162.3	162.4	-0.1%	176.1	175.5	0.3%

Source: Company data, Erste Group Research

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	1,822.2	2,068.6	2,301.1	3,163.0	3,652.7	4,474.1
Risk provisions for loans and advances	-420.8	-367.0	-501.8	-812.3	-879.9	-982.6
Net interest Income (after risk prov.)	1,401.4	1,701.6	1,799.3	2,350.7	2,772.8	3,491.5
Net fees & commission income	1,343.2	1,357.7	1,385.0	1,796.8	1,758.3	1,908.7
Dividend income	54.5	68.0	55.7	58.7	59.9	61.1
Trading result	258.7	267.2	164.3	250.0	275.0	302.5
Result on financial instruments	12.4	11.7	180.5	221.5	136.8	157.3
Other income	45.9	49.8	49.7	100.0	103.0	107.1
Total Income	3,537.0	3,823.0	4,136.3	5,585.6	5,981.1	7,006.0
Other administrative expenses	-641.6	-682.3	-700.0	-1,204.4	-1,007.2	-1,047.2
Depreciation and amortization	-128.8	-215.9	-137.9	-259.5	-311.4	-342.5
Impairment of goodwill				0.0	0.0	0.0
Other expenses	-34.2	-49.6	-26.1	-65.9	-67.8	-70.6
Operating profit	1,352.7	1,531.3	1,817.3	1,838.4	2,325.9	3,171.1
Extraordinary result	4.5	11.1	20.1	167.0	17.0	17.0
Profit / loss before taxes	1,357.2	1,542.4	1,837.4	2,005.4	2,342.9	3,188.1
Income taxes	-316.6	-315.6	-374.4	-386.2	-445.2	-605.7
Profit / loss after taxes	1,040.6	1,226.9	1,463.0	1,619.2	1,897.8	2,582.4
Minority interests	-66.3	-42.5	-28.8	-14.9	-0.1	-0.1
Net result after minorities	974.2	1,184.3	1,434.2	1,604.3	1,897.7	2,582.3
Adjusted profit/loss before taxes	1,357.2	1,542.4	1,837.4	2,005.4	2,342.9	3,188.1
Adjusted net profit/loss	974.2	1,184.3	1,434.2	1,604.3	1,897.7	2,582.3
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)						
Cash and balances with central banks	2,534.5	1,425.5	4,157.3	4,020.7	4,092.9	4,646.5
Loans and advances to banks (net)	619.7	1,244.3	1,458.1	2,075.1	2,389.5	2,580.4
Loans and advances to customers (net)	32,838.4	38,017.2	39,867.6	69,248.5	78,039.0	86,661.9
Interest-earning financial assets	15,649.1	17,666.5	12,801.4	25,757.1	28,329.9	31,410.1
Interest-earning assets	51,641.6	58,353.5	58,284.4	101,101.5	112,851.4	125,298.8
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	87.4	104.5	115.7	127.3	146.3	168.3
Intangible assets	172.6	151.2	127.3	2,068.1	2,087.1	2,107.1
Tangible assets	550.0	582.4	479.8	727.7	764.1	840.5
Other assets	702.3	681.8	1,012.0	1,519.0	1,595.0	1,674.7
TOTAL ASSETS	53,153.9	59,873.3	60,019.2	105,543.7	117,443.9	130,089.4
Deposits from banks	2,526.1	2,556.7	1,351.1	4,227.7	4,283.8	4,397.1
Deposits from customers	41,970.5	46,829.5	47,077.1	80,406.3	87,751.2	94,258.1
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0
Trading liabilities	595.1	1,480.5	1,050.8	2,309.1	2,540.0	2,794.0
Interest-bearing liabilities	45,091.6	50,866.7	49,478.9	86,943.1	94,574.9	101,449.2
LT provisions	0.0	0.0	0.0	365.9	373.3	380.7
Other liabilities	893.5	1,082.5	1,153.4	2,449.7	5,750.4	10,207.2
Subordinated liabilities	395.2	441.2	409.1	1,380.6	1,380.6	1,380.6
Total liabilities	46,380.3	52,390.4	51,041.5	91,139.4	102,079.2	113,417.7
Shareholders' equity	6,623.1	7,355.6	8,884.4	14,230.4	15,179.2	16,470.4
Minorities	150.5	127.4	93.3	173.9	185.5	201.3
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	53,153.9	59,873.3	60,019.2	105,543.7	117,443.9	130,089.4
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Other figures						
Tangible shareholders' equity	6,623.1	7,355.6	8,884.4	12,541.8	13,490.7	14,781.9
Off-balance sheet items	6,809.2	9,603.7	13,064.0	19,114.0	21,025.4	23,128.0
Year-end no. of shares outstanding (mn)	73.08	73.08	93.55	93.55	93.55	93.55
Average no. of shares outstanding (mn)	73.08	73.08	73.08	93.55	93.55	93.55
Fully diluted no. of shares outstanding (mn)	73.08	73.08	73.08	93.55	93.55	93.55
No. of employees (FTE)	9,840	9,383	8,882	12,698	12,198	11,998
No. of branches	527	526	519	889	904	919
Payout ratio	60.0%	49.4%	38.7%	50.0%	50.0%	50.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	6.1%	6.2%	6.6%	7.0%	5.9%	6.4%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-2.9%	-2.8%	-3.1%	-3.6%	-3.0%	-3.2%
Yield on assets - cost of funds (Interest spread)	3.2%	3.4%	3.5%	3.5%	3.0%	3.2%
Net. int. income/avg. assets (Net interest margin)	3.4%	3.7%	3.8%	3.8%	3.3%	3.6%
Net fee and commission margin (avg. total assets)	2.5%	2.4%	2.3%	2.2%	1.6%	1.5%
ROE	15.5%	16.9%	17.7%	13.9%	12.9%	16.3%
ROA	2.0%	2.2%	2.4%	2.0%	1.7%	2.1%
Operating margin	2.5%	2.7%	3.0%	2.2%	2.1%	2.6%
Efficiency						
Cost/Income ratio	49.9%	50.3%	43.9%	52.5%	46.4%	40.7%
Cost/avg. Assets ratio	3.3%	3.4%	3.0%	3.5%	2.5%	2.3%
Personnel expenses/total income	-27.1%	-25.6%	-23.0%	-25.2%	-23.2%	-19.9%
Avg. staff costs (PLN)	99,414	101,629	104,366	130,224	111,568	115,072
Balance sheet structure						
Loans deposit ratio	81.6%	84.2%	88.0%	90.7%	93.5%	96.6%
Loans/total assets	64.4%	65.9%	69.0%	69.1%	69.9%	70.0%
Deposits/total assets	79.0%	78.2%	78.4%	76.2%	74.7%	72.5%
Capital adequacy						
Equity ratio	12.7%	12.5%	15.0%	13.6%	13.1%	12.8%
Capital adequacy ratio	15.8%	15.1%	16.5%	14.6%	13.9%	13.6%
Asset quality						
Non-performing loans ratio	6.9%	5.5%	5.4%	8.0%	7.5%	6.5%
Non-performing loans coverage ratio	59.3%	65.0%	68.4%	63.7%	65.3%	74.2%
Risk provisions/loans to customers (gross)	4.1%	3.6%	3.7%	5.1%	4.9%	4.8%
Risk provisions/avg. customer loans (Risk costs)	1.2%	1.0%	1.2%	1.4%	1.1%	1.1%
Risk earnings ratio	23.1%	17.7%	21.8%	25.7%	24.1%	22.0%
Income statement structure						
Net interest income / total income	51.5%	54.1%	55.6%	56.6%	61.1%	63.9%
Net fee and commission income / total income	38.0%	35.5%	33.5%	32.2%	29.4%	27.2%
Net trading result / total income	7.3%	7.0%	4.0%	4.5%	4.6%	4.3%
Non-interest income / total income	48.5%	45.9%	44.4%	43.4%	38.9%	36.1%
Personnel expenses / total operating expenses	54.4%	50.8%	52.5%	47.9%	50.0%	48.8%
Effective tax rate	-23.3%	-20.5%	-20.4%	-19.3%	-19.0%	-19.0%
Growth Rates						
(IFRS, PLN mn, 31/12)						
Loans and advances to customers (net)	-5.0%	15.8%	4.9%	73.7%	12.7%	11.0%
Deposits from customers	1.8%	11.6%	0.5%	70.8%	9.1%	7.4%
Total assets	-0.3%	12.6%	0.2%	75.9%	11.3%	10.8%
Total liabilities	-1.9%	13.0%	-2.6%	78.6%	12.0%	11.1%
Shareholders'equity	11.7%	11.1%	20.8%	60.2%	6.7%	8.5%
Net interest Income	16.6%	13.5%	11.2%	37.5%	15.5%	22.5%
Net fees & commission income	2.2%	1.1%	2.0%	29.7%	-2.1%	8.6%
Total Income	7.6%	8.1%	8.2%	35.0%	7.1%	17.1%
Personnel expenses	7.8%	1.9%	-2.4%	47.4%	-1.2%	0.2%
Total expenses	9.2%	9.1%	-5.6%	61.5%	-5.4%	2.8%
Operating profit	13.6%	13.2%	18.7%	1.2%	26.5%	36.3%
Net result after minorities	0.6%	21.6%	21.1%	11.9%	18.3%	36.1%

Source: Company data, Erste Group estimates

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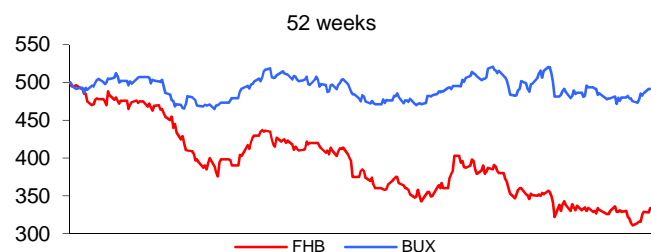
ERSTE GROUP

FHB

from Under review to Hold

HUF mn	2012	2013e	2014e	2015e
Net interest Income	18,546.0	17,344.0	18,749.4	19,891.4
Net fee/com. inc.	2,592.0	2,797.5	2,717.0	2,714.0
Total Income	26,550.0	18,751.9	24,851.6	27,068.2
EBT	-3,414.0	-7,592.0	160.0	2,289.8
Net result after min.	-4,464.00	-6,742.00	119.97	1,717.36
EPS (HUF)	-67.69	-102.23	1.82	26.04
BVPS (HUF)	739.02	638.42	640.24	666.28
Tang. BVPS (HUF)	739.02	635.69	637.51	663.55
Div./share (HUF)	0.00	0.00	0.00	0.00
ROE (%)	-8.74	-14.84	0.28	3.99
P/E (x)	nm	nm	180.3	12.6
P/BV(x)	0.5	0.5	0.5	0.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Share price (HUF) close as of 16/09/2013	328.0
Number of shares (mn)	66.0
Market capitalization (HUF mn / EUR mn)	21,648 / 72
Enterprise value (HUF mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in HUF	-34.0%	-12.5%	-13.7%	-1.2%

Reuters	FHBK.BU	Free float	32.4%
Bloomberg	FHB HB	Shareholders	√CP Finanz Hold. (24.2%)
Div. Ex-date			A64 (16.28%)
Target price	351.0	Homepage:	www.fhb.hu

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Still facing headwind

2013 is the third consecutive year that FHB has been in the red. Some recovery has been visible, as NPL formation has slowed down and **NIM is seeing a recovery from its lowest point of 2.05% in 4Q12**, but an increase of the NPL coverage ratio from 52% to around 60% is still ahead. These factors justify the low 0.5xP/BV13 valuation ratio, which is less than half of the CEE sector average of 1.15. Our **DCF model also leads to a target price of HUF 351 per share.** Our **recommendation is thus Hold.**

The banking tax is a huge drag on the P&L and the **FX relief plan is a potential danger** in the short run, but the bank has a 16% liquidity buffer for unexpected turbulence. FHB acquired EUR 112mn subordinated Tier 1 debt at the beginning of the year to keep its CAR at a high level. The related cost may drag on the bottom level when the recovery starts.

Most of the financing is via bonds, due to historic reasons. FHB has made steps toward universal banking via the acquisition of an asset management company and 51% of a factoring company. The latter still needs the approval of the competition office. **These two acquisitions may improve the consolidated net profit of the bank by some HUF 1.5-2bn**, which we have not incorporated into our model.

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, HUF mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	26,189.0	21,498.0	18,546.0	17,344.0	18,749.4	19,891.4
Risk provisions for loans and advances	-5,127.0	-19,944.0	-9,756.0	-5,143.5	-4,069.2	-3,094.4
Net interest Income (after risk prov.)	21,062.0	1,554.0	8,790.0	12,200.5	14,680.2	16,797.0
Net fees & commission income	1,621.0	2,713.0	2,592.0	2,797.5	2,717.0	2,714.0
Dividend income	0.0	0.0	0.0	0.0	0.0	0.0
Trading result	-3,927.0	5,452.0	-53.0	-2,461.0	544.9	498.4
Result on financial instruments	1,059.0	3,648.0	4,801.0	577.0	1,305.4	1,429.5
Other income	10,273.0	1,030.0	664.0	494.4	1,534.8	2,534.8
Total Income	35,215.0	34,341.0	26,550.0	18,751.9	24,851.6	27,068.2
Other administrative expenses	-8,773.0	-9,595.0	-8,601.0	-8,860.7	-9,126.5	-9,400.3
Depreciation and amortization	-1,753.0	-2,454.0	-2,497.0	-2,745.6	-3,020.2	-3,322.2
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	-4,717.0	-2,881.0	-3,315.0	-3,949.6	-2,739.1	-2,993.6
Operating profit	8,821.0	-7,314.0	-3,414.0	-7,592.0	160.0	2,289.8
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	8,821.0	-7,314.0	-3,414.0	-7,592.0	160.0	2,289.8
Income taxes	2,279.0	1,696.0	-1,050.0	850.0	-40.0	-572.5
Profit / loss after taxes	11,100.0	-5,618.0	-4,464.0	-6,742.0	120.0	1,717.4
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net result after minorities	11,100.0	-5,618.0	-4,464.0	-6,742.0	120.0	1,717.4
Adjusted profit/loss before taxes	8,918.5	-7,314.0	-1,031.9	-3,394.5	3,621.7	5,751.5
Adjusted net profit/loss	13,684.4	-5,618.0	-2,567.0	-3,342.0	2,920.0	4,517.4
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, HUF mn, 31/12)						
Cash and balances with central banks	6,644.0	11,261.0	7,281.0	49,067.0	53,793.8	57,611.5
Loans and advances to banks (net)	69,463.0	56,338.0	28,864.0	27,027.5	31,081.6	35,743.8
Loans and advances to customers (net)	646,955.0	608,117.0	499,573.0	416,241.3	417,273.0	427,837.3
Interest-earning financial assets	107,510.0	90,418.0	171,007.0	182,198.7	161,296.9	180,698.0
Interest-earning assets	830,572.0	766,134.0	706,725.0	674,534.5	663,445.2	701,890.6
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	11,426.0	11,311.0	11,463.0	11,843.5	11,916.9	12,054.3
Intangible assets	13,650.0	14,174.0	12,753.0	12,933.0	12,933.0	12,933.0
Tangible assets	6,412.0	6,300.0	5,961.0	5,722.6	5,616.4	5,511.2
Other assets	11,377.0	18,195.0	15,723.0	20,303.6	23,014.9	24,123.5
TOTAL ASSETS	873,437.0	816,114.0	752,625.0	725,337.2	716,926.4	756,512.6
Deposits from banks	22,650.0	20,992.0	92,781.0	95,564.4	99,387.0	104,356.4
Deposits from customers	112,740.0	161,105.0	152,206.0	166,361.2	178,738.4	189,376.9
Debt securities issued	609,928.7	501,217.0	359,891.0	344,065.0	316,969.5	336,735.8
Trading liabilities	59,691.0	60,511.0	23,184.0	24,343.2	25,560.4	26,838.4
Interest-bearing liabilities	745,319.0	683,314.0	604,878.0	605,990.6	595,094.9	630,469.1
LT provisions	918.0	267.0	173.0	173.0	173.0	173.0
Other liabilities	8,544.0	18,641.0	18,046.0	19,128.8	20,276.5	21,493.1
Subordinated liabilities	0.0	0.0	28,804.0	33,600.0	33,600.0	33,600.0
Total liabilities	814,472.0	762,733.0	675,085.0	649,635.5	641,104.7	678,973.6
Shareholders' equity	58,965.0	53,381.0	48,736.0	42,101.7	42,221.6	43,939.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	873,437.0	816,114.0	752,625.0	725,337.2	716,926.4	756,512.6
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Other figures						
Tangible shareholders' equity	58,965.0	53,381.0	77,540.0	75,521.7	75,641.6	77,359.0
Off-balance sheet items	18,801.3	19,886.0	30,245.0	42,452.0	42,393.3	43,440.0
Year-end no. of shares outstanding (mn)	65.88	65.95	65.95	65.95	65.95	65.95
Average no. of shares outstanding (mn)	65.64	65.91	65.95	65.95	65.95	65.95
Fully diluted no. of shares outstanding (mn)	65.64	65.91	65.95	65.95	65.95	65.95
No. of employees (FTE)	682	836	770	753	743	750
No. of branches	70	0	0	0	0	0
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, HUF mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	9.4%	9.8%	10.4%	9.6%	0.0%	0.0%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-6.7%	-8.0%	-9.0%	-8.1%	0.0%	0.0%
Yield on assets - cost of funds (Interest spread)	2.7%	1.9%	1.4%	1.5%	0.0%	0.0%
Net. int. income/avg. assets (Net interest margin)	3.1%	2.5%	2.4%	2.3%	2.6%	2.7%
Net fee and commission margin (avg. total assets)	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%
ROE	20.9%	-10.0%	-8.7%	-14.8%	0.3%	4.0%
ROA	1.3%	-0.7%	-0.6%	-0.9%	0.0%	0.2%
Operating margin	1.1%	-0.9%	-0.4%	-1.0%	0.0%	0.3%
Efficiency						
Cost/Income ratio	60.4%	63.2%	76.1%	113.1%	83.0%	80.1%
Cost/avg. Assets ratio	2.5%	2.6%	2.6%	2.9%	2.9%	2.9%
Personnel expenses/total income	-17.1%	-19.7%	-21.8%	-30.1%	-23.1%	-22.0%
Avg. staff costs (HUF)	9,583,201	8,934,124	7,216,687	7,412,348	7,669,290	7,992,092
Balance sheet structure						
Loans deposit ratio	594.5%	401.7%	352.8%	275.7%	259.5%	252.1%
Loans/total assets	76.7%	79.3%	71.3%	63.2%	64.7%	63.1%
Deposits/total assets	12.9%	19.7%	20.2%	22.9%	24.9%	25.0%
Capital adequacy						
Equity ratio	6.8%	6.5%	10.3%	10.4%	10.6%	10.2%
Capital adequacy ratio	10.4%	10.4%	15.5%	14.3%	14.9%	14.5%
Asset quality						
Non-performing loans ratio	11.5%	11.0%	12.2%	15.0%	15.5%	15.4%
Non-performing loans coverage ratio	30.3%	54.6%	57.2%	61.7%	64.7%	67.4%
Risk provisions/loans to customers (gross)	3.5%	6.0%	7.0%	9.3%	10.0%	10.4%
Risk provisions/avg. customer loans (Risk costs)	0.8%	3.0%	1.6%	1.0%	0.9%	0.7%
Risk earnings ratio	19.6%	92.8%	52.6%	29.7%	21.7%	15.6%
Income statement structure						
Net interest income / total income	74.4%	62.6%	69.9%	92.5%	75.4%	73.5%
Net fee and commission income / total income	4.6%	7.9%	9.8%	14.9%	10.9%	10.0%
Net trading result / total income	-11.2%	15.9%	-0.2%	-13.1%	2.2%	1.8%
Non-interest income / total income	25.6%	37.4%	30.1%	7.5%	24.6%	26.5%
Personnel expenses / total operating expenses	28.3%	31.2%	28.7%	26.6%	27.8%	27.5%
Effective tax rate	25.8%	-23.2%	30.8%	-11.2%	-25.0%	-25.0%
Growth Rates						
(IFRS, HUF mn, 31/12)						
Loans and advances to customers (net)	8.4%	-6.0%	-17.8%	-16.7%	0.2%	2.5%
Deposits from customers	77.4%	42.9%	-5.5%	9.3%	7.4%	6.0%
Total assets	9.0%	-6.6%	-7.8%	-3.6%	-1.2%	5.5%
Total liabilities	8.1%	-6.4%	-11.5%	-3.8%	-1.3%	5.9%
Shareholders'equity	24.3%	-9.5%	-8.7%	-13.6%	0.3%	4.1%
Net interest Income	-4.7%	-17.9%	-13.7%	-6.5%	8.1%	6.1%
Net fees & commission income	12.6%	67.4%	-4.5%	7.9%	-2.9%	-0.1%
Total Income	1.8%	-2.5%	-22.7%	-29.4%	32.5%	8.9%
Personnel expenses	18.6%	12.6%	-14.5%	-2.6%	1.6%	4.0%
Total expenses	26.2%	2.1%	-6.9%	4.9%	-2.7%	5.1%
Operating profit	-12.1%	nm	nm	nm	nm	1,331.5%
Net result after minorities	57.5%	nm	nm	nm	nm	1,331.5%

Source: Company data, Erste Group estimates

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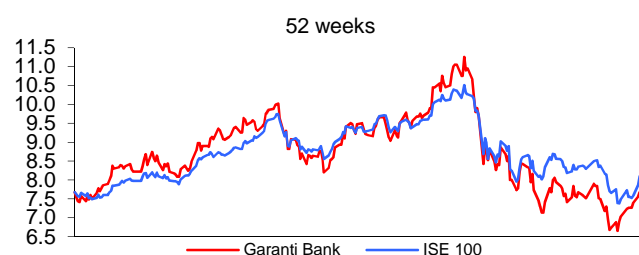
ERSTE GROUP

Garanti Bank

from Hold to Accumulate

TRY mn	2012	2013e	2014e	2015e
Net interest Income	5,718.9	6,458.9	7,187.3	8,013.5
Net fee/com. inc.	2,007.6	2,570.4	2,996.9	3,548.9
Total Income	8,642.0	9,749.2	10,844.0	12,222.3
EBT	3,923.3	4,284.1	4,978.8	5,805.8
Net result after min.	3,070.33	3,427.27	3,983.06	4,644.66
EPS (TRY)	0.73	0.82	0.95	1.11
BVPS (TRY)	5.07	5.44	6.21	7.10
Tang. BVPS (TRY)				
Div./share (TRY)	0.14	0.14	0.18	0.21
ROE (%)	15.79	15.52	16.29	16.63
P/E (x)	12.7	9.8	8.4	7.2
P/BV(x)	1.8	1.5	1.3	1.1
Dividend Yield	1.5%	1.8%	2.3%	2.7%

Share price (TRY) close as of 16/09/2013	7.98
Number of shares (mn)	4,200.0
Market capitalization (TRY mn / EUR mn)	33,516 / 12,583
Enterprise value (TRY mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in TRY	2.8%	-15.8%	-9.9%	6.4%

Reuters	GARAN.IS	Free float	49.9%
Bloomberg	GARAN TI	Shareholders	BBVA (25.0%)
Div. Ex-date	06/05/13	Dogus Holding	(24.2256%)
Target price	8.90	Homepage:	www.garanti.com.tr

Solid banking franchise

Analyst:

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Recent developments: In 2Q13, Garanti posted 11% q/q loan growth mainly driven by retail loans and mid-size commercial loans. The bank posted a 61bp q/q NIM contraction in 2Q13 on the back of lower yields earned on its securities book and to a lesser extent on loans. Despite the additional TRY44mn in specific provisions, the specific cost of risk remained flat q/q at 87bp. Separately, recent credit cards and overdraft account regulations may weigh on profitability, but the negative impact will be limited in our view.

