

Turkey Banks

Taking stock of the latest sector trends and updating estimates post 3Q23 results

What's new across the sector?

We note the following key takeaways from the latest weekly/monthly BRSA disclosures:

- Total **deposit growth** was c.61% ytd, as per the latest weekly data for November 2023, and c.65% year-on-year, with TL deposit growth of c.99% year-on-year and c.78% ytd. Foreign currency (FC) deposits were up c.42% ytd and grew c.32% year-on-year. The overall banking sector TL loan-to-deposit ratio has declined by c.19pp ytd to 87%, while the FC loan-to-deposit ratio has increased c.3pp ytd to 63%. The total loan-to-deposit ratio has declined 8pp to 78% vs. end-2022.
- Total **loan growth** was c.47% vs. end-December 2022, as per the latest weekly data for November 2023, and up c.55% year-on-year. TL loan growth came in at c.46% ytd and c.59% year-on-year, while FC loans growth came in at 48% ytd and at c.47% year-on-year.
- According to the latest CBRT data, marginal TL lending rates for commercial and consumer local currency loans stood at 50.9% and 58.5%, respectively, for the week ending November 17, while the weighted average cost of TL deposits stood at 40.8%. The overall TL **loan-deposit spreads** came in at c.13.9% on average in the latest November data vs. the October 2023 average of c.14.7%.
- **Monthly net profit** for the sector came in at TL88.5bn in September 2023, up 55% month-on-month and c.2.6x that in September 2022. The private banks' net profit declined to TL38.8bn for the month of September 2023, up c.99% month-on-month and c.64% year-on-year. State banks reported a net profit of TL19.9bn, up c.40% mom (and vs. TL5.3bn in January 2023). **ROE** for the private sector was up c.41pp month-on-month to c.86%, mainly driven by higher NII and higher other NIR. This is while public sector ROE increased c.13pp month-on-month to c.50%, mainly driven by higher NII, higher fees and higher other NIR.

On 23rd November, Turkey's central bank raised the benchmark one-week repo rate by 500 bps to 40% and also signaled that it will end its hiking cycle soon. Following

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this, our economists continue to forecast the Committee to raise its policy rate by a further 250bp at the December meeting, completing its hiking cycle at 42.50% (vs. previous expectations of policy rates to peak at 40.0%).

What are we changing?

We make changes to our estimates for Turkish banks incorporating 3Q23 results and for the latest macro and banking sector trends. We maintain our cautious view on Turkish banks on the back of the challenging macro backdrop. An improving and stable macro backdrop could make us more constructive on the operating outlook, and by extension a more stable FX and operating outlook could improve investor risk/reward perception around Turkish banks.

We increase our EPS estimates for our Turkey banks coverage by c.7% on average for 2023-25E on the back of higher revenue estimates (mainly from improving non-interest income) on average and lower credit costs on average, which is partly offset by higher expenses growth. Our price targets are up c.5% on average for the Turkish banks.

What are our latest views on Turkish Banks stocks?

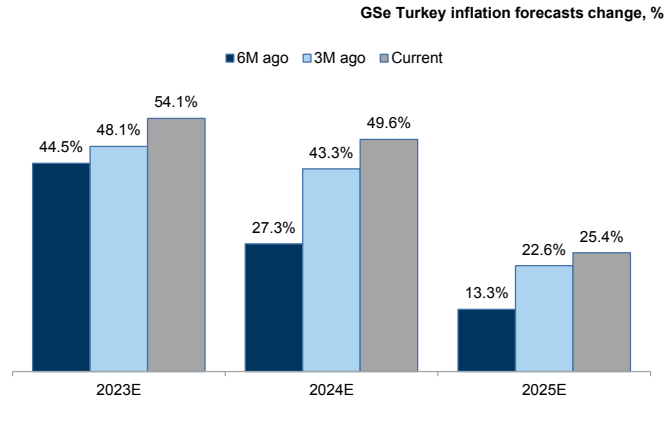
- We are Buy-rated on **Akbank** with a revised 12-month, ROE/COE-based price target of TL38.0 (from TL36.0). We believe Akbank has: (1) strong pre-provision and capital buffers, with c.8% PPOP/average assets (12-month trailing basis) and a c.15.5% CET-1 ratio (3Q23, consolidated) vs. c.6%/13% on average for our Turkish banks coverage. On Datastream consensus estimates, the bank trades at c.0.6x 12-month forward P/B, a 10% discount to the sector average, despite generating above-sector average ROE. Our FY23-25E EPS are up 12% on average, reflecting higher revenue estimates and lower credit cost expectations, partly offset by higher opex. Our price target increases c.6%, reflecting the roll-forward of our valuation to a November 2025E basis and our estimate changes. We expect Akbank to deliver one of the highest ROTEs over FY23-25 in our Turkey banks coverage.
- We are Neutral on **Yapi** with a revised 12-month, ROE/COE-based price target of TL20.0 (from TL18.0). We view the bank's operating performance positively, with it generating one of the highest 9M23 ROE in the sector of c.46% (bank-only). The bank also shows one of the lowest sensitivity in capital ratios to TL weakness, as evidenced by its performance at December 2021 (the bank had excess capital buffers despite sharp TL depreciation). We also see the bank generating one of the highest ROTEs in the sector in 2023, at c.43% on our estimates. Our Neutral rating reflects relative valuation, with the multiple re-rating putting the stock trading at 0.69x 12-month forward P/B on Datastream consensus (vs. 5Y historical average of c.0.5x). Our 2023-25E EPS revisions (+c.16% on average) and price target increase (+c.11%, driven by higher estimates and the roll-forward of our valuation) reflect its higher revenue generation, versus our prior expectations, and lower credit costs.
- We are Neutral on **Garanti** with a revised 12-month, ROE/COE-based price target of TL54.0 (from TL53.0). The bank has one of the highest buffers within our Turkish banks coverage, with PPOP/average assets (12-month trailing basis) and CET-1 ratio (3Q23, unconsolidated) at c.9%/16.1%, respectively, vs. c.6%/13% averages for our

Turkish banks coverage. That said, Garanti trades at c.0.71x 12-month forward Datastream consensus P/B, the highest across our Turkish banks coverage, which we believe broadly captures its near-term ROE generation potential. Our FY23-25 EPS estimates for Garanti increase by c.4% on average, reflecting higher revenue generation partly offset by higher credit costs and opex. Our price target rises c.2%, reflecting the increase to our EPS forecasts and the roll-forward of our valuation to a November 2025E basis. We expect Garanti to deliver one of the highest ROTEs over FY23-25 in our Turkish banks coverage.

- We are Neutral on **Isbank** with a revised ROE/COE-based 12-month price target of TL21.0 (from TL19.0). We increase our 2023-25E EPS (+10% on average) and price target (c.+11%), reflecting higher revenue generation versus our prior expectations and, in our PT, reflecting the roll-forward of our valuation to November 2025E. With shares trading at 0.69x Datastream consensus 12-month forward P/B, we believe its valuation broadly captures its near-term ROE potential.
- We are Sell-rated on **Vakif** with a revised 12-month, ROE/COE-based price target of TL10.0 (from TL9.40). We believe the bank has: (1) lower provision and capital buffers than its private sector peers, with c.5% PPOP/average assets (12-month trailing basis) and a c.10% (as of 3Q23, unconsolidated) CET-1 ratio; (2) one of the highest levels of dependence on TL funding; and (3) meaningfully lower GS-calculated ROA, at c.2% as of 3Q23, with the private sector banks at c.5%. The bank trades at 0.67x Datastream consensus 12-month forward P/B, only slightly lower vs the other private sector banks on 0.70x on average, while having lower near-term ROE generation on our estimates. Our FY23-25E EPS increase c.8% on average, on the back of higher fee income and lower credit costs, partially offset by higher opex, and our price target is up c.6%.
- We are Sell-rated on **Halk** with a revised 12-month, ROE/COE based price target of TL7.00 (from TL7.30). The c.8% average decrease to our FY23-25E EPS mainly reflects lower revenue estimates on average along with higher opex. Our price target is down c.4% accordingly. In our view Halk has: (1) lower provision and capital buffers than its private sector peers with c.2% PPOP/average assets (12-month trailing basis) and a c.10% (as of 3Q23, unconsolidated) CET-1 ratio; (2) one of the highest levels of dependence on TL funding within its deposit mix (c.60%); and (3) one of the lowest GS-calculated ROA at c.1% as of 3Q23, with private sector banks at closer to c.5%. The bank trades at c.0.6x Datastream consensus 12-month forward P/B, with lower-than-peer average ROE generation on our estimates.

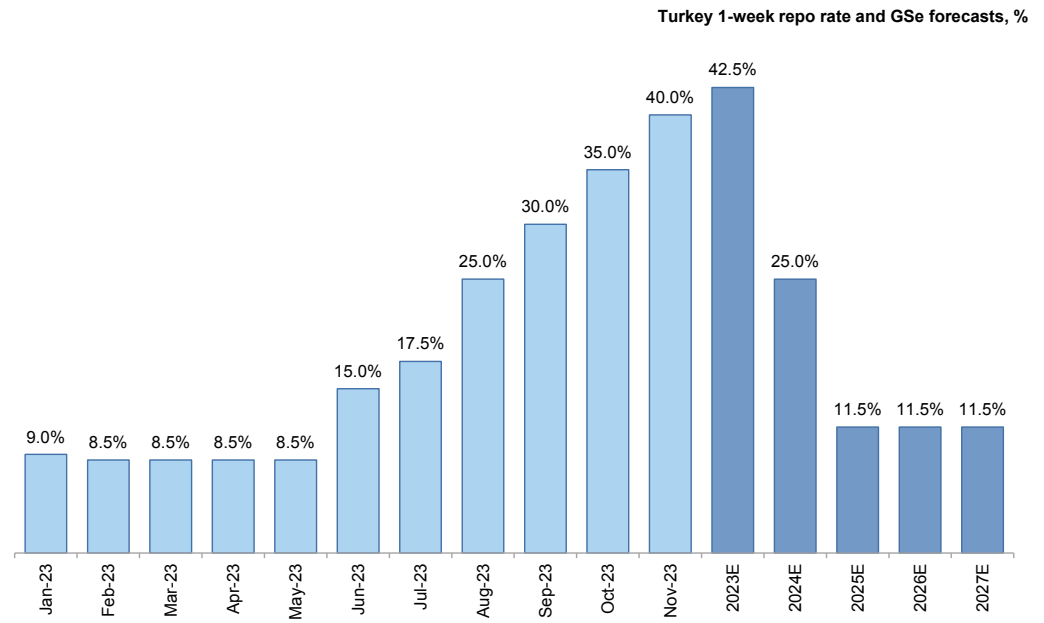
Monetary policy: Gradual return to orthodoxy with the roll-back of regulations (unorthodox monetary policy) that have been in place over recent years

Exhibit 1: With inflation expectations remaining persistently high...



