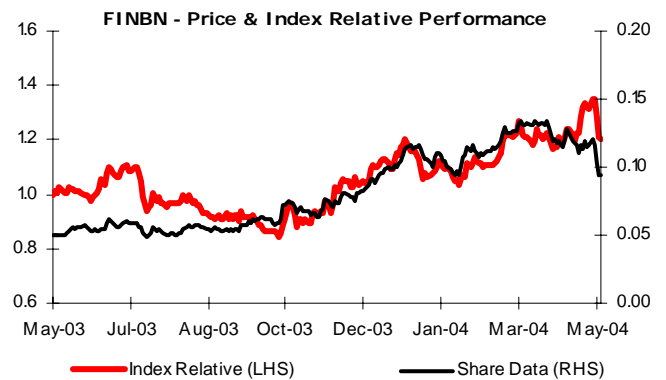


FINANSBANK
Banking Sector

Market Outperformer

- The main issue differentiating Finansbank from the rest of the pack is its strong emphasis on the core banking business of loan issuing.
- A huge 46% of the Bank's balance sheet comprises loans, whereas the ratio derived from the aggregate banking sector balance-sheet is only 25%. Long-term project finance lending is the Bank's strongest activity. These FX-denominated loans earn between an 8-10% annual interest rate, which greatly exceeds the 4-5% interest on loans granted to blue-chip companies.
- Even though the Bank places strong emphasis on corporate loans, it is also powerful in retail banking, and especially on the credit card business with its Card Finans scheme. Its market share in credit card loans hiked from 3% to 5% in 2003; the most significant leap among the commercial banks.
- The asset quality of the loans is meaningfully better than that of its peers. The Bank's NPL ratio at 2003-end is 3.4%, versus the banking sector's 12%. Provisioning is also on the rise. Finansbank's coverage rose to 100% from 60% in 2003.
- The majority of banks transferred under SDIF administration had serious related party lending problems. This obstacle is not remotely a problem for Finansbank. Related party loans make up a mere 0.02% of the total loans of bank-only Finansbank, whereas the consolidated IFRS books display a 3% related party loan ratio.
- The 53% Cost/Income (C/I) ratio is meaningfully below our coverage universe average of 60% according to 2003 financials. Were we to examine only the final quarter results, the Bank's C/I of 34% is the second lowest behind Akbank's.
- Our warranted equity approach yields a target value of US\$627mn for Finansbank, which corresponds to an upside of US\$57%. Taking into consideration the Bank's asset allocation preferences in a growing economy, as well as relatively higher profitability, fine asset quality and the upside to our fair value target, we maintain our 'Market Outperformer' rating for Finansbank.

Price (TL / US\$)	1,440 / 0.09
Price Range (1 Year, TL/US\$)	734 / 0.05 - 1,750 / 0.13
Number of Shares (mn)	425,220
Market Cap. (US\$m)	399
Free Float	25%
Daily Vol. (3 Month, US\$m)	5.7
Ticker (Reuters, Bloomberg)	FINBN.IS, FINBN TI
ISE-100 Index (TL/US\$)	17,103 / 1.11



PERFORMANCE	1 Week	1 Month	3 Month	1 Year
US\$	-18.8%	-22.4%	-5.9%	86.2%
Index Relative	-8.6%	2.6%	14.0%	20.1%

SUMMARY FORECASTS
(IFRS Consolidated, US\$m) & VALUATION

	2002A	2003A	2004F	2005F
Assets	6,808	6,994	7,665	8,255
Sh. Equity	335	552	703	858
Net Profit	133	200	151	154
ROE	40%	45%	24%	16%
P/B	1.19	0.72	0.57	0.47
P/E	3.00	1.99	2.68	2.62

SHAREHOLDING STRUCTURE

Fiba Holding	38%
Fina Holding	25%
Float	25%

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I. INVESTMENT THEME

Significant upside persists

Finansbank has been among our top picks for the past year and has generated a hefty 86% US\$-return in that period. With its outstanding performance, the Bank has outperformed the ISE-100 index by more than 20%. We still see a significant upside for the Bank to continue outperforming the benchmark index.

Strong emphasis on the core banking business

The main issue differentiating Finansbank from the rest of the pack is its strong emphasis on the core banking business of loan issuing. A huge 46% of the Bank's balance sheet comprises loans, whereas the ratio derived from the aggregate banking-sector balance-sheet is only 25%¹. Long-term project finance lending is the Bank's strongest activity. These FX-denominated loans earn between an 8-10% annual interest rate, which greatly exceeds the 4-5% interest on loans granted to blue-chip companies.

Also powerful in retail banking

Even though the Bank places strong emphasis on corporate loans, it is also powerful in retail banking, and especially on the credit card business with its Card Finans scheme. Its market share in credit card loans hiked from 3% to 5% in 2003; the most significant leap among the commercial banks.

Asset quality meaningfully better than that of its peers

And while the Bank stresses core business activities more than any other domestic rival does the asset quality of the loans is meaningfully better than that of its peers. The Bank's NPL ratio at 2003-end is 3.4%, versus the banking sector's 12%. Provisioning is also on the rise. Finansbank's coverage rose to 100% from 60% in 2003, and the provision increase was mainly done to lift the asset quality as well as for tax optimization. With the likely provision reversals stemming from collected NPLs or restructuring of a portion of the loans under follow up, we expect the bottom-line to be positively affected in 2004.

