

Turkish Banking Sector

Analysis of the Big-Four Banks

A GLIMPSE THROUGH THE PARTING CLOUDS

AKBANK Market Outperformer
GARANTI BANK Market Outperformer
ISBANK Market Performer
YAPI KREDI BANK N/R



A GLIMPSE THROUGH THE PARTING CLOUDS

TABLE OF CONTENTS	Page
I. Investment Theme	1
II. Overview	2
a. A Glimpse Through the Parting Clouds	2
b. The Economy to Move on Track	3
c. Letter of Intent Analysis	9
d. Breakdown of Bank Groups	12
e. Current Situation is Bent By the Crises	14
f. Anticipated Outlook of the Sector	15
III. Encouraging Developments	22
a. State Banks Under Rehabilitation	23
b. SDIF's Fine Performance	29
c. Establishment of Asset Management Bodies	31
d. The Istanbul Approach; Is it a Success Story?	34
e. Private Bank Restructuring	36
f. Revolutionizing Accounting Practices	39
g. Removal of the Blanket Guarantee	39
IV. Gloomy Funding Ability	41
a. Deposits Shift to Bonds	41
b. Country Rating Limits Foreign Borrowings	47
V. Can Asset Allocation Find a Way Out?	50
a. Stumpy Loan Volume	51
i. Corporate Loans	53
ii. Consumer Lending and Credit Cards	56
b. Securities	61
VI. CAMEL Performance Analysis	66
a. CAR Appears Satisfactory, but...	67
b. Healing Asset Quality	68
c. Management and Efficiency	70
d. Earnings and Profitability	74
e. Liquidity	76
VII. Bank Updates	78
a. Akbank – Market Outperformer	78
b. Garanti – Market Outperformer	89
c. Isbank – Market Performer	100
d. Yapi Kredi – N/R	111
e. International Peer Group Comparison	119
VIII. Bank Financials	122

I. INVESTMENT THEME

The upbeat improvements in capacity utilization and industrial production would eventually trigger the non-financial sector's borrowings

Although we do not observe significant evidence of an expansion in the Banking sector either on the loan side or on the deposit side we are cautiously optimistic about the prospects taking into consideration the positive macro developments. The upbeat improvements in capacity utilization and industrial production would eventually trigger the non-financial sector's borrowings. The sliding inflation is another factor to fuel the loan demand via pulling down the nominal rates. Even though the real rates remain almost unchanged, falling nominal rates accelerate loan demand as observed in consumer lending. Inflation slide backed rate cuts of the CB also support the banks in boosting their bottom-lines and capital strengths through windfall gains on securities that are marked to market.

About a half of commercial bank assets are composed of securities

About a half of commercial bank assets are composed of securities. The whole financial sector started generating mark to market gains when the yields on government bonds started coming down in 2Q03. The banks with relatively higher proportion of mark to market securities will be the chief beneficiaries of this period.

Deposit side is becoming a setback for the commercial banks

Deposit side is becoming a setback for the commercial banks. Taking into consideration the tax advantages, the rational real persons are switching from deposits to direct holdings of government securities. Since the bond holdings of individuals are held in off balance sheet accounts, asset size growth cuts pace. However this seemingly adverse situation does not deteriorate the profitability harshly due to the increased amount of commission and fee income received on the intermediary services in bond sales to individuals.

Capital adequacy ratios are recovering

The asset quality of the banking sector is healing accounting wise, mainly with the help of Istanbul Approach backed loan restructurings. Capital adequacy ratios are recovering with the increase in the value of TL coupled with the banking sectors' switching from lending to zero risk weighted Government securities.

AKBANK
Market Outperformer

We maintain our 'Market Outperformer' rating for **Akbank**, which trades with a 35% upside potential to its target value of US\$4,156mn. And with its leadership position in terms of capital adequacy, asset quality, liquidity and profitability, Akbank is set to continue solidifying its current market position in the long-run.

GARANTI BANK
Market Outperformer

We have a 'Market Outperformer' rating for **Garanti Bank** based on efficiency indicators, rising market share in credit cards and the 37% upside to our fair value target of US\$1,413mn.

ISBANK
Market Performer

Despite the positive developments of the asset liquidation-backed enhancements on the free capital and interest margins, we issue a 'Market Performer' rating for **Isbank** mainly out of consideration for the limited upside of 24% to our target value of US\$3,095mn.

YAPI KREDI BANK
N/R

Under highly conservative assumptions, **Yapı Kredi Bank** trades with a 14% upside potential to our fair value target of US\$929mn. We do not assign any rating for the Bank, due to its continuing blurred status.

II. OVERVIEW

a. A GLIMPSE THROUGH THE PARTING CLOUDS

We are now aware of the accurate financial situation of all major players

After a long period that affording only a blurred banking system outlook, a more **accurate picture of the Turkish banks** has started to emerge. We are now aware of the accurate financial situation of all major players, and have become quite confident of our net profit and book value projections. The only bank with blurry projections is Yapi Kredi Bank (YKB), which still shoulders the burden stemming from the collection of rescheduled Cukurova Group loans. The details of this problem are examined thoroughly under the YKB section of this research report.

In this report, we have also examined the latest and hottest developments within the sector, such as the pros and cons of the **Istanbul Approach**. Was the issue a part of the financial restructuring process, or was it done simply to lend a hand to the inept subsidiaries of the banks? One step after the Istanbul Approach (IA) comes the formation of asset management companies that aim to mainly receive the NPLs of banks and special finance institutions. Although the IA targets providing liquidity to the banks, the potential success is ambiguous due to low NPL provision coverage policies. The banks would prefer to carry these frozen assets instead of writing them off at hefty discounts. Akbank, which sets aside full provision for loans under follow-up, stands to be the foremost beneficiary of this scheme.

Problems concerning asset allocation still persist

Problems concerning **asset allocation** still persist. Banks with CARs close to legal limits and with asset quality problems prefer to invest in Government papers rather than lending to the non-financial sector, whereas their borrowers seek maturity extensions and rollovers. The banks with solid CARs and less NPLs, on the other hand, strive to grant loans. Yet since their blue chip choices are fed up with leverage granted by various sources, these banks are also forced to allocate their funds into T-Bills. And although building a loyal corporate borrower portfolio is crucial for a bank's health in the long-run, continuing PSBR-backed high real interest rates on Government papers presents an attractive and less agonizing alternative. Therefore, instead of struggling with the NPL problems and bureaucracy associated with corporate lending with 100% risk weighting in return for lower interest income, it is wiser to invest in T-Bills and G-Bonds earning more than a 20% real return per annum with 0% risk weighting.

We have chosen to study the banking sector through our vision of the "CAMEL approach"

We have chosen to study the banking sector through our vision of the "**CAMEL approach**". In light of this method; Capital Adequacy appears satisfactory, Asset Quality heals gradually, Managements are generally top-quality and efficiency rises, not much hope for a leap in Earnings, and core Liquidity is far from capable of protecting the banks during a general crisis. Possible developments, along with Ak Securities' estimates are discussed comprehensively under the topic.

b. THE ECONOMY TO MOVE ON TRACK

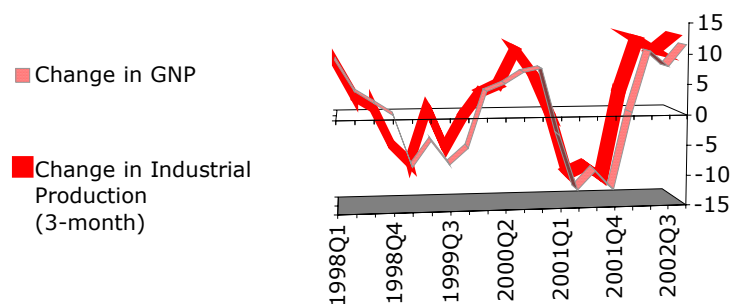
Our ‘Glimpse Through the Parting Clouds’, allow us to perceive signs of recovery for the long run mainly taking into consideration the improving macro indicators.

A top-down approach is the only option for the banks in order to arrive at a conclusion

We believe that a top-down approach is the only option for the banks in order to arrive at a conclusion. We are unable to recommend a bank-stock when we simply cannot be sure that investors feel comfortable from the macro perspective. Therefore we primarily prefer to convince investors on the economy front, before we enter the banking sector and then proceed to the individual banks themselves. Following the worst year in modern Turkey’s history, the economy began a gradual recovery in 2002. Although GNP growth exceeded even the most optimistic expectations, the woeful complaints of the man on the street continued deepening day by day. So why couldn’t GNP growth fuel the hopes of the market? The main reason lies beneath the source of the GNP figure. Most of the contribution stemmed from the import-oriented inventory accumulation of producers. Therefore, some of this robust GNP growth stands to be reversed as inventories are liquidated, especially in the second half of 2003.

The base year effect, on the other hand, is set to limit the growth prospects for 2003. However, almost all indicators in the first five-month period of this year present signs of a solid economic recovery. It is also noteworthy that those indicators such as capacity utilization and industrial production are registering impressive growth, despite the base year effect.

Industrial Production & GNP Growth

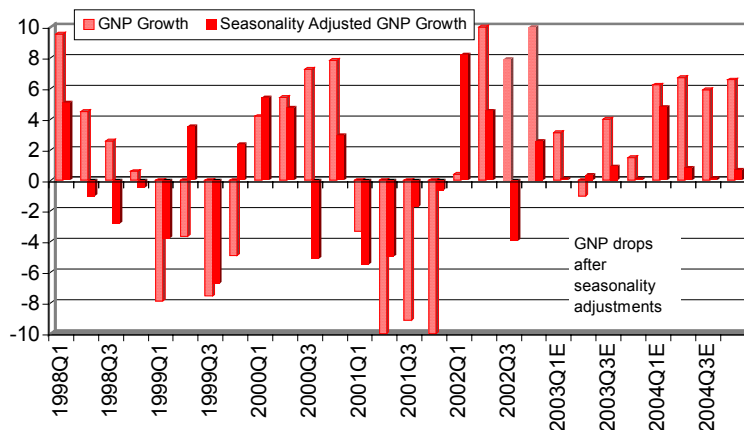


Source: SSI, Ak Securities

Most of the change in GNP can be explained by industrial production growth

Most of the change in GNP can be explained by industrial production growth. The two data series have a meaningful 94% correlation. Our 2003 and 2004 year-end GNP growth projections are 3.8% and 5.7%, respectively. We place great emphasis on macro growth projections, since our regression model that uncovers key balance sheet estimations is fairly sensitive to economic expansion.

Annual GNP Growth Rate (%)

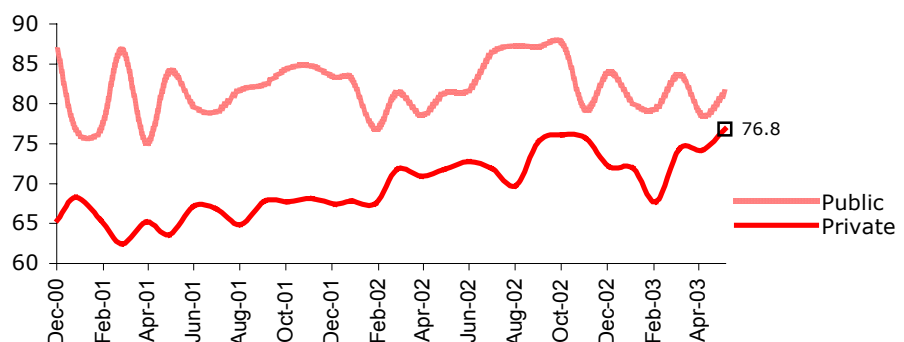


Source: SSI, Ak Securities

Another indicator providing us with a handle on economic growth is the capacity utilization rate

Another indicator providing us with a handle on economic growth is the capacity utilization rate (CUR). Since CURs are announced roughly two weeks before the release of industrial production data, they provide the very first clue as to the state of the economy. Total CUR hiked to 79% in May 03. The May 2003 77% private sector CUR is significantly higher than the monthly average of 70% from the beginning of 2001 until the end of 05/03. The continuing high CUR would consequently end up to elevated GDP growth figures and to more optimistic banking sector prospects mainly on the loan side.

Capacity Utilization Rate (%)



Source: SSI, Ak Securities

After many years of excessive inflation it becomes very hard to crack high inflation expectations

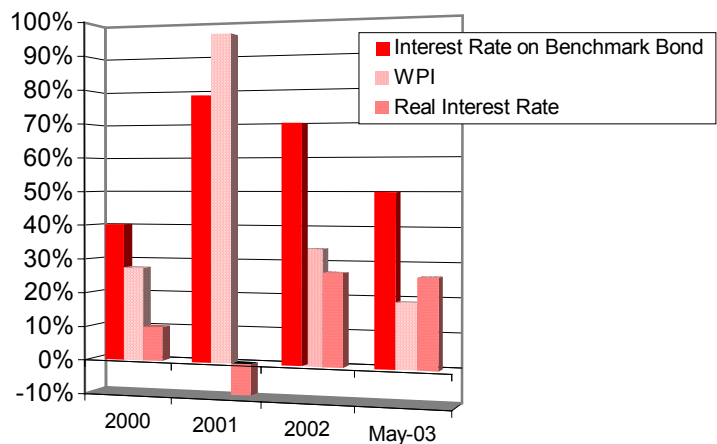
Addicted to Inflation

After many years of excessive inflation it becomes very hard to crack high inflation expectations. The government squandered its strongest means by which to erase these expectations when it pulled out of the crawling peg exchange regime in February 2001.

High inflation means high interest rates. Therefore the financial institutions in particular, which generate a bulky proportion of their earnings via meeting the Public Sector Borrowing Requirement (PSBR), will not be pleased to see a slide in real interest rates. Although the squeezed spreads between the interest rates on deposits and the T-bills are against the short-term interests of the banks, for the

long-term sake of the economy we are confident that the financial institutions favor the decline in real rates.

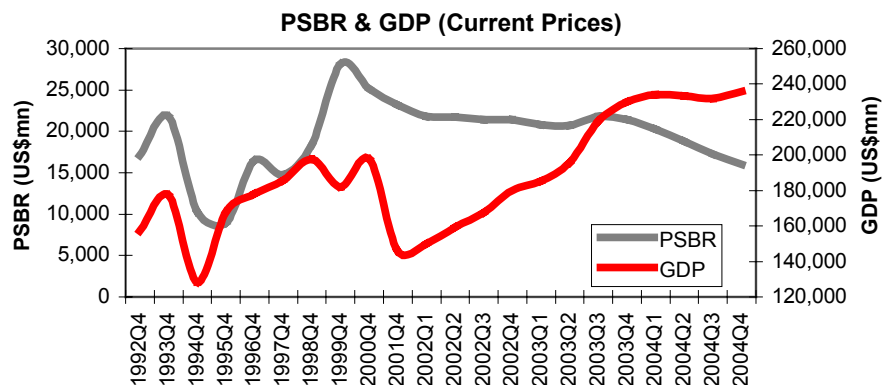
Real Interest Rates¹



Source: ISE, Ak Securities

Although the real interest rate appears negative in 2001, it is the result of our methodology. We have used the interest rates on the benchmark T-Bill at the beginning of the year, ahead of the February crisis and devaluation. The interest rates on government papers that leapt to 140% at the end of 1Q01 carried real interest rates up to a huge 50% in the subsequent periods.

PSBR & GDP



Source: The Ministry of Finance, Ak Securities Estimates
 PSBR projections derived from the IMF stand by arrangement targets including CBT profits

We expect the GDP to have reached US\$236bn with current prices by the end of 2004

We expect the GDP to have reached US\$236bn with current prices by the end of 2004. The ratio of PSBR to GDP is anticipated gradually sliding from 12% in 2002 to 6.8% in 2004, in line with the IMF backed economic program targets. The falling PSBR as a percentage of GDP will prompt the banks to switch from Government Securities to the real banking business of loan granting. Thus, in estimating the major aggregate balance sheet items of the banking sector, the PSBR and GDP projections are our key supports.

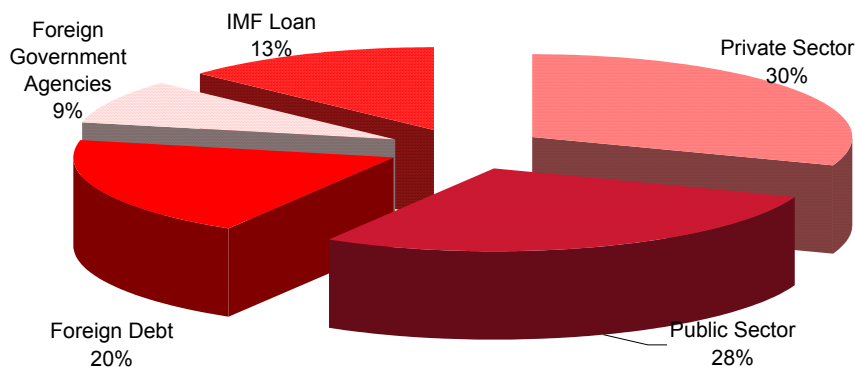
¹ Interest rates on benchmark T-bills are from the first business day of the year.

The largest obstacle distressing the economy is the consolidated budget balance and domestic debt rollovers

The Road Ahead

The largest obstacle distressing the economy is the consolidated budget balance and domestic debt rollovers. Monthly primary surplus data, reception of IMF loan tranches and the rollover rates of domestic debt will provide the major factors determining the economic condition. Secondary factors will take the shape of the real interest rates on domestic debt, consolidation of borrowings from state enterprises and FX rates.

Consolidated Budget Debt Profile March 2003 (US\$bn)



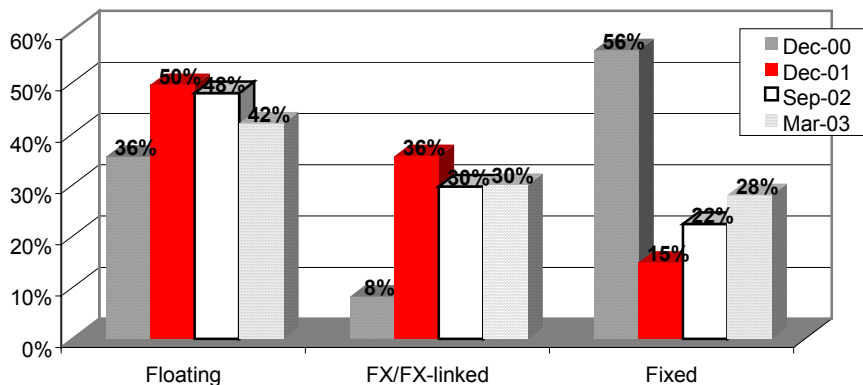
Source: The Treasury

The bulk of the US\$152bn debt is domestic (58%)

The bulk of the US\$152bn debt is domestic (58%). As we will discuss in later pages, private debt (30%), and not public debt (28%), is the major concern in rollovers. In 2003, the total planned domestic debt service (principle + interest) is US\$79bn, whereas foreign debt servicing will only amount to US\$11.5bn, due to the longer maturity structure.

To make its internal borrowing easier, the government switches from fixed rate borrowing to floating rate and FX-denominated borrowing at the cost of not benefiting from the inflation. As seen in the graph below, fixed rate securities, which accounted for a huge 56% of domestic debt as of the end of 2000, currently constitute a mere 28% of the total.

Breakdown of Domestic Debt

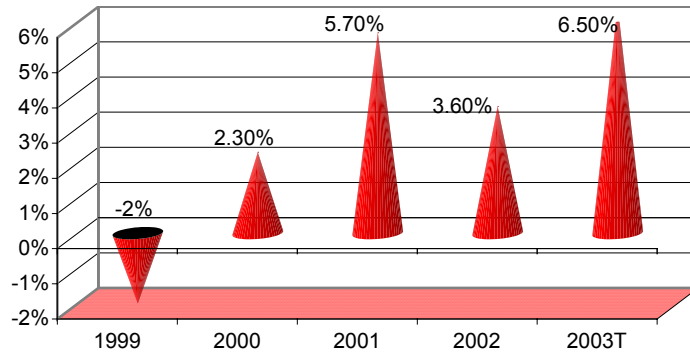


Source: The Treasury

In the following pages we discussed the Treasury’s ability to roll and payback its borrowings. We have worked through three different short-term scenarios so as to reach a conclusion on the budget’s bottom-line for the following year.

The primary surplus (budget balance excluding the interest payments) is one of the key factors relieving the tension of lenders directing funds to Turkey.

Primary Surplus* /GNP



Source: The Treasury
 T: Program Targets
 * Consolidated Public Sector Primary Surplus/GNP (Not consolidated budget PS/GNP)

The size of the primary surplus is highly decisive in generating a scenario analysis

The size of the primary surplus is highly decisive in generating a scenario analysis. The Central Government targets a primary surplus figure of US\$11.8bn that corresponds to 5.7% of GNP. We believe such a level of primary surplus to be achievable, since while the budgeted amount to be collected from the tax amnesty in the IMF program was US\$436mn (TL750trln), the government guaranteed the collection of US\$4.9bn (TL7qdr).

The Government divided this amount into nine installments, five of which will take place in 2003. Even the first tranche of US\$550mn, received in full in April, exceeds the budgeted amount. Therefore, the 5.7% primary surplus/GNP ratio is more or less realizable.

External Borrowing Requirement 2003 (US\$bn)²

	Primary Surplus/GNP			
	5.7%	4.0%	3.0%	
Roll-Over Ratio	80%	5.3	7.2	8.4
	90%	-	1.8	3.0

Source: Ak Securities Estimates

The Government’s ability to achieve a market roll-over ratio of 90% appears quite problem-free

The Government’s ability to achieve a market roll-over ratio of 90% appears quite problem-free when we consider the increased appetite of individual investors for domestic debt instruments, and the capital adequacy (CAR) consciousness of banks. We do not expect to see much of a problem for the Government’s short-term debt rollovers. As we feel quite comfortable on the 90% roll-over ratio, it would also not be a major problem were the primary

² Contributed by Hakan Aklar

surplus/GNP ratio to even slide to 4%. The ensuing requirement of US\$1.8bn would be covered via the additional amount collected from the tax amnesty, or slight external borrowing.

Yet were the primary surplus/GNP ratio to slip below 4%, problems would begin

Yet were the primary surplus/GNP ratio to slip below 4%, problems would begin. Borrowing rates and bond yields would hike instantaneously, and rumors of possible domestic debt consolidation would pull-down the roll over ratio, despite the increased yields. In short, such an eventuality would trigger macro worries. Therefore, the continuance of the IMF backed stabilization program is an utterly crucial aspect of economic health. However, we should stress that we do not anticipate witnessing such adverse events given such positive economy data announcements.

Financing Requirement of the Central Government

US\$bn	2002	2003P
Total Debt Service	89.2	90.4
Domestic Debt Service	79.6	78.9
Principal	52.4	50.7
Interest	27.2	28.2
Domestic Debt Service	79.6	78.9
To the Market	51.4	53.2
To the Public Sector	28.2	25.7
External Debt Service	9.6	11.5
Principal	6.2	7.3
Interest	3.4	4.2
Financing	89.2	90.4
Domestic Borrowing	63.4	67.2
Borrowing from the Market	55.3	53.7
Borrowing from the Public Sector	8.1	13.5
Other Financing	25.8	23.2
Primary Surplus	9.4	11.8
Privatization	0.0	0.7
International Institutions	13.2	3.9
External Borrowing	3.5	6.2
Use of Cash Account	-0.3	0.6
Market Roll-over Ratio	86%	89%

Source: The Treasury

c. LETTER OF INTENT ANALYSIS

4th Review of Economic Performance Under The Stand-By Arrangement

The IMF has released the fourth review of Turkey's economic performance under the Stand-By Arrangement, which will enable Turkey to immediately draw SDR510.6mn (around US\$701mn) from the IMF. The Stand-By Arrangement was approved on February 4, 2002 to a total amount of around SDR12.8bn (around US\$18bn). So far, Turkey has drawn about SDR10bn (about US\$14bn) under the current Stand-By Arrangement. Banking sector restructuring is one of the key criteria stipulated in the review.

In this section we will examine the financial sector component of the stand-by arrangement. *Although we have analyzed similar topics throughout this report, so as to provide information on the areas the government and the IMF laid particular emphasis on, we have preferred to investigate the letter of intent separately.*

Improvement has been achieved in the main pillars of the BRSA's banking restructuring strategy

* Improvement has been achieved in the main pillars of the BRSA's banking restructuring strategy. The private banking sector is further strengthened, efforts are continuing on the resolution of the SDIF banks and disposal of the assets held by its Collection Department, restructuring and privatization of the state banks is progressing, and the regulatory and supervisory framework is being strengthened.

