T. Ekonomi Bankasi

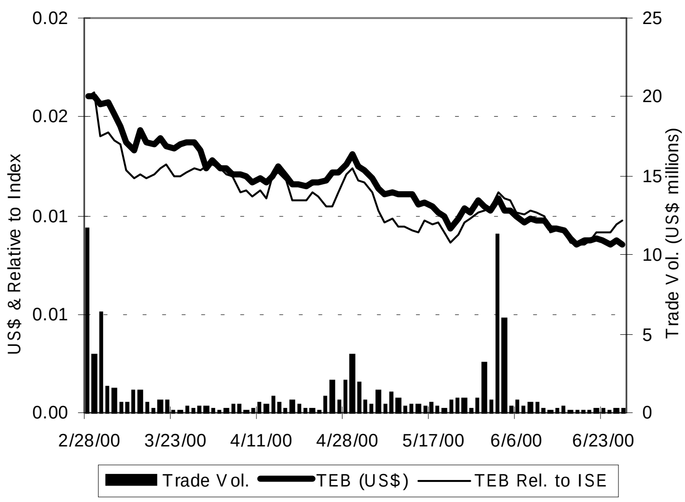
STRONG BUY

Banking

June 28, 2000

In a league of its own

- With its strong deposit franchise and impeccable financial strength that hinges on high quality core banking business, and sound financial management, TEB stands out as the single best investment idea in the medium cap Turkish banking universe.
- In an environment, where prudent banking is not an exception, but the norm, many will drop out of the game, leaving the playground to those banks that have high quality core financial business backed by a stable deposit franchise. Gradual phasing-out of the universal deposit insurance will be the catalyst of this process.
- With an inflation-adjusted 2000E ROE[1] of 15%, which is sustainable over the next few years, we estimate a fair market value of US$250mn for the bank's core business, and US$400mn for the entire franchise. Accordingly, TEB should trade at bank-only IAS 1999A P/BV of 2.8 times against current multiple of 0.5 times. Our fair price for the bank's core business implies at least 45 cents per dollar of core deposits. For a bank, which is one of the three top rated banks in Turkey[2], we believe that current valuation does not reflect the true value embedded in it. Current market cap implies a 90% upside potential.



REUTERS	TEBNK.IS
BLOOMBERG (GDR)	TURA LI
BLOOMBERG	TEBNK TI
Share Price:	TL5,300 (0.85¢)
52 W. Low/High:	TL5,200 / TL9,200 (0.84¢ /1.6¢)
Index Level:	14,790 (2.4¢)
Paid-in Capital:	TL24.5 bn
MCap:	US$209 mn
Free Float:	%20
Trad. Vol. (3 Mo. Aver.):	US$1.04 mn

SELECTED FINANCIALS

(US$mn)	1999	2000E	2001E
Assets	1,205	1,900	2,500
growth y-o-y %	*17.0*	*57.8*	*31.6*
Loans	213	500	650
growth y-o-y %	*-23.2*	*130.1*	*30.0*
Deposits	574	750	950
growth y-o-y %	*-6.4*	*30.7*	*26.7*
Equity	87	145	190
growth y-o-y %	*2.5*	*67.2*	*31.1*
EBT	72	79	92
growth y-o-y %	*24.1*	*9.8*	*16.5*
Net Profit	46	53	62
growth y-o-y %	*12.2*	*15.2*	*17.0*

SHARE PRICE AND BENCHMARK RETURNS (US$ terms)

(%)	1 mo	3 mos	12 mos	Ytd
TEB	-20.4	-37.8	n/a	-46.9[3]
ISE-100	-7.7	-19.6	112.2	-27.1
MSCI-EEME	-1.1	-12.9	31.2	-9.7
MSCI-Turkey	-8.3	-12.4	129.8	-9.8

[1] Consolidated IAS ROE: 31% (1998) , 17% (1999)
[2] Capital Intelligence A-, Moody's D+
[3] IPO to date

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T. Ekonomi Bankasi: A core bank with a solid franchise

Turk Ekonomi Bankasi (TEB) is the flagship of the Colakoglu Group's financial services arm, which comprises subsidiaries in the insurance, leasing, factoring, brokerage, and asset management sectors. Apart from its interests in the financial sector, Colakoglu Group stands out as one of the leading industrial holdings in Turkey, that consists of over 20 companies operating in the steel, shipping, oil distribution, and power generation fields. The group has an annual total turnover of US$2bn, which ranks among the top 20 largest industrial companies in Turkey.

Table 1. TEB: Background statistics

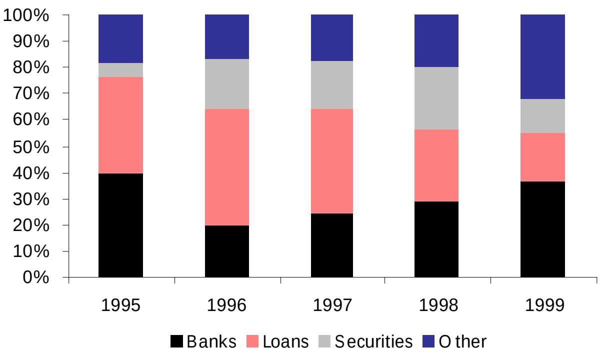
	1995	1996	1997	1998	1999
Branches	15	25	32	36	46
Employees	584	865	1,061	1,275	1,408

Source: Company Reports

Subsequent to its acquisition by the Colakoglu Group in 1981, TEB has emerged as one of the most reputable banks in Turkey with its strong deposit franchise, and impeccable financial strength that hinges on high quality core banking business and sound financial management.