Source: Goldman Sachs Global Investment Research

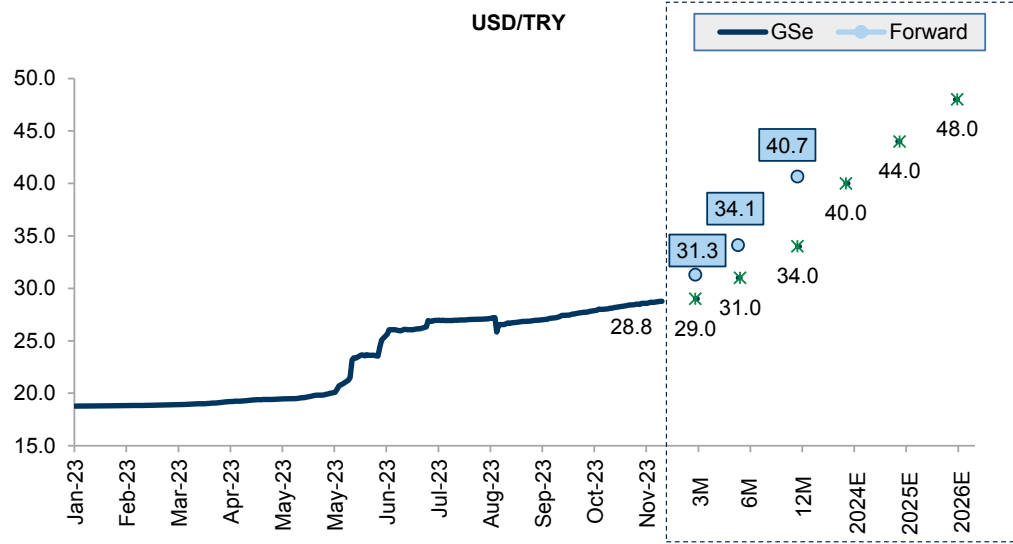
Exhibit 2: ...we are seeing a gradual move towards an orthodox monetary policy with the increase in repo rates



Source: Datastream, Goldman Sachs Global Investment Research

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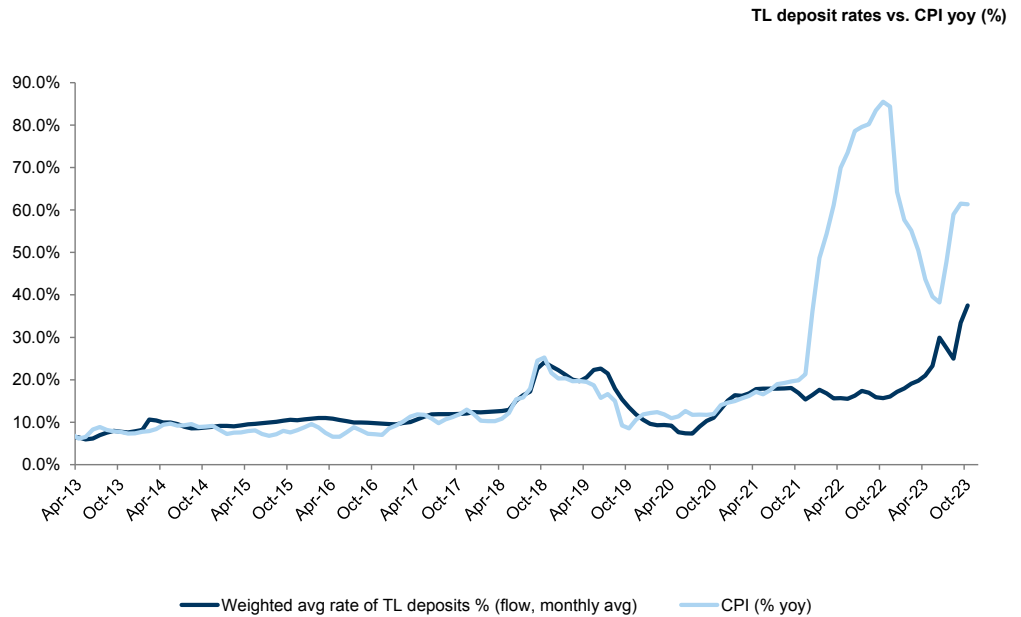
Exhibit 3: The TL is expected to depreciate further



Source: Datastream, Goldman Sachs Global Investment Research

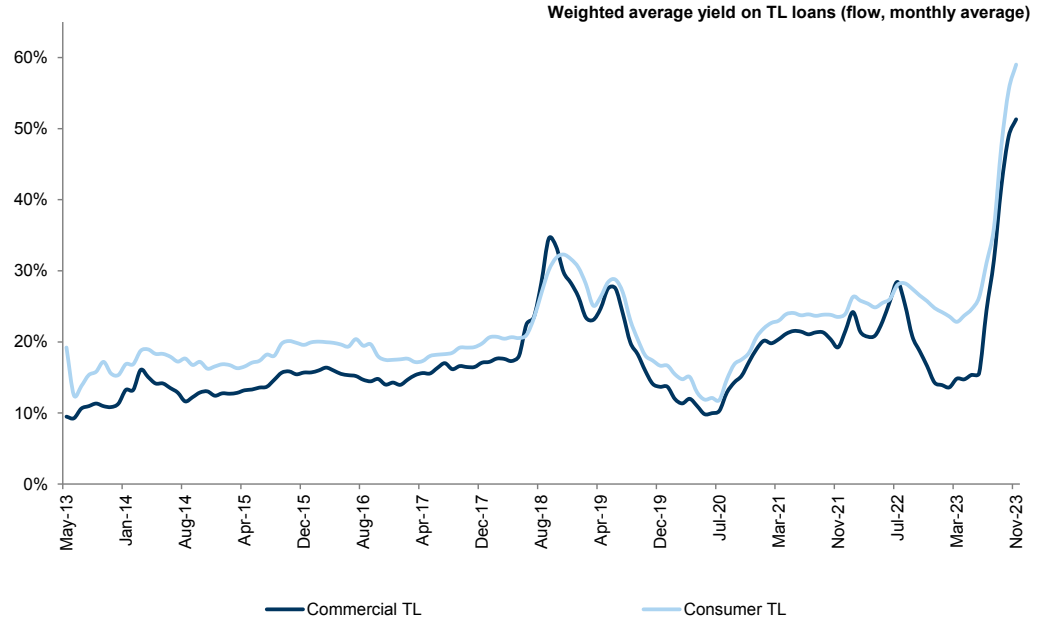
Banking sector trends: Removal of caps on TL commercial loans has resulted in a recovery of spreads

Exhibit 4: Due to regulatory effects, deposit yields have not compensated for inflation, with local investors choosing equities as an inflation hedge instead, we believe



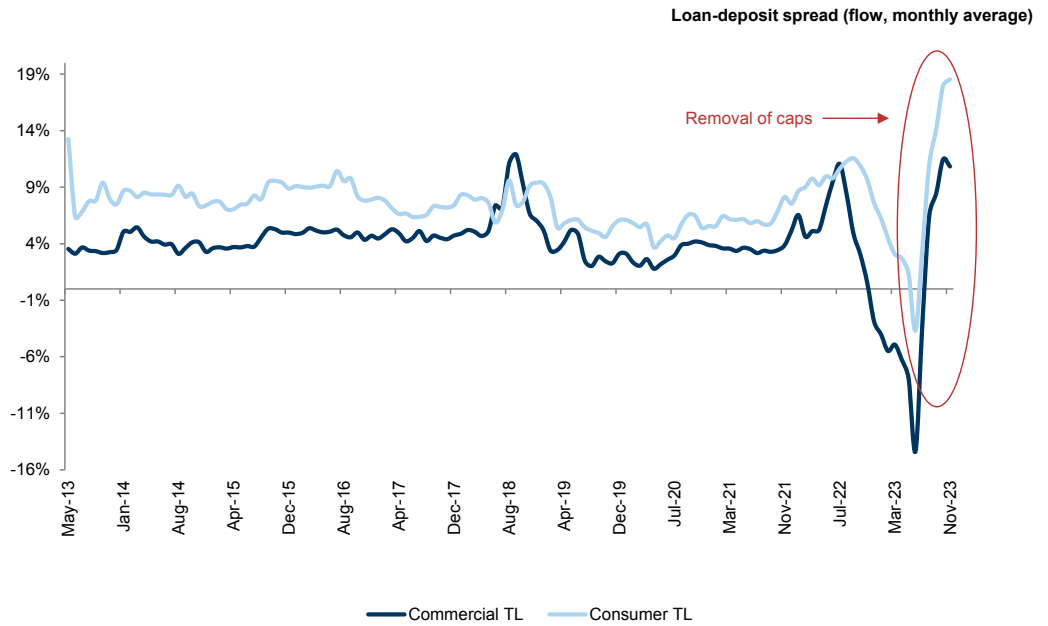
Source: CBRT, Datastream, Goldman Sachs Global Investment Research

Exhibit 5: Post the roll-back of caps on loans, banks can now reprice TL loan yields higher ...



Source: CBRT, Goldman Sachs Global Investment Research

Exhibit 6: ...resulting in a recovery of spreads that had been in negative territory