Low related party loans

The majority of banks transferred under SDIF administration had serious related party lending problems. This obstacle is not remotely a problem for Finansbank. Related party loans make up a mere 0.02% of the total loans of bank-only Finansbank, whereas the consolidated IFRS books display a 3% related party loan ratio. The Bank also has an adequately diversified loan portfolio. The largest 100 cash loans constitute 50% of the total loan book (2002:68%).

The Bank's C/I of 34% is the second lowest behind Akbank's

Cost control is one of the Bank's leading priorities . The 53% Cost/Income (C/I) ratio is significantly below our coverage universe average of 60% according to 2003 financials. Were we to examine only the final quarter results, the Bank's C/I of 34% is the second lowest behind Akbank's.

We maintain our 'Market Outperformer' rating for Finansbank

Our warranted equity approach yields a target value of US\$627mn for Finansbank, which corresponds to an upside of US\$57%. Since our upside potential for the Index is 28%, we expect the performance of the Bank to beat the benchmark indicator. Taking into consideration the Bank's asset allocation in a growing economy, as well as relatively higher profitability, fine asset quality and the upside to our fair value target, we maintain our **'Market Outperformer'** rating for Finansbank.

¹ As of the end of 2003.

II. VALUATION STILL ATTRACTIVE

Finansbank has been among our top picks for the past year and has generated a hefty 153% US\$-return in that period. With its outstanding performance, the Bank has outperformed the ISE-100 index by more than 24%. We still see a significant upside for the Bank to continue outperforming the benchmark index.

Our major tool in bank valuation is the warranted equity method

Our major tool in bank valuation is the warranted equity method. Rather than putting the Bank's multiple side-by-side with the peer group average, we have chosen to weigh it against $[(ROE-g)/(k-g)]$ as a benchmark. For the cost-of-capital calculations we have used CAPM, in which we took adjusted Beta as an estimation of the individual stock's risk. Adjusted beta is derived from weekly changes over the past two-year period, modified by the assumption that a security's beta moves toward the market average of 1.0 over time.

The stock market is empirically 2.2 times more than the bond market

For the equity risk premiums we have subtracted the long-term US Government security's current yield from the sustainable yield on the long-term Turkish Government Eurobond². This spread is valid for bonds. The stock market is empirically 2.2 times more volatile (standard deviation) than the bond market. Accordingly, we have multiplied the risk premium by this risk coefficient and then added the B multiplied outcome to the US long-term risk-free rate to arrive at a cost of equity $(k=RfUS+B*(RfTR-RfUS)*2.2)$. Subsequent to reaching a benchmark P/B multiple via the warranted equity approach, it is quite a straightforward process to reach a fair value.

Warranted Equity Approach (Based on Consolidated IFRS Financials)				Base
	2003A	2004F	2005F	2005F Avg. Sh. Equity
P/BV :	0.72	0.57	0.47	0.51
ROE (Sustainable)	14%			
Sustainable g	3.0%			
R _f Turkey (Sustainable LT Eurobond Yield)	9.5%			
R _f US (30yr Eurobond)	5.6%			
B	1.26			
R _f Turkey - R _f US	4%			
k	16%			
Benchmark P/B $[(ROE-g)/(k-g)]$	0.81			
Market Cap	399			
Sh. Equity	552	701	854	778
Target Value of the Bank	445	565	688	627
Upside				57%

Source: Ak Securities Estimates

Our warranted equity approach yields a target value of US\$627mn for Finansbank

Our warranted equity approach yields a target value of US\$627mn for Finansbank, which corresponds to an upside of US\$57%. Since our upside potential for the Index is 28%, we expect the performance of the Bank to beat the benchmark indicator. Taking into consideration the Bank's asset allocation in a growing economy, as well as relatively higher profitability, fine asset quality and the upside to our fair value target, we maintain our 'Market Outperformer' rating for Finansbank.

² We used a 9.5% sustainable compounded yield for LT TR Eurobonds.

III. FINANSBANK - THE MOST RAPIDLY GROWING BANK

Finansbank is one of the most rapidly growing banks in Turkey

Owned by the highly skilled veteran banker Mr. Husnu Ozyegin, Finansbank is one of the most rapidly growing banks in Turkey. The Bank operates a network of 150 local and 39 foreign branches. The owner displays a complete hands-on administrative approach. General managers are always promoted from various positions within the Bank and ex-general managers are transferred to the board of directors. Although the bank does not have an investor relations department, the International Division is keen on providing detailed information on the Bank to the investor group. The Bank has a long-term strategy of becoming the 4th largest private bank, but never of being a niche player.

The main issue differentiating Finansbank from the rest of the pack is its strong emphasis on the core banking business of loan granting

Remarkable Asset Quality, despite Strong Emphasis on Lending

The main issue differentiating Finansbank from the rest of the pack is its strong emphasis on the core banking business of loan granting. A huge 46% of the Bank's balance sheet comprises loans, whereas the ratio derived from the aggregate-banking-sector balance sheet is only 25%³. Long-term project finance lending to corporates is the Bank's strongest selling point. It is the frontrunner in maritime, energy and tourism financing. The cross-selling capabilities of project financing are very high, and the strategy continuously generates new clients. Seventy percent of the Bank's US\$1.9bn loans are non-retail, whereas project finance loans constitute more than half of the total.

