

# 2008 Earnings Presentation

BRSA Bank Only



## Operating Environment 2008-2009 **Macro Picture**

### **The end of uninterrupted growth episode:**

- > GDP growth came down to 0.5% as of 3rd Quarter 2008, from 6,7% of the 1st Quarter 2008.
- > Sharp decline in capacity utilization, industrial production and consumer confidence combined should be construed as precursor to contraction in economy.
- > Further deceleration is expected for the 4th Q 2008 and the 1st Q 2009.

### **Smaller Current Account Deficit:**

- > Current Account Deficit in 2008 increased by 8.4%, from USD 38.2 bn to USD 41.4 bn.
- > A sharp slowdown in 2009, weaker TRY, cheap energy and commodity prices are expected to produce much more easily financed CAD. (2.5% of GDP in 2009)

### **Diminishing inflationary pressure:**

- > CPI peaked at around 12% in October 2008. Since then it has come down with a swift pace due to weaker demand and falling commodity prices. CPI realized as 10.1% at the end of the year. We now expect record low CPI up until the end of the 1st half 2009.

## Operating Environment 2008-2009 **Macro Picture**

### **A big surprise by CBRT; Aggressive easing cycle in TRY policy rates:**

- > Policy rate has started 2008 with 15.75%, reached its peak at 16.75% in July.  
From mid-November to March 2009, CBRT has cut the rates to 11.5% by 525bps.  
Further cuts are in the pipeline.

### **Volatility in the bond market:**

- > The benchmark government bond interest rates increased to 25% by the end of October 2008, came down to 17% again at the end of the year, due to the aggressive rate cuts.

### **Weaker TRY:**

- > Exchange rate of TRY against USD increased from 1.18 to 1.79 during the period between September 08- March 09.

## Operating Environment 2008 Turkish Banking System

- > Relatively lower level of indebtedness in the country, solid funding sources (customer deposits heavy), already strong capital ratios and conservative provisioning strategies are among the factors rendering Turkish Banking System much more resilient against global crises.
- > Measures taken by authorities aimed at improving the markets has contributed positively. Namely;
  - Decrease in reserve requirement ratio for FX deposits from 11% to 9%. The move frees up USD 2.9 bn from banking system.
  - Banks are allowed to reclassify their securities portfolio in order to support CAR.
  - FX depo limits of banks are increased by CBRT.
  - CBRT has also given the banks access to liquidity support facility, in case of a need for additional liquidity.
  - Change in the regulation for NPLs and provisioning have enabled restructuring of NPLs and past due loans.
- > Margins were under pressure especially in the 4thQ 2008, as the cost of deposits surged amid volatility in the markets.
- > Asset quality deteriorated substantially and NPL ratio of the sector rose from 3.1% up to 3.6% in the last quarter of 2008 .
- > Both lending and borrowing appetite declined sharply and simultaneously.
- > Neither at present nor in the future, external financing is expected to be a major concern for the Banking System.

## Halkbank: 2008 Highlights

- > Profitable growth has always been the top priority
  - The bank achieved 27% asset growth while sustaining a very high 23.5% RoE, the highest among the peer group.
- > Solid and sound funding base
  - Main source of funds for lending and investments are customer deposits. 79% of total assets are funded only by deposits. Deposits grew by 30.5%, outperforming the sector.
  - No wholesale funding.
- > The ongoing market share gains and solid growth indicate well designed business model
  - With a rise of 42.6% y-o-y, cash loans reached to 25.8 bn TRY
- > Loan to deposit ratio is still comfortable at 64.2%
- > Despite market deterioration, NPL ratio came down from 5.4% to 4.7%
- > Net Interest Income was up by 21.3% y-o-y and recorded TRY 2,126 mn bringing in net interest margin of 4.9%
- > Net fee and commissions income reached TRY 370 mn, up by 25.0% y-o-y
- > Strong Capital base
  - 14.5% CAR is well above regulatory limits
- > Effective cost management
  - Low cost base with 37,6%, the lowest cost/income ratio among peer group banks.

## 2008 Performance matrix based on major ratios <sup>(a)</sup>

	ROE	NIM	C/I	CAR	Loan Growth	Deposit Growth	Loan to Deposits
<b>Halkbank</b>	23.5%	4.9%	37.6%	14.5%	42.6%	30.6%	64.2%
<b>Peer 1</b>	21.4%	4.3%	48.2%	16.1%	34.1%	34.8%	94.7%
<b>Peer 2</b>	17.7%	4.7%	55.6%	15.7%	35.7%	29.7%	92.7%
<b>Peer 3</b>	15.6%	4.7%	40.5%	18.2%	19.9%	27.1%	85.0%
<b>Peer 4</b>	15.1%	4.4%	45.2%	15.2%	40.1%	30.9%	74.9%
<b>Peer 5</b>	13.8%	4.4%	46.0%	14.3%	30.0%	28.6%	82.2%

(a) Based on unadjusted bank only figures  
Peers ranked by ROE

# The Assets have grown by 27% while the mix continued changing in favor of loans

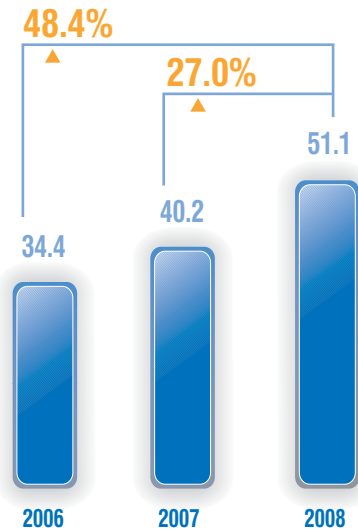
**ASSET GROWTH**  
**YoY 27.0% QoQ 7.2%**