The soundness of the private banking sector is improving

* The soundness of the private banking sector is improving, with increased capital adequacy ratios and reduced risk exposure. The average capital adequacy ratio of private banks had increased to 16.4 percent as of September 2002. Banks are further reducing their vulnerability to risks as open foreign exchange positions remain well below the regulatory limits, and interest rate risk is declining due to the Treasury's issuance of floating rate notes. It is worth noting that the net FX position of the system is currently positive. In addition, the recapitalization program and the three-stage audit process have ensured that non-performing loans are properly provisioned for. And although the audits pulled down profitability, increased transparency has done the invaluable service of improving confidence in the banking system.

The government aims to take several measures to support the rapid resolution of the NPLs

* The government also aims to take the following measures to support the rapid resolution of the NPLs: *i)* The Ministry of Justice has prepared a package of comprehensive reforms for the Execution and Bankruptcy Act. These reforms are aimed at creating an effective bankruptcy system that will provide appropriate incentives for voluntary resolution in good faith. Parliament did not pass the reforms by mid June. Therefore a structural benchmark is currently delayed. *ii)* The Istanbul Approach for corporate debt restructuring is progressing gradually. The reform of the Execution and Bankruptcy Act will further improve the effectiveness and pace of the debt restructuring process. *iii)* To facilitate the resolution of banks' bad assets, the BRSA has approved a regulation governing the establishment and operation of asset management companies. Moreover, by end-June 2003 the government will introduce an exemption from value-added tax for second-hand loan and collateral sales by banks, non-bank financial

institutions, and asset management companies to promote the rapid disposal of NPLs, and to facilitate the establishment of private asset management companies. *We believe that the road to the formation of asset management bodies will be paved by these reforms. The entry of foreign direct investments such as bank acquisitions would expedite the process. The major obstacle at this point will be the low provision coverage ratios of the Banks. We have examined this topic thoroughly in the Istanbul Approach section of this report.* Finally, *iv)* to sustain the profitability and the capital adequacy levels of the banks, the government plans to establish an inter-agency working committee comprising representatives of the Treasury, Ministry of Finance, Central Bank, State Planning Organization, and the BRSA. *By end-May 2003, the Committee will develop an action plan to reduce the intermediation costs of the banking sector, including costs imposed by taxation, and reserve requirements, as well as other duties imposed by various institutions (a new structural benchmark). This action plan will be implemented as monetary and fiscal conditions permit. We believe that such a move represents a highly important and positive step illustrating the government's (or the IMF's) perspective on the subject.*

The SDIF is continuing efforts to resolve the remaining taken over banks

* The SDIF is continuing efforts to resolve the remaining taken over banks, although in some cases progress has been hampered by legal disputes. Since no investor expressed an interest in its purchase, Toprakbank's license was revoked by the BRSA as of September 30, 2002. The bank's unhealthy assets were transferred to the SDIF's Collection Department, and remaining healthy assets and liabilities were merged into Bayindirbank, which remains a bridge bank. Tarisbank was sold to Denizbank on October 25, 2002. Meanwhile, Turk Ticaret Bank was put into voluntary liquidation by vote of its General Assembly on August 9, 2002. However, the Istanbul Commercial Court has issued a preliminary injunction halting the liquidation; with a final resolution pending the outcome of the legal case.

- The resolution of the ownership issues surrounding Pamukbank and Yapi Kredi is underway. A comprehensive solution that will underpin the future of these two banks is implemented. As a result of the agreement: *i)* The SDIF has again taken control of Pamukbank and has reinstated its sales process, extending the period for offers for sale to be made to March 28, 2003. Since no offers were received by that date, the BRSA will again put the bank up for sale, with bids to be submitted by June 13, 2003.
- *ii)* The continuity of Yapi Kredi will be safeguarded, with majority shareholders bearing the financial cost and assuming full responsibility for its successful resolution. The SDIF will exercise ownership rights via the stake it has acquired through taking over Pamukbank; it will also continue to exercise ownership rights, excluding rights to the dividends, of Yapi Kredi's majority shareholder. Bank management will be appointed by an advisory firm of international repute, conditional on ultimate SDIF approval.
- *iii)* If the majority shareholder is unable to sell its shares in Yapi Kredi within two years, it will be sold by an investment bank of international repute in the third year.

Yapi Kredi's violation of the single-borrower lending limit will be resolved in the context of the sale of the Bank

* External auditors will be required to monitor the compliance of all parties to the agreement, and to assess the bank's financial condition and capital adequacy annually. If either assessment reveals a capital shortfall, the *SDIF will provide the capital needed to maintain a CAR of 10 percent in the event that the majority shareholder fails to inject the required capital. This is the most important point concerning YKB. We view this as a direct SDIF commitment never to let the Bank down. Therefore, small investors holding YKB shares will not face an awkward situation whereby the Bank is banned from trading on the ISE.* Yapi Kredi's violation of the single-borrower lending limit will be resolved in the context of the sale of the Bank. *This is another important point to consider. As far as we have understood, the BRSA will not oblige the Bank to lower its related party lending as a percentage of the capital base to 55% in 2003, which will gradually slide to 25% until 2007. According to our estimations, the group loans of YKB net of group deposits correspond to 118% of the capital base as of the end of 2002.*

The SDIF has developed a detailed strategy for disposal of assets

* The SDIF has developed a detailed strategy for disposal of assets held by the SDIF Collection Department. The strategy announced on September 20 is in line with international best practice. However, the end-October structural benchmark for putting loan portfolios with face value of at least US\$250 million up for sale, with bids to be submitted by end-2002, was missed. Initial market soundings also revealed that going ahead with the auction prior to the enactment of the bankruptcy and foreclosure law would negatively impact the outcome. To expedite the process, the SDIF will complete all technical preparations (including selection of the loan portfolio, ensuring that all data and documentation issues are resolved) and announce the sale by end-June 2003 (a new structural benchmark), by which time the comprehensive bankruptcy reform will have been passed. *Formation of such a practice will also lead to the establishment of private AMCs (Asset Management Companies) as we have mentioned on previous pages.*

With World Bank assistance, the Government has made good progress in the financial and operational restructuring of Ziraat and Halk

* With World Bank assistance, the Government has made good progress in the financial and operational restructuring of Ziraat and Halk, and the privatization of the two, together with Vakif, is approaching. *i) As of end-January 2003, 803 branches of Ziraat and Halk had been closed (compared with the planned 800), and the number of employees in these banks has been reduced to below the planned 32,000. The Government will continue to refrain from interfering in the commercial decisions of state-owned banks, and continue to adhere to the implementation of prudential and commercial banking principles. Hence, any new lending by the two state-owned banks would continue to be provided based on the commercial criteria of creditworthiness and applicable interest rates. Ziraat and Halk will not carry out any subsidized lending practices without an appropriation in the government budget and prior payment, as stipulated by law. ii) Concerning Ziraat, the Government is in the process of defining an appropriate corporate structure in advance of its privatization, which will take into account the sui generis role of the bank in providing public services and finance to the agricultural sector. Both activities shall continue to be carried out in line with standard commercial banking principles. However, the bank is in the process of solving existing agricultural credit stock problems accumulated over previous years. Loans that were extended and fully utilized before January 31, 2002, which are classified as non-performing and which are fully provisioned,*

will be restructured on terms and conditions determined by the Bank. They will be repaid in six semi-annual installments, with the first installment due as of the restructuring date. This measure will help the bank to collect on its overdue loan portfolio, and to enable both debtors and guarantor agricultural producers to be eligible for financing by the banking system. We view this action as a gigantic step towards halving the more than 20% NPL ratio of the system. Nevertheless, the quality of the assets will remain questionable. iii) For the privatization of Halk Bank, a strategic study will be carried out by independent outside consultants, to be completed by end-September 2003. It will look into the future strategic directions of this bank, the prospects for different sectors of the economy, and the appetite of possible international and domestic investors, considering all options and formulations to make the privatization feasible.

The Government anticipates privatization of Halk taking place in 2004

The Government anticipates privatization of Halk taking place in 2004, with Ziraat following shortly thereafter. We are not particularly optimistic on the timing of the sales. The major point behind this view is that YKB, a highly efficient Bank with a huge 30% market share in the credit card segment, a solid loyal customer base and high staff quality, will also be on sale at that time. Therefore, pricing of the state banks will be the key concern. iv) Concerning Vakif, following the first unsuccessful sale process, the Bank has undertaken both operational and staff restructuring, and has divested some of its non-financial assets. A strategy for the sale is being developed by the Bank in consultation with the World Bank, with the aim of completing the sale by end-October 2003. Our worries persist for Vakif as well. In addition to YKB, Pamukbank's sale will also take place during this process.

d. BREAKDOWN OF BANK GROUPS

The number of commercial banks soared twofold to 62 as of the end of 1999 from the 1980's figure of 31

In a climate of high budget deficits backed by enormous real interest rates, it became extremely attractive for the leading conglomerates to establish their own banks, especially during the last two decades up until 2000. Generating income through those high rates had been just like taking the proverbial candy from a baby. Besides meeting the funding requirements of the public sector, directing funds to group companies has also been another favorable outcome of owning a bank. Consequently, the number of commercial banks soared twofold to 62 as of the end of 1999 from the 1980's figure of 31.

The number of foreign commercial banks hiked to 19 in 1999 from a mere 4 in 1980

The most extraordinary jump came from the foreign commercial banks. Due particularly to rapid branch openings of foreign banks that are not established in Turkey, the number of such banks hiked to 19 in 1999 from a mere 4 in 1980. Most of these foreign banks have only one representative branch, and are currently fundamentally quite inactive. And yet we expect a solid recovery to activate their existence. Citibank has always been active in the Turkish market, expanding rapidly throughout Turkey, whereas HSBC via the acquisition of Demirbank, entered the game last year. We expect more sizeable international banks to enter the Turkish financial sector in the coming years. However, we do not expect any foreign entry in 2003, due to an unfavorable and highly volatile business environment, coupled with continuing lack of investment incentives. Nevertheless, the Government is also working on a draft law to simplify foreign direct investments.

Number of Banks by Types							
Number of Banks	1980	1990	1994	1999	2000	2001	2002(*)
Commercial Banks	31	54	55	62	61	46	39
State	8	7	6	4	4	3	3
Private	19	25	29	31	28	22	19
Foreign	4	22	20	19	18	15	15
SDIF	-	-	-	8	11	6	2
Investment and Development Banks	6	10	12	19	18	15	14
State	4	3	3	3	3	3	3
Private	2	4	6	13	12	9	8
Foreign	-	3	3	3	3	3	3
Total	37	64	67	81	79	61	53

(*) As of April 22, 2002

Source: The BRSA

After the triggering of the previous IMF backed stabilization program at the end of 1999, in order to benefit from the one-off windfall gains on bonds, banks invested heavily in government papers. In 2000 the interest rates on these papers nose-dived, leading the banks to record huge gains. The TL started to gain value against major currencies. Deposits and loans boomed. Indeed, at that time financial sector players certainly felt little concern over the possibility of being taken over, as five banks had gone public on 22 December 1999; just two weeks after the issuance of the letter of intent.

Imports were booming, whereas exports were downward sloping due to the strong TL. The current account deficit was widening with each passing day. The Government in retrospect needed to cool down the economy, but did not do so. External borrowings augmented to an all-time-high of US\$119bn, a huge 24% of which was hot money. The short-term component of external debt started to slide in 2002. In actual fact, hot money was replaced with IMF and WB loans, which bear longer maturities and relatively favorable interest rates. A mere 14.4% of foreign borrowings are currently short-term. The floating exchange rate regime limits short-term speculative foreign debt (this regime also lessened the negative effects on the Turkish economy of the Iraq war).

The stabilization program was miss-managed and the economy moved to the brink of collapse in November 2000

The stabilization program was miss-managed and the economy moved to the brink of collapse in November 2000. Interest rates on bonds, which quadrupled in that period, caused severe damage, especially to banks that invested heavily in T-Bills and Government Bonds. Three banks, including the fifth largest private commercial bank, Demir, were taken over by the BRSA and placed under the administration of the SDIF in the final quarter of 2000. Thus, the number of private commercial banks declined to 28 from 31 throughout the year. Then there came official announcements to the effect that unhealthy banks were to be removed from the system. Tension was gradually eased and hopes appeared set to rise again. Yet the Ecevit-Sezer (respectively the PM of the 57th government and incumbent President) dispute swept away all optimism, bringing about long-term despair.

e. CURRENT SITUATION IS BENT BY THE CRISES

The second phase of the crisis arrived in February 2001, and the impact proved brutal

The second phase of the crisis arrived in February 2001, and the impact proved brutal. O/N Repo rates even touched an incredible 7,000%. The banks, which used to allocate those very-short-term funds into government papers, faced the most severe impairment. Coupled with such huge negative spreads, banks also booked marked-to-market losses that eroded most (all in some cases) shareholder equity. The open FX positions that were covered by so-called forward FX contracts were also another source, widening the scale of the doomsday scenario.

Once the value of the TL had doubled against the US\$, the funding costs of the banks rose correspondingly

To benefit from the hefty real returns on TL instruments, the banks had used to borrow in FX via deposits & syndicated loans and direct them to risk-free (!) G-bonds for a long time. Yet once the value of the TL had doubled against the US\$, the funding costs of the banks rose correspondingly. Besides these short-term effects of the crisis, NPL-based asset quality problems were yet to come. Eight more banks were taken over in 2001. Finally all banks confronting direct injury were eliminated from the system. Due to certain mergers and sell-offs, the decrease in the number of private commercial banks was limited to 6 banks.

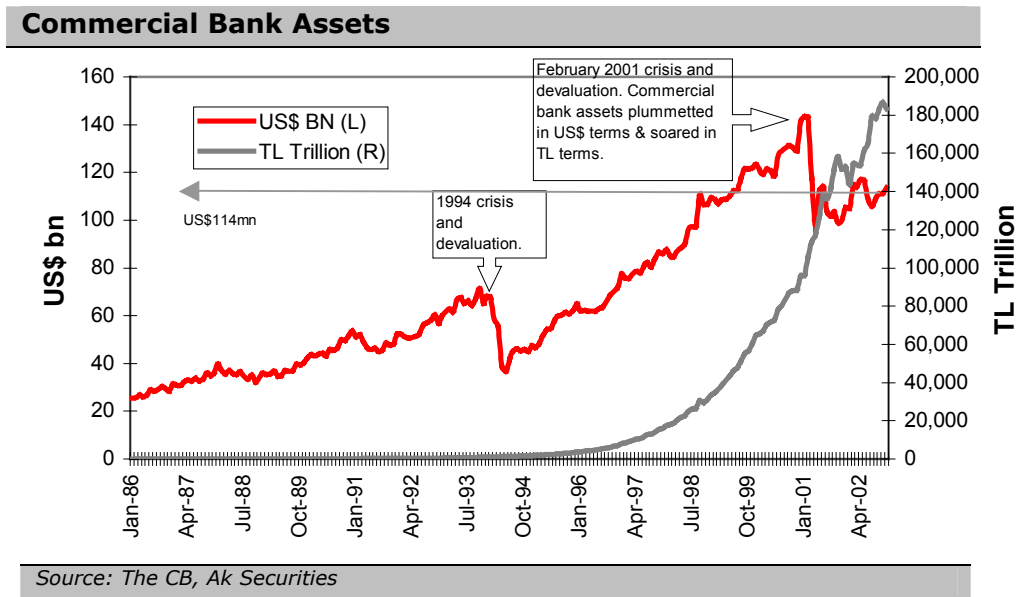
In 2002 the problematic loan challenge started to depress the sector

In 2002 the problematic loan challenge started to depress the sector. Following the three-phased audit process in 2002, the real size of the NPLs became visible. Some banks rescued themselves by pulling down the loan-loss provisions to their legal limits, or by receiving more collateral from borrowers. Yet some banks such as Pamukbank found themselves in deep mud. The BRSA ultimately took Pamuk over in mid-June.

Those takeovers and mergers consequently pulled down the number of banks (including development & investment, state and foreign) in the system to 53 in 2003, from an all-time high of 81 in 1999.

The sector's asset size in US\$-terms slides in times of crisis

According to Central Bank data on the size of aggregate commercial bank assets, the total balance sheet of the sector had reached US\$114mn at the end of November 2002. As seen in the graph below, the sector's asset size in US\$-terms slides in times of crisis, due mainly to the devaluation of the local currency. Shrinkage in commercial bank assets has been observable since the start of the February 2001 crisis. We expect a recovery to commence in 2Q03 on the back of appreciating local currency and falling interest rates after a first quarter that passed with Iraqi war-sparked negative developments.



Source: The CB, Ak Securities

f. ANTICIPATED OUTLOOK OF THE SECTOR

For the past couple of years the banking sector has displayed a gradual shrinkage on the back of twin crises

For the past couple of years the banking sector has displayed a gradual shrinkage on the back of the above-mentioned twin crises. Many have lost their jobs, wages have halved in US\$-terms, and deposits are withdrawn to maintain living standards as well as provide protection against possible domestic debt consolidation. The low rollover rate of syndicated loans was another rationale behind the balance sheet contraction. Also, there has not been much of an instrument via which to allocate the assets. The corporations demanded bank-loans simply to rollover existing debt and meet their short-term working capital requirements. Therefore, the limited funds were directed to good old G-bonds.

Tax incentives were introduced to encourage mergers and acquisitions of banks

Besides the fundamental balance sheet slimming down, the consolidation also took its toll. Tax incentives were introduced to encourage mergers and acquisitions of banks and their subsidiaries. With the contribution of these incentives, the number of mergers and acquisitions increased in 2001 and 2002. The major protagonist of this era was the SDIF. Six of the taken over banks were merged under Sumerbank and sold to Oyak, Banekspres was acquired by Tekfenbank, Demir was sold to HSBC and Sitebank was transferred to Novabank. Interbank, Esbank and Etibank, which were merged under Eti and placed on sale, failed to attract any bids, leading to its banking license being revoked. Toprak and EGS banks are merged into Bayindirbank, which is the BRSA's asset management body. Details of these M&As are examined in the coming pages.

Conglomerates having more than one bank started private commercial bank mergers

It was not just the SDIF banks that underwent mergers. Those conglomerates having more than one bank started private commercial bank mergers. Dogus Group triggered the process via merging Korfezbank into Ottoman Bank, and thereafter the two into Garanti Bank. Cukurova Group made an unsuccessful attempt to locate Pamukbank inside Yapi Kredi, as the operation was rejected by the BRSA to protect Yapi Kredi's shareholders. The details of this operation and

the outcome are analyzed in the Yapi Kredi Bank Update section of this report. Unicredito Italiano's (M.Cap: US\$23bn) 50% acquisition of Koc Financial Services (KFS) for US\$240mn represents another accomplishment of this era. Unicredito expects to raise KFS' ROE to 20% levels by 2004. Milan-based UniCredito has purchased banks in Poland and elsewhere in Eastern Europe over the past few years in order to expand in markets where demand for banking services is anticipated growing more quickly than in Italy. Another merger came from two development and investment banks with identical shareholder structures. Sinai Yatirim Bank was merged under TSKB at the end of 1Q02. And Finansbank's acquisition of its little sister Fibank in 1Q03 provides the latest example from the consolidation era. Finansbank managed to strengthen its CAR from 8.65% to more than 10% through this arrangement.

The quest for economies of scale is likely to persist in the following quarters as well. Besides cutting down operational costs through mergers, the banks strive for critical mass in order to pull down the interest paid on deposits and syndicated loans. The "too big to fail" mindset, which we perceive to be one of the key stimuli behind bank mergers in Turkey, provides additional self-confidence and reduces financial vulnerability.

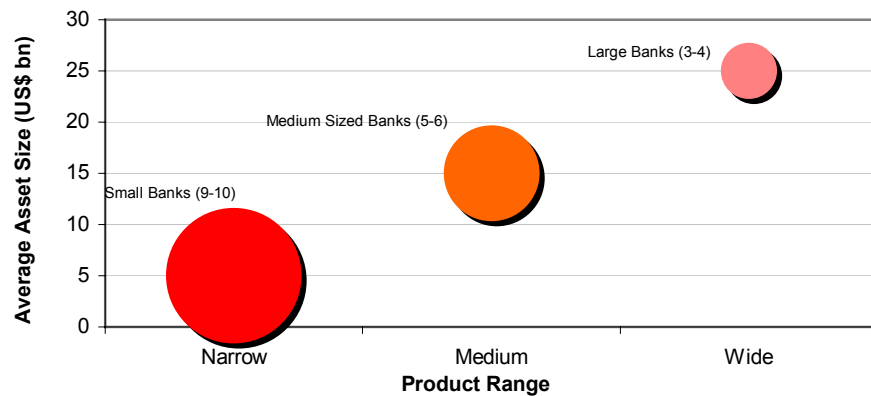
There are too many banks providing almost identical services in the system

There are too many banks providing almost identical services in the system. And as consolidation and liquidations continue, smaller-sized banks will not have much chance of competing with the large ones that enjoy significant cost advantages, especially on deposits and syndicated loans. The widespread distribution networks of the large banks afford them the opportunity to hold 15-20% of deposits as demand deposits, paying almost no interest.

We anticipate a flight to quality, which has in fact become the motto of the financial sector over the past two years, to accelerate in the following quarters

We anticipate a flight to quality, which has in fact become the motto of the financial sector over the past two years, to accelerate in the following quarters. Therefore, the big will get bigger, whereas the smaller ones continuing to offer identical products are likely to be eliminated from the system via mergers, or simply through insolvency. The only way out for the small player seems to be to turn to niche products. The most revolutionary move for such a change came from Alternatifbank. The bank sold its entire credit card business to Finansbank and thereby terminated its lending-side consumer banking operations. Alternatif began to place emphasis on corporate customers and on moving forward to become a boutique Bank likely to be inspired by other small-sized banks, as competition intensifies.

Commercial Banking - 10 Years From Now



Source: Ak Securities Estimates

Globalization and fierce technology-based competition came to squeeze interest margins in the sector

Homemade Drugs to Relieve the Banks

Globalization and fierce technology-based competition came to squeeze interest margins in the sector. And while this competition initially sparked the approach of using state-of-the-art tools -somehow regardless of the costs-, the potential proceeds disappeared with each bank adopting virtually identical technology. The widespread ATM and POS networks are key examples of this line of attack.

Besides switching to internet-based substitutes for these systems, banks are also moving towards the idea of sharing what they possess with their peers so as to boost synergy. In 1998, 16 small and medium-sized banks began the Ortak Nokta³ (Shared Point) practice that enabled customers to view their accounts and withdraw money from any of the Ortak Nokta banks’ ATMs. Another shared ATM practice is Altin Nokta⁴ (Golden Point), which comprises five relatively larger banks.

There are currently more than 12,000 ATMs in Turkey, around 30% of which are surplus to requirements

There are currently more than 12,000 ATMs in Turkey, around 30% of which are surplus to requirements. Competition on the POS side is much fiercer still, with several POS machines in every store. The number of POS machines has even climbed to five or six units in some smaller-sized stores; wholly wasteful of banks’ resources. Investing in these machines worth more than US\$200 without thoroughly evaluating the costs will ultimately lead the banks to do some serious thinking. The big four banks account for around 70% of approximately 500,000 POS machines. Shared usage of ATMs and POS machines, can lead to annual savings of up to US\$160mn.

Number of ATMs and POS Terminals

	2002/1	2002/2	2002/3	2002/4
Number of ATMs	11,556	11,684	11,984	12,069
Number of POS machines	382,297	429,152	463,761	495,718

Source: Interbank Credit Card Center

³ Abank, Anadolu Bank, Citibank, Denizbank, Finansbank, HSBC, MNG, Oyak, Sitebank, Sekerbank, Tarisbank, Tekstil, Tekfenbank and TEB

⁴ Garanti, Akbank, Vakifbank, Disbank and Kocbank.

Turkish banks have been used to supplying services virtually for free simply in return for holding money as demand deposits for a few days

Coupled with cost reduction, the income side of the banks must also be considered. Turkish banks have been used to supplying services virtually for free simply in return for holding money as demand deposits for a few days. And yet sliding margins have forced the banks to place emphasis on commission and fee income. The off-balance sheet items, EFTs and credit cards make up the bulk of non-interest banking revenues. We expect the share of net commission income in the pre-tax profit of commercial banks' aggregate balance sheet to gradually rise, exceeding 50% levels in over the coming ten years. Those banks boasting widespread distribution networks and an edge in retail banking stand to be the foremost beneficiaries of this approaching era.