TEB is the 17th largest private commercial bank in Turkey in terms of total assets as at year-end 1999 with total assets amounting to US$1.2bn. As a result of TEB's risk-averse growth strategy, total assets registered a CAGR[1] of 30% between 1994 and 1999 in comparison to its peer group (Finansbank, Disbank, and Demirbank) average of 46%. On this note, we should point out that peer group selection is based solely on asset size, which is not a good proxy for peer group analysis in case of TEB. TEB needs to be differentiated from this group of banks on a qualitative basis for the reasons discussed throughout this report.

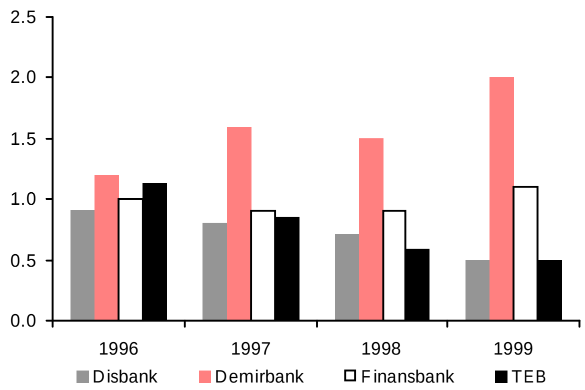
Figure 1. TEB: Asset composition



Source: Company Reports

The asset growth of its peer group has been mainly propelled by heavy investments in government securities financed by massive short fx positions, which has turned out catastrophic in the financial crisis of 1994. In addition to currency risks, many Turkish banks have been exposed to serious interest rate and maturity mismatch risks, as they have boosted the off-balance sheet leveraging through repos. In the period between 1994 and 1999, marketable securities represented a mere 8% of earning assets[2] (EA) in comparison to the peer group average of 25%. Though the bank appears to have foregone hefty gains from securities trading throughout this period, an equally convincing case can easily be made against this argument. For example, real profitability of treasury operations financed by repos has been quite dubious in the past. As prevalent accounting principles and legal regulations have not required banks to mark-to-market their repo portfolios as recent as the end of 1999, some of the banks in the system have been exposed to enormous risks that undermined the quality of assets and the visibility of earnings.

Figure 2. Market shares: Loans (%)



Source: Company Reports

Trade financing, and lending to top tier Turkish corporations and multinationals constitute the core of TEB's corporate banking business, which has been historically the bank's main focus area and expertise. The core client base of the bank comprises over 4,500 corporate clients, lending to which accounts for almost 97% of total lending. The bank has a reasonably well-diversified loan portfolio that is spread over a wide range of industries. Lending to food and textile industries made up roughly one third of total lending at the end of 1999, which is broadly in line with the Tier-1 banks' loan book composition. For a bank that is involved in trade financing, exposure to textiles is practically inevitable, as textiles account for almost 40% of Turkeys total exports. Since the textile industry has been going through immense difficulties since 1998 due to adverse global climate in this sector, many Turkish textile firms have run into financial crisis, and many have gone bankrupt.

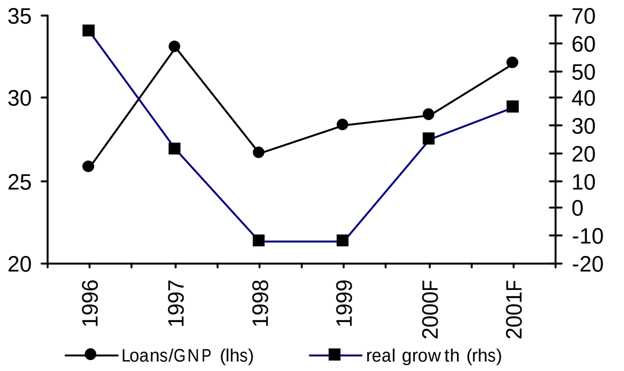
[1] Growth rates are given in USD terms unless otherwise is stated.

[2] Quarterly average

Under these unfavorable conditions, TEB has managed to keep its problem loans at bare minimum, while many banks in the sector ended up with massive bad loans.

Obviously, TEB's success in keeping the loan book quality intact can not be wholly attributable to its prudent lending practices. The bank has been systematically reducing its lending since the second half of 1998, when the economy has slipped into a prolonged recession that resulted in one of the worst economic contractions in the country's history with a 6.4% decline in real GNP level at the end of 1999.

Figure 3. Sector: Loan growth (%)



Source: Central Bank, YKY Research

According to the CB data, bad loans in the banking system stood at 9.76% of outstanding loans as at the end of 1Q00, both due to severe economic slowdown in 1999, and problem loans at the banks that have been taken over by the Deposit Insurance Fund.

Table 2. Non-performing loans (US$mn, 1Q00)

	Akbank	Garanti	Isbank	TEB
Gross NPLs	**65**	**51**	**185**	**1**
as % of net loans	2.4	1.9	5.6	0.5
Loan Loss Reserves	**49**	**51**	**185**	**1**
as % of gross NPLs	75	100	100	100

Source: Company Reports

TEB's superior loan book quality is evident in its NPL ratio that stood at 0.5% of gross loans, which is much lower than both the industry and peer averages. The bank sets aside 100% provisions for its problem loans, and its loan book is fully insured by high quality collateral coverage.