Outlook: We anticipate Garanti Bank to post strong results in 2014 as management will capitalize on its strong business model and manage its assets and liabilities effectively and pro-actively in an environment where volatility could be high. In terms of investors' focus, we think that the main focus will be on the NIM. Considering the current conditions and the fact that TRY3.5bn in CPI-linked bonds redemption in August, we estimate the 2H13 NIM at 4.2% vs. the 5.1% in 1H13. For 2014, we estimate a 24bp y/y contraction in the NIM, down to 4.2%. We project pre-provision income to grow by 12% y/y and coupled with the flat picture on the provisions front on a y/y basis due to the elimination of one-off charges, lower general provisions and our positive view on credit quality, we project 16% y/y growth in earnings and forecast a core banking ROE of 18% in 2014.

Recommendation: We view Garanti Bank as a good proxy for retail banking activities in Turkey and believe that the current price level offers a solid franchise value for investors. We revised our estimates in light of the recent developments and set our target price at TRY8.90 and upgraded the stock to "Accumulate" from "Hold."

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GARANTI BANK

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	3,128	3,071	3,070	3,427	3,983	4,645	5,730	7,117
<i>Growth in Net Income</i>	6%	-2%	0%	12%	16%	17%	23%	24%
Less:								
<i>Dividend Income</i>	5	6	2	10	10	10	10	10
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted net income	3,123	3,065	3,068	3,417	3,973	4,635	5,721	7,107
<i>Growth in Net Income</i>	8%	-2%	0%	11%	16%	17%	23%	24%
Book Value	16,432	17,577	21,309	22,852	26,062	29,808	33,862	38,393
<i>Growth in Shareholders' Equity</i>	23%	7%	21%	7%	14%	14%	14%	13%
Less:								
<i>Participations</i>	1,685	2,188	2,610	2,803	2,803	2,803	2,803	2,803
<i>Dividend Income</i>	5	6	2	10	10	10	10	10
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted Book Value	14,742	15,383	18,697	20,039	23,249	26,995	31,049	35,580
<i>ROE (Reported)</i>	21.0%	18.1%	15.8%	15.5%	16.3%	16.6%	18.0%	19.7%
<i>ROE (Adjusted)</i>	23.2%	20.3%	18.0%	17.6%	18.4%	18.4%	19.7%	21.3%

Sustainable Core ROE	19.5%
Sustainable long-term growth	10.0%
Cost of Equity	16.2%
Target P/BV @ YE13	1.54
Banking Value	30,833
Participations	2,803
Value of Garanti Bank by 2013	33,636
Value of Garanti Bank as of now	32,130
Value of Garanti Bank 12-mth forward	37,318
# of shares	4,200
Target Price (TRY)	8.9
Current market cap.	33,600
Current market cap.(US\$ mn)	16,324
Upside potential	11%

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	4,754.7	4,688.9	5,718.9	6,458.9	7,187.3	8,013.5
Risk provisions for loans and advances	-584.3	-822.4	-1,177.8	-1,562.5	-1,564.9	-1,751.5
Net interest Income (after risk prov.)	4,170.4	3,866.6	4,541.1	4,896.4	5,622.4	6,262.0
Net fees & commission income	1,815.5	2,007.5	2,007.6	2,570.4	2,996.9	3,548.9
Dividend income	5.3	5.6	2.4	9.9	9.9	9.9
Trading result	363.9	332.3	614.4	260.0	150.0	150.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	638.0	902.5	298.6	450.0	500.0	500.0
Total Income	7,577.5	7,936.9	8,642.0	9,749.2	10,844.0	12,222.3
Other administrative expenses	-1,533.8	-1,627.2	-1,790.2	-1,699.5	-1,900.0	-2,069.5
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	3,930.8	3,908.1	3,923.3	4,284.1	4,978.8	5,805.8
Extraordinary result						
Profit / loss before taxes	3,930.8	3,908.1	3,923.3	4,284.1	4,978.8	5,805.8
Income taxes	-802.8	-837.6	-853.0	-856.8	-995.8	-1,161.2
Profit / loss after taxes	3,128.0	3,070.6	3,070.3	3,427.3	3,983.1	4,644.7
Minority interests						
Net result after minorities	3,128.0	3,070.6	3,070.3	3,427.3	3,983.1	4,644.7
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	7,510.0	8,261.2	16,112.7	20,072.8	21,951.0	24,360.0
Loans and advances to banks (net)	8,321.2	14,344.0	7,746.4	8,133.7	6,913.6	5,530.9
Loans and advances to customers (net)	64,827.3	83,813.3	91,824.5	116,272.6	132,849.6	152,459.4
Interest-earning financial assets	39,210.1	35,243.0	38,422.6	38,422.6	42,068.7	40,063.3
Interest-earning assets	119,868.6	141,661.4	154,106.2	182,901.8	203,783.0	222,413.6
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	1,684.6	2,188.4	2,609.6	2,803.1	2,803.1	2,803.1
Intangible assets	30.5	55.6	54.8	54.8	54.8	54.8
Tangible assets	1,201.3	1,243.6	1,129.2	1,189.2	1,249.2	1,309.2
Other assets	1,189.1	1,493.5	2,292.7	2,798.7	3,099.5	3,379.0
TOTAL ASSETS	123,974.1	146,642.4	160,192.5	189,747.5	210,989.6	229,959.7
Deposits from banks	2,408.3	1,983.3	3,804.6	5,577.8	2,904.1	3,149.2
Deposits from customers	70,250.1	82,559.4	83,677.8	103,287.9	117,244.9	127,036.6
Debt securities issued	27,887.5	35,182.7	41,039.3	46,802.0	52,144.0	55,949.3
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	100,545.9	119,725.5	128,521.7	155,667.6	172,293.0	186,135.1
LT provisions	1,360.4	1,831.1	2,277.0	2,946.3	3,472.0	4,109.3
Other liabilities	4,751.4	6,427.6	7,967.3	8,147.9	9,029.0	9,772.8
Subordinated liabilities	884.7	1,081.4	117.3	133.7	133.7	134.8
Total liabilities	107,542.5	129,065.6	138,883.2	166,895.5	184,927.8	200,151.9
Shareholders' equity	16,431.7	17,576.8	21,309.3	22,852.0	26,061.8	29,807.8
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	123,974.1	146,642.4	160,192.5	189,747.5	210,989.6	229,959.7
--						
Other figures						
Tangible shareholders' equity						
Off-balance sheet items	15,689.8	21,021.5	22,676.6	28,462.1	31,648.4	34,494.0
Year-end no. of shares outstanding (mn)	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00
Average no. of shares outstanding (mn)	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00
Fully diluted no. of shares outstanding (mn)	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00	4,200.00
No. of employees (FTE)	16,675	16,775	17,285	18,487	19,247	19,481
No. of branches	857	914	933	973	1,013	1,053
Payout ratio	11.2%	18.6%	19.5%	17.4%	19.4%	19.3%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	8.6%	8.0%	8.6%	7.8%	8.2%	7.9%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-5.1%	-5.3%	-5.6%	-4.7%	-5.2%	-5.0%
Yield on assets - cost of funds (Interest spread)	3.5%	2.8%	3.0%	3.1%	2.9%	3.0%
Net. int. income/avg. assets (Net interest margin)	4.1%	3.5%	3.7%	3.7%	3.6%	3.6%
Net fee and commission margin (avg. total assets)	1.6%	1.5%	1.3%	1.5%	1.5%	1.6%
ROE	21.0%	18.1%	15.8%	15.5%	16.3%	16.6%
ROA	2.7%	2.3%	2.0%	2.0%	2.0%	2.1%
Operating margin	3.4%	2.9%	2.6%	2.4%	2.5%	2.6%
Efficiency						
Cost/Income ratio	40.4%	40.4%	41.0%	40.0%	39.7%	38.2%
Cost/avg. Assets ratio	2.7%	2.4%	2.3%	2.2%	2.1%	2.1%
Personnel expenses/total income	-20.2%	-19.9%	-20.3%	-22.6%	-22.1%	-21.2%
Avg. staff costs (TRY)	91,472	94,418	102,800	123,174	127,222	134,034
Balance sheet structure						
Loans deposit ratio	92.8%	101.9%	110.2%	113.0%	113.7%	120.5%
Loans/total assets	52.6%	57.3%	57.6%	61.5%	63.2%	66.5%
Deposits/total assets	56.7%	56.3%	52.2%	54.4%	55.6%	55.2%
Capital adequacy						
Equity ratio	13.3%	12.0%	13.3%	12.0%	12.4%	13.0%
Capital adequacy ratio	19.6%	16.9%	18.2%	16.4%	16.5%	16.5%
Asset quality						
Non-performing loans ratio	3.0%	1.8%	2.3%	2.0%	2.0%	2.0%
Non-performing loans coverage ratio	18.1%	18.3%	19.1%	19.0%	19.0%	19.0%
Risk provisions/loans to customers (gross)	0.5%	0.3%	0.4%	0.4%	0.4%	0.4%
Risk provisions/avg. customer loans (Risk costs)	1.0%	1.1%	1.3%	1.5%	1.3%	1.2%
Risk earnings ratio	12.3%	17.5%	20.6%	24.2%	21.8%	21.9%
Income statement structure						
Net interest income / total income	62.7%	59.1%	66.2%	66.3%	66.3%	65.6%
Net fee and commission income / total income	24.0%	25.3%	23.2%	26.4%	27.6%	29.0%
Net trading result / total income	4.8%	4.2%	7.1%	2.7%	1.4%	1.2%
Non-interest income / total income	37.3%	40.9%	33.8%	33.7%	33.7%	34.4%
Personnel expenses / total operating expenses	49.9%	49.3%	49.4%	56.5%	55.8%	55.6%
Effective tax rate	-20.4%	-21.4%	-21.7%	-20.0%	-20.0%	-20.0%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	30.4%	29.3%	9.6%	26.6%	14.3%	14.8%
Deposits from customers	16.2%	17.5%	1.4%	23.4%	13.5%	8.4%
Total assets	17.6%	18.3%	9.2%	18.4%	11.2%	9.0%
Total liabilities	16.7%	20.0%	7.6%	20.2%	10.8%	8.2%
Shareholders'equity	23.4%	7.0%	21.2%	7.2%	14.0%	14.4%
Net interest Income	-6.4%	-1.4%	22.0%	12.9%	11.3%	11.5%
Net fees & commission income	2.5%	10.6%	0.0%	28.0%	16.6%	18.4%
Total Income	-6.3%	4.7%	8.9%	12.8%	11.2%	12.7%
Personnel expenses	9.5%	3.3%	10.9%	25.8%	9.0%	8.1%
Total expenses	13.4%	4.7%	10.4%	10.2%	10.2%	8.5%
Operating profit	4.0%	-0.6%	0.4%	9.2%	16.2%	16.6%
Net result after minorities	5.6%	-1.8%	-0.0%	11.6%	16.2%	16.6%

Source: Company data, Erste Group estimates

Erste Group Research – Company Report

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ERSTE GROUP

Halkbank

Buy

TRY mn	2012	2013e	2014e	2015e
Net interest Income	4,476.1	4,965.0	5,609.1	6,247.3
Net fee/com. inc.	858.4	988.9	1,179.9	1,407.6
Total Income	6,313.4	6,835.6	7,470.6	8,386.5
EBT	3,329.1	3,360.1	3,579.5	4,047.9
Net result after min.	2,595.21	2,688.10	2,863.61	3,238.31
EPS (TRY)	2.08	2.15	2.29	2.59
BVPS (TRY)	9.86	11.01	12.91	15.09
Tang. BVPS (TRY)				
Div./share (TRY)	0.25	0.37	0.39	0.41
ROE (%)	24.76	20.61	19.16	18.51
P/E (x)	8.4	7.0	6.5	5.8
P/BV(x)	1.8	1.4	1.2	1.0
Dividend Yield	1.4%	2.5%	2.6%	2.8%

Share price (TRY) close as of 16/09/2013

Number of shares (mn)

Market capitalization (TRY mn / EUR mn)

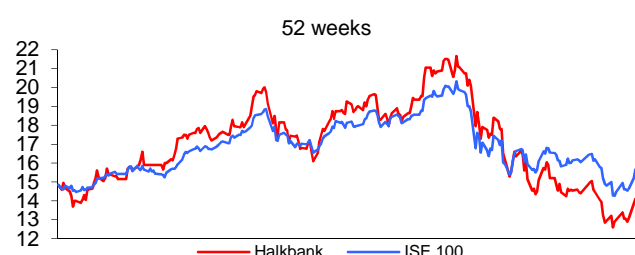
Enterprise value (TRY mn / EUR mn)

15.0

1,250.0

18,688 / 7,016

0 / 0



Performance	12M	6M	3M	1M
in TRY	-0.7%	-22.3%	-18.8%	3.5%

Reuters	HALKB.IS	Free float	49.0%
Bloomberg	HALKB TI	Shareholders	stration of Turkey (51.1%)
Div. Ex-date	10/04/13		
Target price	19.1	Homepage:	www.halkbank.com.tr

Our pick of the barrel

Analyst:

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Recent developments: In 2Q13, Halkbank delivered 7% q/q loan growth, mainly driven by SME, housing and credit card loans. In 2Q13 Halkbank posted a 5.15% NIM, which indicated a 37bp q/q decline and this was mainly due to the lower interest income earned from the CPI-linkers as well as a contraction in loan-deposit spreads. Halkbank's credit quality was sound and its specific cost of risk was at 65bp, +9bp q/q in 2Q13. Separately, recent credit cards and overdraft accounts regulations may weigh on profitability, but the negative impact will be limited in our view.

Outlook: We expect Halkbank to maintain its growth trajectory, albeit at a slower pace vs. 2Q13 and to end 2013 with 20% y/y loan growth. In 2H13, we estimate the bank's NIM to contract by 28bp q/q vs. 1H13, down to 5%. For 2014, we forecast 17% y/y loan growth, mainly on the back of retail loans. We also expect an 8bp y/y contraction in its NIM, down to the 5.1% level. Compared to other banks, our relatively lower NIM contraction estimate rests on the assumptions that Halkbank will grow in the high margin retail segment and effectively manage its funding costs. As for credit quality, we do not envisage any deterioration and expect the specific cost of risk to remain flat at 72bp for 2014.

Recommendation: We expect Halkbank to deliver the highest core banking ROE on a recurring basis in our coverage universe and project a sustainable ROE at the 20% level. We reiterate our Buy rating on Halkbank as we like the bank's strong business model that generates a high ROE and trades at attractive valuations. Our revised target price of TRY19.1 indicates 28% upside potential.

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HALKBANK

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	2,010	2,045	2,595	2,688	2,864	3,238	3,660	4,284
<i>Growth in Net Income</i>	23%	2%	27%	4%	7%	13%	13%	17%
Less:								
<i>Dividend Income</i>	56	49	64	82	82	82	82	82
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted net income	1,954	1,997	2,531	2,606	2,782	3,157	3,578	4,203
<i>Growth in Net Income</i>	21%	2%	27%	3%	7%	13%	13%	17%
 Book Value	 7,445	 8,640	 12,323	 13,760	 16,138	 18,859	 21,789	 25,247
<i>Growth in Shareholders' Equity</i>	29%	16%	43%	12%	17%	17%	16%	16%
Less:								
<i>Participations</i>	740	927	1,887	1,933	1,933	1,933	1,933	1,933
<i>Dividend Income</i>	56	49	64	82	82	82	82	82
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted Book Value	6,649	7,664	10,372	11,745	14,124	16,845	19,775	23,233
<i>ROE (Reported)</i>	30.5%	25.4%	24.8%	20.6%	19.2%	18.5%	18.0%	18.2%
<i>ROE (Adjusted)</i>	32.4%	27.9%	28.1%	23.6%	21.5%	20.4%	19.5%	19.5%

Sustainable Core ROE	20.2%
Sustainable long-term growth	10.0%
Cost of Equity	16.2%
 Target P/BV @ YE13	 1.67
Banking Value	19,567
Participations	1,933
Value of Halkbank by 2013	21,499
Value of Halkbank as of now	20,536
Value of Halkbank 12-mth forward	23,853
# of shares	1,250
Target Price (TRY)	19.1
Current market cap.	18,688
Upside potential	28%

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	3,191.0	3,473.2	4,476.1	4,965.0	5,609.1	6,247.3
Risk provisions for loans and advances	-458.4	-690.0	-886.6	-842.7	-919.8	-1,034.4
Net interest Income (after risk prov.)	2,732.6	2,783.3	3,589.5	4,122.3	4,689.3	5,212.9
Net fees & commission income	525.9	728.2	858.4	988.9	1,179.9	1,407.6
Dividend income	55.9	48.5	64.0	81.6	81.6	81.6
Trading result	114.8	207.5	554.6	350.0	100.0	100.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	575.4	594.5	360.2	450.0	500.0	550.0
Total Income	4,463.0	5,051.9	6,313.4	6,835.6	7,470.6	8,386.5
Other administrative expenses	-891.4	-984.1	-1,143.1	-951.5	-1,037.8	-1,177.4
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	2,509.3	2,636.7	3,329.1	3,360.1	3,579.5	4,047.9
Extraordinary result						
Profit / loss before taxes	2,509.3	2,636.7	3,329.1	3,360.1	3,579.5	4,047.9
Income taxes	-498.9	-591.6	-733.9	-672.0	-715.9	-809.6
Profit / loss after taxes	2,010.4	2,045.1	2,595.2	2,688.1	2,863.6	3,238.3
Minority interests						
Net result after minorities	2,010.4	2,045.1	2,595.2	2,688.1	2,863.6	3,238.3
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	4,649.6	7,272.4	12,487.7	18,712.3	19,480.6	20,936.2
Loans and advances to banks (net)	1,109.4	1,475.0	2,631.8	2,357.5	2,121.7	1,909.6
Loans and advances to customers (net)	44,296.5	56,216.4	65,893.8	79,073.2	92,660.2	108,952.7
Interest-earning financial assets	20,206.6	23,346.2	22,954.0	22,954.0	22,494.9	21,370.1
Interest-earning assets	70,262.1	88,310.0	103,967.3	123,096.9	136,757.4	153,168.6
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	739.6	927.5	1,887.0	1,932.5	1,932.5	1,932.5
Intangible assets	17.7	27.6	37.3	37.3	37.3	37.3
Tangible assets	945.4	1,011.0	1,123.2	1,183.2	1,243.2	1,303.2
Other assets	977.7	847.6	1,266.8	1,264.4	1,394.9	1,549.7
TOTAL ASSETS	72,942.4	91,123.7	108,281.6	127,514.3	141,365.3	157,991.3
Deposits from banks	3,223.8	6,980.5	7,425.1	1,565.7	1,689.0	1,868.4
Deposits from customers	51,558.2	59,266.5	72,548.8	87,826.9	96,276.6	107,494.0
Debt securities issued	6,979.4	11,691.4	9,723.0	16,985.0	18,919.2	20,254.2
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	61,761.5	77,938.3	89,696.9	106,377.7	116,884.9	129,616.6
LT provisions	856.7	1,252.0	1,826.8	2,119.6	2,554.8	3,085.1
Other liabilities	2,879.6	3,293.4	4,434.9	5,257.4	5,787.7	6,430.3
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	65,497.7	82,483.7	95,958.7	113,754.7	125,227.3	139,131.9
Shareholders' equity	7,444.7	8,640.0	12,323.0	13,759.6	16,138.0	18,859.4
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	72,942.4	91,123.7	108,281.6	127,514.3	141,365.3	157,991.3
--						
Other figures						
Tangible shareholders' equity						
Off-balance sheet items	12,726.4	17,846.5	19,734.2	22,952.6	26,859.4	31,598.3
Year-end no. of shares outstanding (mn)	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00
Average no. of shares outstanding (mn)	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00
Fully diluted no. of shares outstanding (mn)	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00
No. of employees (FTE)	13,450	13,643	14,971	14,722	15,572	16,847
No. of branches	709	771	816	866	916	991
Payout ratio	14.6%	19.3%	11.8%	17.2%	16.9%	16.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	9.9%	9.2%	9.4%	8.5%	8.9%	8.6%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-5.6%	-5.4%	-5.4%	-4.8%	-5.3%	-5.1%
Yield on assets - cost of funds (Interest spread)	4.3%	3.7%	4.0%	3.7%	3.6%	3.5%
Net. int. income/avg. assets (Net interest margin)	4.8%	4.2%	4.5%	4.2%	4.2%	4.2%
Net fee and commission margin (avg. total assets)	0.8%	0.9%	0.9%	0.8%	0.9%	0.9%
ROE	30.5%	25.4%	24.8%	20.6%	19.2%	18.5%
ROA	3.0%	2.5%	2.6%	2.3%	2.1%	2.2%
Operating margin	3.8%	3.2%	3.3%	2.9%	2.7%	2.7%
Efficiency						
Cost/Income ratio	33.5%	34.2%	33.2%	38.5%	39.8%	39.4%
Cost/avg. Assets ratio	2.2%	2.1%	2.1%	2.2%	2.2%	2.2%
Personnel expenses/total income	-13.5%	-14.7%	-15.1%	-24.6%	-25.9%	-25.4%
Avg. staff costs (TRY)	46,532	54,713	66,721	113,245	127,648	131,209
Balance sheet structure						
Loans deposit ratio	86.5%	95.3%	91.3%	90.5%	96.7%	101.8%
Loans/total assets	61.1%	62.0%	61.2%	62.3%	65.9%	69.3%
Deposits/total assets	70.7%	65.0%	67.0%	68.9%	68.1%	68.0%
Capital adequacy						
Equity ratio	10.2%	9.5%	11.4%	10.8%	11.4%	11.9%
Capital adequacy ratio	15.9%	14.3%	16.2%	15.6%	15.0%	15.1%
Asset quality						
Non-performing loans ratio	3.9%	3.0%	3.0%	2.8%	2.7%	2.5%
Non-performing loans coverage ratio	16.7%	16.0%	17.5%	17.5%	17.5%	17.5%
Risk provisions/loans to customers (gross)	0.7%	0.5%	0.5%	0.5%	0.5%	0.4%
Risk provisions/avg. customer loans (Risk costs)	1.2%	1.4%	1.4%	1.2%	1.1%	1.0%
Risk earnings ratio	14.4%	19.9%	19.8%	17.0%	16.4%	16.6%
Income statement structure						
Net interest income / total income	71.5%	68.8%	70.9%	72.6%	75.1%	74.5%
Net fee and commission income / total income	11.8%	14.4%	13.6%	14.5%	15.8%	16.8%
Net trading result / total income	2.6%	4.1%	8.8%	5.1%	1.3%	1.2%
Non-interest income / total income	28.5%	31.2%	29.1%	27.4%	24.9%	25.5%
Personnel expenses / total operating expenses	40.4%	43.0%	45.5%	63.9%	65.1%	64.4%
Effective tax rate	-19.9%	-22.4%	-22.0%	-20.0%	-20.0%	-20.0%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	36.5%	26.9%	17.2%	20.0%	17.2%	17.6%
Deposits from customers	22.7%	15.0%	22.4%	21.1%	9.6%	11.7%
Total assets	20.3%	24.9%	18.8%	17.8%	10.9%	11.8%
Total liabilities	19.3%	25.9%	16.3%	18.5%	10.1%	11.1%
Shareholders'equity	29.3%	16.1%	42.6%	11.7%	17.3%	16.9%
Net interest Income	2.6%	8.8%	28.9%	10.9%	13.0%	11.4%
Net fees & commission income	14.2%	38.5%	17.9%	15.2%	19.3%	19.3%
Total Income	15.7%	13.2%	25.0%	8.3%	9.3%	12.3%
Personnel expenses	37.5%	22.7%	28.8%	76.1%	15.0%	10.0%
Total expenses	25.3%	15.4%	21.6%	25.5%	12.9%	11.2%
Operating profit	24.4%	5.1%	26.3%	0.9%	6.5%	13.1%
Net result after minorities	23.3%	1.7%	26.9%	3.6%	6.5%	13.1%