**IEA**  
**93.9%**

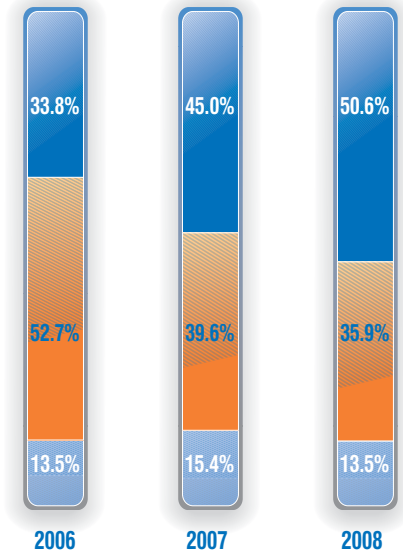
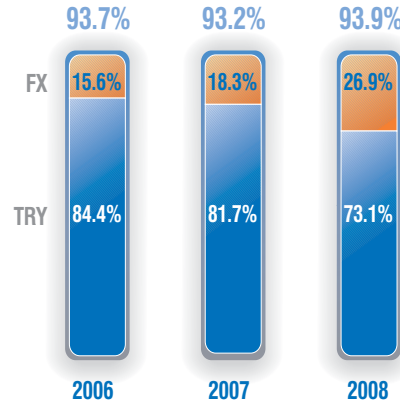
**Asset Mix (%)**

- Loans
- Securities
- Other Assets

**Total Asset Growth (TRY billion)**



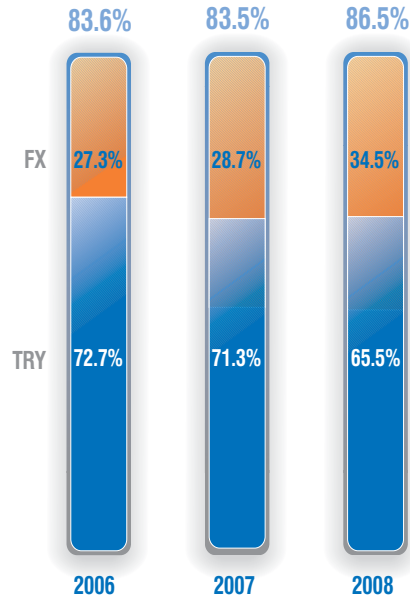
**Composition of IEAs <sup>(a)</sup>**



(a) Including interest accruals and excluding fund loans

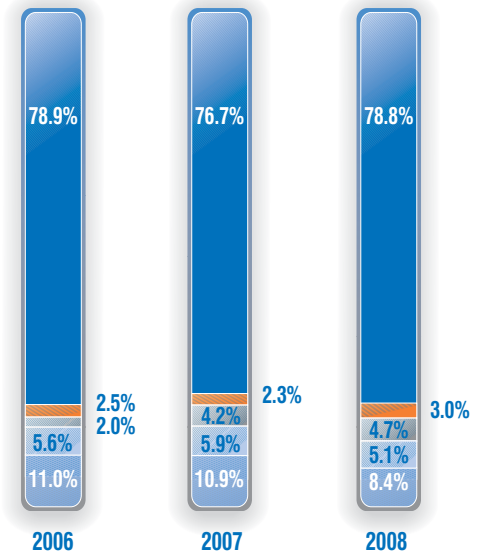
# 78.8% of total liabilities are customer deposits; which consists of mostly retail customers.

Composition of IBLs (a)



Liabilities Mix (%)

- Deposits
- Funds Borrowed
- Interbank Money Market
- Other Liabilities
- Shareholder's Equity



**DEPOSITS SHARE**  
**78.8%**

(a) Including interest accruals and excluding funds

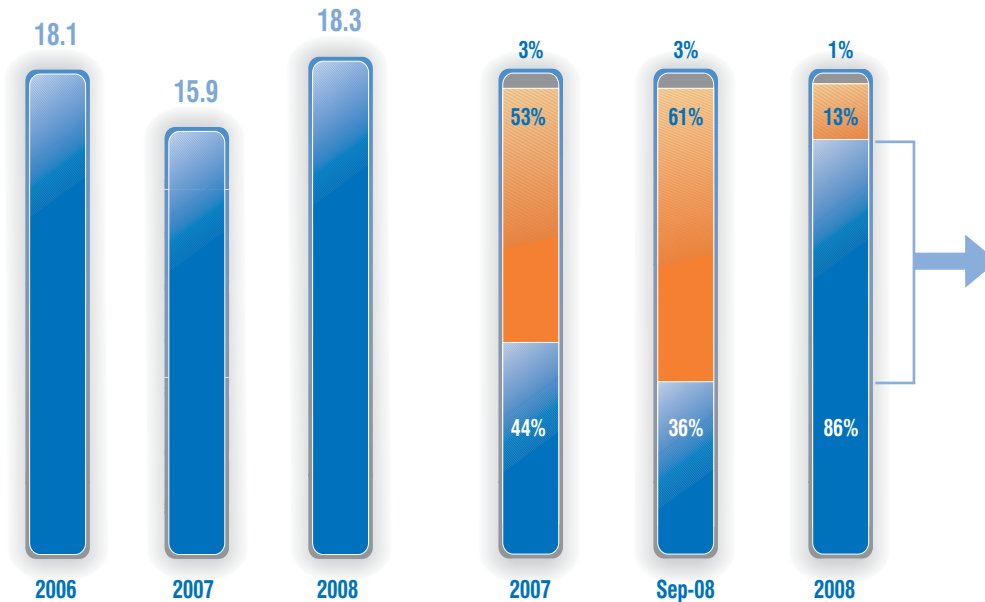


## A large portion of securities have been transferred to HTM in order to mitigate pressure on CAR

Total Securities Portfolio (TRY billion)

Total Securities Composition (2008)

● HTM ● AFS ● Trading

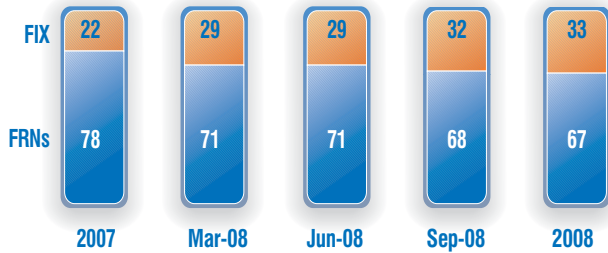


**7.8 billion TRY, 1 billion USD and 315 million EUR securities have been transferred to HTM category as of 4Q-08.**

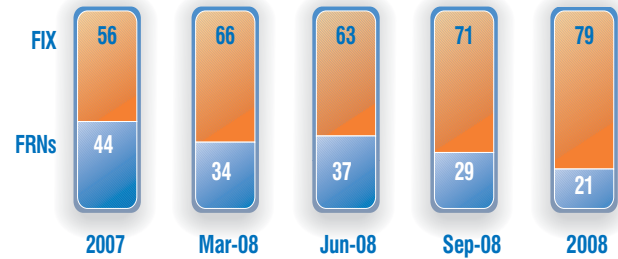
**With these transfers, HTM portfolio share in total securities portfolio increased from 36% to 86%.**