The NPL ratio of the Bank at 2003-end is 3.4% versus the banking sector's 12%

Although the Bank lays emphasis on core business activities more than any other domestic rival, the asset quality of the loans is meaningfully better than that of its peers. The NPL ratio of the Bank at 2003-end is 3.4% versus the banking sector's 12% and private commercial banks' 6.5%. Provisioning is also on the rise. Central Bank data indicates that the provision coverage of private commercial banks has risen from below 60% levels to 80% throughout the past year. Finansbank's coverage, on the other hand, displayed robust growth, rising to 100% from 60% in 2003. The coverage increase was mainly done to lift the asset quality as well as for tax optimization, and the rise in provision expenses pulled down the 2003 bottom-line.

With the likely provision reversals stemming from collected NPLs or restructuring of a portion of the loans under follow up, we expect the provision reversals to support profit in 2004. Half of the Bank's problematic loans are due from the Cingillioglu Group, the former owner of Demirbank before it was taken over by the Banking Watchdog. Finansbank expects to collect those loans at some point, although the timing is unclear.

The majority of the banks transferred under SDIF administration had serious related party lending problems. This obstacle is not remotely a problem for Finansbank. Related party loans make up a mere 0.02% of the total loans of bank-only Finansbank, whereas the consolidated books display a 3% related party loan ratio.

The Bank has an adequately diversified loan portfolio. Loans to the three largest customers have a 10% share in the total. The largest 100 cash loans clients, on the

³ The CB data. As of the end of 2003.

other hand, constitute 50% of the total loan book (2002:68%). These ratios approximate those of our banking-universe.

The Bank's IFRS CAR is a robust 15%.

Adequately Capitalized

None of the banks in our coverage has capital adequacy problems. The 13% BRSA unconsolidated CAR (IFRS:15%) for 2003 indicates a healthy level and greatly exceeds the 8% legal minimum. Since the Bank prefers to deal with core banking activities rather than investing in bonds or holding an excessive amount of cash, CAR remains the lowest among our peer group universe. It is worth noting that the risk weighting of the loans is 100%, whereas government bonds have a zero risk weighting under BRSA accounting standards. Thus, the denominator of the CAR inevitably becomes larger. The ratio of the Bank's Tier I to the total of Tier I and II is a robust 88%.

The cash capital that supports the interest margins and provides space to handle more exposure is US\$162mn, corresponding to 4% of assets. Through this level of free capital, the Bank is able to generate more than a 10% real return that also corresponds to real spread, since capital does not require any interest outflow.

Nearly 40% of the Bank's loans have more than 1-year maturity

Maturity Mismatch Creates Risks and Opportunities

The Bank is specialized in FX-denominated long-term project finance lending with an average maturity of 2 years. Nearly 40% of the Bank's loans have more than 1-year maturity. Those FX-denominated loans fetch between 8-10% annual interest rate, which highly exceeds the 4-5% interest on loans granted to blue-chip companies. These long-term project finance loans are generally granted to companies in developing cities such as Denizli, Adana, Mardin, Gaziantep and Kahramanmaras. Therefore, since the interest-bearing liabilities have less than 3 months of maturity, as funding costs continue to fall, the Bank will be able to generate relatively higher spreads. However the Bank is vulnerable to sudden hikes in interest rates, since the funding costs leap immediately whereas the assets cannot be re-priced instantly.

As seen in the table below the Bank operates with a 6-month maturity gap. Although the gap is the highest among the peer group, it is lower than the 8-month gap seen in 2002. TEB and Disbank have much narrower maturity gaps, while the large cap peers like Garanti, Isbank and YKB operate with maturity gaps of 7, 8 and 24 months, respectively.

Weighted Average Maturity⁴ (months)			
2003	DISBA	FINBN	TEBNK
Assets	6.2	9.0	1.5
Liabilities	2.8	2.7	2.3
Maturity Gap	3.4	6.3	-0.8

Source: Company Financials, Ak Securities Estimates

On the flip side of the coin, a downturn in the economy would create significant maturity, interest rate and asset quality risks for Finansbank. However, we do not expect to see a macro depression if Turkey receives a date for the start of EU

⁴ We used the average of maturity intervals after deducting the free capital from long-term placements. We used an average maturity of 18m for assets and liabilities with more than 1y of maturity.

membership negotiations at year-end 2004. We estimate a 70% subjective probability of Turkey receiving a date at that time. We perceive the recent TL devaluation coupled with the climb in bond yields as a short term correction and the economy is likely to continue its healing trend.

Also a Resilient Retail Bank

Although the Bank places considerable emphasis on corporate loans, it is also strong in retail banking, especially the credit card business, with its Card Finans scheme. Its market share in credit card loans hiked from 3% to 5% in 2003, which is the most significant leap among the commercial banks.

We believe that the intensified marketing efforts and increased instalments available in electronic goods outlets to be the main driver of the rise in credit card loans. Aggregate retail loans constitute 26% of the Bank's total loans, which while strong is lower than the big-4 average of 30% as of the end of 2003.

The Bank aims to raise its credit card spending volume ranking from 7th position in 2003 to 4th position by the end of 2004

Credit card transaction volume displayed a modest rise from 2.6% to 3.2% on the issuing side, and the acquiring volume market share climbed from 2.3% to 2.9% in the same period. We expect the Bank's presence in credit card issuing and acquiring volume to strengthen further with a declining pace in 2004, stabilizing at around 4% unless it opts to grow via inorganic means. The Bank aims to raise its credit card spending volume ranking from 7th position in 2003 to 4th position by the end of 2004. The Bank plans to surpass Vakifbank, Isbank and HSBC in 2004. We deem it likely for the Bank to outperform HSBC and Vakifbank.

