TEB

BUY

TEBNK.IS

Price: TRY17.70 / US$12.97
ISE 100: 30,767 TL/$: 1.365

The inclusion of BNPP into picture and restored macroeconomic stability has put TEB into the transformation stage. In contrast to its former banking perception of staying at the defensive edge of the business, TEB has started to reshuffle its asset mix towards high-yielding retail/SME segments through new product offerings and towards securities, boosting bottom line profitability. We expect BNPP to implement an aggressive organic growth plan for TEB going forward, which will secure a growth platform on retail/SME segments and will provide scope for cross selling products from other banking divisions.

TEB shares have relatively outperformed the ISE index by 33%, since we first initiated a BUY rating on the bank, and had the highest return among the banks in our coverage in a six-month time frame. Investors bet on the growth story of the bank stimulated by the change in traditional banking strategies, backed by BNPP. Nevertheless, the recent pullback in the shares (declined about 20% in the last two weeks) has raised the attractiveness of TEB. Our valuation approach, suggests a 12-month forward looking fair value of TRY22.3 per share, implying that TEB shares offer 26% 12-month forward looking potential on the current market price. We therefore reiterate our BUY rating.

Potential Upside		
Target Market Cap:		US$ 950 mn
Current Market Cap:		US$ 750 mn
Target Upside		26%
Price Data		
Mcap Range (12 months)		$226 - $895 mn
Relative Performance		
	3mnth:	24.45%
	12mnth:	114.7%
Trading Data		
Avg. Daily Volume		US$ 1.46 mn
Weight in ISE100		0.45%
Beta (weekly, 3 year)		0.762
Foreign Ownership		
	Current	65.39% of free float
	1mnth ago	62.63% of free float
	3mnth ago	55.60% of free float
Shareholder Structure		
TEB Financial Services		84.25%
Other		0.58%
Free Float		15.17%

- **BNPP sees Turkish market among the countries in the Middle East/Maghrep region that has strong growth potential supported by low but growing banking penetration.** In parallel to the BNPP's strategy, TEB is now investing in its branch network, expanding its asset size, strengthening its retail/SME lending presence and increasing revenues through cross selling.
- **Starting from 2006, TEB plans to implement aggressive strategies in SME/retail banking, through new product offerings.** We perceive 2005-07 period as the phase of transformation for TEB, which aims at accelerating growth, controlling risks and increasing revenues. Branch openings would continue to be a feature of TEB's expansion. It should be noted that the bank has already opened 13 branches so far in 2005, and targets to activate a further 49 branches until the end of 2007, focused mainly on retail and SMEs.
- **TEB has excess liquidity and a relatively large level of free capital to finance the aggressive growth in its loan book without competing to collect lira deposits at least in the first couple of years.** TEB has the highest lira loan to deposit ratio among the banks in our coverage with 159%. It is evident that the bank is no immediate need for additional lira deposits and can therefore keep its deposit costs relatively low.
- **A policy shift towards higher yielding assets should help TEB shield its margins from contracting in a falling inflation environment.** On the other hand, stronger presence of SME/retail lending should give a boost to fee income going forward. Operating expenses will be another key component of the profitability for TEB, as branch openings will be the feature of the bank's expansion strategy. We foresee operating expense growth of 23% (CAGR) in the 2005-08 period, which would imply hefty investments mainly in 2005 and 2006, and slowing towards 2007. It is also expected that problem loans would rise gradually, due to aggressive lending polices. Overall, we expect the bank to post a ROE of 19% in 2005 and 18% in 2006, against 9% in 2004. The ROE is then estimated to stabilise around 17% going forward.

Key Estimates

(TRY 000)	2004	2005e	2006e	2007e	2008e
Net Income, bank-only	33,800	80,675	89,071	102,919	131,166
Net Interest Margin (adjusted)	6.3%	5.5%	5.3%	5.1%	4.8%
Cost to Income	63.3%	57.0%	59.4%	57.4%	53.5%
Stated ROE	9.4%	19.0%	17.6%	16.9%	16.6%
EPS	0.58	1.40	1.54	1.78	2.27
DPS	0.15	0.42	0.46	0.71	0.91
PE (x)	30.27	12.68	11.49	9.94	7.80
PBV (x)	2.60	2.26	1.83	1.54	1.12

Source: Company data and FinansInvest

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From conservatism to more active retail/SME banking

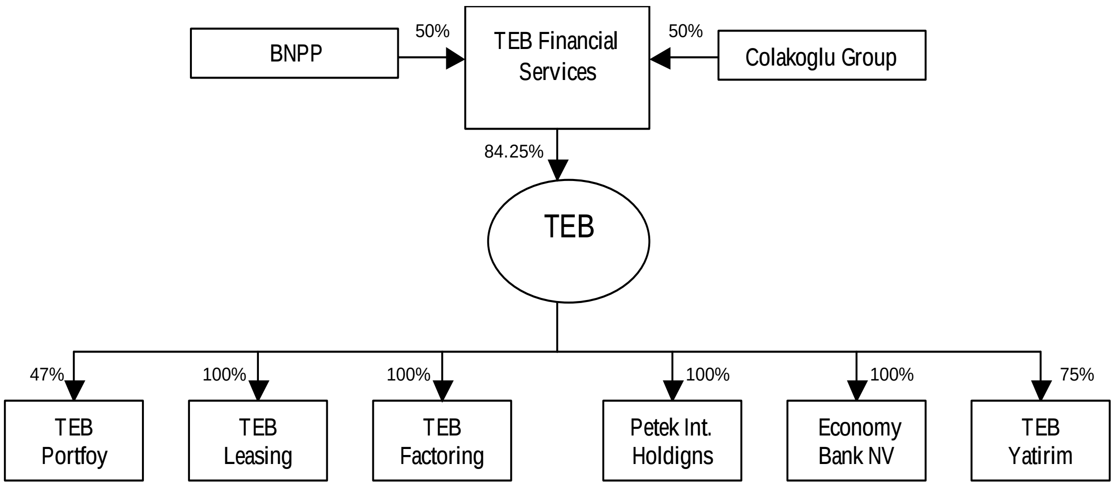
TEB has been known for its conservative banking strategies that centred mainly on the high-end of the scale. In the past, the bank has maintained a very high liquidity in its balance sheet, and only limited exposure to government securities and higher yielding lending instruments (i.e. credit cards, consumer loans etc.), in contrast to general tendency of Turkish banks to benefit from the high level of real interest rates. This has deprived TEB from enjoying strong returns the banking business has lodged to Turkish banks in the period. On these grounds, the bank posted an ROE (bank-only) 9% in 2004, against the sector average of 15%.

Shifting towards high-yielding retail/SME segments through new product offerings

Inevitably, the restored macroeconomic stability in Turkish economy and the inclusion of BNP Paribas (BNPP) into picture has put TEB into the transformation stage. In contrast to its former banking perception of staying at the defensive edge of the business, TEB has started to reshuffle its asset mix towards high-yielding retail/SME segments through new product offerings and government securities, boosting bottom line profitability. Liquid assets, which were as high as 49% of assets in 2002, has declined to 23% as of H1 2005, while loan to assets ratio climbed to 52% (from 35%) within the same time frame.

As of equal importance, marketable securities share in assets, which was as low as 3% in 2002, has reached 15% in the first six months of 2005. We need to stress, however, that the positive implications of partnership with BNPP are yet to be seen on TEB's financials. It should be recalled that BNPP's retail arm has acquired 50% stake in TEB Financial Services (parent company, owning 84.25% of TEB Bank) in February 2005, giving BNPP a 42.1% stake in TEB Bank. BNPP has paid US$217mn for the 50% stake of TEB Financial Services, valuing the company at 2.05x multiple, with a possible performance-linked amount to be paid in 2008.

Chart 1: Ownership Structure and Participations



Source: Company data

TEB is now investing in its branch network, expanding its asset size, strengthening its retail/SME lending presence and increasing revenues through cross selling

BNPP sees Turkish market among the countries in the Middle East/Maghrep region that has strong growth potential supported by low but growing banking penetration. In parallel to the BNPP's strategy, TEB is now investing in its branch network, expanding its asset size, strengthening its retail/SME lending presence and increasing revenues through cross selling. It should be noted that TEB has already opened three trade centres since June 2005, which will provide the bank's customers with international trade operations support and advisory in this field, tailor made approach for their complex trade finance deals with superior service quality, benefiting from Trade Centre network of BNP Paribas and its product range.