Burdens on the Sector

The tax load saddled on the sector has become increasingly difficult to bear with the passing years. At least some of this weight must be released to extend the breathing space of the banks. The partial removal of such burden along with other legal obligations under various names would eventually pull down interest rates as well as lending a hand to the depressed economy. Every time the Government observes a possible deficit in the budget, a new tax is applied - especially- on banks. Details of some major tax items are as follows:

Corporate tax (CT), which is calculated over the income generated by the banks, is one of the major fiscal burdens of the banks. The CT base is calculated over the net corporate income generated by the banks during a certain tax period. The corporate tax calculated over the CMB corporate income is 30%. There is an additional fund levy of 10% on corporation tax, which gives an effective corporation tax rate of 33%. The banks also pay advance tax over their corporate income on a quarterly basis, which shall be offset against the current period's corporate tax at a rate of 25%. There are plans to be enacted probably in the following year to remove the additional fund levy and increase the advance tax by five percentage points.

The corporate tax load on the sector can be relieved to some extent if IAS income statements are used as a base. In 2001 the total corporate tax burden of the banking sector was a huge US\$1.6bn (36% of total corporate tax collected in Turkey); whereas the consolidated net loss amounted to US\$3.5bn. None of the Turkish domestic commercial banks posted a bottom-line profit last year. Therefore the banks paid tax on their loss, which represents an awfully pointless tax practice. In our projections, we have assumed that the banks would start paying tax on their IAS pre-tax income, instead of the cash-sucking CMB practice, as of the beginning of 2004.

Some of the income generated by the banks is taxed at source depending on the nature of that particular income

Banks are subject to **withholding tax (WHT)**, which is calculated over a portion of their income. WHT that can be offset against the ultimate corporate tax is a significant financial liability for the banks. Some of the income generated by the banks is taxed at source depending on the nature of that particular income. These huge withholding tax rates are the main reason why the real persons switch from deposits to direct holdings of government securities.

The applicable WHT rates are as follows:

- 12% of interest income derived from registered and bearer private sector bonds.
- 12% of interest income derived from other debentures.
- 16% of profit share paid to those extending interest-free loans. (Special Finance Institutions: SFI).
- 16% for deposits with a maturity of between 30 and 90 days.
- 14% for deposits with a maturity of 180 days.
- 10% for deposits with a maturity of 360 days.
- 6% with a maturity exceeding 360 days.
- The WHT rate applied on the reverse-repo income is 20 %.
- The WHT rate applied on the dividends derived by the Turkish-resident banks as a result of participating in Turkish resident corporations is 5 % if the participated entity is a public company, 15 % for others.
- 11% for B type investment funds and trusts.
- The Banks have to withhold tax on income generated by their customers, shareholders, professionals providing services for them, employees, and other resident or non-resident taxpayers that generate certain types of income. The WHT rates applied on the dividends distributed by the Turkish resident banks after deducting their CT exempt income are 5% for public banks and 15% for non-public banks. The payments made to professionals by the banks are subject to a 15% or 20% WHT rate, depending on the nature of the professional service.

Banking and Insurance Transactions Tax (BITT) is a tax imposed on transactions. Income generated by banks from both banking and non-banking activities is subject to BITT regardless of the nature of the transaction. The general current rate of BITT is 5%. For the income arising from the deposit transactions between banks, stock exchange money market transactions, repo and reverse-repo transactions and the sale of Treasury Bills and Government Bonds prior to their maturity, the applicable BITT rate is 1%. For foreign currency transactions, BITT is applied over the amount of foreign exchange sold at a rate of 0.1%.

In order to direct the investments and to reduce costs incurred in special loans in accordance with development plans and yearly programs, the **Resource Utilization Support Fund (RUSF)** was established in 1988. The RUSF rates applicable to credits supplied by Turkish Banks and financial institutions in consumer credits (only to real persons for commercial purposes) are 3% and to other credits 10%.

Other than the tax burden there exist bank obligations arising from banking and capital markets legislation. Besides placing additional weight on the shoulders of the banks, these obligations also entail additional time consuming bureaucracy.

Other Obligations

	<i>Obligation</i>
1	Saving Deposit Insurance Premiums
2	BAT Cost Participation Shares
3	General Disponibility Requirements
4	Reserve Requirements
5	Provisions for Loans
6	BRSA Expenses Participation Shares
7	System Entry Fees
8	Bond Registration Fees
9	Bond and Treasury Bills Market Participation Fees
10	Securities Fund Levy
11	Investors Protection Fund Levy

Source: The BAT

Details of some major non-tax obligations are as follows:

The BRSA pulled down the quarterly ratio of insurance premiums for savings deposits from %0.25 to a base ratio of %0.125

Saving Deposit Insurance Premiums: The BRSA pulled down the quarterly ratio of insurance premiums for savings deposits from %0.25 (25/10,000 of savings deposits) to a base ratio of %0.125. The new practice corresponds to an annual figure of 0.5% compared to the previous ratio of 1%. On top of the new base ratio, additional premiums are required for the banks with low CAR, high net NPL ratio, high intergroup lending, lack of free capital and high net FX positions. We omitted the FX position part in our analysis since no bank in our coverage has a net FX position to capital base ratio exceeding the legal maximum of 20%.

Working through the 2002 year-end figures we estimate Akbank and TEB, which do not have any additional premium requirements, to benefit from this change the most. Akbank is expected to have an additional US\$45mn resource (2.3% of shareholders' equity) to be allocated to earning assets, whereas the figure will be US\$4.4mn (2.8% of shareholders' equity) for TEB. Yapi Kredi Bank is expected to be the least positively affected due mainly to its related party lending and negative free capital.

Annual Savings Deposits Insurance Premium Savings

US\$m	Akbank	Garanti	Isbank	Yapi Kredi	Disbank	Finansbank	TEB
Savings Deposits (Real Persons)	9,007	6,449	8,841	6,526	1,146	1,660	875
Quarterly SDIF Premium Burden Calculations							
a. SDIF Base Premium - New Practice (12.5/10,000)	11.3	8.1	11.1	8.2	1.4	2.1	1.1
Capital Adequacy Ratio (CAR)	39%	13%	25%	15%	11%	9%	15%
b. CAR Premium (2/10,000 if 8%<CAR<12%)					0.23	0.33	
Net' NPL Ratio	0.0%	4.3%	9.6%	3.5%	0.6%	3.9%	0.6%
c. NPL Premium (1/10,000 if Net NPL Ratio>5%)			0.9				
Free Capital	1,499	-606	-748	-545	114	13	63
d. Negative Free Capital Premium (1/10,000 if Free Capital<0)		0.6	0.9	0.7			
e. Related Party Lending Premium (3/10,000 if Net Group Loans>55% of Capital Base for 2003)				2.0			
f. Quarterly Total SDIF Premium Burden (a+b+c+d+e)	11.3	8.7	12.8	10.8	1.7	2.4	1.1
g. Annualized Total SDIF Premium Burden 4*(a+b+c+d+e)	45.0	34.8	51.3	43.1	6.6	9.6	4.4
h. Annualized SDIF Premium - Previous Practice 4*(25/10,000)	90.1	64.5	88.4	65.3	11.5	16.6	8.7
Annual Premium Savings (h-g)	45.0	29.7	37.1	22.2	4.8	7.0	4.4
Annual Premium Savings (% of Previous Practice)	50%	46%	42%	34%	42%	42%	50%

Source: The BRSA, Ak Securities Estimates

General Disponibility Requirements: Banks are obliged to keep disponible assets for their total liabilities. The disponibility ratio is set forth as 4% for the TL liabilities and 1% for foreign currency liabilities. The disponibility ratio for TL and FX deposits, which made up 70% of the balance sheet as of the end of 2001, was 8% and 3%, respectively. The ratio for non-deposit TL and FX liabilities was 12% and 14% at the end of the same period. Therefore, not every action taken was against the sector.

Reserve Requirements: Banks are required to found a reserve in cash in a CBT-blocked account over their liabilities. The Compulsory Reserve rate stands at 6% for TL liabilities and 11% for FX liabilities. Interest is paid for the compulsory reserves founded for TL (22%), and foreign currency (1%) liabilities. Although we believe paying interest on reserve requirements to be a favorable practice, rates that are less than half of market rates, are unsatisfactory.

Consequently, with the help of the enforcement of the banks through the BAT (Banks Association of Turkey), the letter of intent involved the new structural benchmark of reducing the legal burden on the financial sector. To sustain the profitability and capital adequacy levels of the banks, the government aims to establish an inter-agency working committee comprising representatives of the Treasury, Ministry of Finance, Central Bank, State Planning Organization, and the BRSA. The Committee would develop an action plan to reduce the intermediation costs of the banking sector, including costs imposed by taxation and reserve requirements, in addition to other duties imposed by various institutions.

This action plan will be implemented as monetary and fiscal conditions permit. Although we do not expect duties to be pulled down significantly in the foreseeable future, the very existence of such a theme in the letter of intent constitutes a major development. Evidence of solid development in the reduction of costs saddled on the banks would act as a catalyst on banking sector stocks.

The Banking Sector Restructuring Program, triggered in mid-2001, aims to remove distortions in the financial sector

Financial sector restructuring has always been a costly process, as observed in the practices of various countries

III. ENCOURAGING DEVELOPMENTS

The Banking Sector Restructuring Program, triggered in mid-2001, aims to remove distortions in the financial sector, and adopt regulations to promote an efficient, globally competitive and sound Turkish banking sector. The restructuring program was based on four main pillars: *i.* A restructuring of the state banks *ii.* Prompt resolution of SDIF banks *iii.* Strengthening of private banks and *iv.* Strengthening of the regulatory and supervisory framework.

What the Turkish banking sector has been going through since the start of this restructuring program is a metamorphosis. Elimination of so-called duty losses of state banks, switching to inflation accounting and issuance of relatively transparent financials are the changes observers had dreamt of for a long time. Indeed, we hope to see continuing improvements on this front. What we are expecting to witness most in the near future is the corporate tax that is likely to be paid on IAS profits instead of inappropriate CMB ones. The triggering of this practice will improve cash flows; specifically those banks with higher net monetary positions are set to be the foremost beneficiaries. The removal of the blanket deposit guarantee, on the other hand, will be the main sign indicating completion of the financial sector rehabilitation scheme.

Heavy Cost of Restructuring

Financial sector restructuring has always been a costly process, as observed in the practices of various countries. We calculate the cost of Turkish banking sector restructuring at US\$60bn¹. This cost corresponds to a huge 41% of the 2001 year-end GDP at current prices. The NPL ratio of the sector rose to 19% at the end of 2001 (17% as of the end of 1Q03) from the 2000 figure of 10%. This size of credit crunch is quite reasonable when compared with the experiences of Indonesia and Thailand. The gross NPLs made up a minor 4.5% of GDP, which is the lowest percentage of problematic loans among those countries that underwent banking sector rehabilitation programs. The details of our domestic restructuring cost calculations are stated in the pages ahead.

Cost of Banking Sector Rehabilitation				
	Cost (US\$bn)	Cost/ GDP (%)	G. NPLs/ Total Loans (%)	G. NPLs/ GDP (%)
Turkey *	60	41	19	4.5
Indonesia	40	29	36	31.3
Korea	60	17	7	12.9
Malaysia	13	18	9	-
Thailand	43	32	48	23.7
Japan	601	15	-	15.4

Source: The BRSA, Ak Securities
* 2001

In the above-mentioned analysis we have only taken into consideration the restructuring done until the end of 2001. However, the rehabilitation process requires a long period of time, and is not yet over. As of April 2003 for example,

¹ The total resources transferred to state banks to cover the duty loss receivables and to provide capital support is US\$42.5bn. Government Securities issued to the SDIF amount to US\$14.63bn. Besides Treasury papers, the SDIF banks also received US\$1.45bn cash capital and US\$1.45bn deposited fund support. Although the total cost will be partially compensated for by the proceeds of those instruments, (and from the Treasury's profit if we look at the country as a whole), we have displayed the gross cost for the sake of analysis.

the cost of restructuring SDIF banks had reached a hefty US\$21.7bn, with the state banks receiving US\$2.9bn of resources (excluding funds granted to cover the duty losses).

a. STATE BANKS UNDER REHABILITATION

Distortions created by the State Banks have hurt the system in the past. The financial health of the state banks deteriorated rapidly as a combined result of the accumulation of duty losses and incompetent administration. So what are duty losses, and how do they cause problems? Put simply, they represent those resources behind the populist policy-backed unbudgeted spending of previous governments. Those governments wishing to seem appealing to their core voter base did various favors, such as buying wheat for twice the global price. This completely out of budget support sourced its resources from the state banks. And these duty losses were thus actually receivables from The Treasury, which were never intended to be collected, remaining on the asset side of the balance sheet. For the funding of this asset allocation, State Banks started to borrow O/N from the Interbank money market, pumping up interest rates. The adverse side of this practice showed up during the crisis, when O/N borrowing rates soared to quite unbelievable 7,000%. State Banks were unable to meet their obligations resulting in the entire system being impaired.

State banks obtained liquidity via outright sale of government securities or repo transactions made with the CB

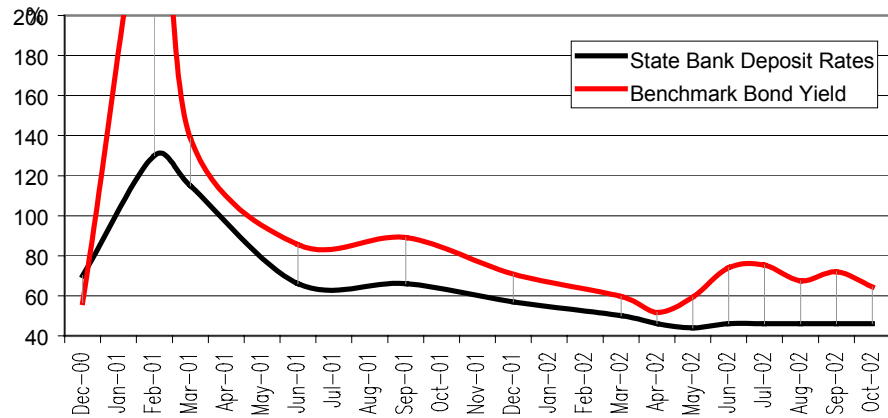
These duty losses, which were one of the principal drawbacks facing the treatment of the economy, have finally been eliminated. State banks obtained liquidity via outright sale of government securities or repo transactions made with the CB, abolishing their short-term liabilities, which were at around US\$8.5bn as of March 16, 2001. Consequently, high interest rates on deposits are reduced to market levels. To reduce maturity mismatch and liquidity risk, minimum maturity on repo transactions has been extended to at least one week. The Treasury contributed to the stabilization of the liquidity position and cash inflow of the state banks through early redemption of government papers. This practice sequentially helped to alleviate pressure stemming from the liquidity requirements of the state banks.

Short Term Liabilities of State Banks (US\$bn)

	16/03/ 2001	Currently
1. Central Bank	5,5	-0.8
Open Market Operations	5,5	-
Total Repurchase Agreements	5,5	-
O/N Repurchase Agreements	0,2	-
Long Term Repurchase Agreements	5,3	-0.8
Interbank Market (O/N)	0,0	-
2. Private Banks+ Customer Repurchase Agreements and O/N Deposits	8,5	-
Private Banks(O/N)	4,2	-
CBRT Interbank Market	0,4	-
Interbank Money Market	1,9	-
ISE Repurchase Agreements Market	1,9	-
Customer Repurchase Agreements and O/N Deposits	4,3	-
Total	14,0	-0.8
<i>Source: The CB</i>		

State banks' deposit interest rates started to be determined uniformly, and below the interest rates of the government securities. The noteworthy slide in short-term liabilities, and strengthening of the capital base have contributed to the removal of distortions created by the state banks in the deposit market, and the deposit interest of the banks in question displayed a development parallel to the decrease in general interest rates.

Interest Rates on State Bank Deposits & Bond Yields



Source: The CB, The ISE

State banks' claims on the Treasury arising from subsidizing lending and the interest accrued to these loans were covered by The Treasury, which supplied special issue government bonds of around US\$19bn in 2001. But since that one-off move was unable to prevent further duties, certain regulations allowing subsidized lending through state banks were also annulled.

Additional support was granted to state banks in order to strengthen their capital in 2001

Furthermore, additional support was granted to state banks in order to strengthen their capital in 2001. Within this framework, cash capital injection of US\$225mn to Ziraat Bank, US\$56mn to Halk Bank and US\$34mn to Emlak Bank was made. In addition, government securities have been granted as supplementary capital to Emlak Bank and Halk Bank to the amount of US\$552mn and US\$796mn, respectively. On the other hand, special issue government bonds have covered the US\$1.3bn cost generated from Emlak Bank's merger under Ziraat Bank in July. The resources transferred to state banks in 2001 to cover the duty loss receivables, and to provide capital support, reached US\$22bn.

Together with the resources granted to state banks before 2001, the amount adds up to a huge US\$42.5bn, which corresponds to a substantial 29% of Turkey's 2001 GDP. In this point, it is worth noting that those liabilities not covered by securities had been eliminated in 2001 in TL-terms. Yet if we convert the numbers prior to and in 2001 from TL to US\$, it becomes clear that only a small fraction was eliminated. The net amount corresponds to US\$17bn due to FX conversion divergence. If we assume that the whole amount was eliminated in 2001, then the total resources transferred to state banks would amount to US\$26bn.

Resources Transferred to State Banks² (US\$mn)

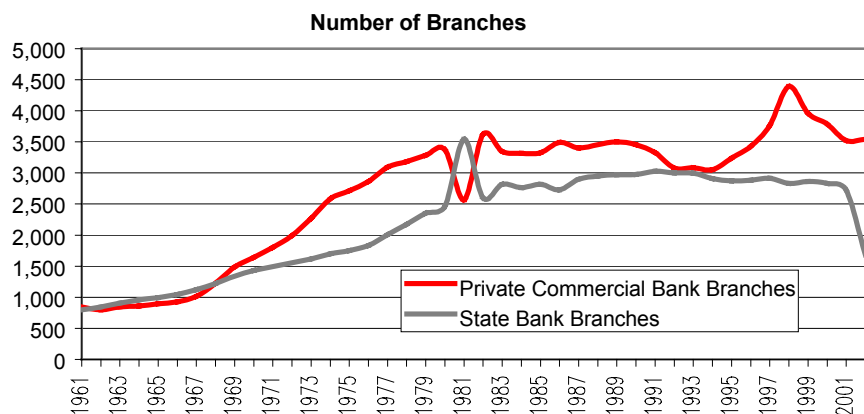
	December 2000	Increase in 2001	Total
Liability Generated from Duty Loss	33,165	6,332	39,497
Tied to Securities	3,998	18,732	22,731
Ziraat Bankasi	2,342	9,885	12,226
Halk Bankasi	1,656	8,811	10,467
Emlak Bankasi	0	37	37
Untied to Securities	29,167	-12,401	16,766
Capital Support (Subordinated Debt)	0	2,648	2,648
Ziraat Bankasi	0	1,300	1,300
Halk Bankasi	0	796	796
Emlak Bankasi	0	552	552
Capital Support (Cash Injection)	0	315	315
Ziraat Bankasi	0	225	225
Halk Bankasi	0	56	56
Emlak Bankasi	0	34	34
Total	33,165	9,295	42,460

Source: The Treasury, BRSA.

In addition to financial rehabilitation and duty loss elimination, the operating side of the state banks is also undergoing restructuring

In addition to financial rehabilitation and duty loss elimination, the operating side of the state banks is also undergoing restructuring. Operational restructuring of state banks aims to reform organization, technology, human resources, financial control, planning, risk management and service quality to enable operation in step with the requirements of contemporary banking and global competition. The banking and deposit-taking license of Emlak Bank was annulled and the bank was merged under Ziraat Bank. The number of branches that had been at 2,494 as of December 2000 was reduced by 31% to the current 1,723, while the number of personnel was reduced by 38% to 38,303 from 61,601 in the same period.

State Bank Branches Are Becoming Fewer



Source: The BAT

² In creating the 'Resources Transferred to State Banks' chart we used the past two years' average TL/US\$ conversion rate for the December 2000 column. 2001 TL figures are converted to US\$ via the 2001 average TL/US\$ rate.

The number of state bank branches had declined to 1,685 by the end of December 2002, which is even lower than the branch network in 1974

The number of state bank branches had declined to 1,685 by the end of December 2002, which is even lower than the branch network in 1974. As seen in the chart below, personnel cuts, which had lagged branch closures, especially in Halk Bank, which acquired Emlak, is pulled down below the sector average in the third quarter. We expect operational restructuring to continue at a decelerating pace due to completion of the bulk part, and to the new Government's deferrals of targeted cost-cutting. And we expect the large private commercial banks with widespread branch networks, such as Isbank and Akbank, to benefit from the slide in the number of state bank branches, especially in terms of improving their savings deposits bases.

Number of State Bank Employees								
	Dec-00	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Sep-02	Dec-02
Number of Employees	61,601	51,975	48,511	47,985	43,907	37,054	30,896	30,399
Ziraat Bank	36,576	29,903	35,565	33,023	29,173	22,923	22,796	22,099
Halk Bank	10,000	13,207	12,946	14,962	14,734	14,131	8,100	8,300
Emlak Bank	15,025	8,865	-	-	-	-	-	-
Employee/Branch	25	21	20	20	21	22	18	18
Ziraat Bank	28	24	22	22	21	20	20	19
Halk Bank	12	16	16	17	22	26	15	15
Emlak Bank	37	22	-	-	-	-	-	-

Source: The BAT

Total shareholder equity of the state banks had soared more than threefold from the 2000 figure of US\$1.03bn to US\$3.7bn as of the end of December 2002. Aside from the Government's paid-in-capital support, the profit contribution of Ziraat Bank makes a significant donation to the total.

Shareholders' Equity of State Banks

US\$m	2000	2001	2002/09
Ziraat Bank			
Paid-in Capital	389	1,544	1,348
Reserves+ FARF+SRF	268	326	434
Profit/Loss	104	429	370
Total Equity	761	2,299	2,151
Halk Bank			
Paid-in Capital	216	799	698
Reserves+ FARF+ SRF	255	173	199
Previous Year Loss	-	-	-352
Profit/Loss	8	-474	423
Total Equity	478	498	967
Emlak Bank (*)			
Paid-in Capital	104	-	-
Reserves+ FARF+SRF	180	-	-
Profit/Loss	-489	-	-
Total Equity	-205	-	-
STATE BANKS (TOTAL)			
Paid-in Capital	709	2,342	2,045
Reserves+ FARF+SRF	703	499	633
Previous Year Loss	-	-	-352
Profit/Loss	-377	-45	793
Total Equity	1,034	2,797	3,118

Source: Joint Board of Directors of State Banks

(*) Emlak Bank was transferred to Ziraat Bank on July 9, 2001.

FARF: Fixed Assets Revaluation Fund, SRF: Securities Revaluation Fund.

The duty losses were replaced by securities

The most significant points concerning the consolidated balance sheet of State Banks are the elimination of the duty losses and deterioration of asset quality. The duty losses were replaced by securities, as we have previously mentioned. The rise of the NPL ratio from 13% in 2000 to 41% as of the end of 2002 appears disastrous. Gross NPLs hiked 46% in the same period, whereas loans plummeted by a remarkable 69% due to lack of loan demand coupled with callbacks. The NPL ratio of the state banks as of April 2003 is 36%.

The securities that used to make up around 8% of assets augmented to 62% in 2002

We expect the loans of the state banks to continue their slide, as these banks will no longer be granting cheap loans to those sectors that populist Governments had formerly canvassed votes from. The securities that used to make up around 8% of assets augmented to 62% in 2002 as the Government issued special bonds to take the duty losses out of the state banks' financials. The share of loans, on the other hand, slipped down to a mere 9.5% of assets. We see no indications of the public banks effecting a re-entry into the core business over the coming few years. The share of state bank loans in aggregate banking sector loans gradually dropped to 22% in April 2003, from the 2000 level of 33%.

Consolidated Balance Sheet of State Banks

	US\$m			% Share		
	Dec. 2000	Dec. 2001	Dec. 2002	Dec. 2000	Dec. 2001	Dec. 2002
ASSETS						
Cash & Claims on Banks	3,092	3,307	2,059	6.7%	10.7%	6.1%
Securities	3,613	18,300	20,787	7.9%	59.3%	61.9%
Loans	10,294	3,788	3,208	22.4%	12.3%	9.5%
Net Loans under Follow-Up	1,073	740	432	2.3%	2.4%	1.3%
Gross NPLs	1,514	2,338	2,203	3.3%	7.6%	6.6%
(NPL Ratio)	13%	38%	41%	-	-	-
NPL Provisions (-)	441	1,598	1,771	1.0%	5.2%	5.3%
Duty Losses	22,621	-	-	49.3%	-	-
Other Assets	5,182	4,710	7,115	11.3%	15.3%	21.2%
LIABILITIES	0	0	0	0.0%	0.0%	0.0%
Core Deposits	30,298	21,083	23,847	66.0%	68.4%	71.0%
Borrowings from Banks	5,819	2,474	1,732	12.7%	8.0%	5.2%
Other Liabilities	8,696	4,484	4,371	19.0%	14.5%	13.0%
Shareholder's Equity	1,061	2,804	3,652	2.3%	9.1%	10.9%
TOTAL	45,875	30,845	33,602	100%	100%	100%

Source: The BRSA

b. SDIF'S FINE PERFORMANCE

Since the beginning of 1997, 20 banks have been transferred to the SDIF

Since the beginning of 1997, 20 banks have been transferred to the SDIF. The immediate resolution of these banks constituted an important part of the banking sector restructuring program. The SDIF displays tremendous effort to merge and liquidate those banks taken over, and its strategy comprises three major components; *i.* The resolution of the SDIF banks through merger, transfer, sale, or liquidation *ii.* Financial and operational restructuring and *iii.* Administration of the publicized banks.

