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Sector Report

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Turkish Banks

WHO HAS IT?

Banks

The Turkish banking sector has completed its initial transition phase, but there is more to come

The Turkish banking system has undergone a phase of structural evolution since the financial turmoil of 2001. The introduction of a comprehensive series of measures for the restructuring and rehabilitation of the banking system has triggered a consolidation process through mergers, takeovers and co-operation agreements, improving allocative efficiency in the financial system.

Free equity, deposit franchise, and spreads on TRY business are key value drivers

The opening of negotiations with the EU, the introduction of the mortgage system and new tax scheme on savings instruments in 2006, along with growth of free equity, widening deposit base at optimal spreads and improving cost efficiency are set to be the growth catalysts of the Turkish banking sector. The widening deposit base, together with an ongoing spread compression process, will provide better grounds for higher banking franchises, and in turn sustainable profitability in the core banking business. Meanwhile, private commercial banks' attempts to increase their fee & commission income appear not to secure sustainable profitability in core banking business, providing a limited contribution to bank franchise values.

In our view, a meaningful Turkish Banking franchise must have an optimal NIM of 6.0-8.25%

This estimate is based on duration-adjusted cash flow stream on spreads, and can be maintained with a large free capital base and strong market share. Based on these estimates, Akbank, Is, and TEB have the requisite structural dynamics.

Akbank, Isbank and TEB (all Strong Buy) are our top picks in the sector, as all three contemplate strategic business initiatives consistent with the features of the new banking landscape. TEB is maintaining its healthier growth process, whilst sticking to low-cost banking management that provides a higher upside potential compared with its peers, Finansbank and Denizbank. Akbank and Isbank have the best margin mix and wider deposit base among the large-scale banks, strengthening their franchise values. Currently, Garanti is more focused on high-margin TL assets with its strong positioning in SME and retail loans. We believe that with its partnership with GE, the bank could potentially boost its banking franchise and in turn achieve higher core banking profitability.

	Share		Target			P/BV			ROAE	
TRY	Price	Rating	Price	Upside	2005E	2006E	2007E	2005E	2006E	2007E
Akbank	9.2	Strong Buy	11.4	24%	2.7	2.3	2.1	24.3	27.4	27.9
Isbank	10.0	Strong Buy	12.1	21%	2.2	1.8	1.6	13.6	16.1	18.1
Garantibank	4.2	Outperform	4.9	18%	2.4	2.0	1.7	21.0	24.0	23.0
Finansbank	4.7	Neutral	5.2	10%	3.3	2.7	2.2	30.5	31.9	30.4
TEB	17.7	Strong Buy	23.4	32%	2.2	1.9	1.6	20.0	19.5	19.3
Denizbank	8.0	Outperform	9.0	13%	2.4	2.1	1.9	21.3	24.8	27.3
Average					**2.6**	**2.1**	**1.8**	**21.8**	**24.0**	**24.3**

SUMMARY AND INVESTMENT CONCLUSION

We are initiating our coverage of the Turkish banking sector with an Overweight recommendation. As presented in this report, despite the strong performances of the bank stocks over the past year (89%), we believe there remains substantial value to be created with some potential upgrades underway in 2006. In our base case scenario, Turkey's dual anchors, together with its structural reform program, will likely pave the way for further and sustained economic and political reform, providing a major boost to Turkey's non-inflationary economic expansion. Strengthening recovery in Turkey's economic and institutional fundamentals, together with lower financial intermediation costs, will improve the allocative functions of the financial system.

The Turkish banking sector has completed its initial transition phase, but there is more to come. The sector is about to complete its initial consolidation phase, with new foreign banks expected to enter the market to compete for a slice of the pie in the next couple of years. Thus, the sector appears to be maintaining its growth path for the foreseeable future, while competition is becoming more intense than ever, due to technological advances, sophistication of customer needs, new entrants and industry deregulation. Not only will the competition enhance the quality of banking services, but also operating efficiency in the sector will approximate global standards. There are still many small, medium-sized and large banks that have yet to identify a firm position in the sector. These smaller banks will have a more difficult time maintaining their current positions in terms of revenue, profits and overall market share. They will initiate the search for mergers, while medium-sized banks will seek better ways to grow. This reality translates into the fact that size and scale will become crucial strategies for the future prospects of the Turkish banking sector.

We believe that in an improved banking business environment, Akbank, Isbank and TEB are clearly the main beneficiaries of macro stability.

Akbank (Strong Buy) and Isbank (Strong Buy) are well positioned with their best business mix. We strongly recommend Akbank as a pure banking play, since it is well positioned with core interest revenues making up 53% of its margin mix, and it also comfortably covers its operating expenses with core banking revenues. Isbank has the best margin mix among the large scale banks, while its strong performance in achieving healthier NIMs and its decision to deploy more capital to its *core banking business (representing the revenue earned from the loans given to the "non-financial private sector")* seems to strengthen its franchise value for the foreseeable future.

Garanti (Outperform) will move into an inorganic asset growth trajectory in the near future with the GE deal. Garanti currently seems more advantageous in terms of high yielding margin mix in the lucrative TL lending segments – such as retail and SME loans - compared to its peers (Akbank and Is Bank). However, the bank has still some difficulties in penetrating TL time deposits due to its less aggressive pricing strategies. With its partnership with GE, it could have the opportunity to register strong upsides in the near future.

TEB (Strong Buy) is growing at a sustainable pace, and its shares offer an attractive combination of value and growth. What differentiates TEB from its peers, Finansbank and Denizbank is its sustainable asset growth trajectory and conservative stance on the cost management front. With the current balance sheet structure and growth strategy in core banking business, the bank is using the right policies, consistent with the arithmetic of the Turkish banking industry. In our view, although TEB shares have shown a strong performance they are trading below their fair value and at a discount when compared with Finansbank and Denizbank.

Denizbank (Outperform) has so far improved its business mix very successfully, with core banking revenues reaching 60% of total banking revenues. The Bank has also achieved a respectable TRY market margin. We believe that the current stock price reflects the strength of its franchise. However, we are concerned over whether this aggressive growth strategy could pressure its ability to maintain banking profitability in an environment where diseconomies of scope and high concentration exist.

Finansbank (Neutral) has so far registered an impressive growth performance and created substantial value for its shareholders. Yet the existence of diseconomies of scope and high concentration in the banking sector raise concerns about the sustainability of the bank's core business profitability. More importantly, we see an inconsistency between the bank's deposit franchise and its efforts to expand the branch distribution network.

VALUATION

Our key valuation methodology is based on the Dividend Discount Model (DDM). We prefer to use a DDM & Sum of the Parts (SOTP) Model for Isbank, due to a number of substantial non-core assets, and for Finansbank, Denizbank and TEB, for their cross-border banking operations, which we believe is an important factor in their valuation. Also note that we have used BRSA non-consolidated financials. Our model is based on a 10-year earnings growth (2005-2014) and 60% dividend pay-out ratio for each bank. The cost of equities for each bank varies between 14% and 16%. These comprise 10% of the risk free rate, the beta of each bank, and a 5% of equity risk premium.

Table 1: Dividend Discount Model

TRYmn	NPV of Dividends	NPV of Perpetuity	Participations	Total NPV	(*)Current Market Cap	Upside %
Akbank	7,815	12,774	-	20,588	16,560	24
Isbank	8,059	11,671	4,027	23,757	19,689	21
Garantibank	3,753	6,571	-	10,324	8,736	18
Finansbank	1,570	2,580	751	4,901	4,465	10
TEB	434	774	142	1,350	1,023	32
Denizbank	1,014	1,636	195	2,846	2,529	13

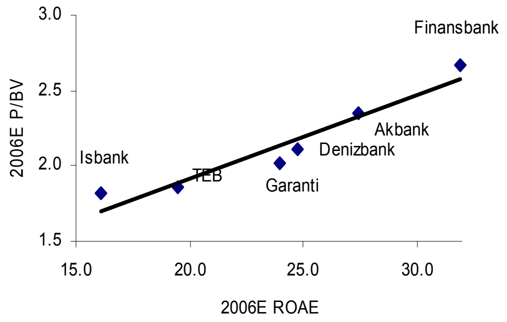
Source: YF Research
(*) Current value is the value as of 07.11.2005

We also used a comparable analysis so that it provides a cushion for our valuation methodology. The banks under our coverage trade at an average 2.6 and 2.1 P/BV for 2005 and 2006, respectively. Finansbank appears to be trading above the trend line and supports our neutral recommendation. Although Akbank's P/BV is slightly above average, with a higher ROAE it supports its upside potential. Isbank is currently on a low ROAE, however with the increase in its core assets and increase in its profitability we expect it to increase its ROAE and decrease its P/E ratio.

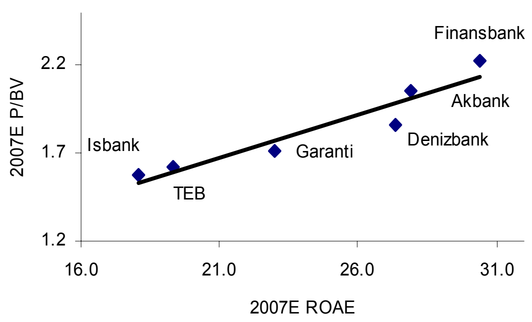
Table 2: Comparable Valuation (2005-2007E)

	P/E			P/BV			ROAE		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
Akbank	11.1	9.2	7.9	2.7	2.3	2.1	24.3	27.4	27.9
Isbank	17.3	12.3	9.4	2.2	1.8	1.6	13.6	16.1	18.1
Garantibank	11.8	8.1	6.9	2.4	2.0	1.7	21.0	24.0	23.0
Finansbank	12.3	9.3	8.0	3.3	2.7	2.2	30.5	31.9	30.4
TEB	12.0	10.4	9.0	2.2	1.9	1.6	20.0	19.5	19.3
Denizbank	12.5	9.1	7.2	2.4	2.1	1.9	21.3	24.8	27.3
Average	**12.8**	**9.7**	**8.0**	**2.6**	**2.1**	**1.8**	**21.8**	**24.0**	**24.3**

Source: YF Research



Source: Company data, YF Research



Source: Company data, YF Research

INDUSTRIAL ORGANIZATION OF TURKISH BANKING

Features of the 'New' Banking Landscape

The Turkish banking system has undergone a phase of structural evolution, since the financial turmoil of 2001. Over the past four years, the rehabilitation of the state banks, the restructuring of banks taken over by the Savings Deposit and Insurance Fund, privatization efforts, and establishment and execution of an independent regulatory framework have so far provided better grounds for competition and transparency of the banking sector. Coupled with the introduction of new standards in line with International Accounting Standards, and a recapitalization process in 2002, amendments to the legislative framework have improved the banking sector's loss absorption capacity. This has helped provide a strong buffer cushioning bank balance sheets from potential exogenous shocks, and in turn minimized the likelihood of systemic risks. Comprehensive restructuring and rehabilitation efforts triggered a consolidation process through mergers, takeovers and co-operation agreements, which led to the elimination of inefficient banks from the system.

Large private banks dominate the sector. The number of banks in the system declined from 79 in 2000 to 47 in 2005, while rehabilitation of the state banks let the concentration ratio in the banking system rise significantly. The market share of public banks has declined to 20% from 34% in loans and to 40% from 59% in deposits over the past four years. The share of the largest four banks in total assets reached almost 43% in H1 05, as opposed to 28% at year-end 2000. This was a by-product of the normalization phase in the financial system, as in the post-crisis period, the large-sized commercial banks have the capability to leverage their distribution channels and improve service quality to enhance customer base (flight to quality).

Due to Turkey's macroeconomic normalization, together with EU convergence, financial services in the sector have so far undergone a profound era of change. The Turkish Banking Sector has become an integrated provider of a range of new products and services. Given the lower loan penetration levels versus the European average of 72% (for instance 101% in Portugal and 66% in Spain), banks' loan books rose at an annual average rate of 20% in the stabilization period 2002-2004. As a result, loans as a proportion of total assets showed a robust increase, rising to 34% in December 04 (37% as of June 05). Declining real returns and increasing lending prospects have so far allowed banks to shift their investments in securities to loans. Strong loan growth has boosted loan-originated fees, which have become one of the main sources of profit generation. The Turkish banking sector's net fee & commission income rose by 40% to TRY 3,966m in December 04 from TRY 2,842m in December 02, raising its fee & commission income/opex ratio closer to international standards. On the other hand, banks' net income grew by 75% in June 05 compared with the same period of last year.

With declining public debt-to-GNP and improving growth prospects, loan availability to the non-financial private sector rose significantly to 53% in June 2005 from an average of 47% between the Russian Crisis of 1998 and the twin Turkish financial crises (TL devaluation and financial sector crisis) experienced in 2001. Loans as a proportion of GDP (a proxy for loan penetration rate) increased to 26% in June 05 from 14.5% in 2002, indicating that the Turkish banking sector still has significant growth potential. However, despite robust growth prospects, the total assets to GDP ratio remained at a lower level of 74% as of June 2005. With low loan/deposit ratios, for the foreseeable future, the Turkish banks should have no difficulty in increasing their loan book faster than their deposit base without disturbing their liquidity ratios.

Table 3: Three Year Performance of the Turkish Banking Sector

(TRY mn)	Dec-02	Jun-03	Dec-03	Jun-04	Dec-04	Jun-05
Balance Sheet						
Loans	72,301	67,305	78,676	91,117	103,241	125,295
Total assets	274,061	246,290	278,686	274,843	306,452	337,244
Deposits	183,391	160,424	177,865	177,445	197,394	213,835
Shareholders' Equity	33,017	35,079	42,429	35,605	45,963	46,901
Income Statement						
Net interest income	16,838	5,385	14,363	7,943	17,678	9,270
Net fee and commission income	2,842	1,390	3,019	1,755	3,966	2,382
Net income	3,191	2,820	6,299	2,408	6,456	4,212
Key Ratios (%)						
NIM	7.4	5.0	5.4	6.8	6.9	6.6
ROAE	9.7	17.2	17.4	13.4	14.6	19.0
NPL Ratio	18.7	16.2	12.3	6.5	6.2	5.6

Source: BAT Data

Local banks have concentrated on efficiency to maintain their leading position among their peers, which sharply increased competitive pressures. Competition revolved around pricing, productivity (per branch and per personnel in terms of assets), loans and deposits. This obliged the banks to undergo radical changes in order to increase operational efficiency, as well as minimize costs. The current banking landscape requires banks to increase the size and quality of their balance sheets, and thus shift to conventional banking activities (especially profitable customer segments).