On the other hand, TEB management has expressed several times that they are open to acquisitions to complement the bank's organic growth strategy. We believe that state banks that are currently at the rehabilitation stage, and are planned to be privatised in 2006, could be a good opportunity for TEB with their strong branch network and customer base. Nevertheless, we did not incorporate the possibility of an inorganic growth into our models for the time being.

Dividend distribution plan implies a dividend yield of 2%

As early as September 2003, TEB management declared that it would distribute at least 30% of its distributable profit as cash dividend every year as long as the market conditions allow and a suitable capital adequacy ratio is sustained. We anticipate the minimum 30% to correspond to a dividend yield of 2% for 2006 at current market price.

Starting from 2006, TEB plans to implement aggressive strategies in retail banking, through new product offerings. As implied by the bank's management, TEB has the intention to bring BNPP's subsidiaries to Turkey to implement cross selling. The bank is also expected to take over the stake of Anadolu Group in Anadolu Cetelem (Partnership with BNPP's consumer credit specialist Cetelem, Italian Findomestic and Anadolu Group established in 1998), in order to benefit from its know-how in credit, back office management and risk management expertise. Cetelem, is the consumer credit market leader in Continental Europe, offering complete range of products (including instalment loans, car loans and revolving loans) and additional services (such as personal financial services and retail services), both directly and through partnerships. TEB also plans to re-launch credit card in late 2006, following its unsuccessful attempt in 2000 to enter into credit card segment with its product Telepati Card.

Branch openings would continue to be a feature of TEB's expansion

We perceive 2005-07 period as the phase of transformation for TEB, which aims at accelerating growth, controlling risks and increasing revenues through cross selling. Branch openings would continue to be a feature of TEB's expansion. It should be noted that the bank has already opened 13 branches so far in 2005, and targets to activate a further 49 branches until the end of 2007, focused mainly on retail and SME banking segments. On the back of the widening of branch network and increased emphasis on lending, we expect CAGR in loans of 45% in the 2005-07 period.

Refocusing in the earnings mix more towards retail/SME clients should stimulate earnings growth

On the other hand, higher presence of high-yielding retail/SME lending and growth should offset bulk of the margin compression, and TEB would be able to increase its net interest income going forward. The growth, however, will come at a cost with cost to income ratio approaching to 60% levels, which would imply hefty investments in the earlier part of the period, slowing down towards 2007. Nevertheless, refocusing in the earnings mix more towards retail clients, and hence ultimately higher profitability, should stimulate earnings growth. We estimate the bank to post a ROE of 19% in 2005 and 18% in 2006, against 9% in 2004. The ROE is then estimated to stabilise around 17% going forward.

Valuation

TEB shares have outperformed the ISE by 33%, since we first initiate a BUY rating on the bank, and had the highest return among the banks in our coverage in a six-month time frame. Investors bet on the growth story of the bank stimulated by the change in traditional banking strategies, backed by BNPP. Nevertheless, the recent pullback in the shares (declined about 20% in dollar terms in the last two weeks) has raised the attractiveness of TEB. Our valuation approach of "discounted bank-only income" method, plus the equity portfolio, suggests a 12-month forward-looking fair value of TRY22.3 per share, of which TRY19.2 comes from the banking operations itself. TEB shares offer 26% 12-month forward looking potential on the current price. We therefore reiterate our BUY rating.

We have based our valuation model on the BRSA bank-only financials, as TEB has only limited equity portfolio, and almost all the value comes from the banking operations. In setting the value for the banking business, we use "discounted bank-only income" approach. The value of the equity portfolio, which was derived through comparative multiples, is then added to the core business value. We have used the yield on 2030 US denominated Eurobond rate of 8% as the risk free rate and add 5.5% equity risk premium on top, which implies a cost of capital of 12.6% for TEB. Our valuation model suggests a 12-month forward looking fair value of TRY22.3 per share for the bank, implying an upside of 26% on the current share price of TRY17.7 per share.

Valuation Model

(USD million)	2005e	2006e	2007e	2008e	2009e	2010e
Bank-only book value	318	368	424	578	729	952
Net income	57	59	66	83	111	147
(-) Dividend proceeds (net)	7	8	10	13	17	21
Bank-only net income	50	51	56	70	94	126
Bank-only ROE	15.7%	13.8%	13.1%	12.1%	13.0%	13.2%
Discount factor	*1.00*	*1.13*	*1.27*	*1.43*	*1.61*	*1.81*
Discounted bank-only income	50	45	44	49	59	70
NPV of cash flows (2005-10)	364		Growth rate after 2010:	5%		
NPV of terminal value	*451*					
Total bank-only value	815		Terminal Value:	917		
(+) MV of Participations	*132*		*PV of terminal value:*	*451*		
Total estimated target value	947					
Current market value	750					
Upside / (downside)	*26%*					

Source: FinansInvest estimates

In deriving the TEB's equity participation value, we assigned a comparable PBV multiple to the shareholders equity of the bank's subsidiaries. We calculate US$132mn (TRY176mn) net asset value, and with a sum of the parts approach, this suggests a fair value of US$950mn (TRY1,270mn) for TEB. This implies that subsidiaries constitute only about 14% of TEB's fair value.

TEB Equity Portfolio

Company	Share	Book Value (USDmn)	Target Mcap (USDmn)	PBV (x)	Valuation Method	Value Contribution to current NAV (USDmn)
The Economy Bank N.V.	100.0%	36.0	36.0	1.0	Book Value	36.0
TEB Yatırım - Brokerage	74.9%	19.7	26.3	1.0	Book Value	19.7
TEB Leasing	100.0%	30.0	53.5	1.8	Avg. P/BV of leasing comp.	53.5
TEB Factoring	100.0%	16.7	29.1	1.7	Avg. P/BV of factoring comp.	29.1
TEB Asset Management	46.8%	1.5	3.3	1.0	Book Value	1.5
Total Book Value		103.9	148.3			139.9

Source: Company data, FinansInvest estimates

TEB shares have outperformed the ISE index by 33%, since we first initiate a BUY rating on the bank (11 July 2005), and had the highest return among the banks in our coverage in a six-month time frame. Nevertheless, the recent sell-off in the stock market has increased the attractiveness of TEB shares. The bank's shares fell almost 20% over the last two weeks, and our 12-month forward-looking fair value of TRY22.3 per share now implies 26% upside potential. We therefore reiterate our BUY rating on TEB.

Summary Valuations

	Akbank	Isbank	Garanti	YKB	Denizbank	TEB	Disbank
Price (TRY)	8.05	8.35	3.96	4.70	6.65	17.70	4.70
M.Cap (USDmn)	*10,616*	*12,045*	*6,093*	*2,591*	*1,540*	*750*	*1,253*
PBV (x) - 2005e (bank-only)	2.43	1.85	2.29	0.68	2.01	2.36	1.56
PE (x) - 2005e (bank-only)	10.70	15.95	11.10	54.69	10.41	13.26	14.40
ROE 2005e (bank-only)	22%	12%	22%	1%	12%	19%	11%
NIM 2005e (bank-only)	6%	7%	6%	4%	5%	6%	6%

Source: Company data, FinansInvest estimates

Less reliance on expensive lira deposit collections

With lira loan to deposit ratios exceeding 100%, underlying liquidity pressures are putting banks under intense competition for lira deposits, and hence to engage in riskier lending practises. Some banks have already started to operate with negative spreads risking margins and profitability. TEB has the highest lira loan to deposit ratio among the banks in our coverage with 159%. It is evident that the bank has no excess lira deposits. On the contrary, we believe that the bank has enough liquidity and a relatively large level of free capital to finance the aggressive growth in its loan book without competing to collect lira deposits at least in next couple of years. Going forward, we do believe that balance sheet growth should mainly be financed by deposits, with investments to branch network and cross selling. On the other hand, as part of the policies to follow aggressive policies in retail and SME banking under the guidance of BNPP, the structure of deposits should also change towards Turkish Lira.

Non-deposit funding to decline over the years

Although it had declined gradually over the years, deposits have stayed as the main source of funding for TEB, holding 63% share in total liabilities, of which about 70% was composed by FX deposits. Looking at the breakdown of deposits, one can witness that the deposit collections are evenly distributed among the customer segments. Corporate and savings deposits each hold 33% stake in deposits, and are followed by commercial (companies with less than US$30mn turnover) deposits with 16% share in the total.