Details on the SDIF Banks		
Banks	Transfer Date	Current Situation
Sumerbank	December 22, 1999	Sold to the OYAK Group. Operating as Oyakbank.
-Egebank	December 22, 1999	-Merged into Sumerbank on January 26, 2001.
-Yurtbank	December 22, 1999	-Merged into Sumerbank on January 26, 2001.
-Yasarbank	December 22, 1999	-Merged into Sumerbank on January 26, 2001.
-Bank Kapital	October 27, 2000	-Merged into Sumerbank on January 26, 2001.
-Ulusal Bank	February 27, 2001	-Merged into Sumerbank on April 17, 2001.
Bank Ekspres	December 12, 1998	Sold to the Tekfen Group. Operating as Tekfenbank.
Demirbank	December 6, 2000	Sold to HSBC. Operating as HSBC Bank.
Sitebank	July 9, 2001	Sold to Novabank on January 11, 2002.
Tarisbank	July 9, 2001	Acquired by Denizbank
License Withdrawals & Mergers into Bayindirbank		
Etibank	October 27, 2000	Banking license revoked. Under liquidation.
-Interbank	January 7, 1999	-Merged into Etibank on June 15, 2001
-Esbank	December 22, 1999	-Merged into Etibank on June 15, 2001.
Iktisat Bank	March 15, 2001	Banking license revoked. Under liquidation.
Kentbank	July 9, 2001	Banking license revoked. Under liquidation.
Toprakbank	November 9, 2001	Merged into Bayindirbank
T. Ticaret Bank	November 6, 1997	Banking license revoked. Under liquidation
EGS Bank	July 9, 2001	Merged into Bayindirbank.
SDIF Banks		
Bayindirbank	July 9, 2001	Bridge bank to focus on asset management.
Pamukbank	June 19, 2002	Under sale until December 20, 2002.

Source: The BRSA

Currently there are only two banks remaining under the administration of the SDIF

Currently there are only two banks remaining under the administration of the SDIF. The first one is Bayindirbank, which is being restructured as a bridge bank to focus on asset management. Those banks that cannot be rehabilitated, or that are put on sale but receive no bids are merged into Bayindirbank. ISE-listed Yapi Kredi Bank's 13% shareholder Pamukbank is the most recent of the taken over banks. The sale process of Pamukbank was initiated on June 29, 2002. The deadline for the bids was extended from July 19, to December 20, due in no small part to the then unclear political climate. The deadline for the first sale process became meaningless subsequent to the High Court's decision to annul the Pamukbank takeover.

After the Cukurova group reversed its intention to take back the Bank, the SDIF continued collecting bids for it. However Oyak Bank, Disbank, Isbank and Societe Generale Group, the applications of which were accepted and granted permission to perform due diligence, did not make their final bids within the specified time period. Of the interested investors, Societe Generale Group has

withdrawn from the sale process, and other investors that had performed due diligence on the Bank had not submitted offers as of March 28, 2003, the bid submission deadline. Consequently, the deadline was reset for the third time.

Currently there are only two banks remaining under the administration of the SDIF

Those domestic and foreign investors who, among all applicants, meet requirements were determined by May 16, 2003, with the results announced to interested parties. The investors thus determined were granted permission to carry out due diligence in the afore-mentioned Bank through confidentiality agreements to be signed. Offers must be submitted to the Savings Deposit Insurance Fund by July 11, 2003.

Banks In and Out							
	1997	1998	1999	2000	2001	2002	Total
Number of Banks Taken Over	1	1	6	3	8	1	20
Merged Banks	-	-	-	-	7	5	12
Liquidated Banks	-	-	-	-	3	2	5
Annulled Licenses	-	-	-	-	-	1	1
Number of SDIF Banks	1	2	8	11	6	2	2

Source: The BRSA

Negative capital adequacy means that these banks were using savings deposits instead of eroded capital equity

The common weakness of the taken over banks was the fact that their capital bases were poor, or even negative. Negative capital adequacy means that these banks were using savings deposits instead of eroded capital equity. In other words, they were in urgent need of capital, liquidity and maturity matching. To satisfy these requirements, the Treasury started issuing government securities as of the beginning of 2001 in order to strengthen the capital structures and balance sheets of the banks taken over by the SDIF.

Government Securities issued to the SDIF				
	TL Denominated (US\$m)	US\$ Denominated (US\$m)	€ Denominated (US\$m)	Total (US\$m)
2001				
Government Securities issued to the SDIF	5,571	8,297	762	14,630

Source: Undersecret. of the Treasury

The total TL and FX resources transferred to the SDIF by the Treasury had reached US\$14.6bn by the end of 2001

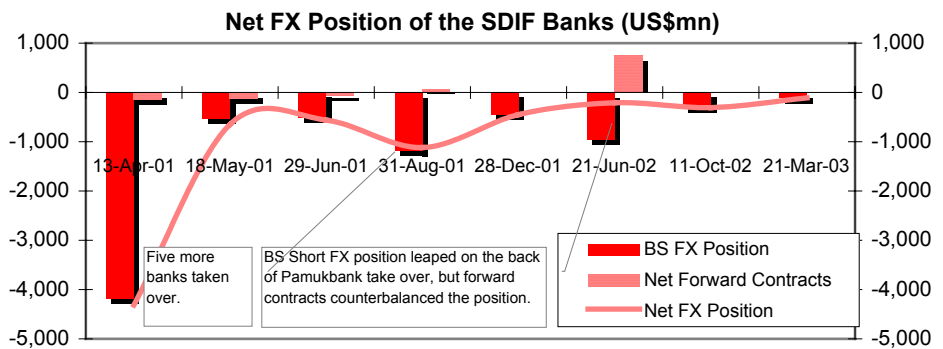
As seen in the chart above, the total TL and FX resources transferred to the SDIF by the Treasury had reached US\$14.6bn by the end of 2001. This practice provided the publicized banks with the necessary breathing space and secured depositors' savings. Besides Treasury papers, the SDIF banks also received US\$1.45bn cash capital and US\$1.45bn³ deposited fund support. The issue of the hefty cost of their takeover had always been criticized. Nevertheless, this price had to be met in the interests of healing the financial system, otherwise inherent difficulties would have merely been deferred. Another constructive step towards repairing the financial structure of the SDIF banks was the elimination of short-term liabilities. SDIF banks eliminated their short-term liabilities to the CB, clients and private banks by using funds generated through the outright sale of US\$3.85bn of special issue bonds to the Central Bank in mid-March 2001. Interest rates on SDIF banks' deposits were brought down to the market level and have remained below the interest rates on government securities since then.

³ To convert TL denominated support to US\$ we used average TL/US\$ rates from the beginning of 2001 until 1H02.

If we are to take into consideration the cost of restructuring the SDIF banks beyond 2002, in total it reaches a hefty US\$21.7bn. The bulk of the incremental amount stems from the restructuring of Pamukbank. Around 80% of the total cost is covered by funds supplied by the public sector, while the Fund’s own resources and deposits met the remainder.

Short FX positions of SDIF banks, which had exceeded US\$4bn until 2Q01, decreased significantly on the back of FX-indexed bond injection in May 2001, slipping to US\$456 million as of the end of 2Q01. Due to addition of the net open positions of 5 banks intervened in during July; SDIF banks’ net FX short position rose to US\$1.1bn during the July-November period, thereafter decreasing rapidly. With the transfer of Pamukbank to the SDIF in June the balance sheet open positions augmented, counterbalanced by forward contracts. Since SDIF banks have no forward contracts remaining as of 21-March-2003, both the BS and net FX position amounts to –US\$110mn.

FX Position of the SDIF Banks



Source: The BRSA

c. ESTABLISHMENT OF ASSET MANAGEMENT BODIES

Management of problematic loans is one of the priorities of banking sector restructuring

Management of problematic loans is one of the priorities of banking sector restructuring. There are four major ways of dealing with those assets, namely i. **Selling**: There has to be a market to liquidate the asset, ii. **Rehabilitation**: Legal framework must be suitable for this practice, iii. **Restructuring**: Only when the present value of the company exceeds the liquidation value, iv. **Write-off**: Put to practice if the only remaining solution. The selling alternative is handled via asset management companies (AMC). The AMC’s also restructure the loans in order to expedite the liquidation process. The formation of AMCs was put into practice in order to resolve non-performing assets, and thereby improve the liquidity of assets retained by the banks. As part of the SDIF’s strategy for resolution of assets in intervened banks, Bayindirbank’s role as a bridge bank temporarily holding problematic assets will gradually diminish.

The BRSA is developing a strategy for dealing with bad assets transferred to the SDIF’s Collection Department, including the establishment of an asset management company. The SDIF, with advice from independent consultants, developed a detailed sale strategy for disposal of assets held by the Collection Department. The SDIF announced the sale of loan portfolios with a total face

value of at least US\$250mn, and with bids to be submitted by end-2002. The asset sale program involves about 10,000 small, medium and large-sized loans, some of which are backed by collateral, and most of which are problematic.

If private banks or other entities were to express an interest in setting up their own AMC, the SDIF would be willing to participate and provide up to 20 percent of the required capital

If private banks or other entities were to express an interest in setting up their own AMC, the SDIF would be willing to participate and provide up to 20 percent of the required capital. Otherwise assets in intervened banks would be handled by the Collection Department (problematic assets) and Bayindirbank (fine assets). To improve efficiency in the sale of the intervened banks' subsidiaries, tangible and intangible assets, the Subsidiaries Department and the Real Estate Department were established within the SDIF. By the end of 1H02, US\$194mn had been raised from the sale of Fund banks' subsidiaries. Separately, the income raised from the sale of SDIF banks' real estate amounted to US\$56mn.

The formation of AMCs is one of the last steps of the restructuring program. Yet we still see no sign of an arrangement to establish a private AMC in the market. For the AMCs to be successful they have to be established for a maximum period of five years and they employ qualified, experienced personnel earning performance-linked salaries. In our view, the most important question in transferring the problematic loans to the AMCs will be the discount and recovery rates. For example, Thailand and Mexico sold their problematic consumer loans at a 50% discount. Nevertheless, we do not expect such a low discount rate in Turkey. An educated guess would put the recovery rate at around 30%. This percentage requires a discount rate of at least 70% to reach a simple breakeven point. Danaharta's (Malaysia) expected recovery rate was a huge 57%. Yet the key behind Malaysia's targeted achievement was that Danaharta promised to repay 80% of the incremental amount between the collected receivable and the purchase price.

Coupled with this incentive, the banks were allowed to set aside amortizations of up to five years on loans they sold to Danaharta. There are also as yet unsuccessful examples. Taiwanese Asset Management Company, an entity capitalized by local banks, has seen no deals to date. Were any loans to be sold off, 35 cents on the dollar is the price most banks would hope to get. One Taiwanese bank experienced a discouraging NPL liquidation attempt. This bank faced a rude awakening when allowing a foreign bank to carry out due diligence on its bad loans. After six months, the local bank was offered just 10%. It would also have sent shock waves through the market on the fear that all NPLs were worth just 10%. Naturally off course, one needs desperate banks with worthless collateral in order for deals such as this to be done. Taiwanese banks' NPL provisioning, at around 20%, is very low for debts, making profits appear artificially high.

We do not expect the banks to readily jump at the plan

The Turkish practice remains unclear. While we are able to perceive the BRSA's intentions, we do not expect the banks to readily jump at the plan. The core reason behind our gloomy prospect is the Turkish banks' strategy of setting aside NPL provisions as low as possible to keep the bottom-line high. The average shareholders' equity-weighted provision coverage ratio of the ISE-listed large and medium-sized banks, excluding Akbank, stood at 52% as of the end of 2002 (3Q02: 39%), slightly higher than the Taiwanese banks.

Let us imagine a scenario whereby XBank of Turkey has US\$100mn worth of loans under follow-up with 39% provision coverage. The AMC offers a 50% discount, highly generous given the current economic climate, to acquire these loans. At this point Xbank receives US\$50mn, but writes-off an unprovisioned US\$61mn. How does the bank's financial situation change? There may be two outcomes of the transfer to the AMC. In the short-run Xbank's profit slips by US\$11mn, its shareholders' equity drops, its ROE worsens and in all likelihood its market cap deteriorates as well. On the other hand, the bank generates an additional US\$50mn worth of bonus funds and starts generating interest income on it. Another positive point is that the bank would no longer strive for NPL collection and resources will not be wasted. Additionally, the management may focus on new projects instead of concerning itself with asset quality. Relying on empirical evidence, we feel that the banks are inclined to opt for appearing better in the short run rather than maximizing proceeds in the longer-term. What Turkey lacks is a catalyst to start the process of offloading bad loans from banks' books. Few institutions seem prepared to lead the way and sustain the necessary hit. Others simply do not seem to want to take the haircut. Through auction they would recover perhaps 30% on their collateralized loans, which they consider unacceptable. Nevertheless, were just one to take the plunge, it could lead to a copycat scenario with others duly following.

The SDIF has developed a detailed strategy for disposal of assets held by the SDIF Collection Department

Initial market soundings also revealed that proceeding with the auction to liquidate frozen assets prior to the enactment of the bankruptcy and foreclosure law would negatively impact the results. The SDIF has developed a detailed strategy for disposal of assets held by the SDIF Collection Department. The strategy announced on September 20 is in line with international best practice. However, the end- October IMF letter of intent structural benchmark for putting loan portfolios with face value of at least US\$250 million up for sale, with bids to be submitted by end-2002, was missed. To expedite the process, the SDIF will complete all technical preparations and announce the sale by end-June 2003, by which time comprehensive bankruptcy reform will have been passed.

d. THE ISTANBUL APPROACH; IS IT A SUCCESS STORY?

A second method of dealing with problematic loans is to restructure them

A second method of dealing with problematic loans is to restructure them. The purpose of the Istanbul Approach (IA) is to save those indebted firms with the capacity to repay in the longer term, and which are capable of adding value to the economy. Therefore, the approach is expected to increase capacity utilization and improve national welfare by boosting production and employment. The IA has defined the firms into two camps according to their sizes. On the condition of having capacity to add value to the economy, those firms satisfying at least two of the below-mentioned criteria are categorized as 'Large Firms'.

* Number of Employees	>	100
* Annual exports	>	US\$15mn
* Annual turnover	>	US\$15mn (TL25trln)
* Asset Size	>	US\$9mn (TL15trln)

For the large firms, the IA process can be triggered by one of the three banks with the highest loan exposure in that company

For the large firms, the IA process can be triggered by one of the three banks with the highest loan exposure in that company. Should 75% of the consortium of creditor banks (CCB) approve the request, the loans can be rescheduled. And should 51-75% of CCB lend support, the Arbitration Committee (AC) would make the final decision. For the small and medium-sized firms, the bank with at least 51% of the total risk can initiate the process. The restructuring begins if at least 75% of the CCB agree. The AC's opinion is not required should CCB approval lag behind the limit, and the loan restructuring is simply rejected.

A total of 231 companies, 180 of which were large, had applied for loan rescheduling by the end of March 2003. The loans of 135 companies have been rearranged. This process amounts to a huge US\$3,797mn. Yet although this appears large, it shrinks rapidly when we exclude the restructured Cukurova Group loans that account for more than 75% of the total. Therefore, the remainder of the restructuring becomes negligible.

Another key point to bear in mind about the restructuring is that it is not only the problematic loans that are treated under the IA, but also the live ones. This line of attack is put into practice in order to be fair to companies that had formerly done their best to repay bank loans at the cost of exhausting their working capital or shareholder equities.

The number of applications for the IA is gradually declining when we exclude the Cukurova Group submissions, the bulk of which took place at the end of 2002

The number of applications for the IA is gradually declining when we exclude the Cukurova Group submissions, the bulk of which took place at the end of 2002. Although applications slow down month-by-month, the number of restructured companies increases. Around 40% of companies have had their loans restructured in the last three months (in 1Q03). Since the restructured Cukurova Group loans are significantly larger than the rest, the total amount restructured in 1Q03 made up a mere 12% of the total. The reason why the number of restructured firms rises in accounting-terms, especially in 2003, is that they were obliged to book the NPLs, which had completed their applications, as non-performing for a six-month period.

Details on the Istanbul Approach										
	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Total
Applications for IA										
a) Large Companies	53	46	27	2	4	33	4	0	11	180
b) Small Companies	27	2	7	5	3	2	1	3	1	51
Total	80	48	34	7	7	35	5	3	12	231
Restructured Companies										
a) Large Companies	10	0	0	6	0	52	9	19	14	110
b) Small Companies	11	0	1	0	1	3	3	3	3	25
Total	21	0	1	6	1	55	12	22	17	135
Total Amount Restructured Under IA (US\$mn)										
a) Large Companies	81	0	0	116	0	2,917	239	77	85	3,514
b) Small Companies	188	0	22	0	1	16	19	18	20	283
Total	268	0	22	116	1	2,933	258	95	104	3,797
<i>Source: The BAT</i>										

Via these restructurings 36,553 employees retained their jobs, and a total annual gross revenue figure of US\$1.6bn stands to continue.

Large companies appear blessed when compared with the smaller ones. More than 60% of the large-scaled companies' loans are restructured under the IA, whereas the ratio is less than 50% for the minors. One point of interest is that the per-company loans-restructured figure of US\$32mn for the larger ones surpasses threefold the US\$11mn figure of the small companies. Via these restructurings 36,553 employees retained their jobs, and a total annual gross revenue figure of US\$1.6bn stands to continue.

Financial Restructuring Applications and Agreements				
Oct-02	Total Applications		Signed FRA	
	Number		Number	US\$ Million
Large Companies	180		110	3,514
Small Companies	51		25	283
Total Number of Companies	231		135	3,797

Source: TSKB

The banks transfer problematic loans to the active loans account within six months in cases where at least 6% of the lending is received

Via the IA, the banks transfer problematic loans to the active loans account within six months in cases where at least 6% of the lending is received (12% for receivables from group companies), and reverse the provisions. Coupled with rescheduling the loan, where new loans are granted to the company, at least 10% must be received within six months in order to be transferred into active loans. Therefore, profitability soars and the capital base becomes much more solid. The hike in CAR allows banks to place more emphasis on the core business. Consequently, the multiplier effect is likely to start turning the economy's wheel.

Financial Institutions that Signed the IA Agreement

Banks	
1. Ziraat Bank	14. Disbank
2. Halk Bank	15. TEB
3. Vakiflar Bank	16. Garanti Bank
4. Akbank	17. Imar Bank
5. Denizbank	18. Is Bank
6. Fiba Bank	19. Yapi Kredi Bank
7. Finans Bank	20. Toprakbank
8. Milli Aydin Bank	21. Turk Ticaret Bank
9. Oyak Bank	22. Turk Eximbank
10. Pamukbank	23. Turkiye Kalkinma Bank
11. Sekerbank	24. Nurol Yatirim Bank
12. Tekfenbank	25. Bayindirbank
13. Tekstil Bank	
Financial Institutions	
1. Garanti Factoring	10. Garanti Leasing
2. Aktif Leasing	11. Vakif Leasing
3. Ulus Factoring	12. Albaraka Turk
4. Is Genel Leasing	13. Yapi Kredi Factoring
5. Imar Leasing	14. Finans Leasing
6. Vakif Deniz Leasing	15. Finans Deniz Leasing
7. Ziraat Leasing	16. Dis Ticaret Leasing
8. Yapi Kredi Leasing	17. Dis Ticaret Factoring
9. Asya Financial Institution	
Other	
Emlak Bank under liquidation process	
Savings Deposit Insurance Fund	
<i>Source: The BRSA</i>	

As seen in the chart above, the foreign banks along with a few small ones have not shown much interest in the Istanbul Approach scheme. Their reasoning for this was that they wished to restructure their own problematic loans without subjecting themselves to such bureaucracy and obligation.

e. PRIVATE BANK RESTRUCTURING

The economic shock of 2001 was deeper than initially anticipated, and prevailed for too long

The economic shock of 2001 was deeper than initially anticipated, and prevailed for too long. The outcome worsened due to global economic doubts and the possibility of converting assets into cash happened to be exceptionally limited. These unfavorable occurrences led to an increase in capital requirements, while also severely limiting the sector’s ability to raise new capital. Therefore, the necessity to lend a helping hand to the banks became evident. As part of this approach, private banks’ capital was strengthened through public support. Resolution of NPL’s, on the other hand, is handled via the Istanbul Approach, and will be managed with the upcoming establishment of AMCs. The private commercial banks underwent a three-stage audit. Those satisfying certain conditions received one-time support in the form Tier 1 capital, or subordinated debt, as required.

Yet the banks made one significant mistake without considering market risk. They consistently placed almost all of their eggs in one basket. Almost all of them borrowed in FX and allocated in TL instruments, and mainly government papers. They used substantial leverage to boost ROE and gradually became less and less capitalized. None of them had a CAR of less than 8%, although they were

Profitability and capital bases deteriorated substantially due to the twin crises

The devaluation encouraged private banks to close their FX open positions

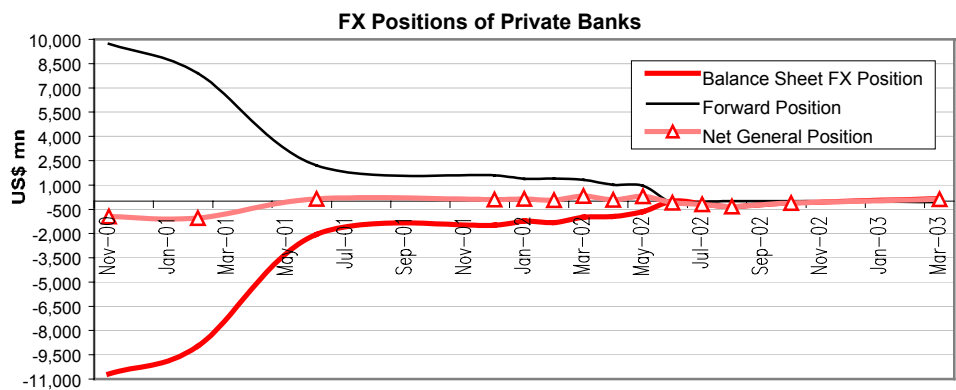
Aggregate balance sheet FX positions and forward contracts follow perfect negatively correlated trends

booking problematic loans to participations as active through continuous rollovers, instead of writing them off, or trying to collect them. Additionally, at that time, the definition of CAR did not comprise market risk.

Profitability and capital bases deteriorated substantially due to the twin crises. **Implementation of a program to ensure the soundness and sustainability of the private banking system constitutes the most important element of the banking sector restructuring scheme.** Measures regarding the recapitalization of private banks, resolving NPLs, a limitation of FX open positions and encouragement of mergers and acquisitions have been activated. Within this structure, to solve capital adequacy problems, which became evident subsequent to the crises, and to increase the support of the bank owners and shareholders, capital increase commitment letters featuring a time schedule were received from the private banks. Accordingly, private banks had realized capital increases of US\$1.4bn as of end-2001. Five banks unable fulfill their commitments were taken over by the SDIF in July 2001.

The devaluation encouraged private banks to close their FX open positions, although they required a helping hand to do so. The Treasury emerged as a savior, offering a win-win deal. With the support of domestic debt swap, short positions were closed significantly. Balance sheet FX short positions had been pulled down from US\$10bn levels to US\$1.5bn by the end of 2001, Y-o-Y, and to US\$274mn in July 2002. Before the debt swap, banks had used forward contracts to lower the net FX position to below the legal ceiling of the capital base’s 20%.

Short FX Positions are Eliminated



Source: The BRSA

As seen in the graph above, the sector’s aggregate balance sheet FX positions and forward contracts follow perfect negatively correlated trends. When the sector’s balance sheet FX position was pulled down, the requirement for forward contracts disappeared. The total size of forward contracts in the sector is - US\$50mn as of 21-March-2003.

More than half of the forward contracts before the swap were estimated to be phony, and were closed by contra contracts just ahead of maturity. The net general FX position of the sector as of 21-March-2003 is a long US\$115mn. This represents the historic high net FX position in the black.