## FRNs are still dominant as they offer higher yields

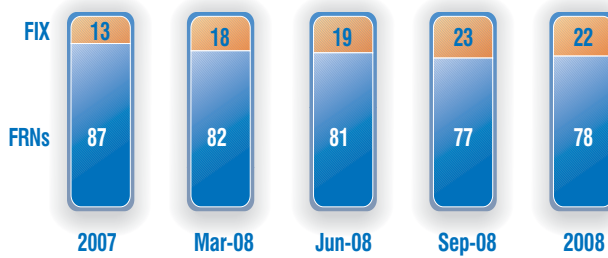
### Total Securities Portfolio <sup>(a)</sup> (%)



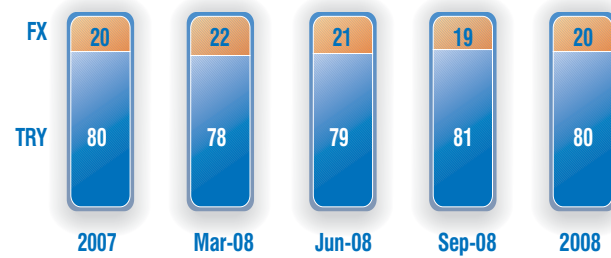
### FX Securities Portfolio <sup>(a)</sup> (%)



### TRY Securities Portfolio <sup>(a)</sup> (%)



### Total Securities by Currency <sup>(a) (b)</sup> (%)



(a) Excluding interest accruals. (b) FX indexed securities are booked as foreign currency.

## Solid loan growth - driven by commercial loans

(TRY billion) <sup>(a)</sup>

### TOTAL LOANS

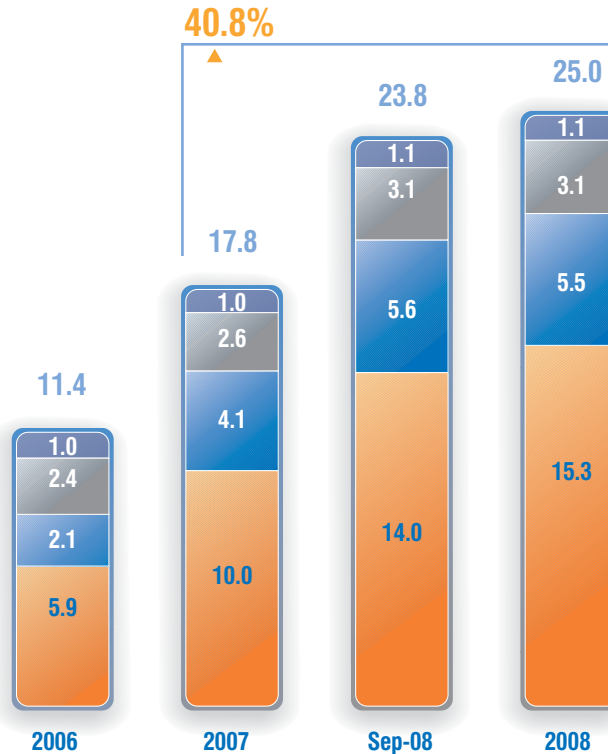
**HALKBANK SECTOR <sup>(b)</sup>**  
YoY **40.8%** YoY **29.1%**

### TRY LOANS

**HALKBANK SECTOR <sup>(b)</sup>**  
YoY **25.3%** YoY **21.0%**

### FX LOANS

**HALKBANK SECTOR <sup>(b)</sup>**  
YoY **118.3%** YoY **54.1%**  
in USD terms  
YoY **68.9%** YoY **19.2%**



YoY Change (%)

- ➔ Fund Loans up by 9.4%
- ➔ Cooperative Loans up by 18.2%
- ➔ Retail Loans up by 33.2%
- ➔ Commercial Loans up by 53.0%

Market Share (%)



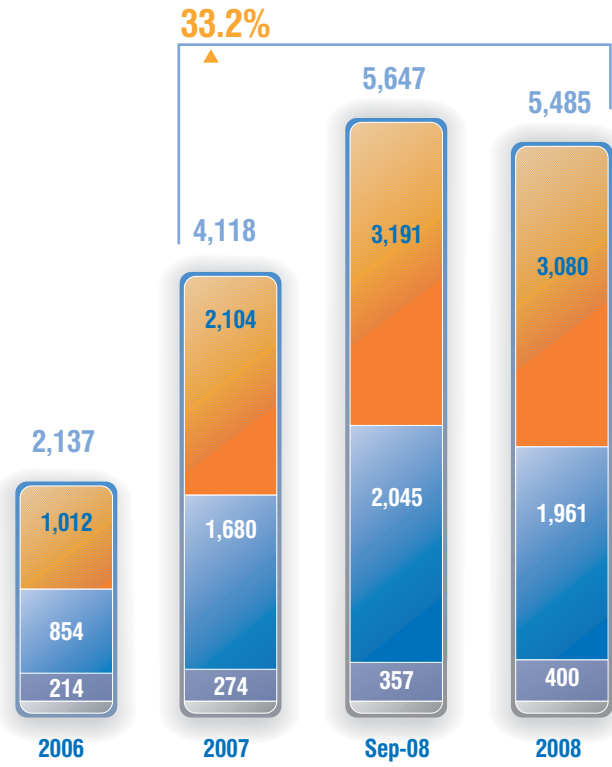
(a) Excluding interest accruals.  
(b) BRSA data as of 31.12.2008.