Source: Company data, Erste Group estimates

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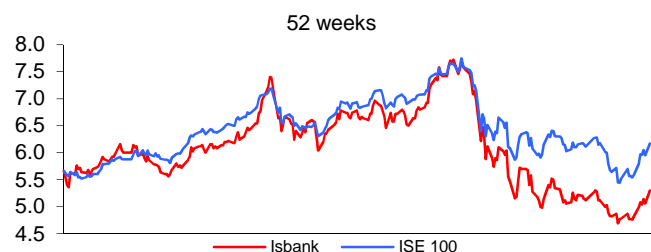
ERSTE GROUP

Isbank

Accumulate

TRY mn	2012	2013e	2014e	2015e
Net interest Income	5,927.9	6,826.4	7,687.7	8,400.0
Net fee/com. inc.	1,706.2	2,095.3	2,430.8	2,838.8
Total Income	9,814.3	10,972.1	12,168.9	13,339.1
EBT	4,120.9	3,882.0	4,198.9	4,540.3
Net result after min.	3,310.28	3,195.63	3,449.19	3,722.32
EPS (TRY)	0.74	0.71	0.77	0.83
BVPS (TRY)	5.05	5.23	5.86	6.53
Tang. BVPS (TRY)				
Div./share (TRY)	0.12	0.15	0.14	0.15
ROE (%)	16.29	13.81	13.82	13.35
P/E (x)	8.4	7.5	6.9	6.4
P/BV(x)	1.2	1.0	0.9	0.8
Dividend Yield	2.0%	2.8%	2.7%	2.9%

Share price (TRY) close as of 16/09/2013	5.30
Number of shares (mn)	4,500.0
Market capitalization (TRY mn / EUR mn)	23,850 / 8,954
Enterprise value (TRY mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in TRY	-6.4%	-21.4%	-13.1%	3.5%

Reuters	ISCTR.IS	Free float	32.2%
Bloomberg	ISCTR TI	Shareholders	ank Pension Fund (39.7%)
Div. Ex-date	01/04/13		Ataturk Shares (28.09%)
Target price	6.21	Homepage:	www.isbank.com.tr

Solid business model worthy of close attention

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Recent developments: In 2Q13, Isbank attained the highest growth rate among the Big-4 banks by posting 13% q/q growth. Its NIM declined by 24bp q/q to 4.4% in 2Q13. Credit quality was strong as the specific cost of risk remained almost flat q/q at 81bp, while Group II loans formed only 2% of the performing loans. Separately, given the strong retail franchise, recent credit cards and overdraft accounts regulations may weigh on margins; however, the negative impact will be limited in our view.

Outlook: We expect Isbank to end 2013 with 18% y/y loan growth and estimate its NIM in 2H13 to decline by 27bp vs. 1H13, bringing down the 2013 NIM to 4.27% and remaining flat in y/y terms. We estimate 17% y/y loan growth in 2014. We expect to see the positive effects of having a strong deposit franchise on the NIM and estimate a 9bp y/y decline in Isbank's NIM. On the credit quality front, we do not envisage any major deterioration neither in 2H13 nor in 2014 and estimate the bank's specific cost of risk at 82bp and 87bp at the end of 2013 and 2014, respectively. We estimate 8% y/y earnings growth and expect the core banking ROE to remain flat y/y at 18%.

Recommendation: Being the market leader, Isbank provides a broad-based exposure to the Turkish banking sector. We think that Isbank's significant underperformance against the banking index and BIST-100 is unfounded and close attention should be paid to both its profitability outlook and valuation. Trading at 0.9x of its 2014E book value with a core banking ROE of 18% indicates that the stock is undervalued. We revisited our valuation model for Isbank and set our target price at TRY6.21, indicating 17% upside potential. We reiterate our Accumulate rating on Isbank.

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ISBANK

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	2,982	2,667	3,310	3,196	3,449	3,722	4,288	5,091
<i>Growth in Net Income</i>	26%	-11%	24%	-3%	8%	8%	15%	19%
Less:								
<i>Dividend Income</i>	369	556	418	450	450	450	450	450
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted net income	2,613	2,112	2,893	2,745	2,999	3,272	3,838	4,641
<i>Growth in Net Income</i>	28%	-19%	37%	-5%	9%	9%	17%	21%
Book Value	17,014	17,921	22,719	23,550	26,364	29,402	32,850	36,973
<i>Growth in Shareholders' Equity</i>	26%	5%	27%	4%	12%	12%	12%	13%
Less:								
<i>Participations</i>	6,264	6,275	7,700	7,515	7,515	7,515	7,515	7,515
<i>Dividend Income</i>	369	556	418	450	450	450	450	450
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted Book Value	10,381	11,091	14,601	15,585	18,399	21,437	24,885	29,008
<i>ROE (Reported)</i>	19.6%	15.3%	16.3%	13.8%	13.8%	13.3%	13.8%	14.6%
<i>ROE (Adjusted)</i>	28.2%	19.7%	22.5%	18.2%	17.6%	16.4%	16.6%	17.2%

Sustainable Core ROE (2014-2017)	17.0%
Sustainable long-term growth	10.0%
Cost of Equity	16.2%
Target P/BV @ YE13	1.13
Banking Value	17,655
Participations	7,515
Value of Isbank by 2013	25,169
Value of Isbank as of now	24,042
Value of Isbank 12-mth forward	27,925
# of shares	4,500
Target Price (TRY)	6.21
Current market cap.	23,850
Upside potential	17%

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	4,581.9	4,561.8	5,927.9	6,826.4	7,687.7	8,400.0
Risk provisions for loans and advances	-1,135.4	-1,383.8	-1,209.1	-1,653.0	-1,760.2	-1,952.3
Net interest Income (after risk prov.)	3,446.4	3,178.0	4,718.8	5,173.4	5,927.6	6,447.7
Net fees & commission income	1,236.4	1,428.6	1,706.2	2,095.3	2,430.8	2,838.8
Dividend income	369.2	555.7	417.7	450.3	450.3	450.3
Trading result	134.6	306.1	590.4	350.0	250.0	250.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	1,569.3	1,311.1	1,172.1	1,250.0	1,350.0	1,400.0
Total Income	7,891.4	8,163.3	9,814.3	10,972.1	12,168.9	13,339.1
Other administrative expenses	-1,958.3	-2,112.6	-2,454.6	-2,108.1	-2,281.7	-2,447.0
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	3,552.9	3,298.3	4,120.9	3,882.0	4,198.9	4,540.3
Extraordinary result						
Profit / loss before taxes	3,552.9	3,298.3	4,120.9	3,882.0	4,198.9	4,540.3
Income taxes	-570.6	-630.8	-810.6	-686.3	-749.7	-818.0
Profit / loss after taxes	2,982.2	2,667.5	3,310.3	3,195.6	3,449.2	3,722.3
Minority interests						
Net result after minorities	2,982.2	2,667.5	3,310.3	3,195.6	3,449.2	3,722.3
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	8,522.6	13,736.9	15,955.7	21,476.7	22,927.6	26,450.2
Loans and advances to banks (net)	3,185.1	2,297.5	1,434.8	1,219.6	1,280.6	1,306.2
Loans and advances to customers (net)	64,231.7	91,620.6	107,141.4	135,936.3	158,310.1	183,029.4
Interest-earning financial assets	45,697.3	43,694.6	38,673.1	35,442.9	35,442.9	32,512.5
Interest-earning assets	121,636.7	151,349.6	163,205.2	194,075.4	217,961.2	243,298.3
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	6,264.0	6,275.0	7,699.9	7,514.7	7,514.7	7,514.7
Intangible assets	32.6	63.7	104.9	104.9	104.9	104.9
Tangible assets	1,831.9	1,859.8	1,820.9	1,880.9	1,940.9	2,000.9
Other assets	2,031.3	2,120.4	2,612.4	2,896.1	3,184.7	3,452.7
TOTAL ASSETS	131,796.5	161,668.5	175,443.3	206,472.1	230,706.4	256,371.6
Deposits from banks	2,469.4	2,248.1	3,046.0	3,621.6	4,065.7	4,581.5
Deposits from customers	85,790.8	96,065.0	102,337.5	116,596.4	130,880.0	147,468.5
Debt securities issued	18,201.3	34,390.7	30,630.6	43,494.9	47,894.2	50,847.0
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	106,461.5	132,703.8	136,014.0	163,712.9	182,839.9	202,896.9
LT provisions	3,631.6	4,204.9	5,380.1	5,764.3	6,704.3	7,831.3
Other liabilities	4,689.6	6,838.4	9,525.9	11,418.8	12,770.8	14,198.1
Subordinated liabilities	0.0	0.0	1,804.4	2,026.4	2,027.0	2,043.5
Total liabilities	114,782.7	143,747.1	152,724.4	182,922.5	204,342.1	226,969.8
Shareholders' equity	17,013.8	17,921.4	22,718.9	23,549.6	26,364.3	29,401.8
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	131,796.5	161,668.5	175,443.3	206,472.1	230,706.4	256,371.6
--						
Other figures						
Tangible shareholders' equity						
Off-balance sheet items	15,282.6	25,850.0	28,621.6	35,100.3	39,220.1	43,583.2
Year-end no. of shares outstanding (mn)	4,499.97	4,499.97	4,499.97	4,499.97	4,499.97	4,499.97
Average no. of shares outstanding (mn)	4,499.97	4,499.97	4,499.97	4,499.97	4,499.97	4,499.97
Fully diluted no. of shares outstanding (mn)	4,499.97	4,499.97	4,499.97	4,499.97	4,499.97	4,499.97
No. of employees (FTE)	23,944	24,887	24,411	24,267	25,113	24,840
No. of branches	1,142	1,201	1,250	1,290	1,335	1,380
Payout ratio	18.5%	25.9%	16.4%	20.8%	18.4%	18.4%

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Isbank | Banking | Turkey

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	8.6%	8.0%	8.5%	7.9%	8.5%	8.3%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-5.2%	-5.3%	-5.6%	-4.9%	-5.6%	-5.5%
Yield on assets - cost of funds (Interest spread)	3.4%	2.7%	3.0%	3.0%	2.8%	2.7%
Net. int. income/avg. assets (Net interest margin)	3.7%	3.1%	3.5%	3.6%	3.5%	3.4%
Net fee and commission margin (avg. total assets)	1.0%	1.0%	1.0%	1.1%	1.1%	1.2%
ROE	19.6%	15.3%	16.3%	13.8%	13.8%	13.3%
ROA	2.4%	1.8%	2.0%	1.7%	1.6%	1.5%
Operating margin	2.9%	2.2%	2.4%	2.0%	1.9%	1.9%
Efficiency						
Cost/Income ratio	40.6%	42.6%	45.7%	49.6%	51.0%	51.3%
Cost/avg. Assets ratio	2.6%	2.4%	2.7%	2.8%	2.8%	2.8%
Personnel expenses/total income	-15.8%	-16.8%	-20.7%	-30.3%	-32.3%	-33.0%
Avg. staff costs (TRY)	53,637	56,054	82,345	136,774	159,098	176,145
Balance sheet structure						
Loans deposit ratio	74.9%	95.4%	105.1%	117.0%	121.5%	124.6%
Loans/total assets	48.7%	56.7%	61.3%	66.1%	68.9%	71.7%
Deposits/total assets	65.1%	59.4%	58.3%	56.5%	56.7%	57.5%
Capital adequacy						
Equity ratio	12.9%	11.1%	12.9%	11.4%	11.4%	11.5%
Capital adequacy ratio	17.5%	14.1%	16.3%	14.8%	14.6%	14.4%
Asset quality						
Non-performing loans ratio	3.7%	2.2%	1.9%	1.8%	1.9%	1.9%
Non-performing loans coverage ratio	0.0%	0.0%	21.1%	21.7%	21.7%	21.7%
Risk provisions/loans to customers (gross)	0.0%	0.0%	0.4%	0.4%	0.4%	0.4%
Risk provisions/avg. customer loans (Risk costs)	2.0%	1.8%	1.2%	1.4%	1.2%	1.1%
Risk earnings ratio	24.8%	30.3%	20.4%	24.2%	22.9%	23.2%
Income statement structure						
Net interest income / total income	58.1%	55.9%	60.4%	62.2%	63.2%	63.0%
Net fee and commission income / total income	15.7%	17.5%	17.4%	19.1%	20.0%	21.3%
Net trading result / total income	1.7%	3.7%	6.0%	3.2%	2.1%	1.9%
Non-interest income / total income	41.9%	44.1%	39.6%	37.8%	36.8%	37.0%
Personnel expenses / total operating expenses	38.9%	39.3%	45.3%	61.2%	63.3%	64.3%
Effective tax rate	-16.1%	-19.1%	-19.7%	-17.7%	-17.9%	-18.0%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	32.9%	42.6%	16.9%	26.9%	16.5%	15.6%
Deposits from customers	22.0%	12.0%	6.5%	13.9%	12.3%	12.7%
Total assets	16.4%	22.7%	8.5%	17.7%	11.7%	11.1%
Total liabilities	15.1%	25.2%	6.2%	19.8%	11.7%	11.1%
Shareholders'equity	26.1%	5.3%	26.8%	3.7%	12.0%	11.5%
Net interest Income	-5.9%	-0.4%	29.9%	15.2%	12.6%	9.3%
Net fees & commission income	-1.3%	15.5%	19.4%	22.8%	16.0%	16.8%
Total Income	-0.4%	3.4%	20.2%	11.8%	10.9%	9.6%
Personnel expenses	16.4%	9.9%	48.3%	64.0%	18.0%	12.0%
Total expenses	18.9%	8.7%	28.8%	21.2%	14.2%	10.3%
Operating profit	20.6%	-7.2%	24.9%	-5.8%	8.2%	8.1%
Net result after minorities	25.7%	-10.6%	24.1%	-3.5%	7.9%	7.9%

Source: Company data, Erste Group estimates

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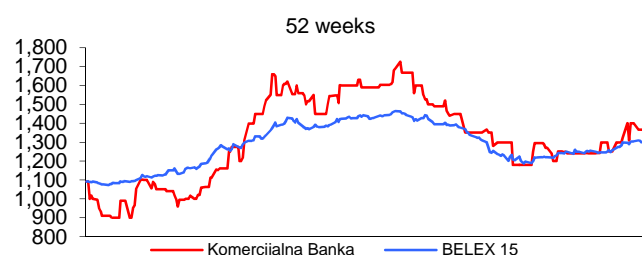
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Komercijalna Banka

Accumulate

RSD mn	2012	2013e	2014e	2015e
Net interest Income	12,133.4	13,702.3	14,692.9	15,767.3
Net fee/com. inc.	4,830.3	4,628.5	4,867.7	5,026.1
Total Income	17,411.2	18,717.0	19,903.0	21,127.9
EBT	4,424.5	5,519.4	6,403.5	7,023.1
Net result after min.	3,946.32	5,022.63	5,827.23	6,391.05
EPS (RSD)	254.01	292.16	338.96	371.76
BVPS (RSD)	3,610.70	3,915.63	4,252.42	4,622.01
Tang. BVPS (RSD)	3,610.70	3,915.63	4,252.42	4,622.01
Div./share (RSD)	0.00	0.00	0.00	0.00
ROE (%)	7.30	7.76	8.30	8.38
P/E (x)	5.5	4.6	4.0	3.6
P/BV(x)	0.4	0.3	0.3	0.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Share price (RSD) close as of 16/09/2013	1,350.0
Number of shares (mn)	17.2
Market capitalization (RSD mn / EUR mn)	23,208 / 203
Enterprise value (RSD mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in RSD	22.6%	-15.1%	3.8%	3.9%

Reuters	KMBN.BEL	Free float	23.7%
Bloomberg	KMBN SG	Shareholders	Republic of Serbia (41.7%)
Div. Ex-date	14/05/13		EBRD (24.4%)
Target price	1,600.0	Homepage:	www.kombank.com

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Strong capital base to weather difficult environment

We reiterate our Accumulate recommendation on Komercijalna Banka, but lower the 12-month target price to RSD 1,600, based on our revised estimates for consolidated figures and interest rate changes in DDM. The relative valuation is also favorable.

Our positive stance stems from excellent performance in 2013 and high double-digit growth in 1H13 compared to 1H12. We expect that Komercijalna Banka will confirm better results in 2013 and onwards.

Komercijalna Banka is the biggest player with state ownership, with 12% market share; it is ranked second in terms of total assets, loans and capital. As for the deposit base, the bank is market leader, with EUR 1.4bn in households' savings.

The capital increases in January 2010 and October 2012, combined with excellent performance, brought the level of total capital to RSD 62.1bn (EUR 545mn) at the end of 2012. We expect this figure to grow 8% in 2013.

Our model is based on a fully-diluted effect, meaning that our target price reflects the full conversion of preferred class owned by international financial institutions. Consequently, market capitalization, free float, and EPS have been adjusted. The conversion would most likely happen in the event of a sale to some major player.

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, RSD mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	8,372.8	10,930.9	12,133.4	13,702.3	14,692.9	15,767.3
Risk provisions for loans and advances	-1,581.3	-1,488.3	-1,946.4	-1,814.3	-1,503.2	-1,349.9
Net interest Income (after risk prov.)	6,791.5	9,442.6	10,187.1	11,888.1	13,189.8	14,417.4
Net fees & commission income	4,094.6	4,668.7	4,830.3	4,628.5	4,867.7	5,026.1
Dividend income	3.0	8.0	2.3	0.0	0.0	0.0
Trading result	1,396.4	-271.6	106.2	129.0	80.0	67.0
Result on financial instruments	69.0	-16.0	86.9	0.0	0.0	0.0
Other income	305.7	196.0	252.1	257.1	262.3	267.5
Total Income	14,241.4	15,515.9	17,411.2	18,717.0	19,903.0	21,127.9
Other administrative expenses	-4,705.9	-4,910.1	-5,488.7	-5,708.3	-5,993.7	-6,353.3
Depreciation and amortization	-685.5	-758.9	-843.0	-826.0	-908.6	-999.5
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	3,171.7	3,988.0	4,424.5	5,519.4	6,403.5	7,023.1
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	3,171.7	3,988.0	4,424.5	5,519.4	6,403.5	7,023.1
Income taxes	-283.7	-452.6	-478.1	-496.7	-576.3	-632.1
Profit / loss after taxes	2,888.1	3,535.4	3,946.3	5,022.6	5,827.2	6,391.1
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net result after minorities	2,888.1	3,535.4	3,946.3	5,022.6	5,827.2	6,391.1
Adjusted profit/loss before taxes	3,171.7	3,988.0	4,424.5	5,519.4	6,403.5	7,023.1
Adjusted net profit/loss	2,888.1	3,535.4	3,946.3	5,022.6	5,827.2	6,391.1
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, RSD mn, 31/12)						
Cash and balances with central banks	71,695.9	78,284.3	87,879.2	106,116.2	108,508.8	111,592.9
Loans and advances to banks (net)	3,869.9	4,996.4	7,396.1	7,765.9	8,154.2	8,561.9
Loans and advances to customers (net)	163,087.7	167,911.3	191,994.4	197,734.4	204,492.4	212,620.2
Interest-earning financial assets	18,446.4	27,150.6	42,216.2	42,270.9	42,331.1	42,397.2
Interest-earning assets	257,100.0	278,342.5	329,485.8	353,887.4	363,486.4	375,172.2
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	345.2	342.8	436.2	479.8	527.8	580.6
Intangible assets	524.9	605.5	644.8	677.1	710.9	746.5
Tangible assets	7,185.9	7,872.2	7,871.3	8,658.5	9,524.3	10,476.7
Other assets	7,047.5	5,516.2	4,732.3	5,205.5	5,726.1	6,298.7
TOTAL ASSETS	272,203.5	292,679.1	343,170.5	368,908.3	379,975.6	393,274.7
Deposits from banks	12,910.9	11,461.5	12,587.8	36,093.2	35,462.1	38,916.3
Deposits from customers	201,326.1	210,924.0	239,500.5	243,093.0	247,954.9	256,633.3
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	214,237.0	222,385.5	252,088.3	279,186.3	283,416.9	295,549.7
LT provisions	919.8	2,188.1	2,406.6	2,454.8	2,503.9	2,553.9
Other liabilities	14,311.1	22,061.5	26,602.4	19,951.8	20,949.4	15,712.0
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	229,467.8	246,635.1	281,097.4	301,592.8	306,870.2	313,815.6
Shareholders' equity	42,735.6	46,044.0	62,073.2	67,315.5	73,105.4	79,459.1
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	272,203.5	292,679.1	343,170.5	368,908.3	379,975.6	393,274.7
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Other figures						
Tangible shareholders' equity	42,735.6	46,044.0	62,073.2	67,315.5	73,105.4	79,459.1
Off-balance sheet items	146,839.0	186,996.2	207,913.7	0.0	0.0	0.0
Year-end no. of shares outstanding (mn)	13.88	13.88	17.19	17.19	17.19	17.19
Average no. of shares outstanding (mn)	13.48	13.88	15.54	17.19	17.19	17.19
Fully diluted no. of shares outstanding (mn)	13.48	13.88	15.54	17.19	17.19	17.19
No. of employees (FTE)	1	1	1	1	1	1
No. of branches	1	1	1	1	1	1
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Erste Group Research – Company Report