In order to restructure the sector, legislative regulations were also adopted

Regulation Changes

In order to restructure the sector, legislative regulations were also adopted. These efforts aim to ensure efficiency and banking sector competitiveness, and thus build confidence in the sector. Prudent regulations are concentrated on capital adequacy, risk management, loan exposure, loan loss provisioning, compliance with the IAS, independent auditing and collaboration with foreign supervisory authorities, as well as transparency. We examine the technical details of these bullets in later sections, but take a quick glance at some of the major changes here.

Regulation on the Measurement and Assessment of Banks' Capital Adequacy defined the principles and procedures for the calculation of banks' CAR, both on a consolidated and unconsolidated basis by taking into consideration market risks such as interest rate, exchange rate and equity risks. This regulation became null and void as of the end of January 2002 with the enactment of a new regulation under the same title that draws up additional rules on capital adequacy.

The new regulation defined the principles and procedures concerning the measurement of risks and capital adequacy issues related to banks' option operations. It also rearranged directives addressing the standards of risk measurement models. Additionally, risk weights are re-arranged so as to comply with the inclusion of the repo transactions in the balance sheet. Structural position is defined so as to prevent erosion of banks' capital base as a result of sharp price and foreign exchange rate fluctuations. The Structural Position aims to link certain FX-denominated assets to capital. The banks are not to set aside any provisions on those assets held for the Structural Position. Those securities are not booked under the trading portfolio, and are exempt from market-risk calculations. The bonds must have at least one year to maturity, whereas gold and FX-denominated non-financial stocks must be carried for at least three years.

Banks' non-financial subsidiaries are limited to 15% of their shareholder equity

With the enactment of the 'Regulation on Banks' Internal Audit and Risk Management Systems', the principles and procedures of establishing an efficient internal auditing system and an efficient risk management system to manage risks have been set out. We have examined this issue thoroughly in section IV of this report.

Risk group definitions and calculation of loan exposures for a single group lending were created in order to prevent credit risk concentration

Risk group definitions and calculation of loan exposures for a single group lending were created in order to prevent credit risk concentration. This regulation includes banks' shareholders and subsidiaries in the same risk group, and can prevent risk concentration on a particular group and improve asset quality. Banks whose loans to a risk group exceed required levels are prohibited from extending further lending to this risk group. In any case, banks are required to withdraw amounts exceeding the required levels gradually (20% in the first year, 30% in the second year and so on...) by end-2006. Banks' non-financial subsidiaries are limited to 15% of their shareholder equity, and the total sum of all such subsidiaries is limited to 60% of the banks' shareholder equity, with a transition period stretching to 2009.

f. REVOLUTIONIZING ACCOUNTING PRACTICES

The long-awaited inflation accounting scheme was implemented as of the banks' 2001 financials

The long-awaited inflation accounting scheme was implemented as of the banks' 2001 financials. Subsequent to the three-stage audit process, we confronted the inflation-adjusted -more or less- true financial situation of the banks. Despite a few variations, the BRSA's inflation accounting scheme fully conformed to IAS guidelines. Two significant differences from IAS stemmed from not providing deferral tax liability for inflation adjustment on fixed assets, and from allowing the securities acquired through the debt swap to be discounted by the Turkish Eurobond rate minus 1%. We expect the two accounting approaches to gradually move closer, as the maturities of the swap papers are reached. Although IAS obliges companies to conform to all of its guidelines when using this methodology, some banks issue their unconsolidated IAS financials, which is misleading, since a company does not have the opportunity to exclude any article of the guidelines (such as consolidation). Therefore, we have two IAS financials (consolidated and unconsolidated), two inflation-adjusted TGAAP (consolidated and unconsolidated) and another accounting practice for the tax authorities (unconsolidated, not adjusted for inflation) for each bank. Those various practices confound analysis, resulting in jumbled results. Since each and every Bank must announce its bank-only inflation-adjusted TGAAP financials regularly and in a standardized fashion, we have preferred to use these financials throughout this report unless otherwise stated.

The tax practice is not inflation-adjusted and is motivated towards maximizing the state's tax revenues. Although the taxation practice is not yet particularly clear, we have assumed in our projections that the banks would set aside tax provisions on their inflation-adjusted figures. Those Banks with a greater monetary position, such as Akbank and TEB, would be positively affected by such practice, especially in terms of their annual cash flows.

g. REMOVAL OF THE BLANKET GUARANTEE – INDICATOR OF A ROBUST BANKING SYSTEM

Although it had originally been stipulated by regulations that savings deposits of up to TL50bn (US\$30,300) would be insured by the SDIF as of the year 2000, the real situation is one of a 100% blanket guarantee on entire savings deposits and on syndicated loans. The three-party coalition government (the 57th administration) implemented that guarantee with the key purpose of preventing -a crisis backed- potential liquidity crunch (followed by a possible credit crunch). The minimum level of protection in the EU is €20,000. Meanwhile, the average deposit guarantee in Europe and South America amounts to US\$32,000 and US\$18,000, respectively. Therefore, the deferred domestic regulatory practice seems reasonable when compared with the rest of the world. Also taking into consideration the steady devaluation of the local currency, we may assume that it will not take too long to reach the EU minimum coverage.

The full deposit guarantee does bring about certain problems, such as moral hazard and adverse selection

According to an IMF research study on 72 countries, 68 appeared to have some kind of a deposit insurance system. Among these, 45 countries, including Turkey, excluded bank deposits from the guarantee. The full deposit guarantee does bring about certain problems, such as moral hazard and adverse selection. The deposit holders are indifferent in lending their savings either to shaky banks or to those striving to be solid in liquidity and capital adequacy terms. In order to earn a few basis points of interest spread small banks fearlessly hike their deposit rates. Therefore, to compete with the aggressive small-sized peers, sound banks were also made to raise their interest rates on deposits.

Subsequent to the removal of the guarantee, the deposit holders will have the opportunity of earning substantially more interest for lending to a weaker or a small-sized bank. The BRSA still feels that the removal or trimming down of the insurance scheme would hurt the financial system. **Restructuring of the banking system will have been completed when there is no longer the necessity for a full blanket-guarantee.**

IV. GLOOMY FUNDING ABILITY

Pulled down by Turkey’s crisis-sparked declining sovereign rating, and the slide in disposable income due to heavy lay-offs and salary cuts, the funding abilities of the banks have declined substantially

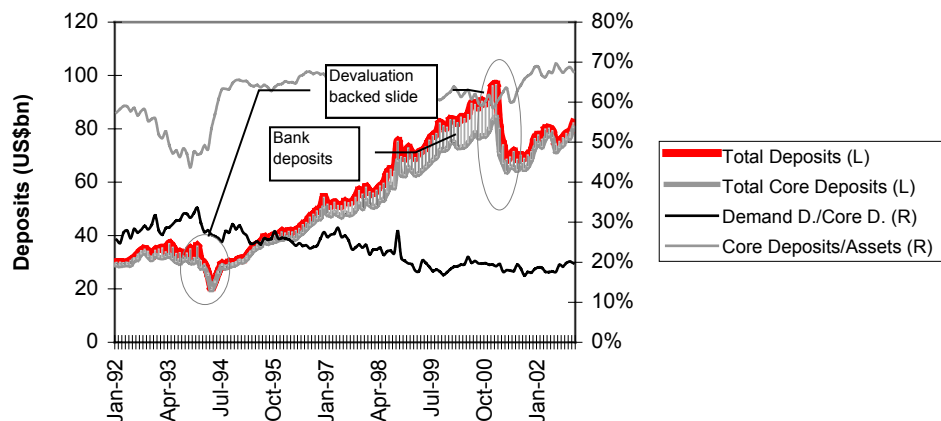
Pulled down by Turkey’s crisis-sparked declining sovereign rating, and the slide in disposable income due to heavy lay-offs and salary cuts, the funding abilities of the banks have declined substantially. Although we are still not very optimistic for the short-run, our economic recovery expectations and a probable upgrade of Turkey’s sovereign rating in the coming two-to-three-years would cause a recovery in funding ability. The potential rise in deposits and syndicated loans would eventually increase the loan supplies, which would consequently bring about more growth due to the multiplier effect. However, we must show patience before witnessing brighter days.

a. DEPOSITS SHIFT TO BONDS

Deposits, comprising around 70% of the deposit banks’ aggregate balance sheet, are the primary source of funding for the commercial banks. Were we to deduct bank deposits from total deposits, we would end up with core deposits, which we assume to be a much more stable source of funding for the banks. The bank deposits to total deposits ratio is at around its all-time low levels since the 1994 crisis and devaluation. This also indicates the lack of excess liquidity in the banking system.

Even though deposits declined by 30% during the crisis of 2001, an upturn started with the gradual valuation of TL against US\$, forming almost exactly the same pattern as witnessed in 1994. Nevertheless, the TL/FX rates had been quite foreseeable at that time. In other words the retaining of US\$ in one’s pocket, or as FX deposits, no longer represents prudent saving practice under the floating exchange rate regime. The TL-denominated Government Bonds are becoming the man on the street’s leading investment tool. This line of attack also causes a significant FX deposit outflow, which eventually forces the banks to lift interest rates on deposits to maintain their funding bases.

Commercial Bank Deposits



Source: The CB

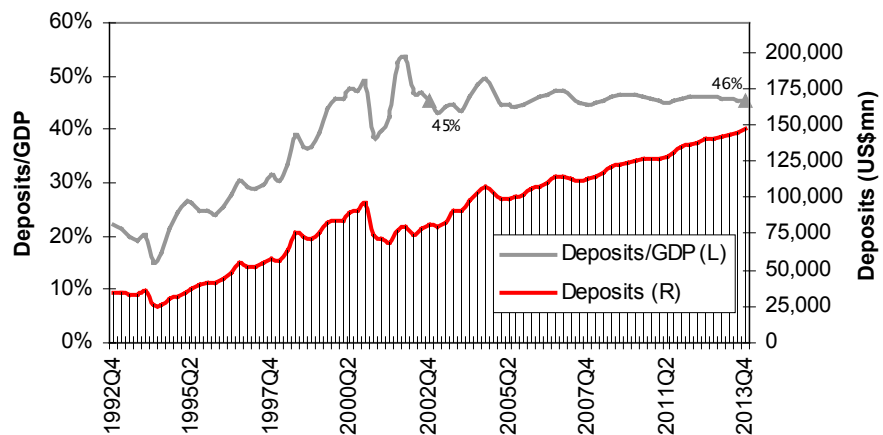
Deposits are likely to follow a similar trend in the coming quarters just as they had subsequent to the 1994 crisis. In our deposit forecasts for the coming years

Deposits are expected to reach US\$147bn at the end of 2013

we have relied on the Deposits/GDP ratio. We have predicted this ratio using the exponential growth function making use of data of the past ten quarters. We anticipate the deposits corresponding to 43% of GDP at current prices in 2003, and thereafter gradually moving up to 47% until the end of 2004, and stabilizing at around that level, which we believe to be both conservative and probable.

Therefore, deposits are expected to reach US\$147bn at the end of 2013 from the 2002 figure of US\$82bn. Due to anticipated increase in the share of other funding resources such as syndicated loans, we expect the share of total deposits in the balance sheet to slide by a marginal one percentage point to 66% levels in the following ten years.

Commercial Bank Deposit Size Projections



Source: The CB, Ak Securities Estimates

Deposit rates follow a declining trend, which would make savings move to longer maturities. However, economic volatility stands to defer the timing of such a shift.

Maturity Structure of Deposits

Currently, more than 87% of deposits have maturities of less than 3 months, whereas the weighted average maturity (WAM) of the deposits is a rough 2.5 months. Therefore, more than half of the commercial deposit banks' aggregate balance sheet is being financed with deposits of less than a three-month maturity. Since up to 1-month¹ and 3-month deposits make up 48% and 39% of total deposits, respectively, we have employed these figures in our analysis.

As seen in the chart below, the longest weighted average deposit maturity was seen in November 1988, at 5.1 months, whereas the shortest was in February 2001 (when the crisis struck) at 2.2 months.

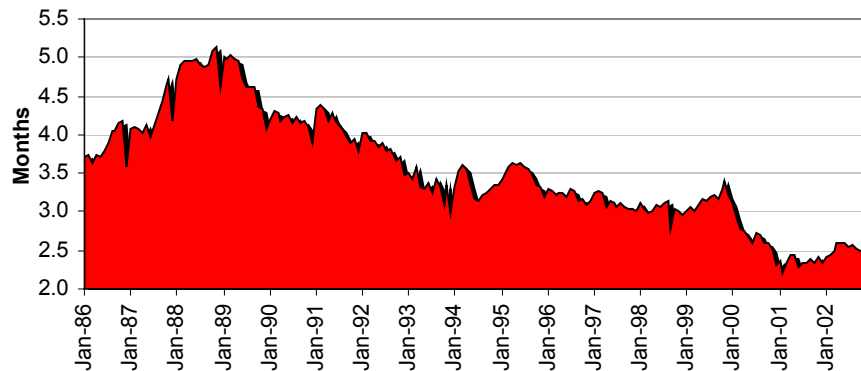
The banks benefit from this low maturity structure at times of falling interests in pulling down interest expenses. We expect the maturity structure to retain its stumpy condition unless confidence in the success of the new economic program rises on the back of potential solid steps from the Government.

More than half of the commercial deposit banks' aggregate balance sheet is being financed with deposits of less than a three-month maturity

¹ Sight deposits, 7-day notice deposits, 1-month deposits, Interbank deposits

Nevertheless, it would be overly optimistic to project a WAM exceeding three-months during the coming few years. And yet should the gap between long and short-term interest rates on deposits widen substantially, the funding maturity could shift towards longer-terms.

Weighted Average Maturity of Deposits



Source: The CB, Ak Securities Estimates

The highest interest rates on TL deposits were experienced during the February 2001 crisis

Interest Rates on Deposits

The highest interest rates on TL deposits were experienced during the February 2001 crisis. The interest rate on 1-Month deposits leapt to 344% in 2001/2, whereas the interest rate on the benchmark bond closed the month at 278%. Then as tension eased interest rates started to decline. Although the gradual slide was hit by ex-prime minister Ecevit’s health scare in May 2002, the deposit rates continued to fall following a few months’ delay.

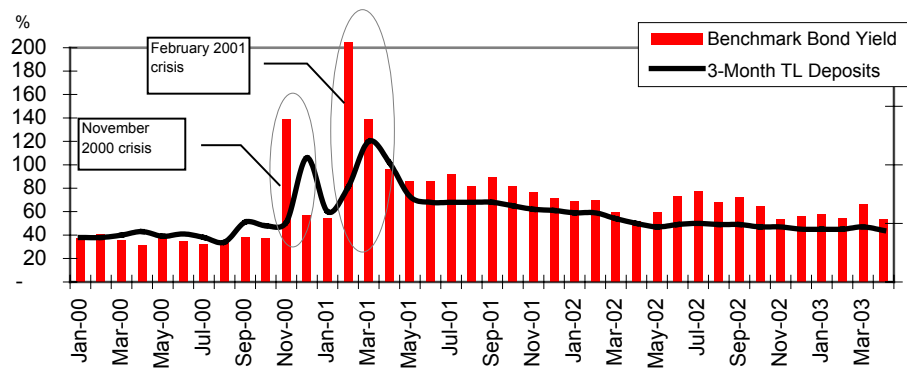
Another negative development came with the Iraqi crisis, when the US opted to commence operations regardless of the extent of Turkey’s participation. And yet once again tension rapidly abated. Currently, the lowest gross annual interest rate on one-month TL deposits throughout the banks under our coverage is the 42% offered by Akbank and Isbank, which has a nominal net return of 35% for the depositor.

We expect the gross rates to decline below 40% in the second half of 2003

We expect the gross rates to decline below 40% in the second half of 2003. The reason we have used one and three-month deposits in our charts is that the major proportion of them is short-term in nature. Of the deposits, 87% have maturities of less than three-months, whereas 19% of total deposits are made up of demand deposits. We expect the flood of deposits from small-sized banks to the larger ones to gain pace with the removal of the blanket guarantee.

The proportion of the demand deposits in total, on the other hand, would climb in excess of 20% levels as the real interest rates on time-deposits decline. Such a movement would further pull down the funding costs, which would consequently be reflected on the asset side as reasonably priced loans, both to the government and to the real sector.

TL Deposit Rates & Benchmark Bond Yields



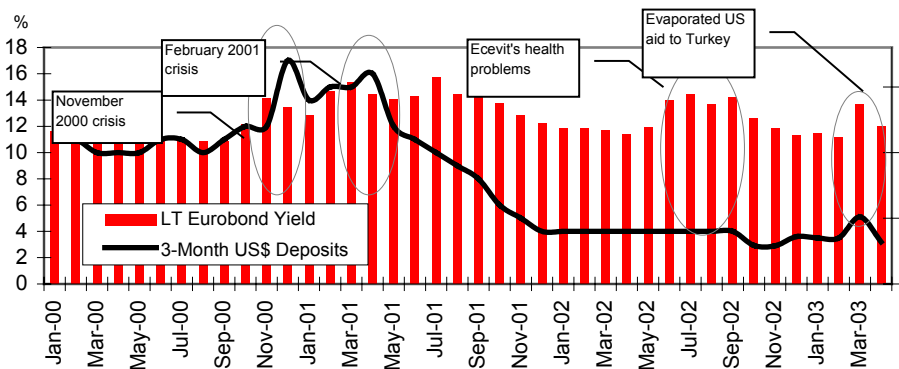
Source: The CB, Ak Securities

The low interest rates on FX deposits make them an attractive source of funding

The low interest rates on FX deposits make them an attractive source of funding for the banks, as well as for the customers that place no stock in the local currency. As seen in the chart below, deposit rates that used to be around the same level as the 2030 Turkish Government Eurobond yields declined sharply with the enactment of the floating rate regime, coupled with the elimination of the short-term funding requirements of the state banks.

However, long-term Eurobond yields are too concrete to decline. The yields react negatively to unconstructive developments, but do not react positively to upbeat events. Consequently, this line of attack widens the spreads between the funding and allocation of the assets, which in turn lifts the profitability of the banks.

US\$ Deposit Rates & LT (2030) Eurobond Yields



Source: The CB, Bloomberg, Ak Securities

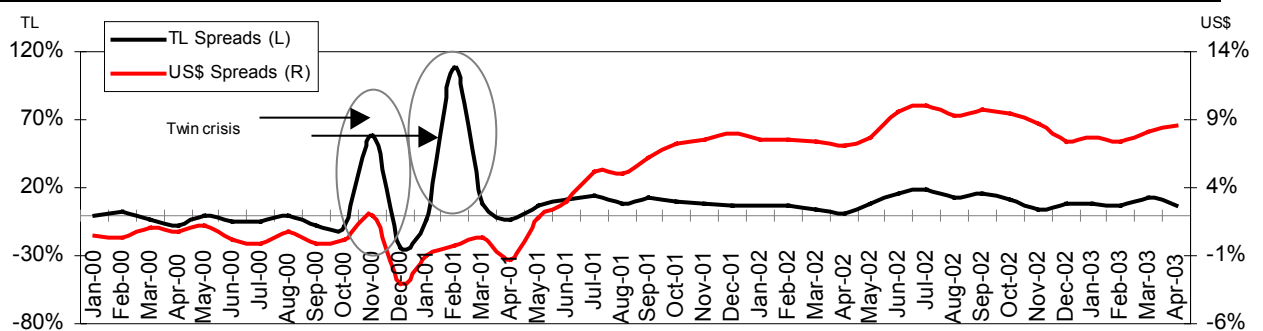
The spreads² between deposit and bond yields returned from the red beyond April 2001. The 4% spread on TL deposits and TL bonds gradually moved down to remain below the LT Eurobond-FX deposits spread of 9%. FX spreads generally follow a much more stable trend when compared with volatile TL rates. We expect both TL and FX spreads to be squeezed slightly in the following quarters together with falling inflation. Another point that could pull down the high real rates on deposits is, again, the removal of the blanket guarantee.

² [(Bond Rate+1)/(Deposit Rate+1)-1]

We expect a rapid flight to quality when the insurance is limited to the EU practice of €20,000.

The deposit insurance, previously limited to TL50bn was transformed into a full state guarantee by the crisis. In order to increase their deposit bases to benefit from high real interest rates on government securities, the small-sized banks started to offer highly attractive returns on deposits. Rational investors naturally place their savings in those banks offering the highest return. However, it is worth recalling that although the SDIF grants a blanket guarantee on deposits, the timing of the payment is not identified. Therefore, there is a risk of the investor losing the time value of money, since the payback of the deposits would be made at the value of the original day of the takeover, without the subsequent application of interest. We expect a quick switch, especially for sizeable deposits, from small to large banks, when the insurance is limited to the EU practice of €20,000.

US\$ & TL Spreads Between Deposits and Bonds



Source: The CB, Bloomberg, Ak Securities

Deposits and GDP have a correlation coefficient of 73%. But since R square is a mere 53% we have preferred to make deposit size estimations as a percentage of projected GDP figures, rather than extracting a formula from the independent variable, as we have previously mentioned.

Commercial Bank Deposit Size Projections

US\$bn	2001A	2002A	2003F	2004F	2005F	2006F	2007F	2008F	2010F	2011F	2012F	2013F
Deposits	76,406	81,535	90,802	102,778	101,864	113,607	112,422	122,944	126,894	134,067	140,865	146,670

Source: The CB, Ak Securities Estimates

Via a total deposit size of US\$10.2bn, Isbank is the deposit leader with a 13% market share. We expect Akbank to squeeze the currently low US\$76mn deposit size gap from Isbank, fueled by its strengthening reputation and rising retail-banking presence. Virtually cost-free demand deposits arise mainly from the widespread branch network and established retail banking presence. Isbank, which operates through a large 834-branch network, is the leader in demand deposits, which comprise a hefty 25% of the total. In the small and medium-sized banks segment, TEB leads in terms of DD/TD ratio, which climbs to 32%.

The aggregate deposits of the big four correspond to 44.5% of the commercial deposit banks' total

The aggregate deposits of the big four correspond to 44.5% of the commercial deposit banks' total, whereas the next three followers' aggregate market share amount to a mere 5.7%. We expect the share of the big-four to surpass 50% of the total in the coming ten years. You may find the bank-only details of the market shares in major balance sheet items in the individual company reports section of this report.

Deposits of ISE Traded Banks (2002-US\$m)

	Total Deposits	Market Share	DD/TD	Core Deposits
Akbank	10,121	12.4%	16%	9,835
Garanti	8,028	9.8%	22%	7,799
Isbank	10,197	12.5%	25%	10,003
Yapi Kredi	7,920	9.7%	15%	7,830
Disbank	1,367	1.7%	28%	1,309
Finansbank	2,231	2.7%	15%	1,824
TEB	1,032	1.3%	32%	995
Deposit Bank Total*	81,535			

Source: Ak Securities Estimates

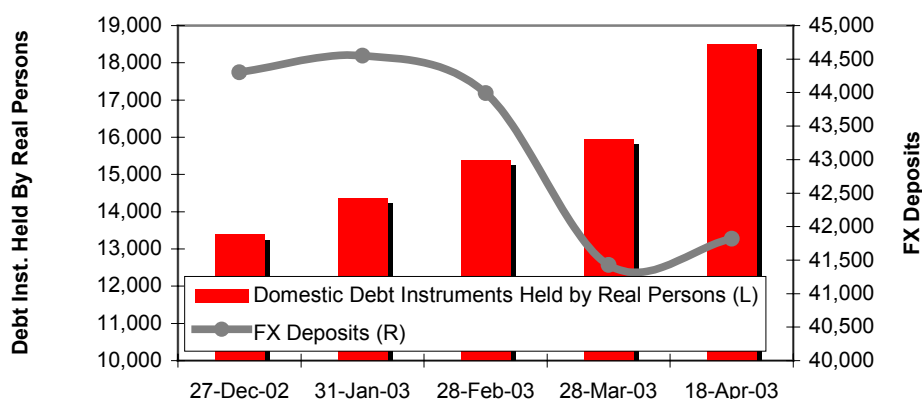
* The CB, weekly data

It is worth noting the individual investors' gradual shift from deposits to Government bonds owing to their attractive tax advantages and higher real returns. The banks may be forced to tap into the foreign markets for funding as individual investors become more familiar with bonds.

Investing in G-Bonds is an attractive alternative for the individual investors

Investing in G-Bonds is an attractive alternative for the individual investors since the interest income on these instruments is only taxed if the proceeds exceed an inflation-adjusted figure of US\$390,000, which is quite a satisfactory incentive for real persons. Domestic debt instruments provide a better investment alternative relative to deposits and O/N repo accounts, since repo accounts bear a total 22% of withholding tax. Deposit accounts on the other hand, involve withholding tax ranging from 17.6% to 27.5% for FX and 6.6% to 17.6% for TL deposits. Consequently, this provides the key reason why the banks would have a hard time retaining their deposit bases nowadays.