Market Share in Credit Cards			
Issuing Volume	Disbank	Finansbank	TEB
2002	1.5%	2.6%	0.5%
2003	2.4%	3.2%	0.4%
Acquiring Volume	Disbank	Finansbank	TEB
2002	5.7%	2.3%	0.3%
2003	6.1%	2.9%	0.3%

Source: Bank Data

Finansbank is in ongoing talks to raise long-term financing from international creditors

The Bank is also interested in mortgage lending. However, since the current legal framework is not yet suitable for such long-term lending no solid steps have been taken on the issue. The banks find it too risky to lend in fixed terms for periods exceeding 10 years, while consumer loans cannot be granted on floating terms. The maturity mismatch is also another major topic. The banks clearly need longer-term financing such as various securitization facilities for involvement in the long-term lending business. Finansbank is in ongoing talks to raise long-term financing from international creditors.

Efficiency better than that of Midcap Peers

Finansbank maintains a personnel headcount of 3,923, which is the highest number among the private banks following the Big-4. The Bank's 150-branch distribution network is relatively smaller than that of medium-sized peers such as Disbank (158), Denizbank (165), Oyakbank (272) and Sekerbank (197). The loan per branch and loan per employee efficiency indicators of Finansbank is the

best among the listed mid-cap banks and very close to that of the Big-4. The branch network is crucial to deposit generation.

The deposits (including repos) per branch and per employee efficiency indicators of the Bank significantly lag behind the Big-4, but are close to the mid-cap banks' average. The Bank has employed seasoned branch managers with client portfolios from taken-over Pamukbank, and Finansbank's top management is highly satisfied with their performance.

Cost control is one of the Bank's leading priorities. The 53% Cost/Income (C/I) ratio is significantly below our coverage universe average of 60% according to 2003 financials. Were we to examine only the final quarter results, the Bank's 34% C/I is the second lowest following Akbank's.

Finansbank is able to cover 27% of its general expenses with its net commissions

With the help of its relatively strong credit card market presence as a mid-cap bank, Finansbank is able to cover 27% of its general expenses with its net commissions. We expect these to rise gradually to 50% levels as real rates decline, limiting the banks' ability to generate high net interest spreads in the coming years. It is also worth noting that the low interest rate environment will increase the customer bases of those banks eventually increasing their fee income generation capabilities.

Efficiency Indicators							
2003	AKBNK	GARAN	ISBNK	YKBNK	DISBA	FINBN	TEBNK
Employees	9,964	8,144	15,550	10,542	3,404	3,923	1,849
Branches	619	311	844	413	158	150	78
Employees/Branch	16	26	18	26	22	26	24
Loan/Employee (US\$m)	0.63	0.60	0.40	0.54	0.43	0.48	0.45
Loan/Branch (US\$m)	10.09	15.83	7.28	13.86	9.23	12.58	10.73
Deposit+Repo/Employee (US\$m)	1.42	1.27	0.99	1.06	0.64	0.67	0.77
Deposit+Repo/Branch (US\$m)	22.81	33.35	18.22	26.97	13.82	17.52	18.30
Net Commissions/General Expenses 2002	13%	38%	25%	41%	7%	59%	15%
Net Commissions/General Expenses 2003	17%	41%	33%	44%	20%	27%	15%
Cost/Income 2002	31%	73%	59%	44%	57%	42%	56%
Cost/Income 2003	31%	70%	52%	95%	63%	53%	55%

Source: Bank Financials, Ak Securities

Finansbank directs those loans that are mainly FX-denominated to companies that other banks find too risky to extend loans to

Frontrunner in Profitability

Finansbank directs those loans that are mainly FX-denominated to companies that other banks find too risky to extend loans to. The Bank charges significantly higher interest on these relatively risky loans. We expect this strategy to enable the Bank to build a strong and loyal clientele in the long-run, as those companies will continue perceiving Finansbank as a good partner that stood on their side during hard times. This is something the banks overlook when striving to grant loans to blue chips capable of finding low-cost financing from any bank. The Bank also wants those companies to be export oriented or to have a product that has export potential. Therefore, slide in the value of TL against hard currencies increases the competitive advantages of those companies.

Due to these high earning assets, Finansbank posted a net interest spread of 8% and a net interest margin of 9%. The Bank also announced an exceptionally high ROE of 23% for 2003. Finansbank's interest income from loans makes up 53% of its total interest income, which is the highest contribution of lending on the P/L among the peer group.

On the back of narrowing spreads we expect Finansbank’s ROE (both IFRS and Bank-only) to decline gradually to 14%, which we believe will be sustainable for the Bank. The Bank itself targets achieving a sustainable ROE of 20%. We project a conservative 19% bank-only ROE for 2004, whereas the Bank plans to reach a ROE of 25% for the same period. Our IFRS ROE target for the same period, on the other hand, is 24%, which is again one of the highest in the entire banking sector.