As the bank's retail strategy picks up steam, we expect the share of consumer lending (mostly credit cards and consumer loans) to gradually reach 10% of total lending at the end of 2000 from the current level of 3%.

As TEB has one of the most stable and high quality deposit bases in the sector, its asset allocation strategy has been focused on liquidity during the contraction period. At a time when lending was risky, and/or equally subdued due to low demand, the bank has boosted its liquidity through lending to state-banks, and reputable foreign banks. Lending to other financial institutions at around 10% p.a. (fx loans in US$ terms) proved to be more profitable, while comparable fx loans to firms generate 7-10% p.a. at a higher risk. Some 74% of the bank's liquid assets is composed of lending to other banks. The management indicates that these funds will be diverted back to lending to corporate and retail segments, when the economic activity recovers.

Table 3. Liquidity (%, 1Q00)

	Liquid assets/EA	Banks/Liquid Assets
Demirbank	38.7	37.8
Disbank	57.4	82.9
Finansbank	48.3	60.9
TEB	58.4	74.2
Tier-1 average	35.5	40.4

Source: Company Reports

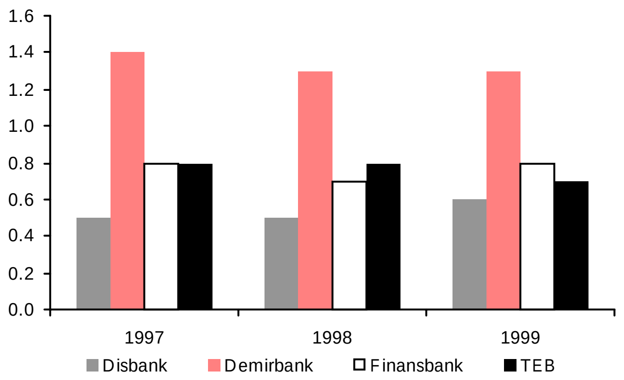
The bank has always maintained an arm's length lending policy with the group companies, although these companies are top-notch corporations in their fields. We should remember that almost all of the banks that have been taken over by the SDIF have suffered from excessive (and equally illegal) lending to the group companies. As evident in the resulting mess, which cost the tax payers roughly US$5bn, related party lending poses serious threat for the financial system as well as the public finances.

High quality deposits are hard to find...

TEB boasts one of the most stable, and highest quality deposit franchises in the sector, where some 50% of its deposit base comes from private banking clients (high net worth individuals). Since TEB has avoided the chase for expensive deposits, as opposed to the state-owned and some non-franchise banks that have offered exuberant rates, mostly under the table, savings deposits declined roughly 6.5% in 1999. Obviously, economic slowdown contributed to this decline as well, where total deposits in the sector shrank 3% in real terms in 1999.

During this tumultuous climate, TEB lost some 60% of its savings and commercial deposits, while it increased fx deposits by 10%. Currency substitution has increased considerably since the summer of 1999, where the share of fx deposits in total deposits inched up to 51% in June 2000, from 45.4% in June 1999. This was partly brought about by an infusion of fx deposits from off-shore banks subsequent to the recent bank failures.

Figure 4. Market share: Core deposits (%)



Source: Company Reports

The bank has partially offset the drainage in its core deposits by borrowing from other banks, which accounted for about 10% of the bank's total deposit base. We contend that bank deposits are essentially high cost, short-term debt, which must be stripped from a bank's stable core deposit base.

Table 4. Deposit base (US$mn, 1Q00)

	Finansbank	Disbank	Demirbank	TEB
Total Deposits	1,265	711	2,620	634
Core Deposits	656	453	1,162	570
Core Deposits/total deposits (%)	51.9	63.7	44.4	89.9
TL demand deposits[3]/total deposits (%)	2.9	8.7	2.0	6.2

Source: Company Reports

However, TEB's borrowing from other banks represents only a fraction of its long-term funding base as opposed to some of its peers that have persistently funded as high as 50% of their deposit base with bank deposits. There is reasonable doubt that the bank has temporarily resorted to bank deposits, as the economic recovery took longer than expected.

TEB's reputation as a safe and sound bank also facilitates its access to the low cost TL deposits, which represents around 6% of its deposit base at the end of 1999. Collecting TL demand deposits at an average cost of 10-15% p.a., and investing them in high yield O/N repos (around 80% p.a. in 1999) generated hefty windfall gains for many Turkish banks. These float gains accounted for almost one third of revenues in the system over the past few years. Obviously, declining inflation will inevitably eradicate these windfall gains in the future. However, those banks that have solid and reliable banking franchises augmented by other core financial services such as insurance, leasing, brokerage, and asset management, will be able to retain the bulk of depositors. In this respect, TEB's prospects of being a successful medium-size financial shop are very strong, particularly on the back of recently launched retail strategy.

First quarter results already highlight a reversal in the drainage of TEB's core deposits that increased roughly 30% with respect to the year-end 1999. We believe that the bank can achieve a market share over 1% in core deposits in 2001.

TEB has also launched a retail-oriented growth strategy in an effort to expand its retail franchise, which will facilitate its access to this fast-growing segment, while maintaining its core private and corporate banking business. TEB will increase its branch network to 75, from 46 by 2002, mainly through kiosk type branches, which will help achieve the threshold branch number in order to compete with its rivals in the retail market. Cross-selling of its product/service blend, which primarily includes insurance, consumer loans and credit cards, through alternative distribution channels such as the internet and telephone banking constitutes the backbone of its retail strategy. To this end, it has upgraded its technology infrastructure, including a full-service call center, and internet service through TEB Iletisim - TEB's wholly owned internet subsidiary.