Komerčijalna Banka | Banking | Serbia

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, RSD mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	7.2%	7.2%	7.1%	7.0%	7.0%	7.2%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-4.2%	-3.9%	-4.0%	-3.8%	-3.7%	-3.8%
Yield on assets - cost of funds (Interest spread)	3.0%	3.4%	3.1%	3.2%	3.3%	3.5%
Net. int. income/avg. assets (Net interest margin)	3.4%	3.9%	3.8%	3.8%	3.9%	4.1%
Net fee and commission margin (avg. total assets)	1.7%	1.7%	1.5%	1.3%	1.3%	1.3%
ROE	8.1%	8.0%	7.3%	7.8%	8.3%	8.4%
ROA	1.2%	1.3%	1.2%	1.4%	1.6%	1.7%
Operating margin	1.3%	1.4%	1.4%	1.6%	1.7%	1.8%
Efficiency						
Cost/Income ratio	66.6%	64.7%	63.4%	60.8%	60.3%	60.4%
Cost/avg. Assets ratio	3.9%	3.6%	3.5%	3.2%	3.2%	3.3%
Personnel expenses/total income	-28.8%	-28.2%	-27.0%	-25.9%	-25.6%	-25.6%
Balance sheet structure						
Loans deposit ratio	88.9%	87.2%	87.6%	89.4%	91.0%	91.6%
Loans/total assets	65.7%	62.8%	61.1%	58.9%	59.4%	59.8%
Deposits/total assets	74.0%	72.1%	69.8%	65.9%	65.3%	65.3%
Capital adequacy						
Equity ratio	15.7%	15.7%	18.1%	18.2%	19.2%	20.2%
Capital adequacy ratio	18.7%	18.3%	22.4%	22.6%	23.8%	25.0%
Asset quality						
Non-performing loans ratio	9.4%	10.9%	10.6%	10.6%	10.9%	11.1%
Non-performing loans coverage ratio	93.8%	79.4%	80.5%	85.5%	86.0%	86.5%
Risk provisions/loans to customers (gross)	8.8%	8.7%	8.5%	9.0%	9.4%	9.6%
Risk provisions/avg. customer loans (Risk costs)	1.0%	0.8%	1.0%	0.8%	0.7%	0.6%
Risk earnings ratio	18.9%	13.6%	16.0%	13.2%	10.2%	8.6%
Income statement structure						
Net interest income / total income	58.8%	70.4%	69.7%	73.2%	73.8%	74.6%
Net fee and commission income / total income	28.8%	30.1%	27.7%	24.7%	24.5%	23.8%
Net trading result / total income	9.8%	-1.8%	0.6%	0.7%	0.4%	0.3%
Non-interest income / total income	41.2%	29.6%	30.3%	26.8%	26.2%	25.4%
Personnel expenses / total operating expenses	43.2%	43.5%	42.6%	42.6%	42.5%	42.4%
Effective tax rate	-8.9%	-11.3%	-10.8%	-9.0%	-9.0%	-9.0%
Growth Rates						
(IFRS, RSD mn, 31/12)						
Loans and advances to customers (net)	28.6%	3.0%	14.3%	3.0%	3.4%	4.0%
Deposits from customers	21.9%	4.8%	13.5%	1.5%	2.0%	3.5%
Total assets	24.1%	7.5%	17.3%	7.5%	3.0%	3.5%
Total liabilities	20.2%	7.5%	14.0%	7.3%	1.7%	2.3%
Shareholders'equity	50.4%	7.7%	34.8%	8.4%	8.6%	8.7%
Net interest Income	17.9%	30.6%	11.0%	12.9%	7.2%	7.3%
Net fees & commission income	9.3%	14.0%	3.5%	-4.2%	5.2%	3.3%
Total Income	14.1%	8.9%	12.2%	7.5%	6.3%	6.2%
Personnel expenses	6.9%	6.7%	7.7%	3.0%	5.1%	6.1%
Total expenses	7.3%	5.8%	10.0%	3.1%	5.4%	6.3%
Operating profit	51.4%	25.7%	10.9%	24.7%	16.0%	9.7%
Net result after minorities	52.9%	22.4%	11.6%	27.3%	16.0%	9.7%

Source: Company data, Erste Group estimates

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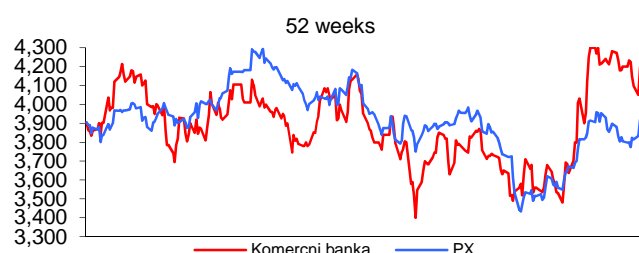
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Komerční banka

Accumulate

CZK mn	2012	2013e	2014e	2015e
Net interest Income	21,947.0	21,800.2	23,959.8	27,137.6
Net fee/com. inc.	7,018.0	7,073.0	7,607.6	8,553.4
Total Income	32,810.0	32,420.7	35,406.8	39,920.5
EBT	16,939.0	16,053.6	18,709.4	22,201.2
Net result after min.	13,953.00	13,058.03	14,851.52	17,405.75
EPS (CZK)	369.41	345.71	393.20	460.82
BVPS (CZK)	2,589.49	2,672.59	2,784.27	2,933.58
Tang. BVPS (CZK)	2,490.15	2,573.26	2,684.94	2,834.24
Div./share (CZK)	229.99	230.00	250.00	280.00
ROE (%)	15.76	13.14	14.41	16.12
P/E (x)	10.9	12.2	10.7	9.2
P/BV(x)	1.5	1.6	1.5	1.4
Dividend Yield	5.7%	5.5%	5.9%	6.6%

Share price (CZK) close as of 16/09/2013	4,220.0
Number of shares (mn)	38.0
Market capitalization (CZK mn / EUR mn)	160,402 / 6,235
Enterprise value (CZK mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in CZK	7.0%	6.8%	15.6%	0.1%

Reuters	BKOM.PR	Free float	39.7%
Bloomberg	KOMB CP	Shareholders	Société Générale (60.4%)
Div. Ex-date	15/04/13		
Target price	4,700.0	Homepage:	www.kb.cz

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Dividend and recovery play

Higher DY but lower multiples. Based on our DDM we lift our target price for the Komerční banka share to CZK 4,700 from 4,600 and confirm our Accumulate recommendation. Komerční currently trades at 1.58x BV13e or 19% below Pekao's 1.94x BV13e, which in our view is a better proxy for Komerční than the CEE banks average in terms of risk profile and profitability. Komerční currently offers a dividend yield of 5.5% vs. Pekao's 6.1% as well as a P/E13e of 12.2x vs. 16.3x for Pekao (25% discount).

Tax risk from income tax side. Regarding the political risk on taxes, the Czech Republic did not follow the 11 financial transaction tax countries and also a banking tax seems rather unlikely. However, with possible political changes a corporate tax hike to 30% incorporated for 2015-2017 would cause 12.5% EPS15e reduction as well as a 0.8% lower BVPS15e. The target price impact would be -3.7%.

Outlook. For 2013 we expect the bottom line to decrease by 6.4% y/y, resulting in a ROE13e of 13.1% after 15.8% in 2012. The profit reduction is mainly based on 22% y/y higher risk provisions coming from a further increasing NPL ratio of 6.1% (vs. 5.8% in 2012) and a better NPLs coverage of 66.8% (vs. 65.8% in 2012). Moreover, we expect 1.2% y/y weaker operating income mainly driven by the margin contraction we saw in 1H13 but which might release in 2H12 with the improved re-investment yields. The further improving NIM and reduced risk costs support the expected 14% bottom line growth for FY14e. With 14.7% core tier 1 Komerční offers one of the strongest capital ratios in CEE. Under Basel 3 the impact with -1.4%p should be rather limited.

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, CZK mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	21,431.0	22,190.0	21,947.0	21,800.2	23,959.8	27,137.6
Risk provisions for loans and advances	-3,100.0	-1,970.0	-1,871.0	-2,288.2	-1,815.3	-1,718.9
Net interest Income (after risk prov.)	18,331.0	20,220.0	20,076.0	19,511.9	22,144.5	25,418.7
Net fees & commission income	8,038.0	7,305.0	7,018.0	7,073.0	7,607.6	8,553.4
Dividend income	75.0	-5,274.0	608.0	133.1	153.1	176.0
Trading result	3,098.0	3,158.0	3,111.0	3,282.1	3,544.7	3,899.1
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	95.0	111.0	126.0	132.3	141.6	154.3
Total Income	32,737.0	27,490.0	32,810.0	32,420.7	35,406.8	39,920.5
Other administrative expenses	-5,242.0	-5,154.0	-5,019.0	-4,918.6	-5,213.7	-5,578.7
Depreciation and amortization	-1,624.0	-1,809.0	-1,706.0	-1,671.9	-1,722.0	-1,825.4
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	-620.0	-575.0	-489.0	-513.5	-549.4	-598.8
Operating profit	16,075.0	11,456.0	16,939.0	16,053.6	18,709.4	22,201.2
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	16,075.0	11,456.0	16,939.0	16,053.6	18,709.4	22,201.2
Income taxes	-2,665.0	-1,738.0	-2,708.0	-2,729.1	-3,554.8	-4,440.2
Profit / loss after taxes	13,410.0	9,718.0	14,231.0	13,324.5	15,154.6	17,761.0
Minority interests	-80.0	-243.0	-278.0	-266.5	-303.1	-355.2
Net result after minorities	13,330.0	9,475.0	13,953.0	13,058.0	14,851.5	17,405.8
Adjusted profit/loss before taxes	16,075.0	16,811.0	16,939.0	16,053.6	18,709.4	22,201.2
Adjusted net profit/loss	13,330.0	9,475.0	13,953.0	13,058.0	14,851.5	17,405.8
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, CZK mn, 31/12)						
Cash and balances with central banks	13,689.0	16,980.0	28,057.0	27,528.8	26,698.3	26,416.7
Loans and advances to banks (net)	112,180.0	101,393.0	64,111.0	62,187.7	59,078.3	56,124.4
Loans and advances to customers (net)	384,593.0	434,386.0	451,547.0	472,721.2	511,312.2	557,578.2
Interest-earning financial assets	169,014.0	183,063.0	222,774.0	237,025.8	250,832.8	268,007.3
Interest-earning assets	679,476.0	735,822.0	766,489.0	799,463.5	847,921.6	908,126.6
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	674.0	766.0	971.0	971.0	971.0	971.0
Intangible assets	7,307.0	7,600.0	7,665.0	7,938.9	8,190.1	8,412.0
Tangible assets	7,072.0	6,934.0	7,994.0	8,393.7	8,729.4	8,991.3
Other assets	3,485.0	3,688.0	3,717.0	3,902.9	4,098.0	4,302.9
TOTAL ASSETS	698,014.0	754,810.0	786,836.0	820,669.9	869,910.1	930,803.8
Deposits from banks	29,075.0	37,455.0	38,903.0	47,379.5	52,857.3	52,585.4
Deposits from customers	538,051.0	560,701.0	579,067.0	592,965.0	622,613.2	666,196.2
Debt securities issued	17,431.0	18,338.0	19,624.0	20,605.2	22,047.6	24,252.3
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	584,557.0	616,494.0	637,594.0	660,949.7	697,518.1	743,033.9
LT provisions	1,056.0	1,067.0	968.0	1,064.8	1,171.3	1,288.4
Other liabilities	30,322.0	49,397.0	47,697.0	54,851.6	63,079.3	72,541.2
Subordinated liabilities	6,001.0	6,002.0	0.0	0.0	0.0	0.0
Total liabilities	621,936.0	672,960.0	686,259.0	716,866.1	761,768.6	816,863.5
Shareholders' equity	74,779.0	79,217.0	97,808.0	100,947.1	105,165.3	110,804.6
Minorities	1,299.0	2,633.0	2,769.0	2,856.8	2,976.2	3,135.8
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	698,014.0	754,810.0	786,836.0	820,669.9	869,910.1	930,803.8
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Other figures						
Tangible shareholders' equity	71,228.0	75,465.0	94,056.0	97,195.1	101,413.3	107,052.6
Off-balance sheet items	202,325.0	159,773.0	153,166.0	159,292.6	165,664.3	172,290.9
Year-end no. of shares outstanding (mn)	38.01	37.90	37.77	37.77	37.77	37.77
Average no. of shares outstanding (mn)	38.01	37.90	37.77	37.77	37.77	37.77
Fully diluted no. of shares outstanding (mn)	38.01	37.90	37.77	37.77	37.77	37.77
No. of employees (FTE)	8,619	8,735	8,758	8,714	8,801	8,977
No. of branches	395	397	399	397	397	397
Payout ratio	77.0%	64.2%	62.3%	66.5%	63.6%	60.8%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, CZK mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	5.1%	5.1%	4.8%	4.6%	4.7%	5.0%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-2.3%	-2.3%	-2.2%	-2.2%	-2.2%	-2.4%
Yield on assets - cost of funds (Interest spread)	2.9%	2.8%	2.6%	2.4%	2.5%	2.7%
Net. int. income/avg. assets (Net interest margin)	3.1%	3.1%	2.8%	2.7%	2.8%	3.0%
Net fee and commission margin (avg. total assets)	1.2%	1.0%	0.9%	0.9%	0.9%	1.0%
ROE	18.7%	12.3%	15.8%	13.1%	14.4%	16.1%
ROA	1.9%	1.3%	1.8%	1.7%	1.8%	2.0%
Operating margin	2.3%	1.6%	2.2%	2.0%	2.2%	2.5%
Efficiency						
Cost/Income ratio	41.4%	51.2%	42.7%	43.4%	42.0%	40.1%
Cost/avg. Assets ratio	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%
Personnel expenses/total income	-18.6%	-23.7%	-20.7%	-21.5%	-20.9%	-20.0%
Avg. staff costs (CZK)	697,029	752,103	775,853	798,398	844,605	899,670
Balance sheet structure						
Loans deposit ratio	74.3%	80.4%	81.0%	83.1%	85.6%	87.2%
Loans/total assets	57.3%	59.7%	59.6%	60.0%	61.3%	62.4%
Deposits/total assets	77.1%	74.3%	73.6%	72.3%	71.6%	71.6%
Capital adequacy						
Equity ratio	10.9%	10.8%	12.8%	12.6%	12.4%	12.2%
Capital adequacy ratio	15.3%	14.6%	14.7%	14.9%	15.0%	15.2%
Asset quality						
Non-performing loans ratio	6.5%	5.7%	5.8%	6.1%	6.0%	5.8%
Non-performing loans coverage ratio	59.3%	64.5%	65.8%	66.8%	68.0%	69.6%
Risk provisions/loans to customers (gross)	3.8%	3.7%	3.8%	4.1%	4.1%	4.1%
Risk provisions/avg. customer loans (Risk costs)	0.8%	0.5%	0.4%	0.5%	0.4%	0.3%
Risk earnings ratio	14.5%	8.9%	8.5%	10.5%	7.6%	6.3%
Income statement structure						
Net interest income / total income	65.5%	80.7%	66.9%	67.2%	67.7%	68.0%
Net fee and commission income / total income	24.6%	26.6%	21.4%	21.8%	21.5%	21.4%
Net trading result / total income	9.5%	11.5%	9.5%	10.1%	10.0%	9.8%
Non-interest income / total income	34.5%	19.3%	33.1%	32.8%	32.3%	32.0%
Personnel expenses / total operating expenses	44.8%	46.4%	48.5%	49.5%	49.7%	50.0%
Effective tax rate	-16.6%	-15.2%	-16.0%	-17.0%	-19.0%	-20.0%
Growth Rates						
(IFRS, CZK mn, 31/12)						
Loans and advances to customers (net)	3.3%	12.9%	4.0%	4.7%	8.2%	9.0%
Deposits from customers	-2.5%	4.2%	3.3%	2.4%	5.0%	7.0%
Total assets	0.4%	8.1%	4.2%	4.3%	6.0%	7.0%
Total liabilities	-0.7%	8.2%	2.0%	4.5%	6.3%	7.2%
Shareholders'equity	10.7%	5.9%	23.5%	3.2%	4.2%	5.4%
Net interest Income	-3.0%	3.5%	-1.1%	-0.7%	9.9%	13.3%
Net fees & commission income	3.8%	-9.1%	-3.9%	0.8%	7.6%	12.4%
Total Income	-1.0%	-16.0%	19.4%	-1.2%	9.2%	12.7%
Personnel expenses	-5.6%	7.4%	4.0%	2.8%	6.1%	8.1%
Total expenses	-3.8%	3.7%	-0.5%	0.6%	5.7%	7.5%
Operating profit	18.6%	-28.7%	47.9%	-5.2%	16.5%	18.7%
Net result after minorities	21.1%	-28.9%	47.3%	-6.4%	13.7%	17.2%

Source: Company data, Erste Group estimates

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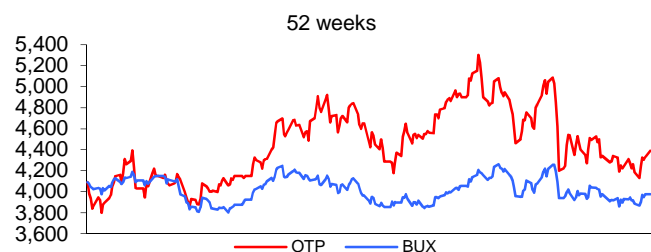
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Hold

HUF mn	2012	2013e	2014e	2015e
Net interest Income	645,465.0	640,603.9	630,969.2	634,304.9
Net fee/com. inc.	154,337.0	163,915.5	166,339.5	171,290.9
Total Income	831,164.0	862,435.7	844,261.6	850,483.2
EBT	145,674.0	151,213.5	144,088.2	150,807.8
Net result after min.	121,690.00	126,701.82	120,731.53	126,361.89
EPS (HUF)	457.07	484.99	462.14	483.69
BVPS (HUF)	5,775.31	6,130.31	6,457.45	6,791.14
Tang. BVPS (HUF)	5,049.49	5,404.48	5,731.62	6,065.31
Div./share (HUF)	121.71	130.00	135.00	150.00
ROE (%)	8.33	8.15	7.34	7.30
P/E (x)	9.1	9.0	9.5	9.1
P/BV(x)	0.7	0.7	0.7	0.6
Dividend Yield	2.9%	3.0%	3.1%	3.4%

Share price (HUF) close as of 16/09/2013	4,389.0
Number of shares (mn)	280.0
Market capitalization (HUF mn / EUR mn)	1,228,920 / 4,110
Enterprise value (HUF mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in HUF	7.4%	-5.6%	-11.2%	1.2%

Reuters	OTPB.BU	Free float	81.4%
Bloomberg	OTP HB	Shareholders	MOL (8.7%)
Div. Ex-date	03/06/13	Medget (Rahimkulov) (9%)	
Target price	4,600.0	Homepage:	www.otpbank.hu

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Russian winters can be hard

Concerns about Russia. As we became more concerned about OTP's Russian operations based on the weakening economy and necessary restructuring, we now expect the adjusted net profit 2014e to decline by 11% y/y (reported net profit: -4.7% y/y). Given the further negative surprise potential both in key subsidiaries as well as in Hungary (FX relief plan) we stick to our Hold recommendation and adjust the target price slightly to HUF 4,600, from HUF 4,460. The planned FX relief program is not included in our model due to lack of details at this stage.

High risk costs ahead in Russia: After the strong loan growth in the previous years (CAGR10-12: 29%) mainly stemming from POS and credit card loans, the POS market started to decline and the credit card growth dynamics diminished significantly. We therefore expect a 7.5% loan contraction this year and another 5% next year. Due to the on going restructuring we expect risk costs to jump to 13.3% this year and slightly come down to 11.9% next year. With operating cost adjustments on the way we expect the pre-tax profit 2013 coming down by 66% y/y. In 2014 based on the lowered risk costs pre-tax profit should grow 36% y/y.

Good capitalization with dividend upside potential. We still see OTP as one of the best capitalized banks in our region with a core tier 1 ratio of 15.3% as of end 2Q13 and with almost equal CET1 under Basel 3. With more clarity in the FX relief plan we would see some chance for dividend payout to be increased beyond 30%, driving DY13e up from current 3.0% level.