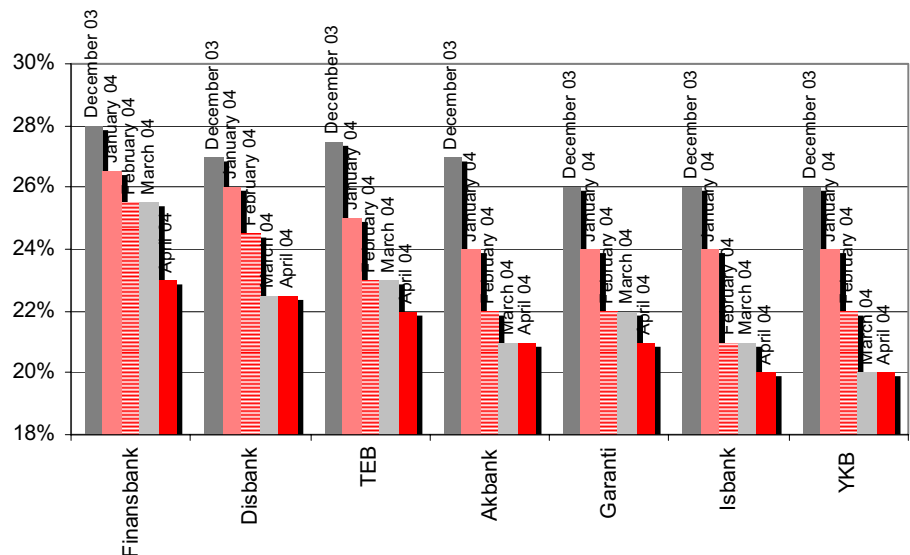
Finansbank is the fastest growing Bank in deposit-terms

Financing – Deposits & Syndicated Loans

Finansbank is the fastest growing Bank in deposit-terms. The Bank’s deposit base has expanded by a huge 561% in inflation-adjusted real-terms since 1995, which corresponds to an annual CAGR of 27%. This growth rate is incomparably the highest among our peer group universe. The deposit CAGR of the big four during the same period is 16%. Finansbank, which allocates the funds to significantly higher interest earning project finance loans also offers slightly higher interest rates on deposits, particularly TL-denominated ones. The Bank pays the highest interest on TL-denominated deposits and one of the highest on US\$-deposits. However it is worth mentioning that the announced interest rates do not directly correspond to a bank’s funding cost. The banks pay much generous interest rates especially for large size FX deposits. The CB announces the weighted average interest rate on 1-month US\$ denominated deposits as 3.1%, which highly exceeds the 2.2% average of our peer group universe.

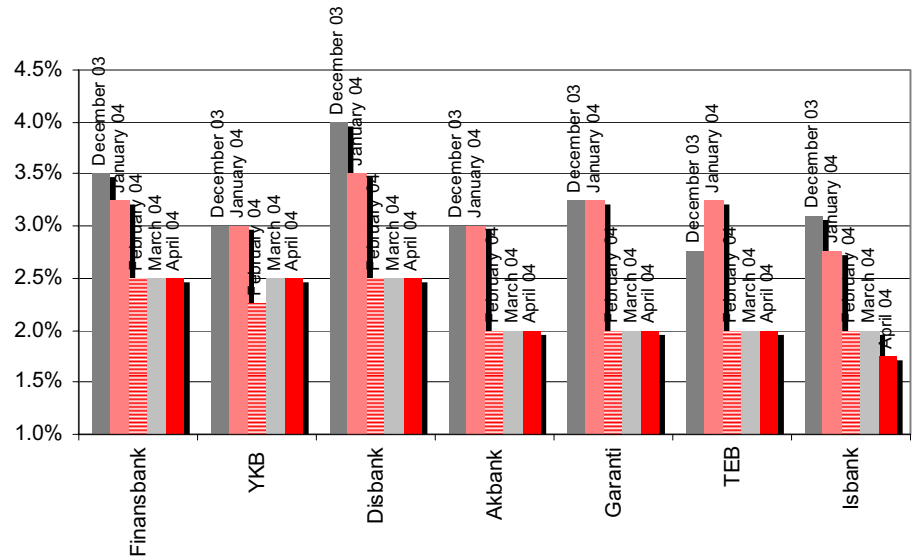
Finansbank’s funding is derived particularly from core deposits rather than from repos with one-day maturity. Repos make up less than 1% of the Bank’s aggregate deposits and repos, which we believe is a much healthier funding structure as compared with the 6% ratio of our banking universe.

Interest Rates on TL Deposits (Annually compounded 1m)



Source: Bank web sites, various media sources

Interest Rates on US\$ Deposits (Annually compounded 1m)



Source: Bank web sites, various media sources

More than 63% of Finansbank’s balance sheet comprises deposits, 19% of which are demand deposits that are virtually cost-free for the Bank. Deposits had made up around half of the balance sheet before 2001.

Borrowed funds’ share in Finansbank’s total assets is 17%

Sums borrowed mainly from foreign banks are also an important source of funding. Borrowed funds’ share in Finansbank’s total assets is 17%. Finansbank’s all-in syndicated loan borrowing cost is more than 40 basis points higher than that of the big-four and Kocbank. The Bank received a US\$265mn syndicated loan in late October 2003 with an all-in interest rate of Libor+200 basis points. The cost is 20 basis points lower than the Bank’s previous syndicated loan received in October 2002. Finansbank also received US\$150mn against its foreign trade receivables in December 2003. The loan has a BBB Fitch rating and carries the option to be extended up to a 5-year period.

We project a more cautious 10% real deposit growth for this year

For 2004, the Bank aims to expand its balance sheet by 30% in real-terms mainly fuelled by the rise in deposits. However, as the huge tax burden (around 18%) on interest received on deposits continues, we expect rational investors to prefer allocating their savings to bonds and mutual funds instead. Therefore, we project a more cautious 10% real deposit growth for this year. The Bank cuts around a 4% annual flat fund management commission on its total mutual fund book, whereas the income on the intermediation service given on bond sales is around 0.5% flat. Since investors use the Banks as the intermediary financial body in their bond and mutual fund purchases, paying a certain commission, profitability does not stand to be negatively affected.