## Retail Loans grew by 33.2% - well above the sector figure

(TRY million) <sup>(a)</sup>

**↑ HALKBANK**  
**33.2%**

**↑ SECTOR**  
**24.6% <sup>(b)</sup>**



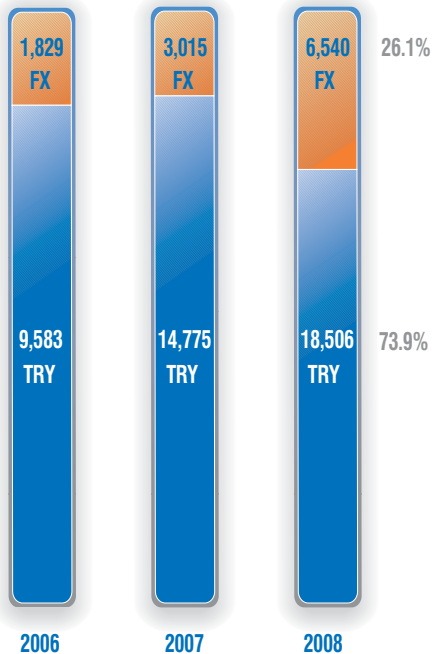
- YoY Change (%)**
- Consumer Loans up by 46.4%**  
Share in total 56.2%
- Housing Loans up by 16.7%**  
Share in total 35.8%
- Credit Cards up by 46.0%**  
Share in total 7.3%



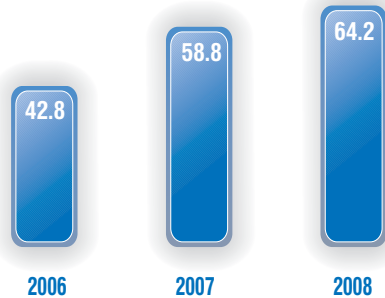
(a) Excluding interest accruals.  
(b) CBRT data as of 26.12.2008.

# FX loans are gaining ground and Loan to Deposit ratio is comfortable at 64.2%

Loans by Currency <sup>(a)</sup> (TRY million)



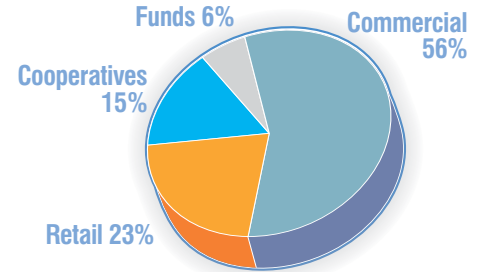
Loan to Deposit (%)



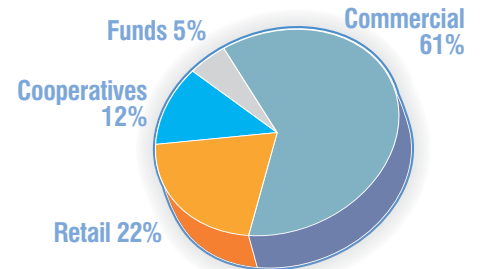
**64.2%**

**Loan to Deposit ratio provides significant room for potential growth.**

Loans By Types (%) (2007)



Loans By Types (%) (2008)

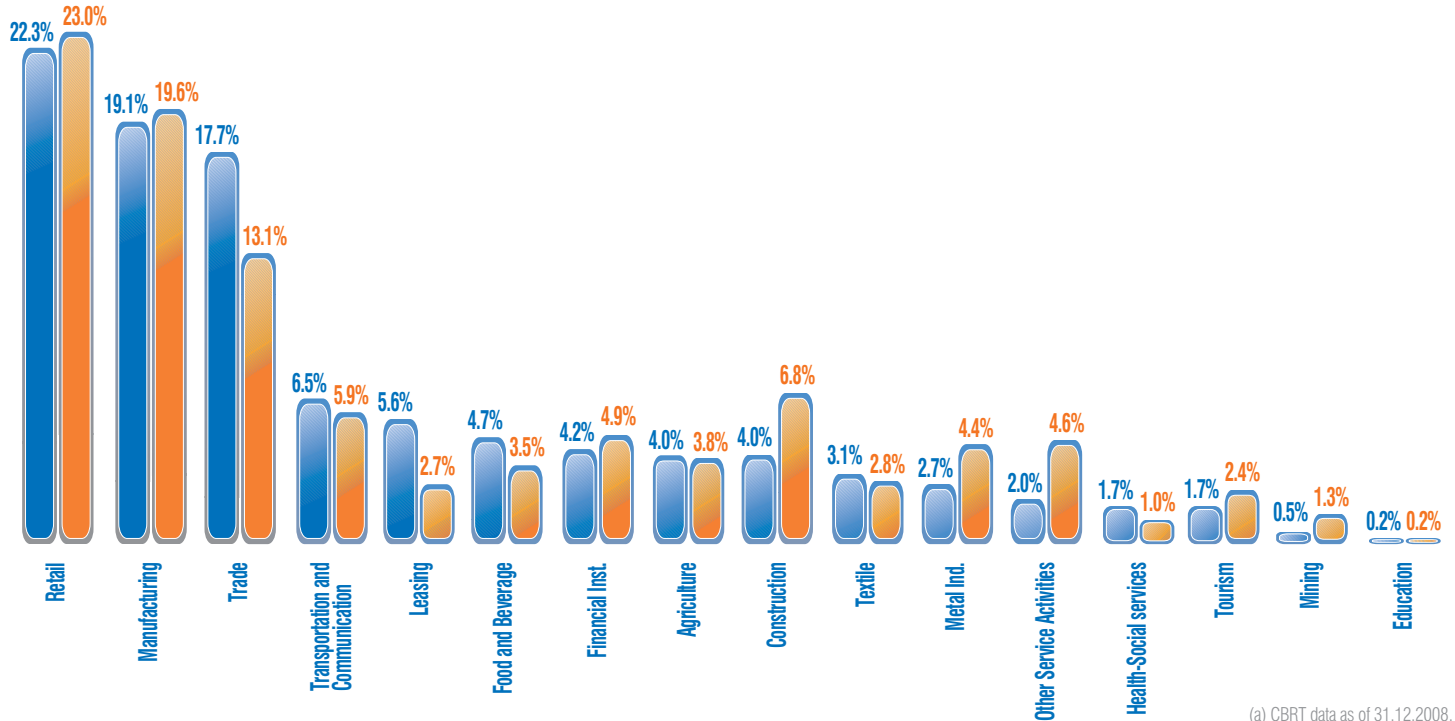


(a) Excluding interest accruals

## Relatively low concentration on recession hit sectors

### Sectoral Diversification (%)

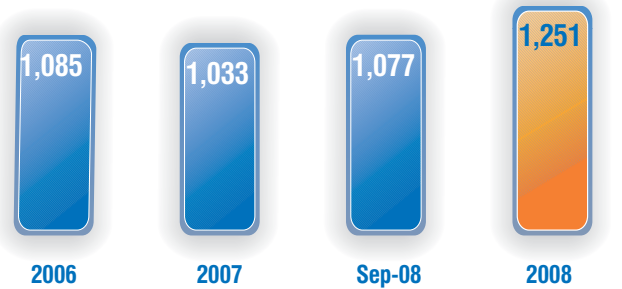
■ Halkbank  
■ Sector (a)



(a) CBRT data as of 31.12.2008.