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, HUF mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	616,425.0	630,816.0	645,465.0	640,603.9	630,969.2	634,304.9
Risk provisions for loans and advances	-273,024.0	-316,673.0	-226,980.0	-227,646.6	-208,813.7	-181,086.2
Net interest Income (after risk prov.)	343,401.0	314,143.0	418,485.0	412,957.4	422,155.5	453,218.7
Net fees & commission income	140,631.0	146,522.0	154,337.0	163,915.5	166,339.5	171,290.9
Dividend income	951.0	2.0	3,308.0	2,666.5	444.6	453.5
Trading result	38,101.0	64,323.0	4,067.0	32,702.0	19,000.0	15,000.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	20,890.0	27,252.0	23,987.0	22,547.8	27,508.3	29,433.9
Total Income	816,998.0	868,915.0	831,164.0	862,435.7	844,261.6	850,483.2
Other administrative expenses	-171,231.0	-160,145.0	-187,105.0	-207,171.5	-199,239.1	-207,410.1
Depreciation and amortization	-52,323.0	-49,453.0	-47,420.0	-47,657.1	-48,133.7	-48,855.7
Impairment of goodwill	-15,001.0	-23,979.0	0.0	0.0	0.0	0.0
Other expenses	-4,493.0	-26,571.0	-35,033.0	-19,700.0	-19,000.0	-19,000.0
Operating profit	140,201.0	122,996.0	145,674.0	151,213.5	144,088.2	150,807.8
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	140,201.0	122,996.0	145,674.0	151,213.5	144,088.2	150,807.8
Income taxes	-22,057.0	-39,196.0	-23,088.0	-24,194.2	-23,054.1	-24,129.3
Profit / loss after taxes	118,144.0	83,800.0	122,586.0	127,019.4	121,034.1	126,678.6
Minority interests	-196.0	-653.0	-896.0	-317.5	-302.6	-316.7
Net result after minorities	117,948.0	83,147.0	121,690.0	126,701.8	120,731.5	126,361.9
Adjusted profit/loss before taxes	140,201.0	122,996.0	145,674.0	202,746.9	179,907.3	186,626.9
Adjusted net profit/loss	162,048.0	143,713.0	152,639.0	169,989.8	150,819.5	156,449.9
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, HUF mn, 31/12)						
Cash and balances with central banks	513,038.0	595,986.0	602,521.0	735,282.4	690,427.0	724,111.3
Loans and advances to banks (net)	511,244.0	422,777.0	356,866.0	351,513.0	372,603.8	398,686.1
Loans and advances to customers (net)	6,741,059.0	7,047,179.0	6,464,191.0	6,225,233.0	6,303,781.0	6,565,297.3
Interest-earning financial assets	1,414,066.0	1,492,024.0	2,063,354.0	2,292,161.0	2,403,598.5	2,487,377.9
Interest-earning assets	9,179,407.0	9,557,966.0	9,486,932.0	9,604,189.4	9,770,410.3	10,175,472.6
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	11,554.0	10,342.0	7,936.0	7,301.1	7,520.2	7,595.4
Intangible assets	263,213.0	249,869.0	237,749.0	238,711.6	239,693.5	240,694.9
Tangible assets	217,615.0	241,797.0	251,393.0	263,962.7	269,241.9	274,626.7
Other assets	109,157.0	140,553.0	129,456.0	181,238.4	190,300.3	199,815.3
TOTAL ASSETS	9,780,946.0	10,200,527.0	10,113,466.0	10,295,403.2	10,477,166.1	10,898,204.9
Deposits from banks	681,949.0	646,968.0	534,324.0	497,600.5	490,837.0	486,074.1
Deposits from customers	5,821,489.0	6,398,853.0	6,550,708.0	6,876,844.8	7,100,798.4	7,474,181.4
Debt securities issued	1,035,153.0	812,863.0	643,123.0	533,792.1	507,102.5	481,747.4
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	7,538,591.0	7,858,684.0	7,728,155.0	7,908,237.4	8,098,737.8	8,442,002.8
LT provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	642,796.0	607,086.0	579,263.0	480,788.3	408,670.0	412,756.7
Subordinated liabilities	290,630.0	316,447.0	291,495.0	298,782.4	276,373.7	262,555.0
Total liabilities	8,472,017.0	8,782,217.0	8,598,913.0	8,687,808.1	8,783,781.6	9,117,314.6
Shareholders' equity	1,303,041.0	1,412,709.0	1,508,770.0	1,601,509.4	1,686,974.0	1,774,148.6
Minorities	5,888.0	5,601.0	5,783.0	6,085.7	6,410.5	6,741.8
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	9,780,946.0	10,200,527.0	10,113,466.0	10,295,403.2	10,477,166.1	10,898,204.9
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Other figures						
Tangible shareholders' equity	1,107,813.0	1,213,813.0	1,319,151.0	1,411,890.4	1,497,355.0	1,584,529.6
Off-balance sheet items	0.0	0.0	0.0	0.0	0.0	0.0
Year-end no. of shares outstanding (mn)	261.27	261.27	261.24	261.24	261.24	261.24
Average no. of shares outstanding (mn)	266.49	266.49	266.24	261.24	261.24	261.24
Fully diluted no. of shares outstanding (mn)	269.66	269.66	266.31	261.24	261.24	261.24
No. of employees (FTE)	30,367	30,367	36,431	36,977	37,902	39,039
No. of branches	1,489	1,486	1,401	1,422	1,458	1,501
Payout ratio	17.4%	34.3%	26.6%	26.8%	29.2%	31.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, HUF mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield on assets - cost of funds (Interest spread)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net. int. income/avg. assets (Net interest margin)	6.3%	6.3%	6.4%	6.3%	6.1%	5.9%
Net fee and commission margin (avg. total assets)	1.4%	1.5%	1.5%	1.6%	1.6%	1.6%
ROE	9.5%	6.1%	8.3%	8.1%	7.3%	7.3%
ROA	1.2%	0.8%	1.2%	1.2%	1.2%	1.2%
Operating margin	1.4%	1.2%	1.4%	1.5%	1.4%	1.4%
Efficiency						
Cost/Income ratio	49.4%	49.4%	55.2%	56.1%	58.2%	61.0%
Cost/avg. Assets ratio	4.1%	4.3%	4.5%	4.7%	4.7%	4.9%
Personnel expenses/total income	-19.7%	-19.5%	-22.7%	-24.2%	-26.6%	-28.6%
Avg. staff costs (HUF)	5,315,947	5,568,479	5,657,415	5,695,448	6,009,316	6,324,944
Balance sheet structure						
Loans deposit ratio	128.9%	126.7%	116.3%	108.8%	107.1%	105.7%
Loans/total assets	76.7%	79.5%	75.3%	72.7%	72.6%	72.5%
Deposits/total assets	59.5%	62.7%	64.8%	66.8%	67.8%	68.6%
Capital adequacy						
Equity ratio	13.4%	13.9%	15.0%	15.6%	16.2%	16.3%
Capital adequacy ratio	17.5%	17.3%	19.7%	20.6%	20.9%	20.8%
Asset quality						
Non-performing loans ratio	13.6%	16.5%	18.9%	21.0%	21.3%	20.7%
Non-performing loans coverage ratio	74.4%	79.5%	80.0%	80.3%	80.2%	81.7%
Risk provisions/loans to customers (gross)	10.1%	13.1%	15.1%	16.8%	17.1%	16.9%
Risk provisions/avg. customer loans (Risk costs)	3.8%	4.1%	2.9%	3.0%	2.8%	2.3%
Risk earnings ratio	44.3%	50.2%	35.2%	35.5%	33.1%	28.5%
Income statement structure						
Net interest income / total income	75.5%	72.6%	77.7%	74.3%	74.7%	74.6%
Net fee and commission income / total income	17.2%	16.9%	18.6%	19.0%	19.7%	20.1%
Net trading result / total income	4.7%	7.4%	0.5%	3.8%	2.3%	1.8%
Non-interest income / total income	24.6%	27.4%	22.3%	25.7%	25.3%	25.4%
Personnel expenses / total operating expenses	39.8%	39.4%	41.2%	43.2%	45.8%	46.9%
Effective tax rate	-15.7%	-31.9%	-15.8%	-16.0%	-16.0%	-16.0%
Growth Rates						
(IFRS, HUF mn, 31/12)						
Loans and advances to customers (net)	5.1%	4.5%	-8.3%	-3.7%	1.3%	4.1%
Deposits from customers	2.3%	9.9%	2.4%	5.0%	3.3%	5.3%
Total assets	0.3%	4.3%	-0.9%	1.8%	1.8%	4.0%
Total liabilities	-1.1%	3.7%	-2.1%	1.0%	1.1%	3.8%
Shareholders'equity	9.9%	8.4%	6.8%	6.1%	5.3%	5.2%
Net interest Income	4.5%	2.3%	2.3%	-0.8%	-1.5%	0.5%
Net fees & commission income	5.8%	4.2%	5.3%	6.2%	1.5%	3.0%
Total Income	3.4%	6.4%	-4.3%	3.8%	-2.1%	0.7%
Personnel expenses	3.3%	5.2%	11.7%	10.6%	7.6%	8.2%
Total expenses	9.1%	6.3%	6.8%	5.5%	1.6%	5.5%
Operating profit	-17.8%	-12.3%	18.4%	3.8%	-4.7%	4.7%
Net result after minorities	-21.9%	-29.5%	46.4%	4.1%	-4.7%	4.7%

Source: Company data, Erste Group estimates

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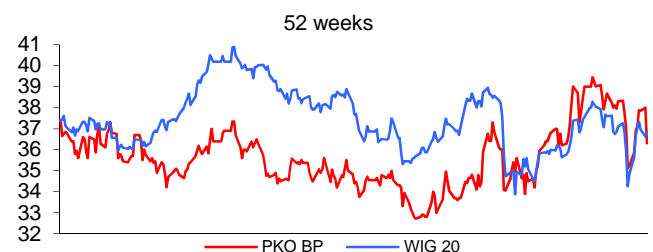
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PKO BP

Accumulate

PLN mn	2012	2013e	2014e	2015e
Net interest Income	7,882.8	6,686.7	7,963.2	8,996.1
Net fee/com. inc.	3,071.2	3,238.2	3,473.6	3,646.3
Total Income	11,974.6	10,947.6	12,679.5	13,974.6
EBT	4,645.3	4,064.9	4,809.3	5,853.6
Net result after min.	3,748.62	3,293.76	3,830.49	4,702.87
EPS (PLN)	3.00	2.64	3.06	3.76
BVPS (PLN)	19.77	20.60	22.08	24.01
Tang. BVPS (PLN)				
Div./share (PLN)	1.27	1.80	1.58	1.84
ROE (%)	15.77	13.06	14.36	16.32
P/E (x)	12.3	14.4	12.4	10.1
P/BV(x)	1.9	1.8	1.7	1.6
Dividend Yield	3.4%	4.7%	4.2%	4.8%

Share price (PLN) close as of 16/09/2013	38.0
Number of shares (mn)	1,250.0
Market capitalization (PLN mn / EUR mn)	47,500 / 11,326
Enterprise value (PLN mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in PLN	0.0%	8.5%	3.1%	-2.6%

Reuters	PKO.WA	Free float	56.7%
Bloomberg	PKO.PW	Shareholders	State Treasury (31.4%)
Div. Ex-date			Aviva Pension Fund (6.71%)
Target price	42.3	Homepage:	www.pkobp.pl

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A sought-after play for increasing interest rates

Top underperformer in 2013. PKO BP is the largest and one of the most profitable banks with a strategy of pursuing a balanced loan/deposit growth path. It offers a decent dividend yield and even though we would not call it the most overcapitalized bank in the universe, it decided to proceed with Nordea acquisition in order to promote its ROE growth. What else could then spark the bank's outperformance other than that mentioned above? This could be interest rates turning north as PKO BP's results are the most sensitive (in a positive sense) to the rates changes among Polish banks.

Interest rates. PKO BP was the worst hit by the monetary easing which has taken place in Poland since the end of 2012 as we estimate it has the longest repricing gap between its liabilities and assets, which drives off the deposit-based nature of its business. First of all, its NIM reaction to the falling interest rates is the slowest amongst all the banks. In addition, it has the largest proportion of non-interest bearing deposits to its total deposits – falling market rates bite straight into the NIM. Those two facts mean that management can actively manage only half of its NIM. All this has induced the bank's massive underperformance in 2013.

Nordea. Our forecasts assume that PKO BP will obtain the regulatory clearance for the acquisition of Nordea as of the end of the year and will begin to consolidate it in the beginning of 2014. We assume that the cost synergies that will be extracted will reach ca 40% of Nordea's initial cost base and that the acquisition will be earnings accretive as of 2014e. Our calculated impact of the Nordea acquisition stands at PLN 0.75 per share. The synergies will not be as significant for PKO BP as they are for BZW/ Kredyt Bank due to the size difference and also because Nordea's revenue synergies will be more difficult since its loan portfolio is very undiversified (almost 100% of mortgages).

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Outlook

FY13e – the worst is over

The negative earnings sentiment of PKO BP in our view ended in 2Q13. The hit to the NIM was as severe in 2Q13 as it was in 1Q13, and so was the EPS decline (ca. 20% down y/y in both quarters). We would expect that the earnings decline will be much lighter in 3Q13 with potential for a surprise in the NIM, NFC and cost of risk lines. We expect that earnings will increase at a 20% pace in the next two years, which should be facilitated by the most recent acquisition of Nordea, alongside some increase in the short end of the curve in Poland.

PKO has acquired Nordea, which accounts for 17% of its assets

Nordea currently has assets worth PLN 33bn, which account for 17% of PKO BP's assets, 18% of its loans and 9% of its deposits. In addition, PKO BP will take over a corporate portfolio directly from Nordea Bank AB (PLN 3.6bn), Nordea Finance Polska and Nordea Polska TuNZ for a total of PLN 2.83bn. Hence, effectively, PKO BP is paying 1.15x Nordea's book value. Importantly, since most of the business of Nordea Bank Polska has been centered on CHF loans, its mother company will provide FX financing in matching value (PLN 15.2bn) for the next seven years and will keep the sub debt it granted to Nordea BP. In addition, Nordea AB will share the cost of risk exceeding 40bps equally with PKO.

The acquisition adds ca PLN 0.75 to our TP

Management has guided that it expects to achieve PLN 145-215mn, including PLN 115-130mn, in cost synergies and PLN 30-85mn in revenue synergies from that merger, achievable in the third year after the merger, with an integration budget of PLN 215mn. In our view, the figure for the cost synergies is understated as the upper interval represents ca. 25% of the cost base of Nordea, while we would expect that 35-40% would be a more reasonable amount. As far as the integration budget, we take it as guided, even though it may eventually be lower as it will be impossible to track the execution of that budget with a cost base at over 5bn jointly for PKO and NDA.

Acquisition should be earnings accretive already in 2014e

All in all, we estimate that the fully unveiled synergies will amount to PLN 236m in 2016e, while the acquisition will already be earnings accretive in 2014e.

FY14e net profit: +22% y/y driven by NII and F&C income, alongside Nordea

For FY13e we forecast a net profit of PLN 3.3bn and this estimate is lower than our previous estimate mainly due to the interest rate environment change, which particularly hit the NII. We also assume a higher cost of risk. The numbers include Nordea since 2014e.

Change to estimates

Consolidated, IFRS (PLN, mn)	2013e			2014e			2015e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
Net interest income	6,686.7	9,138.2	-26.8%	7,963.2	10,435.0	-23.7%	8,996.1	n.a.	n.a.
Net provisions	-1,784.0	-1,730.8	3.1%	-1,853.2	-1,324.8	39.9%	-2,017.3	n.a.	n.a.
Net fee & commission inc.	3,238.2	3,487.0	-7.1%	3,473.6	4,225.7	-17.8%	3,646.3	n.a.	n.a.
Total income	10,458.6	13,644.9	-23.4%	12,212.5	15,792.9	-22.7%	13,465.6	n.a.	n.a.
Total operating expenses	-4,628.7	-6,004.9	-22.9%	-5,569.0	-6,951.3	-19.9%	-5,613.7	n.a.	n.a.
Pre-tax profit	4,064.9	5,909.2	-31.2%	4,809.3	7,516.8	-36.0%	5,853.6	n.a.	n.a.
Net profit	3,293.8	4,656.6	-29.3%	3,830.5	5,920.5	-35.3%	4,702.9	n.a.	n.a.
EPS	2.64	3.73	-29.4%	3.06	4.74	-35.4%	3.76	n.a.	n.a.
DPS	0.79	1.49	-46.9%	1.79	1.89	-5.0%	2.10	n.a.	n.a.
BVPS	20.6	23.1	-10.8%	22.1	25.9	-14.9%	24.0	n.a.	n.a.

Source: Company data, Erste Group Research

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	6,516.2	7,609.1	7,882.8	6,686.7	7,963.2	8,996.1
Risk provisions for loans and advances	-1,868.4	-1,930.4	-2,325.2	-1,784.0	-1,853.2	-2,017.3
Net interest Income (after risk prov.)	4,647.8	5,678.7	5,557.6	4,902.7	6,110.0	6,978.8
Net fees & commission income	3,142.8	3,101.4	3,071.2	3,238.2	3,473.6	3,646.3
Dividend income	4.8	-12.9	27.1	27.3	27.6	27.9
Trading result	-62.6	-75.1	94.2	94.2	108.5	108.5
Result on financial instruments	419.8	357.5	336.0	297.5	419.2	447.1
Other income	469.4	451.7	563.4	603.7	687.3	748.6
Total Income	10,490.5	11,431.9	11,974.6	10,947.6	12,679.5	13,974.6
Other administrative expenses	-1,361.9	-1,487.5	-1,569.1	-1,624.6	-2,154.3	-2,261.6
Depreciation and amortization	-512.3	-520.2	-541.3	-541.3	-602.9	-620.5
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	-293.7	-309.2	-385.7	-470.0	-448.0	-490.0
Operating profit	4,079.2	4,780.9	4,645.3	4,064.9	4,809.3	5,853.6
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Profit / loss before taxes	4,079.2	4,780.9	4,645.3	4,064.9	4,809.3	5,853.6
Income taxes	-866.4	-976.1	-897.8	-772.3	-980.0	-1,151.9
Profit / loss after taxes	3,212.8	3,804.7	3,747.4	3,292.6	3,829.3	4,701.7
Minority interests	4.1	2.5	1.2	1.2	1.2	1.2
Net result after minorities	3,216.9	3,807.2	3,748.6	3,293.8	3,830.5	4,702.9
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)						
Cash and balances with central banks	6,182.4	9,142.2	10,289.5	8,231.6	8,131.5	8,182.3
Loans and advances to banks (net)	2,307.0	2,396.2	3,392.5	3,562.1	4,232.0	4,316.7
Loans and advances to customers (net)	130,668.1	141,634.5	143,875.6	154,169.8	195,963.5	213,475.9
Interest-earning financial assets	24,200.5	31,236.3	29,019.9	31,845.4	37,035.7	36,800.0
Interest-earning assets	163,358.0	184,409.2	186,577.5	197,808.8	245,362.7	262,774.9
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	172.9	123.1	119.2	119.2	119.2	119.2
Intangible assets	1,802.0	1,800.0	1,934.0	1,934.0	2,314.2	2,314.2
Tangible assets	2,596.2	2,561.7	2,671.0	2,803.5	3,099.2	3,248.4
Other assets	1,731.3	1,854.0	2,177.9	2,250.4	2,492.2	2,590.3
TOTAL ASSETS	169,660.5	190,748.0	193,479.6	204,916.0	253,387.6	271,047.0
Deposits from banks	5,237.2	6,242.6	3,737.1	3,923.9	20,788.7	21,330.4
Deposits from customers	132,981.2	146,473.9	146,193.6	155,213.6	180,552.1	192,258.9
Debt securities issued	3,298.9	7,771.8	10,270.8	11,811.4	12,992.5	14,291.8
Trading liabilities	2,404.8	2,645.3	3,964.1	4,162.3	4,507.1	4,730.9
Interest-bearing liabilities	141,517.3	160,488.3	160,201.4	170,948.9	214,333.3	227,881.1
LT provisions	583.7	619.2	720.6	0.0	16.2	16.5
Other liabilities	2,183.3	2,558.9	2,254.6	2,340.5	3,782.5	5,147.7
Subordinated liabilities	1,611.8	1,614.4	1,631.3	1,712.8	3,142.8	3,260.7
Total liabilities	148,300.9	167,926.1	168,772.0	179,164.6	225,781.9	241,036.8
Shareholders' equity	21,357.6	22,823.3	24,708.0	25,751.8	27,606.0	30,010.6
Minorities	2.0	-1.3	-0.3	-0.3	-0.3	-0.3
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	169,660.5	190,748.0	193,479.6	204,916.0	253,387.6	271,047.0
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Other figures						
Tangible shareholders' equity						
Off-balance sheet items	0.0	0.0	0.0	0.0	0.0	0.0
Year-end no. of shares outstanding (mn)	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00
Average no. of shares outstanding (mn)	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00
Fully diluted no. of shares outstanding (mn)	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00	1,250.00
No. of employees (FTE)	29,780	28,924	28,556	27,868	27,196	26,540
No. of branches	1,208	1,199	1,198	1,193	1,188	1,183
Payout ratio	73.8%	65.0%	42.3%	68.3%	51.6%	48.9%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, PLN mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	6.6%	6.9%	7.0%	5.7%	6.0%	6.1%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-2.9%	-2.9%	-3.2%	-2.6%	-2.8%	-2.9%
Yield on assets - cost of funds (Interest spread)	3.8%	4.0%	3.8%	3.1%	3.2%	3.2%
Net. int. income/avg. assets (Net interest margin)	4.0%	4.2%	4.1%	3.4%	3.5%	3.4%
Net fee and commission margin (avg. total assets)	1.9%	1.7%	1.6%	1.6%	1.5%	1.4%
ROE	15.4%	17.2%	15.8%	13.1%	14.4%	16.3%
ROA	2.0%	2.1%	2.0%	1.7%	1.7%	1.8%
Operating margin	2.5%	2.7%	2.4%	2.0%	2.1%	2.2%
Efficiency						
Cost/Income ratio	43.3%	41.3%	41.8%	46.6%	47.5%	43.7%
Cost/avg. Assets ratio	2.8%	2.6%	2.6%	2.6%	2.6%	2.3%
Personnel expenses/total income	-22.6%	-21.0%	-20.9%	-22.5%	-21.6%	-20.1%
Avg. staff costs (PLN)	78,022	81,894	87,267	87,298	99,614	104,737
Balance sheet structure						
Loans deposit ratio	98.3%	96.7%	98.4%	99.3%	108.5%	111.0%
Loans/total assets	77.0%	74.3%	74.4%	75.2%	77.3%	78.8%
Deposits/total assets	78.4%	76.8%	75.6%	75.7%	71.3%	70.9%
Capital adequacy						
Equity ratio	12.6%	12.0%	12.8%	12.6%	10.9%	11.1%
Capital adequacy ratio	12.5%	12.4%	13.1%	13.3%	11.9%	11.9%
Asset quality						
Non-performing loans ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-performing loans coverage ratio						
Risk provisions/loans to customers (gross)						
Risk provisions/avg. customer loans (Risk costs)	1.5%	1.4%	1.6%	1.2%	1.1%	1.0%
Risk earnings ratio	28.7%	25.4%	29.5%	26.7%	23.3%	22.4%
Income statement structure						
Net interest income / total income	62.1%	66.6%	65.8%	61.1%	62.8%	64.4%
Net fee and commission income / total income	30.0%	27.1%	25.6%	29.6%	27.4%	26.1%
Net trading result / total income	-0.6%	-0.7%	0.8%	0.9%	0.9%	0.8%
Non-interest income / total income	37.9%	33.4%	34.2%	38.9%	37.2%	35.6%
Personnel expenses / total operating expenses	52.3%	50.9%	50.1%	48.3%	45.6%	46.1%
Effective tax rate	-21.2%	-20.4%	-19.3%	-19.0%	-20.4%	-19.7%
Growth Rates						
(IFRS, PLN mn, 31/12)						
Loans and advances to customers (net)	12.1%	8.4%	1.6%	7.2%	27.1%	8.9%
Deposits from customers	6.3%	10.1%	-0.2%	6.2%	16.3%	6.5%
Total assets	8.4%	12.4%	1.4%	5.9%	23.7%	7.0%
Total liabilities	9.0%	13.2%	0.5%	6.2%	26.0%	6.8%
Shareholders'equity	4.5%	6.9%	8.3%	4.2%	7.2%	8.7%
Net interest Income	29.0%	16.8%	3.6%	-15.2%	19.1%	13.0%
Net fees & commission income	21.7%	-1.3%	-1.0%	5.4%	7.3%	5.0%
Total Income	14.1%	9.0%	4.7%	-8.6%	15.8%	10.2%
Personnel expenses	2.9%	1.2%	4.3%	-1.8%	11.4%	2.6%
Total expenses	-0.5%	3.9%	6.0%	1.9%	18.0%	1.4%
Operating profit	38.6%	17.2%	-2.8%	-12.5%	18.3%	21.7%
Net result after minorities	39.5%	18.4%	-1.5%	-12.1%	16.3%	22.8%

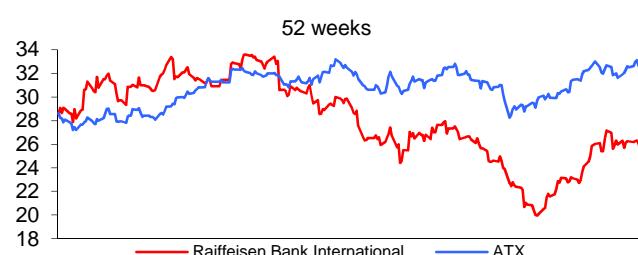
Source: Company data, Erste Group estimates

Raiffeisen Bank International

from Buy to Accumulate

EUR mn	2012	2013e	2014e	2015e
Net interest Income	3,472.2	3,490.4	3,777.0	3,941.2
Net fee/com. inc.	1,516.4	1,518.6	1,555.5	1,620.0
Total Income	6,330.7	5,162.6	5,518.3	5,871.2
EBT	1,031.6	700.6	1,124.0	1,474.9
Net result after min.	525.38	357.62	655.97	887.63
EPS (EUR)	2.70	1.83	3.36	4.54
BVPS (EUR)	39.26	40.53	43.01	46.54
Tang. BVPS (EUR)	36.40	37.69	40.17	43.71
Div./share (EUR)	1.17	0.56	0.87	1.00
ROE (%)	7.03	4.60	8.06	10.17
P/E (x)	11.7	13.4	7.3	5.4
P/BV(x)	0.8	0.6	0.6	0.5
Dividend Yield	3.7%	2.3%	3.5%	4.1%

Share price (EUR) close as of 16/09/2013	24.6
Number of shares (mn)	195.5
Market capitalization (EUR mn)	4,803.6
Enterprise value (EUR mn)	



Performance	12M	6M	3M	1M
in EUR	-16.1%	-17.7%	-0.1%	-5.6%

Reuters	RBIV.VI	Free float	21.5%
Bloomberg	RBI AV	Shareholders	RZB (78.5%)
Div. Ex-date	03/07/13		
Target price	28.0	Homepage:	www.rbinternational.com

At edge of cycle

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Capitalization issues to be solved in medium term. After the recent profit warning, we reiterate our view that the capitalization issue might not be solved in the short term in the form of a heavily dilutive capital increase. In our view, a mix of measures based on a medium-term strategy to pay back the state tranche of the participation capital (EUR 1.75bn) by the end of 2017 might be more probable than a substantial rights issue at the current share price. We changed our recommendation to Accumulate from Buy and slightly lowered our target price to EUR 28 (after a deduction of EUR 1.5bn undercapitalization, which is EUR 7.7 per share), from EUR 29.