The Arithmetic of the Turkish Banking Sector – Our Model

Key Value Drivers: Net interest margins, deposit base, franchise value. With interest rates declining to a three-decade low of 15% and inflation falling to a single-digit pace, rationalizing the fiscal burden on the banking sector (such as reserve requirements, indirect taxes, transaction fees) has lowered net interest margins, thus improving financial sector depth. Net interest margins (NIMs) were remarkably high before the 2002-2004 stabilization period. In fact, net interest margins of Turkish banks were twice as large as those in comparable OECD countries before 2002, due to the then prevalent high inflation environment. The disinflation process, together with the government's attempt to reduce heavy intermediation costs, pushed NIMs down to the single-digit path. "*Sustaining NIMs at single digit rates is the key to widening the deposit base and in turn increasing the banks' franchise values." At this point, the implementation of the 15% withholding tax on saving instruments appears to have a positive impact on the banking sector, leading to a shift towards deposits. In our view, the new tax regime on financial and capital market gains will allow the deposit banks to widen their deposit base, increasing their franchise values, and more importantly, could help to offset further decline in net interest margins.*

Deposit franchise is the key driver of Turkish banks' value. The value of a bank franchise, which reflects the present value of deposit cash flow, is critical to future profitability, as it allows the bank to maintain NIMs at optimal levels. Accordingly, the franchise value is primarily derived from the deposit base, implying that "Franchise Value" almost equals "Deposit Franchise". To this end, the franchise value can be calculated by the following formula:

Deposit franchise = Deposit base x NIM – operating cost – tax

A fundamental problem: The presence of diseconomies of scope in the banking sector. Since operating costs and taxes are exogenous variables, achieving optimal NIMs and enhancing the deposit base are key issues for the prospects of bank franchise values (banking business), and thus future profitability. The formula suggests that the higher the deposit franchise the larger is the deposit base required to sustain NIMs at optimal levels. In the low inflation environment, as NIMs are defined as optimal at single digit rates, a profitable bank franchise (or high deposit franchise) can only be achieved if deposit base growth outpaces loan availability. *"In the context of the microeconomics of banking, this suggests that an increase in loan volume should have the consequence of decreasing marginal cost of deposits in order to lay the appropriate environment for sustained profitability of the banking business".* The economic interpretation of this condition is related to the notion of economies of scope, which we analyzed in detail on page 10.

We built our structural model for net interest margins on a different financial concept. Estimation of optimal net interest margins can only ever be approximate, depending on both the period under analysis and period over which cash flows are re-priced. At this point, we used a structural model to approximate optimal levels for net interest margins. Our analysis covers the 2002-1H05 period, as maturity and interest rate sensitive balance sheet items for the whole banking system are not available for the pre-crises period. We built our structural model for net interest margins on a different financial concept, highlighting the impact of market value of cash flow stream on spreads.

Our model specification begins with defining modified duration, or interest rate elasticity. This definition can be stated in the form of the following equation:

$IRE = \Delta MV/[MV x \Delta r] = -D / (1+ r)$
(1)
Where
IRE= interest rate elasticity
D = duration in years of the cash flow stream
r = yield to maturity (on interest rate)
MV = market value of the cash flow stream

Then, we derive the equation that specifies the change in the market value of equity when interest rates shift. The basic equation for the market value of equity is the difference between market values of assets and liabilities:

$MV_E = MV_A – MV_L$ (2)
$\Delta MV_E / \Delta r = [\Delta MV_A/\Delta r] - [\Delta MV_L/\Delta r]$ (3)
$[\Delta MV_A/\Delta r] = [–D_A \times MV_A] / (1+r)$ (4)

Then, we reach our basic equation

$[\Delta MV_E] = [–D_A \times MV_A + D_L \times MV_L] \times \Delta r / (1+r)$ (6)

Equation 6 describes the change in the market value of equity for a shift in the yield curve.

The derivation of equations pertaining to net interest income requires separate equations for interest income and interest expense over the time period analyzed. For interest income, our equation is the following:

Interest Income= $[MV_A \times D_A \times r_A] + [MV_A \times (T-D_A) \times (r_A + \Delta r)]$ (7)

Where T is the time period being analyzed (in our study we take T as 1 year). The first set of bracketed terms in equation 7 gives interest income during the initial life of the interest rate sensitive assets, where the yield is fixed at the original interest rate. The set of terms within the second pair of brackets is interest income during the rollover period(s) experienced under a new yield curve.

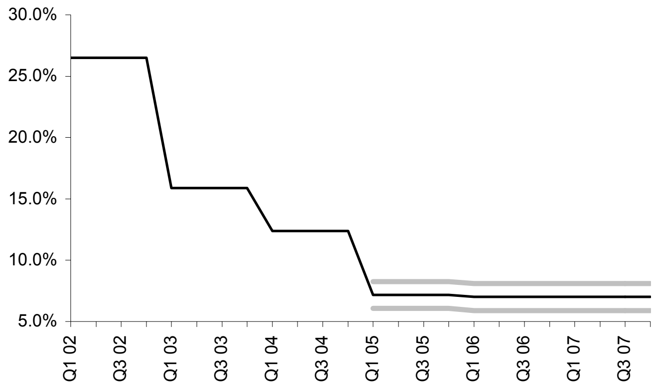
Interest Expense = $[MV_L \times D_L \times r_L] + [MV_L \times (T-D_A) \times (r_L + D_r)]$
(8)

Net Interest Income = Interest Income - Interest Expense (9)

Net Interest Margin = Net Interest Income / Average Interest Earning Assets (10)

According to our calculations, on TRY balance sheets, <u>duration gap adjusted-net interest margins</u> narrowed sharply to 7.2% in H105 from 21.6% in 2002. Under current macroeconomic conditions and maturity structure, optimal banking franchise (or sustainable profitability in core banking business) can be achieved, if a local commercial bank operates with a net interest margin (on its TRY balance sheet) in the range of 6.00% to 8.25%. However, unfair competition from state banks and inconsistency between competitive market pressures and scale of the banking sector present key challenges to running at optimal NIMs (on TRY balance sheets). *Given these fundamental issues, operating with optimal margins in the TRY business requires "large free capital base and/or higher market power", as both allow the bank to be more selective in collecting deposits.*

Chart 1: Optimal Net Interest Margin Path



Source: YF Securities

Banks need to deploy more capital to their core banking businesses in order to secure long-term profitability. Concentration on fee & commission generation contributes to the banks' franchise values, but does not guarantee a sustainable profitability path. With irrational competitive market pressures, the focus in the Turkish banking sector has so far shifted from interest income generation to conventional banking activities based on fee & commission generation. However, private commercial banks' attempts to increase their fee & commission income appear not to secure a sustainable profitability in the core banking business, but provide a limited contribution to bank franchise values and some key ratios - such as fee & commission income/opex ratio. As mentioned in preceding paragraphs, achieving above-trend growth in the deposit base and operating at optimal NIMs are key elements of a well-functioning banking business environment. Leaving cost reduction and non-interest earnings enhancement initiatives aside, to date, what the banks have done is to deploy more capital to their banking businesses. Coupled with the introduction of efficiency-enhancing measures to reduce the cost-to-income ratio to below 50% and concentration on fee & commission generation, directing the capital to the core banking business has so far allowed banks to improve their franchise values. However, the current outlook for free equity in the banking sector has not yet guaranteed sustainable profitability for the core banking business.

Understanding the Structure of Banking Business Profitability

Achieving sustainable profitability in the banking environment is entirely conditional on the following:

- Spreads on deposits
- Banks' capacity to achieve economies of scope in the loan and deposit market, and
- Operating efficiency and feasibility of fiscal costs of the banking sector.

In terms of fiscal costs, the government's attempts to reduce the intermediation costs of the banking sector, although very encouraging, depend on monetary and fiscal performance. On the efficiency side, the banks have so far reduced their cost/assets and cost/income ratios significantly, becoming comparable in relative terms to the levels reached by their peers in the EU convergence process. To this end, the first two factors become the key to sustainable banking profitability.

Our assessments on how efficiently the banking sector's profit generation mechanism works begin with building a profit function for the core banking business. In a competitive environment, a bank's profit is the sum of intermediation margins on loans, net of operating costs and tax.

$$\pi_{\text{TRY B/S}} = r_L L + r_M M - r_D D - C(D,L) \quad (11)$$

(TRY B/S: TRY balance sheet)

Where M is the net position of the bank on the interbank market, L is the TRY denominated loan portfolio, D represents TRY denominated deposits and C(D,L) is the operating costs and tax burden on (TRY denominated) loans and deposits. Thus, $r_L L + r_M M$ reflects the bank's interest income on loans and net monetary position (at the interbank), whilst $r_D D$ shows the bank's interest expense on deposits. At this point, we can replace $r_L L + r_M M$ and $r_D D$ with the following equations; equation (12) and equation (13), respectively.

Equation (12)

$$\text{Interest income}_{\text{Loans \& Monetary Position}} = [(MV_{L,t=0}+MV_{M,t=0}) \times D_{\text{W.Av.for L\&M, t=0}} \times r_{\text{W.Av.on L\&M, t=0}}] + [(MV_{L,t=0}+MV_{M,t=0}) \times (T- \times D_{\text{W.Av.for L-M, t=0}}) \times (r_{\text{W.Av.on L\&M, t=0}} + \Delta r)]$$

Equation (13)

$$\text{Interest expense}_{\text{Deposits}} = [MV_{D,t=0} \times D_{\text{W.Av.for deposits, t=0}} \times r_{\text{W.Av.on deposits, t=0}}] +$$

$$[MV_{D,t=0} \times (T- D_{W.Av.for\ deposits,\ t=0}) \times (r_{W.Av.on\ deposits,\ t=0} + \Delta r)]$$

Where MV means market value, $D_{W.Av.f\ ,\ t=0}$ is weighted average duration at initial (t=0), $r_{W.Av.on\ L\&M,t=0}$ is weighted average interest rate at initial (t=0) and T is the time period being analyzed. As a result,

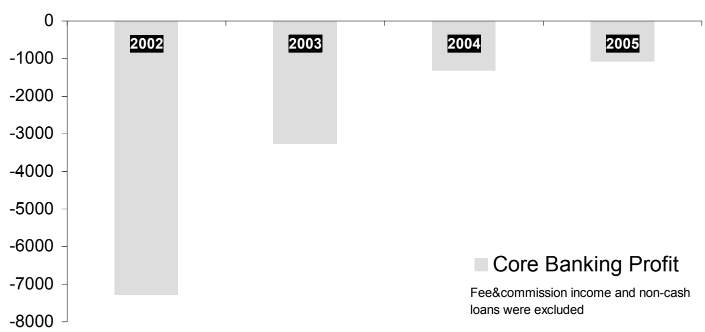
$$\pi_{TRY\ B/S} = \text{Interest income}_{Loans\ \&\ Monetary\ Position} - \text{Interest expense}_{Deposits} - C(D,L) \quad (14)$$

The formula suggests that the higher the $\pi_{TRY\ B/S}$ the larger is the intermediation margin at a given cost and tax base. In the low inflation environment, as the intermediation margins are defined as optimal at single digit rates, sustained profitability can only be achieved if an increase in volume of loans results in decreasing marginal cost of deposits, namely the so-called "economies of scope". $\pi_{TRY\ B/S}$ is positive, and sustainable banking business profitability becomes achievable if economies of scope exist. This implies that a multinational or large scale local bank can jointly offer loans and deposits efficiently. In the event of diseconomies of scope, $\pi_{TRY\ B/S} < 0$, banking business environment is unable to secure sustainable profitability.

Our structural model for profits on core banking business suggests diseconomies of scope in the banking sector (Chart 2) We herein exclude the banks' ability to generate fee & commission income in order not to lead to multi-co linearity in our structural model given the strong relationship between "loan growth and fees & commission income" ~ the higher the loan growth the larger the fee & commission income.

The Chart explains why multinational banks have so far preferred to concentrate on small-size core banking business activities and shown a more conservative stance on cost-to-income ratios. If $\pi_{TRY\ B/S} < 0$, then narrow banking becomes more efficient in offering core banking services. *More importantly, in the event of diseconomies of scope, intermediation margins are adversely affected if substitutes for banking products appear on financial markets (for instance when firms issue securities on financial markets as a substitute for bank loans).* The only way to maintain long-term profitability in core banking business and in turn to improve the bank franchise value is to strengthen market power, which requires the bank to direct more capital to its core business. If diseconomies of scope exist, the greater the market power of the bank in deposits, the larger the intermediation margin.

Chart 2: Core Banking Business Profit[1] (mn TRY)

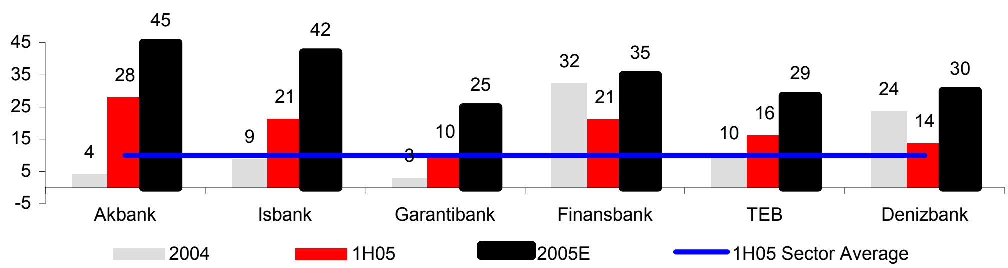


Source : YF Securities Estimates

Coverage Comparisons

Akbank is a pure banking play, Isbank is looking for organic growth opportunities by disposing its non-core assets, TEB is growing at a sustainable pace, and Garanti is set to move into an inorganic asset growth trajectory in the near future with GE deal. Akbank is one of three largest private banks in the Turkish Banking Sector with total assets of TRY 45b at the end of June 05, and it ranks first in terms of asset growth and profitability. Its strong asset growth is attributable to its robust capital structure and solid deposit base that allows the bank to raise domestic funds at lower costs than what its peers do. In addition, Akbank is also well positioned with core interest revenues making up for 53% of its margin mix, while the bank comfortably covers its operating expenses with its core banking revenues as well. All these factors allow Akbank to achieve an ongoing upward trend in asset growth, and thus market share. Isbank, the largest and oldest private bank, has been increasing its asset size at a faster pace since the beginning of 2004, although it has a huge portfolio of industrial assets concentrated mainly on glass and telecommunications sectors. At this point, the bank's decision to deploy more capital to its core banking business appears to open the way for solid asset growth in the foreseeable future. Garanti's asset growth has so far lagged behind its peers' growth performance. However, following the acquisition of half of the controlling shares of Garanti by GE Consumer Finance, it may move into an inorganic asset growth trajectory, not only in Turkey, but also in the region (Eastern Europe, Middle East, Turkish Republics). Finansbank and Denizbank have so far shown similar asset growth paths, increasing their asset sizes by 60% and 41% since 2003, respectively. However, in our view, aggressive growth policy seems inconsistent with the current banking business environment, wherein the large banks get the biggest market shares, and the system is still far from securing sustainable core banking business profitability. *To this end, we do not support these two banks' asset growth strategy since diseconomies of scope and high concentration rate exist. TEB in this context is growing more gradually and conservatively, which we like. We therefore believe that TEB's asset growth trajectory appears sustainable when compared with its peers' growth strategies.*