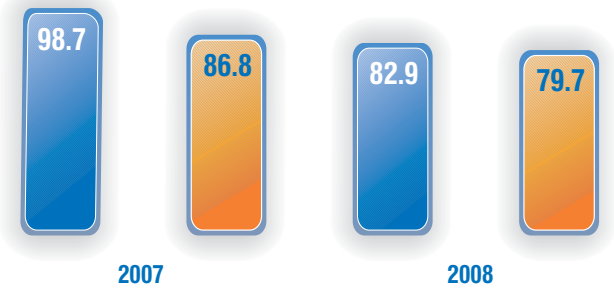
## NPLs and LLPs increased as expected particularly in the 4th Q 2008

NPL Portfolio (TRY million)

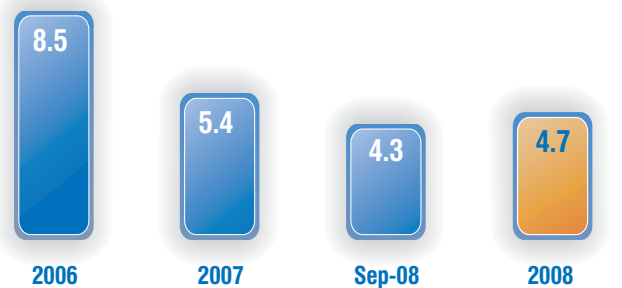


NPL Coverage (%)

● Halkbank ● Sector (a)



NPL/Total Loans (%)



Loan Loss Provisions/Average Net Loans (%)

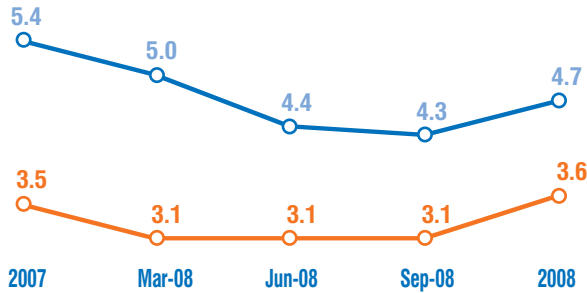


(a) BRSA data as of 31.12.2008.

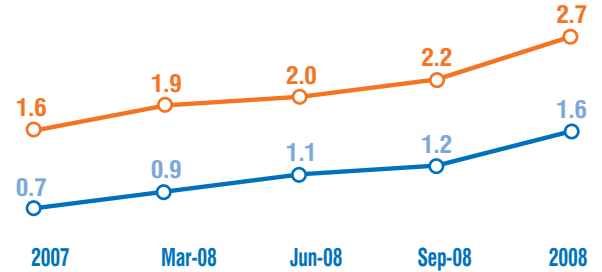
# NPL ratio increased by 40 bps in line with the sector

○ Halkbank    ○ Sector (a,b)

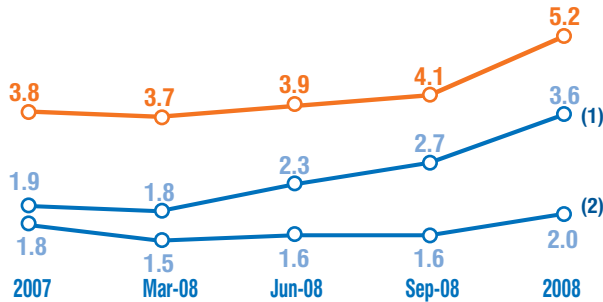
### NPL/Total Loans (a) (%)



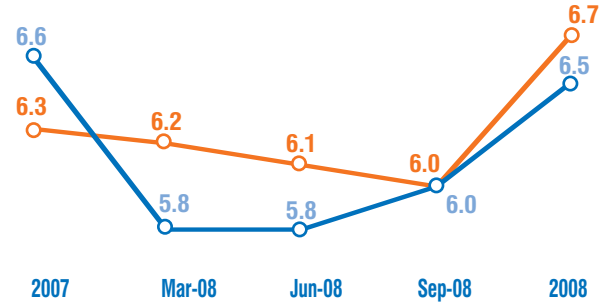
### Consumer Loans (b) (%)



### SME Loans (a) (%)



### Credit Cards (b) (%)



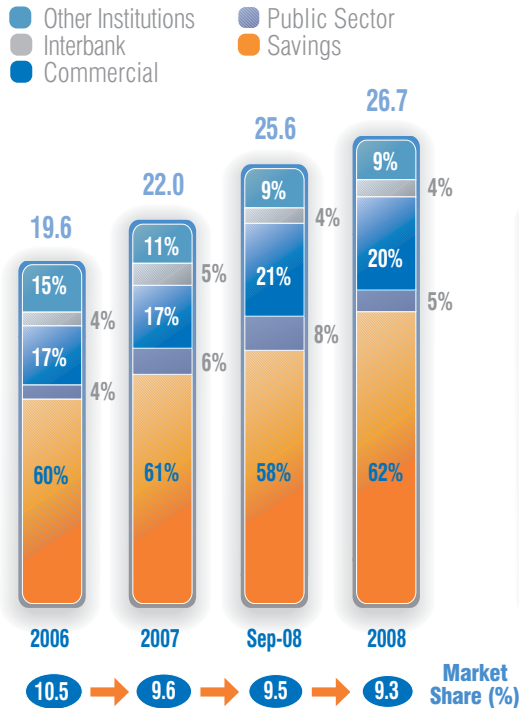
(1) All loans granted to SMEs in terms of customer definition (2) Loans granted to SMEs in terms of loan definition

(a) BRSR data as of December 2008. (b) CBRT data as of 26.12.2008.