IV. STRONG PARTICIPATION PORTFOLIO

Finansbank has a strong presence in Europe

Finansbank has a strong presence in Europe and especially the Netherlands and Germany via its subsidiary Finansbank Holland NV that also has branches in Germany (US\$1.7bn asset size) and Belgium (US\$210mn asset size). Finansbank Holland has 1 branch in the Netherlands, 2 branches in Germany and 1 branch in Belgium. Seventy percent of FB Holland's assets stem from its foreign branches. Finansbank is also active in Romania (18 branches), Switzerland (2 Branches) and Russia (14 Branches) through its banking participations, which operate with significantly smaller balance sheets. Those subsidiaries are capable of collecting deposits mainly from domestic clients, and allocate the funds into export financing and government securities, as well as participating in syndicated loan deals.

About 23% of IFRS consolidated Finansbank assets stem from its subsidiaries in Europe

About 23% of IFRS consolidated Finansbank assets stem from its subsidiaries in Europe, whereas the remainder of the balance sheet is made in Turkey. The Bank's domestic activities however, account for a huge 93% of total operating income. The major contribution of Finansbank Holland comes in terms of deposit collection. Finansbank Holland's share in total consolidated customer deposits is 47%, which even exceeds the 46% contribution of Finansbank Turkey. Therefore, the Bank hedges itself against domestic economic downturn sparked deposit outflow.

After eliminations, the share of foreign subsidiaries in total assets decline significantly

Major Foreign Participations

2003 US\$mn	Finansbank Group's Stake	Assets	Sh.Equity
Finansbank Holland N.V.	100%	2,730	164
Finansbank Suisse S.A.	100%	204	53
Finansbank Romania S.A.	67%	130	14
Finansbank Moscow Ltd.	100%	64	10
Finansbank 2003A IFRS		6,994	552

Source: 2003 BRSA Cons. & IFRS Financials

V. FX SHORT POSITIONS RISING

The balance sheet short FX position of the sector, which had been a mere US\$20mn, leaped to US\$1.9bn on March 26, 2003

The short FX position of the banking sector has been rising very rapidly since 2003-end. The balance sheet short FX position of the sector, which had been a mere US\$20mn, leaped to US\$1.9bn on March 26, 2003. The BS short FX position of the private commercial banks, on the other hand, displayed a modest rise from US\$367mn to US\$1.6bn during the same period. With increased doubts surrounding rising imports, the Banks started to close their short positions. The balance sheet short position of the sector had declined by US\$100mn to US\$1.8bn by April 23, 2004.

One of the reasons behind the 1Q rise was the continuous swap auctions geared at converting June 16, 2004 FX-indexed bonds to TL-denominated March 15, 2006 bonds. Those FX indexed bonds were granted to the banks under the framework of internal debt restructuring, and to reduce the sector's short FX position in June 2001. The Treasury has tried to eliminate the negative effects of the swap with US\$-denominated FRN auctions with 3-year maturity and semiannual interest payments. We expect to see more of those FRN auctions as we approach to June 16. The Treasury is obliged redeem around US\$2.2bn worth of FX indexed bonds in local currency on that date, which would increase the sector's balance sheet short position up to US\$4bn levels if no FX denominated auctions are held.

Another reason behind rising FX positions was declining real interest rates and rising appetite for even marginal extra spreads. As seen in the table below, the banks are able to generate the highest spreads by allocating FX funds to TL assets. The strategy of allocating TL deposits into TL bonds has created almost no positive return over the past year. However, due to increased concern over the current account deficit that started in mid-April, the rise in benchmark TL bond yields jacked-up the TL-TL spread to 4% levels. It is worth noting that carrying a short position still generates the highest returns.

Spreads (in real terms)			
	TL Bonds/FX Deposits	LT Eurobond/FX Deposits	TL Bonds/TL Deposits
31-Dec-02	32.9%	8.3%	0.1%
31-Mar-03	48.1%	9.2%	6.1%
30-Jun-03	32.0%	7.5%	2.9%
30-Sep-03	15.1%	6.9%	0.0%
31-Dec-03	7.1%	5.9%	-0.1%
31-Mar-04	7.2%	5.7%	-0.1%
07-May-04	10.2%	8.1%	4.3%

Source: Ak Securities Estimates, TL returns are adjusted for 1-year forward looking inflation.

Although Finansbank had a relatively higher net FX short position of US\$27mn at the end of 2003, its balance sheet FX position was a huge US\$92mn long. In contrast to the peer group, Finansbank was the only one with FX assets exceeding FX liabilities. The Bank's FX position becomes red after forward contracts. And on an IFRS basis, the Bank has a mere US\$20mn net FX position as of the end of 2003.