Chart 3: Asset Growth (%)

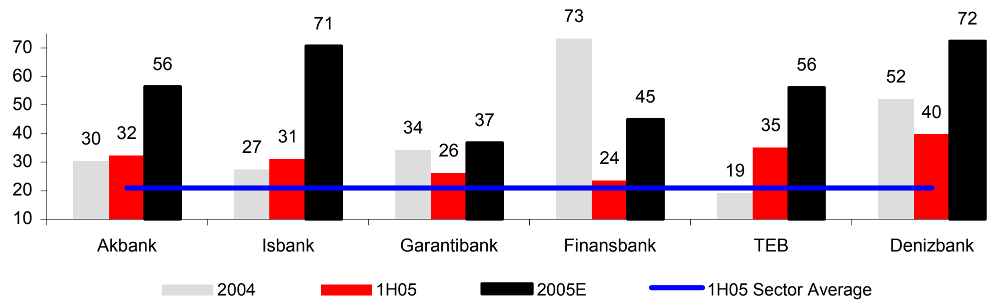


Source: Company data, YF Research, BAT data

We expect the loans growth path to continue in 2006. With falling interest rates and increasing stability in the economy, banks have been successfully increasing their lending exposure. And with the higher returns received from loans compared with marketable securities, the ratio of marketable securities in total assets is falling. Also, the return in TRY business is higher compared with FX that increases the share of TRY loans and deposits. *The banks' attempts to increase the size of the TRY denominated loan book of course contribute to their core business revenues, but they remain weak in securing sustainable core banking profitability.* Together with stabilization in financial markets, banks' sale of mortgages, leasing products and consumer loans has been growing at higher rates since the beginning of 2004 on the back of under-penetration, improved consumer confidence and the interest rate compression process. *Although, competition in large corporate lending has already eroded spreads on corporate loans, growth in SME and consumer lending still helps maintain satisfactory spread levels.*

In a rapidly growing lending environment, TEB, Akbank and Isbank have so far accelerated their loan growth in 2005, while Finansbank faced momentum losses. After its massive growth in loans in 2004, Finansbank had to step on the breaks, and yet despite the slow down we believe it bears a higher risk in rising NPLs than the sector average. Although Garanti has not grown aggressively, it still has an important market share, and we expect the bank to gain momentum in its lending performance within the next two years after its partnership with GE Capital. Although Denizbank has slowed down in the first half of 2005, the bank realized the highest loan growth and we expect the same result to be in effect for the year end.

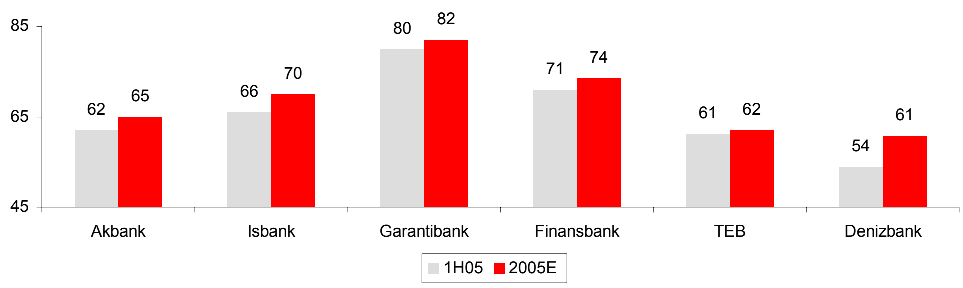
Chart 4: Loan Growth (%)



Source: Company data, YF Research, BAT data

As inflation slows down, retail banking speeds up. The Banks see great potential and have already started to emphasize the SME and retail segment. Below we see the share of these loans (including credit cards) rising among overall loan portfolios.

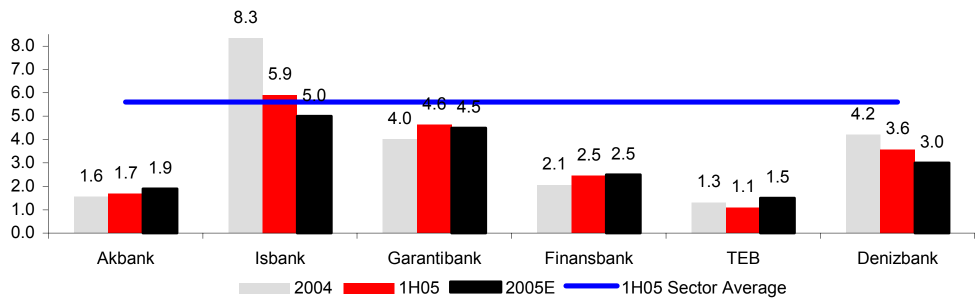
Chart 5: % of SME and Retail Loans



Source: Company data

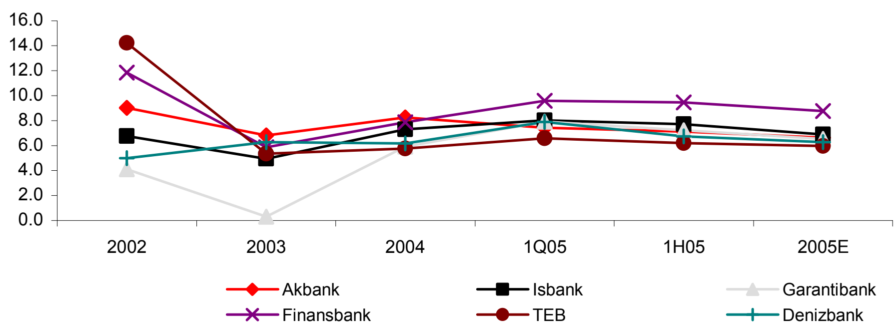
The NPLs are well-contained. Despite strong loan growth, NPL ratios have not increased significantly, though part of it came through the Istanbul Approach under which some USD 5.5b has been restructured. The rise in NPLs has mainly been from high credit card loan growth, however banks are now focusing more on lending to consumers and SME's, and hence the share of NPLs is expected to fall. *Although improving, Isbank still has an NPL ratio above the sector average of 5.6%, of which 100% is covered. The ratio had substantially risen after the 2001 crisis although we expect a material decline thanks to the recovery of firms that started repaying their debt. TEB's NPL ratio is significantly below the sector average as a result of its prudent approach. There has been no branch authorization in terms of loan sales, which has curbed uncontrollable loan growth, and hence the amount of NPLs. However, the Bank intends to grow in the retail market, for which it will have to increase the sales network and eventually NPLs by as much as to c2%.*

Chart 6: NPL Ratio (%)



Source: Company data, YF Research, BAT data

Chart 7: Net Interest Margin (NIM)



Source: Company data, YF Research

As mentioned in the preceding pages, NIMs have now come to our estimated optimal range of 6.0% to 8.25%, which is the key to achieving profitable bank franchise values. In our view, despite the ongoing spread compression process in the banking sector, today's stable outlook for NIMs provides better grounds for a higher banking franchise, and in turn sustainable profitability in the core banking business.

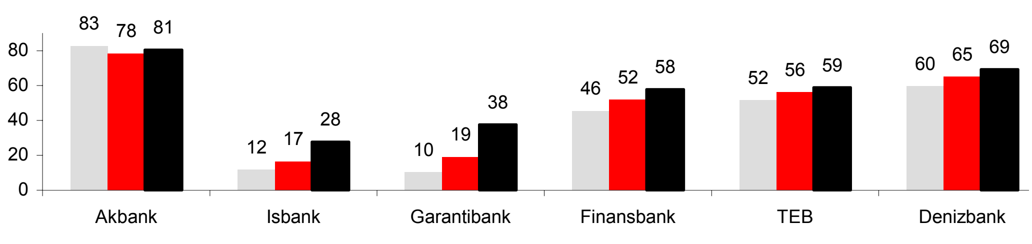
Both Akbank and Isbank have the best margin mix among the large scale banks, whilst

Garanti is more focused on high-margin TL assets with its strong positioning in SME and retail loans, including credit cards. The banks' strong performance in achieving healthier NIMs in the banking business can be largely attributable to their public perception of being a safe and sound bank, which lowers their cost of collecting deposits. This of course further strengthens the bank's franchise value. *At this point,* Garanti currently seems more advantageous in terms of high yielding margin mix in the lucrative TL lending segments – such as retail and SME loans - compared to its peers (Akbank and Is Bank). *With its partnership with GE, the bank could have the opportunity to increase its deposit franchise and in turn achieve optimal NIMs in the near future. As regards the medium-sized banks, TEB will likely be the beneficiary of the new banking landscape with its cautious asset growth strategy and conservative cost management stance. As seen in Chart 12, TEB keeps the cost/income ratio trending downward.* According to our model, we believe Finansbank and Denizbank may face difficulties in sustaining the optimal NİM range due to their aggressive growth strategies and higher cost bases.

The key question is; what should the optimal strategy be in order to achieve long-term profitability in the core banking business? Based on our analysis on page 8, operating with a large free capital base is the key factor. *The success of Akbank in running at better NIM is due to its strong free capital base, which allows the bank to be more selective in penetrating TRY deposits. This is why Akbank has a strong presence in the lucrative TL market.*

In our view, Akbank is in the best position in terms of free equity with the highest interest earning assets/ assets ratio of 91%. Isbank has the potential to increase its free equity base with the sale of its non-core assets. In Q3, it withdrew from the energy sector by selling its share in Petrol Ofisi to Dogan Group and from the iron& steel business by selling its İzmir Demir Celik shares. Partially monetizing the bank's investments in industrial companies and deploying more free equity to the core banking business will boost its franchise value, yielding further upsides over the next couple of years. As regards Garanti Bank, the bank's partnership with GE will have a significant effect on its capital structure (as a result of disposal of non-core assets) and franchise value (thanks to the guidance of GE on higher value added products – such as vendor finance, consumer finance, mortgages and cash management) and in turn Garanti's deposit franchise. The bank may increase its presence in the lucrative TL segment and become less dependent on foreign currency spreads. Thus, we expect further potential upsides in Garanti over the next couple of years, depending on GE's equity policy and especially its contribution to the bank's penetration in high margin products. However, considering the current balance sheet structure, catching up with its peers' deposit franchise appears to take time. As for the medium-scale deposit banks, Finansbank, TEB and Denizbank, free capital to equity ratio shows a robust performance, contributing to these banks' core banking business profitability.

Chart 8: Free Capital/ Equity

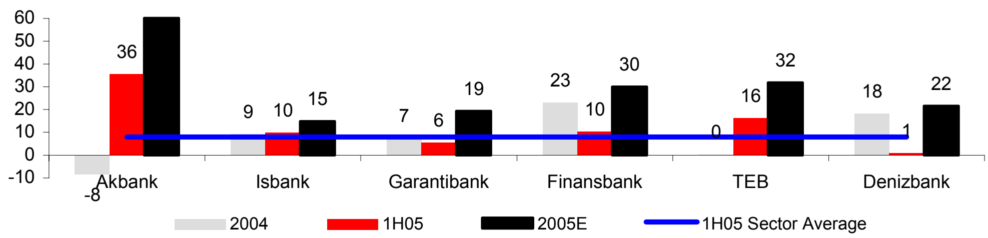


Source: Company data, YF Research

The larger the deposit base, the higher the franchise value – Increasing concentration in the sector. *Akbank has the largest deposit base among the private banks. With the freeing of equity by USD750m and growth of the customer portfolio with the increase in cross-sell and CRM activities, the Bank's deposits grew by 36% in the first half of 2005. Akbank has achieved the fastest deposit growth, exceeding the sector average of 8%. In H1 05, Akbank made up one-third of total deposit growth, whilst 50% of the deposit increase came from the three largest banks, Akbank, Isbank and Garanti, implying the strengthening of sector concentration.* The current fundamentals in the banking sector left the equity values of Akbank, Isbank and Garanti more sensitive to their market share growth, particularly in the lucrative TL segments (both deposit and lending business*). As for Isbank, the growth in deposits is not as high as for loans, and funding is also provided through foreign borrowing and repo transactions. We expect an increase in deposit growth with the implementation of the 15% withholding tax on marketable securities (T-bills/bonds and stocks) and deposits. The medium-sized banks have not entered reckless competition in the deposit market. This has led to a decline in Finansbank and Denizbank's deposit growth rates, whilst TEB has increased its deposits by focusing on CRM solutions.*

The 15% withholding tax could be positive for the banking sector. With the start of the 15% withholding tax application in 2006, all saving instruments will be subject to a single tax rate and will be treated equally as of 1 January 06. This implementation will have a positive impact on the banking sector, as it will lead to a shift towards deposits*. Thus, the new tax regime on financial and capital market gains appears to allow the deposit banks to widen their deposit base, increasing their franchise values, and more importantly could be offsetting potential further declines in net interest margins.*

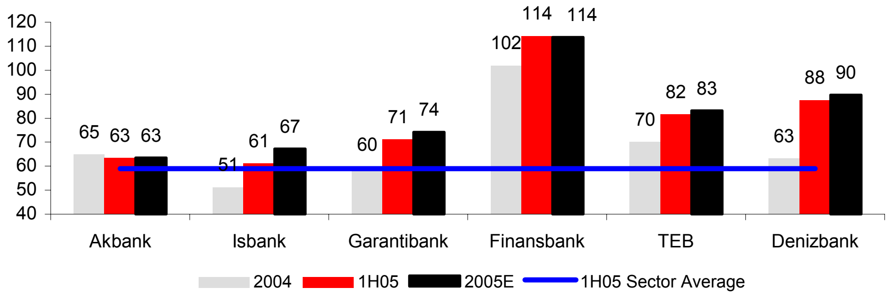
Chart 9: Deposit Growth (%)



Source: Company data, YF Research, BAT data

Loan/ deposit ratio is an indicator of dependency on deposit collection in order to finance the banks' loan book. As seen in Chart 11, medium-sized banks (Finansbank, TEB and Denizbank) are more sensitive to deposit collection to finance their lending activity, putting upward pressure on the cost of deposits (funding), and in turn leading to margin erosion as larger banks created a market with higher deposit rates, even though the smaller banks did not intend to participate in reckless competition. At this point, Finansbank seems disadvantaged by its high loan/deposit ratio.