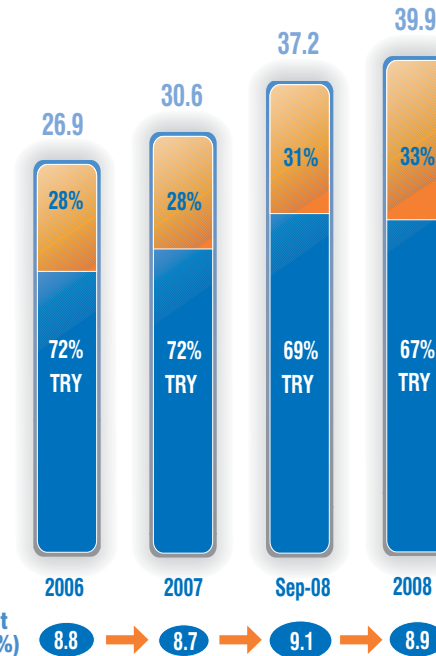


## Sound deposit base - driven by retail customers

TRY Deposits by Types <sup>(a)</sup> (TRY billion)



Total Deposits by Currency <sup>(a)</sup> (TRY billion)



### TOTAL DEPOSITS

**HALKBANK SECTOR <sup>(b)</sup>**  
YoY **30.5%** YoY **26.9%**

### TRY DEPOSITS

**HALKBANK SECTOR <sup>(b)</sup>**  
YoY **21.5%** YoY **25.2%**

### FX DEPOSITS

**HALKBANK SECTOR <sup>(b)</sup>**  
YoY **53.8%** YoY **30.3%**

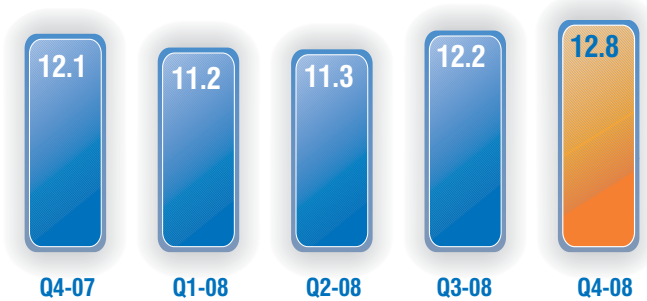
in USD terms

YoY **18.9%** YoY **0.7%**

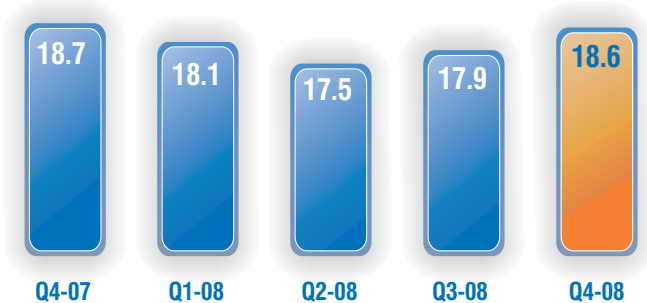
(a) Excluding Interest Accruals (b) BRSA data as of 31.12.2008.

# Cost-Yield-Spread (a)

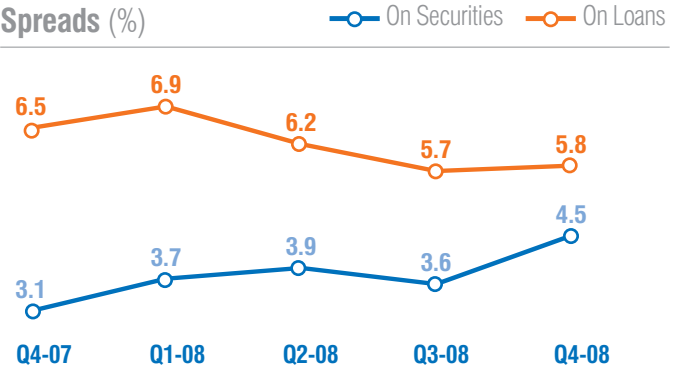
## Cost of Deposits (%)



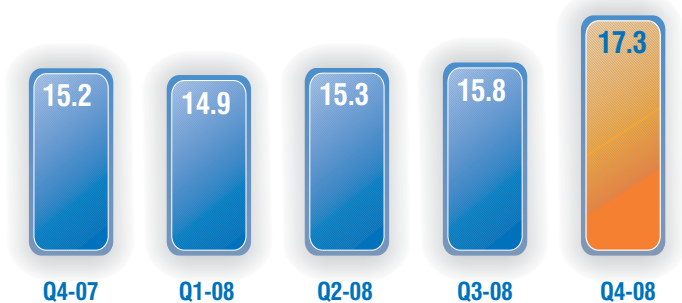
## Yield on Loans (b) (%)



## Spreads (%)



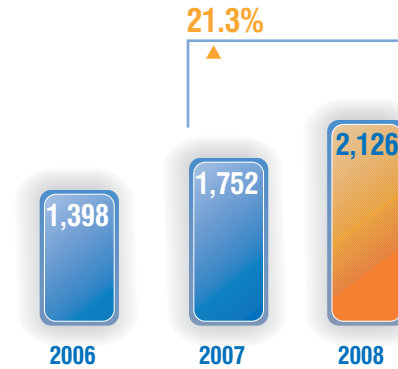
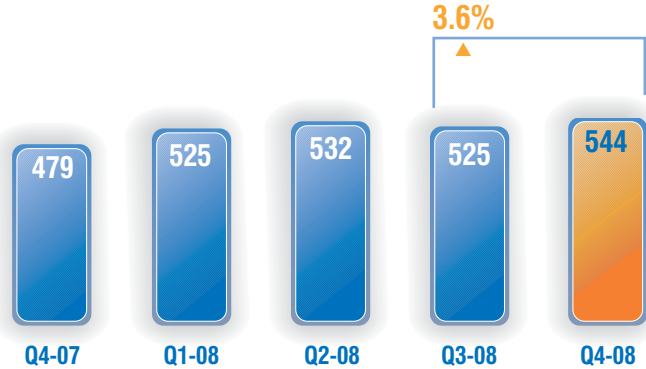
## Yield on Securities (%)



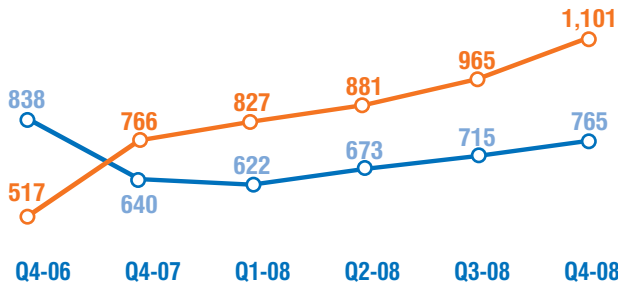
(a) TRY-FX blended (b) Excluding fund loans