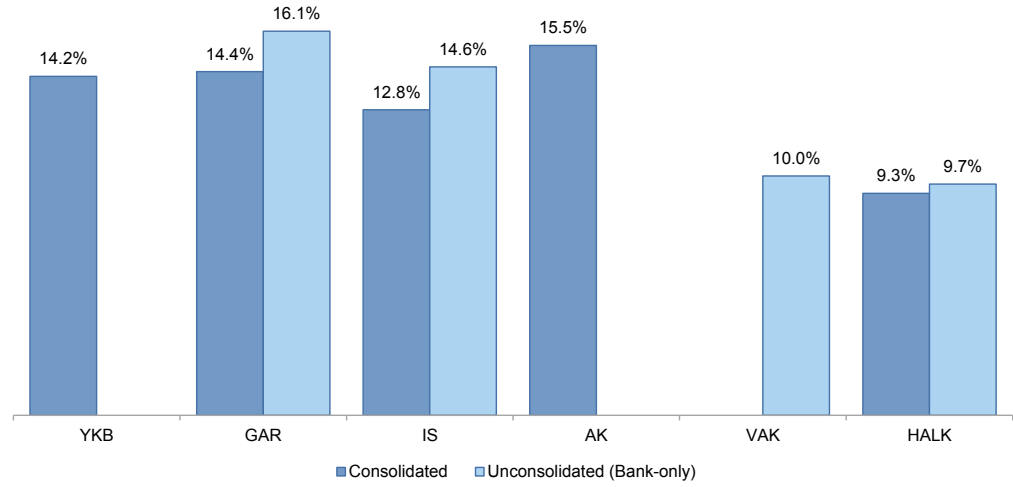


Source: CBRT, Goldman Sachs Global Investment Research

Capital buffers remain adequate

Exhibit 7: Capital buffers remain adequate for Turkish banks

CET-1 ratio, 3Q23



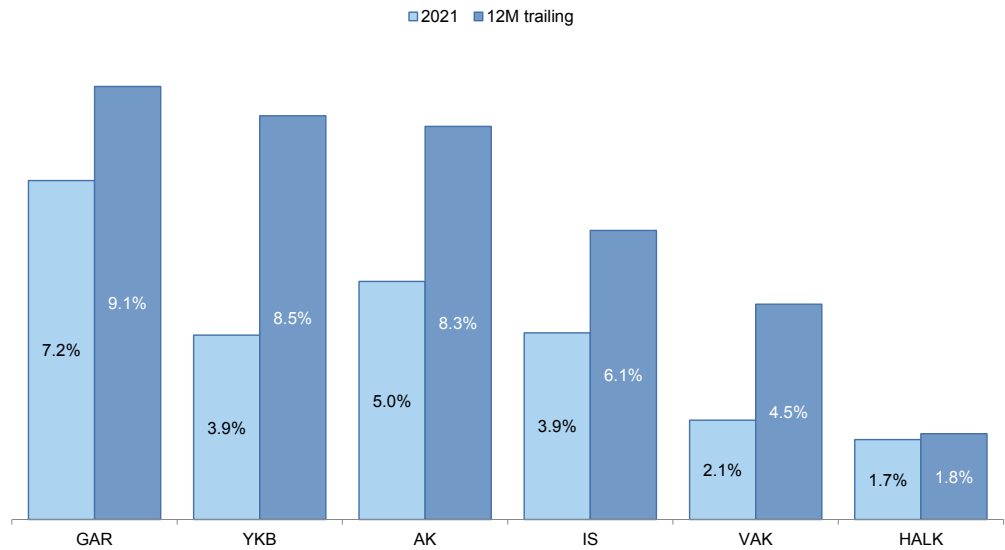
Ratios for GAR, IS, AK, VAK and YKB are without forbearances

Source: Company data

High returns in nominal terms supported by an inflationary backdrop and stable asset quality

Exhibit 8: GS calculated operating income as percentage of assets has increased meaningfully over the 12M trailing period for most of the names vs. FY21...

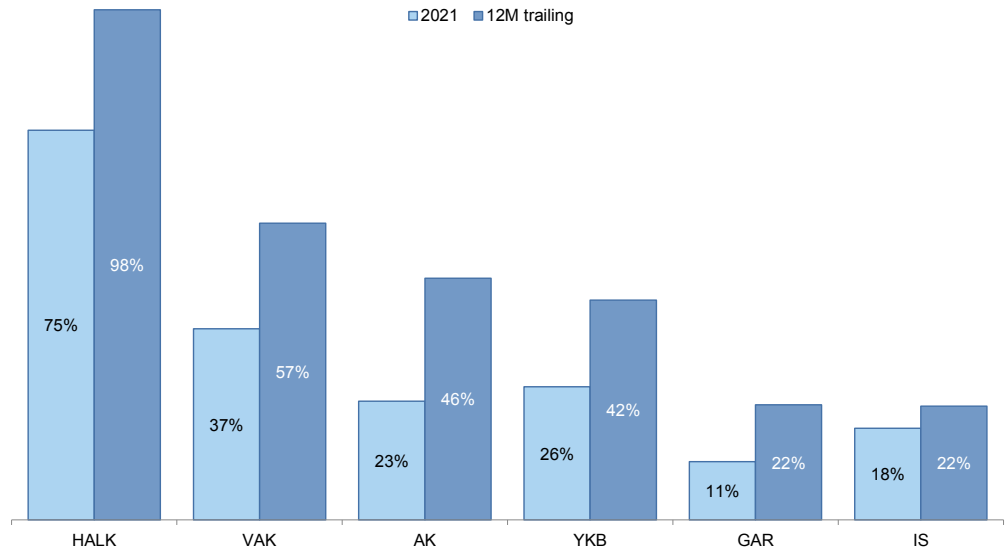
PPOP/ Avg assets



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: ...given the elevated inflationary backdrop, which has driven an increase in CPI-linker income...

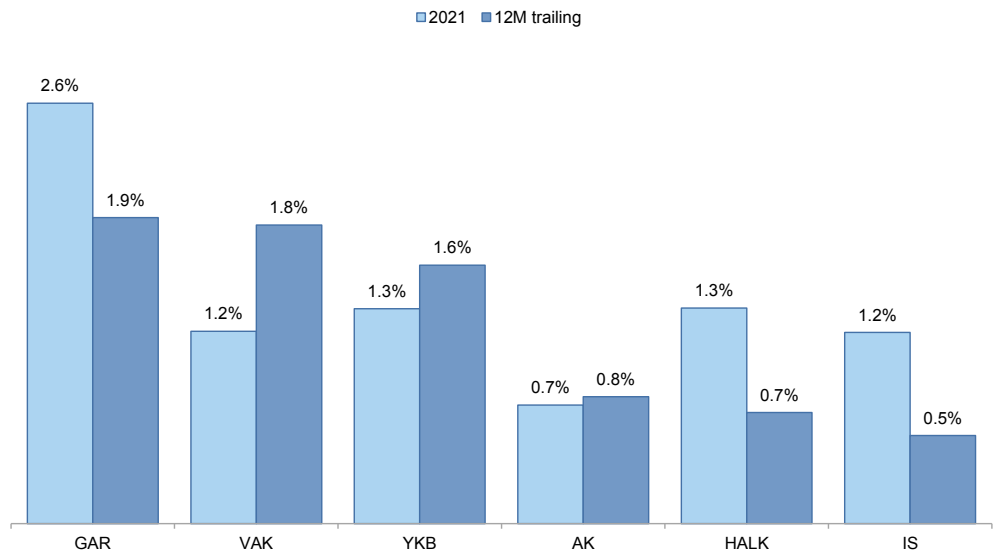
CPI linkers income as % of revenue



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 10: ...while GS calculated credit costs have been broadly in line/below historical levels for most of the banks...

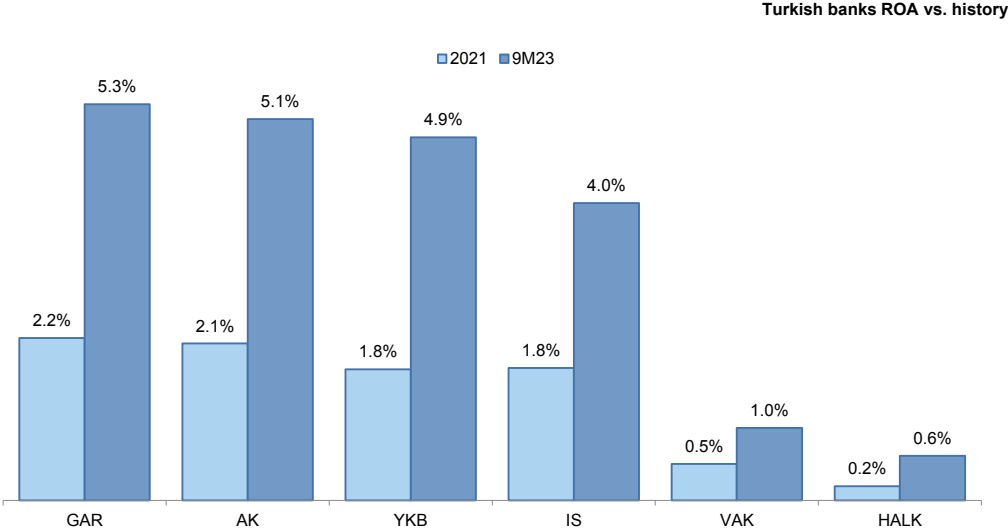
Credit costs as % of total assets



Source: Company data, Goldman Sachs Global Investment Research

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Exhibit 11: ...which has led to meaningfully higher returns generation in nominal terms (GS calculated ROA)



Source: Company data, Goldman Sachs Global Investment Research

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Turkish banking sector data: Latest data points

Profitability

Exhibit 12: Sector monthly ROA/ROE were up c.2pp/22pp mom in September, mainly driven by higher NII, higher fee and other NIR income, partly offset by higher opex and higher credit costs