[3] as of year-end 1999

Universal deposit insurance is out of the way

The government has announced that the universal deposit insurance will be gradually lifted until 2002 in order to foster a more competitive and fair banking environment. Universal deposit insurance has been put in place following the crisis of 1994, when three banks had failed. Under this scheme, all deposits, with the exception of commercial and off-shore deposits, were covered 100% in case of bankruptcy or insolvency. Many industry experts, particularly the large private banks with strong banking franchises, have been complaining about the unfair competition caused by this scheme, where risk perception of the average depositor has been immensely diminished. In addition, it is widely argued that this scheme has created immense moral hazard given the lack of effective supervision and "enforcible" legal liability.

According to the initial announcement, deposits, which will be opened or rolled over after the ruling takes in effect, will be 100% covered up to TL100bn (US$170,000) until the end of 2000. This limit will be lowered to TL50bn (US$70,000) in 2001, and it will be brought down to the EU standards (Euros20,000) after 2002. It seems that the universal coverage will remain in effect for the existing deposits under the current regulations. It should be noted that this is a government executive ruling, and it is not subject to the Parliament's approval.

Currently, state-owned banks control 40% of total deposits, and Tier–1 banks, namely Akbank, Garanti, Isbank, Yapi Kredi, control about 24% of total deposits, where Yapi Kredi has the largest market share among its peers. In terms of concentration, top 10 banks capture almost 70% of total deposits.

Table 5. Sector summary (1999, US$mn)

	Assets	Loans	Deposits
State-owned	49,764	14,110	35,563
As % of total	*37.3*	*35.1*	*39.8*
Tier-1 banks	34,347	11,798	21,238
As % of total	*25.7*	*29.3*	*23.8*
SDIF	7,507	1,389	9,931
As % of total	*5.6*	*3.5*	*11.1*
Total	**133,557**	**40,213**	**89,377**

Source: Banks' Association of Turkey

Let us roughly compute the deposit base that might be subject to a gradual shift. There is almost US$10bn in deposits at the banks administered by the Savings Deposit Insurance Fund (SDIF) – a total of eight banks, accounting for 12% of sector deposits.

On the other hand, 33 banks (excluding development, and SDIF banks) below the top 20 banks ranked by asset size control about 7% of total deposits; 18 banks (excluding excluding development, SDIF, and froeign banks) capture 6.8% of sector deposits.

Table 6. Summary statistics (1999, US$mn)

	Assets	Loans	Deposits
33 banks[4]	12,545	3,232	6,347
market share %	*9.4*	*8.0*	*7.1*
18 banks[5]	10,108	3,039	6,066
market share %	*7.6*	*7.6*	*6.8*

Source: Banks' Association of Turkey

Among the top 20 banks (ranked by asset size), there is only one bank under the SDIF, Interbank, which captures 2.4% of deposits. We can only identify 3-4 banks (we can not name them) among the top 20 banks that might be prone to a run on their deposits, and they only control 3-5% of total deposits.

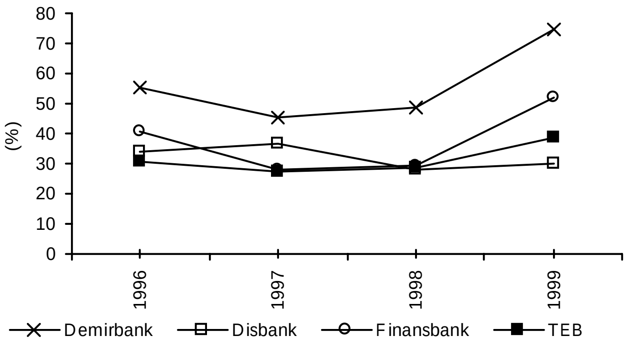
On an educated guess, we estimate that 20-25% of the sector deposits might be subject to a gradual shift over the long haul towards safe haven banks, which definitely includes TEB.

[4] excluding development and SDIF banks
[5] excluding development, SDIF, and foreign banks

Focus should be on the core earnings from financial activities

The bank's core income from lending declined to US$19mn as at the end of 1Q00, from US$26mn at the end of 1Q99, reflecting the unfavourable climate in the loan market. However, as the bank has inevitably stepped up its treasury operations in the second half of 1999, income derived from securities trading helped increase the total interest income by 19% at the end of 1Q00. Historically, interest income from securities constituted only one third of the bank's total interest income as opposed to Demirbank's 75% and Garanti's 60% at the end of 1999.

Figure 5. Securities income as % of total interest income



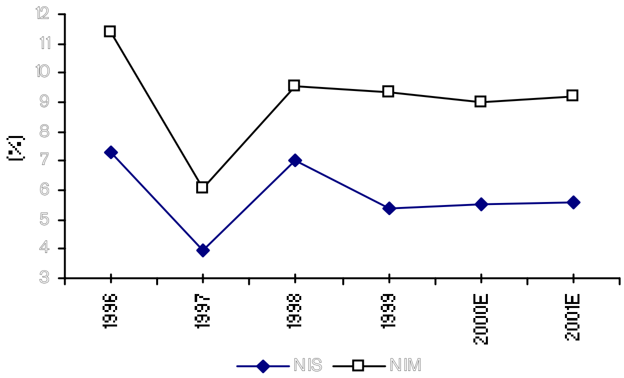
Source: Company Reports

As the bank has increased its securities trading in 1999, inflation-adjusted NIM (net interest margin) stayed flat at 9.5% at the end of 1999 with respect to the previous year. However, declining margins in lending coupled with higher cost of funding led to a sharp fall in the bank's net interest spread NIS[6] (net interest spread), which slipped to 5.5% in 1999 from 7.0% at the end of 1998.