Table 1: Customer Deposits to Total Liabilities

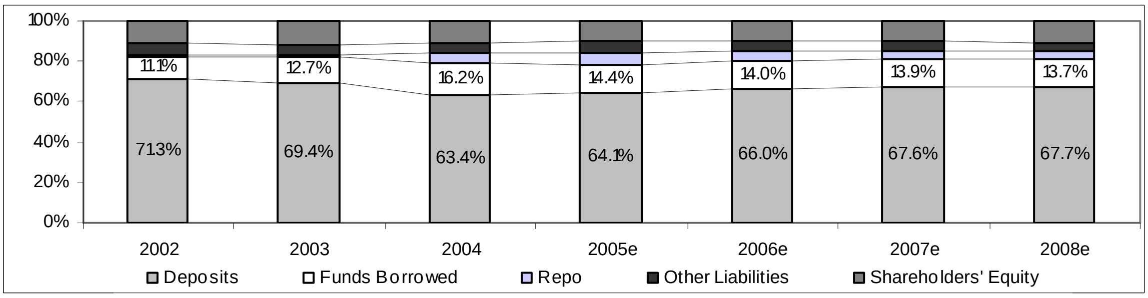
	2002	2003	2004	1Q 2005	1H 2005
Akbank	66.0%	60.3%	54.2%	53.7%	55.7%
Isbank	69.1%	61.1%	61.5%	57.2%	54.3%
Garanti	65.4%	61.4%	64.6%	63.9%	62.5%
YKB	68.2%	63.3%	56.9%	56.9%	59.2%
Finansbank	60.7%	57.3%	56.0%	53.5%	51.7%
Disbank	55.1%	51.6%	48.0%	48.4%	46.0%
Denizbank	75.0%	61.4%	59.4%	55.7%	52.9%
TEB	68.7%	65.1%	60.7%	59.8%	60.3%

Source: Company data, FinansInvest estimates

As of 1H 2005, non-equity and non-deposit funding constitute 26% of total liabilities, up from 18% in 2002, reflecting the increase of reliance to both short-term funding through interbank market and external financing over the period. Nevertheless, TEB is still ranked as the second bank with 60% share after Garanti, among the eight listed banks, as far as the exposure to "customer deposits" is concerned.

We certainly believe that TEB will benefit from the easy access to international capital markets going forward, backed by BNPP. Although we estimate that the share of external funding in total liabilities remain relatively stable, we expect an increase in absolute terms. It should be noted, however, that tight capital adequacy ratio (CAR) of 15% (aimed at enhancing ROE to its shareholders) does not allow much room for a boost in leverage in TEB. On the other hand, focusing on interbank funding should increase bank's vulnerability to interest rate fluctuations, given the short-term maturity nature of these funds.

Chart 2: Liability Breakdown

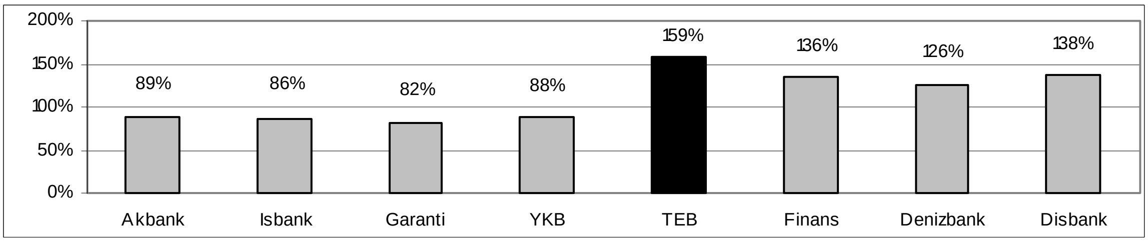


Source: Company data, FinansInvest estimates

Nevertheless, higher yielding nature of lira instruments against FX makes the profitability of TEB dependent on the extent to which it increases its lira earning assets. In fact, lower lira asset mix in total

(49% as of 1H 2005), as compared to the peer group, implies an area of improvement for the bank. However, Turkish banks including TEB have already stretched lira balance sheets, and the sector's growth performance depends on the success to grab market share in lira deposits.

Chart 3: Lira loan to deposit ratios – 1H 2005

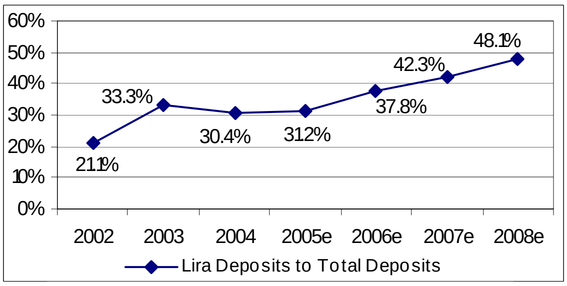


Source: Company data, FinansInvest estimates

Ability to shift its excess balance sheet liquidity to lending should determine the EPS growth

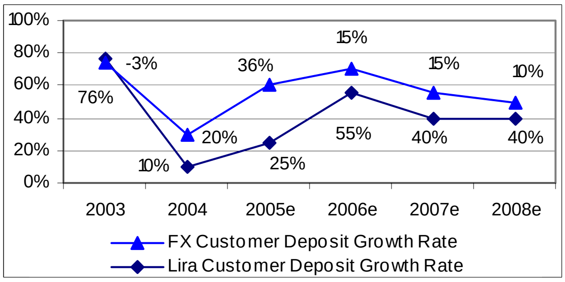
With lira loan to deposit ratios exceeding 100%, underlying liquidity pressures are putting banks under intense competition for lira deposits, and hence to engage in riskier lending practises. Some banks have already started to operate with negative spreads risking margins and profitability. Total evidence suggests that interest rates on lira deposits offered by private banks hovered roughly around 200bps. over the official deposit rates in that period and led by the Tier-I group of banks.

Chart 4: Lira Deposits to Total Deposits



Source: Company data, FinansInvest estimates

Chart 5: Customer Deposit Growth Rate



Source: Company data, FinansInvest estimates

In fact, TEB has the highest lira loan to deposit ratio among the banks in our coverage with 159% (but without creating any mismatch through heading in the derivates markets). It is evident that the bank has no excess lira deposits. On the contrary, TEB did not join the aggressive deposit collection race in the period, as the bank's growth does not depend on expensive lira deposit collections, but is financed through reshuffling in the asset mix from liquid assets to loans/marketable securities.

Table 2: Free capital to Total Assets

	2002	2003	2004	1Q 2005	2Q 2005
Akbank	10.1%	13.8%	14.7%	13.2%	9.9%
Isbank	nm	0.9%	2.3%	2.6%	2.9%
Garanti	nm	nm	0.5%	1.2%	1.5%
YKB	nm	nm	nm	nm	nm
Finansbank	nm	2.2%	3.0%	2.4%	2.9%
Disbank	1.7%	7.4%	7.2%	9.1%	8.9%
Denizbank	3.6%	4.3%	7.4%	8.8%	7.7%
TEB	4.4%	5.2%	5.5%	5.5%	5.5%

Source: Company data, FinansInvest estimates

The bank has excess liquidity and a relatively large level of free capital to finance the aggressive growth in its loan book without competing for to collect lira deposits. Notwithstanding, TEB has managed to increase its deposit base in the period, posting 16% growth Y-T-D, which was attributable to a "flight to quality". We forecast that TEB's deposit pace will increase by 32% in 2005, compared on an annual basis. Although this policy would not be sustainable in the long run, the ability of TEB to shift its excess balance sheet liquidity to lending should determine earnings growth in the first couple of years.

Despite the outstanding problem of not owning a widespread branch network, we do believe that balance sheet growth should mainly be financed by deposits by 2007, with investments in branch network and cross selling. It should be recalled that the bank plans to expand its branch size to 150 by the end of 2007. TEB management hinted that the bank has the intention to offer competitive deposit rates to its customers once the battle among Tier-I group of banks to capture deposit market share settles. It should be noted, however, that TEB's growth strategy (at least in the next couple of years) is largely depend on the ability to shift its excess balance sheet liquidity to lending as implied above.

Together with branch openings, this should provide deposit growth rates of 26% and 24% respectively in 2006 and 2007. As part of the policies to follow aggressive policies in retail and SME banking under the guidance of BNPP, the structure of deposits should also change towards Turkish Lira. We forecast that the share of lira deposits in total would climb to 48% by the end of 2008, from 30% in 2004.