Banking sector

	NII	Fees	Other NIR	Opex	CL	Tax & other	ROA	Leverage	ROE	ROA (ex tax & other)	ROE (ex tax & other)
Jan-21	2.9%	0.3%	2.6%	-3.2%	-1.7%	0.0%	0.9%	10.1x	9.2%	0.9%	9.4%
Feb-21	2.6%	0.3%	2.3%	-2.9%	-1.4%	0.2%	1.0%	10.1x	10.5%	0.8%	8.4%
Mar-21	3.7%	0.3%	2.8%	-4.4%	-3.2%	2.2%	1.5%	10.2x	14.9%	-0.7%	-7.1%
Apr-21	3.0%	0.3%	1.7%	-2.7%	-0.8%	-0.7%	0.9%	10.2x	8.9%	1.6%	16.1%
May-21	3.3%	0.3%	1.6%	-3.0%	-1.4%	-0.1%	0.8%	10.3x	8.2%	0.9%	9.6%
Jun-21	3.5%	0.3%	2.6%	-2.8%	-1.5%	-0.4%	1.8%	10.4x	18.2%	2.1%	22.3%
Jul-21	3.7%	0.3%	2.0%	-2.4%	-0.9%	-1.5%	1.2%	10.5x	12.8%	2.7%	28.4%
Aug-21	3.9%	0.3%	2.0%	-2.3%	-0.8%	-1.6%	1.6%	10.5x	16.3%	3.1%	32.7%
Sep-21	4.4%	0.3%	2.1%	-3.5%	-1.6%	-0.1%	1.6%	10.5x	16.5%	1.7%	17.5%
Oct-21	4.9%	0.3%	1.9%	-3.7%	-2.3%	0.6%	1.7%	10.5x	17.6%	1.1%	11.7%
Nov-21	6.6%	0.4%	2.3%	-8.0%	-7.0%	7.3%	1.6%	10.8x	17.5%	-5.6%	-60.7%
Dec-21	7.4%	0.4%	2.9%	-6.1%	-5.1%	3.5%	3.0%	11.0x	33.0%	-0.5%	-5.9%
Jan-22	5.7%	0.4%	2.8%	-4.3%	-2.4%	1.2%	3.4%	11.1x	37.4%	2.2%	24.5%
Feb-22	5.8%	0.3%	2.3%	-3.9%	-2.0%	0.5%	3.0%	11.4x	33.9%	2.5%	28.0%
Mar-22	6.9%	0.4%	3.0%	-5.7%	-3.4%	2.4%	3.7%	11.4x	41.9%	1.2%	14.2%
Apr-22	6.8%	0.4%	2.8%	-4.0%	-1.8%	1.0%	5.1%	11.4x	58.0%	4.1%	47.1%
May-22	7.6%	0.4%	2.7%	-5.4%	-3.3%	2.7%	4.7%	11.4x	53.8%	2.0%	23.0%
Jun-22	9.0%	0.4%	4.9%	-5.2%	-5.4%	1.2%	4.9%	11.4x	56.4%	3.7%	42.6%
Jul-22	9.3%	0.4%	2.1%	-6.0%	-3.0%	2.0%	4.9%	11.5x	56.4%	2.9%	33.5%
Aug-22	7.6%	0.4%	2.6%	-3.9%	-1.6%	0.2%	5.3%	11.6x	61.6%	5.2%	59.6%
Sep-22	8.6%	0.4%	3.0%	-6.5%	-4.8%	3.1%	3.9%	11.5x	45.1%	0.8%	9.7%
Oct-22	8.2%	0.4%	2.3%	-4.2%	-2.1%	0.8%	5.4%	11.5x	62.0%	4.6%	52.6%
Nov-22	9.0%	0.4%	2.2%	-4.6%	-2.0%	0.5%	5.6%	11.3x	62.9%	5.1%	57.0%
Dec-22	10.8%	0.4%	4.0%	-9.1%	-6.5%	4.7%	4.3%	11.1x	47.7%	-0.3%	-3.8%
Jan-23	5.1%	-3.3%	4.5%	-5.8%	-2.5%	2.1%	3.8%	10.9x	41.9%	1.7%	18.5%
Feb-23	4.0%	0.4%	3.2%	-5.5%	-1.9%	2.2%	2.5%	10.8x	26.6%	0.3%	2.8%
Mar-23	4.7%	0.4%	6.7%	-5.3%	-2.1%	-0.8%	3.7%	10.7x	39.2%	4.4%	47.4%
Apr-23	3.7%	0.4%	3.0%	-4.1%	-1.4%	1.7%	3.4%	10.6x	35.9%	1.7%	18.0%
May-23	2.9%	0.4%	3.6%	-4.7%	-1.6%	3.2%	3.9%	10.6x	40.9%	0.6%	6.5%
Jun-23	2.7%	0.5%	3.9%	-6.1%	-3.3%	7.2%	4.8%	10.6x	51.4%	-2.3%	-24.8%
Jul-23	3.0%	0.5%	3.9%	-5.1%	-1.3%	2.5%	3.4%	10.6x	35.6%	0.9%	9.2%
Aug-23	4.9%	0.4%	3.8%	-4.5%	-1.1%	0.7%	4.3%	10.6x	45.2%	3.6%	37.9%
Sep-23	8.2%	0.5%	4.5%	-5.2%	-1.7%	0.0%	6.3%	10.6x	67.3%	6.3%	67.3%

Source: BRSA, Goldman Sachs Global Investment Research

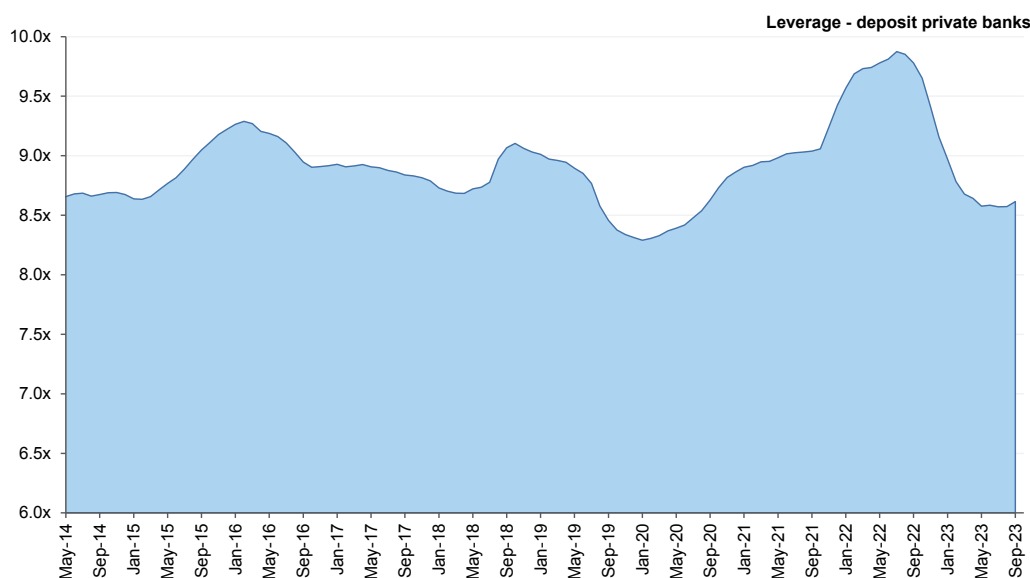
Exhibit 13: We note that private banks' monthly ROA/ROE improved c.4.7pp/41pp mom mainly driven by higher NII and other NIR, partly offset by higher opex and credit costs...

Deposit private banks

	NII	Fees	Other NIR	Opex	CL	Tax & other	ROA	Leverage	ROE	ROA (ex tax & other)	ROE (ex tax & other)
Jan-21	3.9%	0.2%	2.7%	-3.2%	-1.5%	-1.0%	1.2%	8.9x	10.6%	2.2%	19.1%
Feb-21	3.1%	0.2%	2.7%	-3.2%	-1.7%	-0.1%	1.1%	8.9x	10.0%	1.2%	10.7%
Mar-21	5.0%	0.3%	3.1%	-5.6%	-4.0%	3.2%	1.9%	8.9x	16.7%	-1.3%	-11.5%
Apr-21	3.7%	0.2%	2.7%	-3.4%	-1.1%	-1.0%	1.1%	9.0x	9.9%	2.1%	19.0%
May-21	4.1%	0.2%	2.2%	-3.7%	-1.5%	0.0%	1.3%	9.0x	11.7%	1.3%	12.1%
Jun-21	4.6%	0.3%	2.9%	-3.5%	-1.8%	-0.2%	2.4%	9.0x	21.2%	2.5%	22.7%
Jul-21	4.8%	0.2%	2.4%	-2.4%	-0.6%	-2.9%	1.6%	9.0x	14.7%	4.5%	40.8%
Aug-21	4.4%	0.2%	2.7%	-2.7%	-0.9%	-2.1%	1.7%	9.0x	15.1%	3.7%	33.7%
Sep-21	5.6%	0.3%	3.4%	-3.8%	-1.9%	-0.3%	3.3%	9.0x	30.2%	3.6%	32.5%
Oct-21	5.4%	0.2%	3.0%	-4.9%	-3.3%	1.6%	2.1%	9.1x	18.8%	0.4%	3.9%
Nov-21	7.0%	0.3%	3.5%	-11.1%	-9.8%	13.6%	3.5%	9.2x	31.9%	-10.2%	-93.9%
Dec-21	6.2%	0.3%	4.3%	-5.0%	-3.5%	2.0%	4.3%	9.4x	40.9%	2.4%	22.3%
Jan-22	6.9%	0.3%	3.5%	-4.4%	-2.3%	0.7%	4.7%	9.6x	45.0%	4.0%	38.4%
Feb-22	6.7%	0.3%	2.8%	-4.8%	-2.3%	0.8%	3.5%	9.7x	34.1%	2.7%	26.1%
Mar-22	7.6%	0.3%	3.9%	-5.0%	-2.2%	1.5%	6.0%	9.7x	58.3%	4.5%	43.5%
Apr-22	7.8%	0.3%	4.1%	-4.5%	-1.8%	0.5%	6.4%	9.7x	62.7%	6.0%	58.0%
May-22	8.5%	0.3%	3.8%	-6.0%	-4.1%	3.2%	5.7%	9.8x	56.2%	2.6%	25.0%
Jun-22	11.6%	0.3%	9.6%	-3.3%	-9.1%	-0.2%	8.9%	9.8x	87.5%	9.1%	89.8%
Jul-22	8.7%	0.3%	2.9%	-5.2%	-2.4%	1.6%	6.0%	9.9x	58.9%	4.3%	42.9%
Aug-22	8.8%	0.3%	3.7%	-4.1%	-1.8%	-0.1%	6.8%	9.9x	67.4%	6.9%	68.4%
Sep-22	11.5%	0.3%	3.8%	-4.3%	-1.4%	-0.8%	9.1%	9.8x	88.9%	9.9%	96.6%
Oct-22	11.0%	0.3%	3.3%	-4.9%	-2.3%	0.4%	7.8%	9.7x	75.6%	7.4%	71.4%
Nov-22	12.4%	0.3%	3.4%	-5.3%	-1.9%	-0.1%	8.6%	9.4x	81.3%	8.8%	82.6%
Dec-22	8.6%	0.3%	6.6%	-6.1%	-2.0%	0.5%	7.9%	9.2x	72.2%	7.4%	67.3%
Jan-23	6.1%	0.3%	4.6%	-5.6%	-1.7%	1.2%	4.9%	9.0x	44.2%	3.7%	33.3%
Feb-23	4.8%	0.3%	3.0%	-5.5%	-1.2%	1.6%	3.0%	8.8x	26.7%	1.5%	12.8%
Mar-23	6.3%	0.3%	5.7%	-7.3%	-3.6%	3.8%	5.3%	8.7x	45.6%	1.4%	12.4%
Apr-23	4.2%	0.3%	4.1%	-4.6%	-1.2%	1.8%	4.5%	8.6x	39.0%	2.7%	23.7%
May-23	2.6%	0.3%	4.5%	-5.8%	-2.1%	5.1%	4.6%	8.6x	39.4%	-0.6%	-4.8%
Jun-23	3.5%	0.4%	6.5%	-7.0%	-3.8%	7.9%	7.4%	8.6x	63.9%	-0.4%	-3.5%
Jul-23	2.4%	0.3%	6.1%	-6.2%	-1.4%	2.8%	4.0%	8.6x	34.0%	1.2%	9.9%
Aug-23	4.6%	0.3%	5.3%	-5.3%	-0.8%	1.2%	5.2%	8.6x	44.6%	4.0%	34.3%
Sep-23	11.7%	0.3%	6.1%	-6.0%	-1.4%	-0.7%	9.9%	8.6x	85.7%	10.7%	92.1%

Source: BRSA, Goldman Sachs Global Investment Research

Exhibit 14: ...and leverage declined from a 10-year peak level of 9.9x in August 2022 to 8.6x in September 2023 (vs. 9.2x in December 2022)