TEB's interest margin/spread is quite similar to those banks in the industry that have avoided heavy investments in high-yield government securities such as Yapi Kredi Bank.

Going forward, we expect the bank's NIS to converge to 5-6% range, which should be the average spread in the industry over the next few years. Accordingly, NIM should hover at around 9-10% margin.

Figure 6. TEB: Interest margin and spread (inf. adj.)



Source: Company Reports, YKY Research

Rehabilitation of the financial sector is an integral part of the IMF-backed stabilization program. In accordance with the commitments of this program, the government has enacted an array of regulatory changes based on the new banking law. Article 13/4 of the new banking law, which has been enacted in the summer of 1999, requires the banks to consolidate their direct and indirect participations, and publish quarterly financial statements based on the guidelines set forth by the new banking supervisory agency. As the formation of this new body took longer than expected, the Treasury has issued an interim circular (21.12.1999/Issue No:23913) on the specifics of the law concerning the consolidation guidelines. This circular stipulates that the banks will have to consolidate their "financial participations" effective as of July 1, 2000.

Table 7. Contribution to consolidated accounts (%)

	Banking	Factoring	Leasing
Interest income	78.4	6.9	9.7
Net profit	74.5	6.1	10.4

Source: Company Reports

Based on non-statutory IAS29 consolidated accounts, the contribution of TEB's financial participations to the consolidated profit was around 23% at the end of 1999. This is roughly in line with the figures based on the CMB accounts at the end of 1Q00, where dividend income from equity participations accounted for around 25% of total revenues.

[6] NIM=(Adj. Net Interest Income/AEA)
NIS=[1+Adj.Interest Income/AEA)/(1+Adj. Interest Expense/AIBL)]-1

Adjusted Interest Income = Interest Income + fx gains + trading gains
Adjusted Interest Expense = Interest Expense + fx losses + trading losses

Table 8. Accruals (1Q00)

	Akbank	Garanti	Isbank	Demirbank	Finansbank	Disbank	TEB
Accrued interest (US$mn)	495	851	546	579	224	103	58
as % of EA	9.5	11.7	7.1	17.6	9.0	6.3	4.5
as % of equity	36.6	74.6	26.5	139.8	77.0	44.7	43.3

Source: Company Reports

We believe that it is time to put the regulatory changes in perspective, and adjust our investment analysis accordingly. In this respect, the visibility and the quality of TEB's earnings definitely help us differentiate the bank from others. Actual profitability of a Turkish bank, when stripped out of accrual gains and dividend income from non-core activities, might drastically alter the picture.

Under rather adverse conditions, the bank was able to increase its net earnings 12% (17% IAS consolidated) y-o-y at the end of 1999, while it reported net earnings of TL10.4trn (US$18mn) as at the end of 1Q00, which translates into 38% increase y-o-y in US$ terms.

As we expect a recovery in the second half of 2000, the bank can sustain a 15% increase in net earnings (non-consolidated) y-o-y at the end of this year, which corresponds to a net profit of TL32trn (US$53mn).

Valuation: Quality matters and it has a price...

Restructuring of the financial system is an integral part of the government's IMF-backed reform program. The government has been able to lay out the necessary legislative framework, which will facilitate strengthening of the banking system. To this end, the new banking law, which has been enacted last year, is geared towards increasing the transparency of the system, and strengthening key prudential regulations in order to foster a safe and sound operating environment as envisaged in the government's structural reform package.

The regulatory changes in accordance with the new banking law aim at eliminating certain loopholes that tolerated system wide abuses in the past. The formation of a supervisory body, tightened auditing and compliance measures, increased prudential standards in terms of risk exposure all signal the government's concerted efforts to overhaul the financial system.

In consequence, prudent banking will not be an exception in the industry, but the norm. Those banks that have solid, and stable deposit franchises with strong brand names will emerge as definite winners in the new environment. In the past, obtaining a banking license has been a convenient way of collecting deposits under universal insurance, and funneling these funds to the group companies, which would have had little or no access to these loans elsewhere. Recent bank failures did not come out as a surprise at all, as all of these banks were plagued with risky group lending.

TEB's current valuation fails to reflect its strong deposit franchise that captures around US$12.4mn per branch. Table 9. clearly confirms that TEB's deposit franchise definitely belongs to the top-tier. The bank's core deposit base is not only high quality, but also very stable. TEB can only increase its deposit base leveraging on its reliable brand name that includes auxiliary financial services, and its modest, but promising retail strategy.

Table 10. Valuation of equity participations (US$mn)

	Valuation	TEB's share (%)	Value of TEB's share
TEB Yatirim	55	74.8	**41**
TEB Factoring	20	45.0	**9**
TEB Leasing	100	51.0	**51**
TEB Sigorta	10	50.0	**5**
TEB NV	45	100.0	**45**
TEB Iletisim[7]	Not valued	29.0	
TEB Asset Man	Not valued	88.6	
Total			**150**

Source: Company reports, YKY Research estimates

TEB's equity participations portfolio consists of a full range of financial service companies, including, insurance, leasing, factoring, brokerage, and asset management. Though its parent company is a leading industrial holding, its financial arm is strategically separated from this group of companies. TEB's financial services companies are medium size, but rapidly growing, profitable[8] businesses.