Table 3: Deposits Performance

(TRY 000)	2002	2003	2004	2005e	2006e	2007e	2008e
Total Deposits (1) + (2)	1,691,487	1,977,521	2,259,870	3,025,235	3,839,561	4,757,947	5,807,296
(1) Customer Deposits	*1,631,543*	*1,854,102*	*2,164,372*	*2,871,235*	*3,630,607*	*4,493,614*	*5,477,915*
TRY Cust. Deposits	338,514	596,518	657,375	821,719	1,273,664	1,783,130	2,496,382
FX Cust. Deposits	1,293,029	1,257,584	1,506,997	2,049,516	2,356,943	2,710,485	2,981,533
Share in Customer Deposits							
TRY Cust. Deposits (% share)	21%	32%	30%	29%	35%	40%	46%
FX Cust. Deposits (% share)	79%	68%	70%	71%	65%	60%	54%
% Growth							
Customer Deposits		*14%*	*17%*	*33%*	*26%*	*24%*	*22%*
TRY Cust. Deposits		76%	10%	25%	55%	40%	40%
FX Cust. Deposits		-3%	20%	36%	15%	15%	10%
(2) Interbank Deposits	*59,944*	*123,419*	*95,498*	*154,001*	*208,953*	*264,333*	*329,381*

Source: Company data, FinansInvest estimates

Relinquishing prudent approach for SME/retail banking

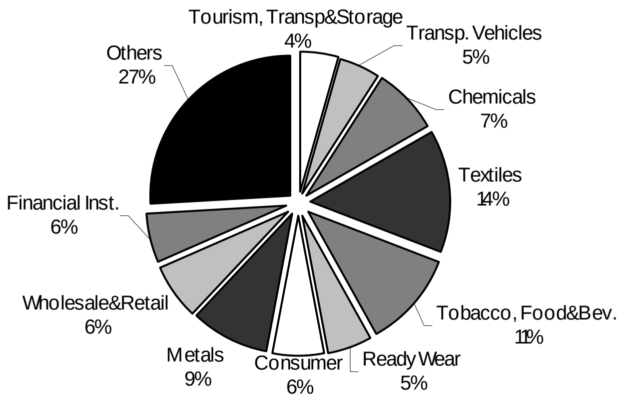
The restored macroeconomic stability in Turkish economy and the inclusion of BNPP's retail arm into the picture has changed the traditional banking conception of TEB. The asset mix of the bank is currently in a phase of reshuffling towards lending and to government securities, which enabled the bank to post strong earnings performance in 1H 2005. Going forward, we expect SME and consumer lending to continue driving the EPS growth of TEB. We forecast that overall loan book would expand 69% and 35% in 2005 and 2006, respectively. Accordingly, it is estimated that the loan to deposit ratio, currently at 82%, would climb to 88% at the end of 2005 and reach 105% in 2008. The growth in these respective years, however, should be stimulated mainly by SME lending, taking advantage of BNPP's product expertise and cross-selling know-how. On the other hand, due to aggressive lending policies expected to be pursued in 2006 and going forward, we expect NPLs of TEB to rise gradually and stabilise at around 4% of gross loans. This rate, however, would definitely be well below the industry rate, and many of the listed banks are expected to suffer from credit card NPLs.

One of the highest loan to asset ratio in the sector, with superior asset quality

TEB has successfully established a niche for itself by engaging in conservative banking strategies over the years. The bank's high liquidity position and only limited exposure to government securities have historically dominated TEB's asset allocation strategies. It should be noted that almost half of the bank's funds were placed into liquid assets (49% of total assets were invested in cash and banks, interbank etc.) in 2002, a period when most of Turkish banks were investing in government securities to reap the benefits of high real interest rates. In the same period, the share of marketable securities in total assets was only 3% for TEB, as compared to the peer group (Finansbank, Denizbank, Disbank) average of 37%.

With its small-scale banking nature, corporate and private banking segments had constituted the core of TEB's banking activities. In fact, TEB has the second highest loan to asset ratio after Finansbank, although the bank managed to maintain its loan quality. TEB has the lowest NPL ratio (1.1% as of 1H 2005) among the Turkish banks under our coverage, with a highly centralised credit approval mechanism where branches have only limited disbursement authority.

Chart 6: Loan Breakdown by Sectors



Source: Company data, FinansInvest estimates

Strong presence in international trade, with a market share of 6%

Trade-finance related lending and cash management services have long been the key focus of TEB's corporate banking business, and loans extended to corporates (companies with over US$30mn annual turnover) held 41% share in total loan book as of 1H 2005. Loans provided to SMEs (small and medium size enterprises) constitute 54% of the total loan book. Unlike the peer group where retail loans (consumer and credit cards) constitute 22% share in total loans, TEB's retail loans hold only 8% share in total as of 1H 2005.

TEB has strong presence in international trade, with a market share of 6%, although the bank has only 1.3% share in customer deposits and 2% share in loans. On the other hand, the bank is a leader in cash management services, with over 5,700 customers and serving to more than 600 companies. In fact, TEB was first to introduce the fully integrated cash management services in Turkey.

Shift from the traditional banking conception towards retail/SME oriented lending

The restored macroeconomic stability and the inclusion of BNPP's retail arm into the picture, however, have changed the traditional banking conception of TEB. The asset mix of the bank is currently in a phase of reshuffling towards lending (specifically to higher-yielding SME and consumer lending) and to government securities. A shift in placements from liquid assets is evident in the asset breakdown table provided below. The share of liquid assets in total declined to 23% as of 1H 2005, from as high as 49% in 2002. On the other hand, the share of loans in total assets climbed to 52%, from 35% and marketable securities from 3% to 15% within the same time frame.

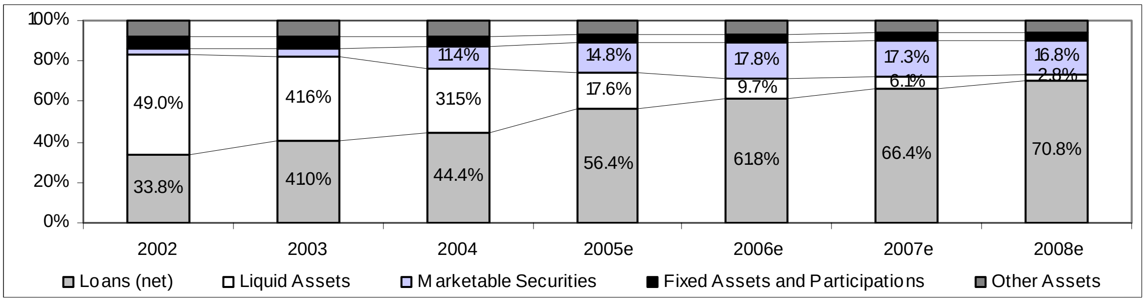
Table 4: Loan (gross) to Assets

	2002	2003	2004	1Q 2005	2Q 2005
Akbank	26.2%	29.9%	37.6%	37.3%	39.0%
Isbank	35.5%	31.3%	35.3%	35.7%	37.1%
Garanti	30.8%	32.0%	41.6%	44.6%	47.9%
YKB	42.0%	41.6%	43.7%	45.1%	47.0%
Finansbank	38.6%	47.5%	61.4%	63.8%	62.9%
Disbank	33.7%	40.4%	45.1%	50.5%	51.9%
Denizbank	26.7%	33.8%	40.9%	50.7%	49.9%
TEB	34.6%	41.8%	45.0%	51.3%	52.2%

Source: Company data, FinansInvest estimates

In 1H2005, the loan book of TEB expanded by 35% in lira terms Y-t-D, driven mainly by foreign trade and consumer lending (more specifically housing loans). More importantly, with an increase by 74% Y-t-D, the retail lending penetration within the total loan book has also improved. The share of retail loans (inc. credit cards) in total has reached 8%, from 6% in end 2004 and 4% in 2002. On the other hand, the share of marketable securities in total assets has increased to 15% in 1H 2005, against only 3% in 2002.