Source: BRSA, Goldman Sachs Global Investment Research

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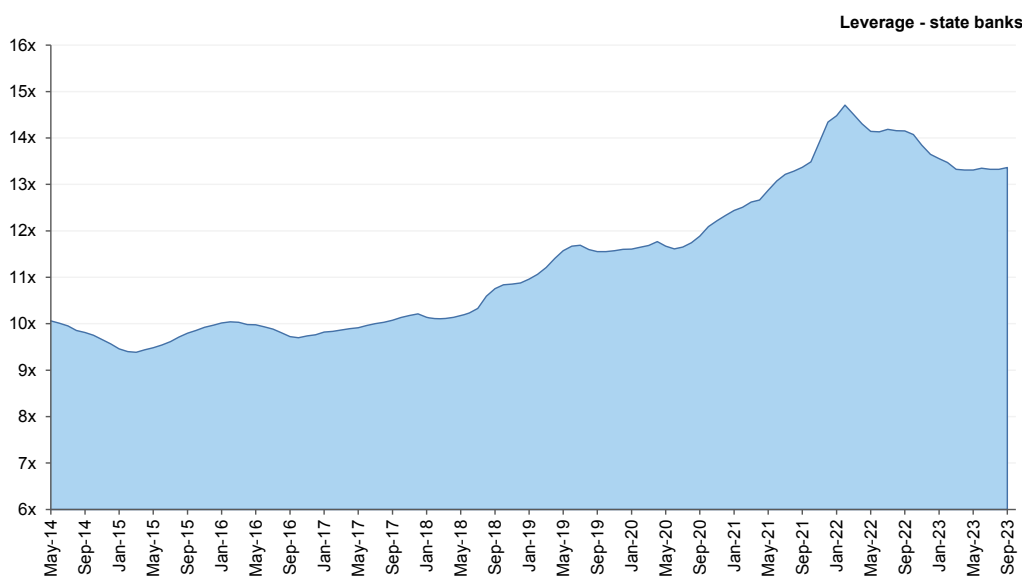
Exhibit 15: Public sector monthly ROA/ROE increased c.1pp/13pp mom mainly driven by higher NII, higher fee and other NIR income, partly offset by higher opex and higher credit costs...

Deposit state banks

	NII	Fees	Other NIR	Opex	CL	Tax & other	ROA	Leverage	ROE	ROA (ex tax & other)	ROE (ex tax & other)
Jan-21	1.1%	0.4%	1.7%	-2.2%	-0.9%	-0.2%	0.0%	12.4x	0.0%	0.2%	2.0%
Feb-21	1.2%	0.4%	1.9%	-2.2%	-1.1%	0.1%	0.3%	12.5x	3.4%	0.2%	2.7%
Mar-21	2.1%	0.3%	2.6%	-2.5%	-1.6%	-0.2%	0.7%	12.6x	9.1%	0.9%	11.3%
Apr-21	1.6%	0.3%	0.8%	-1.9%	-0.3%	-0.8%	-0.2%	12.7x	-2.9%	0.6%	7.4%
May-21	2.0%	0.4%	0.9%	-2.3%	-0.9%	-0.5%	-0.3%	12.9x	-4.4%	0.1%	1.9%
Jun-21	2.0%	0.4%	2.2%	-1.4%	-0.5%	-1.3%	1.3%	13.1x	17.6%	2.6%	34.0%
Jul-21	2.4%	0.4%	1.2%	-2.1%	-0.8%	-0.9%	0.1%	13.2x	1.6%	1.0%	13.8%
Aug-21	2.8%	0.4%	1.1%	-1.7%	-0.5%	-1.3%	0.8%	13.3x	10.3%	2.1%	27.3%
Sep-21	3.2%	0.4%	1.7%	-3.1%	-1.6%	-0.5%	0.2%	13.4x	2.5%	0.6%	8.7%
Oct-21	4.6%	0.4%	1.0%	-2.6%	-1.2%	-1.1%	1.1%	13.5x	14.9%	2.2%	30.1%
Nov-21	6.8%	0.4%	1.2%	-4.7%	-3.2%	-0.7%	-0.1%	13.9x	-1.0%	0.6%	8.5%
Dec-21	9.6%	0.5%	1.6%	-7.1%	-7.2%	4.5%	2.0%	14.3x	29.0%	-2.5%	-36.0%
Jan-22	4.3%	0.5%	1.5%	-3.1%	-1.9%	0.8%	2.2%	14.5x	31.2%	1.3%	19.1%
Feb-22	4.5%	0.4%	1.3%	-2.6%	-1.3%	-0.7%	1.7%	14.7x	24.6%	2.4%	34.9%
Mar-22	6.1%	0.5%	2.1%	-5.4%	-3.6%	1.6%	1.3%	14.5x	18.8%	-0.3%	-4.8%
Apr-22	6.3%	0.5%	2.0%	-4.1%	-2.6%	1.9%	4.0%	14.3x	56.9%	2.0%	29.2%
May-22	7.2%	0.5%	1.5%	-4.8%	-2.4%	0.9%	3.0%	14.1x	42.3%	2.1%	29.1%
Jun-22	7.7%	0.5%	2.4%	-7.7%	-5.4%	3.1%	0.6%	14.1x	8.1%	-2.5%	-35.4%
Jul-22	11.3%	0.6%	1.4%	-8.2%	-4.1%	2.7%	3.6%	14.2x	51.1%	1.0%	13.5%
Aug-22	5.9%	0.6%	1.6%	-3.0%	-1.1%	-0.2%	3.7%	14.2x	52.8%	4.0%	56.2%
Sep-22	7.2%	0.6%	1.9%	-8.2%	-9.3%	7.0%	-0.8%	14.2x	-12.0%	-7.8%	-110.7%
Oct-22	6.5%	0.6%	1.5%	-3.3%	-2.0%	0.6%	3.8%	14.1x	54.0%	3.3%	45.8%
Nov-22	6.7%	0.5%	1.3%	-3.8%	-1.6%	0.6%	3.7%	13.8x	50.7%	3.1%	42.8%
Dec-22	14.6%	0.6%	2.0%	-13.5%	-12.0%	9.9%	1.6%	13.6x	21.5%	-8.4%	-114.1%
Jan-23	3.9%	0.6%	3.6%	-5.7%	-3.0%	2.0%	1.4%	13.6x	19.5%	-0.5%	-7.2%
Feb-23	2.9%	0.5%	2.7%	-5.2%	-1.9%	1.8%	0.9%	13.5x	11.8%	-0.9%	-12.8%
Mar-23	3.4%	0.6%	9.1%	-2.2%	0.1%	-9.3%	1.7%	13.3x	22.0%	11.0%	145.9%
Apr-23	2.4%	0.6%	2.2%	-3.5%	-1.2%	1.1%	1.5%	13.3x	19.8%	0.4%	5.4%
May-23	1.7%	0.5%	3.2%	-4.0%	-1.5%	1.7%	1.6%	13.3x	21.2%	-0.1%	-1.7%
Jun-23	0.5%	0.6%	1.7%	-4.3%	-1.8%	5.0%	1.7%	13.4x	22.2%	-3.3%	-44.5%
Jul-23	2.2%	0.5%	2.1%	-4.8%	-1.4%	3.0%	1.6%	13.3x	22.0%	-1.4%	-18.2%
Aug-23	4.7%	0.6%	2.4%	-4.3%	-1.6%	1.0%	2.8%	13.3x	37.6%	1.8%	24.5%
Sep-23	6.9%	0.7%	2.5%	-4.7%	-2.1%	0.5%	3.8%	13.4x	50.4%	3.3%	44.3%

Source: BRSA, Goldman Sachs Global Investment Research

Exhibit 16: ...while leverage was 13.4x in September from 13.3x in August 2023 (but up vs. 13.6x in December 2022)



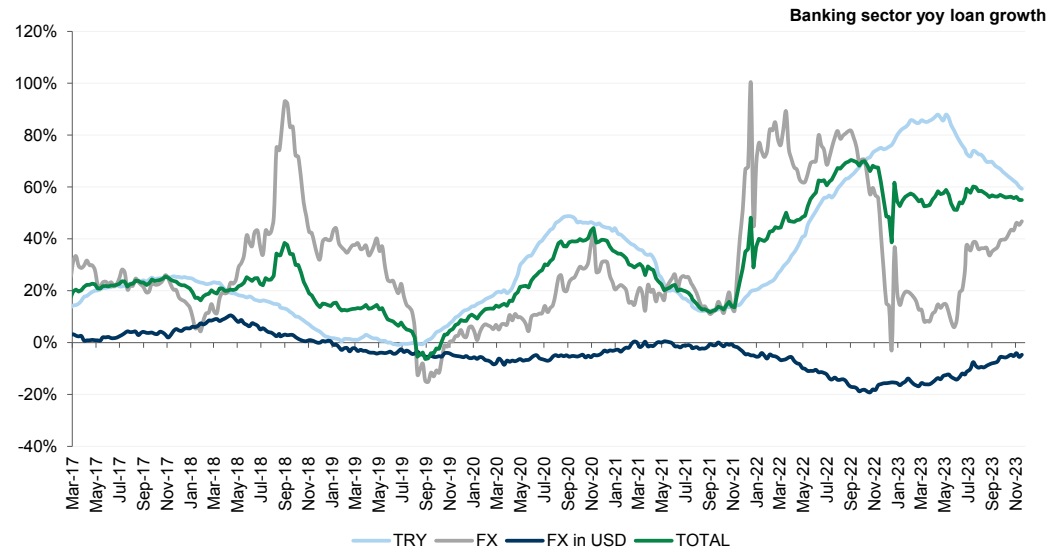
Source: BRSA, Goldman Sachs Global Investment Research