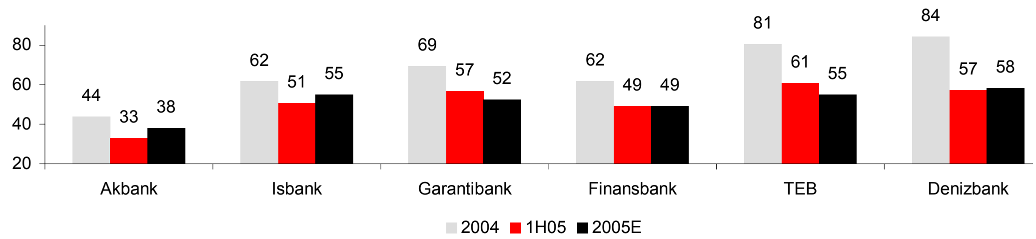
Chart 10: Loans/ Deposits Ratio (%)



Source: Company data, YF Research, BAT data

The strategy is to utilize branches for marketing activities and operational work. All CRM activities including customer recognition and customer-oriented pricing strategies are followed at the branches, with targets set for each branch. The branches will be subject to rating, which will bring expertise. The branch and personnel increases are not expected to become big issues for the large caps. *On the other hand, smaller banks that are trying to grow aggressively could have larger cost pressures. In this process, TEB differentiates from its peers, Finansbank and Denizbank, as its cost/income ratio is on a declining trend, by generating higher core banking business income with smaller branch network. The reason for the higher cost/income ratio for Isbank compared to its peer Akbank is the effect of its large amount of excess general provisions.*

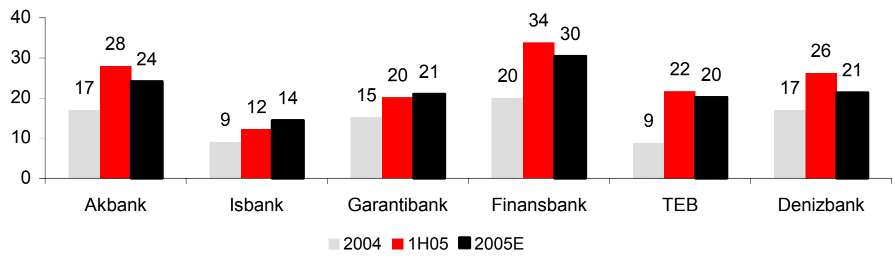
Chart 11: Cost/ Income (%)



Source: Company data, YF Research

The big banks have more potential to increase ROAE on the back of their higher potential to increase leverage and more sustainable margins. *Isbank has the strongest potential in ROAE expansion as Isbank is in the process of disposal of its non-core participations (except glass business) and non-core fixed assets*, which is planned to be finalized by the end of 2007. We expect the bank's ROAE to increase sharply and reach 18% by 2007. Moreover, it faces a moderate growth path among its peers, as it has a large amount of excess deposits. Akbank has increased its ROAE to above 20% with the purchase of its founders' shares. 25% of the dividend distributed last year was paid to founders, and this is regained through the purchase. Garanti is selling its non-core assets- increasing interest earning assets. This brings ROAE expectation to the 23% to 24% range. As for Finansbank, together with pressure on cost/income with branch expansion, we expect a lower ROAE.

Chart 12: ROAE (%)



Source: Company data, YF Research

Macro Assumptions – Our base case scenario helps Banks

Our base case scenario in our models assumes a slightly slower, but stable growth profile in the global economy, a strengthening of Turkey's dual IMF-EU anchors and a cautious mood in domestic financial markets. In our base case scenario, the convergence program with the European Union Acquis and structural reform on the fiscal front (which aims to overhaul the tax system and improve the quality and cost-efficiency of public spending) would pave the way for accumulation of physical and human capital by reducing income inequality and high poverty rates, improving distribution of wealth, and increasing the quality of public education, and the judicial and health system. With stronger human and physical capital accumulation, this is highly likely to move Turkey onto a higher economic growth plateau. This would likely result in further global integration, increasingly improved total factor productivity, greater financial sector depth and a stable exchange rate path, and in turn price stability.

To this end, our base case scenario sees ongoing improvement in productivity gains and corporate profits, further contributing to Turkey's capital formation, and in turn increasing private sector appetite for hiring staff and undertaking fresh investments. As a result, in our base case scenario, we expect GDP to grow at an annual average rate of 6.0% in 2006-2008. More importantly, private sector fixed capital formation may increase significantly, probably rising 10% per year in 2006-2008. With a US$ 432 billion GDP, we expect per capita income to rise to US$ 5,680 in 2008 from US$ 4,172 in 2004. Meanwhile, PPP-adjusted per capita income, which we expect to stabilize at around US$10,000-10,200 by 2008, is likely to show consistent signs of income convergence towards the EU zone. The major contributor to economic recovery will plausibly be exports, which could have risen to US$ 88 billion by 2008, while sustained domestic demand will boost imports to US$ 147 billion. Given the widening trade deficit, Turkey's current account balance is likely to reflect a steadily weakening path for the next two years. The appreciation of the TL (in real-terms) and continuing recovery of the manufacturing industry will likely lead the current account deficit-to-GDP ratio to stabilize at around 6.1%. In such a macroeconomic environment, Turkish banking sector assets as a proportion of GDP will no doubt rise to at least 132% of GDP during the convergence process, reaching US$468 billion. The Turkish banking sector's domestic liabilities as a proportion of GDP, which implies an M3Y-to-GDP ratio, may rise to 57% in 2008 from the low 40s in 2003-2005.

Despite the downside risks to the disinflation process, we expect inflation to continue inching downwards in 2004, ending the year at around 5.8%. We also think that Turkey's inflation dynamics are sufficient to buffer the disinflation process from the risk of potential cyclical TRY depreciation. Strong deceleration in the underlying inflation rate, together with weakening pass-through effects, may sustain low inflation expectations in the coming periods, and in turn, lower financial intermediation costs in the banking system. Coupled with an expected decline in the average cost of financial intermediation next year, a predictable low inflation environment could improve the allocative functions of the financial system. Improving financial conditions would further boost both capital formation and Turkey's external competitiveness.

YF Securities Estimates						
	2003	2004	2005YF$_f$	2006YF$_f$	2007YF$_f$	2008YF$_f$
Growth						
GDP (YTL million)-nominal prices	359,763	430,511	486,962	537,083	600,586	668,622
GDP (US$ billion)	241.1	302.8	362.8	373.5	404.6	432.0
GDP per capita (US$)	3,383	4172	4946	5033	5383	5680
GNP growth rate (%)	5.9	9.9	5.3	4.3	6.2	5.5
GDP growth rate(%)	5.8	8.9	5.6	4.7	6.5	6.0
Population(mn)	71.3	72.6	73.4	74.2	75.2	76.1
Industrial Production						
Industrial Production (annual-%)	8.7	9.8	5.6	4.1	5.1	5
Capacity Utilization Rate (average-%)	78.7	81.6	81.0	78.5	81.8	81.5
Interest Rates and Inflation						
Benchmark Bond Rate (end of period)	27.22	22.25	14.15	13.60	12.20	12.00
Benchmark Bond Rate (average)	46.12	24.57	16.20	14.40	14.20	14.00
O/N rate (end of period)	26.00	18.00	13.50	12.00	10.00	10.00
PPI (annual-%)	13.90	13.84	5.50	5.45	5.21	5.00
CPI (annual-%)	18.40	9.32	7.06	5.77	5.45	5.20
Deflator	22.50	9.90	7.07	5.33	5.03	5.03
Foreign Currency						
Devaluation (USD-%)	-15.0	-4.1	1.2	5.6	4.4	4.2
YTL/USD (average)	1.4922	1.4219	1.3421	1.4380	1.4846	1.5476
YTL/USD (end of period)	1.3933	1.3363	1.3637	1.4403	1.5042	1.5681
Balance of Payments (US$ million)						
Export (f.o.b)	47,253	63,121	72,500	76,131	82,570	88,223
Import (c.i.f)	69,340	97,540	117,250	124,410	136,245	147,009
Trade Balance	-22,087	-34,419	-44,750	-48,279	-53,674	-58,786
Current Account Balance	-8,037	-15,543	-22,720	-23,710	-25,064	-26,250
Current Account Balance/GNP (%)	-3.4	-5.2	-6.3	-6.3	-6.2	-6.1
Total Debt Stock						
Domestic Debt/GNP(%)	54.5	52.3	52.8	52.0	50.0	47.5
Gross Public Debt/GNP(%)	83.4	77.4	74.4	72.7	71.2	69.0
Net Public Debt Stock/GNP (%)	70.4	63.5	61.0	58.5	55.8	53.5
Consolidated Budget (US$ million)						
Budget Balance/GNP (%)	-11.3	-7.1	-3.5	-3.0	-4.3	-4.0
Consolidated Budget Primary Bal. / GNP(%)	5.2	6.1	6.1	5.0	4.5	4.7

Source : CBT, SIS, Government, YF Securities

Our base-case scenario upgrades the Turkish banking sector In our base case scenario, Turkey's dual anchors, together with structural reform program, will likely pave the way for further and sustained economic and political reforms, providing a major boost to Turkey's disinflationary efforts, and in turn help compress debt yields. Thus, strengthening recovery in Turkey's economic and institutional fundamentals will continue to fuel resident capital repatriation, stimulating the de-dollarization process and thus keeping the TRY strong against hard currencies. With the increased access to international capital markets, commercial banks are likely to provide a major contribution to money creation through their lending activities. Lower financial intermediation costs, together with price stability will improve the allocative functions of the financial system. In the 2006-2008 period, the loans to GDP ratio (a proxy for loan penetration rate) could rise to 37% in 2008 from 20.6% in 2004. We expect the loan stock to increase significantly, rising as much as 33% in real-terms (for the entire 2005-2008 period) to US$159b in 2008 from US$74b in 2004. This indicates that the Turkish banking system would still continue to run at low loan penetration rates, suggesting a sustained diseconomy of scope problem in the banking sector. Strong loan growth will result in healthy net interest income growth, despite lower spreads, while boosting loan-originated fees. Amid financial market stabilization, banks' sale of mortgages, leasing products and consumer loans will probably grow at higher rates, driven by under-penetration, improved consumer confidence and lower interest rates. We expect consumer loans and credit card lending as a proportion of GDP to stabilize in the 8.5%-9.0% range, slightly up from the expected 8.2% of GDP in 2005.

9 November 2005

Akbank

Initiated

STRONG BUY

Best business mix

Akbank has been the best performing banking stock, outperforming the ISE-100 index by 7% since January 2004, mainly due to its solid balance sheet and strong positioning in the lucrative TL segments. Akbank also has the largest deposit base, highest free equity and lowest cost/income ratio, which allows it to raise domestic funds at cheaper costs, and thus to achieve profitable TL franchises (currently representing 30% of its business mix).

Strong value creation

Akbank is clearly the main beneficiary of Turkish banking system consolidation on the back of (a) high spreads on deposits, (b) strong market share allowing the Bank to generate large cash flows for each TL of new deposit and (c) superior equity value entirely coming from the banking business. Since Akbank does not have a conglomerate structure, it deploys 80% of its capital to the core banking business segments, and thus any additional value generated in the core banking business significantly contributes to the bank's equity value. More importantly, the Bank's ability to achieve stronger equity value has improved significantly since buying the Founders' shares. All in all, we believe that the bank's business model supports continuing earnings and potential upgrades with increasing substitution to the TL business and increasing lending volume.

We expect a 5-year CAGR of 11% in NII and 16% in net income

An adjustment in personnel costs and costs stemming from branch renovation has increased near-term operating costs, which are expected to start declining in 2006, further triggering profitability. The share of fees and commissions among total income is expected to rise to 25% by 2007. Although NIMs are declining, we expect them to stay within the optimal range of 6.0% to 8.5%, thanks to the TL business and loan growth.

24% upside to our fair value

Our fair value for Akbank is TRY20.6b, as based on our dividend discount model. The bank is also expected to show improvement based on the 2.3xP/BV and 27% ROAE multiples on our 2006 estimates.

TRY mn	FY 2004	FY 2005E	FY 2006E	FY 2007E
Net Interest Income	2,539	2,642	2,959	3,314
Net fee& comm. income	427	640	928	1,206
Operating Profit	3,452	3,722	4,340	4,987
Net Profit	1,021	1,495	1,799	2,108
Book Value	6,227	6,075	7,047	8,069
Valuation				
P/E	16.2	11.1	9.2	7.9
P/BV	2.7	2.7	2.3	2.1
EPS	0.6	0.8	1.0	1.2
DPS	0.3	0.5	0.6	0.7
BVPS	3.5	3.4	3.9	4.5

Trading Data	
Sector	Banks
Bloomberg	AKBNK.TI
Reuters	AKBNK.IS
Mkt cap (TRYmn)	16,560
Free float (%)	33.65
Shares Outstanding	1,800
Ave. Daily Vol. (TRYmn)	35.68
ISE-100 (TRY)	33,830

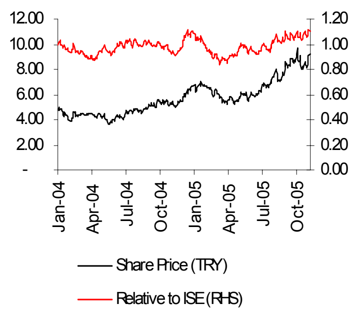
Price Data (TRY)	1M	3M	12M
ISE-100	33,414	29,925	22,616
Absolute	0.5	1.3	4.1
Absolute (%)	6.4	15.7	79.1
Relative (%)	5.0	2.4	19.7

Current (TRY)	Target (TRY)
9.20	11.44

Key Ratios (%)	2004	2005E	2006E
NIM	8.3	6.6	5.8
ROAA	3.0	3.5	3.3
ROAE	17.1	24.3	27.4
Cost/Income	43.9	38.1	34.9
NPL Ratio	1.6	1.9	2.1
Free Equity	82.7	80.5	82.2

Ownership Structure (%)	
Sabancı Holding	34.2
Sabancı Family	23.3
Other	42.5

Price Chart (TRY)



AKBANK VALUATION

TRYmn	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Earnings	1,495	1,799	2,108	2,463	2,811	3,161	3,550	3,985	4,437	4,938
Dividend to Ordinary S.holders to be paid Mid-next Year	897	1,079	1,265	1,478	1,687	1,896	2,130	2,391	2,662	2,963
Payout Ratio	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Cost of Equity	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Perpetuity growth rate	9.5%									
Discount Coefficient	0.9	0.7	0.6	0.6	0.5	0.4	0.4	0.3	0.3	0.2
NPV of Each Dividend	777	809	821	830	820	799	777	754	727	701
NPV of dividends in the forecast period	7,815									
NPV of Perpetuity	12,774									
Total NPV	20,588									
# of Ordinary Shares	1,800									
Fair Price per Share	11.4									
Current market cap	16,560									
Current price per share	9.20									
Upside/Downside (%)	24%									