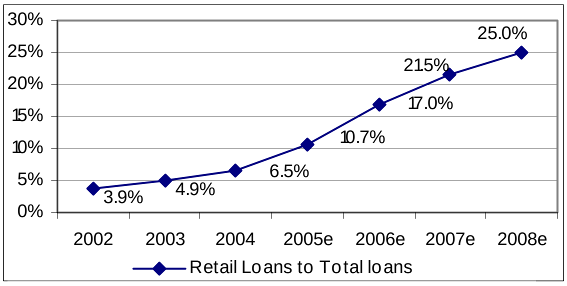
Chart 7: Asset Breakdown



Source: Company data, FinansInvest estimates

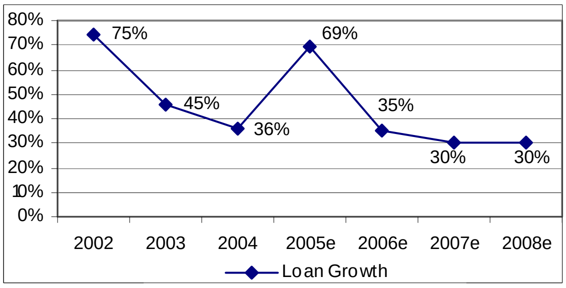
TEB is positioning itself to benefit from the declining trend in interest rates. The bank has started to bet on maturity mismatch, by extending longer-term fixed rate (by law, consumer lending in Turkey is fixed rate) loans, which are being financed by deposits of up to three months and liquid assets. It should be noted that annual yields on TEB's housing and auto loans are 16% and 20% respectively, compared to three-month deposit rate of 17.5%.

Chart 8: Retail Loans to Total Loans



Source: Company data, FinansInvest estimates

Chart 9: Loan Growth Rate



Source: Company data, FinansInvest estimates

Taking advantage of BNPP's product expertise and cross-selling know-how

Going forward, we expect SME and consumer lending to continue driving the EPS growth of TEB. We forecast that overall loan book would expand 69% and 35% in 2005 and 2006, respectively. Accordingly, it is estimated that the total loan deposit ratio, currently at 82%, would climb to 88% at the end of 2005 and reach 105% in 2008.

The growth in these respective years, however, should be stimulated mainly by SME lending, taking advantage of BNPP's product expertise and cross-selling know-how. It should be noted that about 99% of the companies in the manufacturing industry in Turkey are classified as SMEs, yet only 7% of the sector loans are provided to these enterprises. TEB's management sees significant opportunity in this business segment, stressing also that the bank's SME segment spreads are higher than retail spreads (partly due to TEB's very limited presence in the credit card business).

Foreign trade loans should be the main driver of SME loans, an area where TEB is a leading player in Turkey and BNPP is among the top 5 banks world-wide. In that respect, BNPP and TEB has opened three trade centers in Turkey (in Istanbul, Izmir, Adana), all connected to the world-wide network of BNPP trade centers (a service center for corporate customers with international activity). BNPP has 75 trade centers now operational in 48 countries on the 5 continents. With its trade centers, TEB would offer its clients;

a) access to a uniform global network of specialists who are interconnected by a powerful Intranet,
b) the advisory services of a dedicated expert, who provides tailored solutions and continuous technical support,
c) a comprehensive range of products and services, including trade finance, export finance, foreign exchange, and cash management.

TEB plans to reactivate its credit card operations by 2H 2006. The management says, however, that the bank would not be aggressive in that area. Key focus on the retail side should therefore be on mortgage and personal need lending for TEB. Accordingly, coming from a very low base, retail loans are expected to post triple digit growth rates in 2005 and 2006. The share of retail loans in total loan book, which was as low as 8% in 1H 2005, should climb to 25% by 2008 and to almost one-third of the loan book by 2010.

Table 5: Lending Performance

(TRY 000)	2002	2003	2004	2005e	2006e	2007e	2008e
Total Loans	796,910	1,159,359	1,575,084	2,661,892	3,593,554	4,671,620	6,073,107
Consumer Loans	16,115	38,165	79,771	252,880	539,033	887,608	1,336,083
Credit Card Loans	14,715	18,203	22,271	31,943	71,871	116,791	182,193
Share in Total Loans							
Consumer Loans (1)	2%	3%	5%	10%	15%	19%	22%
Credit Card Loans (2)	1.8%	1.6%	1.4%	1.2%	2.0%	2.5%	3.0%
Retail Loans (1) + (2)	*3.9%*	*4.9%*	*6.5%*	*10.7%*	*17.0%*	*21.5%*	*25.0%*
% Growth							
Total Loans		45%	36%	69%	35%	30%	30%
Consumer Loans		137%	109%	217%	113%	65%	51%
Credit Card Loans		24%	22%	43%	125%	63%	56%
Ratios							
Loan to Deposit	47%	59%	70%	88%	94%	98%	105%
Loan to Total Assets	35%	42%	45%	57%	63%	69%	74%

Source: Company data, FinansInvest estimates

The bank has already reduced its interest rates on housing loans (constitutes 35% of consumer loans as of 1H) to the one of the lowest in the sector (monthly rate of 1.25% on 10-year housing loans, which corresponds to annual compounded rate of 16% vs. the annual deposit rate of 17.5%), indicating the desire to strengthen its presence in this segment. Following the enactment of the mortgage law (expected to be effective by early 2006), TEB is expected to introduce new products under the guidance of BNPP.

TEB is also expected to take over the stake of Anadolu Group in Anadolu Cetelem (consumer finance company), in order to benefit from its know-how in credit, back office management and risk management expertise. 50% of the Anadolu Cetelem is owned by Anadolu Group (One of the major groups in Turkey, and focuses on brewing and soft-drinks as well as automotive, finance and writing instruments and office supplies sectors), 30% is owned by BNPP's consumer credit specialist Cetelem and 20% by the Italian Findomestic. Anadolu Cetelem has TRY21.6mn of capital, and was established in 1998. Note that Cetelem, is the consumer credit market leader in Continental Europe, offering complete range of products (including instalment loans, car loans and revolving loans) and additional services (such as personal financial services and retail services), both directly and through partnerships.

We believe that the possible acquisition of Anadolu Group stake in Anadolu Cetelem (has 25,000 customers) will not be a costly transaction for TEB, andwe therefore did not incorporate any cash outflow for TEB in our forecasts regarding this issue.

NPL rate well-below the sector, which is expected to suffer from credit card NPLs

Due to aggressive lending policies expected to be pursued in 2006 and going forward, we expect non - performing loans (NPLs) of TEB (1.1% as of 1H 2005) to rise gradually and stabilise at around 4% of gross loans by 2008. This rate, however, would definitely be well below the industry rate, and many of the listed banks are expected to suffer from credit card NPLs. The credit card NPL and overall NPL rates of the sector were hovering around 5% and 7.4% as of October 2005, respectively. We are comfortable from TEB's management strategy that the bank will not be aggressive in the credit card segment. TEB does not plan to offer instalments and/or cash back rewards in its credit card services.

On the other hand, as TEB would be aggressive in growing their risk-weighted assets, we would expect the provisioning effort to reflect the growth rate of their risk-weighted assets as implied by the table provided below.

Table 6: Asset Quality

	2002	2003	2004	2005e	2006e	2007e	2008e
NPL ratio (gross)	2.47%	2.06%	1.31%	1.48%	2.44%	3.38%	3.85%
NPL provision Rate	75%	65%	54%	60%	70%	75%	75%
Provision/IEA	0.7%	0.6%	0.3%	0.5%	1.1%	1.8%	2.2%

Source: Company data, FinansInvest estimates

Ripe for a bigger move

A policy shift towards higher yielding assets should help TEB shield its margins from contracting in a falling inflation environment, when many are fighting for to capture lira deposit share. On the other hand, stronger presence of SME/retail lending should give a boost to fee income going forward. Operating expenses will be another key component of the profitability for TEB, as branch openings will be the feature of the bank's expansion strategy. We foresee operating expense growth of 23% (CAGR) in the 2005-08 period, which would imply hefty investments mainly in 2005 and 2006, and slowing towards 2007. It is also expected that problem loans would rise gradually, due to aggressive lending polices. Nevertheless, NPL rate would definitely be well below the industry rate, as the main risk to lending should come from the credit card segment, an area where TEB has very limited presence. Overall, we expect the bank to post an ROE of 19% in 2005 and 18% in 2006, respectively.

Reshuffling in the asset mix is driving margins

Turkish banks are currently trying to overcome margin pressures through increasing the lira earning asset presence in their balance sheets. This is a function of lira deposits. Nevertheless, liquidity positions are stretched with loan to deposit ratios exceeding 100%, and the tendency to expand lira deposits faster is currently threatening interest margins. In contrast to rising competition in the sector to capture market share in lira deposits though aggressive pricing, however, TEB is now benefiting from its policy shift of focusing on higher-yielding assets through reshuffling its asset mix.