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Loan and deposit growth

Exhibit 17: Total loans were up c.55% yoy

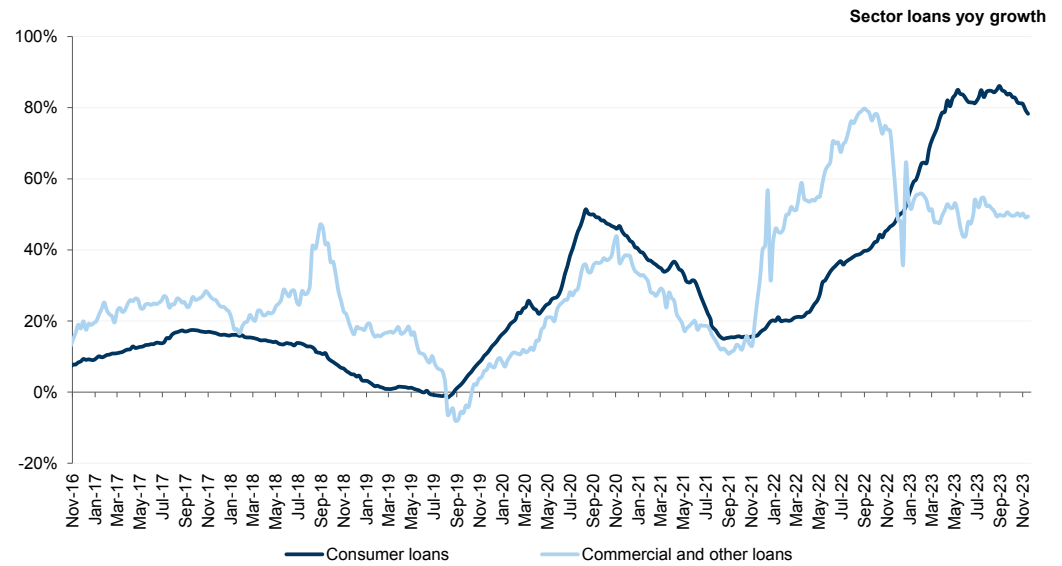
Weekly data



Source: BRSA, Goldman Sachs Global Investment Research

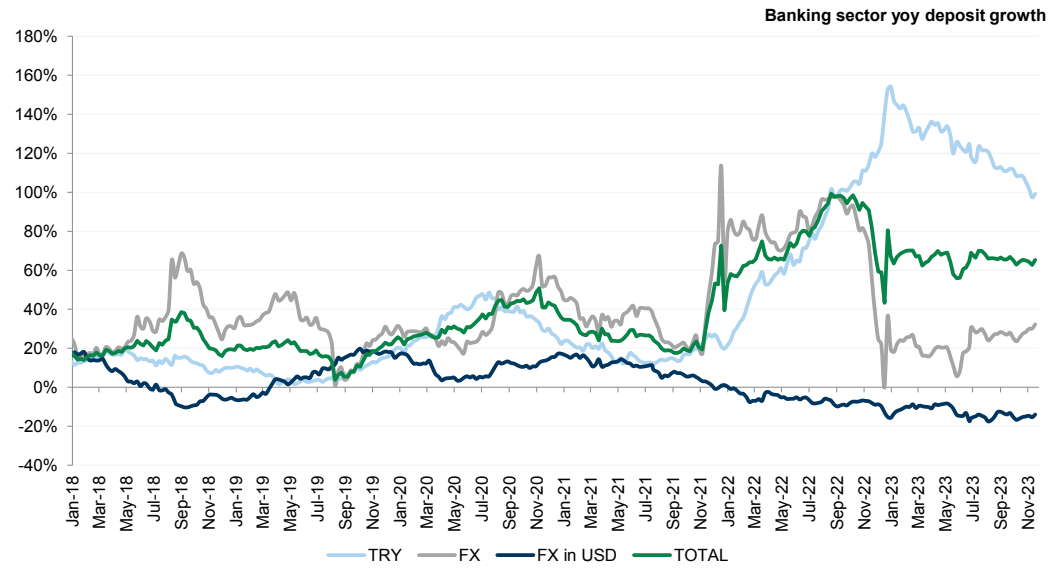
Exhibit 18: Commercial and other loan growth decelerated to 49% yoy (vs. c.54% in December 2022), while consumer loan growth was at 78% yoy vs. c.55% in December 2022

Weekly data



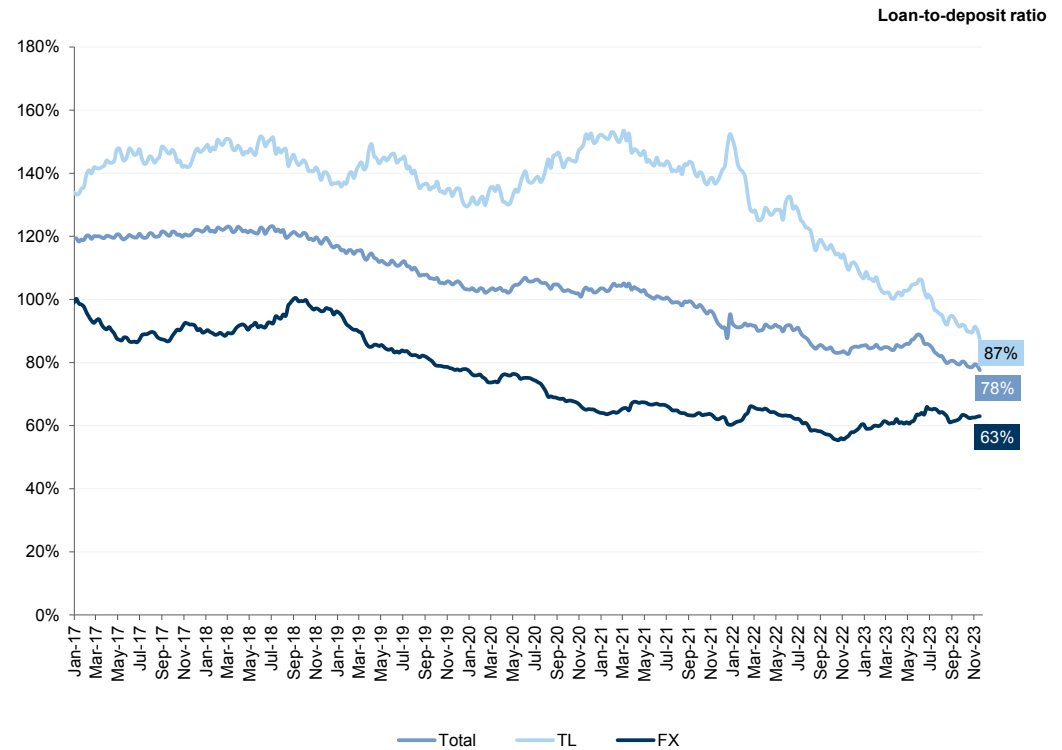
Source: BRSA, Goldman Sachs Global Investment Research

Exhibit 19: Total deposits were up c.65% yoy
Weekly data



Source: BRSA, Goldman Sachs Global Investment Research

Exhibit 20: Sector Turkish Lira LDR stands at 87% with total LDR at 78% and FX LDR at 63%
Weekly data

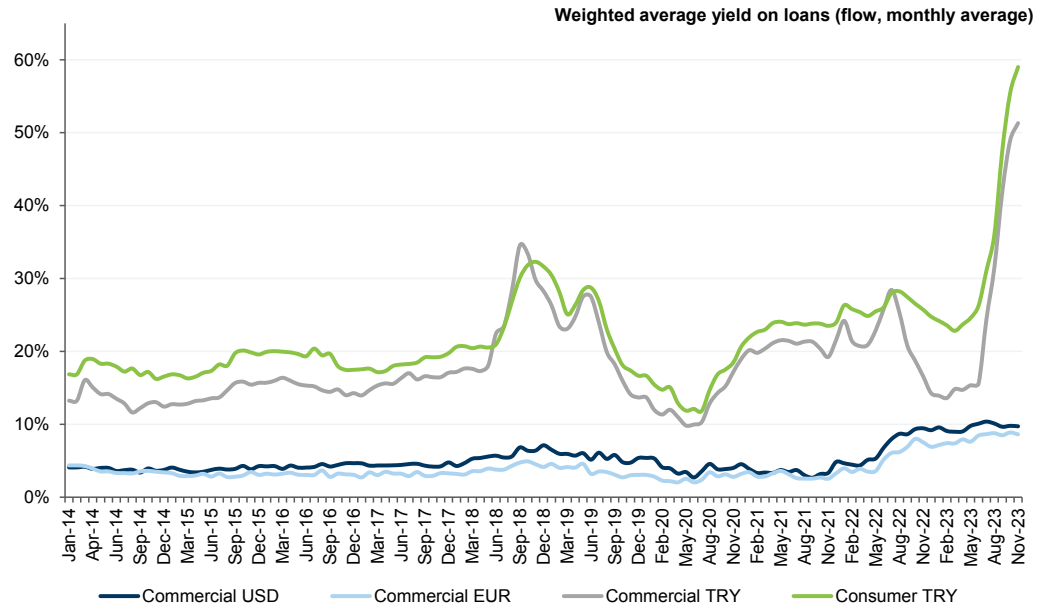


Source: BRSA, Goldman Sachs Global Investment Research

Loan yields, deposit costs and loan-deposit spreads

Exhibit 21: According to latest available data, TL loan yields (commercial and consumer) increased c.34pp on average year-to-date vs. the 4Q22 average...

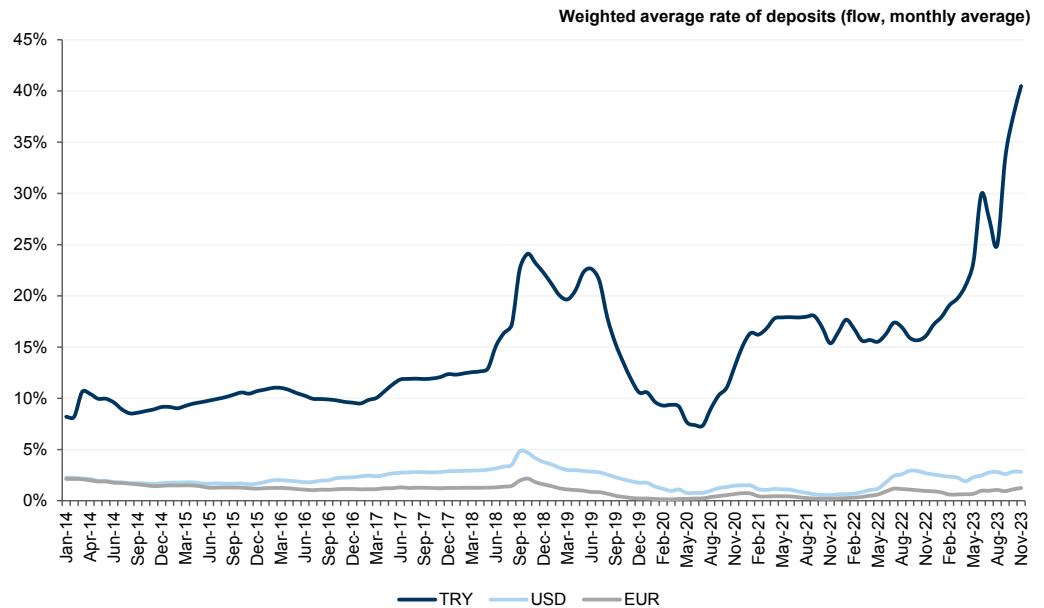
As of November 17



Source: CBRT, Goldman Sachs Global Investment Research

Exhibit 22: ...while TL deposit costs increased c.24pp...