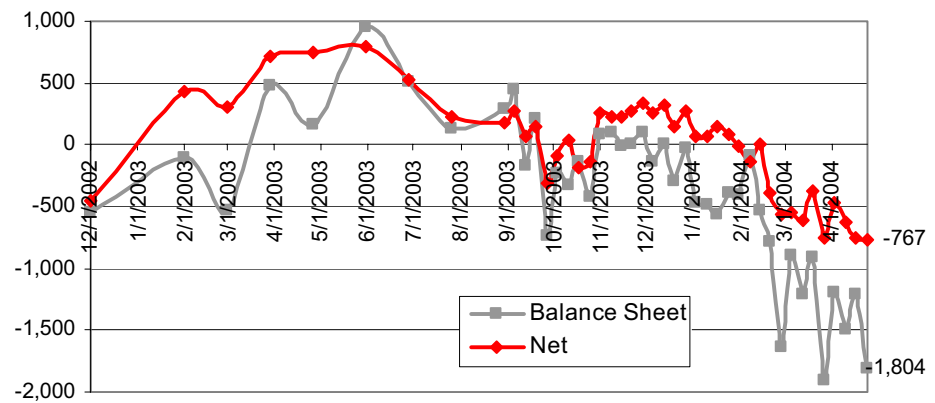
The TL started losing its value against hard currencies as of the end of 1Q04. The total devaluation of the TL against the US\$ reached 15% from the end of first quarter until mid-May. Consequently, the slide in the value of the TL will not be beneficial for any bank.

Bank-Only FX Positions (US\$mn)

US\$mn 2003	AKBNK	GARAN	ISBNK	YKBNK	DISBA	FINBN	TEBNK
BS FX Position	-20	-150	-44	-118	-8	92	-23
Net FX Position	118	-67	-38	-100	3	-27	-13
Capital Base	3,418	1,368	3,427	2,097	469	325	153
Net FX P./Capital Base	3.50%	-4.90%	-1.10%	-4.80%	0.70%	-8.30%	-8.80%

Source: BRSA Bank financials

Aggregate FX Position of Private Commercial Banks (US\$mn)



Source: The BRSA

VI. FINANCIALS & FORECASTS

FINANSBANK IFRS FINANCIALS (US\$m)				
BALANCE SHEET	2002A	2003A	2004F	2005F
ASSETS				
Cash and balances with the central banks	144	211	230	245
Deposits with banks	831	500	546	580
Other money market placements	23	9	10	11
Reserve deposits at the central banks	280	431	469	499
Trading securities	55	29	31	33
Investment securities	1,370	1,010	1,065	1,118
Originated loans and advances	3,540	4,259	4,719	5,138
Minimum lease payments receivable	137	141	154	164
Derivative financial instruments	66	96	105	111
Investment in associate	8	8	9	9
Investment properties	3	0	0	0
Property and equipment	194	176	191	203
Intangibles	32	28	31	33
Deferred tax asset	50	6	7	7
Other assets	74	89	97	103
Total assets	6,808	6,994	7,665	8,255
LIABILITIES AND EQUITY				
Deposits from other banks	89	76	83	88
Customers' deposits	5,287	5,114	5,611	5,892
Other money market deposits	129	44	48	51
Funds borrowed	652	824	869	912
Derivative financial instruments	3	30	32	34
Other liabilities and provisions	243	273	298	316
Income taxes payable	1	17	19	20
Deferred tax liability	20	6	7	7
Total liabilities	6,424	6,384	6,961	7,398
Minority interest	50	58	63	67
Shareholders' equity	335	552	703	858
Total liabilities and equity	6,808	6,994	7,665	8,255
INCOME STATEMENT				
Interest income	998	864	692	677
Interest expense	-560	-485	-378	-364
Net interest income	439	380	314	313
NPL Provisions	-49	-30	-33	-36
Net interest income after NPL provisions	390	350	281	277
Foreign exchange loss	-74	-8	7	7
Net interest income after FX loss and NPL provisions	316	342	288	284
Other operating income	197	299	326	352
Other operating expense	-308	-343	-374	-403
Income from operating activities	205	298	240	233
Income from associate	0.5	0.4	0.5	0.5
Profit from op. act. before tax, mon. loss and min. int.	205	298	241	233
Income tax	-41	-71	-60	-58
Monetary loss	-21	-19	-23	-14
Net profit from ordinary activities	144	209	157	161
Minority interest	-11	-8	-6	-7
Net profit	133	200	151	154

Source: The Bank, Ak Securities Estimates

Unconsolidated Inflation Adjusted BRSA US\$mn				
Assets	2002	2003	2004	2005
I. Cash And Balances With The Cb	113	96	106	113
Ii. Trading Securities (Net)	-	-	-	-
Iii. Banks And Other Financial Institutions	84	187	206	218
Iv. Money Market Securities	6	-	-	-
V. Investment Sec. Available For Sale (Net)	832	531	560	588
Vi. Loans	1,415	1,886	2,088	2,237
Vii. Factoring Receivables	-	-	-	-
Viii. Investment Sec. Held To Maturity (Net)	684	672	709	744
Ix. Investments And Associates (Net)	-	-	-	-
X. Subsidiaries (Net)	261	231	254	270
Xi. Other Investments (Net)	-	-	-	-
Xii. Finance Lease Receivables (Net)	-	-	-	-
Xiii. Reserve Deposits	217	216	238	253
Xiv. Miscellaneous Receivables	23	9	10	10
Xv. Accrued Interest And Income Receivable	246	144	159	168
Xvi. Property And Equipment (Net)	88	83	91	97
Xvii. Intangible Assets [Net]	14	14	16	17
Xviii. Other Assets	39	37	41	44
-	-	-	-	-
Total Assets	4,022	4,107	4,478	4,758
Liabilities & Shareholders' Equity				
I. Deposits	2,986	2,604	2,857	3,000
Ii. Interbank Money Market	40	31	29	29
Iii. Funds Borrowed	419	682	719	755
Iv. Marketable Securities Issued (Net)	-	-	-	-
V. Funds	-	-	-	-
Vi. Miscellaneous Payables	51	74	69	67
Vii. Other External Resources	33	60	56	55
Viii. Taxes And Other Duties Payable	10	12	11	11
Ix. Factoring Payables	-	-	-	-
X. Finance Leasing Payables (Net)	4	3	-	-
Xi. Accrued Interest And Expenses Payable	28	28	26	25
Xii. Provisions	14	62	58	56
Xiii. Subordinated Loans	-	-	-	-
Xiv. Minority Interest	-	-	-	-
Xv. Shareholders' Equity	437	550	651	760
Total Liabilities	4,022	4,107	4,478	4,758
Source: Bank-Only BRSA Financials				