FX Dep. & Dom. Debt Instr. Held by Real Persons (US\$m)



Source: The CB, Ak Securities

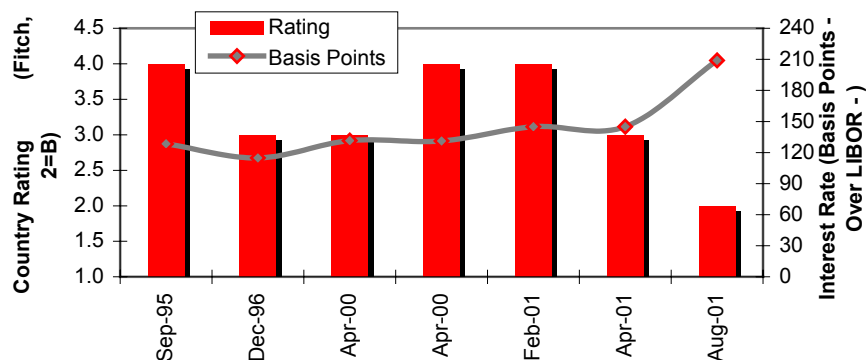
a. COUNTRY RATING LIMITS FOREIGN BORROWINGS

The borrowed funds that currently make up around 6.6% of the aggregate commercial bank balance sheet are expected to constitute around 9% of the total by the end of 2013, owing to the contraction of the interest rates on the back of a potential rise in sovereign rating. In this section we will place emphasis on international borrowings, since loans received from the domestic market only make up 23% of the sum, whereas the remainder is composed of foreign borrowings such as syndicated loans and asset-backed securities.

Especially subsequent to the February crisis, interest rates on syndicated loans rose substantially

Especially subsequent to the February crisis, interest rates on syndicated loans rose substantially. Akbank for example, borrowed US\$350mn from the international markets through an interest rate of LIBOR+115 basis points with one-year maturity in October 2000, just prior to the November crisis. One year later, it refinanced the same amount paying an all-in interest rate of a hefty LIBOR+220 basis points. This example is also applicable for each of the big-four banks. As seen in the graph below, the slide in Turkey's Country rating pushed up the interest rates on international borrowings, especially in 2001. In our analysis we have used the weighted average interest rates on syndicated loans of the domestic banks for that period. For the country ratings, we have used Fitch's rating system. We have applied a number for each rating to indicate it on the graph, such as 2 for 'B' and 4 for 'BB-'. There is a 66% inverse correlation between syndicated loan rates and country ratings.¹

Interest Rates on Syndicated Loans vs. Fitch Ratings



Source: Bloomberg, Ak Securities

We expect the interest rates on syndicated loans to fall to around LIBOR+150 basis points

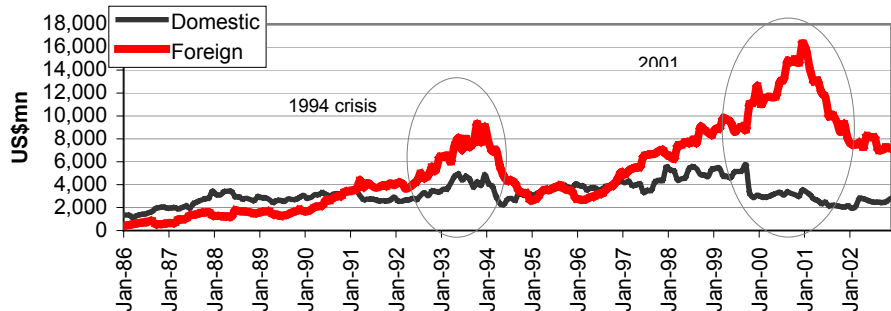
We expect the interest rates on syndicated loans to fall to around LIBOR+150 basis points for the large banks by the end of 2003, fueled by the partial easing of banking system concerns. Thus, the funding abilities of the banks are likely to improve gradually in the upcoming quarters. Yet will this advantage be used to make further borrowings?

We do not expect the banks to make an intense petition for additional syndicated loans, but to partially roll the existing amounts in the short-run, since they still lack an attractive alternative instrument to allocate funds to. Loan demand is still dull, and the rising percentage of securities in the balance sheet (mainly Eurobonds to eliminate currency mismatch) may suck out equity in the event of

¹ Although Fitch downgraded Turkey to B- from B due to the temporarily negative climate in 1Q03, no upgrade has been announced to date, despite the upturn in economic indicators. Therefore, we hold the rating at B.

a crisis. Even though the FX exposure of the system has disappeared, the market risks still persist. Therefore, the banks are not likely to jump on foreign borrowings even if the interest rates slide further, due to these unfavorable factors.

Aggregate Borrowings of the Total Banking Sector



Source: The CB, Ak Securities

Before 1991, the foreign borrowings (FB) of the banks had lagged behind domestic borrowings (DB). The rise in the share of syndicated loans gained pace subsequent to the liberalization of foreign capital movements in 1989. The foreign credits that made up a mere 22% of the total rose to a high 84% in May 2001, just after the February crisis.

The reason for such a rise was the harsh slide in domestic bank borrowings, rather than the TL/FX conversion divergence, since almost every Turkish bank was striving to find liquidity at that time. The slump in FB pulled down the FB/TB ratio to as low as 72% in 2002/4. As clearly seen in the graph, loan usage, especially from foreign financial institutions, nosedived until April 2002, due to lack of confidence in the economy. The FB had slipped by 50.3% from the December 2000 figure of US\$16.3bn to a low US\$8.1bn as of the end of July 2002.

There is a huge 92.4% correlation between the dependent variable borrowed funds and the independent variables PSBR and GDP

There is a huge 92% correlation between the dependent variable borrowed funds and the independent variables PSBR and GDP, using the past ten-years' data. Those two independent variables explain 86% of the variation in non-deposit borrowings. Consequently, we end up with the following projections for borrowed funds.

Borrowed Fund Projections of Commercial Deposit Banks

	2001A	2002A	2003F	2004F	2005F	2006F	2007F	2008F	2010F	2011F	2012F	2013F
Funds Borrowed (FB)	8,004	7,504	9,496	9,198	10,286	11,429	12,629	13,889	15,212	16,600	18,059	19,590
FB/(FB+Deposits)	9.5%	8.4%	9.5%	8.2%	9.2%	9.1%	10.1%	10.2%	10.7%	11.0%	11.4%	11.8%

Source: The CB, Ak Securities Estimates

Syndicated Loans

The big four banks obtained their latest one-year syndicated loans through an all-in interest rate of LIBOR+180 basis points, which is 40 basis points below the 2001 level. Although YKB did not tap into the international loan market to rollover its US\$225mn syndicated loan, we expect the other borrowers to rollover around 90% of their existing debt in the following periods.

Latest One-Year Syndicated Loans of the Big-Four

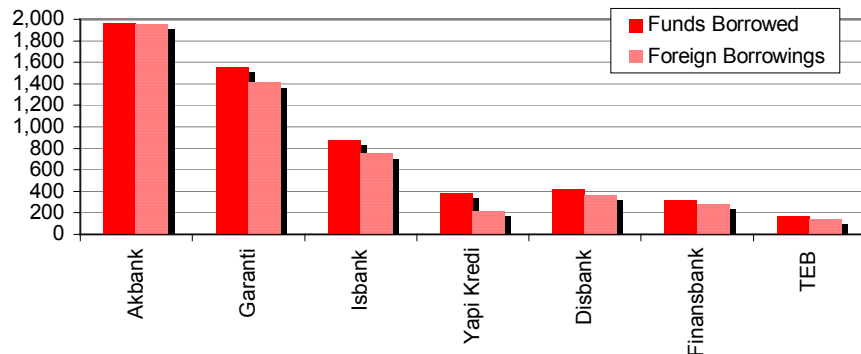
US\$m	Amount	Date	All-In Int. Rate
Akbank	450	02.10.02	LIBOR+180
Garanti	325	10.10.02	LIBOR+180
Isbank	300	17.12.02	LIBOR+180
Yapi Kredi	225	28.12.01	LIBOR+220

Source: Company Data

Akbank is the foremost leader in terms of borrowing volume

More than 80% of the FBs are received from foreign banks, whereas the remainder is obtained from foreign funds and other financial institutions. Akbank is the foremost leader in terms of borrowing volume, with a huge US\$1.95bn portfolio. This amount is 38% higher than that of the closest peer, Garanti’s US\$1.41bn. We expect Akbank, which has the highest scores from major rating agencies, to continue increasing its solid borrowing base in the long run. Even though the interest rates on syndicated loans do not differ significantly from one another in the big-four, Akbank is capable of collecting higher amounts relative to peers, thanks to its strong liquidity base and incomparably high CAR (low leverage).

Funds Borrowed 2002 (US\$m)



Source: Company Financials

The largest problem limiting the expansion of syndicated loans will be the effects of the upcoming new Basel accord

The largest problem limiting the expansion of syndicated loans will be the effects of the upcoming new Basel accord (Basel II), which will be triggered by the end of 2006. Until then, the Turkish Banks will continue to enjoy the positive effects of operating in an OECD country. Beyond 2006, the sovereign rating of the country will determine the risk weighting of the loan for the foreign lenders. Turkey will be the most negatively affected country in this respect.

Foreign lenders will be forced to allocate more capital for loans granted to Turkish banks. Consequently, the interest rates on syndicated loans received by Turkish banks will be forced to rise unless the country rating improves. It is worth noting that we have not taken this factor into consideration in our borrowed fund projections.

V. CAN ASSET ALLOCATION FIND A WAY OUT?

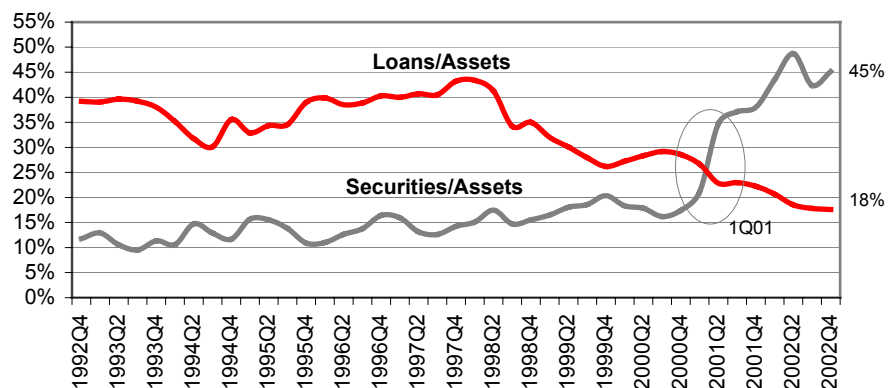
Banks do not seem to strive for further financing due to a lack of allocation alternatives

We do not expect the banks to start granting loans to the real sector eagerly unless the PSBR is pulled down. Banks do not seem to strive for further financing due to a lack of allocation alternatives, and due to the fact that interest earning assets bear substantial risks. Besides the long-experienced asset quality problems, default risk-free G-bonds and T-bills carry serious market risks (interest rate exposure).

We recommend investors not to feel secure about the matched FX short positions of the banks; this is because while a bank has to repay liabilities, the collection of assets may become questionable at any time. What will happen to banks if we face an unexpected devaluation to limit the widening of the current account deficit? The value of FX-denominated securities that are marked to market would be halved. What would happen to the shareholders' equity then? Such an adverse situation could also shift the FX-denominated active loans into TL NPLs. Hence; the FX short positions of the banks would leap immediately. The floating exchange rate regime, which can protect economic balances in times of crisis, would become extremely dangerous under such circumstances. The good old days of borrowing in FX and allocating into TL securities no longer make for a shrewd means of investing, due to the unpredictable movements of TL/FX conversion rates. The banks would secure themselves by remaining liquid, but the spreads that are just at the breakdown would clearly impair ROEs', growth prospects and market capitalizations.

It is the liquidity shortage that destroys a bank in times of crisis. A leap in the interest rates on securities and a deposit outflow would result in a serious liquidity crisis, especially for certain banks. We aim to clarify the asset allocation strategies of commercial deposit banks, and present our projections for major assets in this section.

Loan and Security Breakdown of Deposit-Bank Assets



Source: The CB

Following the February 2001 crisis, the share of securities surpassed the share of loans in deposit-bank asset breakdown

Following the February 2001 crisis, the share of securities surpassed the share of loans in deposit-bank asset breakdown. The loans to securities ratio slipped to 40% as of the end of 2002 from the 1993 high of 412%. We do not expect the picture to revisit its pre-crisis state in the coming years, due to asset quality and capital adequacy concerns. Securities make up a huge 45% of the balance sheet

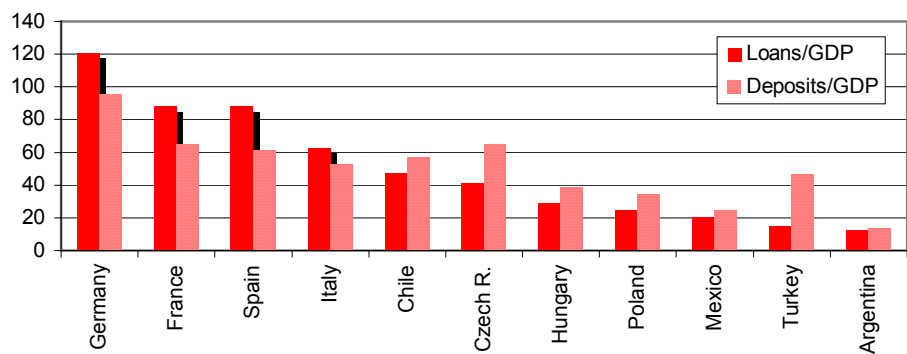
and continue their hike, whereas only 18% of the deposit-bank assets are granted as loans.

a. STUMPY LOAN VOLUME

The size of the Turkish banking sector loans as a percentage of GDP lags behind those of its peers

The size of the Turkish banking sector loans as a percentage of GDP lags behind those of its peers. Although the Deposits/GDP ratio of 44% as of April 2003 is very close to the peer group universe mean of 50%, the Loans/GDP ratio of 16% lags significantly behind the group’s average of 50.2%. Only a mere third of deposits are directed to loans in the Turkish Banking system, whereas the ratio exceeds 100% for the German, French, Spanish and Italian banks, indicating the emphasis on core business activities. The high L/D ratio may even indicate that a certain proportion of shareholder equity is used in lending. We do not expect to see such a picture for the Turkish banks in the following 10 years, due to a high PSBR that sucks up the financial systems’ funds.

Loans&Deposits as a Percentage of GDP



Source: The BRSA, Ak Securities

The February 2001 crisis halved banking sector loans

The February 2001 crisis halved banking sector loans. Coupled with the devaluation-backed meltdown of TL-denominated loans, the calling in of existing loans due to boosted liquidity requirements and high risk weighting of the loan book contributed to the slide. Banks did their best to switch to G-bonds and T-bills that have lower risk weightings without further ado. Thus, the weight of loans in total assets slid from the 2000 figure of 29% to 22% as of the end of 2001, for commercial deposit banks. Securities, on the other hand, had leapt from 17% to a huge 38% as of the end of 2001, Y-o-Y.

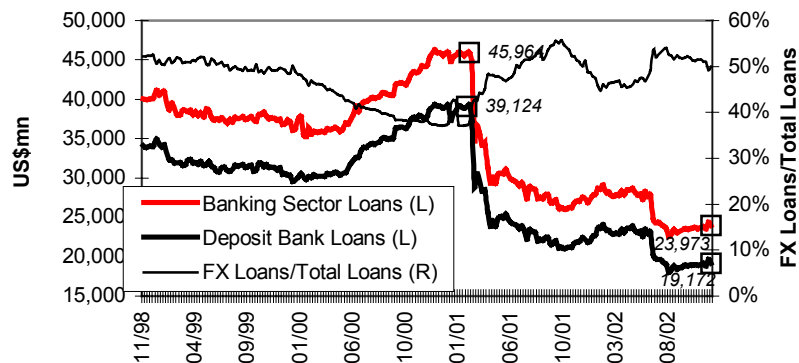
The rise in the loan book can only be experienced if the real interest rates decline

The rise in the loan book can only be experienced if the real interest rates decline. But do the banks want lower real rates, which correspond to squeezed spreads and hence lower profitability? Do the banks really want to increase their loan portfolio and choose lower and riskier proceeds? The answer is yes, for the sake of long-term benefits. Even though profits may fall in the short-run, the long-run growth of the financial sector can be put on a healthier track by gradually returning to the real sector.

Commercial deposit bank loans make up 80% of the sector’s total loans. Together with deposit leakage, the ratio lost five percentage points from its pre-crisis level.

Even though the share of the FX loan portfolio in total loans slipped down to 40%, before the crisis it had preserved the long-run equilibrium level of 50%.

Banking Sector Loans



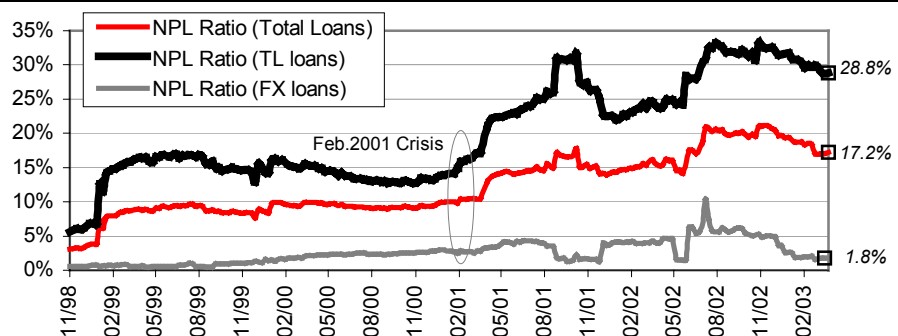
Source: The CB weekly data

Asset quality problems of the banking sector that started to hike especially with the Russian crisis rose significantly subsequent to the February 2001 devaluation. The NPL ratio of TL loans surpassed 33%, whereas the asset quality of FX loans remained relatively high, with problematic loans making up a mere 5% of the total.

The asset quality of the sector is expected to increase as the waiting problematic loans are rescheduled

As we have previously mentioned in our Istanbul Approach section, the loans under follow-up that are restructured under the IA will be booked as live loans after being traced as NPLs for six months. The initial effects of this approach were observed in the 2002 year-end financials. The asset quality of the sector is expected to increase as the waiting problematic loans are rescheduled and partially collected. The current 17% NPL level would then be gradually pulled down to 10% levels.

Non-Performing Loans of the Aggregate Banking Sector



Source: The CB, Ak Securities

The NPL ratio of the state banks is a huge 36%

Most of the asset quality deterioration stems from the state banks. *The NPL ratio of the state banks, loans of which correspond to 22% of the aggregate banking system, is a huge 36%. The TL-denominated NPL ratio of the state banks, on the other hand, is an incredible 74%.* State bank involvement in the IA had been very limited up until the present. But with the upcoming restructuring scheme of the agriculture loans of Ziraat Bank, the low asset quality will gradually be healed.

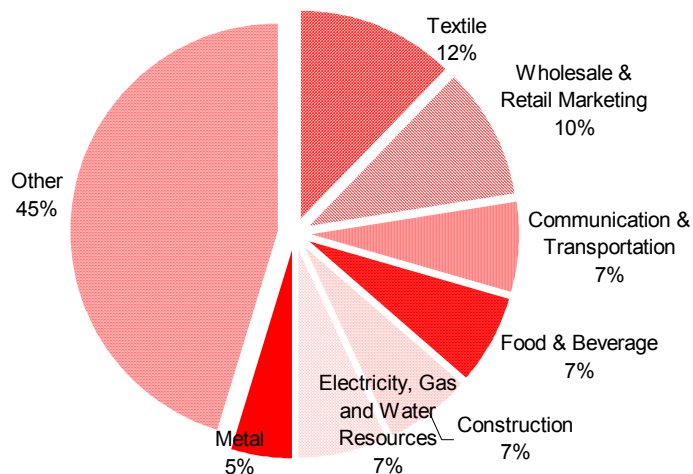
The quality of private deposit banks’ loans is slightly better than the sector average, with NPLs comprising 15% of total loans. The quality will heal in stages throughout the following quarters, fueled by the positive outcome of the restructuring process.

i. Corporate Loans

Textiles happened to be the leading sector that the banks granted loans to

The textile industry has historically been one of the driving forces of the Turkish economy. On the back of heavy investments over recent years, the Turkish textile and clothing sectors managed to reduce their production costs, becoming competitive in the global arena. Therefore, textiles happened to be the leading sector that the banks granted loans to. In this section we have analyzed the sector breakdown of loans granted by banks and special financial institutions (Islamic Banks). The leading sector that grabbed the largest loan slice is textiles, with a 12% share in *gross* bank loans followed by marketing and communication sectors.

Sector Breakdown of Gross Bank Loans (Including NPLs)



Source: The CB

Total gross borrowings obtained from the banks and special finance institutions started to rise gradually from the end of June 02. Total appreciation reached 18% as of the end of February 2003. Each and every major sector faced a rise in borrowings in that period. Above average growth rates were observed in communication, financial intermediation and vehicle industry sectors.

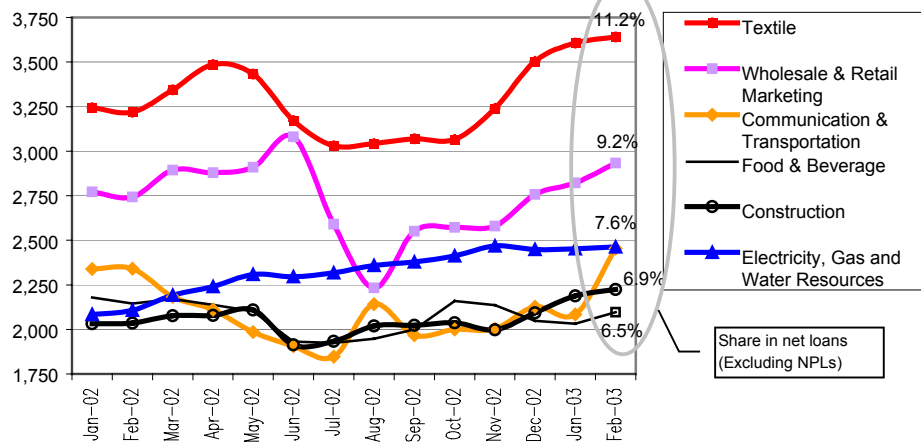
The Treasury generally guarantees a large proportion of the loans in electricity, gas and water resources segment

The lowest expansion of borrowings throughout the major sectors since June 2002 was observed in the electricity, gas and water resources segment with a 7% growth. The Treasury generally guarantees a large proportion of the loans in this segment. Hence, the problematic loans correspond to a mere 0.3% of the total for this sector. The communication sector’s bank borrowings on the other hand, faced the highest growth of 33% during the same period, which we believe would stem from the borrowings of the GSM operators not listed on the ISE.

The percentage of net loans directed to the textile sector in total loans declines

We expect the dominance of the textile sector to continue in the following years, albeit at a decreasing pace. The percentage of *net* loans directed to the textile sector in total loans declined to 11.2% in February 2003 from last year's respective period figure of 11.7%. The difference between the share of net loans and gross loans stems from the loans under follow-up that make up 18% of the total for the textile sector.

Net Loans by Sectors 2002 (US\$mn)

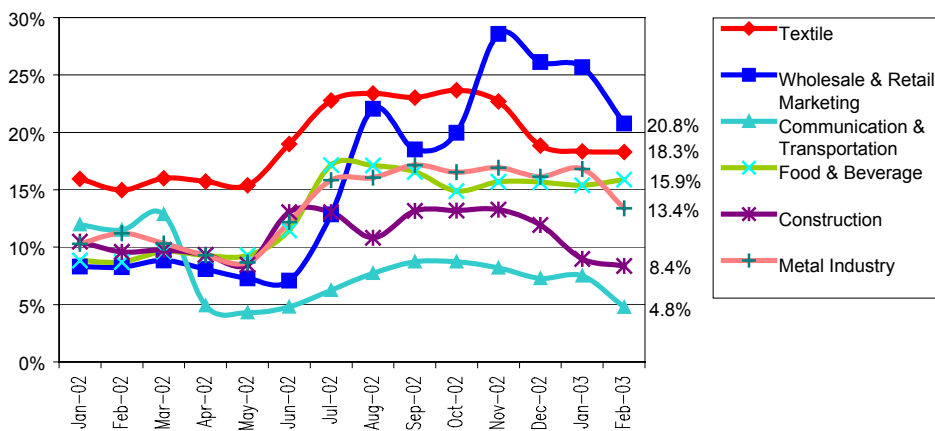


Source: The CB

Although the textile industry historically had the lowest asset quality, wholesale marketing has captured the lead over the past few months

Since the above-mentioned six sectors attract half of the banking sector's net loans we will focus solely on them. Although the textile industry historically had the lowest asset quality, wholesale marketing has captured the lead over the past few months. The NPL ratio of the wholesale marketing augments to 26% if we analyze it separately from its parent sector. Wholesale and retail marketing is the only sector to have confronted asset quality deterioration since 1H02. Textile and construction sectors, on the other hand, pulled down their NPL ratios by more than 450 basis points in the same period, thanks to the positive effects of the Istanbul Approach.