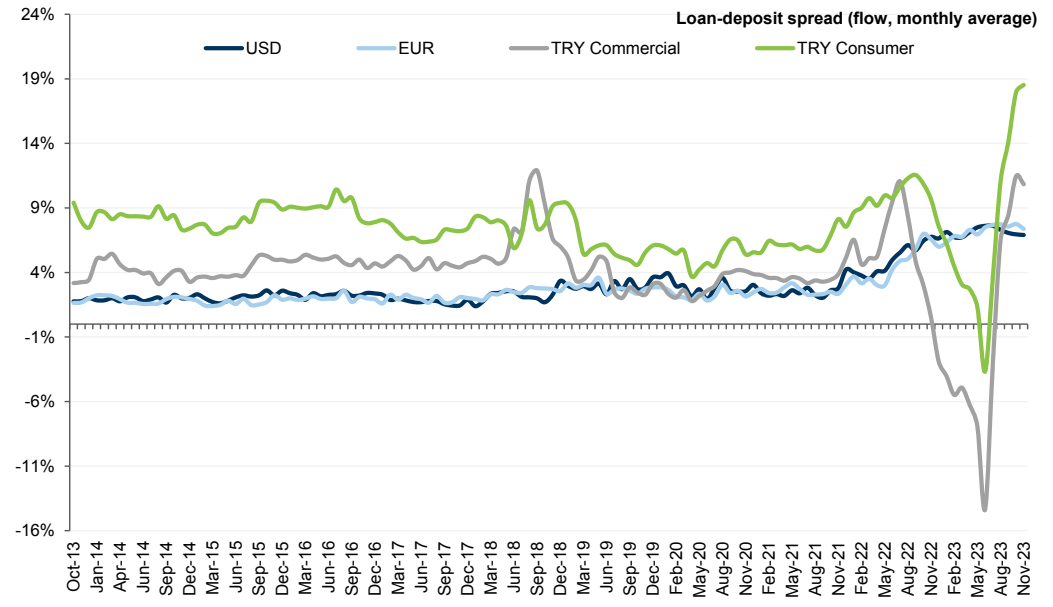
As of November 17



Source: CBRT, Goldman Sachs Global Investment Research

Exhibit 23: ...generating an increase of c.10pp in TL loan to deposit spreads on average on a year-to-date basis

As of November 17



Source: CBRT, Goldman Sachs Global Investment Research

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Summary of changes to price targets and EPS forecasts

Exhibit 24: Summary of changes to 12-month price targets and EPS forecasts

Pricing as of the close of November 21, 2023

	Ccy	Rating	Price	PT	PT (old)	Δ (%)	Upside	EPS 23E	EPS 23E (old)	Δ (%)	EPS 24E	EPS 24E (old)	Δ (%)	EPS 25E	EPS 25E (old)	Δ (%)	Average 23-25E EPS Δ
AK	TRY	Buy	30.9	38.0	36.0	6%	23%	12.82	10.06	28%	9.99	9.82	2%	12.31	11.69	5%	12%
GAR	TRY	Neutral	49.0	54.0	53.0	2%	10%	17.80	17.07	4%	14.57	13.96	4%	17.57	16.97	3%	4%
HALK	TRY	Sell	13.1	7.00	7.30	-4%	-47%	1.70	1.73	-1%	2.46	3.03	-19%	3.82	3.97	-4%	-8%
IS	TRY	Neutral	21.3	21.0	19.0	11%	-1%	6.73	5.92	14%	6.33	5.83	9%	7.46	6.98	7%	10%
VAK	TRY	Sell	15.1	10.0	9.40	6%	-34%	2.42	1.89	28%	3.12	3.40	-8%	4.30	4.13	4%	8%
YKB	TRY	Neutral	17.2	20.0	18.0	11%	16%	7.53	5.80	30%	6.09	5.53	10%	6.97	6.38	9%	16%

Source: Goldman Sachs Global Investment Research, FactSet

Pricing in this report is as of the market close of November 21, 2023, unless otherwise indicated.

We are Buy-rated on **Akbank**. Our 2023-25E EPS estimates are up c.12% on average (with a higher increase of c.28% in FY23E in line with recent operational trends), mainly reflecting higher net interest income, fee and other non-interest income and lower credit cost expectations, partly offset by higher opex. Our 12-month, ROE/COE-based price target is up to TL38.0 (from TL36.0) on the back of the higher EPS estimates and the roll forward of our valuation from September 2025E to November 2025E. Key downside risks to our view and PT include: (1) significant Lira depreciation resulting in a capital hit, eroding excess capital buffers; (2) higher-than-expected funding costs due to a worse-than-expected liquidity situation, resulting in NIM pressure; (3) a prolonged asset quality cycle delaying cost of risk normalization; and (4) meaningful market share losses limiting earning generation potential in the near term.

We are Neutral-rated on **Yapi**. Our 2023-25E EPS estimates are up c.16% on average, mainly reflecting higher net interest income and higher fee income and lower credit costs, partly offset by higher opex. Our 12-month, ROE/COE-based price target is TL20.0 (from TL18.0), up on the back of higher EPS estimates and the roll forward of our valuation from September 2025E to November 2025E. Key risks to our view and PT include: (1) better/worse-than-expected funding costs trends, translating into stronger/weaker margins; (2) better/worse-than-expected asset quality trends impacting cost of risk; (3) market share gains driving higher loan growth; and (4) weaker loan growth due to a significant slowdown in local and global operating activity.

We are Neutral-rated on **Garanti**. Our 2023-25 EPS estimates are up c.4% on average, mainly reflecting higher fee and other non-interest income, partly offset by higher credit costs and opex, and lower net interest income expectations. Our 12-month, ROE/COE-based price target is up to TL54.0 (from TL53.0) on the back of our higher EPS estimates and the roll forward of our valuation from September 2025E to November 2025E. Key risks to our view and PT include: (1) better/worse-than-expected funding cost trends, translating into stronger/weaker margins; (2) a higher-than-expected impact from the new fee regulation; (3) better/worse-than-expected asset quality trends impacting cost of risk; (4) market share gains driving higher loan growth, and (5) weaker loan growth due to a significant slowdown in local and global operating activity.

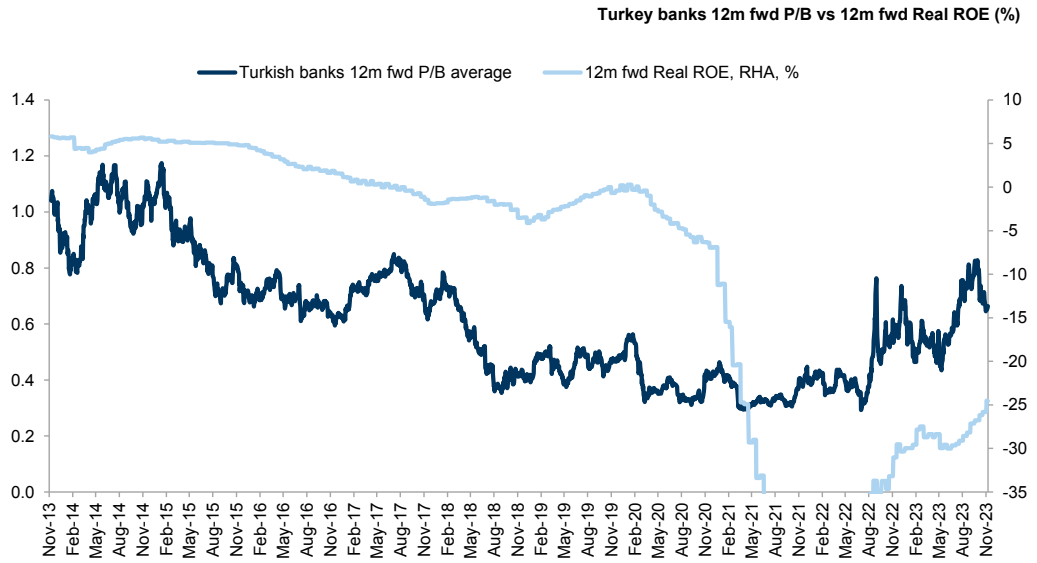
We are Neutral-rated on **Isbank**. Our 2023-25 EPS estimates are up c.10% on average, mainly reflecting higher fee income and lower credit costs, partly offset by higher opex and lower net interest income. Our 12-month, ROE/COE-based price target is TL21.0 (from TL19.0), up on the back of higher EPS estimates and the roll forward of our valuation from September 2025E to November 2025E. Key risks to our view and price target include (1) better-/worse-than-expected NIM preservation; (2) better-/worse-than-expected asset quality; and (3) favourable/unfavourable regulatory changes.

We are Sell-rated on **Vakif**. Our 2023E EPS estimate is up c.28% mainly driven by higher fee income and other non-interest revenue, partly offset by higher opex and lower NIMs, and as we incorporate recent operational trends. Our 2024E EPS estimate is down c.8% on lower NIMs and lower other non-interest revenue while our 2025E EPS is up c.4% on higher NIMs and lower credit costs. Our 12-month, ROE/COE-based price target is TL10.0 (from TL9.4), up mainly on the back of higher EPS estimate for 2025E and the roll forward of our valuation from September 2025E to November 2025E. Key risks to our view and price target include: (1) better-than-expected funding cost trends, translating into stronger margins; (2) a higher-than-expected impact from the new fee regulation; (3) better-than-expected asset quality trends impacting cost of risk; (4) market share gains driving higher loan growth; and (5) weaker loan growth due to a significant slowdown in local and global operating activity.

We are Sell-rated on **Halk**. Our 2023-25 EPS estimates are down c.8% on average, mainly reflecting lower net interest income and higher opex, partly offset by lower credit costs and higher fee income. Our 12-month, ROE/COE-based price target is TL7.0 (from TL7.3), down mainly on our lower EPS estimates partially offset by the impact of roll forward of our valuation from September 2025E to November 2025E. Key risks to our view and price target include: (1) stronger-than-expected NIM trends; (2) better-than-expected credit quality supporting lower cost of risk; and (3) stronger-than-expected internal capital generation.