## Improvement in Income Structure

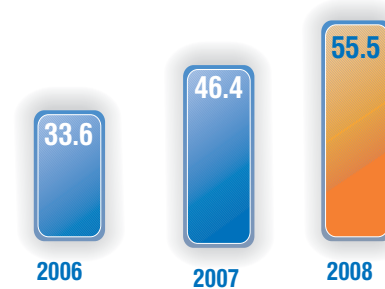
Net Interest Income (TRY million)



Interest Income (TRY million) — On Securities — On Loans

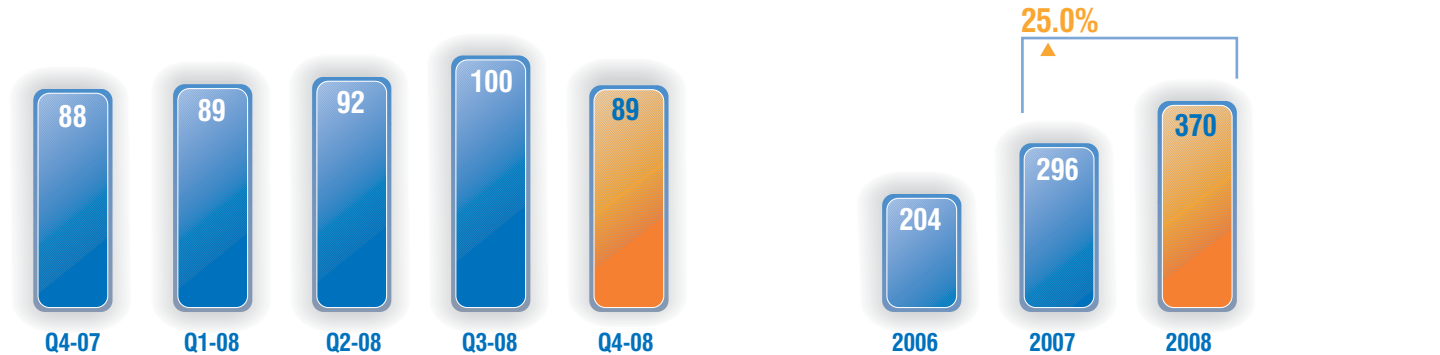


Interest Income on Loans/Total Interest Income (%)

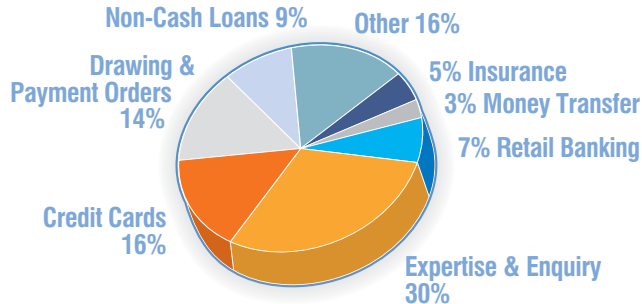


## Fee & Commission Income increased by 25% YoY

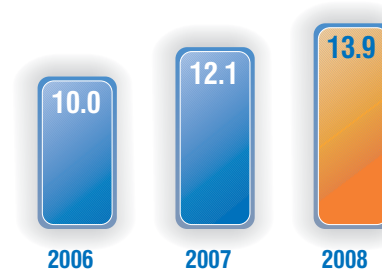
Net Fee & Commission Income (TRY million)



Breakdown of Fee & Commission Income (2008)

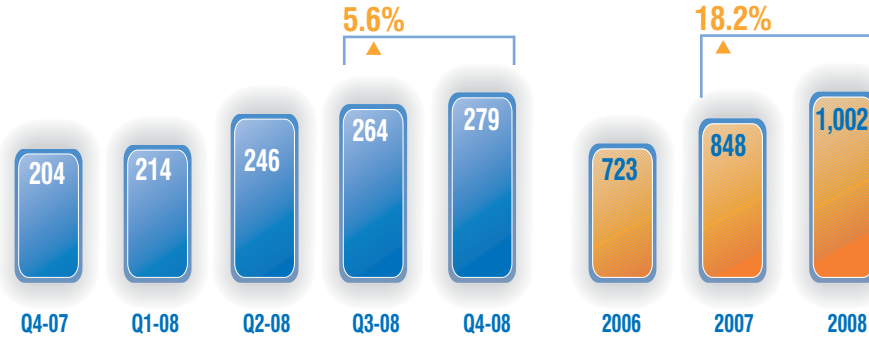


Net Fee & Commission Income/Total Operating Revenues (%)

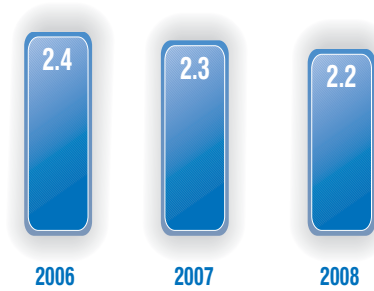


## Tight cost control, modest operating expenses

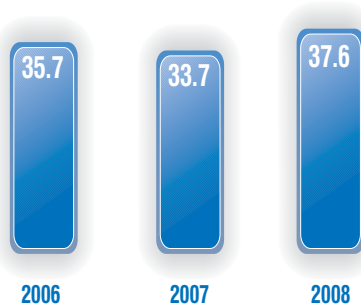
Operating Expenses (TRY million)



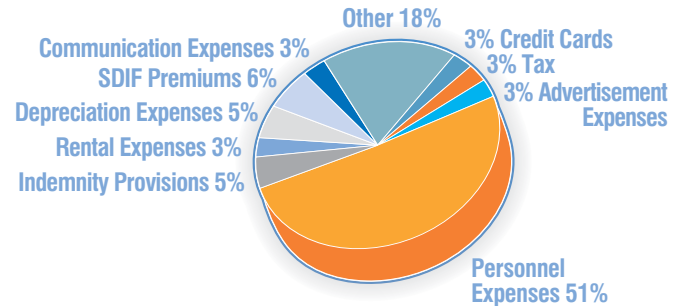
Operating Expenses/Average Assets (%)



Cost/Income (%)