INCOME STATEMENT (US\$mn)				
Income Statement	2002	2003	2004	2005
I. INTEREST INCOME	786	540	484	449
1.1. Interest on loans	292	289	301	314
1.2. Interest received from reserve deposits	9	9	8	9
1.3. Interest received from banks	31	13	8	9
1.4. Interest received from money m. transRtions	29	5	-	-
1.5. Interest received from marketable sec. portfolio	424	224	167	117
1.6. Other interest income	-	1	0	0
II. INTEREST EXPENSE	404	336	233	188
2.1. Interest on deposits	352	281	194	153
2.2. Interest on money market transRtions	19	29	8	4
2.3. Interest on funds borrowed	34	25	29	30
2.4. Interest on securities issued	-	-	-	-
2.5. Other interest expense	1	1	2	1
III. NET INTEREST INCOME (I - II)	381	204	252	261
IV. NET FEES AND COMMISSIONS INCOME	95	72	85	101
VI. NET TRADING INCOME	(118)	111	42	19
6.1. Profit/losses on trading Rcount securities (Net)	-	-	-	-
6.2. Foreign exchange gains/losses (Net)	(118)	111	42	19
VII. PROFIT/LOSS FROM HELD TO MATURITY M. S.	5	45	-	-
VIII. OTHER OPERATING INCOME	21	71	92	97
IX. TOTAL OPERATING INCOME (III+IV+V+VI+VII+VIII)	384	503	470	478
X. PROVISION FOR LOAN LOSSES OR OTHER REC. (-)	37	67	50	53
XI. OTHER OPERATING EXPENSES (-)	162	269	260	276
XII. NET OPERATING INCOME (IX-X-XI)	186	167	160	150
XIII. PROFIT/LOSSES FROM ASSOCIATES AND SUBS.	10	20	21	22
XIX. NET MONETARY PROFIT/LOSS	(54)	(22)	(22)	(8)
XIV. INCOME BEFORE TAXES (XII+XIII)	142	165	160	165
XV. PROVISION FOR TAXES ON INCOME (-)	(12)	(55)	(43)	(44)
XVI. NET OPERATING INC./EXP. AFTER TAXES (XIV-XV)	154	110	117	121
XX. NET PROFIT/LOSS	154	110	117	121
Ratios	2002	2003	2004T	2005T
Free Capital/Assets	-1.0%	3.9%	6.7%	8.5%
IEA/IBL	96.2%	106.1%	106.7%	108.2%
NPL Ratio	9.2%	3.4%	3.1%	3.1%
NPL Coverage	59.8%	100.0%	100.0%	100.0%
Loans/Deposits	47.4%	72.4%	73.1%	74.6%
NI Spread	6.3%	6.3%	6.3%	6.1%
NI Margin	6.5%	6.5%	7.2%	6.8%
ROE	42.3%	42.3%	19.2%	17.0%
Net Fee Inc./IEA	2.8%	2.0%	2.4%	2.5%
Income from Securities/Gross Interest Income	54.3%	42.8%	33.2%	24.9%
Income from Loans/Gross Interest Income	36.9%	53.3%	62.7%	70.9%
BS Breakdown				
Core Liquidity Ratio	10.4%	12.2%	12.3%	12.3%
Securities	37.7%	29.3%	28.3%	28.0%
Loans	35.2%	45.9%	46.6%	47.0%
Deposits	74.3%	63.4%	63.8%	63.0%
Source: BRSA Financials				

Research Team

Erkan Savran, Head of Research

erkan.savran@akyatirim.com.tr

Equity Strategy

Hakan Aklar, Economist

hakan.aklar@akyatirim.com.tr

Macroeconomy, Politics

Berna Kokter, Assistant Manager

berna.kokter@akyatirim.com.tr

Telecom & Defense Electronics, Conglomerates

Mete Yuksel, Assistant Manager

mete.yuksel@akyatirim.com.tr

Banking, Insurance

Engin Yegul, Senior Analyst

engin.yegul@akyatirim.com.tr

Power & Utilities, Retail, Food & Beverage, Media

Petek Kutucuoglu, Senior Analyst

petek.kutucuoglu@akyatirim.com.tr

Oil & Gas, Steel, Chemicals, Textiles, Cons. Durables

Goksel Sismanlar, Analyst

goksel.sismanlar@akyatirim.com.tr

Database Management, Technical Analysis

research@akyatirim.com.tr

+ 90 212 334 9460

Institutional Sales & Trading

Attila Penbeci, Head of Institutional Sales & Trading

attila.penbeci@akyatirim.com.tr

Can Oksun, Assistant Manager

can.oksun@akyatirim.com.tr

Pinar Aras, Assistant Manager

pinar.aras@akyatirim.com.tr

Dilek Erdogan, Settlement Officer

dilek.erdogan@akyatirim.com.tr

sales@akyatirim.com.tr

+ 90 212 334 9545

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