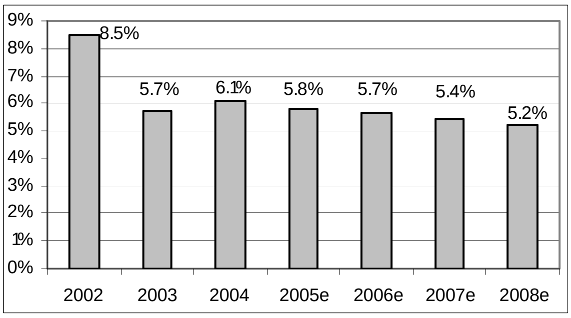
Table 7: Net Interest Income and Spreads

(TRY 000)	2002	2003	2004	2005e	2006e	2007e	2008e
Net Interest Income	154,891	136,578	181,011	224,421	279,432	329,221	382,513
NIM	8.5%	5.7%	6.1%	5.8%	5.7%	5.4%	5.2%
Interest Yield	17.9%	13.5%	13.8%	11.4%	10.8%	10.0%	9.2%
Interest Cost	10.3%	8.7%	8.5%	6.2%	5.7%	5.0%	4.5%
Balance Sheet Spread	7.5%	4.9%	5.3%	5.2%	5.1%	5.0%	4.8%
Loan deposit spread	11.9%	7.7%	6.2%	8.1%	6.8%	6.2%	5.8%
Securities deposit spread	63.3%	13.7%	11.1%	11.6%	8.0%	6.5%	5.0%

Source: Company data, FinansInvest estimates

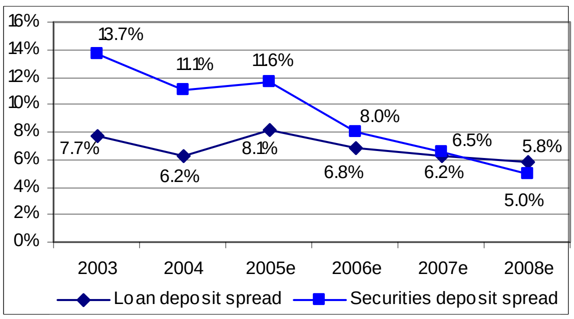
We believe that the ongoing shift from liquid assets to lending and government securities, tendency to raise the lira presence in the balance sheet and increase in free capital should allow TEB to defend its margins in a declining inflation environment. Put another way, TEB should benefit from the growing presence of lending (especially lira loans) in total assets. In fact, the higher share of SME/retail loans in total and less dependency on expensive lira deposits should enable the bank to increase its loan spreads in 2005.

Chart 10: Net Interest Income (NIM)



Source: Company data, FinansInvest estimates

Chart 11: Loan and Securities Spreads



Source: Company data, FinansInvest estimates

We expect that the spreads generated through a shift in the asset mix from liquid assets to loans and marketable securities would be the primary determinant on the NIM and the overall profitability. TEB's net interest margin (NIM) is estimated to fall slightly to 5.8% in 2005, and marginally decline to 5.7% in 2006. Of course, this policy is not sustainable, and as is the case for the sector, the margin compression is inevitable going forward. However, on the back of branch openings and expansion strategies, as the bank enters more dynamically the retail banking segment, we expect TEB to compensate for the margin compression by growth and higher net interest income.

Fee generation segments should improve considerably with the policy shift

The conservative banking strategies followed until 2004, and hence the structure of the balance sheet, caused TEB to deprive of the contribution of fee income to bottom line profitability. Not surprisingly, the bank has the lowest fee income per branch generation among the banks in our coverage. In 2004, the "fee income per branch" was only US$253,000 in TEB, against the peer group average of about US$460,000. The same is true when we take into account the "fee income coverage ratio", which was only 19% in 2004, against the peer group average of 31%.

Table 8: Fee Income per Branch

(USD 000)	2002	2003	2004
Akbank	108	228	496
Isbank	191	411	620
Garanti	562	821	1,184
YKB	561	742	876
Finansbank	567	478	831
Disbank	74	267	538
Denizbank	104	203	230
TEB	136	170	253

Source: Company data, FinansInvest estimates

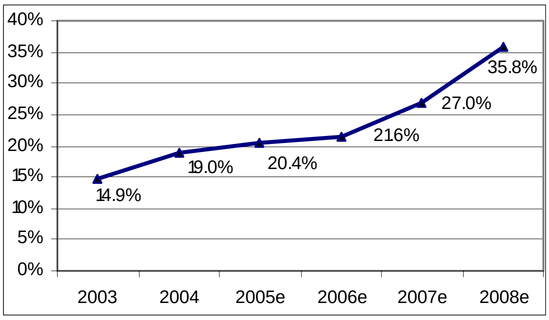
Table 9: Fee Income Coverage Ratio

	2002	2003	2004
Akbank	13%	17%	37%
Isbank	25%	33%	47%
Garanti	38%	41%	51%
YKB	41%	44%	44%
Finansbank	59%	27%	50%
Disbank	7%	20%	32%
Denizbank	21%	26%	21%
TEB	15%	15%	19%

Source: Company data, FinansInvest estimates

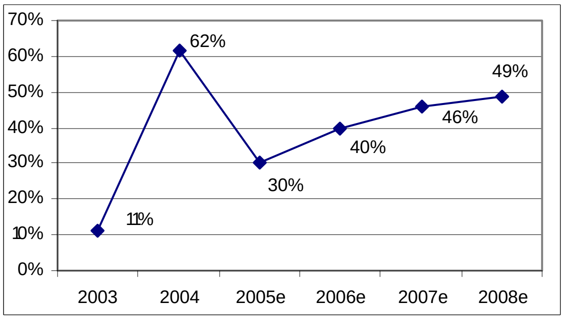
We believe that the fee generation segments of TEB should improve considerably with the policy shift. Hence, we forecast that the fee income coverage ratio would climb to 36% by 2008, despite the significant increase in operating expenses in the same time frame caused mainly by investments to the branch network. Overall, with higher net interest and fee income as the bank strengthens its market position in SME/retail segments, it is estimated that the bank's revenues should grow at a CAGR of 27% in the 2005-08 period.

Chart 12: Fee Income Coverage Ratio



Source: Company data, FinansInvest estimates

Chart 13: Fee Income Growth



Source: Company data, FinansInvest estimates

Operating expenses to surge with the investments in the branch network

Operating expenses will be another key component of the profitability for TEB going forward, as branch openings will be the feature of the bank's expansion strategy. We foresee operating expense growth of 23% (CAGR) in the 2005-08 period, which would imply hefty investments mainly in 2005 and 2006, and slowing towards 2007. As of 2004, TEB has a cost to income ratio (inc. depreciation) of 63%. However, we believe that the high cost to income ratio is more related with the low level of banking revenues as implied earlier, rather than cost inefficiencies.

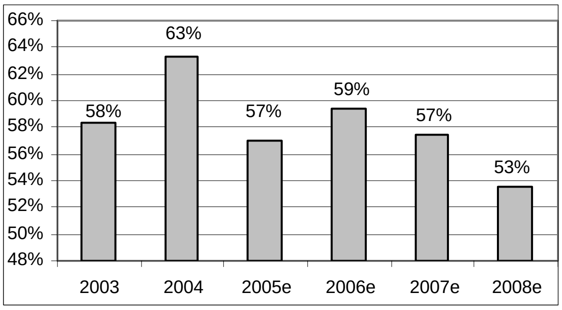
Table 10: Operating Expenses

(TRY 000)	2003	2004	2005e	2006e	2007e	2008e
(1) Salaries and Wages	57,188	77,535	95,420	123,690	143,850	152,880
Num. Of Employees	1,849	2,131	2,640	3,250	3,600	3,680
Growth Rate	*11%*	*15%*	*24%*	*23%*	*11%*	*2%*
Num. Of Employees - Average	1,761	1,990	2,386	2,945	3,425	3,640
Cost per employee	*32*	*39*	*40*	*42*	*42*	*42*
Number of branches	78	88	110	130	150	160
Number of employee per branch	*24*	*24*	*24*	*25*	*24*	*23*
(2) Depreciation and Amortisation	10,859	11,926	11,798	20,352	21,121	21,449
Depreciation / Fixed assets	30%	30%	25%	35%	30%	25%
(3) Other Costs	55,332	65,758	80,225	104,292	125,151	150,181
Growth Rate	*-3%*	*19%*	*22%*	*30%*	*20%*	*20%*

Source: Company data, FinansInvest estimates

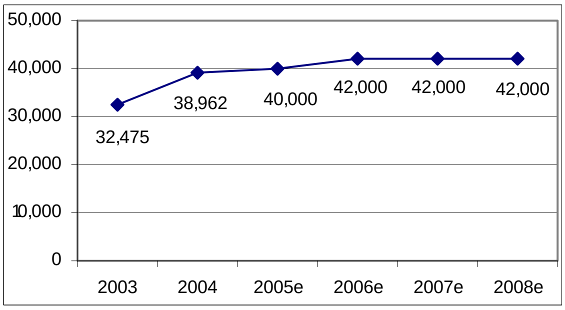
We forecast that the “employee per branch” would be maintained at 2004 levels, such that TEB is projected to recruit 510 new personnel in 2005 and 610 in 2006, corresponding to more than 20% growth each year. We assume that the average cost per employee will increase in 2005 and 2006, with real wage increases in the underlying period. Overall, we project cost to income ratio at 57% in 2005 and 59% in 2006 (inc. depreciation), and a gradual decline going forward as investments in the branch network decelerates.