AKBANK FINANCIAL STATEMENTS

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Statement							
Interest income	4,413	4,721	5,288	5,923	6,633	7,330	8,063
Interest expense	(1,874)	(2,080)	(2,329)	(2,609)	(2,922)	(3,243)	(3,584)
Net interest income	2,539	2,642	2,959	3,314	3,711	4,087	4,479
Net fee & commission income	427	640	928	1,206	1,508	1,809	2,081
Dividend income	3	4	4	4	5	5	5
Net Trading Income	329	230	233	235	237	240	242
Gains on Securities Held-for-investment	-	-	0	0	0	0	-
Other Operating Income	155	207	217	228	239	251	264
TOTAL Operating Income	3,452	3,722	4,340	4,987	5,700	6,391	7,070
Provision for Loan Losses and Other Receivables (-)	(193)	(347)	(468)	(608)	(760)	(912)	(1,049)
Other Operating Expenses (-)	(1,149)	(1,286)	(1,351)	(1,418)	(1,475)	(1,519)	(1,565)
NET Operating Income	2,111	2,089	2,522	2,960	3,465	3,960	4,456
Income from Investments and Associates	31	46	49	51	54	56	59
Income / (Loss) on Net Monetary Position	(646)	-	-	-	-	-	-
Income Before Taxation (XII+XIII+XIV)	1,497	2,136	2,570	3,012	3,518	4,016	4,515
Provision for Taxation on Income (-)	(476)	(641)	(771)	(903)	(1,056)	(1,205)	(1,355)
Net Income Before Extraordinary Items	1,021	1,495	1,799	2,108	2,463	2,811	3,161
Extraordinary Items	-	-	-	-	-	-	-
Net Income	**1,021**	**1,495**	**1,799**	**2,108**	**2,463**	**2,811**	**3,161**

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Balance Sheet							
Cash	274	670	1,053	1,355	1,447	1,560	1,642
Trading Securities	3,762	6,490	6,303	5,987	6,287	6,601	6,931
Banks	1,291	1,733	2,724	3,503	3,743	4,034	4,247
Money Market Instruments	430	131	206	264	283	305	321
Available-for-sale Securities (net)	11,154	14,895	14,466	13,743	14,430	15,151	15,909
Loans	12,939	20,250	24,664	30,830	35,455	39,000	42,900
Held-to-maturity securities (net)	322	383	372	354	371	390	409
Investments and subsidiaries	393	495	520	546	573	602	632
Reserve Requirements with the CB of Turkey	1,926	2,929	4,604	5,921	6,326	6,818	7,178
Accrued Interest and Income Receivable	1,674	1,845	2,900	3,729	3,985	4,294	4,521
Property and Equipment	660	669	703	738	775	813	854
Intangibles (Net)	25	19	30	39	41	44	47
Other Assets	63	115	180	231	247	267	281
Total Assets	**34,913**	**50,624**	**58,724**	**67,239**	**73,963**	**79,880**	**85,871**
Customer deposits	19,918	31,893	38,758	46,510	53,486	57,765	62,386
Money Market	2,273	4,390	3,918	2,805	1,252	1,222	1,300
Funds Borrowed	4,845	6,075	7,047	8,456	9,725	10,697	11,232
Marketable Securities Issued (net)	-	-	-	-	-	-	-
Miscellaneous Payables	697	821	732	524	234	228	243
Taxes and Other Duties Payable	67	64	58	41	18	18	19
Accrued Interest and Expenses Payable	271	524	467	335	149	146	155
Provisions	321	459	410	293	131	128	136
Other Payables	294	323	288	206	92	90	96
Shareholders' Equity	6,227	6,075	7,047	8,069	8,876	9,586	10,305
Total Liabilities And Shareholders' Equity	**34,913**	**50,624**	**58,724**	**67,239**	**73,963**	**79,880**	**85,871**

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Key Ratios							
Balance Sheet Ratios							
Securities/Assets	44%	43%	36%	30%	29%	28%	27%
Loans/Assets	37%	40%	42%	46%	48%	49%	50%
Deposits/Assets	57%	63%	66%	67%	72%	72%	73%
Loans/deposits	65%	63%	64%	66%	66%	68%	69%
Equity/Assets	18%	12%	12%	12%	12%	12%	12%
Free Capital/ Equity	83%	81%	82%	84%	84%	85%	85%
Profitability Ratios							
ROAA	3.0%	3.5%	3.3%	3.3%	3.5%	3.7%	3.8%
ROAE	17%	24%	27%	28%	29%	30%	32%

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Structure							
NIM	8.3%	6.6%	5.8%	5.7%	5.7%	5.7%	5.8%
Adjusted NIM	5.6%	5.8%	4.9%	4.7%	4.5%	4.5%	4.5%
Interest Spread	7.5%	6.0%	5.5%	5.5%	5.6%	5.7%	5.8%
Cost/Income	44%	38%	35%	32%	30%	28%	26%
Effective tax rate	32%	30%	30%	30%	30%	30%	30%
Provisions							
NPL/Gross Loans	1.6%	1.9%	2.1%	2.1%	2.1%	2.1%	2.1%
Provisions	100%	100%	100%	100%	100%	100%	100%
Growth Rates							
Loans	30%	56%	30%	25%	15%	10%	10%
Securities Portfolio	-5%	43%	5%	-5%	5%	5%	5%
Total Assets	4%	45%	16%	15%	10%	8%	8%
Deposits	-8%	60%	22%	20%	15%	8%	8%
Shareholders' Equity	8%	-2%	16%	15%	10%	8%	8%
Net interest income	29%	4%	12%	12%	12%	10%	10%
Net Fee income	90%	50%	45%	30%	25%	20%	15%
Net Trading Income	-83%	-30%	1%	1%	1%	1%	1%
Net Income	-32%	46%	20%	17%	17%	14%	12%
Operating expense	-14%	12%	5%	5%	4%	3%	3%
Provisions	29%	80%	35%	30%	25%	20%	15%

SECURITIES

9 November 2005

Isbank

Initiated

STRONG BUY

Dominant franchise in TL business and effective margin mix

Isbank has one of the best banking franchises in the Turkish banking sector, with its robust ROE rising to 18%. The bank has a sound business mix, with core banking revenues representing 60% of total revenues. Isbank also has a strong deposit franchise in both TL and foreign currency segments, and a dominant franchise in the credit card segment, which offers satisfactory spread levels. Regarding interest margins, Isbank has a healthier margin mix, such that 55% of its net interest income is being raised by core business revenues. Besides, coupled with the Bank's large share of TL business in its margin mix, Isbank has the potential to generate much higher value in the TL business for each TL deposit.

On its way to becoming a pure banking play

Isbank is not a pure banking play since a significant portion of the bank's equity value comes from the conglomerate business. Thus, Isbank, with its current conglomerate structure, is not yet capable of securing permanent shareholder value creation. At this point, the bank's strategy to redesign its business model so as to deploy more capital to its core banking business is very encouraging, as these initiatives will strongly improve the bank's franchise value for the foreseeable future, and thus create substantial value for its shareholders.

2005 results under pressure due to one off provisions

Isbank has registered solid operating activity so far this year, but this was not reflected in the bottom line due to a more conservative approach in provisioning of a) the pension fund deficits b) write-down for Avea, and c) 100% provision for NPL's (despite 50% is recoverable). This has caused a lower net income growth compared with the peer group, but is priced into the models.

Disposal of non-core assets to enhance ROAE

A key strategy is to exit from non-core assets and raise free cash**,** which is projected to be finalized by 2007, with the free equity ratio to rise to 65%. The Bank has already sold its stake in Petrol Ofisi, IDC, and some real estate for a total of USD634m. We estimate that the Bank will sell a total of USD1.2b of non-core assets and raise ROAE to 18% in 2007.

Recommendation 'Strong Buy'

Our fair value for Isbank is TRY23.7b, a 21% upside as based on our dividend discount model. The stock is expected to trade at 2.1xP/BV and ROAE of 16% on our 2006 estimates.

Trading Data	
Sector	Banks
Bloomberg	ISCTR.TI
Reuters	ISCTR.IS
Mkt cap (TRYmn)	19,689
Free float (%)	28.5
Shares Outstanding	1,969
Ave. Daily Vol. (TRYmn)	69.24
ISE-100 (TRY)	33,830

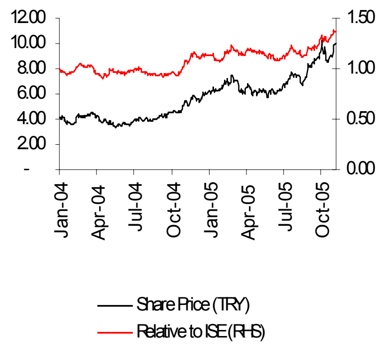
Price Data (TRY)	1M	3M	12M
ISE-100	33,414	29,925	22,616
Absolute	0.8	2.6	4.8
Absolute (%)	8.7	34.2	92.1
Relative (%)	7.4	18.7	28.4

Current (TRY)	Target (TRY)
10.00	12.07

Key Ratios (%)	2004	2005E	2006E
NIM	7.3	6.9	6.1
ROAA	1.7	2.4	2.7
ROAE	9.1	13.6	16.1
Cost/Income	61.8	55.1	48.4
NPL Ratio	8.3	5.0	4.5
Free Equity	11.8	34.4	50.0

Ownership Structure (%)	
Isbank Pention Fund	43.4
Ataturk's Shares	28.1
Free-Float	28.5

Price Chart (TRY)



TRY mn	FY 2004	FY 2005E	FY 2006E	FY 2007E
Net Interest Income	2,093	2,646	3,193	3,743
Net fee& comm. income	710	958	1,245	1,556
Operating Profit	3,711	4,605	5,574	6,594
Net Profit	635	1,137	1,599	2,104
Book Value	7,640	9,024	10,829	12,453
Valuation				
P/E	30.2	16.9	12.0	9.1
P/BV	2.5	2.1	1.8	1.5
EPS	0.3	0.6	0.8	1.1
DPS	0.1	0.3	0.5	0.6
BVPS	3.9	4.6	5.5	6.3

ISBANK VALUATION

TRYmn	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Earnings	1,137	1,599	2,104	2,593	3,025	3,521	4,097	4,755	5,439	6,210
Income from participations	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)
Net Earnings from Bank Operations	1,029	1,492	1,997	2,485	2,917	3,414	3,990	4,648	5,331	6,103
Dividend to Ordinary S.holders to be paid Mid-next Year	682	960	1,263	1,556	1,815	2,113	2,458	2,853	3,263	3,726
Payout Ratio	66%	64%	63%	63%	62%	62%	62%	61%	61%	61%
Cost of Equity	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Perpetuity growth rate	8.5%									
Discount Coefficient	0.86	0.74	0.64	0.55	0.47	0.41	0.35	0.30	0.26	0.22
NPV of Each Dividend	587	711	805	853	856	858	859	858	844	829
NPV of dividends in the forecast period	8,059									
NPV of Perpetuity	11,671									
Total NPV	19,731									
Fair value of participations	4,027									
Total Value	23,757									
# of Ordinary Shares	1,969									
Fair Price per Share	12.1									
Current market cap	19,689									
Current price per share	10.00									
Upside/Downside (%)	21%									

ISBANK FINANCIAL STATEMENTS

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Statement							
Interest income	4,493	5,167	5,890	6,656	7,454	8,200	9,020
Interest expense	(2,400)	(2,520)	(2,696)	(2,912)	(3,145)	(3,365)	(3,601)
Net interest income	2,093	2,646	3,193	3,743	4,309	4,834	5,419
Net fee & commission income	710	958	1,245	1,556	1,868	2,148	2,470
Dividend income	1	1	1	1	1	1	1
Net Trading Income	494	568	681	817	940	1,081	1,243
Gains on Securities Held-for-investment	-	-	0	0	0	0	0
Other Operating Income	414	432	453	476	500	525	551
TOTAL Operating Income	3,711	4,605	5,574	6,594	7,618	8,589	9,684
Provision for Loan Losses and Other Receivables (-)	(1,069)	(1,229)	(1,352)	(1,487)	(1,636)	(1,799)	(1,979)
Other Operating Expenses (-)	(1,549)	(1,859)	(2,045)	(2,208)	(2,385)	(2,576)	(2,782)
NET Operating Income	1,093	1,517	2,177	2,899	3,597	4,214	4,923
Income from Investments and Associates	108	108	108	108	108	108	108
Income / (Loss) on Net Monetary Position	(134)	-	-	-	-	-	-
Income Before Taxation (XII+XIII+XIV)	1,067	1,624	2,285	3,006	3,704	4,321	5,030
Provision for Taxation on Income (-)	(464)	(487)	(685)	(902)	(1,111)	(1,296)	(1,509)
Net Income Before Extraordinary Items	603	1,137	1,599	2,104	2,593	3,025	3,521
Extraordinary Items	-	-	-	-	-	-	-
Net Income	**603**	**1,137**	**1,599**	**2,104**	**2,593**	**3,025**	**3,521**

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Balance Sheet							
Cash	1,144	2,129	3,486	4,384	5,123	5,603	6,163
Trading Securities	351	541	541	498	557	613	674
Banks	1,080	2,300	3,766	4,736	5,534	6,053	6,658
Money Market Instruments	-	1,888	3,093	3,889	4,545	4,971	5,468
Available-for-sale Securities (net)	13,181	15,550	15,550	14,306	16,023	17,625	19,387
Loans	12,452	21,267	26,751	34,962	38,038	41,841	46,026
Held-to-maturity securities (net)	317	316	316	291	326	358	394
Investments and subsidiaries	4,824	4,027	3,527	2,527	2,906	3,254	3,580
Reserve Requirements with the CB of Turkey	1,548	2,644	4,330	5,445	6,363	6,959	7,655
Accrued Interest and Income Receivable	1,269	1,745	1,734	1,734	1,995	2,234	2,457
Property and Equipment	1,916	1,890	1,890	1,890	2,174	2,434	2,678
Intangibles (Net)	0	0	0	0	0	0	0
Other Assets	432	393	644	810	946	1,035	1,138
Total Assets	**38,514**	**54,690**	**65,627**	**75,472**	**84,528**	**92,981**	**102,279**
Customer deposits	24,320	31,720	39,376	45,283	50,717	55,789	61,367
Money Market	800	3,755	3,785	4,353	4,875	5,363	5,899
Funds Borrowed	3,864	7,110	8,532	9,811	10,989	12,088	13,296
Marketable Securities Issued (net)	-	-	-	-	-	-	-
Miscellaneous Payables	238	358	361	416	465	512	563
Taxes and Other Duties Payable	63	62	63	72	81	89	98
Accrued Interest and Expenses Payable	209	366	369	424	475	523	575
Provisions	992	1,542	1,554	1,787	2,002	2,202	2,422
Other Payables	388	752	758	872	977	1,075	1,182
Shareholders' Equity	7,640	9,024	10,829	12,453	13,947	15,342	16,876
Total Liabilities And Shareholders' Equity	**38,514**	**54,690**	**65,627**	**75,472**	**84,528**	**92,981**	**102,279**