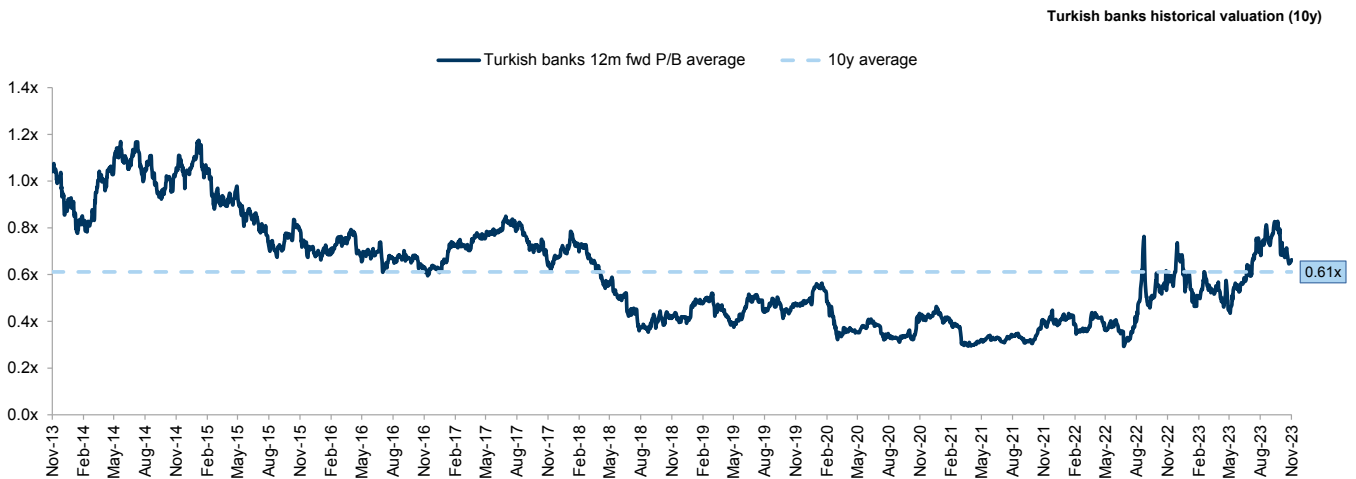
Valuation

Exhibit 25: Valuations have become disconnected relative to real returns as investors use equities as a hedge against inflation



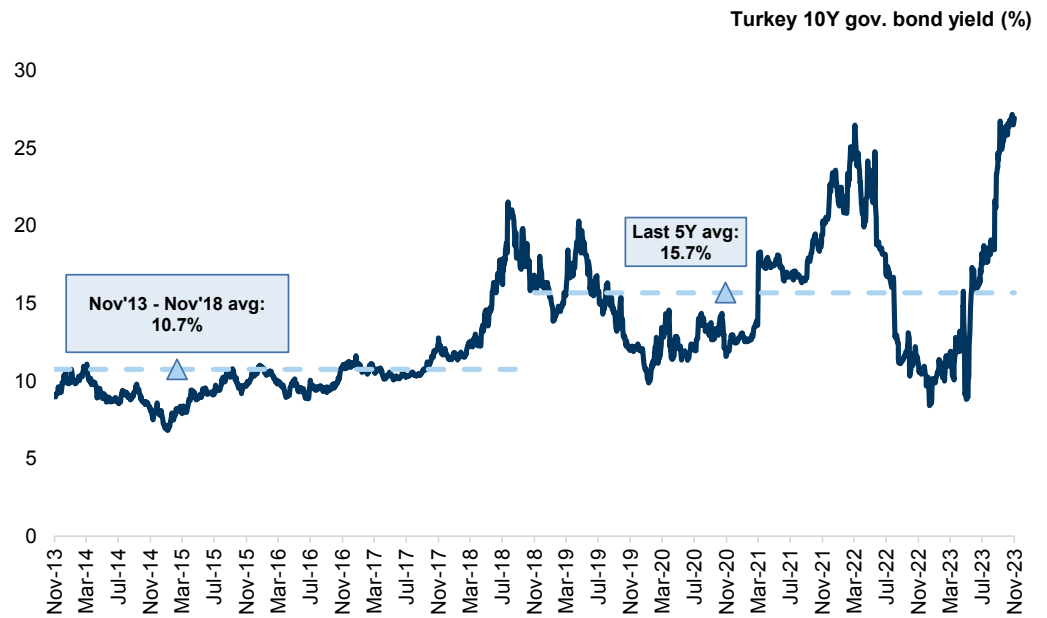
Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 26: Turkish banks have re-rated meaningfully over the last 12 months and are trading above their 10-year historical medians
12-month forward price to book (average for the six Turkish banks in our coverage)



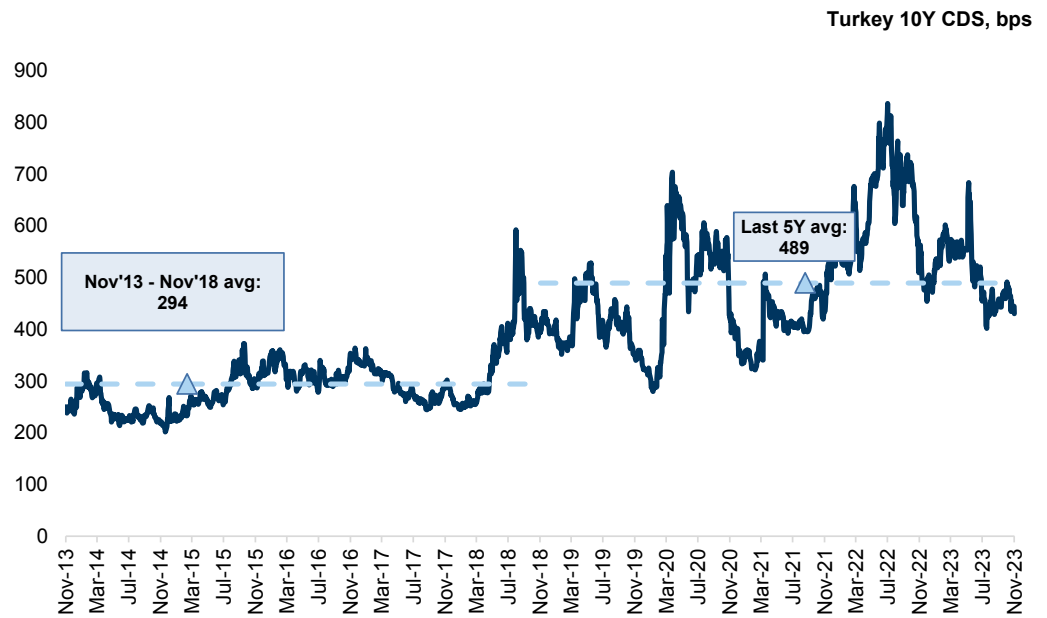
Source: Eikon Datastream

Exhibit 27: Turkey's 10-year government bond yield has increased significantly ytd, to c.27% above its 5-year average...



Source: Datastream

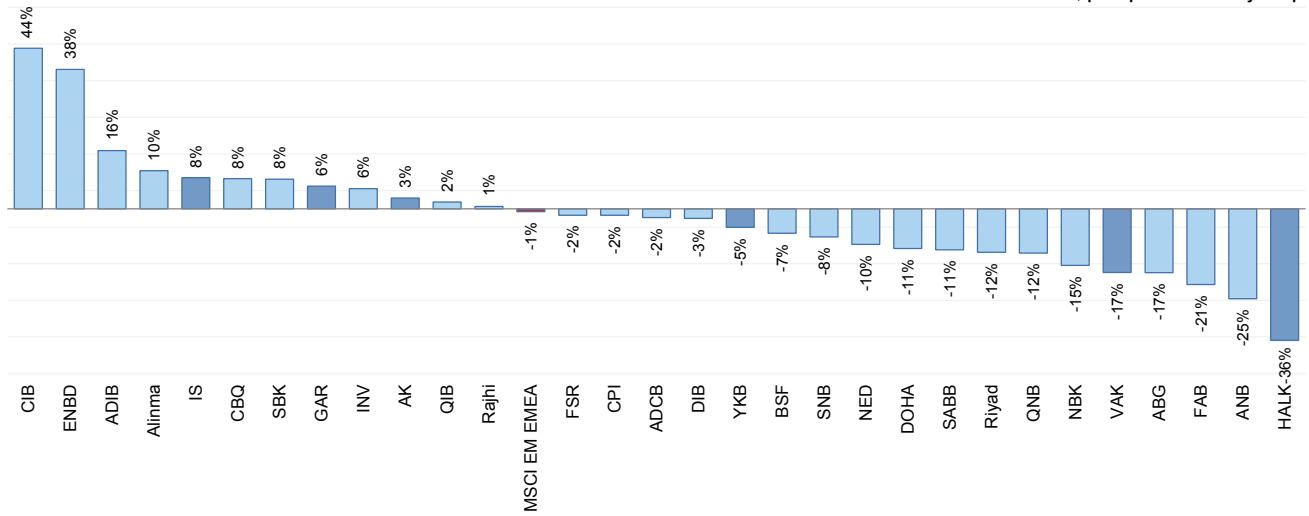
Exhibit 28: ...while 10-year CDS has declined below the 5-year average



Source: Datastream

Exhibit 29: Isbank, Garanti and Akbank have outperformed MSCI EM EMEA ytd

YTD US\$ price performance - by company

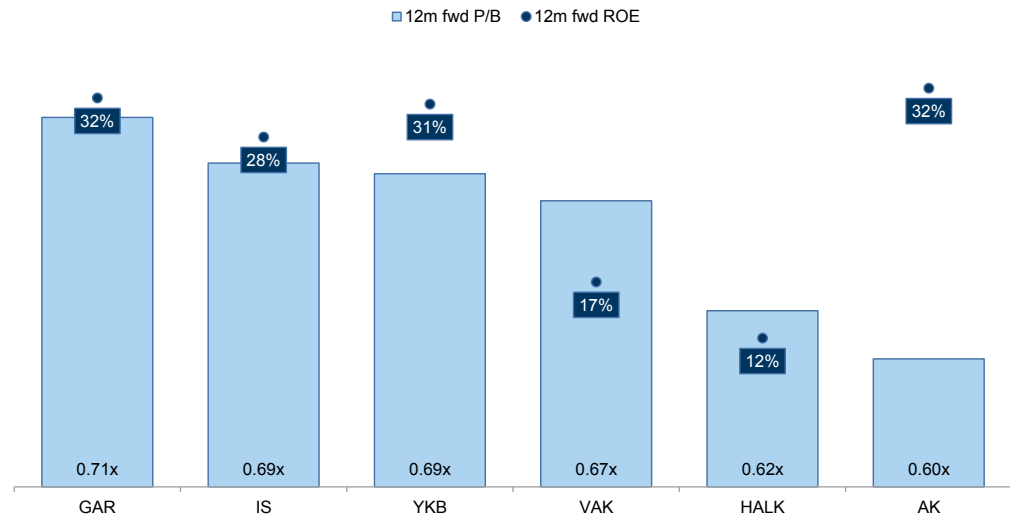


Source: Datastream

Exhibit 30: Private sector banks with the exception of Buy-rated Akbank trade at higher multiples, consistent with their higher ROE generation...

Eikon Datastream consensus estimates for 12-month forward ROE and P/B

Consensus 12m fwd P/B vs. ROE



Source: Eikon Datastream

Disclosure Appendix

Reg AC

We, Waleed Mohsin, Ashwath P.T, CFA, Ankita Sarna and Mikhail Butkov, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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