Chart 14: Cost to Income inc. Depreciation



Source: Company data, FinansInvest estimates

Chart 15: Average Salary per Employee - TRY

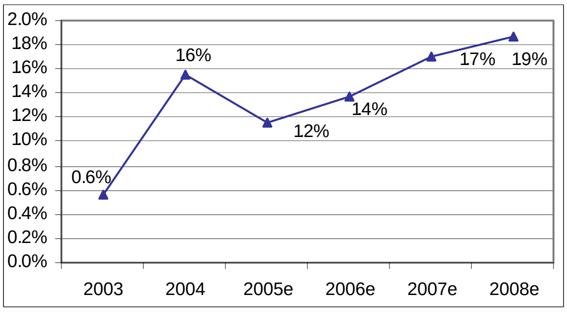


Source: Company data, FinansInvest estimates

NPLs to rise only gradually, as the main risk to lending comes from credit cards

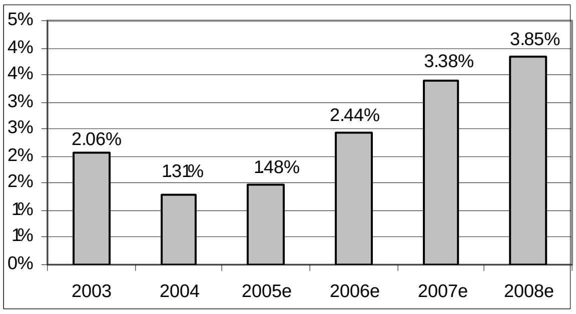
We believe that the credit risk does not pose a significant risk to future earnings performance of TEB. As implied in the previous section, we do expect that problem loans of TEB would rise gradually, due to aggressive lending polices such that the NPL rate should reach to 4% levels by 2008, from the current 1%. The NPL rate, however, would definitely be well below the industry rate, as the main risk to lending should come from the credit card segment, an area where TEB has very limited presence. Assuming that the bank will implement similar provisioning policies in 2005 and beyond, we estimate that the provision to loan ratio would increase to 2% levels by 2008, from the current 1%.

Chart 16: Provision to Loan ratio



Source: Company data, FinansInvest estimates

Chart 17: NPL Ratio (gross)



Source: Company data, FinansInvest estimates

Summary Financials

Balance Sheet and Income Statement – Bank-only BRSA Financials

Assets - (TRY 000)	2002	2003	2004	2005e	2006e	2007e	2008e
Liquid assets	1,162,690	1,186,472	1,121,409	829,858	562,760	425,999	236,307
Marketable securities	81,356	113,259	407,562	698,425	1,035,039	1,217,957	1,441,390
Loans (net)	801,872	1,167,830	1,584,721	2,661,892	3,593,554	4,671,620	6,073,107
Non-performing loans	*20,212*	*24,415*	*20,881*	*39,928*	*89,839*	*163,507*	*242,924*
Specific provisions (-)	*15,250*	*15,944*	*11,244*	*23,957*	*62,887*	*122,630*	*182,193*
Reserve deposits	131,905	147,928	190,170	226,893	268,769	309,267	348,438
Investments, subs. and associates	106,815	131,234	146,474	165,168	186,074	211,206	231,652
Property and equipments	37,234	36,351	40,312	47,191	58,148	70,402	85,797
Other assets	51,310	65,905	74,948	89,663	110,482	133,764	163,014
Total assets	2,373,182	2,848,979	3,565,596	4,719,090	5,814,828	7,040,216	8,579,705

Liabilities and Shrs. Equity - (TRY 000)	2002	2003	2004	2005e	2006e	2007e	2008e
Deposits	1,691,487	1,977,521	2,259,870	3,025,235	3,839,561	4,757,947	5,807,296
Customer deposits	*1,631,543*	*1,854,102*	*2,164,372*	*2,871,235*	*3,630,607*	*4,493,614*	*5,477,915*
Bank deposits	*59,944*	*123,419*	*95,498*	*154,001*	*208,953*	*264,333*	*329,381*
Interbank money market	22,800	15,422	158,532	253,651	266,334	274,324	282,553
Funds borrowed	263,037	363,149	576,708	680,515	816,619	979,942	1,175,931
Provisions	27,154	39,407	31,510	44,114	52,937	63,524	76,229
Other liabilities	112,919	126,993	144,779	262,247	281,786	300,945	322,019
Shareholders equity	255,785	326,487	394,197	453,327	557,592	663,534	915,677
Total liabilities and Shrs. Equity	2,373,182	2,848,979	3,565,596	4,719,090	5,814,828	7,040,216	8,579,705

Income Statement - (TRY 000)	2002	2003	2004	2005e	2006e	2007e	2008e
Interest Income	325,800	324,726	408,202	439,768	531,536	604,544	678,072
Interest on loans	*159,792*	*178,437*	*239,829*	*286,646*	*369,071*	*442,187*	*526,492*
Interest received from marketable sec. portfolio	*58,010*	*24,142*	*81,409*	*94,009*	*112,675*	*123,915*	*119,671*
Other interest income	*107,998*	*122,147*	*86,964*	*59,112*	*49,789*	*38,442*	*31,910*
Interest Expense	170,909	188,148	227,191	215,347	252,104	275,323	295,560
Interest on deposits	*110,886*	*139,086*	*188,348*	*142,698*	*171,620*	*193,444*	*211,305*
Interest on funds borrowed	*29,894*	*20,147*	*22,150*	*31,431*	*33,686*	*38,626*	*45,273*
Other interest expense	*30,129*	*28,915*	*16,693*	*41,218*	*46,799*	*43,253*	*38,981*
Net interest income	154,891	136,578	181,011	224,421	279,432	329,221	382,513
Net fee and commission income	16,625	18,521	29,931	38,910	54,474	79,533	118,504
Profit on trading account securities (net)	18,775	41,373	21,086	52,715	68,530	78,809	86,690
FX gains/(loss)	1,129	11,207	10,814	-6,733	-8,383	-8,231	-7,650
Other operating income	11,964	16,855	16,986	17,954	22,355	26,338	30,601
Total operating profit	203,384	224,534	259,828	327,267	416,407	505,670	610,657
Provision for loan losses and other	15,773	6,498	24,624	30,919	49,141	79,498	113,389
Other operating expenses	113,230	124,570	157,669	190,543	252,302	295,108	330,640
Net operating profit	74,381	93,466	77,535	105,805	114,964	131,064	166,627
Income from associates and subsidiaries	6,864	12,433	7,266	9,446	12,280	15,963	20,752
Gains/(loss) on net monetary position	-41,158	-25,451	-31,123	0	0	0	0
Profit before taxes	40,087	80,448	53,678	115,251	127,244	147,027	187,379
Provision for taxes on income	-21,573	29,546	20,002	34,575	38,173	44,108	56,214
Net operating profit after tax	18,514	50,902	33,676	80,675	89,071	102,919	131,166
Extraordinary income	0	0	124	0	0	0	0
Net Profit	18,514	50,902	33,800	80,675	89,071	102,919	131,166

Source: Company data, FinansInvest estimates

Summary Financials

Balance Sheet Growth - YoY

Assets	2002	2003	2004	2005e	2006e	2007e	2008e
Liquid assets	39%	2%	-5%	-26%	-32%	-24%	-45%
Marketable securities	8%	39%	260%	71%	48%	18%	18%
Loans (net)	77%	46%	36%	68%	35%	30%	30%
Non-performing loans	*17%*	*21%*	*-14%*	*91%*	*125%*	*82%*	*49%*
Specific provisions (-)	*189%*	*5%*	*-29%*	*113%*	*163%*	*95%*	*49%*
Reserve deposits	31%	12%	29%	19%	18%	15%	13%
Investments, subs. and associates	48%	23%	12%	13%	13%	14%	10%
Property and equipments	36%	-2%	11%	17%	23%	21%	22%
Other assets	33%	28%	14%	20%	23%	21%	22%
Total assets	48%	20%	25%	32%	23%	21%	22%