Table 9. Deposit base per branch

	Akbank	Garanti	Isbank	Yapi Kredi	Finansbank	Disbank	Demirbank	TEB
No of branches	574	234	851	431	106	84	125	46
Total deposits (US$mn)	9.0	19.9	7.0	15.4	11.9	8.5	21.0	13.8
Core deposits (US$mn)	8.8	15.7	6.6	12.5	6.2	5.4	9.3	12.4
TL demand deposits (US$000)	618	1,102	588	1,698	271	752	337	770

Source: Company reports

Under these circumstances, it is imperative to incorporate the qualitative aspects of a banking franchise into the valuation models. We should question the quality of earnings, riskiness of the operations, quality of the deposit base, asset/liability management skills, growth potential, so on and so forth.

We contend that the whole industry is on the verge of a consolidation process, as the government is tightening the regulatory squeeze. Limiting the short fx position, related party exposure, and non-core investments; elimination of universal deposit insurance are all precursors of such a protracted restructuring of the financial system. Investors should keep a keen eye on all these aspects before investing in Turkish banks.

Synergy among these companies adds tremendous value to TEB's core financial business.

In Table 10., we provide valuations of the bank's equity holdings based on the respective peer group multiples. Conservatively, we estimate a total equity value of US$150mn for the bank's equity holdings. We take the 1999 IAS29 book value as a proxy for the market value of the bank's fixed assets, which comes out at around US$20mn. All in all, we estimate the market value of TEB's real assets (fixed assets and equity holdings) at about US$145mn.

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[7] We do not attach a value for TEB Iletisim as the company is yet to generate profits at the end of 2000.

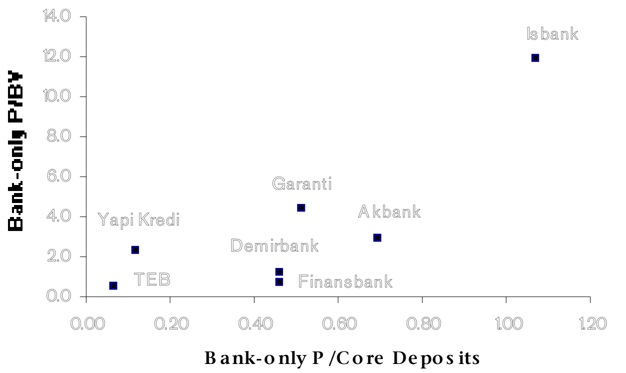
[8] (1Q2000) TEB Leasing:US$10mn,TEB Invest: US$3.4mn, TEB Factoring:US$2.2mn, TEB Insurance:US$0.7mn.

Putting all these arguments in perspective, TEB should trade at bank-only[9] **IAS 1999A P/BV of 2.8 times** against current multiple of 0.5 times. With an inflation-adjusted 2000E ROE[10] of 15%, which is sustainable over the next few years, we estimate a **fair market value of US$240mn** for the bank's core business and **US$400mn for the entire franchise**[11].

Our fair price for the bank's core business implies at least 45 cents per dollar of core deposits[12]. For a bank, which is one of the three top rated banks in Turkey[13], we believe that the current valuation does not reflect the true value embedded in it.

Given the low risk/high quality profile of TEB's franchise, we do not hesitate to issue a **STRONG BUY** with a year-end price target of 10,000TL.

Figure 7. Value map



Source: YKB Research estimates

Table 11. Summary valuation

(US$mn)	Akbank	Garanti	Isbank	Yapi Kredi	TEB	Finansbank	Demirbank
Closing price (TL)	4,850	7,500	13,750	7,000	5,300	1,575	1,625
Closing price (USc)	0.78	1.21	2.21	1.12	0.85	0.25	0.26
Current Market Cap	3,897	3,134	12,352	5,636	209	304	537
Fair Market Value	6,500	5,000	13,000	8,000	400	500	700
Disc/Prem (%)	68	62	13	42	97	65	28
Equity (CMB 1999)	1,404	1,086	1,544	1,134	133	270	415
Equity (IAS 1999)	1,500	1,490	2,700	2,160	97	368	467
Equity (IAS 2000E)	1,800	1,700	3,400	2,400	120	405	514
Fixed Assets (market value)	300	400	1,000	1,000	20	100	130
Fixed Assets (CMB 1999)	158	365	397	403	10	34	74
Equity Participations (market value)	100	850	5,300	4,000	150	20	100
Equity Participations (CMB 1999)	46	643	677	317	31	101	78
Free Capital (CMB 1999)	1,200	78	470	414	92	135	263
Free Capital (IAS 1999)	1,192	430	510	273	85	261	249
Total Deposits (1999)	5,178	4,654	5,926	6,635	634	1,265	2,620
Core Deposits (1999)	5,030	3,665	5,655	5,403	570	656	1,162
Bank-only P/BV (IAS 1999A)	2.9	4.4	11.9	2.3	0.5	0.7	1.2
Deposit Franchise Multiple	0.68	0.40	1.02	0.10	0.06	0.15	0.12
Core Deposits Franchise Multiple	0.70	0.51	1.07	0.12	0.07	0.46	0.46

Source: Company reports, YKY Research estimates

[9] Bank-only Book Value (Free capital)= Equity - real assets

[10] Consolidated IAS ROE: 31% (1998) , 17% (1999)