EPS13e to drop 21% after profit warning. With the profit warning of expected higher provisions in the corporate segment, we see the end of the down cycle as being close. At this stage, some big corporations might also run into trouble, causing RBI to increase the provisioning guidance for FY13e by 10-20%. This is mainly caused by several single cases in Austria, China (Group Corporates), Slovenia (CE), Bulgaria and Albania (SEE). We therefore reduced our EPS forecasts by 21% for FY13e and 4% for FY14e. Still, the impact of the planned Hungarian FX relief program has not been taken into account due to a lack of details. As a base case scenario, we have calculated a valuation impact of EUR 114mn or EUR 0.58 per share, which would double in the worst case scenario.

Cost saving program to bring CIR down. RBI is still in consolidation mode and management is working on a cost saving program, given that RBI is running one of the highest cost/income ratios in our CEE banking universe (clean CIR 2012 of 60%). We have previously adjusted our forecasts, including moderate improvement of the CIR to 55% as of 2015.

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Capital scenarios

The following table provides an overview of the conditions of the participation capital with the first coupon step-ups beginning as of 1.1.2014 as well as the eligibility under Basel 3 and EU law (CRD IV/CRR), which will be fully provided until 31.12.2017. Until this deadline the RBI management regards keeping the participation capital as economically reasonable.

Conditions and eligibility of participation capital

	2009-2013	2014	2015	2016	2017	2018	2019
Coupon regular p.a.	8.00%	8.50%	9.00%	9.75%	10.75%	11.75%	12.75%
Coupon max. p.a.	8.00%	8.50%	9.00%	9.75%	10.00% + 12M Euribor		
Redemption	100%	100%	100%	100%	100%	100%	150%
Basel 3 private tranche	Fully eligible until 2017						
Basel 3 state tranche	Fully eligible until 2017						

Source: Company data, BIS, Erste Group Research

In our most probable base case scenario the replacement of the state tranche of the participation capital would require some EUR 1.5bn. This would immediately lift RBI's core tier 1 ratio above the 10% threshold. Under Basel III this would mean some 9.5% CET1. The dilution effect for the tangible book value per share in this scenario would be 9% for 2014 and 10% for 2015. The earnings dilution given the cost savings for the coupon payments would be 4.5% and 10.2%, respectively.

Capital scenarios overview

	Scenario EUR 1.bn proceeds		Scenario EUR 1.5bn proceeds		Scenario EUR 2.bn proceeds	
	Key data	Dilution	Key data	Dilution	Key data	Dilution
Number of old shares (mn)	195.5		195.5		195.5	
No. of new shares (mn)	40.7	20.8%	61.1	31.2%	81.4	41.6%
Current price (EUR)	24.57		24.57		24.57	
EPS 14e (EUR)	2.80	-16.0%	2.59	-22.3%	2.41	-27.6%
EPS 14e excluding coupon payment (EUR)	3.44	3.1%	3.18	-4.5%	2.96	-11.1%
BVPS 14e (EUR)	39.82	-7.4%	38.61	-10.2%	37.58	-12.6%
Tangible BVPS 14e (EUR)	37.48	-6.7%	36.45	-9.3%	35.57	-11.4%
EPS 15e (EUR)	3.74	-17.2%	3.44	-23.8%	3.19	-29.4%
EPS 15e excluding coupon payment (EUR)	4.41	-2.5%	4.06	-10.2%	3.76	-16.8%
BVPS 15e (EUR)	42.75	-8.2%	41.30	-11.3%	40.07	-13.9%
Tangible BVPS 15e (EUR)	40.40	-7.6%	39.14	-10.4%	38.07	-12.9%
RBI core tier 1 ratio (%) excluding state tranche	9.7%	-0.9%	10.3%	-0.3%	10.9%	0.3%
RBI B3 core tier 1 ratio (%) excluding state tranche	8.9%	-0.9%	9.5%	-0.3%	10.1%	0.3%
RZB core tier 1 ratio (%) excluding state tranche	10.0%	-0.9%	10.6%	-0.3%	11.2%	0.3%
RZB B3 core tier 1 ratio (%) excluding state tranche	9.1%	-0.8%	9.7%	-0.3%	10.3%	0.3%
Shareholder structure:	RZB	Free float	RZB	Free float	RZB	Free float
Pre-transaction	78.5%	21.5%	78.5%	21.5%	78.5%	21.5%
Post transaction 100% RZB subscription	78.5%	21.5%	78.5%	21.5%	78.5%	21.5%
Post transaction 75% RZB subscription	75.1%	24.9%	73.8%	26.2%	72.7%	27.3%
Post transaction 50% RZB subscription	71.7%	28.3%	69.2%	30.8%	67.0%	33.0%
Post transaction 25% RZB subscription	68.4%	31.6%	64.5%	35.5%	61.2%	38.8%
Post transaction 0% RZB subscription	65.0%	35.0%	59.8%	40.2%	55.4%	44.6%

Source: Company data, Erste Group Research

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(IFRS, EUR mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	3,578.2	3,667.2	3,472.2	3,490.4	3,777.0	3,941.2
Risk provisions for loans and advances	-1,194.1	-1,063.6	-1,008.8	-1,157.8	-1,129.1	-1,094.2
Net interest Income (after risk prov.)	2,384.1	2,603.6	2,463.3	2,332.7	2,647.9	2,847.0
Net fees & commission income	1,490.8	1,489.9	1,516.4	1,518.6	1,555.5	1,620.0
Dividend income	53.0	271.8	190.9	-116.9	-130.4	-53.6
Trading result	328.1	363.3	214.7	270.4	316.2	363.6
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	1,052.3	927.0	936.5	0.0	0.0	0.0
Total Income	6,502.5	6,719.1	6,330.7	5,162.6	5,518.3	5,871.2
Other administrative expenses	-1,186.5	-1,209.1	-1,256.8	-1,194.0	-1,140.2	-1,151.6
Depreciation and amortization	-340.3	-371.7	-400.7	-403.7	-408.9	-424.2
Impairment of goodwill	0.0	-187.3	-38.5	0.0	0.0	0.0
Other expenses	-1,046.0	-971.9	-1,000.1	-111.0	-113.2	-96.8
Operating profit	1,282.6	1,375.9	1,019.5	700.6	1,124.0	1,474.9
Extraordinary result	4.7	-2.6	12.1	0.0	0.0	0.0
Profit / loss before taxes	1,287.3	1,373.4	1,031.6	700.6	1,124.0	1,474.9
Income taxes	-110.2	-399.2	-283.9	-143.2	-225.4	-307.7
Profit / loss after taxes	1,177.2	974.1	747.7	557.4	898.7	1,167.2
Minority interests	-289.7	-206.4	-222.3	-199.8	-242.7	-279.6
Net result after minorities	887.5	767.7	525.4	357.6	656.0	887.6
Adjusted profit/loss before taxes	1,287.3	1,373.4	1,031.6	698.6	1,120.0	1,470.5
Adjusted net profit/loss	1,087.5	967.7	725.4	555.6	864.4	1,108.2
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(IFRS, EUR mn, 31/12)						
Cash and balances with central banks	4,806.9	11,401.7	6,556.7	5,791.7	4,582.7	3,019.6
Loans and advances to banks (net)	21,532.1	25,746.3	22,323.0	18,974.6	17,456.6	16,060.1
Loans and advances to customers (net)	70,861.7	76,485.4	77,656.4	74,948.9	77,396.2	81,592.8
Interest-earning financial assets	28,301.7	28,169.5	23,917.4	22,218.5	21,792.9	21,140.1
Interest-earning assets	125,502.4	141,802.9	130,453.6	121,933.7	121,228.4	121,812.6
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	5.0	5.0	4.9	5.2	5.4	5.7
Intangible assets	1,219.8	1,065.5	1,321.0	1,307.4	1,322.5	1,353.2
Tangible assets	1,453.6	1,511.5	1,596.9	1,612.9	1,645.1	1,694.5
Other assets	2,992.3	2,600.1	2,739.6	2,465.6	2,539.6	2,666.6
TOTAL ASSETS	131,173.1	146,985.0	136,116.0	127,324.8	126,741.1	127,532.7
Deposits from banks	33,659.2	37,991.8	30,186.4	24,904.5	22,093.6	18,110.3
Deposits from customers	57,633.1	66,747.2	66,297.2	65,634.2	67,603.2	71,321.4
Debt securities issued	16,555.4	14,366.8	13,290.1	11,828.2	11,000.2	10,670.2
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	107,847.7	119,105.9	109,773.7	102,366.8	100,697.0	100,101.9
LT provisions	671.9	771.0	721.0	699.4	692.4	713.1
Other liabilities	8,248.5	12,021.7	10,811.4	9,189.7	9,833.0	10,521.3
Subordinated liabilities	3,201.1	3,350.7	3,495.8	3,476.1	3,397.8	3,321.0
Total liabilities	119,969.2	135,249.2	124,801.9	115,732.0	114,620.1	114,657.3
Shareholders' equity	6,838.2	7,292.9	7,653.7	7,900.9	8,383.3	9,072.2
Minorities	1,065.7	1,142.9	719.1	750.6	796.4	861.9
Hybrid capital	800.0	800.0	441.3	441.3	441.3	441.3
Other reserves/equity						
TOTAL LIAB. , EQUITY	131,173.1	146,985.0	136,116.0	127,324.8	126,741.1	127,532.7
--						
Other figures						
Tangible shareholders' equity	9,524.6	10,184.4	10,037.4	10,289.0	10,771.4	11,460.3
Off-balance sheet items	23,848.0	25,905.2	22,316.0	24,196.4	26,240.2	28,462.1
Year-end no. of shares outstanding (mn)	194.53	194.56	194.95	194.94	194.93	194.91
Average no. of shares outstanding (mn)	194.53	194.55	194.86	195.51	195.51	195.51
Fully diluted no. of shares outstanding (mn)	194.53	194.55	194.86	195.51	195.51	195.51
No. of employees (FTE)	59,188	60,021	60,924	59,096	57,914	57,335
No. of branches	2,961	2,928	3,106	3,013	2,922	2,937
Payout ratio	23.0%	26.6%	43.4%	30.4%	25.9%	22.0%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(IFRS, EUR mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	4.7%	4.9%	4.8%	4.7%	4.8%	4.9%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-2.4%	-2.6%	-2.6%	-2.3%	-2.1%	-2.0%
Yield on assets - cost of funds (Interest spread)	2.4%	2.4%	2.1%	2.4%	2.8%	2.9%
Net. int. income/avg. assets (Net interest margin)	2.6%	2.6%	2.5%	2.6%	3.0%	3.1%
Net fee and commission margin (avg. total assets)	1.1%	1.1%	1.1%	1.2%	1.2%	1.3%
ROE	14.0%	10.9%	7.0%	4.6%	8.1%	10.2%
ROA	0.8%	0.7%	0.5%	0.4%	0.7%	0.9%
Operating margin	0.9%	1.0%	0.7%	0.5%	0.9%	1.2%
Efficiency						
Cost/Income ratio	61.9%	63.7%	68.0%	64.0%	59.2%	56.2%
Cost/avg. Assets ratio	2.9%	3.1%	3.0%	2.5%	2.6%	2.6%
Personnel expenses/total income	-22.3%	-22.9%	-25.4%	-30.9%	-29.0%	-27.8%
Avg. staff costs (EUR)	24,656	25,831	26,563	26,588	27,395	28,278
Balance sheet structure						
Loans deposit ratio	131.2%	122.2%	125.6%	123.9%	124.1%	123.9%
Loans/total assets	57.6%	55.5%	61.2%	63.8%	66.2%	69.3%
Deposits/total assets	43.9%	45.4%	48.7%	51.5%	53.3%	55.9%
Capital adequacy						
Equity ratio	8.5%	8.0%	8.3%	9.1%	9.6%	10.1%
Capital adequacy ratio	13.3%	13.5%	15.6%	14.7%	14.7%	14.4%
Asset quality						
Non-performing loans ratio	9.0%	8.7%	9.8%	10.4%	10.2%	9.8%
Non-performing loans coverage ratio	70.0%	71.6%	68.9%	75.0%	76.0%	78.0%
Risk provisions/loans to customers (gross)	6.3%	6.2%	6.8%	7.8%	7.8%	7.6%
Risk provisions/avg. customer loans (Risk costs)	1.6%	1.4%	1.2%	1.4%	1.4%	1.3%
Risk earnings ratio	33.4%	29.0%	29.1%	33.2%	29.9%	27.8%
Income statement structure						
Net interest income / total income	55.0%	54.6%	54.8%	67.6%	68.4%	67.1%
Net fee and commission income / total income	22.9%	22.2%	24.0%	29.4%	28.2%	27.6%
Net trading result / total income	5.0%	5.4%	3.4%	5.2%	5.7%	6.2%
Non-interest income / total income	45.0%	45.4%	45.2%	32.4%	31.6%	32.9%
Personnel expenses / total operating expenses	36.1%	36.0%	37.3%	48.3%	49.1%	49.3%
Effective tax rate	-8.6%	-29.1%	-27.5%	-20.4%	-20.1%	-20.9%
Growth Rates						
(IFRS, EUR mn, 31/12)						
Loans and advances to customers (net)	-0.1%	7.9%	1.5%	-3.5%	3.3%	5.4%
Deposits from customers	3.7%	15.8%	-0.7%	-1.0%	3.0%	5.5%
Total assets	-11.1%	12.1%	-7.4%	-6.5%	-0.5%	0.6%
Total liabilities	-12.6%	12.7%	-7.7%	-7.3%	-1.0%	0.0%
Shareholders'equity	17.4%	6.6%	4.9%	3.2%	6.1%	8.2%
Net interest Income	8.1%	2.5%	-5.3%	0.5%	8.2%	4.3%
Net fees & commission income	4.9%	-0.1%	1.8%	0.1%	2.4%	4.1%
Total Income	12.3%	3.3%	-5.8%	-18.5%	6.9%	6.4%
Personnel expenses	6.1%	6.0%	4.3%	-0.7%	0.5%	1.7%
Total expenses	45.2%	6.3%	0.5%	-23.2%	-1.2%	1.1%
Operating profit	66.0%	7.3%	-25.9%	-31.3%	60.4%	31.2%
Net result after minorities	265.1%	-13.5%	-31.6%	-31.9%	83.4%	35.3%

Source: Company data, Erste Group estimates

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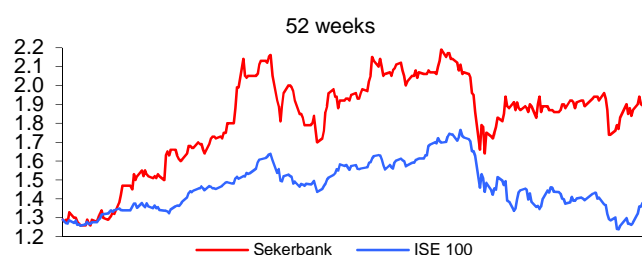
ERSTE GROUP

Sekerbank

from Reduce to Hold

TRY mn	2012	2013e	2014e	2015e
Net interest Income	835.6	787.2	849.5	934.1
Net fee/com. inc.	199.2	210.2	235.4	262.9
Total Income	1,255.0	1,189.9	1,297.4	1,459.4
EBT	310.7	295.0	324.2	415.1
Net result after min.	240.30	235.96	259.38	332.05
EPS (TRY)	0.24	0.24	0.26	0.33
BVPS (TRY)	1.82	2.06	2.32	2.60
Tang. BVPS (TRY)				
Div./share (TRY)	0.00	0.00	0.00	0.05
ROE (%)	14.62	12.15	11.85	13.50
P/E (x)	7.5	8.1	7.3	5.7
P/BV(x)	1.0	0.9	0.8	0.7
Dividend Yield	0.0%	0.0%	0.0%	2.5%

Share price (TRY) close as of 16/09/2013	1.90
Number of shares (mn)	1,000.0
Market capitalization (TRY mn / EUR mn)	1,900 / 713
Enterprise value (TRY mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in TRY	46.2%	-2.6%	3.8%	-1.0%

Reuters	SKBNK.IS	Free float	32.3%
Bloomberg	SKBNK TI	Shareholders	Bank Pension Fund (34.0%)
Div. Ex-date	31/05/11		Samruk Kazyna (21.93%)
Target price	2.04	Homepage:	www.sekerbank.com.tr

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Not a compelling story

Recent developments: In 2Q13, Sekerbank attained 11% q/q growth, mainly growing in local currency lending. Coupled with the declining asset yields and higher funding costs, Sekerbank's NIM declined by 112bp q/q to 6.41%. The ROE remained under pressure at 11%, while the bank registered a 87bp q/q decline in its total CAR, down to 13.5% at the end of 1H13.

Outlook: In 2H13, we expect the bank's NIM to contract by 135bp vs. 1H13 and its 2013 full year NIM to decline to 6.0% vs. 6.5%, which will still be the highest level in our coverage. For 2014, we project 14% y/y loan growth, mainly in retail lending and estimate a 30bp y/y NIM decline as high funding costs weigh on the margins. In terms of credit quality trends, we pencilled in a slightly higher specific cost of risk at 156bp for 2H13 compared to 135bp in 1H13 and envisage it to remain flat in y/y in 2014. We think that our estimate is conservative and there could be upside risks to our cost of risk estimate. At the bottom line, we forecast 10% y/y earnings growth and a 12% ROE in 2014.

Recommendation: We think that management's efforts to restructure the business are paying off, however, there is still more room to go. We predict a gradual improvement in loan volumes without denting credit quality and forecast mid-teen loan growth in the medium-term. Within this scope, we project its core banking ROE to converge to the mid-teen levels in the medium-term. Based on the bank's 1H13 results and having revisited our model, we set the target price at TRY 2.04, offering a 7% return potential. We also upgrade the stock's rating to Hold from Reduce.

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SEKERBANK

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	170	118	240	236	259	332	440	589
<i>Growth in Net Income</i>	12%	-31%	104%	-2%	10%	28%	33%	34%
Less:								
<i>Dividend Income</i>	12	4	0	2	2	2	2	2
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted net income	158	114	240	233	257	330	438	586
<i>Growth in Net Income</i>	5%	-28%	111%	-3%	10%	28%	33%	34%
Book Value	1,400	1,462	1,825	2,059	2,318	2,603	2,983	3,493
<i>Growth in Shareholders' Equity</i>	12%	4%	25%	13%	13%	12%	15%	17%
Less:	0%	0%	0	0	0	0	0	0
<i>Participations</i>	97	99	111	111	111	111	111	111
<i>Dividend Income</i>	12	4	0	2	2	2	2	2
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted Book Value	1,291	1,359	1,714	1,945	2,205	2,490	2,870	3,379
<i>ROE (Reported)</i>	12.8%	8.2%	14.6%	12.2%	11.9%	13.5%	15.8%	18.2%
<i>ROE (Adjusted)</i>	12.8%	8.6%	15.6%	12.8%	12.4%	14.0%	16.3%	18.8%

Sustainable Core ROE (2014-2017)	15.5%
Sustainable long-term growth	10.0%
Cost of Equity	16.2%
Target P/BV @ YE13	0.89
Banking Value	1,730
Participations	111
Value of Sekerbank by 2013	1,841
Value of Sekerbank as of now	1,758
Value of Sekerbank 12-mth forward	2,042
# of shares	1,000
Target Price (TRY)	2.04
Current market cap.	1,900
Current market cap.(US\$ mn)	925
Upside potential	7%

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	562.5	565.4	835.6	787.2	849.5	934.1
Risk provisions for loans and advances	-146.8	-172.9	-330.6	-217.2	-239.6	-264.3
Net interest Income (after risk prov.)	415.8	392.5	505.0	570.0	609.9	669.8
Net fees & commission income	110.5	183.0	199.2	210.2	235.4	262.9
Dividend income	12.0	4.2	0.1	2.5	2.5	2.5
Trading result	47.3	3.6	24.8	-10.0	10.0	10.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	119.4	120.6	195.4	200.0	200.0	250.0
Total Income	851.7	876.9	1,255.0	1,189.9	1,297.4	1,459.4
Other administrative expenses	-288.6	-299.1	-362.4	-272.7	-303.2	-332.4
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	214.1	157.6	310.7	295.0	324.2	415.1
Extraordinary result						
Profit / loss before taxes	214.1	157.6	310.7	295.0	324.2	415.1
Income taxes	-43.9	-39.5	-70.4	-59.0	-64.8	-83.0
Profit / loss after taxes	170.2	118.0	240.3	236.0	259.4	332.1
Minority interests						
Net result after minorities	170.2	118.0	240.3	236.0	259.4	332.1
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	693.0	1,387.0	1,484.6	2,209.0	2,448.0	2,435.0
Loans and advances to banks (net)	87.1	106.1	182.4	101.8	96.7	91.9
Loans and advances to customers (net)	7,006.2	8,510.1	9,973.5	11,741.9	13,421.9	15,606.8
Interest-earning financial assets	3,097.0	3,822.4	2,169.7	2,169.7	2,169.7	2,169.7
Interest-earning assets	10,883.4	13,825.7	13,810.2	16,222.5	18,136.3	20,303.3
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	97.2	98.8	110.9	110.9	110.9	110.9
Intangible assets	18.5	20.7	25.5	25.5	25.5	25.5
Tangible assets	232.6	299.1	404.8	464.8	524.8	584.8
Other assets	137.4	155.2	166.6	167.7	187.4	209.8
TOTAL ASSETS	11,369.1	14,399.4	14,517.9	16,991.3	18,984.9	21,234.3
Deposits from banks	126.3	124.2	363.6	343.0	382.0	426.5
Deposits from customers	7,572.4	8,954.3	9,774.3	11,070.5	12,329.4	13,765.9
Debt securities issued	1,709.0	3,255.3	1,735.6	2,737.4	3,072.3	3,434.4
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	9,407.7	12,333.8	11,873.5	14,150.9	15,783.7	17,626.8
LT provisions	217.3	249.6	336.0	382.2	447.4	529.1
Other liabilities	312.8	317.2	412.5	318.6	355.8	398.0
Subordinated liabilities	30.8	36.7	70.4	80.3	80.3	81.0
Total liabilities	9,968.6	12,937.3	12,692.5	14,932.0	16,667.2	18,634.9
Shareholders' equity	1,400.5	1,462.1	1,824.7	2,058.5	2,317.9	2,603.1
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	11,369.1	14,399.4	14,517.2	16,990.5	18,985.2	21,238.0
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Other figures						
Tangible shareholders' equity						
Off-balance sheet items	3,892.5	4,793.5	4,688.5	5,267.3	5,885.3	6,582.6
Year-end no. of shares outstanding (mn)	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Average no. of shares outstanding (mn)	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Fully diluted no. of shares outstanding (mn)	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
No. of employees (FTE)	3,485	3,530	3,565	3,777	3,908	4,040
No. of branches	260	272	272	287	297	307
Payout ratio	7.6%	10.6%	0.0%	0.0%	0.0%	14.1%