Liabilities and Shrs. Equity	2002	2003	2004	2005e	2006e	2007e	2008e
Deposits	59%	17%	14%	34%	27%	24%	22%
Customer deposits	*56%*	*14%*	*17%*	*33%*	*26%*	*24%*	*22%*
Bank deposits	*232%*	*106%*	*-23%*	*61%*	*36%*	*27%*	*25%*
Interbank money market	nm	-32%	928%	60%	5%	3%	3%
Funds borrowed	0%	38%	59%	18%	20%	20%	20%
Provisions	59%	45%	-20%	40%	20%	20%	20%
Other liabilities	42%	12%	14%	81%	7%	7%	7%
Shareholders equity	41%	28%	21%	15%	23%	19%	38%
Total liabilities and Shrs. Equity	48%	20%	25%	32%	23%	21%	22%

Income Statement	2002	2003	2004	2005e	2006e	2007e	2008e
Interest Income	-10%	0%	26%	8%	21%	14%	12%
Interest on loans	*7%*	*12%*	*34%*	*20%*	*29%*	*20%*	*19%*
Interest received from marketable sec. portfolio	*3%*	*-58%*	*237%*	*15%*	*20%*	*10%*	*-3%*
Other interest income	*-30%*	*13%*	*-29%*	*-32%*	*-16%*	*-23%*	*-17%*
Interest Expense	-39%	10%	21%	-5%	17%	9%	7%
Interest on deposits	*-45%*	*25%*	*35%*	*-24%*	*20%*	*13%*	*9%*
Interest on funds borrowed	*-62%*	*-33%*	*10%*	*42%*	*7%*	*15%*	*17%*
Other interest expense	*1607%*	*-4%*	*-42%*	*147%*	*14%*	*-8%*	*-10%*
Net interest income	95%	-12%	33%	24%	25%	18%	16%
Net fee and commission income	50%	11%	62%	30%	40%	46%	49%
Profit on trading account securities (net)	33%	120%	-49%	150%	30%	15%	10%
FX gains/(loss)	-96%	893%	-4%	nm	25%	-2%	-7%
Other operating income	12%	41%	1%	6%	25%	18%	16%
Total operating profit	43%	10%	16%	26%	27%	21%	21%
Provision for loan losses and other	172%	-59%	279%	26%	59%	62%	43%
Other operating expenses	19%	10%	27%	21%	32%	17%	12%
Net operating profit	82%	26%	-17%	36%	9%	14%	27%
Income from associates and subsidiaries	-70%	81%	-42%	30%	30%	30%	30%
Gains/(loss) on net monetary position	-42%	-38%	22%	nm	nm	nm	nm
Profit before taxes	-686%	101%	-33%	115%	10%	16%	27%
Provision for taxes on income	-435%	-237%	-32%	73%	10%	16%	27%
Net operating profit after tax	-239%	175%	-34%	140%	10%	16%	27%
Extraordinary income	nm	nm	nm	nm	nm	nm	nm
Net Profit	-239%	175%	-34%	139%	10%	16%	27%

Source: Company data, FinansInvest estimates

Summary Financials

Ratios and Analysis

Balance sheet analysis	2002	2003	2004	2005e	2006e	2007e	2008e
Asset Structure							
Liquid assets/Total assets	49.0%	41.6%	31.5%	17.6%	9.7%	6.1%	2.8%
Gross loans/Total assets	34.6%	41.8%	45.0%	57.3%	63.3%	68.7%	73.6%
Marketable securites/Total assets	3.4%	4.0%	11.4%	14.8%	17.8%	17.3%	16.8%
Particip.& tangible assets/Total assets	6.1%	5.9%	5.2%	4.5%	4.2%	4.0%	3.7%
Earning assets/Total assets	91.8%	91.8%	92.7%	93.6%	93.9%	94.1%	94.4%
Earning assets/Int. bearing liabilities (x)	1.09	1.10	1.10	1.09	1.09	1.09	1.10
Asset quality							
NPL rate	2.5%	2.0%	1.3%	1.5%	2.4%	3.4%	3.8%
Net past due loans/Equity	1.9%	2.6%	2.4%	3.5%	4.8%	6.2%	6.6%
Loan loss reserves/Past due loans	60.5%	12.1%	22.5%	14.8%	10.4%	9.3%	8.9%
Funding and Capital Ratios							
Deposits/Gross loans (x)	2.06	1.66	1.41	1.12	1.04	0.98	0.92
Deposits/Total assets	71.3%	69.4%	63.4%	64.1%	66.0%	67.6%	67.7%
Loans from Banks/Total assets	11.1%	12.7%	16.2%	14.4%	14.0%	13.9%	13.7%
Cash equity/Total assets	3.7%	4.3%	5.0%	4.3%	4.6%	4.7%	6.2%
Equity/Assets	10.8%	11.5%	11.1%	9.6%	9.6%	9.4%	10.7%

Income Statement Analysis	2002	2003	2004	2005e	2006e	2007e	2008e
Net Interest Income							
NIM	8.5%	5.7%	6.1%	5.8%	5.7%	5.4%	5.2%
Adjusted NIM	7.9%	6.0%	6.3%	5.5%	5.3%	5.1%	4.8%
Int. from loans/Interest income	*49.0%*	*55.0%*	*58.8%*	*65.2%*	*69.4%*	*73.1%*	*77.6%*
Int. from securities/Interest income	*17.8%*	*7.4%*	*19.9%*	*21.4%*	*21.2%*	*20.5%*	*17.6%*
Int. paid on deposits/Interest expense	*64.9%*	*73.9%*	*82.9%*	*66.3%*	*68.1%*	*70.3%*	*71.5%*
Int. paid on borrowings/Interest expense	*17.5%*	*10.7%*	*9.7%*	*14.6%*	*13.4%*	*14.0%*	*15.3%*
Net interest income/Total assets	7.8%	5.2%	5.6%	5.4%	5.3%	5.1%	4.9%
Net interest income/Cash equity (x)	1.98	1.29	1.21	1.18	1.18	1.10	0.89
Spreads Analysis							
Total balance sheet spread	7.5%	4.9%	5.3%	5.2%	5.1%	5.0%	4.8%
Loan/deposit spread	11.9%	7.7%	6.2%	8.1%	6.8%	6.2%	5.8%
Securities/deposit spread	63.3%	13.7%	11.1%	11.6%	8.0%	6.5%	5.0%
Interest yield	*17.9%*	*13.5%*	*13.8%*	*11.4%*	*10.8%*	*10.0%*	*9.2%*
Interest cost	*10.3%*	*8.7%*	*8.5%*	*6.2%*	*5.7%*	*5.0%*	*4.5%*
Fee income							
Fee income/Total income	8.2%	8.7%	12.0%	11.6%	12.8%	15.5%	19.2%
Fee income/Net interest income	10.7%	13.6%	16.5%	17.3%	19.5%	24.2%	31.0%
Fee income coverage ratio	14.7%	14.9%	19.0%	20.4%	21.6%	27.0%	35.8%
Fee income/Total assets	0.8%	0.7%	0.9%	0.9%	1.0%	1.2%	1.5%
Banking income							
Trading income/Banking income	10.5%	20.2%	8.9%	17.4%	17.8%	17.0%	15.5%
Banking income/Total income (x)	0.89	0.96	0.96	0.91	0.91	0.90	0.90
Banking income/Total assets	9.0%	7.8%	7.4%	7.3%	7.3%	7.2%	7.1%
Cost efficiency							
Cost/Income ratio	50.6%	52.7%	57.9%	52.9%	54.0%	52.6%	49.3%
Cost/income incl. depreciation	56.0%	58.4%	63.3%	57.0%	59.4%	57.4%	53.5%
Staff expenses/Total income	21.9%	26.8%	31.1%	28.6%	29.1%	28.0%	24.7%
Cost/Net interest income	73.1%	91.2%	87.1%	84.9%	90.3%	89.6%	86.4%
Cost/Total assets	5.7%	4.8%	4.9%	4.6%	4.8%	4.6%	4.2%
Profitability							
ROAE	8.5%	17.5%	9.4%	19.0%	17.6%	16.9%	16.6%
ROAA	0.9%	1.9%	1.1%	1.9%	1.7%	1.6%	1.7%

Source: Company data, FinansInvest estimates

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