[11] $\text{Fair Market Value} = \text{Bank - only book value} \times \frac{\text{ROE}}{(R_r - g)} + \text{Real Assets}$

Growth rate (g)=5%, bank-only BV is the 1999A IAS29 free capital

[12] Core deposits franchise multiple=Bank-only market value/Core deposits
Bank-only market value (P)= Current market cap – estimated market value of real assets

[13] Capital Intelligence A-, Moody's D+

Table 12. TEB: Balance sheet (TLbn)							As % of total assets			
	1997	**1998**	**1999**	**1Q99**	**1Q00**	**y-o-y %**	**1997**	**1998**	**1999**	**1Q00**
Assets	**190,966**	**322,979**	**650,647**	**365,076**	**794,074**	**117.5**				
Cash	5,017	14,321	20,912	14,593	29,008	98.8	2.6	4.4	3.2	84.1
Banks	46,386	94,332	240,492	79,894	326,149	308.2	24.3	29.2	37.0	262.3
Marketable Securities (Net)	15,489	21,377	57,068	43,464	73,897	70.0	8.1	6.6	8.8	59.6
Loans	75,494	87,187	115,254	83,804	138,767	65.6	39.5	27.0	17.7	55.8
Short-term	69,185	82,073	101,472	79,488	122,930	54.7	36.2	25.4	15.6	46.5
Medium-Long term	6,309	5,113	13,782	4,315	15,837	267.0	3.3	1.6	2.1	227.2
Non-performing Loans (gross)	172	429	574	522	702	34,8	0.1	0.1	0.1	0.0
Rediscounts of Accr. Interest	10,517	8,411	34,855	25,161	33,851	34.5	5.5	2.6	5.4	29.4
Reserve Requirements	10,138	17,592	30,510	20,674	35,078	69.7	5.3	5.4	4.7	59.3
Statutory Reserves	1,206	2,149		4,134		-100.0	0.6	0.7	0.0	-85.1
Miscellaneous Receivables	24	86	128	119	205	72.8	0.0	0.0	0.0	61.9
Equity Participations	349	599	975	599	1,853	209.0	0.2	0.2	0.1	177.9
Affiliates	361	5,602	12,072	6,036	16,344	170.8	0.2	1.7	1.9	145.3
Tied Securities	10,904	55,547	111,689	60,800	105,592	73.7	5.7	17.2	17.2	62.7
Fixed Assets	1,712	3,250	5,232	3,652	5,780	58.3	0.9	1.0	0.8	49.6
Other Assets	1,671	7,526	6,208	8,547	17,040	99.4	0.9	2.3	1.0	84.6
Total Liabilities										
Deposits	106,758	192,519	310,280	198,349	372,874	88.0	55.9	59.6	47.7	74.9
Savings Deposits	10,255	11,395	7,779	12,145	10,963	-9.7	5.4	3.5	1.2	-8.3
Commercial Deposits	4,338	29,830	15,581	25,746	22,635	-12.1	2.3	9.2	2.4	-10.3
Other Deposits	1,947	3,500	2,841	1,169	1,033	-11.6	1.0	1.1	0.4	-9.9
Bank Deposits	12,984	10,439	25,805	1,852	37,616	1,930.6	6.8	3.2	4.0	1643.0
Foreign Exchange Deposits	75,527	132,873	252,191	148,980	291,471	95.6	39.5	41.1	38.8	81.4
Interbank Money Market	300	5,000	15,250	13,600	10,500		0.2	1.5	2.3	0.0
Funds Borrowed	63,524	80,868	226,165	94,702	259,224	173.7	33.3	25.0	34.8	147.8
Provisions	696	5,729	16,704	8,985	18,202	102.6	0.4	1.8	2.6	87.3
Other Liabilities	1,107	2,503	4,336	3,486	9,669	177.4	0.6	0.8	0.7	151.0
Shareholder's Equity	**12,473**	**26,689**	**47,105**	**31,333**	**78,239**	149.7	6.5	8.3	7.2	127.4
Paid-up Capital	5,500	12,500	22,000	22,000	24,500	11.4	2.9	3.9	3.4	9.7
Contingent liabilities		**519,022,201**	**1,621,136,754**	**659,984,801**	**1,763,325,480**	167.2				

Table 13. TEB: Balance sheet (US$mn)