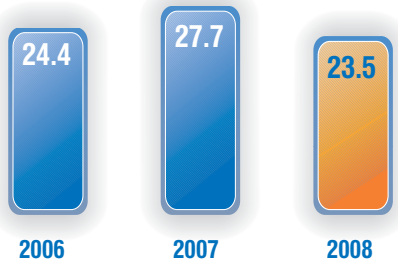


Breakdown of Operating Expenses (2008)

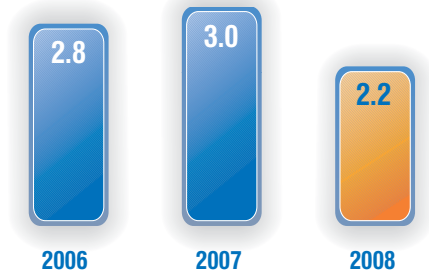


# Key Ratios

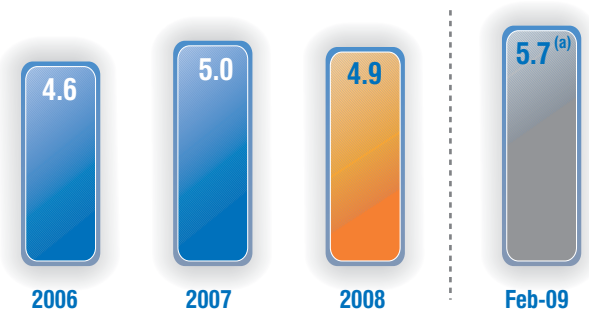
## ROE (%)



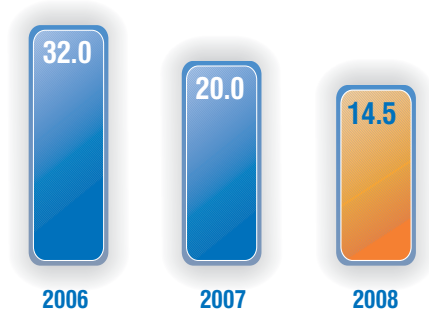
## ROA (%)



## Net Interest Margin (%)



## CAR (%)



(a) Temporary data.

## Performance Outlook 2009

- > Sustainable profitability is the top priority; growth is secondary.
- > Lowest Loan/deposit ratio still provides room for Halkbank; depending on the market conditions; loan growth can outperform the sectoral average.
- > Long term strategy of the Bank is to change the asset mix in favour of loans.
  - Given the difficult macro-environment, there may be a temporary pause for a couple of quarters in this strategy.
  - Lending activities will be maintained cautiously. An appraisal process and lending criteria have already been fine-tuned accordingly.
  - SME financing is continuing, especially through government subsidized loans.
  - The bank has access to substantial amount of facilities from international institutions such as WB and EIB. These funds will be allocated in order to meet the financial needs of the customers in terms of FC. Funds provided via agreements with the Chambers of Commerce are continuously channelled to the economy.
- > No aggressive deposit growth is projected, customer base is to be expanded.
- > Net interest income will be affected positively due to a sharp fall in cost of funding. At least a 100 bps of NIM expansion is expected quarterly basis in early 2009.
- > NPL ratio and cost of risk are expected to go up in line with the sectoral averages.
- > Recoveries from NPLs tend to be, but not necessarily, lower than the previous years.
- > Cost control will be maintained effectively.

# Appendix



## Balance Sheet

In TRY million	2006	2007	2008	YoY (%)
Cash and Balances Held with Central Bank (a)	2,551	3,471	3,009	(13)
Banks	1,079	1,212	2,119	75
Securities (b)	18,139	15,945	18,334	15
Net Loans (b)	11,646	18,121	25,836	43
Gross NPL	1,085	1,033	1,251	21
NPL Net	15	14	214	-
Property and Equipment	675	658	930	41
Other Assets	335	827	867	5
<b>Total Assets</b>	<b>34,425</b>	<b>40,234</b>	<b>51,096</b>	<b>27</b>
Deposits (b)	27,188	30,841	40,271	31
Funds Borrowed (b)	873	937	1,522	62
Interbank Money Market	672	1,703	2,390	40
Funds	1,003	1,042	1,216	17
Other Liabilities	531	889	800	(10)
Provisions	378	439	608	39
Shareholders' Equity	3,780	4,383	4,289	(2)
<b>Total Liabilities</b>	<b>34,425</b>	<b>40,234</b>	<b>51,096</b>	<b>27</b>

(a) Reserve deposits monitored in balance with Central Bank.

(b) Including interest accruals.

## Income Statement

In TRY million	2006	2007	2008	YoY (%)	Q1-08	Q2-08	Q3-08	Q4-08
Interest Income	4,592	5,708	6,793	19	1,511	1,613	1,739	1,930
On Loans	1,541	2,650	3,773	42	827	881	965	1,101
On Securities	2,849	2,812	2,776	(1)	622	673	715	765
Interest Expense	3,195	3,956	4,667	18	986	1,081	1,214	1,386
On Deposits	3,065	3,696	4,334	17	919	1,023	1,127	1,264
<b>Net Interest Income</b>	<b>1,398</b>	<b>1,752</b>	<b>2,126</b>	<b>21</b>	<b>525</b>	<b>532</b>	<b>525</b>	<b>544</b>
Net Fees and Commissions	204	296	370	25	89	92	100	89
Net Trading Income	(21)	(42)	(194)	362	(39)	(36)	(25)	(93)
Other Operating Income	448	452	363	(20)	119	141	61	43
Reversal of Loan Loss Prov.	266	186	223	20	51	115	40	17
Total Operating Revenues	2,028	2,458	2,666	8	694	728	661	583
Operating Expenses	723	848	1,002	18	214	246	264	279
<b>Net Operating Income</b>	<b>1,305</b>	<b>1,610</b>	<b>1,664</b>	<b>3</b>	<b>480</b>	<b>482</b>	<b>397</b>	<b>305</b>
Provision for Loan Losses and Other Receivables	202	223	436	96	97	75	68	197
Loan Loss Provisions for Cash Loans	130	131	243	86	44	49	48	102
Profit/(Losses) from Associates	14	19	39	103	-	21	7	10
Income Before Taxes	1,117	1,406	1,266	(10)	383	428	336	119
Provision for Tax	254	276	248	(10)	83	87	68	10
<b>Net Income</b>	<b>863</b>	<b>1,131</b>	<b>1,018</b>	<b>(10)</b>	<b>301</b>	<b>341</b>	<b>268</b>	<b>108</b>

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