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Key Ratios							
Balance Sheet Ratios							
Securities/Assets	36%	30%	25%	20%	20%	20%	20%
Loans/Assets	32%	38%	40%	45%	45%	45%	45%
Deposits/Assets	63%	58%	60%	60%	60%	60%	60%
Loans/deposits	51%	67%	68%	77%	75%	75%	75%
Equity/Assets	20%	17%	17%	17%	17%	17%	17%
Free Capital/ Equity	12%	34%	50%	65%	64%	63%	63%
Profitability Ratios							
ROAA	1.7%	2.4%	2.7%	3.0%	3.2%	3.4%	3.6%
ROAE	9.1%	13.6%	16.1%	18.1%	19.6%	20.7%	21.9%

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Structure							
NIM	7.3%	6.9%	6.1%	5.9%	5.9%	6.0%	6.1%
Adjusted NIM	3.4%	3.7%	3.5%	3.6%	3.7%	3.8%	3.9%
Interest Spread	7.7%	7.0%	6.2%	6.0%	6.0%	6.1%	6.3%
Cost/Income	62%	55%	48%	43%	40%	38%	36%
Effective tax rate	42%	30%	30%	30%	30%	30%	30%
Provisions							
NPL/Gross Loans	8.3%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%
Provisions	100%	100%	100%	100%	100%	100%	100%
Growth Rates							
Loans	27%	71%	26%	31%	9%	10%	10%
Securities Portfolio	3%	18%	0%	-8%	12%	10%	10%
Total Assets	9%	42%	20%	15%	12%	10%	10%
Deposits	9%	30%	24%	15%	12%	10%	10%
Shareholders' Equity	20%	18%	20%	15%	12%	10%	10%
Net interest income	68%	26%	21%	17%	15%	12%	12%
Net Fee income	29%	35%	30%	25%	20%	15%	15%
Net Trading Income	-52%	15%	20%	20%	15%	15%	15%
Net Income	32%	79%	41%	32%	23%	17%	16%
Operating expense	-7%	20%	10%	8%	8%	8%	8%
Provisions	16%	15%	10%	10%	10%	10%	10%

SECURITIES

9 November 2005

Garanti Bank

Initiated

OUTPERFORM

A higher probability for the potential value

Garanti is more focused on high-margin TL assets with its strong positioning in SME and retail loans, including credit cards. We believe that with its partnership with GE, the bank could potentially boost its banking franchise and in turn achieve higher core banking profitability in the near-future, as it will deploy more capital to its banking business and reduce its dependency on short-term money market funding. Based on Garanti's deal with GE, the Bank is to sell USD700m of non-core assets, including the sale of its stake in Tansas within a 3-year period, which should raise the free equity ratio to 72% by 2007 and significantly improve the bank's funding mix. The disposal of non-core assets could also offer important opportunities to acquire a stronger TL franchise in the foreseeable future. To this end, we attach a higher probability to the potential value for Garanti's shareholders on the back of these strategic initiatives, making forthcoming valuations attractive.

A positive feedback loop between market share gains and value creation

In the era of the bank's partnership with GE, we expect Garanti to increase its market share, and hence, bolster its presence in the lucrative TL business segment, which should enhance its capacity to charge fees and commissions. Thus, coupled with potential market share gains, Garanti's new business model could drive additional value to bank equity. More importantly, its equity value could fully reflect all additional value created in the core banking business. At this point, we believe that normalization of the macroeconomic landscape will support a positive feedback loop between market share gains and value creation, thanks to the bank's leading position in each service and product, strong expertise in retail and SME markets, cross-border benchmarking, full-scale segmentation and disciplined loan culture.

Best CRM solutions, but inadequate in widening the deposit base

The Bank has opted for enlargement in terms of branch network (the branch number is expected to increase from approx. 400 to 500 by the end of 2006), and a customer-oriented approach is being applied. Best CRM solutions with best technology and highly qualified human capital are more settled compared with its competitors. Yet despite all of these, the Bank has not yet demonstrated aggressive deposit base growth due its less aggressive pricing strategies when compared with its peers.

18% upside to our fair value

Our fair value for Garanti is TRY10.3b, as based on our dividend discount model. Our recommendation is "Outperform", although we believe the bank is prone to potential upgrades on post-merger GE strategies, which will become clearer over the coming months. The valuation appears attractive at a 2x P/BV and estimated ROAE of 24% on our 2006 estimates.

Trading Data	
Sector	Banks
Bloomberg	GARAN.TI
Reuters	GARAN.IS
Mkt cap (TRYmn)	8,736
Free float (%)	44
Shares Outstanding	2,100
Ave. Daily Vol. (TRYmn)	39.63
ISE-100 (TRY)	33,830

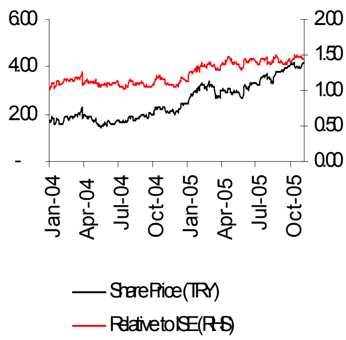
Price Data (TRY)	1M	3M	12M
ISE-100	33,414	29,925	22,616
Absolute	0.1	0.6	2.1
Absolute (%)	2.0	17.5	98.9
Relative (%)	0.7	3.9	33.0

Current (TRY)	Target (TRY)
4.16	4.92

Key Ratios (%)	2004	2005E	2006E
NIM	5.9	6.5	6.4
ROAA	1.7	2.5	2.8
ROAE	15.1	21.0	24.0
Cost/Income	69.5	52.5	45.5
NPL Ratio	4.0	4.5	4.4
Free Equity	10.4	37.5	53.5

Ownership Structure (%)	
Dogus Group	55.1
Free-Float	44.9

Price Chart (TRY)



TRY mn	FY 2004	FY 2005E	FY 2006E	FY 2007E
Net Interest Income	1,288	1,711	2,119	2,410
Net fee& comm. income	555	732	952	1,142
Operating Profit	2,149	2,748	3,374	3,863
Net Profit	451	747	1,041	1,232
Book Value	3,169	3,612	4,334	5,114
Valuation				
P/E	19.4	11.7	8.4	7.1
P/BV	2.8	2.4	2.0	1.7
EPS	0.2	0.4	0.5	0.6
DPS	-	-	-	0.4
BVPS	1.5	1.7	2.1	2.4

GARANTI BANK VALUATION

TRYmn	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Earnings	739	1,077	1,273	1,492	1,720	1,978	2,234	2,520	2,838	3,192
Dividend to Ordinary S.holders to be paid Mid-next Year	0	0	764	895	1,032	1,187	1,340	1,512	1,703	1,915
Payout Ratio	0%	0%	60%	60%	60%	60%	60%	60%	60%	60%
Cost of Equity	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Perpetuity growth rate	9%									
Discount Coefficient	0.86	0.74	0.64	0.55	0.47	0.41	0.35	0.30	0.26	0.22
NPV of Each Dividend	0	0	488	492	489	484	471	457	443	430
NPV of dividends in the forecast period	3,753									
NPV of Perpetuity	6,571									
Total NPV	10,324									
# of Ordinary Shares	2,100									
Fair Price per Share	4.92									
Current market cap	8,736									
Current price per share	4.16									
Upside/Downside (%)	18%									

GARANTI BANK FINANCIAL STATEMENTS

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Statement							
Interest income	3,049	3,384	3,960	4,435	4,967	5,464	6,010
Interest expense	(1,761)	(1,673)	(1,840)	(2,024)	(2,227)	(2,427)	(2,646)
Net interest income	1,288	1,711	2,119	2,410	2,740	3,036	3,364
Net fee & commission income	555	732	952	1,142	1,313	1,471	1,648
Dividend income	1	1	1	1	1	1	1
Net Trading Income	163	130	111	100	95	90	85
Gains on Securities Held-for-investment	-	-	-	-	-	-	-
Other Operating Income	143	173	191	210	231	254	279
TOTAL Operating Income	2,149	2,748	3,374	3,863	4,380	4,852	5,378
Provision for Loan Losses and Other Receivables (-)	(425)	(531)	(557)	(613)	(675)	(742)	(816)
Other Operating Expenses (-)	(1,187)	(1,164)	(1,280)	(1,434)	(1,577)	(1,656)	(1,739)
NET Operating Income	537	1,054	1,536	1,816	2,129	2,455	2,823
Income from Investments and Associates	59	2	2	2	2	2	3
Income / (Loss) on Net Monetary Position	(15)	-	-	-	-	-	-
Income Before Taxation (XII+XIII+XIV)	581	1,056	1,538	1,819	2,131	2,457	2,826
Provision for Taxation on Income (-)	(234)	(317)	(461)	(546)	(639)	(737)	(848)
Net Income Before Extraordinary Items	348	739	1,077	1,273	1,492	1,720	1,978
Extraordinary Items	-	-	-	-	-	-	-
Net Income	**348**	**739**	**1,077**	**1,273**	**1,492**	**1,720**	**1,978**

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Balance Sheet							
Cash	1,291	1,405	1,815	2,325	3,431	3,823	4,255
Trading Securities	276	210	231	253	246	271	298
Banks	244	771	996	1,277	1,884	2,099	2,336
Money Market Instruments	-	-	-	-	-	-	-
Available-for-sale Securities (net)	5,381	6,888	7,588	8,314	8,090	8,899	9,789
Loans	10,501	15,604	19,951	24,427	27,804	30,584	33,642
Held-to-maturity securities (net)	3,606	2,917	3,214	3,521	3,427	3,769	4,146
Investments and subsidiaries	1,554	1,336	1,236	1,136	1,136	1,136	1,136
Reserve Requirements with the CB of Turkey	1,333	1,836	2,371	3,038	4,483	4,995	5,559
Accrued Interest and Income Receivable	545	639	826	1,058	1,561	1,740	1,936
Property and Equipment	1,264	898	748	598	598	598	598
Intangibles (Net)	21	24	30	39	57	64	71
Other Assets	252	308	397	509	751	837	931
Total Assets	**26,268**	**32,835**	**39,402**	**46,494**	**53,468**	**58,815**	**64,697**
Customer deposits	17,612	21,014	25,611	31,151	35,824	39,406	43,347
Money Market	974	1,827	2,192	2,587	2,975	3,273	3,600
Funds Borrowed	3,548	4,925	5,516	5,579	6,416	7,058	7,764
Marketable Securities Issued (net)	-	-	-	-	-	-	-
Miscellaneous Payables	71	89	107	127	146	160	176
Taxes and Other Duties Payable	44	44	53	63	72	79	87
Accrued Interest and Expenses Payable	167	312	375	442	509	560	616
Provisions	130	257	308	364	418	460	506
Other Payables	552	754	904	1,067	1,227	1,350	1,485
Shareholders' Equity	3,169	3,612	4,334	5,114	5,882	6,470	7,117
Total Liabilities And Shareholders' Equity	**26,268**	**32,835**	**39,402**	**46,494**	**53,468**	**58,815**	**64,697**

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Key Ratios							
Balance Sheet Ratios							
Securities/Assets	35%	31%	28%	26%	22%	22%	22%
Loans/Assets	40%	46%	50%	52%	52%	52%	52%
Deposits/Assets	67%	64%	65%	67%	67%	67%	67%
Loans/deposits	60%	74%	78%	78%	78%	78%	78%
Equity/Assets	12%	11%	11%	11%	11%	11%	11%
Free Capital/ Equity	10%	38%	54%	65%	70%	72%	75%
Profitability Ratios							
ROAA	1.7%	2.5%	2.8%	3.0%	3.0%	3.0%	3.0%
ROAE	15%	21%	24%	23%	23%	23%	23%

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Structure							
NIM	5.9%	6.5%	6.4%	6.1%	5.9%	5.9%	5.9%
Adjusted NIM	4.2%	4.5%	4.7%	4.5%	4.5%	4.4%	4.5%
Interest Spread	6.6%	7.0%	6.6%	6.2%	6.2%	6.2%	6.2%
Cost/Income	69%	52%	45%	44%	0%	0%	0%
Effective tax rate	34%	30%	30%	30%	30%	30%	30%
Provisions							
NPL/Gross Loans	4.0%	4.5%	4.4%	4.4%	4.4%	4.4%	4.4%
Provisions	56%	68%	70%	80%	100%	100%	100%
Growth Rates							
Loans	34%	37%	50%	57%	39%	25%	21%
Securities Portfolio	-15%	8%	10%	10%	-3%	10%	10%
Total Assets	3%	25%	20%	18%	15%	10%	10%
Deposits	7%	19%	22%	22%	15%	10%	10%
Shareholders' Equity	14%	14%	20%	18%	15%	10%	10%
Net interest income	1915%	33%	24%	14%	14%	11%	11%
Net Fee income	36%	32%	30%	20%	15%	12%	12%
Net Trading Income	-80%	-20%	-15%	-10%	-5%	-5%	-5%
Net Income	31%	64%	46%	18%	17%	15%	15%
Operating expense	20%	-2%	10%	12%	10%	5%	5%
Provisions	191%	25%	5%	10%	10%	10%	10%

9 November 2005

Finansbank

Initiated

NEUTRAL

Impressive growth and substantial value creation

Finansbank has undergone a structural transformation since the 2001 crisis. Asset size has doubled, with loan size increasing by nearly 4 times since then. It has become the largest bank in terms of presence abroad. The year 2004 was one of massive growth, and the Bank benefited significantly from this robust growth performance in 2005, achieving impressive profitability. With the year-to-date surge of 160% in its stock price, the Bank has so far created substantial value for its shareholders.

The bank approaches its potential

So far this year, the Bank's net income has risen sharply with the increase in its core banking revenue as a result of its increased loan portfolio and lack of monetary losses. However, we expect the Bank to have a difficult time maintaining cost levels on a similar path to larger banks. Foreign operations, especially in Russia will speed up in 2006, and another subsidiary will have started operating in Ukraine by the end of this year. The branch network is growing as well. These together will pressure the cost/income ratio, in our view. The strengthening of cost pressures, existence of diseconomies of scope and high concentration in the banking sector raise question marks over the sustainability of the bank's core business profitability. More importantly, we perceive an inconsistency between the bank's deposit franchise and its efforts to expand the branch distribution network.

10% upside to our fair value

Our fair value for Finansbank is TRY 4.9bn, as based on our dividend discount model. The stock is expensive compared to peers, trading at a P/BV of 3.3 and the P/BV is estimated to be above average for 2006 and 2007. Yet, with a high ROAE of 30% we rate Finansbank "neutral".