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Sekerbank | Banking | Turkey

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	11.1%	11.1%	12.5%	10.3%	10.7%	10.4%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-6.2%	-7.4%	-7.4%	-5.9%	-6.6%	-6.4%
Yield on assets - cost of funds (Interest spread)	4.9%	3.7%	5.1%	4.5%	4.1%	4.0%
Net. int. income/avg. assets (Net interest margin)	5.5%	4.4%	5.8%	5.0%	4.7%	4.6%
Net fee and commission margin (avg. total assets)	1.1%	1.4%	1.4%	1.3%	1.3%	1.3%
ROE	12.8%	8.2%	14.6%	12.2%	11.9%	13.5%
ROA	1.7%	0.9%	1.7%	1.5%	1.4%	1.7%
Operating margin	2.1%	1.2%	2.1%	1.9%	1.8%	2.1%
Efficiency						
Cost/Income ratio	57.6%	62.3%	48.9%	57.0%	56.5%	53.4%
Cost/avg. Assets ratio	4.8%	4.2%	4.2%	4.3%	4.1%	3.9%
Personnel expenses/total income	-23.7%	-28.2%	-20.0%	-34.0%	-33.2%	-30.7%
Avg. staff costs (TRY)	54,483	70,539	70,851	110,330	112,005	112,628
Balance sheet structure						
Loans deposit ratio	94.1%	97.6%	103.6%	108.1%	111.3%	116.0%
Loans/total assets	62.7%	60.7%	69.8%	70.4%	72.3%	75.2%
Deposits/total assets	66.6%	62.2%	67.3%	65.2%	64.9%	64.8%
Capital adequacy						
Equity ratio	12.3%	10.2%	12.6%	12.1%	12.2%	12.3%
Capital adequacy ratio	14.0%	13.2%	14.5%	14.3%	14.3%	14.7%
Asset quality						
Non-performing loans ratio	6.5%	5.8%	3.8%	4.7%	5.4%	5.7%
Non-performing loans coverage ratio	25.8%	45.2%	40.3%	40.3%	40.3%	40.3%
Risk provisions/loans to customers (gross)	1.7%	2.6%	1.5%	1.9%	2.2%	2.3%
Risk provisions/avg. customer loans (Risk costs)	2.4%	2.2%	3.5%	2.0%	1.9%	1.8%
Risk earnings ratio	26.1%	30.6%	39.6%	27.6%	28.2%	28.3%
Income statement structure						
Net interest income / total income	66.0%	64.5%	66.6%	66.2%	65.5%	64.0%
Net fee and commission income / total income	13.0%	20.9%	15.9%	17.7%	18.1%	18.0%
Net trading result / total income	5.6%	0.4%	2.0%	-0.8%	0.8%	0.7%
Non-interest income / total income	34.0%	35.5%	33.4%	33.8%	34.5%	36.0%
Personnel expenses / total operating expenses	41.2%	45.3%	41.0%	59.8%	58.7%	57.4%
Effective tax rate	-20.5%	-25.1%	-22.7%	-20.0%	-20.0%	-20.0%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	42.8%	21.5%	17.2%	17.7%	14.3%	16.3%
Deposits from customers	14.4%	18.2%	9.2%	13.3%	11.4%	11.7%
Total assets	27.0%	26.7%	0.8%	17.0%	11.7%	11.8%
Total liabilities	29.4%	29.8%	-1.9%	17.6%	11.6%	11.8%
Shareholders'equity	12.1%	4.4%	24.8%	12.8%	12.6%	12.3%
Net interest Income	-21.3%	0.5%	47.8%	-5.8%	7.9%	10.0%
Net fees & commission income	7.2%	65.6%	8.9%	5.5%	12.0%	11.7%
Total Income	-0.6%	3.0%	43.1%	-5.2%	9.0%	12.5%
Personnel expenses	33.6%	22.4%	1.6%	61.1%	6.3%	4.0%
Total expenses	15.5%	11.3%	12.3%	10.4%	8.2%	6.3%
Operating profit	7.8%	-26.4%	97.2%	-5.1%	9.9%	28.0%
Net result after minorities	11.6%	-30.7%	103.6%	-1.8%	9.9%	28.0%

Source: Company data, Erste Group estimates

Erste Group Research – Company Report

Türkiye Sınai Kalkınma Bankası | Banking | Turkey
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ERSTE GROUP

Türkiye Sınai Kalkınma Bankası

Accumulate

TRY mn	2012	2013e	2014e	2015e
Net interest Income	430.5	492.8	564.5	629.7
Net fee/com. inc.	12.2	7.8	9.5	11.1
Total Income	489.4	551.6	625.1	693.9
EBT	382.8	427.2	491.5	549.1
Net result after min.	307.26	341.73	393.17	439.25
EPS (TRY)	0.24	0.26	0.30	0.34
BVPS (TRY)	1.35	1.49	1.74	2.01
Tang. BVPS (TRY)				
Div./share (TRY)	0.03	0.05	0.05	0.07
ROE (%)	19.69	18.49	18.70	18.00
P/E (x)	8.2	7.5	6.5	5.8
P/BV(x)	1.4	1.3	1.1	1.0
Dividend Yield	1.8%	2.3%	2.6%	3.5%

Share price (TRY) close as of 16/09/2013	1.97
Number of shares (mn)	1,300.0
Market capitalization (TRY mn / EUR mn)	2,561 / 961
Enterprise value (TRY mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in TRY	16.4%	-0.9%	3.0%	0.0%

Reuters	TSKB.IS	Free float	40.8%
Bloomberg	TSKB TI	Shareholders	Isbank Group (40.5%)
Div. Ex-date	28/03/13		Camis Yatirim Holding (5.8%)
Target price	2.22	Homepage:	www.tskb.com.tr

A unique defensive play

Analyst:

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Recent developments: In 2Q13, TSKB stayed on the side lines in lending activities and was not involved in price-based competition. Despite the lower interest income earned from the securities book, TSKB managed to deliver a flat q/q NIM at 4.5%. As TSKB's business model is different than the other banks that we cover, TSKB will not be impacted by the regulatory measures on credit cards and overdraft accounts.

Outlook: We project TSKB's lending performance to accelerate in 2H13 vs. 1H13 and end 2013 with 10% loan growth in USD terms. We also expect its NIM to improve in 2H13 vs. 1H13 as the bank does not have any duration mismatches in its lending and funding activities since TSKB funds itself with long-term funding secured from multi-lateral agencies and also utilizes money market and its equity to fund its securities portfolio. We estimate the bank's NIM to reach 4.6% at end of 2013 vs. 4.5% at the end of 1H13. For 2014, we estimate 12% y/y loan growth in USD terms and its NIM to decline by 9bp y/y to 4.5% as there will be a high base effect in 2013. In the medium-term, we project TSKB's NIM to converge to 4.3% as Turkish bond yields decline.

Recommendation: We view TSKB as a unique play in the Turkish banking universe with its low risk profile. In our view, TSKB will be the main beneficiary of private sector investment growth and can attain mid-teen loan growth without encountering any pressure on the capital front. We project TSKB's core banking ROE as 19.6%, which is attractive in our view given the risk and reward context. Our revised target price for TSKB stands at TRY2.22, offering 13% upside potential. We reiterate our "Accumulate" rating on the stock.

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TSKB

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	212	255	307	342	393	439	498	570
<i>Growth in Net Income</i>	21%	21%	20%	11%	15%	12%	13%	14%
Less:								
<i>Dividend Income</i>	23	26	28	28	28	28	28	28
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted net income	189	230	280	314	365	411	470	542
<i>Growth in Net Income</i>	21%	21%	22%	12%	16%	13%	14%	15%
Book Value	1,264	1,366	1,755	1,940	2,265	2,616	2,955	3,301
<i>Growth in Shareholders' Equity</i>	21%	8%	29%	11%	17%	15%	13%	12%
Less:								
<i>Participations</i>	281	248	278	301	301	301	301	301
<i>Dividend Income</i>	23	26	28	28	28	28	28	28
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted Book Value	961	1,092	1,450	1,611	1,936	2,286	2,626	2,971
<i>ROE (Reported)</i>	18.4%	19.6%	19.7%	18.5%	18.7%	18.0%	17.9%	18.2%
<i>ROE (Adjusted)</i>	21.8%	22.7%	22.0%	20.5%	20.6%	19.5%	19.1%	19.4%

Sustainable Core ROE	19.6%
Sustainable long-term growth	8.0%
Cost of Equity	16.2%
Target P/BV @ YE13	1.43
Banking Value	2,301
Participations	301
Value of TSKB by 2013	2,602
Value of TSKB as of now	2,485
Value of TSKB 12-mth forward	2,887
# of shares	1,300
Target Price (TRY)	2.22
Current market cap.	2,561
Upside potential	13%

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	297.7	364.3	430.5	492.8	564.5	629.7
Risk provisions for loans and advances	-24.7	-34.0	-34.2	-44.3	-45.9	-50.0
Net interest Income (after risk prov.)	273.0	330.3	396.3	448.4	518.5	579.7
Net fees & commission income	13.5	9.9	12.2	7.8	9.5	11.1
Dividend income	22.7	25.8	27.7	28.1	28.1	28.1
Trading result	-3.8	-11.0	0.3	3.0	3.0	3.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	25.7	27.6	18.7	20.0	20.0	22.0
Total Income	355.8	416.7	489.4	551.6	625.1	693.9
Other administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	268.5	317.7	382.8	427.2	491.5	549.1
Extraordinary result						
Profit / loss before taxes	268.5	317.7	382.8	427.2	491.5	549.1
Income taxes	-56.8	-62.4	-75.5	-85.4	-98.3	-109.8
Profit / loss after taxes	211.6	255.3	307.3	341.7	393.2	439.3
Minority interests						
Net result after minorities	211.6	255.3	307.3	341.7	393.2	439.3
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	64.4	121.0	132.6	240.4	290.4	315.5
Loans and advances to banks (net)	161.8	59.6	37.6	37.6	37.6	37.6
Loans and advances to customers (net)	4,772.9	6,367.1	6,885.6	8,742.4	9,790.4	11,348.4
Interest-earning financial assets	2,508.8	2,551.7	2,904.6	2,807.6	3,533.1	3,861.9
Interest-earning assets	7,507.9	9,099.3	9,960.4	11,827.9	13,651.5	15,563.4
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	350.9	276.8	287.0	310.9	310.9	310.9
Intangible assets	0.4	0.5	0.6	0.6	0.6	0.6
Tangible assets	16.0	9.0	8.2	13.2	18.2	23.2
Other assets	36.9	70.3	33.4	37.7	44.2	49.8
TOTAL ASSETS	7,912.1	9,455.9	10,289.6	12,190.4	14,025.4	15,947.9
Deposits from banks	0.0	0.0	0.0	0.0	0.0	0.0
Deposits from customers	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities issued	6,379.9	7,727.0	8,139.3	9,794.8	11,257.3	12,771.9
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	6,379.9	7,727.0	8,139.3	9,794.8	11,257.3	12,771.9
LT provisions	90.4	108.7	144.5	160.2	178.5	205.0
Other liabilities	99.7	159.4	161.3	193.9	222.7	252.8
Subordinated liabilities	77.9	95.0	89.1	101.4	101.4	102.2
Total liabilities	6,647.9	8,090.1	8,534.3	10,250.2	11,759.9	13,331.9
Shareholders' equity	1,264.2	1,365.8	1,755.3	1,940.1	2,265.4	2,615.9
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	7,912.1	9,455.9	10,289.6	12,190.3	14,025.3	15,947.8
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Other figures						
Tangible shareholders' equity						
Off-balance sheet items	1,093.9	1,269.0	1,212.6	1,296.9	1,492.1	1,696.6
Year-end no. of shares outstanding (mn)	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00
Average no. of shares outstanding (mn)	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00
Fully diluted no. of shares outstanding (mn)	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00
No. of employees (FTE)	347	350	345	342	342	342
No. of branches	4	4	4	4	4	4
Payout ratio	14.2%	16.4%	14.6%	17.6%	17.3%	20.2%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	6.2%	6.2%	6.2%	6.0%	6.3%	6.2%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-2.3%	-2.1%	-2.0%	-1.8%	-2.2%	-2.3%
Yield on assets - cost of funds (Interest spread)	3.9%	4.1%	4.2%	4.2%	4.0%	3.9%
Net. int. income/avg. assets (Net interest margin)	4.0%	4.2%	4.4%	4.4%	4.3%	4.2%
Net fee and commission margin (avg. total assets)	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
ROE	18.4%	19.4%	19.7%	18.5%	18.7%	18.0%
ROA	2.9%	2.9%	3.1%	3.0%	3.0%	2.9%
Operating margin	3.6%	3.7%	3.9%	3.8%	3.7%	3.7%
Efficiency						
Cost/Income ratio	17.6%	15.6%	14.8%	14.5%	14.0%	13.7%
Cost/avg. Assets ratio	0.8%	0.7%	0.7%	0.7%	0.7%	0.6%
Personnel expenses/total income	-17.6%	-15.6%	-14.8%	-14.5%	-14.0%	-13.7%
Avg. staff costs (TRY)	190,785	186,273	208,558	233,255	256,427	277,283
Balance sheet structure						
Loans deposit ratio	nm	nm	nm	nm	nm	nm
Loans/total assets	60.3%	67.3%	66.9%	71.7%	69.8%	71.2%
Deposits/total assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Capital adequacy						
Equity ratio	16.0%	14.4%	17.1%	15.9%	16.2%	16.4%
Capital adequacy ratio	22.7%	19.1%	20.4%	20.2%	20.9%	20.9%
Asset quality						
Non-performing loans ratio	0.5%	0.4%	0.2%	0.2%	0.2%	0.3%
Non-performing loans coverage ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk provisions/loans to customers (gross)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk provisions/avg. customer loans (Risk costs)	0.6%	0.6%	0.5%	0.6%	0.5%	0.5%
Risk earnings ratio	8.3%	9.3%	7.9%	9.0%	8.1%	7.9%
Income statement structure						
Net interest income / total income	83.7%	87.4%	88.0%	89.3%	90.3%	90.8%
Net fee and commission income / total income	3.8%	2.4%	2.5%	1.4%	1.5%	1.6%
Net trading result / total income	-1.1%	-2.6%	0.1%	0.5%	0.5%	0.4%
Non-interest income / total income	16.3%	12.6%	12.0%	10.7%	9.7%	9.2%
Personnel expenses / total operating expenses	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Effective tax rate	-21.2%	-19.6%	-19.7%	-20.0%	-20.0%	-20.0%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	25.0%	33.4%	8.1%	27.0%	12.0%	15.9%
Deposits from customers						
Total assets	14.6%	19.5%	8.8%	18.5%	15.1%	13.7%
Total liabilities	13.4%	21.7%	5.5%	20.1%	14.7%	13.4%
Shareholders'equity	21.5%	8.0%	28.5%	10.5%	16.8%	15.5%
Net interest Income	16.6%	22.4%	18.2%	14.5%	14.5%	11.6%
Net fees & commission income	93.9%	-26.8%	23.5%	-36.5%	22.7%	16.2%
Total Income	15.3%	17.1%	17.5%	12.7%	13.3%	11.0%
Personnel expenses	13.6%	3.6%	11.6%	10.6%	9.5%	8.1%
Total expenses	13.6%	3.6%	11.6%	10.6%	9.5%	8.1%
Operating profit	27.5%	18.3%	20.5%	11.6%	15.1%	11.7%
Net result after minorities	21.0%	20.7%	20.3%	11.2%	15.1%	11.7%

Source: Company data, Erste Group estimates

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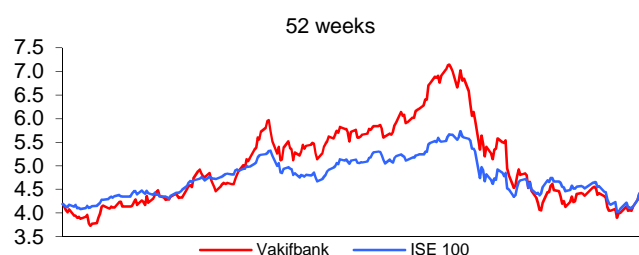
ERSTE GROUP

Vakifbank

from Hold to Accumulate

TRY mn	2012	2013e	2014e	2015e
Net interest Income	4,084.6	4,755.8	5,250.4	6,014.6
Net fee/com. inc.	447.7	890.5	1,073.5	1,268.9
Total Income	5,550.6	6,600.2	7,181.3	8,144.3
EBT	1,885.4	2,025.5	2,290.3	2,815.9
Net result after min.	1,460.08	1,631.16	1,843.71	2,264.85
EPS (TRY)	0.58	0.65	0.74	0.91
BVPS (TRY)	4.77	4.98	5.67	6.53
Tang. BVPS (TRY)				
Div./share (TRY)	0.01	0.04	0.05	0.05
ROE (%)	13.76	13.38	13.84	14.85
P/E (x)	7.9	7.1	6.3	5.1
P/BV(x)	1.0	0.9	0.8	0.7
Dividend Yield	0.3%	0.9%	1.0%	1.1%

Share price (TRY) close as of 16/09/2013	4.64
Number of shares (mn)	2,500.0
Market capitalization (TRY mn / EUR mn)	11,600 / 4,355
Enterprise value (TRY mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in TRY	10.5%	-18.9%	-16.8%	5.0%

Reuters	VAKBN.IS	Free float	25.2%
Bloomberg	VAKBN TI	Shareholders	te of Foundations (58.4%)
Div. Ex-date	31/05/13	Vakifbank Pension Fund	(16.102%)
Target price	5.35	Homepage:	www.vakifbank.com.tr

A hard to ignore valuation

Analyst:

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Recent developments: In 2Q13, Vakifbank posted 10% q/q loan growth by growing mainly in TRY loans and registered a 74bp q/q NIM compression after its 1Q13 high base. Vakifbank posted an 11% q/q decline in its pre-provision income. Rising provision charges, mainly due to the ageing impact of the NPLs, pulled down the bottom line by 27% q/q. Separately, we think that regulatory measures on overdraft accounts will have a negative impact on profitability starting from 2H13.

Outlook: In the near term, we project Vakifbank's NIM to decline sharply in 2H13 resulting in a flat y/y NIM at 4.9% (1H13 NIM: 5.7%). This will mainly be driven by the higher funding costs and impact of the regulatory measures, in our view. With regards to 2014, we project 18% y/y loan growth and estimate a 27bp y/y NIM compression down to 4.67% as high funding costs will weigh on the margins. After the strong growth in fee income in 2013, we estimate 21% y/y growth on enlarged retail exposure and higher cross-selling opportunities. We think that provisions will create the upside risk to our bottom line estimate as the bank faced high LLPs in 1H13, which should normalize in 2014.

Recommendation: We view Vakifbank as a growth play on retail lending activities. We argue that improving its ROE profile is being underestimated by the market and think that the bank could deliver a core banking ROE of 16% in the medium-term. Since mid-May, Vakifbank underperformed the BIST-100 and banking index by 17% and 8%, respectively on the back of concerns associated with higher interest rates. Based on its 2014E P/BV of 0.8x, we think that the stock price is oversold. We upgrade the stock to "Accumulate" from Hold and raise our target price to TRY5.35.