NPL Ratios by Sectors 2002 (US\$mn)



Source: The CB

The textile sector has seen the highest number of companies applying for their problematic loans to be restructured under the IA

The sector breakdown of those companies applying for the restructuring of their loans under the Istanbul Approach is also quite parallel to those sectors with the highest NPLs. The textile sector has seen the highest number of companies applying for their problematic loans to be restructured under the IA. The total number of cement and construction companies that have signed the financial restructuring agreement is the second highest after textiles.

Sector Breakdown of Co's Applying for Istanbul Approach

	Application	Signed FRAs		
		Large	Small	Total
Textile and Textile Products	33	17	3	20
Food and Animal Products	29	7	4	11
Other Production and Management Activities	19	7	4	11
Transportation, Storing and Communication	19	10	-	10
Metal Products and Processed Metal	18	7	-	7
Leasing and Other Financial Services	17	17	-	17
Construction	12	7	3	10
Tourism and Entertainment	11	4	-	4
Wholesale Trade	10	6	-	6
Cement, Ready Mixed Concrete Production	9	2	7	9
Management Activities of Holding Companies	9	5	-	5
Retail Trade	9	3	-	3
Packing, Paper and Card Board Products	7	4	2	6
Foreign Trade Capital Companies	7	2	-	2
Motor Vehicle Parts and Accessories	5	2	-	2
Ceramic Floor and Wall Tile Production	5	1	1	2
Plastic Goods Production	4	4	-	4
Electronic and Home Appliances	3	2	-	2
Road Transportation	3	1	1	2
Glass	1	1	-	1
Ship and Boat Construction	1	-	-	-
Total	231	109	25	134

Source: The BRSA

The seven ISE traded banks account for 88% of deposit-bank loans

The seven ISE traded banks account for 88% of deposit-bank loans. Isbank that has always been a sincere supporter of the real sector is the leader in loan market share. Akbank, which is one of the frontrunners in terms of loan size, is also the leader in terms of its outstanding asset quality, with problematic loans making up a mere 1.8% of the total (1.7% as of the end of 1Q03). We expect the bank to continue improving its loan book fueled by its solid capital adequacy ratio that leaves room to invest in assets with higher risk weightings.

Market Shares In Loans of Deposit Banks

2002 US\$m	Loans	NPL Ratio	Market Share In Loans
Akbank	3,693	1.8%	18.7%
Garanti	3,301	6.2%	16.7%
Isbank	3,989	15.3%	20.2%
Yapi Kredi*	4,169	10.7%	21.1%
Disbank	752	5.3%	3.8%
Finansbank	1,016	9.2%	5.1%
TEB	486	2.5%	2.5%

Source: The CB weekly data, TAS unconsolidated bank financials

* Market Share in loans slides to 14% if we are to adjust for the loans brought from the Bahrain branch.

i. Consumer Lending & Credit Cards

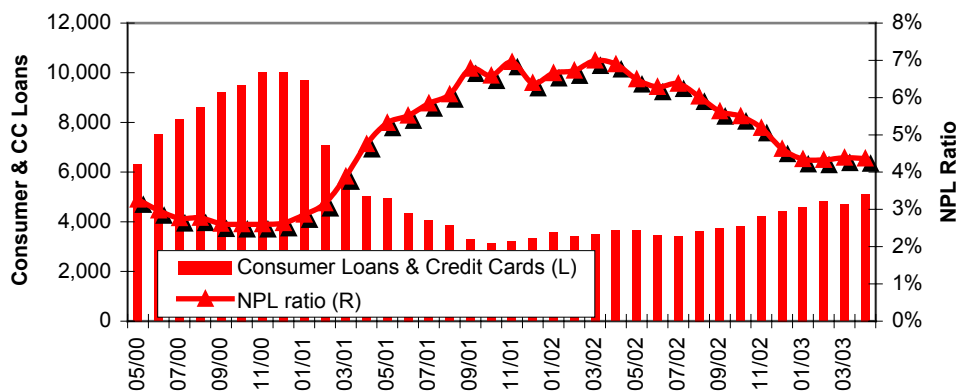
The demand for consumer loans is in itself an indicator of economic recovery and growth

The demand for consumer loans is in itself an indicator of economic recovery and growth. The rising amount of consumer loans over past months gives us clues of domestic demand growth, which is set to lead us to unexpectedly high GDP growth data. The growth in credit card loans is quite simply incredible. HSBC's acquisition of Benkar provided a slight lift to the credit card loans of the banking sector, and the rise remains pronounced and noteworthy. Despite very high annual interest rates, credit card loans are almost at their pre-crisis levels. It is also quite interesting that their loan quality is high and yet still increasing. Consumer loans made a strong entry to 2003 through a 19% YtD rise (April 03). This growth level even exceeded that of credit cards, which rose 13% during the same period. We expect to see this positive picture continuing throughout the year.

NPL ratio of CL&CC is 4.4%, which almost corresponds to a quarter that of the sector

The aggregate consumer and credit card loans came to a halt after reaching the US\$10bn peak just before the November 2000 crisis, and plummeted severely with the February 2002 devaluation. Having fallen to the US\$3.1bn level in October 2001, a gradual recovery carried the total to US\$4.4bn as of the end of 2002, and to US\$5.1bn in April 2003. The asset quality of consumer loans (CL) and credit cards (CC) is significantly higher than other commercial loans. The NPL ratio of CL&CC is 4.4%, which almost corresponds to a quarter that of the sector.

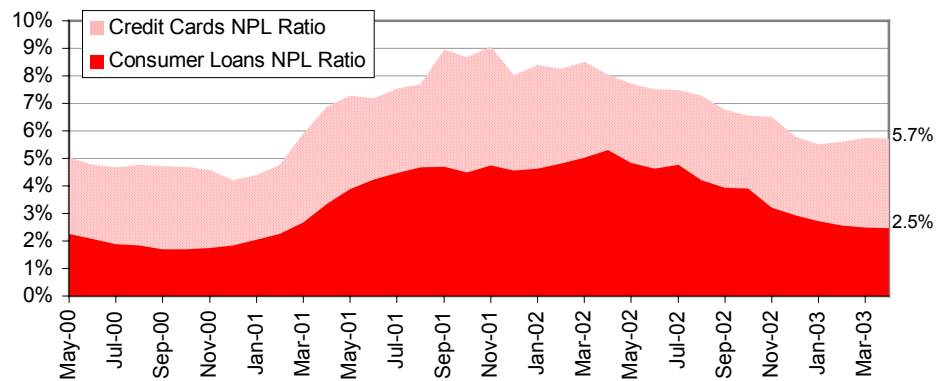
Aggregate Consumer Loans and Credit Card Loan (US\$mn)



Source: The CB

We do not envisage major asset quality difficulties either on the credit card or consumer loan front. The 5.7% NPL ratio of credit cards is much lower than loans granted to companies, whereas the problematic loan ratio of the consumer loans is even lower still.

Asset Quality of Consumer Loans and Credit Cards



Source: The CB

Asset quality has even been on a rising trend for the past year

Asset quality has even been on a rising trend for the past year. The core reason behind the sliding NPL ratios is rising loans, rather than problematic loan collection. Thus, this view will stand for deferred asset quality problems going forward. A slowdown in the loan rise would inflate the size of past-due loans, which would eventually tarnish the brilliant image.

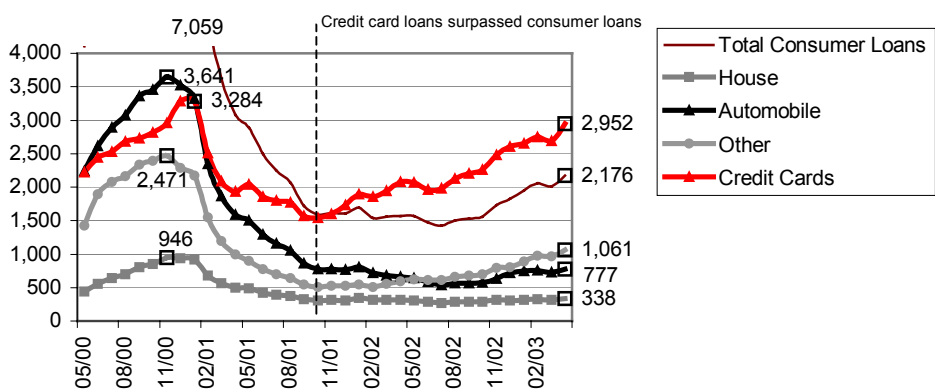
There is no activity on the home loan side. These loans were at around the US\$300mn level YoY in April 2003, whereas automobile loans rose by 18% during the same period. However, auto loans that used to make up 44% of consumer loans at that time correspond to only 36% of the current total. Home loans are sliding in absolute terms; car loans' share is also declining. And so which segment of consumer loans is actually on the rise? The answer is other consumer loans that comprise marriage loans, education loans, house improvement loans and everything else not backed by a house or a car.

Hopeful of an upward shift in income levels in the near future, the consumer relies on short-term and expensive credit sources

The rise in loans on credit cards and on other consumer loans can also be attributed to the liquidity needs of society over the past year due to unfavorable economic incidents such as job losses and wage cuts. Hopeful of an upward shift in income levels in the near future, the consumer relies on short-term and expensive credit sources. The increase in the value of the TL against major currencies over the past few months is one of the improvements the consumer appreciates, and this in turn further fuels spending.

Loans on credit cards surpassed total consumer loans at the end of 2001, rising by a huge 92% since then. We expect the two to follow an increasing parallel and gradually rising trend in the upcoming quarters. The continuing increase in the value of the local currency would steepen the slope of consumer lending, which would eventually surpass credit card lending. Rapid devaluation, which could emerge as a reaction to the recent surge, on the other hand, would halt consumer loans, but keep the rising trend of credit cards quite stable. Hence, a strong slide in the value of the TL would widen the gap between the two.

Breakdown of Consumer Loans (US\$mn)

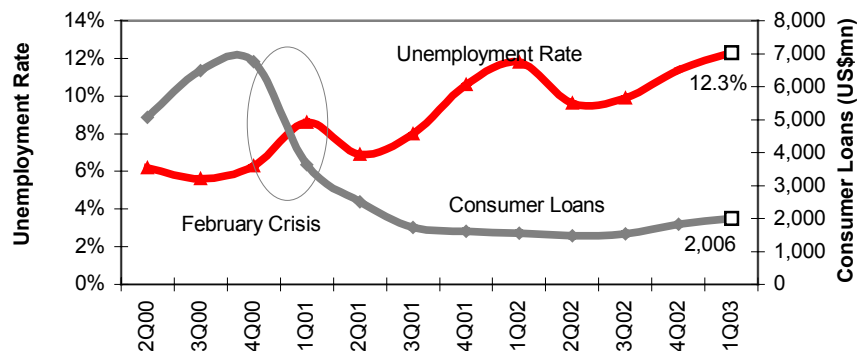


Source: The CB

The unemployment rate and consumer loans have a significant inverse correlation of 78%

The unemployment rate and consumer loans have a significant inverse correlation of 78%. As unemployment begins to shrink with economic growth, demand for consumer loans is expected to rise. And while it would probably take a long time to return to the 2H00 levels, 2003 will clearly be a better year for consumer loans than the previous two years. We expect the unemployment rate to gradually slip to 10% by the end of 2003.

Unemployment Rate vs. Consumer Loans



Source: The CB, The SIS, Ak Securities

Fueled by hopes of economic recovery, monthly nominal interest rates on TL consumer loans had declined to 3% levels by the end of 2002

The monthly TL interest rates on consumer loans that had slipped to 2% (27% annually compounded or -30% in real terms) before the crisis leapt to 10% (214% annually compounded, 77% in real terms) levels subsequent to the devaluation. Such unbearably high interest rates naturally impacted upon consumer loan demand. Fueled by hopes of economic recovery, monthly nominal interest rates on TL consumer loans had declined to 3-4% levels by the end of 2002. Annual real interest rates on CL slipped to as low as 12%, corresponding to a mere 1% spread for the banks, representing quite an attractive proposition for the consumer. And as the consumer feels more secure about his income stream, so too will we observe a rise in consumer loan demand.

Although interest on credit cards remains extremely high, we are able to see an increasing trend. We believe that the man on the street has some compounded interest rate calculation problems, since *accepting to pay a real annual interest rate of more than 70% does not constitute a wise funding route*. This line of attack may also indicate serious financial difficulties, and that the consumer has

no alternative left but to resort to CC credits. Should per capita GDP not rise and the economy fail to get on track, such CC credits would result in both social distress for the community and significant asset quality problems for the banks.

Interest Rates on Consumer Loans and Credit Cards

	Monthly Interest Rates		Annually Compounded Interest Rates		Int. Rate on Deposits
	Consumer Loans *(TL)	Credit Cards (TL)	Consumer Loans (TL)	Credit Cards (TL)	
Akbank	3.25%	7.25%	47%	132%	46%
Garanti	3.75%	7.95%	56%	150%	49%
Isbank	3.45%	7.75%	50%	145%	48%
Yapi Kredi	3.45%	8.50%	50%	166%	40%
Disbank	3.75%	7.45%	56%	137%	46%
Finansbank	3.90%	7.95%	58%	150%	47%
TEB	3.85%	7.75%	57%	145%	50%

	Cons. L-Dep. Spread	CC-Dep. Spread	2003P Avg. WPI	Real Int. Rate on CL	Real Int. Rate on CC
Akbank	1%	59%		12%	77%
Garanti	4%	68%		19%	91%
Isbank	2%	65%		15%	87%
Yapi Kredi	7%	90%	31.2%	15%	103%
Disbank	7%	62%		19%	81%
Finansbank	8%	70%		21%	91%
TEB	5%	63%		20%	87%

* Monthly interest rate on one-year automobile loan.

Source: Bank Data 20 Dec. 2002, Ak Securities Estimates

With its widespread branch network and below average interest rates, Isbank is the leader in consumer loans

With its widespread branch network and below average interest rates, Isbank is the leader in consumer loans, with a 20% market share. Yapi Kredi Bank on the other hand, is the peerless leader in credit card loans, with a 27% share, followed by the credit card passionate Garanti. A huge 28% of Yapi Kredi's active loans comprise credit on credit cards. Akbank, which registered a late start both in consumer loans and credit cards, is the most aggressive player, and the nightmare of its peers given its ability to offer the lowest interest rates.

Fueled by their wide branch networks, the larger banks have a competitive advantage over smaller players in terms of distributing their credit cards and attracting consumer loan customers. We expect the larger banks to display better growth performances in the coming years as compared with smaller competitors, especially in terms of reaching critical mass earlier on. Other than the big-four, the foreign banks and especially HSBC continue their aggressive strategy of widening their retail client base, both in consumer loans and credit cards.

Proportion of CL and CC in Loans – Credit Card Details

US\$m	CL	CCL	CL/Loans	CCL/Loans	CCL/CC Limit Commitments	Spending Limit Per CC	Number of CC 2002
Akbank	229	257	5.9%	6.6%	14.6%	1,011	1,738,588
Garanti	124	571	3.4%	15.7%	35.2%	702	2,315,275
Isbank	468	326	10.9%	7.6%	27.1%	621	1,934,078
Yapi Kredi	217	699	4.9%	15.8%	67.5%	355	2,918,166
Disbank	16	58	2.0%	7.5%	-	-	428,459
Finansbank	50	96	3.9%	7.5%	26.7%	554	651,241
TEB	17	9	3.2%	1.7%	20.8%	719	59,288

Source: 1Q03 Bank Financials, Interbank Card Center, Ak Securities

Market Shares in Consumer Loans (CL)

	1Q02	2Q02	3Q02	4Q02	1Q03
Akbank	5%	7%	8%	13%	13%
Garanti	11%	9%	8%	7%	6%
Isbank	15%	19%	20%	25%	23%
Yapi Kredi	5%	6%	7%	11%	11%

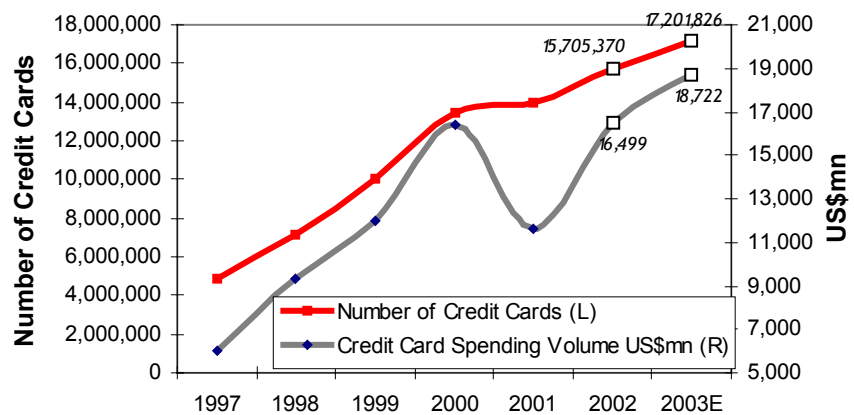
Source: Bank Financials, The CB

Demand & Supply for credit cards are rising dramatically due to fierce competition backed by strong marketing activity

Credit Cards on A Roll

Demand for credit cards is rising dramatically due to fierce competition backed by strong marketing activity on the part of the banks, and due to the hyperinflationary environment that fuels such demand. The five-year CAGR of the number of credit cards stands at 27%, whereas the figure is 22% for spending volume due to the adverse conditions of 2001. The number of credit cards continued its hike even in 2001, perhaps by only 4%, but a growth nevertheless. We expect the solid growth to continue in the following years as well. We also expect the number of credit cards to have increased by 10% to 17 million units by the end of 2003, YoY, while we project spending volume rising by 13.5% to US\$18.7bn during the same period.

Number of Credit Cards & Spending Volume



Source: The Interbank Card Center, Ak Securities Estimates

Per card spending level declines

Since the growth in the number of credit cards surpasses that of spending, the per card spending level declines. The five-year CAGR of monthly per card spending stands at -3%. The monthly credit card spending per credit card corresponds to US\$88 in absolute terms for 2002. We expect a slight recovery to US\$91 level in 2003.

Monthly Spending Per Credit Card (US\$)

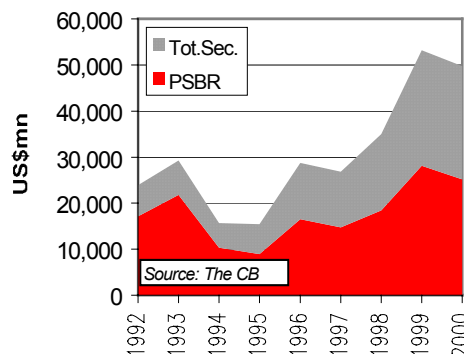
	1997	1998	1999	2000	2001	2002E	2003E
Credit Card Spending/Month	104	109	99	102	69	88	91

Source: The Interbank Card Center, Ak Securities Estimates

b. SECURITIES

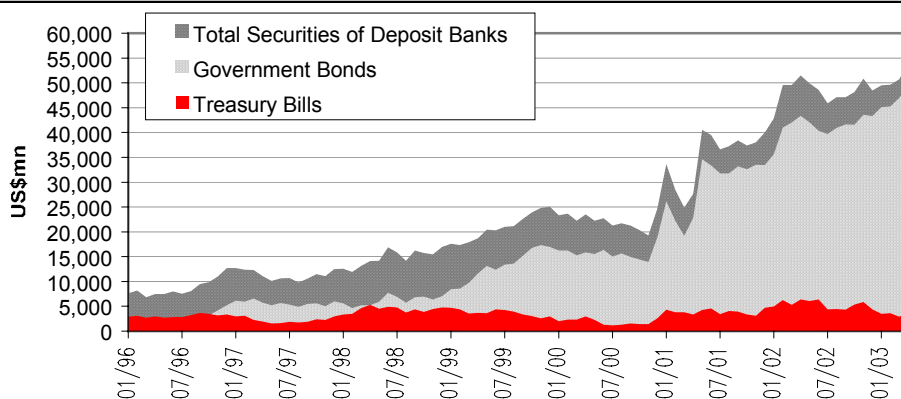
Due mainly to their hefty real returns and lower risk weightings. Government Bonds and Treasury Bills make up a high 98% of securities

Due to the hefty borrowing requirement of the public sector, Government bond and Treasury bills, which have always been supported by the state via tax incentives, have become the major asset allocation choice for the banks. As seen in the chart below, total securities of deposit banks soared more than seven-fold their 01/1996 level, reaching US\$54bn as of the



end of 2003/04, due mainly to their hefty real returns and lower risk weightings. Government Bonds and Treasury Bills make up a high 98% of securities, whereas the remainder is composed of stocks and bonds of private enterprises. The share of G-Bonds in total securities, which used to be at around 30%-levels before 1997, is currently at 91% owing to the high borrowing needs of the Government. The PSBR/GNP ratio had climbed to 15.4% as of the end of 2001 from the 1996 figure of 9%. We estimate the ratio to be at around the 11% level currently, and do not expect it to slide below 7% in the coming ten years. Since the size of the securities and the PSBR has a correlation of 80%¹, the projection of public sector borrowing requirement is significant in our analysis.

Securities of Deposit Banks



Source: The CB

The banking sector is operating with considerable interest risk for carrying a substantial marketable securities portfolio

The banking sector is operating with considerable interest risk for carrying a substantial marketable securities portfolio. The interest risk and maturity mismatch, which could consequently become a liquidity shortfall during crisis through a pulling down of the market values of the trading portfolio, represents a perilous hazard for financial institutions.

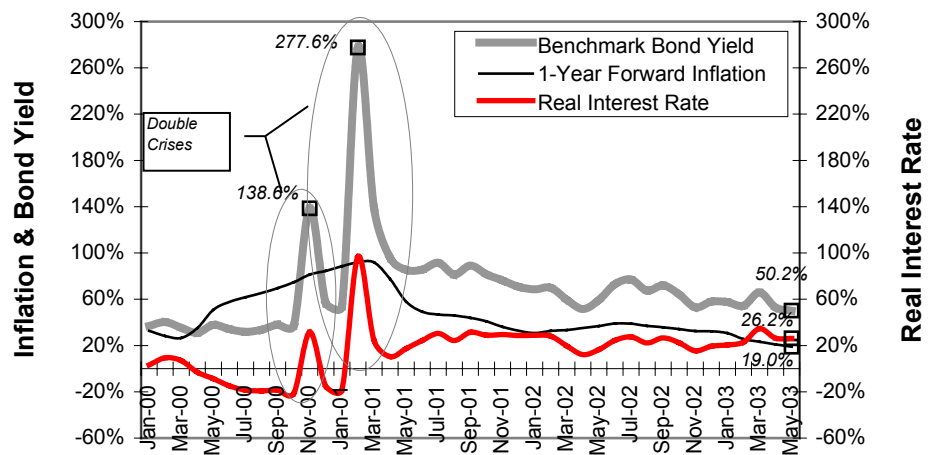
Therefore, the banks have to turn to floating rate notes and/or rely on the core business of loan provision as a shield, particularly against interest rate risk. Yet clearly loans to the real sector bear credit and maturity risks. Even pulling down the currency mismatches via the granting of FX loans to match FX deposits

¹ Derived from data between 1992 and 2000.

would result in a hike in NPLs subsequent to an unexpectedly large decline in the value of the local currency.

The sizable 26% real interest rate on the compounded TL denominated benchmark bond yield using 1-year forward inflation rate illustrates the distrust of the slide in inflation on top of other risk premiums. And since the financial institutions feed on high real interest rates, they do not eagerly strive to reduce rates at T-Bill and G-Bond auctions. We expect real rates to remain at around their current level in the coming year, and gradually decline to 15% in the following five years.

Benchmark Bond Yields & Real Interest Rates



Source: The CB, ISE, Ak Securities Estimates

The banks have three alternative accounts in which to book their securities

The banks have three alternative accounts in which to book their securities, deciding upon which one at the date of purchase. The trading portfolio is marked-to-market and the outcome is displayed on the income statement, while the marked-to-market gain on securities available for sale is not displayed on the P&L, but under shareholders' equity, unless it is liquidated in the secondary market. The investment portfolio on the other hand, is not marked-to-market, and the income is booked on an accrual basis.