TRY mn	FY 2004	FY 2005E	FY 2006E	FY 2007E
Net Interest Income	531	810	1,020	1,181
Net fee& comm. income	190	275	357	429
Operating Profit	763	1,147	1,443	1,680
Net Profit	192	364	481	560
Book Value	1,047	1,340	1,675	2,010
Valuation				
P/E	23.3	12.3	9.3	8.0
P/BV	4.3	3.3	2.7	2.2
EPS	0.2	0.4	0.5	0.6
DPS	-	-	-	0.4
BVPS	1.1	1.4	1.8	2.1

Trading Data	
Sector	Banks
Bloomberg	FINBN.TI
Reuters	FINBN.IS
Mkt cap (TRYmn)	4,465
Free float (%)	41
Shares Outstanding	950
Ave. Daily Vol. (TRYmn)	9.17
ISE-100 (TRY)	33,830

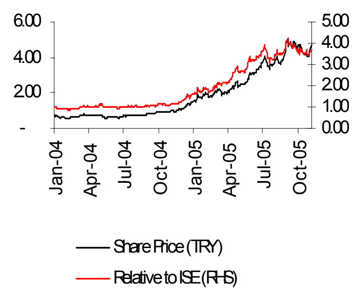
Price Data (TRY)	**1M**	**3M**	**12M**
ISE-100	33,414	29,925	22,616
Absolute	0.0	0.6	3.7
Absolute (%)	0.2	15.5	370.1
Relative (%)	-1.0	2.2	214.2

Current (TRY)	**Target (TRY)**
4.70	5.16

Key Ratios (%)	**2004**	**2005E**	**2006E**
NIM	7.9	8.8	8.5
ROAA	2.5	3.6	3.7
ROAE	19.9	30.5	31.9
Cost/Income	61.9	49.3	46.6
NPL Ratio	2.1	2.5	2.5
Free Equity	45.5	57.8	54.4

Ownership Structure (%)	
Fiba Group	55.68
Other	44.32

Price Chart (TRY)



FINANSBANK VALUATION

TRYmn	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Earnings	364	481	560	641	734	830	927	1,025	1,106	1,193
Income from participations	(18)	(19)	(20)	(21)	(22)	(23)	(25)	(26)	(27)	(28)
Net Earnings	345	462	539	620	711	807	903	999	1,079	1,165
Dividend to Ordinary S.holders to be paid Mid-next Year	0	0	336	384	440	498	556	615	664	716
Payout Ratio	0%	0%	62%	62%	62%	62%	62%	62%	62%	61%
Cost of Equity	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Perpetuity growth rate	9%									
Discount Coefficient	0.9	0.7	0.6	0.6	0.5	0.4	0.4	0.3	0.3	0.2
NPV of Each Dividend	0	0	216	213	210	205	198	189	176	164
NPV of dividends in the forecast period	1,570									
NPV of Perpetuity	2,580									
Total NPV	4,150									
Fair value of participations	751									
Total Value	4,901									
# of Ordinary Shares	950									
Fair Price per Share	**5.16**									
Current market cap	4,465									
Current price per share	**4.70**									
Upside/Downside (%)	10%									

FINANSBANK FINANCIAL STATEMENTS

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Statement							
Interest income	1,043	1,503	1,878	2,160	2,376	2,614	2,875
Interest expense	(513)	(692)	(859)	(979)	(1,057)	(1,142)	(1,233)
Net interest income	531	810	1,020	1,181	1,319	1,472	1,642
Net fee & commission income	190	275	357	429	515	618	710
Dividend income	-	-	-	-	-	-	-
Net Trading Income	(16)	(16)	(16)	(16)	(16)	(16)	(16)
Gains on Securities Held-for-investment	-	-	-	-	-	-	-
Other Operating Income	59	78	82	86	90	95	100
TOTAL Operating Income	763	1,147	1,443	1,680	1,908	2,168	2,436
Provision for Loan Losses and Other Receivables (-)	(72)	(159)	(191)	(229)	(275)	(330)	(379)
Other Operating Expenses (-)	(380)	(487)	(584)	(672)	(739)	(813)	(894)
NET Operating Income	310	501	668	779	894	1,026	1,163
Income from Investments and Associates	21	18	19	20	21	22	23
Income / (Loss) on Net Monetary Position	(77)	-	-	-	-	-	-
Income Before Taxation (XII+XIII+XIV)	255	520	687	800	915	1,048	1,186
Provision for Taxation on Income (-)	(63)	(156)	(206)	(240)	(275)	(314)	(356)
Net Income Before Extraordinary Items	192	364	481	560	641	734	830
Extraordinary Items	-	-	-	-	-	-	-
Net Income	**192**	**364**	**481**	**560**	**641**	**734**	**830**

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Balance Sheet							
Cash	81	103	139	167	179	208	237
Trading Securities	-	-	-	-	-	-	-
Banks	654	738	995	1,194	1,280	1,485	1,693
Money Market Instruments	-	-	-	-	-	-	-
Available-for-sale Securities (net)	1,286	1,748	1,456	1,748	2,062	2,392	2,727
Loans	5,191	7,527	9,903	11,884	14,435	16,745	19,089
Held-to-maturity securities (net)	-	-	-	-	-	-	-
Investments and subsidiaries	363	351	473	568	609	706	805
Reserve Requirements with the CB of Turkey	568	597	805	966	1,036	1,202	1,370
Accrued Interest and Income Receivable	146	200	269	323	346	402	458
Property and Equipment	190	202	272	326	350	406	463
Intangibles (Net)	18	13	18	21	23	26	30
Other Assets	135	173	233	280	300	348	397
Total Assets	**8,630**	**11,651**	**14,563**	**17,476**	**20,622**	**23,921**	**27,270**
Customer deposits	5,092	6,619	8,738	10,835	13,404	15,549	17,726
Money Market	193	99	70	85	71	83	94
Funds Borrowed	1,415	2,972	3,641	4,019	4,331	5,023	5,727
Marketable Securities Issued (net)	-	-	-	-	-	-	-
Miscellaneous Payables	177	111	78	94	79	92	105
Taxes and Other Duties Payable	22	16	11	13	11	13	15
Accrued Interest and Expenses Payable	130	128	91	109	92	106	121
Provisions	172	99	70	85	71	83	94
Other Payables	383	266	189	226	191	221	252
Shareholders' Equity	1,047	1,340	1,675	2,010	2,371	2,751	3,136
Total Liabilities And Shareholders' Equity	**8,630**	**11,651**	**14,563**	**17,476**	**20,622**	**23,921**	**27,270**

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Key Ratios							
Balance Sheet Ratios							
Securities/Assets	15%	15%	10%	10%	10%	10%	10%
Loans/Assets	60%	65%	68%	68%	70%	70%	70%
Deposits/Assets	59%	57%	60%	62%	65%	65%	65%
Loans/deposits	102%	114%	113%	110%	108%	108%	108%
Equity/Assets	12%	12%	12%	12%	12%	12%	12%
Free Capital/ Equity	46%	58%	54%	54%	59%	59%	59%
Profitability Ratios							
ROAA	2.5%	3.6%	3.7%	3.5%	3.4%	3.3%	3.2%
ROAE	20%	31%	32%	30%	29%	29%	28%

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Structure							
NIM	7.9%	8.8%	8.5%	8.1%	7.5%	7.2%	7.0%
Adjusted NIM	5.6%	7.0%	6.9%	6.5%	6.0%	5.5%	5.3%
Interest Spread	7.2%	8.0%	8.0%	7.8%	7.3%	6.9%	6.7%
Cost/Income	61.9%	49.3%	46.6%	46.3%	45.2%	44.2%	43.5%
Effective tax rate	25%	30%	30%	30%	30%	30%	30%
Provisions							
NPL/Gross Loans	2.1%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Provisions	100%	100%	100%	100%	100%	100%	100%
Growth Rates							
Loans	73%	45%	32%	20%	21%	16%	14%
Securities Portfolio	-33%	36%	-17%	20%	18%	16%	14%
Total Assets	32%	35%	25%	20%	18%	16%	14%
Deposits	23%	30%	32%	24%	24%	16%	14%
Shareholders' Equity	20%	28%	25%	20%	18%	16%	14%
Net interest income	64%	53%	26%	16%	12%	12%	12%
Net Fee income	67%	45%	30%	20%	20%	20%	15%
Net Trading Income	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net Income	10%	90%	32%	16%	14%	14%	13%
Operating expense	-11%	28%	20%	15%	10%	10%	10%
Provisions	-32%	120%	20%	20%	20%	20%	15%

SECURITIES

9 November 2005

TEB

Initiated

STRONG BUY

Trading Data	
Sector	Banks
Bloomberg	TEBNK.TI
Reuters	TEBNK.IS
Mkt cap (TRYmn)	1,023
Free float (%)	15.8
Shares Outstanding	58
Ave. Daily Vol. (TRYmn)	2.56
ISE-100 (TRY)	33,830

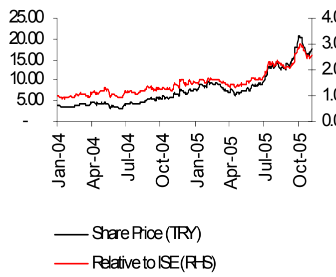
Price Data (TRY)	1M	3M	12M
ISE-100	33,414	29,925	22,616
Absolute	-2.7	3.7	10.9
Absolute (%)	-13.2	26.4	158.7
Relative (%)	-14.3	11.8	73.0

Current (TRY)	Target (TRY)
17.70	23.35

Key Ratios (%)	2004	2005E	2006E
NIM	5.8	6.0	5.7
ROAA	1.0	2.1	1.9
ROAE	8.8	20.0	19.5
Cost/Income	80.6	55.0	60.0
NPL Ratio	1.3	1.5	1.4
Free Equity	51.7	58.8	60.1

Ownership Structure (%)	
BNP Paribas	42.1
Çolakoğlu Group	42.1
Free-Float	15.8

Price Chart (TRY)



TEB offers solid funding mix and robust growth prospects

With the current balance sheet structure and growth strategy in core banking business, the bank is using the right policies, consistent with the arithmetic of the Turkish banking industry. Following the sale of a 50% of stake to BNP Paribas, TEB has so far pursued a strong growth strategy. The Bank has achieved a healthier asset growth in 2005 with its declining dependency on expensive TL funding. TL deposits make up only 24.9% of its funding mix. Only a small fraction of its total funding (7.5%) comes from money market funds thanks to the Bank's excess liquidity. In our view, TEB offers better growth prospects than its peers, as it secures a more stable funding platform to finance solid growth. *Thus, we see the stock predominantly as a value play*.

Large dependency on FX funding is the key risk

Despite its smaller branch network, TEB achieved these impressive returns by avoiding costly TL deposits and concentrating its efforts on cheaper foreign currency financing. The bank's foreign currency funding currently comprises 70% of the bank's total funding mix. Thus, TEB is heavily dependent on foreign currency funding, and is highly sensitive to foreign currency margins, *hampering the development of TL franchises. In our view, the bank needs to strengthen its presence in the lucrative TL market to compete effectively with its peers, Finansbank and Denizbank.*

A Strong Profitable Franchise

In the TL business, the Bank sees the SME sector and retail segment as an opportunity to achieve higher net interest margins. TEB has introduced an integrated package of accounting system and banking operations for corporate customers, and is now implementing the same system for SME customers. Furthermore, a support center has been established where consultancy is provided to SMEs meeting their administrative needs, such as HR, taxation, insurance, etc. This service is expected to generate value exceeding its cost, thereby strengthening customer loyalty.

Strongest upside potential

Our fair value for TEB is TRY 1.35bn, as based on our dividend discount model. The stock trades at P/BV of 1.9x according to 2006 estimates and should raise its ROAE to 20%. TEB improved its profitability through growth of its earning assets. This will be reinforced through its deal with BNP Paribas, through which TEB will mainly benefit from the Bank's retail market expertise.

TRY mn	FY 2004	FY 2005E	FY 2006E	FY 2007E
Net Interest Income	181	228	270	313
Net fee& comm. income	30	40	49	59
Operating Profit	260	317	378	439
Net Profit	34	86	100	116
Book Value	394	458	550	633
Valuation				
P/E	30.3	11.9	10.3	8.8
P/BV	2.6	2.2	1.9	1.6
EPS	0.6	1.5	1.7	2.0
DPS	0.2	0.4	1.0	1.2
BVPS	6.8	7.9	9.5	10.9

TEB VALUATION

TRYmn	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Earnings	85	98	114	134	155	172	189	207	224	242
Income from participations	(8)	(8)	(9)	(9)	(10)	(10)	(11)	(11)	(12)	(12)
Net Earnings	77	90	106	125	145	162	178	196	212	229
Dividend to Ordinary S.holders to be paid Mid-next Year	26	59	69	80	93	103	113	124	134	145
Payout Ratio	33%	66%	65%	64%	64%	64%	64%	63%	63%	63%
Cost of Equity	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Perpetuity growth rate	8%									
Discount Coefficient	0.880	0.774	0.681	0.600	0.528	0.464	0.409	0.360	0.316	0.278
NPV of Each Dividend	22	46	47	48	49	48	46	45	42	40
NPV of dividends in the forecast period	434									
NPV of Perpetuity	774									
Total NPV	1,208									
Fair value of participations	142									
Total Value	1,350									
# of Ordinary Shares	57.80									
Fair Price per Share	23.35									
Current market cap	1,023									
Current price per share	17.7									
Upside/Downside (%)	32%									

TEB FINANCIAL STATEMENTS

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Statement							
Interest income	408	474	535	599	659	725	790
Interest expense	(227)	(245)	(265)	(286)	(306)	(328)	(351)
Net interest income	181	228	270	313	353	397	440
Net fee & commission income	30	40	49	59	68	78	90
Dividend income	-	-	-	-	-	-	-
Net Trading Income	32	40	48	55	63	71	78
Gains on Securities Held-for-investment	-	-	0	0	0	0	0
Other Operating Income	17	10	11	12	13	15	16
TOTAL Operating Income	260	317	378	439	498	561	624
Provision for Loan Losses and Other Receivables (-)	(25)	(30)	(37)	(44)	(51)	(59)	(67)
Other Operating Expenses (-)	(164)	(174)	(209)	(241)	(265)	(291)	(320)
NET Operating Income	71	114	132	155	182	212	236
Income from Investments and Associates	7	8	8	9	9	10	10
Income / (Loss) on Net Monetary Position	(31)	-	-	-	-	-	-
Income Before Taxation (XII+XIII+XIV)	47	122	140	163	191	221	246
Provision for Taxation on Income (-)	(20)	(36)	(42)	(49)	(57)	(66)	(74)
Net Income Before Extraordinary Items	27	85	98	114	134	155	172
Extraordinary Items	0	-	-	-	-	-	-
Net Income	**27**	**85**	**98**	**114**	**134**	**155**	**172**

