AK Securities

Effects of Increased Foreign Bank Involvement

Including Comments on Garanti Bank – GE Capital Finance JV

MANY BEES FIGHTING FOR A FEW REMAINING FLOWERS

European Banks started looking for growth opportunities in emerging countries due to tightening of margins and diminished growth prospects locally. Turkey is one of the primary target markets in that respect. Rising interest towards Turkish Banks fetched a re-rating and the average P/B multiples of the banks rose by 50% in the last one year reaching 2.0x levels on current books as one after another commercial banks started to be acquired by foreign banks. Currently only a few banks left in for sale whereas many global banks are looking for investment opportunities. Major interested parties that had their names articulated in media are **Citibank**, **Deutsche Bank**, **HSBC**, **SG**, **ABN Amro**, **Intesa**, **OTP**, **Dexia** and **Temasek Holding**. Therefore, it would not be very surprising to see P/Bs to further climb taking into account the unbalanced demand and supply.

Boosting retail demand attracts consumer loan finance experts. The real interest rate on benchmark g-bond slipped down from 19% at the end of 1H04 to 11% at the end of 1H05. However, almost all of the banks in our coverage increased their margins or at least managed to keep them stable by switching to high margin TL denominated retail and SME lending. Share of consumer loans in total lending is 34% that climbed from 28% a year ago. House loans that expand through a monthly CAGR of a huge 15% YtD is the main driver of the growth. As the consumer loans are fixed rate and long term with maturities up to 25 years, spreads will further widen in the following years as deposits (with average maturity of 3 months) are constantly repriced through lower rates. This high margin operating environment is the point of attraction. Rabobank, BNP Paribas and GECF's primary target market is retail banking. Fast growing market with a young and dynamic population of over 70 million and entrepreneur SMEs are other appealing ingredients of the Turkish market.

Main motives of Turkish banks to seek foreign partners. It is not only the foreign Banks that is eager for m&a, but Turkish banks are also warm on the issue. The key drivers are: **i.** Knowhow. Basically knowhow is people, and could be obtained by hiring the right professional personnel. Therefore even though it is the primary issue uttered by acquired banks in their reasoning, it should be less of an issue in our view. **ii.** Reduced funding costs. Funding costs definitely slide as the credit ratings of the counterparties are higher than the domestic banks. **iii.** Fair valuations. The 2.0x P/NAV multiples used in previous transactions satisfied majority shareholders. **iv.** The uncertainties of survival under a low real interest environment or under a downturn in economy. Experienced from the practices the Banks went through a few years ago during the crisis, the domestic banks do not want to waste the chance to find a foreign partner when there is appetite.

August 19, 2005

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Competition to intensify. With stronger borrowing capabilities, the foreign banks or their JV partnerships will have the power to lend through lower rates and grab market share from the local players. The final customers will be the top beneficiaries of this era.

Former M&A Deals

In late 2004, Colakoglu family triggered the era by establishing a JV with BNP Paribas on TEB Financial Investments that owns 84.25% of **TEB** followed by Sekerbank and Disbank deals.

Fortis acquired 89.3% of **Disbank**'s shares outstanding. Fortis will also make a public bid for the remaining 10.7% of Disbank's shares. Total transaction price of €986.8mn corresponds to a 1.9x 2004 P/B.

Sekerbank Pension Fund decided to sell a 36.5% share in Sekerbank to Rabobank in July 2005, through a US$251mn value for the Bank that is significantly lower than the Bank's current mcap of US$459mn. Rabobank will make a tender offer for the minorities. Obviously, we do not expect any minority shareholder to participate. If its stake does not increase to 51% after the offer, the Pension Fund agreed to sell 14.5% more stake and carry Rabobank's shares to the required level. Even though the deal went through a P/B of 1.1x, the P/NAV should be close to that of others' as Sekerbank has some undisclosed amount of pension deficits.

Koc Financial Services (KFS), Cukurova and the SDIF signed a deal regarding **Yapi Kredi Bank**'s 57.4% (Cukurova:44.53%, SDIF:12.89%) through a total mcap of €2,021mn (US$2,5bn) in May. Even though the plain P/B corresponds to a low 0.75x, under US$1.4bn of assumed write-offs we calculate the P/NAV as 1.3x.

GARANTI BANK - Market Performer / Target Value US$5.44bn

The finalization of long awaited M&A of Garanti Bank is near. Dogus Group decided to sign an exclusivity agreement to sell half of its 51.29% Garanti Bank stake to GE Consumer Finance establishing a JV. Even though the Bank officially announces its stake as 55.1%, due to options granted to HBK Master Fund, Dogus Group's exact share slides down to 51.29%. There would be a US$1.4bn cash inflow to Dogus with the sale of 25.65% Garanti Stake through our target value. Even though GE will not have the administrative rights, as the Company will acquire more than 25% of the capital there should be a tender offer for minorities if the deal goes through.

M&A story caused a 103% rise in Mcap and the Bank outperformed the ISE-100 index by 31% YoY. As well as General Electric, ABN Amro, Societe Generale, Deutsche Bank, and Temasek Holding names were cited as the interested parties in Garanti Bank. We were hearing from the media that Dogus Group preferred to sell a minority stake in the Bank and keep the administrative rights, therefore GECF seems to be the best choice for the Bank. GECF is one of the global frontrunners in consumer financing, which is also the major target market of Garanti. GE and Dogus Group had a deep-rooted relationship started with CNBC-e and news portal NTVMSNBC. Therefore the parties knew each-others business principles for so long.

Besides this issue, the Group's commitment to liquidate the Bank's 24% Tansas stake until the end of October 2005 further fuelled Garanti's stock market performance. ABN Amro has the mandate to sell the retailer. Reportedly, interested parties had included Migros, French Casino (which had talks with Dogus Group regarding the acquisition of Tansas in 2001), and British Tesco. And the winner happened to be Koc Group's Migros. Migros started negotiations to acquire 70.77% of Tansas from Dogus Group. Tansas is 49.27% public, with the balance held by Dogus. Within the group, Garanti Bank has a 24.11% direct and 3.1% indirect stake of Tansas. The sale price for 100% of the company's equity corresponds to US$547mn. US$318.5mn of the total will be paid in cash and the rest will be paid in ten equal installments in 5 years semi-annually including interest cost. Roughly, the NPV of total cash inflow to Garanti will be US$149mn.

As the majority stake of Garanti will not change hands, we do not expect the deal price to climb up to US$6bn values as market talks indicate and stick to our US$5.44bn target value for Garanti. Trading with 2.1x 2005 P/B (2.5x 2004) and 12.3x P/E, we believe the Bank is fully valued and deserves a 'Market Performer' rating.