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VAKIFBANK

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	1,157	1,227	1,460	1,631	1,844	2,265	2,752	3,181
<i>Growth in Net Income</i>	-8%	6%	19%	12%	13%	23%	22%	16%
Less:								
<i>Dividend Income</i>	35	45	57	54	57	61	64	67
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted net income	1,122	1,182	1,403	1,577	1,786	2,204	2,688	3,114
<i>Growth in Net Income</i>	-9%	5%	19%	12%	13%	23%	22%	16%
 Book Value	 8,559	 9,298	 11,918	 12,461	 14,187	 16,319	 18,866	 21,799
<i>Growth in Shareholders' Equity</i>	16%	9%	28%	5%	14%	15%	16%	16%
Less:								
<i>Participations</i>	895	865	1,310	1,310	1,310	1,310	1,310	1,310
<i>Dividend Income</i>	35	45	57	54	57	61	64	67
<i>One-off items</i>	0	0	0	0	0	0	0	0
Adjusted Book Value	7,628	8,389	10,551	11,097	12,819	14,948	17,492	20,422
<i>ROE (Reported)</i>	14.5%	13.7%	13.8%	13.4%	13.8%	14.8%	15.6%	15.6%
<i>ROE (Adjusted)</i>	15.7%	14.8%	14.8%	14.6%	14.9%	15.9%	16.6%	16.4%

Sustainable Core ROE	16.0%
Sustainable long-term growth	10.0%
Cost of Equity	16.2%
Target P/BV @ YE13	0.97
Banking Value	10,742
Participations	1,310
Value of Vakifbank by 2013	12,052
Value of Vakifbank as of now	11,512
Value of Vakifbank 12-mth forward	13,372
# of shares	2,500
Target Price (TRY)	5.35
Current market cap.	11,600
Upside potential	15%

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	2,730.0	2,893.7	4,084.6	4,755.8	5,250.4	6,014.6
Risk provisions for loans and advances	-973.2	-905.6	-1,404.1	-1,916.0	-1,949.9	-2,100.5
Net interest Income (after risk prov.)	1,756.8	1,988.1	2,680.5	2,839.7	3,300.5	3,914.1
Net fees & commission income	443.3	559.3	447.7	890.5	1,073.5	1,268.9
Dividend income	35.2	44.8	57.1	54.0	57.3	60.8
Trading result	316.3	39.0	336.5	200.0	50.0	50.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	601.0	885.3	624.7	700.0	750.0	750.0
Total Income	4,125.8	4,422.2	5,550.6	6,600.2	7,181.3	8,144.3
Other administrative expenses	-834.5	-990.5	-1,130.6	-1,072.9	-1,196.7	-1,309.1
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	1,462.8	1,575.2	1,885.4	2,025.5	2,290.3	2,815.9
Extraordinary result						
Profit / loss before taxes	1,462.8	1,575.2	1,885.4	2,025.5	2,290.3	2,815.9
Income taxes	-305.6	-348.4	-425.3	-394.3	-446.6	-551.0
Profit / loss after taxes	1,157.1	1,226.8	1,460.1	1,631.2	1,843.7	2,264.8
Minority interests						
Net result after minorities	1,157.1	1,226.8	1,460.1	1,631.2	1,843.7	2,264.8
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	4,646.9	7,137.1	12,327.6	14,221.8	14,237.3	15,349.9
Loans and advances to banks (net)	3,373.3	2,319.7	1,954.9	1,798.5	1,708.6	1,623.2
Loans and advances to customers (net)	44,861.0	57,309.2	68,133.0	84,850.8	100,015.5	116,951.4
Interest-earning financial assets	18,095.6	19,284.7	18,467.3	18,467.3	18,467.3	17,543.9
Interest-earning assets	70,976.7	86,050.7	100,882.9	119,338.4	134,428.6	151,468.4
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	895.2	864.5	1,310.3	1,310.3	1,310.3	1,310.3
Intangible assets	52.9	62.2	81.7	81.7	81.7	81.7
Tangible assets	1,113.8	1,093.6	1,134.6	1,194.6	1,254.6	1,314.6
Other assets	923.1	1,113.5	1,170.8	1,299.9	1,449.6	1,610.4
TOTAL ASSETS	73,961.7	89,184.5	104,580.3	123,224.9	138,524.8	155,785.4
Deposits from banks	2,014.7	3,473.3	4,157.6	1,482.3	1,673.1	1,895.4
Deposits from customers	45,686.5	57,465.9	63,084.7	74,198.5	84,308.7	96,027.5
Debt securities issued	14,455.7	14,671.8	18,395.7	28,485.1	30,722.2	32,717.1
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	62,157.0	75,611.0	85,638.0	104,165.9	116,704.1	130,640.0
LT provisions	989.9	1,283.5	1,641.1	2,042.6	2,520.2	3,090.9
Other liabilities	2,256.3	2,991.6	3,742.8	4,555.4	5,113.6	5,735.8
Subordinated liabilities	0.0	0.0	1,639.5	0.0	0.0	0.0
Total liabilities	65,403.2	79,886.1	92,661.4	110,763.9	124,337.9	139,466.7
Shareholders' equity	8,558.5	9,298.4	11,918.2	12,461.0	14,186.9	16,318.7
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	73,961.7	89,184.5	104,579.6	123,224.9	138,524.8	155,785.4
--						
Other figures						
Tangible shareholders' equity						
Off-balance sheet items	11,344.7	15,664.0	17,216.7	22,180.5	24,934.5	28,041.4
Year-end no. of shares outstanding (mn)	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00
Average no. of shares outstanding (mn)	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00
Fully diluted no. of shares outstanding (mn)	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00
No. of employees (FTE)	11,077	12,222	13,463	14,112	14,595	15,028
No. of branches	636	680	744	784	834	884
Payout ratio	10.4%	2.8%	2.5%	6.1%	6.4%	5.9%

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	8.8%	8.3%	9.4%	8.4%	9.2%	8.9%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-5.4%	-5.2%	-5.8%	-4.8%	-5.8%	-5.4%
Yield on assets - cost of funds (Interest spread)	3.5%	3.0%	3.6%	3.7%	3.4%	3.5%
Net. int. income/avg. assets (Net interest margin)	3.9%	3.5%	4.2%	4.2%	4.0%	4.1%
Net fee and commission margin (avg. total assets)	0.6%	0.7%	0.5%	0.8%	0.8%	0.9%
ROE	14.5%	13.7%	13.8%	13.4%	13.8%	14.8%
ROA	1.7%	1.5%	1.5%	1.4%	1.4%	1.5%
Operating margin	2.1%	1.9%	1.9%	1.8%	1.8%	1.9%
Efficiency						
Cost/Income ratio	41.0%	43.9%	40.7%	40.3%	41.0%	39.6%
Cost/avg. Assets ratio	2.4%	2.4%	2.3%	2.3%	2.2%	2.2%
Personnel expenses/total income	-20.7%	-21.5%	-20.4%	-24.0%	-24.3%	-23.6%
Avg. staff costs (TRY)	80,574	81,622	88,035	115,021	121,534	129,553
Balance sheet structure						
Loans deposit ratio	98.2%	99.9%	108.4%	114.8%	119.1%	122.2%
Loans/total assets	60.7%	64.4%	65.4%	69.1%	72.5%	75.3%
Deposits/total assets	61.8%	64.4%	60.3%	60.2%	60.9%	61.6%
Capital adequacy						
Equity ratio	11.6%	10.4%	11.4%	10.1%	10.2%	10.5%
Capital adequacy ratio	14.4%	13.4%	16.1%	14.4%	14.1%	13.9%
Asset quality						
Non-performing loans ratio	5.0%	3.8%	4.0%	4.3%	4.3%	4.1%
Non-performing loans coverage ratio	1.1%	5.0%	9.7%	8.3%	8.3%	8.3%
Risk provisions/loans to customers (gross)	0.1%	0.2%	0.4%	0.4%	0.4%	0.3%
Risk provisions/avg. customer loans (Risk costs)	2.4%	1.8%	2.2%	2.5%	2.1%	1.9%
Risk earnings ratio	35.6%	31.3%	34.4%	40.3%	37.1%	34.9%
Income statement structure						
Net interest income / total income	66.2%	65.4%	73.6%	72.1%	73.1%	73.9%
Net fee and commission income / total income	10.7%	12.6%	8.1%	13.5%	14.9%	15.6%
Net trading result / total income	7.7%	0.9%	6.1%	3.0%	0.7%	0.6%
Non-interest income / total income	33.8%	34.6%	26.4%	27.9%	26.9%	26.1%
Personnel expenses / total operating expenses	50.6%	49.0%	50.0%	59.6%	59.3%	59.4%
Effective tax rate	-20.9%	-22.1%	-22.6%	-19.5%	-19.5%	-19.6%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	29.8%	27.7%	18.9%	24.5%	17.9%	16.9%
Deposits from customers	7.6%	25.8%	9.8%	17.6%	13.6%	13.9%
Total assets	14.1%	20.6%	17.3%	17.8%	12.4%	12.5%
Total liabilities	13.9%	22.1%	16.0%	19.5%	12.3%	12.2%
Shareholders'equity	16.0%	8.6%	28.2%	4.6%	13.9%	15.0%
Net interest Income	-11.3%	6.0%	41.2%	16.4%	10.4%	14.6%
Net fees & commission income	-4.8%	26.2%	-20.0%	98.9%	20.6%	18.2%
Total Income	1.7%	7.2%	25.5%	18.9%	8.8%	13.4%
Personnel expenses	15.8%	11.2%	18.9%	40.3%	10.0%	10.0%
Total expenses	10.2%	14.9%	16.5%	17.6%	10.6%	9.8%
Operating profit	-5.1%	7.7%	19.7%	7.4%	13.1%	22.9%
Net result after minorities	-7.5%	6.0%	19.0%	11.7%	13.0%	22.8%

Source: Company data, Erste Group estimates

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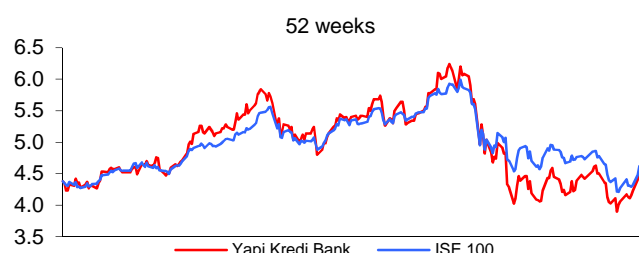
ERSTE GROUP

Yapi Kredi Bank

from Accumulate to Buy

TRY mn	2012	2013e	2014e	2015e
Net interest Income	4,492.0	4,883.5	5,318.2	6,016.3
Net fee/com. inc.	1,761.0	2,055.8	2,407.2	2,820.5
Total Income	6,735.6	8,677.8	8,095.8	9,257.3
EBT	2,449.2	4,080.0	3,092.7	3,794.1
Net result after min.	1,913.47	3,469.56	2,493.25	3,054.38
EPS (TRY)	0.44	0.80	0.57	0.70
BVPS (TRY)	3.88	4.46	4.90	5.50
Tang. BVPS (TRY)				
Div./share (TRY)	0.07	0.07	0.13	0.10
ROE (%)	13.40	19.14	12.25	13.50
P/E (x)	11.8	5.7	7.9	6.5
P/BV(x)	1.3	1.0	0.9	0.8
Dividend Yield	1.3%	1.6%	2.8%	2.3%

Share price (TRY) close as of 16/09/2013	4.55
Number of shares (mn)	4,347.1
Market capitalization (TRY mn / EUR mn)	19,779 / 7,426
Enterprise value (TRY mn / EUR mn)	0 / 0



Performance	12M	6M	3M	1M
in TRY	2.9%	-15.7%	-8.8%	1.1%

Reuters	YKBNK.IS	Free float	18.2%
Bloomberg	YKBNK TI	Shareholders	Financial Services (81.8%)
Div. Ex-date	10/04/13		
Target price	5.55	Homepage:	www.yapikredi.com

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An attractively valued retail franchise ready for growth

Recent developments: In 2Q13, Yapi Kredi Bank ("YKB") posted strong results by attaining growth in selective loan segments and delivering a flat NIM on a q/q basis thanks to the well-managed funding costs. Strong pre-provision income (+13% q/q) and declining provisions (-6% q/q) led YKB's earnings to grow by +15% q/q. Separately, YKB completed the sale of its insurance arm for TRY 1,243mn (before tax) in July, which will raise its total CAR by 80bp (1H13:15.8%) and provide further ammunition for growth. Separately, recent credit cards and overdraft accounts regulations may weigh on margins, but the negative impact will be limited in our view.

Outlook: After its strong performance in 1H13, we expect YKB's NIM to decline by 38bp NIM in 2H13 vs. 1H1, down to 4.6%, -22bp y/y. We expect management to maintain its focus on growing in the high margin loan segments and to pro-actively manage its funding costs, which will result in lower NIM compression vs. its peer group in 2014. We project 15% y/y loan growth and estimate its NIM to decline by 15bp y/y. Adjusted for the one-off gain, we estimate 13% y/y growth in pre-provision income and with the lower provisions charges due to improving LLPs and the elimination of a one-off charge, we estimate 9% y/y earnings growth in 2014.

Recommendation: We view Yapi Kredi Bank as a good retail banking play with an attractive valuation as the stock trades at 0.93x of its 2014E P/BV multiple. Our revised valuation model indicates a target price of TRY5.55, offering 22% upside potential. We upgrade the stock to "Buy" from "Accumulate" on the back of its strong financials, earnings growth and attractive valuation.

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YAPI KREDI BANK

TRY x000	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Net Income	2,060	1,857	1,913	3,469	2,493	3,054	3,965	5,153
<i>Growth in Net Income</i>	<i>52%</i>	<i>-10%</i>	<i>3%</i>	<i>81%</i>	<i>-28%</i>	<i>23%</i>	<i>30%</i>	<i>30%</i>
Less:								
<i>Dividend Income</i>	155	128	183	95	95	95	95	95
<i>One-off items</i>	0	0	0	1,181	0	0	0	0
Adjusted net income	1,905	1,729	1,730	2,193	2,398	2,959	3,870	5,058
<i>Growth in Net Income</i>	<i>57%</i>	<i>-9%</i>	<i>0%</i>	<i>27%</i>	<i>9%</i>	<i>23%</i>	<i>31%</i>	<i>31%</i>
Book Value	10,318	11,700	16,862	19,387	21,317	23,921	27,060	30,423
<i>Growth in Shareholders' Equity</i>	<i>25%</i>	<i>13%</i>	<i>44%</i>	<i>15%</i>	<i>10%</i>	<i>12%</i>	<i>13%</i>	<i>12%</i>
Less:								
<i>Goodwill</i>	979	979	979	979	979	979	979	979
<i>Participations</i>	1,837	1,849	3,868	2,599	2,599	2,599	2,599	2,599
<i>Dividend Income</i>	155	128	183	95	95	95	95	95
<i>One-off items</i>	0	0	0	1,181	0	0	0	0
Adjusted Book Value	7,346	8,743	11,831	14,532	17,643	20,247	23,385	26,749
<i>ROE (Reported)</i>	<i>22.2%</i>	<i>16.9%</i>	<i>13.4%</i>	<i>19.1%</i>	<i>12.2%</i>	<i>13.5%</i>	<i>15.6%</i>	<i>17.9%</i>
<i>ROE (Adjusted)</i>	<i>30.1%</i>	<i>21.5%</i>	<i>16.8%</i>	<i>16.6%</i>	<i>14.9%</i>	<i>15.6%</i>	<i>17.7%</i>	<i>20.2%</i>

Sustainable Core ROE	17.1%
Sustainable long-term growth	10.0%
Cost of Equity	16.2%
Target P/BV @ YE13	1.16
Banking Value	18,164
Participations	2,599
Goodwill	979
Value of YKB by 2013	21,743
Value of YKB as now	20,768
Value of YKB 12-mth forward	24,123
# of shares	4,347
Target Price (TRY)	5.55
Current market cap.	19,779
Upside potential	22%

Erste Group Research – Company Report

Yapi Kredi Bank | Banking | Turkey

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Income Statement	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Net interest Income	3,199.6	3,310.1	4,492.0	4,883.5	5,318.2	6,016.3
Risk provisions for loans and advances	-1,083.0	-776.2	-1,293.4	-1,267.3	-1,338.0	-1,477.0
Net interest Income (after risk prov.)	2,116.6	2,533.9	3,198.6	3,616.1	3,980.2	4,539.3
Net fees & commission income	1,596.2	1,826.8	1,761.0	2,055.8	2,407.2	2,820.5
Dividend income	155.2	128.2	183.4	95.5	95.5	95.5
Trading result	-66.6	-254.7	-39.0	50.0	-25.0	-25.0
Result on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other income	1,206.9	811.4	338.2	1,593.0	300.0	350.0
Total Income	6,091.2	5,821.8	6,735.6	8,677.8	8,095.8	9,257.3
Other administrative expenses	-1,503.8	-1,631.5	-1,760.5	-1,328.1	-1,502.6	-1,650.7
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	2,519.8	2,355.1	2,449.2	4,080.0	3,092.7	3,794.1
Extraordinary result						
Profit / loss before taxes	2,519.8	2,355.1	2,449.2	4,080.0	3,092.7	3,794.1
Income taxes	-459.5	-497.6	-535.8	-610.5	-599.4	-739.7
Profit / loss after taxes	2,060.3	1,857.5	1,913.5	3,469.6	2,493.2	3,054.4
Minority interests						
Net result after minorities	2,060.3	1,857.5	1,913.5	3,469.6	2,493.2	3,054.4
Adjusted profit/loss before taxes						
Adjusted net profit/loss						
Balance sheet	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Cash and balances with central banks	5,903.5	9,734.7	11,076.6	17,115.3	18,001.2	18,347.6
Loans and advances to banks (net)	2,014.0	3,951.9	5,451.0	3,809.3	3,885.5	3,963.2
Loans and advances to customers (net)	52,615.2	67,779.8	75,769.3	89,635.6	102,950.1	120,773.6
Interest-earning financial assets	18,346.0	20,041.4	21,388.3	20,318.9	19,303.0	18,144.8
Interest-earning assets	78,878.6	101,507.8	113,685.2	130,879.2	144,139.8	161,229.2
Non-interest earning assets	0.0	0.0	0.0	0.0	0.0	0.0
Equity holdings	1,837.2	1,849.1	3,868.1	2,599.3	2,599.3	2,599.3
Intangible assets	1,229.4	1,261.9	1,329.9	1,329.9	1,329.9	1,329.9
Tangible assets	1,105.0	1,009.5	984.7	1,044.7	1,104.7	1,164.7
Other assets	1,726.0	2,474.7	2,312.3	3,483.8	3,759.0	4,115.4
TOTAL ASSETS	84,776.1	108,103.0	122,180.2	139,336.9	152,932.7	170,438.5
Deposits from banks	1,054.1	679.6	695.8	1,223.5	1,303.8	1,431.9
Deposits from customers	51,670.4	62,837.7	67,348.1	76,204.8	83,196.7	92,674.5
Debt securities issued	11,332.9	20,736.7	19,476.9	24,311.6	27,589.0	31,148.2
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	64,057.4	84,254.1	87,520.9	101,740.0	112,089.5	125,254.6
LT provisions	2,279.5	2,407.0	2,899.2	3,089.9	3,464.0	3,954.3
Other liabilities	6,011.2	7,217.9	9,701.8	9,196.6	10,137.4	11,335.4
Subordinated liabilities	2,110.3	2,523.8	5,195.6	5,922.9	5,924.7	5,972.8
Total liabilities	74,458.4	96,402.8	105,317.5	119,949.4	131,615.6	146,517.1
Shareholders' equity	10,317.7	11,700.2	16,862.0	19,387.5	21,317.1	23,921.4
Minorities						
Hybrid capital						
Other reserves/equity						
TOTAL LIAB. , EQUITY	84,776.1	108,103.0	122,179.5	139,336.9	152,932.7	170,438.5
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Other figures						
Tangible shareholders' equity						
Off-balance sheet items	19,463.4	26,135.1	28,362.8	33,440.9	36,703.8	40,905.2
Year-end no. of shares outstanding (mn)	4,347.10	4,347.10	4,347.10	4,347.10	4,347.10	4,347.10
Average no. of shares outstanding (mn)	4,347.10	4,347.10	4,347.10	4,347.10	4,347.10	4,347.10
Fully diluted no. of shares outstanding (mn)	4,347.10	4,347.10	4,347.10	4,347.10	4,347.10	4,347.10
No. of employees (FTE)	14,411	14,855	14,729	15,405	16,112	16,512
No. of branches	868	906	927	957	1,007	1,032
Payout ratio	0.0%	0.0%	15.7%	9.0%	22.6%	14.7%

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Yapi Kredi Bank | Banking | Turkey

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Margins & Ratios	2010	2011	2012	2013e	2014e	2015e
(TR GAAP, TRY mn, 31/12)						
Profitability						
Int. income/avg. int.-bearing assets (Asset Yield)	8.4%	7.9%	8.7%	7.6%	8.0%	7.9%
Int. expenses/avg. int.-bearing liab. (Cost of funds)	-4.7%	-5.2%	-5.7%	-4.7%	-5.4%	-5.1%
Yield on assets - cost of funds (Interest spread)	3.7%	2.7%	3.0%	2.9%	2.7%	2.8%
Net. int. income/avg. assets (Net interest margin)	4.3%	3.4%	3.9%	3.7%	3.6%	3.7%
Net fee and commission margin (avg. total assets)	2.1%	1.9%	1.5%	1.6%	1.6%	1.7%
ROE	22.2%	16.9%	13.4%	19.1%	12.3%	13.5%
ROA	2.8%	1.9%	1.7%	2.7%	1.7%	1.9%
Operating margin	3.4%	2.4%	2.1%	3.1%	2.1%	2.3%
Efficiency						
Cost/Income ratio	40.9%	46.2%	44.4%	38.4%	45.3%	43.1%
Cost/avg. Assets ratio	3.3%	2.8%	2.6%	2.5%	2.5%	2.5%
Personnel expenses/total income	-16.2%	-18.2%	-18.3%	-23.1%	-26.7%	-25.2%
Avg. staff costs (TRY)	68,515	72,369	83,318	132,893	137,227	143,178
Balance sheet structure						
Loans deposit ratio	102.7%	109.0%	114.0%	119.2%	125.4%	132.0%
Loans/total assets	62.6%	63.4%	62.8%	65.2%	68.2%	71.8%
Deposits/total assets	60.9%	58.1%	55.1%	54.7%	54.4%	54.4%
Capital adequacy						
Equity ratio	12.2%	10.8%	13.8%	13.9%	13.9%	14.0%
Capital adequacy ratio	16.1%	14.7%	16.3%	17.7%	17.3%	16.9%
Asset quality						
Non-performing loans ratio	3.5%	3.0%	3.3%	3.7%	3.8%	3.7%
Non-performing loans coverage ratio	22.9%	35.3%	38.6%	34.6%	34.6%	34.6%
Risk provisions/loans to customers (gross)	0.8%	1.1%	1.3%	1.3%	1.3%	1.3%
Risk provisions/avg. customer loans (Risk costs)	2.4%	1.3%	1.8%	1.5%	1.4%	1.3%
Risk earnings ratio	33.8%	23.5%	28.8%	26.0%	25.2%	24.5%
Income statement structure						
Net interest income / total income	52.5%	56.9%	66.7%	56.3%	65.7%	65.0%
Net fee and commission income / total income	26.2%	31.4%	26.1%	23.7%	29.7%	30.5%
Net trading result / total income	-1.1%	-4.4%	-0.6%	0.6%	-0.3%	-0.3%
Non-interest income / total income	47.5%	43.1%	33.3%	43.7%	34.3%	35.0%
Personnel expenses / total operating expenses	39.6%	39.4%	41.2%	60.1%	59.0%	58.6%
Effective tax rate	-18.2%	-21.1%	-21.9%	-15.0%	-19.4%	-19.5%
Growth Rates						
(TR GAAP, TRY mn, 31/12)						
Loans and advances to customers (net)	39.0%	28.8%	11.8%	18.3%	14.9%	17.3%
Deposits from customers	28.8%	21.6%	7.2%	13.2%	9.2%	11.4%
Total assets	31.3%	27.5%	13.0%	14.0%	9.8%	11.4%
Total liabilities	32.3%	29.5%	9.2%	13.9%	9.7%	11.3%
Shareholders'equity	24.8%	13.4%	44.1%	15.0%	10.0%	12.2%
Net interest Income	-8.0%	3.5%	35.7%	8.7%	8.9%	13.1%
Net fees & commission income	11.1%	14.4%	-3.6%	16.7%	17.1%	17.2%
Total Income	8.9%	-4.4%	15.7%	28.8%	-6.7%	14.3%
Personnel expenses	-4.0%	7.5%	16.4%	62.5%	8.0%	8.0%
Total expenses	7.6%	8.1%	11.2%	11.3%	10.0%	8.8%
Operating profit	47.0%	-6.5%	4.0%	66.6%	-24.2%	22.7%
Net result after minorities	52.1%	-9.8%	3.0%	81.3%	-28.1%	22.5%

Source: Company data, Erste Group estimates

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Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
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Reduce	12	6.5	3	15.0
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N.R./UND.REV./RESTR.	19	10.3	0	0.0
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