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Balance Sheet							
Cash	856	669	777	893	983	1,081	1,189
Trading Securities	10	85	102	118	130	143	157
Banks	171	278	323	371	408	449	494
Money Market Instruments	95	-	-	-	-	-	-
Available-for-sale Securities (net)	333	528	633	728	801	881	969
Loans	1,585	2,476	3,026	3,480	3,827	4,210	4,631
Held-to-maturity securities (net)	65	75	89	103	113	124	137
Investments and subsidiaries	146	142	165	190	209	230	253
Reserve Requirements with the CB of Turkey	190	209	242	279	307	337	371
Accrued Interest and Income Receivable	44	45	53	61	67	74	81
Property and Equipment	40	44	51	58	64	71	78
Intangibles (Net)	3	3	3	4	4	5	5
Other Assets	27	31	36	42	46	51	56
Total Assets	**3,566**	**4,584**	**5,501**	**6,326**	**6,959**	**7,655**	**8,420**
Customer deposits	2,260	2,980	3,576	4,112	4,523	4,976	5,473
Money Market	159	232	279	291	320	352	388
Funds Borrowed	577	642	770	949	1,044	1,148	1,263
Marketable Securities Issued (net)	-	-	-	-	-	-	-
Miscellaneous Payables	39	40	48	50	55	61	67
Taxes and Other Duties Payable	10	11	13	14	15	16	18
Accrued Interest and Expenses Payable	29	36	43	45	49	54	60
Provisions	32	37	45	47	51	57	62
Other Payables	67	148	178	186	205	225	248
Shareholders' Equity	394	458	550	633	696	765	842
Total Liabilities And Shareholders' Equity	**3,566**	**4,584**	**5,501**	**6,326**	**6,959**	**7,655**	**8,420**

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Key Ratios							
Balance Sheet Ratios							
Securities/Assets	11%	15%	15%	15%	15%	15%	15%
Loans/Assets	44%	54%	55%	55%	55%	55%	55%
Deposits/Assets	63%	65%	65%	65%	65%	65%	65%
Loans/deposits	70%	83%	85%	85%	85%	85%	85%
Equity/Assets	11%	10%	10%	10%	10%	10%	10%
Free Capital/ Equity	52%	59%	60%	60%	60%	60%	60%
Profitability Ratios							
ROAA	1.0%	2.1%	1.9%	1.9%	2.0%	2.1%	2.1%
ROAE	9%	20%	19%	19%	20%	21%	21%

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Structure							
NIM	5.8%	6.0%	5.7%	5.6%	5.6%	5.8%	5.8%
Adjusted NIM	4.3%	5.2%	4.9%	4.8%	4.8%	4.9%	4.9%
Interest Spread	9.1%	8.4%	7.0%	6.9%	6.9%	7.1%	7.1%
Cost/Income	81%	55%	60%	58%	56%	54%	52%
Effective tax rate	37%	30%	30%	30%	30%	30%	30%
Provisions							
NPL/Gross Loans	1.3%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%
Provisions	54%	55%	55%	55%	55%	55%	55%
Growth Rates							
Loans	19%	56%	22%	15%	10%	10%	10%
Securities Portfolio	216%	69%	20%	15%	10%	10%	10%
Total Assets	10%	29%	20%	15%	10%	10%	10%
Deposits	0%	32%	20%	15%	10%	10%	10%
Shareholders' Equity	6%	16%	20%	15%	10%	10%	10%
Net interest income	16%	26%	18%	16%	13%	13%	11%
Net Fee income	42%	32%	25%	20%	15%	15%	15%
Net Trading Income	-47%	25%	20%	15%	15%	12%	10%
Net Income	-42%	152%	16%	16%	17%	16%	11%
Operating expense	16%	6%	20%	15%	10%	10%	10%
Provisions	233%	20%	25%	20%	15%	15%	15%

9 November 2005

Denizbank

Initiated

OUTPERFORM

A value story

Denizbank has to date improved its business mix, with core banking revenues reaching 60% of total banking revenues. The Bank has also achieved a respectable margin in TRY market. Since the well-executed acquisition strategy in 2002-2003 (During this period, Denizbank acquired branches, deposits and loan portfolios of failed banks under the SDIF), Denizbank has registered substantial asset growth. Moreover, the Bank's efforts to acquire branches and new business franchises at home and aboard have paved the way to generating strong returns from its core banking business. All in all, we believe that the current stock price fully reflects the strength of its franchise.

An important player in niche markets

Denizbank is becoming an important player in niche markets. The Bank acquired agricultural business know-how through acquisition of Tarisbank. It targets becoming a leader in the agricultural segment following Ziraat Bank (Turkey's largest public bank), especially in the Aegean Region. Agricultural reform is expected to boost productivity and access to export markets. This is a profitable market for the banks because the spread of agricultural loans to SMEs is higher than that of consumer loans. Project finance loans in maritime, tourism and health sectors are also in the Bank's target portfolio.

A risky way to seek profits

Denizbank is sending a strong message to the investment community of the group's commitment to aggressive growth. We are now concerned about this strategy, as the Bank's rapid growth rate could pressure its ability to maintain banking profitability in an environment of diseconomies of scope and high concentration.

13% upside to our fair value

Our fair value for Denizbank is TRY2.8b, as based on our dividend discount model. The stock trades at a P/BV of 2.1 and ROAE of 22%, based on our estimates for 2006. Denizbank has significant room for growth, as its recently expanded branch network matures. The Bank sold its Zorlu Enerji shares in H105, decreasing its share to 41%. The plan is to dispose off its non-core assets by the end of 2008, increasing its free equity ratio to 73%, and thus improving TL franchises.

Trading Data	
Sector	Banks
Bloomberg	DENIZ.TI
Reuters	DENIZ.IS
Mkt cap (TRYmn)	2,529
Free float (%)	25
Shares Outstanding	316
Ave. Daily Vol. (TRYmn)	7.62
ISE-100 (TRY)	33,830

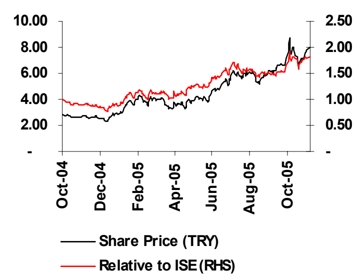
Price Data (TRY)	1M	3M	12M
ISE-100	33,414	29,925	22,616
Absolute	0.5	2.1	5.3
Absolute (%)	6.7	34.5	192.6
Relative (%)	5.4	18.9	95.6

Current (TRY)	Target (TRY)
8.00	9.00

Key Ratios (%)	2004	2005E	2006E
NIM	6.2	6.3	5.9
ROAA	2.0	2.6	2.8
ROAE	17.0	21.3	24.8
Cost/Income	84.3	58.3	54.2
NPL Ratio	4.2	3.0	3.0
Free Equity	59.6	69.3	70.7

Ownership Structure (%)	
Zorlu Holding	75
Free-Float	25

Price Chart (TRY)



TRY mn	FY 2004	FY 2005E	FY 2006E	FY 2007E
Net Interest Income	342	447	542	627
Net fee& comm. income	61	98	138	186
Operating Profit	481	646	790	934
Net Profit	123	203	278	350
Book Value	855	1,046	1,199	1,362
Valuation				
P/E	20.6	12.5	9.1	7.2
P/BV	3.0	2.4	2.1	1.9
EPS	0.4	0.6	0.9	1.1
DPS	-	-	-	1.1
BVPS	2.7	3.3	3.8	4.3

DENIZBANK VALUATION

TRYmn	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Earnings	203	278	350	423	500	550	603	662	741	828
Income from participations	(18)	(19)	(20)	(21)	(22)	(23)	(25)	(26)	(27)	(28)
Net Earnings from Bank Operations	184	259	330	401	478	526	579	637	714	800
Dividend to Ordinary S.holders to be paid Mid-next Year	0	0	210	254	300	330	362	397	444	497
Payout Ratio	0%	0%	64%	63%	63%	63%	63%	62%	62%	62%
Cost of Equity	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Perpetuity growth rate	9%									
Discount Coefficient	0.86	0.74	0.64	0.55	0.47	0.40	0.35	0.30	0.26	0.22
NPV of Each Dividend	0	0	134	139	141	133	126	119	114	110
NPV of dividends in the forecast period	1,014									
NPV of Perpetuity	1,636									
Total NPV	2,651									
Fair value of participations	195									
Total Value	2,846									
# of Ordinary Shares	316									
Fair Price per Share	**9.0**									
Current market cap	2,529									
Current price per share	**8**									
Upside/Downside (%)	**13%**									

DENIZBANK FINANCIAL STATEMENTS

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Statement							
Interest income	756	907	1,043	1,169	1,309	1,440	1,555
Interest expense	(414)	(460)	(501)	(541)	(579)	(620)	(657)
Net interest income	342	447	542	627	730	820	898
Net fee & commission income	61	98	138	186	232	290	334
Dividend income	-	-	-	-	-	-	-
Net Trading Income	(9)	19	21	23	25	28	31
Gains on Securities Held-for-investment	-	-	0	0	0	0	0
Other Operating Income	88	81	89	98	108	118	130
TOTAL Operating Income	481	646	790	934	1,095	1,256	1,393
Provision for Loan Losses and Other Receivables (-)	(83)	(67)	(73)	(81)	(87)	(94)	(102)
Other Operating Expenses (-)	(294)	(338)	(388)	(446)	(513)	(575)	(644)
NET Operating Income	104	241	328	407	494	587	647
Income from Investments and Associates	91	18	19	20	21	22	23
Income / (Loss) on Net Monetary Position	(50)	-	-	-	-	-	-
Income Before Taxation (XII+XIII+XIV)	145	260	347	427	515	610	670
Provision for Taxation on Income (-)	(23)	(57)	(69)	(77)	(93)	(110)	(121)
Net Income Before Extraordinary Items	123	203	278	350	423	500	550
Extraordinary Items	-	-	-	-	-	-	-
Net Income	**123**	**203**	**278**	**350**	**423**	**500**	**550**

TRYmn	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Balance Sheet							
Cash	385	276	302	315	378	434	478
Trading Securities	237	283	361	430	516	593	653
Banks	1,337	1,225	1,339	1,395	1,674	1,925	2,117
Money Market Instruments	93	20	22	23	27	31	34
Available-for-sale Securities (net)	1,128	1,469	1,875	2,232	2,679	3,081	3,389
Loans	2,629	4,533	5,993	8,172	9,806	11,277	12,405
Held-to-maturity securities (net)	36	41	52	62	74	85	94
Investments and subsidiaries	219	195	214	222	267	307	338
Reserve Requirements with the CB of Turkey	294	266	290	302	363	417	459
Accrued Interest and Income Receivable	114	126	138	144	172	198	218
Property and Equipment	114	113	124	129	155	178	196
Intangibles (Net)	12	13	14	14	17	20	22
Other Assets	107	158	172	180	216	248	273
Total Assets	**6,705**	**8,716**	**10,896**	**13,619**	**16,343**	**18,795**	**20,674**
Customer deposits	4,160	5,056	6,537	8,853	10,623	12,217	13,438
Money Market	260	267	292	261	313	360	396
Funds Borrowed	1,026	1,918	2,397	2,724	3,269	3,759	4,135
Marketable Securities Issued (net)	-	-	-	-	-	-	-
Miscellaneous Payables	157	161	176	157	189	217	239
Taxes and Other Duties Payable	18	10	11	10	12	14	15
Accrued Interest and Expenses Payable	61	77	84	75	90	103	114
Provisions	80	81	89	79	95	109	120
Other Payables	89	101	110	99	118	136	150
Shareholders' Equity	855	1,046	1,199	1,362	1,634	1,879	2,067
Total Liabilities And Shareholders' Equity	**6,705**	**8,716**	**10,896**	**13,619**	**16,343**	**18,795**	**20,674**

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Key Ratios							
Balance Sheet Ratios							
Securities/Assets	21%	21%	21%	20%	20%	20%	20%
Loans/Assets	39%	52%	55%	60%	60%	60%	60%
Deposits/Assets	62%	58%	60%	65%	65%	65%	65%
Loans/deposits	63%	90%	92%	92%	92%	92%	92%
Equity/Assets	13%	12%	11%	10%	10%	10%	10%
Free Capital/ Equity	60%	69%	71%	73%	73%	73%	73%
Profitability Ratios							
ROAA	2.0%	2.6%	2.8%	2.9%	2.8%	2.8%	2.8%
ROAE	17%	21%	25%	27%	28%	28%	28%

	2004A	2005E	2006E	2007E	2008E	2009E	2010E
Income Structure							
NIM	6.2%	6.3%	5.9%	5.4%	5.1%	4.9%	4.8%
Adjusted NIM	3.2%	5.3%	5.9%	5.5%	8.3%	5.6%	5.3%
Interest Spread	6.3%	6.1%	5.7%	5.2%	5.0%	4.8%	4.7%
Cost/Income	84%	58%	54%	52%	51%	49%	50%
Effective tax rate	16%	22%	20%	18%	18%	18%	18%
Provisions							
NPL/Gross Loans	4.2%	3.0%	3.0%	3.0%	0.0%	0.0%	0.0%
Provisions	89%	87%	89%	90%	100%	100%	100%
Growth Rates							
Loans	52%	72%	32%	36%	20%	15%	10%
Securities Portfolio	-25%	28%	28%	19%	20%	15%	10%
Total Assets	24%	30%	25%	25%	20%	15%	10%
Deposits	18%	22%	29%	35%	20%	15%	10%
Shareholders' Equity	45%	22%	15%	14%	20%	15%	10%
Net interest income	122%	31%	21%	16%	16%	12%	10%
Net Fee income	16%	60%	40%	35%	25%	25%	15%
Net Trading Income	n.m.	-300%	10%	10%	10%	10%	10%
Net Income	14%	65%	37%	26%	21%	18%	10%
Operating expense	41%	15%	15%	15%	15%	12%	12%
Provisions	60%	-20%	10%	10%	8%	8%	8%

YF Securities: Stock Rating Definitions

YF Rating	Definition*	Investment Horizon
Strong Buy	Stock return is > 20%	1-12 months
Outperform	Stock return ranges between 10 and 20%	1-12 months
Neutral	Stock trades near fair value and return is between -10% and 10% depending on the degree of market volatility	1-12 months
Underperform	Stock trades 10-20% > than fair value estimate	1-12 months
Sell	Stock trades 20% > than fair value estimate	1-12 months
Trading Buy	Stock return is > 10%: This is based on technical analysis, supported by fundamentals and potential catalyst	1-2 months
Trading Sell	Stock return is -10%: This is based on technical analysis, supported by fundamentals and potential catalyst	1-2 months

*Return assumption is based on the USD and over the one-year risk-free rate

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