	1997	1998	1999	1Q99	1Q00	y-o-y growth (%) 1998	1999	1Q00
Assets	**933**	**1,030**	**1,205**	**994**	**1,350**	**10.4**	**17.0**	**35.9**
Cash	25	46	39	40	49	86.3	-15.2	24.2
Banks	227	301	445	217	555	32.7	48.1	155.0
Marketable Securities (Net)	76	68	106	118	126	-9.9	55.1	6.2
Loans	369	278	213	228	236	-24.6	-23.2	3.4
Short-term	338	262	188	216	209	-22.6	-28.2	-3.4
Medium-Long term	31	16	26	12	27	-47.1	56.5	129.3
Non-performing loans (gross)	.84	1.37	1.06	1.42	1.19	62.7	-22.2	-16.1
Accrued Interest	51	27	65	68	58	-47.8	140.7	-15.9
Equity Participations	2	2	2	2	3	12.1	-5.5	93.1
Affiliates	2	18	22	16	28	912.9	25.2	69.2
Tied Securities	53	177	207	165	180	232.5	16.8	8.5
Fixed Assets	8	10	10	10	10	23.9	-6.5	-1.1
Other Assets	8	24	11	23	29	193.9	-52.1	24.6
Deposits	521	614	574	540	634	17.7	-6.4	17.4
Savings Deposits	50	36	14	33	19	-27.5	-60.3	-43.6
Commercial Deposits	21	95	29	70	38	348.8	-69.7	-45.1
Bank Deposits	63	33	48	5	64	-47.5	43.6	1,168
Foreign Exchange Deposits	369	424	467	406	496	14.8	10.2	22.2
Funds Borrowed	310	258	419	258	441	-16.9	62.4	71.0
Provisions	3	18	31	24	31	437.3	69.3	26.6
Other Liabilities	5	8	8	9	16	47.5	.6	73.3
Shareholder's Equity	61	85	87	85	133	39.7	2.5	56.0
Memorandum Accounts		1,654	3,002	1,796	2,999		81.4	66.9
Letters of Guarantee		556	470	513	463		-15.5	-9.7
Commitments		150	316	222	318			43.0
Currency and Interest rate Transactions		949	2,216	1,061	2,218		133.6	109.0
US$/TL (period-end)	204,750	313,707	540,098	367,385	588,060			
Earning Assets	857	975	1,159	942	1,280	13.8	18.9	35.9
Interest Bearing Liabilities	851	900	1,047	864	1,141	5.8	16.2	32.0

Table 14. TEB: Income statement (TLbn)

	1996	1997	1998	1999	1Q99	1Q00	% y-o-y
Interest Income	**14,523**	**38,064**	**71,550**	**117,440**	**23,328**	**45,503**	**95.1**
FX Gains	1,801	13,593	15,392	41,719	11,815	11,923	0.9
Interest Expense	**8,334**	**21,301**	**29,188**	**52,269**	**12,310**	**14,897**	**21.0**
FX Loss	2,968	18,844	28,762	62,670	12,960	16,894	30.4
Net Interest Income	**5,022**	**11,512**	**28,991**	**44,220**	**9,873**	**25,635**	**159.6**
Fee Income (net)	326	963	1,931	3,255	1,953	3,717	90.3
Trading Income (net)	527	(352)	(176)	9,028	1,518	(7,721)	-608.5
Income from Equity Participations			402	1,228	1,227	7,464	508.3
Other	41	51	665	1,443	483	914	89.3
Total Revenues	**5,916**	**12,174**	**31,815**	**59,174**	**15,054**	**30,009**	**99.3**
Personnel Expenses	(1,334)	(3,251)	(7,754)	(14,125)	(2,876)	(5,176)	80.0
Other Operating Expense	(1,331)	(2,646)	(7,405)	(12,900)	(3,750)	(12,441)	231.8
Total Operating Expense	**(2,665)**	**(5,897)**	**(15,158)**	**(27,025)**	**(6,626)**	**(17,617)**	**165.9**
Operating Income	**3,251**	**6,277**	**16,656**	**32,148**	**8,428**	**12,392**	**47.0**
Depreciation	(207)	(294)	(591)	(1,175)	(221)	(391)	77.0
Loan Loss Provisions		(202)	(364)	(235)	(142)	(175)	23.1
Other Provisions			(624)	(566)	(374)	(230)	-38.6
EBT	**3,044**	**5,781**	**15,078**	**30,173**	**7,692**	**11,597**	**50.8**
Taxes	135	(649)	(4,413)	(10,785)	(3,135)	(1,259)	-59.8
Net Income	**3,179**	**5,132**	**10,665**	**19,388**	**4,557**	**10,337**	**126.8**

Table 15. TEB: Income statement (US$mn)

	1996	1997	1998	1999	1Q99	1Q00	% y-o-y
Interest Income	**179**	**251**	**274**	**279**	**68**	**81**	**18.6**
FX Gains	22	90	59	99	35	21	-38.6
Interest Expense	**102**	**141**	**112**	**124**	**36**	**27**	**-26.4**
FX Loss	37	124	110	149	38	30	-20.7
Net Interest Income	**62**	**76**	**111**	**105**	**29**	**46**	**57.9**
Fee Income (net)	4	6	7	8	6	7	15.7
Trading Income (net)	6	(2)	(1)	21	4	(14)	-409.2
Income from Equity Participations			2	3	4	13	269.9
Other	1		3	3	1	2	15.1
Total Revenues	**73**	**80**	**122**	**141**	**44**	**53**	**21.2**
Personnel Expenses	(16)	(21)	(30)	(34)	(8)	(9)	9.4
Other Operating Expense	(16)	(17)	(28)	(31)	(11)	(22)	101.8
Total Operating Expense	**(33)**	**(39)**	**(58)**	**(64)**	**(19)**	**(31)**	**61.7**
Operating Income	**40**	**41**	**64**	**76**	**25**	**22**	**-10.6**
Depreciation	(2.5)	(1.9)	(2.3)	(2.8)	(.6)	(.7)	7.6
Loan Loss Provisions	.0	(1.3)	(1.4)	(.6)	(.4)	(.3)	-25.1
Other Provisions	.0	.0	(2.4)	(1.3)	(1.1)	(.4)	-62.6
EBT	**37**	**38**	**58**	**72**	**23**	**21**	**-8.3**
Taxes	2	(4)	(17)	(26)	(9)	(2)	-75.6
Net Income	**39**	**34**	**41**	**46**	**13**	**18**	**37.9**
USD/TL (average)	81,307	151,572	261,000	420,716	341,839	562,150	