In our analysis we have preferred to work on the marked-to-market portfolios as a whole

In our analysis we have preferred to work on the marked-to-market portfolios as a whole. We have taken the entire TL-denominated securities booked in trading and available for sale portfolios. For FX-denominated securities, we have only marked-to-market the Eurobonds; since the FX-indexed and FX-denominated Government Bonds do not have indicative market values. We have managed to locate the Eurobond portfolios of some of the Banks from the IAS29 footnotes, and some by directly requesting the amounts from the bank itself. For those banks for which we were unable to obtain the size of the Eurobond portfolios, we have used the 59% share of Eurobonds in the banking sector's total FX-denominated securities.

For the return on TL-denominated bonds from the end of 1Q03 until mid-June, we have used the ISE 9-month bond price index that gained around 7.3% in that period. For the Eurobonds we have used the paper maturing on 27/11/2006 as our benchmark, and recorded a gain of 13.5% (The benchmark Eurobond yield

declined from 12.2% to 7.7% in that period). It is worth noting that these figures do not represent the performance of bonds for the entire second quarter, and the situation may either improve or deteriorate in the coming weeks.

Akbank appears to be the one to benefit the most from the yield slide among the big four

Isbank has the highest marked-to-market returns on securities available for sale and trading. However, when we divide the absolute value into shareholders' equity, Akbank appears to be the one to benefit the most from the yield slide among the big four. Among all banks in our coverage universe, Finansbank is the leading beneficiary. The Bank presents an interesting case, having no trading securities. In other words, the slide in bond yields will not have any positive impact on the income statement of the Bank, but rather, on the balance sheet.

Effects of Mark to Market Securities on Sh. Eq. and on Profit*

US\$m	Profit Rise 2Q03F	Sh.Eq.2002	%
AKBNK	93	1,981	4.7%
DISBA	4	347	1.3%
FINBN	0	326	0.0%
GARAN	24	1,024	2.3%
ISCTR	33	2,590	1.3%
TEBNK	1	156	0.5%
YKBANK	81	1,670	4.8%

US\$m	Mark to Market Gain 2Q03F	Sh.Eq.2002	%
AKBNK	225	1,981	11.3%
DISBA	46	347	13.3%
FINBN	44	326	13.6%
GARAN	104	1,024	10.2%
ISCTR	269	2,590	10.4%
TEBNK	2	156	1.1%
YKBANK	101	1,670	6.1%

Source: Bank Financials, Ak Securities Estimates
* From 1Q03 until mid-June

As a supplement to the above-mentioned method, we can work through a modified duration and convexity analysis

As a supplement to the above-mentioned method, we can work through a modified duration and convexity analysis so as to gain an idea on how the Banks may be affected under various yield movements. In our analysis we have derived the effects of interest rate changes through a benchmark security's modified duration and convexity. $[\Delta \text{Value} = -(\text{Modified Duration}) * \Delta y + \text{Convexity} * (\Delta y)^2]$.

A rise of at least 10pp may be experienced in TL-denominated bond yields should the Government fail to meet the performance criteria stipulated in its letter of intent submitted to the IMF. On the asset side, the direct adverse effect would be a pulling down of profits and sh. equities instantaneously on the back of the slide in the value of marketable securities that are marked-to-market. Assuming we do not face any negative event on the IMF side, and that the assorted economic data announcements remain healthy, a 10% TL bond yield slide is also a possibility.

Akbank is the Bank most sensitive to changes in TL bonds, with the largest portfolio in this segment, whereas Isbank is sensitive to Eurobond yield

variations in absolute terms as of the end of 2002. The duration and convexity analysis indicates that for a 10 percentage-point slide in the benchmark TL bond yield, the value of the security rises by 7%. A one percentage-point decline in the benchmark Eurobond yield causes the price to hike by 2.8%.

Duration & Convexity Analysis of Benchmark TL Bond

Maturity Date of Benchmark Security	07/07/2004
Adjusted/Modified Duration	0.693
Convexity	0.010
PP Change in Interest Rate	-10.0%
Price Change	6.9%
Current Interest Rate on Benchmark Bond	48%

Source: Bloomberg, Ak Securities Estimates, 16 June 2003

Duration & Convexity Analysis of Benchmark Eurobond

Maturity Date of Benchmark Security	27/11/2006
Adjusted/Modified Duration	2.84
Convexity	0.10
PP Change in Interest Rate	-1.0%
Price Change	2.8%
Current Interest Rate on Eurobond	8.4%

Source: Bloomberg, Ak Securities Estimates, 16 June 2003

Marked-to-Market Securities of Banks 2002 (US\$m)

	TL	FX	Total
AKBNK			
Trading Portfolio	1,321.6	311.0	1,632.6
Available for Sale	1,790.9		1,790.9
GARAN			
Trading Portfolio	187.9	162.2	350.2
Available for Sale	30.1	580.6	610.7
ISCTR			
Trading Portfolio	667.1	0.9	668.0
Available for Sale	438.4	1,512.5	1,950.8
YKBNK			
Trading Portfolio	765.2	476.4	1,241.6
Available for Sale		153.1	153.1
DISBA			
Trading Portfolio	91.2		91.2
Available for Sale	189.9	205.9	395.9
FINBN			
Trading Portfolio			
Available for Sale	224.3	207.2	431.6
TEBNK			
Trading Portfolio	15.2	1.0	16.2
Available for Sale		6.0	6.0
ALNTF			
Trading Portfolio	47.9	1.3	49.2
Available for Sale			

Source: Bank Financials, Ak Securities Estimates

During a severe crisis, which would be deepened by significant deposit outflow from the banks, those banks whose liquidity positions are insufficient would experience a tough period of survival

During a severe crisis, which would be deepened by significant deposit outflow from the banks, those banks whose liquidity positions are insufficient would experience a tough period of survival. The Central Bank would then be alert to providing liquidity to banks through a buying back of their securities, paying reasonable prices, since the market values could become meaninglessly low in the secondary market at such a time. Consequently, we can assume that the entire securities portfolios of the Banks have the characteristics of liquid assets, as the CB provides such a guarantee.

VI. THE CAMEL PERFORMANCE ANALYSIS

In this section, we aim to provide a brief picture of the Turkish banks' performances via the CAMEL approach

In this section, we aim to provide a brief picture of the Turkish banks' performances via the CAMEL approach. In this approach, the ratios indicating Capital adequacy, Asset quality, Management, Earnings and Liquidity are used for performance analysis. We have compared the banks in our coverage universe rather than examining the separate performances. In almost all areas Akbank appears by far to be the leader, whereas the medium-sized banks look healthier than the remaining players of the big-four, especially in terms of cash capital and cost management. In this study we rank each of the seven banks' efficiency indicators, granting one point for the leading bank and seven points for the laid up. Therefore, the lower the average ranking, the better is the performance of the bank in question.

Although we believe that Free Capital/Assets is also a fine indicator in the measurement of the strength of internal resources, we have taken Capital Base/Risk Weighted Assets (RWA) as the major gauge of **Capital Adequacy**, due to its general recognition. For **Asset Qualities** we have simply applied the good old NPL ratio. The NPL provisions and collaterals are also displayed to provide a better picture of the overall situation. We have attempted to present **Management** talent through the benchmark Cost/Income ratio and the sub-indicators of personnel and branch efficiency comparisons. Among the **Earnings** indicators we have selected the ROE as the main measure. We believe that the ratio displays the profitability and terminal growth potential more than any other sign. We have also worked through commission income and spreads to widen the earnings performance analysis. For the main **Liquidity** gauge, we have preferred to use the Liquid Assets (Excluding Securities)/ Deposits ratio, rather than the Liquid Assets/Assets, since it is the deposits that take flight immediately without prior notice during times of crisis.

Rankings of Traded Banks							
	Akbank	Garanti	Isbank	YKB	Disbank	Finansbank	TEB
Capital Adequacy ¹	1	5	2	4	6	7	3
Asset Quality ²	1	4	7	6	3	5	2
Management ³	1	3	7	4	5	2	6
Earnings ⁴	2	5	4	n.m.	3	1	6
Liquidity ⁵	3	4	5	6	2	7	1
Average Ranking	1.6	4.2	5.0	5.0	3.8	4.4	3.6

Source: Ak Securities Estimates

Consequently, Akbank, having an arithmetic mean ranking of 1.6, takes the lead

Consequently, *Akbank, having an arithmetic mean ranking of 1.6, takes the lead.* The Bank emerged as the winner in all phases of our CAMEL approach in the big four. Although Akbank is the most liquid bank of the big-four, having the highest liquidity gauges TEB and Disbank surpassed its performance. TEB, which is perceived to be the most conservative, took the silver medal in the overall, followed by Disbank. It is also worth noting that since we have worked

¹ CAR

² NPL Ratio

³ Per Branch and Per Employee loans and deposits, Cost/Income

⁴ Return on Equity

⁵ Core liquidity and Liquid Assets/Deposits

through 2002 year-end financials, Yapi Kredi appears more robust than it actually is. Due to the reversal of provisions that were set aside for group loans, almost all indicators jumped to extremely high levels. Therefore, we prefer to disregard YKB's rankings in our analysis.

a. CAPITAL ADEQUACY RATIOS APPEAR SATISFACTORY, BUT...

Capital adequacy is an indicator of a bank's ability to handle higher risks in return for higher proceeds

As well as providing support to stand tall in times of crisis, capital adequacy is an indicator of a bank's ability to handle higher risks in return for higher proceeds when opportunity arises. The capital adequacy ratio (CAR) is the primary indicator displaying a bank's shareholder strength. It is almost impossible to calculate a bank's CAR exactly from the outside by analyzing the financials. In the exhibition of quarterly figures, we have attempted to calculate CARs ourselves for those banks for which we have no ratios. The key variable is market risk, which we have simply ignored in our own calculations. We have also ignored collateral in granting risk-weightings to the loans. For example, project finance loans guaranteed by the Treasury bear a zero risk weighting, while some real estate collaterals carry a 50% weighting. Since we cannot identify those collaterals through analysis of the footnotes, we have granted a conservative 100% weighting to the loans. It is worth noting that the below stated figures are the CARs that are announced by the banks, and are the exact figures.

We may observe a strong upward momentum in the CARs, the details of which are provided in the individual bank reports section. Yapi Kredi Bank's CAR, which had been at 5.5% prior to the restructuring of group loans, hiked to 15.1% thanks to reversal of allowances set aside for group loans and their annulled interest income accruals within the Istanbul Approach framework. Akbank, on the other hand, is by far the leader, with its incomparable 39% CAR, followed by Isbank's 25%.

Capital Adequacy 2002							
US\$m	AKBNK	GARAN	ISCTR	YKBNK	DISBA	FINBN	TEBNK
On BS Risk Weighted Assets (OBRWA)	3,997	5,033	7,773	7,879	1,450	1,283	661
Market Risk Burden (MRB=12.5*TMRCR)	649	645	1,281	1,624	258	116	12
Interest Rate Risk Capital Requirement	47	38	61	31	11	5	1
Stock Market Risk Capital Requirement	0	1	21	52	-	2	-
FX Risk Capital Requirement	5	12	21	47	9	3	0
Total Market Risk Capital Requirement (TMRCR)	52	52	102	130	21	9	1
OBRWA+MRB	4,646	5,678	9,055	9,503	1,708	1,399	673
Capital Base	1,815	722	2,294	1,432	184	121	104
CAR	39.1%	12.7%	25.3%	15.1%	10.8%	8.6%	15.4%

Source: Bank Financials, Ak Securities Estimates

Cash capital appears to be distressed

Even though the Turkish banks seem to be satisfactorily capitalized as compared with the legal minimum, cash capital appears to be distressed, especially for the large banks besides Akbank. By subtracting the frozen assets such as net NPLs, fixed assets and participations from the shareholders' equity, we arrive at cash capital, or free capital. This cash capital allows the bank to extend the maturity of its assets and take more risks in return for higher interest income. Since capital is not interest-bearing, interest margins hike, consequently pushing up both ROE and growth rates.

Before 2002 the sector's free capital had been severely in the red

Before 2002 the sector's free capital had been severely in the red, mainly due to the huge US\$2.5bn deficit sourced from YKB on the back of the above-mentioned group loan reclassifications. The total net free capital of the sector improved to – US\$210mn after YKB's group loan restructuring. Akbank, whose cash capital corresponds to a huge 10% of its assets, is the only bank among the big-four with positive free capital. The three medium-sized banks are both adequately capitalized, and carry positive free capital. Disbank and Finans are also about to catch up with their big brothers in terms of Tier I capital.

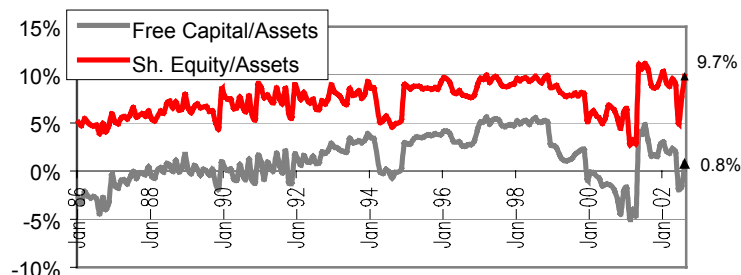
Free Capital							
2002	Akbank	Garanti	Isbank	Yapi Kredi	Disbank	Finansbank	TEB
Free Capital (US\$m)	1,499	-606	-748	-545	114	13	63
Free Capital/Assets	10.1%	-5.1%	-5.2%	-4.7%	4.8%	0.4%	4.4%
Sh. Eq./Assets	13.3%	8.6%	17.9%	14.5%	14.6%	10.9%	10.8%

Source: Bank Financials, Ak Securities

Free capital is on the positive platform

The aggregate shareholders' equity to assets ratio of deposit banks reached a robust 10% as of the end of 2002, supported mainly by the rise in state banks. Free capital is also on the positive platform fueled by the gradual healing, in particular, of Ziraat Bank's capital structure. Ziraat's free capital leapt from the 1H02 figure of US\$1bn to US\$1.4bn at the end of 3Q02. We expect the sector's Sh.Eq./Assets ratio to stabilize at around 10% levels.

Sh. Equity & Free Capital of Deposit Banks



Source: The CB

b. HEALING ASSET QUALITY

The sector's asset quality initially started to deteriorate with the 1998 crisis

The sector's asset quality initially started to deteriorate with the 1998 crisis. The second wave came with the February 2001 crisis, with the final significant upsurge in problematic loans emerging in the inflation-adjusted financials following the three-stage audit process.

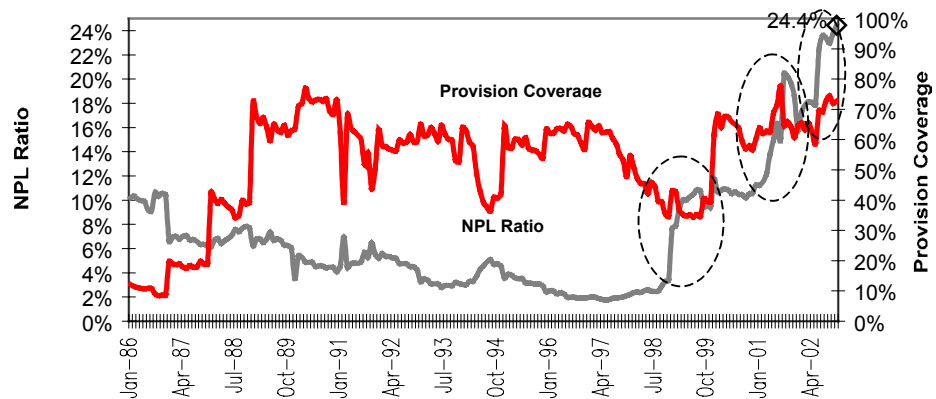
Of course, the asset quality of the financial system had been low even ahead these audits. And yet a certain proportion of the non-performing loans were booked as active via continuous extension of maturities and addition of interest accruals to the principal amounts.

The NPL ratio of the deposit banks soared from its 2% levels of 1997 to its huge November 2002 24.4%. This ratio is expected to drop swiftly as the Istanbul

Approach reallocates the problematic receivables from NPLs into the active loans account. Since the IA was triggered in June 2002, the major effects will be observed when the year-end data is announced.

Relying on the restructured loans data under the IA beyond November 2002, we project that the NPL ratio of the commercial deposit banks has slid to 12% at the end of March 2003.

Asset Quality of Deposit Banks



Source: The CB

In addition to full provision coverage, Akbank has outstanding asset quality through an NPL ratio of 1.8%

Although aggregate deposit banks set aside provisions for a significant 73% of NPLs, the majority of players in our banks' universe book far lesser allowances than this figure. Only Akbank sets aside full provision coverage. Mostly the State deposit banks with huge NPLs and higher provision coverage contribute to the ratio. In addition to full provision coverage, Akbank has outstanding asset quality through an NPL ratio of 1.8%. This proportion is less than one third that of its closest peer among the big-four. Isbank has the lowest asset quality. Coupled with a high 15.3% NPL ratio, the stumpy 41% coverage is significantly lower than the sector average, which approaches 70%.

Asset Qualities of ISE Traded Banks

2002	Akbank	Garanti	Isbank	Yapi Kredi	Disbank	Finansbank	TEB
NPL Ratio	1.8%	6.2%	15.3%	10.7%	5.3%	9.2%	2.5%
Prov. Cov.	100%	32%	41%	69%	88%	60%	75%
IEA/IBL	121%	104%	117%	101%	138%	106%	119%
IEA/IBL*	105%	86%	91%	84%	110%	92%	87%

Source: Bank Financials

* Demand deposits accounted as interest bearing

The more liquid your collaterals, the fewer provisions you set aside

We do not wish to suggest that Isbank's provisions are inadequate. The Bank does book the percentage required in law after collateral deductions. Yet the more liquid your collaterals, the fewer provisions you set aside. There are four groups of collaterals; the first group is made up of cash, G-Bonds and deposits, the second is mainly composed of gold and traded shares, the third group is pledged factories and vehicles, and the fourth group comprises other lower quality collaterals. Where overall collaterals are made up of government securities, no setting aside of provision is required. Seventy five percent of the second group and 50% of the third group of collaterals is subtracted from the loans before calculating the required provisions. Generally speaking, the second

group of collaterals are those that are most commonly used, followed by the third group. (The percentage of second group collaterals in the total as of the end of 3Q02 is as follows: YKB: 97%, Isbank: 93%, Garanti: 50%, and Akbank: 97%)

Akbank and TEB, which have the highest provision coverage ratios, also carry the least amount of collateral on their NPLs

The chart below clearly explains the argument. Akbank and TEB, which have the highest provision coverage ratios, also carry the least amount of collateral on their NPLs. Only 42% of their problematic loans are materially pledged. Garanti, Isbank and Yapi Kredi on the other hand, have collaterals for more than 80% of their problematic loans. Therefore, we prefer to call it a line of attack that is, a company strategy, and it is imprudent to declare that a bank grants loans recklessly merely by interpreting the NPL ratio.

NPL Groups & Collaterals 3Q02						
US\$m	NPL Groups:	Group III With Limited Potential of Recovery	Group IV Doubtful	Group V Stated as Loss	Total	Collateralized % of NPLs
Akbank	Gross NPLs	19	4	45	68	
	Not collateralized	5	3	31	39	42%
Garanti	Gross NPLs	0	96	192	288	
	Not collateralized	0	0	51	51	82%
Isbank	Gross NPLs	12	160	770	942	
	Not collateralized	7	20	157	185	80%
Yapi Kredi	Gross NPLs	18	1,726	405	2,149	
	Not collateralized	11	17	181	209	90%
Disbank	Gross NPLs	3	23	15	41	
	Not collateralized	2	1	12	15	63%
Finansbank	Gross NPLs	1	8	92	101	
	Not collateralized	1	6	25	32	69%
TEB	Gross NPLs	0	2	10	12	
	Not collateralized	0	0	7	7	42%

Source: Bank Financials

While the asset quality levels of some of the traded banks are still not particularly reassuring, we expect to see recovery persist on the strength of the constructive outcome of the Istanbul Approach.

c. MANAGEMENT AND EFFICIENCY

To measure management performance, we ranked the banks by taking into consideration their cost to income ratios and per branch and per employee efficiency ratios

To measure management performance, we ranked the banks by taking into consideration their cost to income ratios and per branch and per employee efficiency ratios in terms of deposits and loans, separately. In 2001, 33 thousand bank employees lost their jobs and 929 branches were closed. Consequently, the personnel expenses (PE) of the sector were cut by US\$1.5bn, or virtually halved. The PE/IEA (Interest Earning Assets) ratio, on the other hand, declined to 1.7% from the past nine-year average of 2.8%. The monthly wage per bank employee contracted to US\$987 in 2001 from US\$1,521 a year before. This drop corresponds to a slide of 35%, which is exactly the same percentage decay experienced from 1993 to 1994, another year of crisis. Even such extreme wage cut-backed saving failed to prevent bottom-lines from sliding into the red.

Increased dependence on technology has gradually reduced the number of personnel per branch to 20 from 24 over the past nine years. Internet business,

which has even climbed to 70% for comparable transactions at some banks, is the main reason behind increased employee efficiency per branch.

Personnel & Branch Efficiency of the Banking System							
US\$m	Personnel Expenses	IEA	PE/IEA	Numb. Of Personnel	Numb. Of Branches	Personnel/ Branch	Monthly P. Exp./ Number of P. (US\$)
2001	1,629	94,406	1.7%	137,495	6,908	20	987
2000	3,109	108,832	2.9%	170,401	7,837	22	1,521
1999	2,635	89,815	2.9%	173,988	7,691	23	1,262
1998	2,521	82,398	3.1%	166,492	7,370	23	1,262
1997	1,793	73,816	2.4%	154,864	6,819	23	965
1996	1,587	65,266	2.4%	148,153	6,442	23	893
1995	1,409	51,431	2.7%	144,793	6,241	23	811
1994	1,135	38,842	2.9%	139,046	6,087	23	680
1993	1,804	56,762	3.2%	143,983	6,212	23	1,044
1992	1,900	49,069	3.9%	146,823	6,206	24	1,078

Source: The BAT

Although the crises have melted away a substantial proportion of the banks' loan and deposit bases, the personnel and branch efficiency figures have managed to remain quite stable

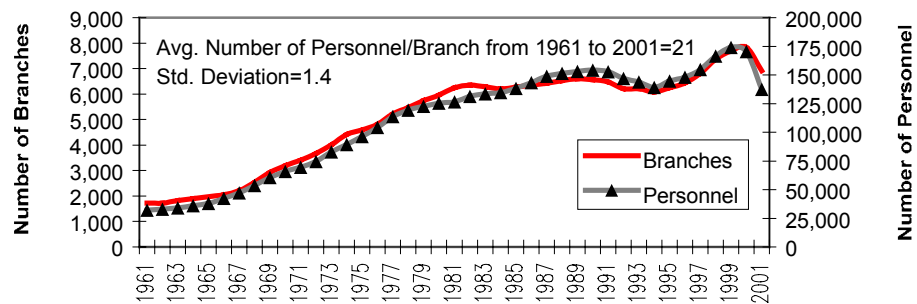
Although the crises have melted away a substantial proportion of the banks' loan and deposit bases, the personnel and branch efficiency figures have managed to remain quite stable with the lay offs and branch closures. In particular, figures for deposits per branch and deposits per employee have appeared to be even better than historical averages.

Personnel & Branch Efficiency of the Banking System				
US\$	Loans/ Personnel	Deposits/ Personnel	Loans/ Branch	Deposits/ Branch
2001	206,040	588,828	4,100,967	11,719,883
2000	298,821	597,910	6,497,306	13,000,440
1999	231,083	513,605	5,227,619	11,618,922
1998	270,395	463,067	6,108,367	10,460,906
1997	277,904	395,654	6,311,384	8,985,567
1996	242,357	385,851	5,573,725	8,873,786
1995	200,780	306,860	4,658,163	7,119,235
1994	146,100	235,859	3,337,380	5,387,757
1993	207,303	260,483	4,804,912	6,037,518
1992	183,409	241,994	4,339,123	5,725,145
Average	226,419	399,011	5,095,895	8,892,916

Source: The BAT

Bank branches historically carry an average of 21 personnel, with a standard deviation of a mere 1.4 units. It is obvious in any case that the actual number of personnel to be seen at any given branch is far less than this figure, since the majority of employees work at the head offices.

Number of Branches and Personnel of the Banking System



Source: The BAT

The efficiency figures of ISE-traded banks in our coverage universe are better than the results of the aggregate financial system

The efficiency figures of ISE-traded banks in our coverage universe are better than the results of the aggregate financial system. In particular, per branch and per employee efficiency figures of deposits and loans significantly exceed the financial system average. Akbank is the frontrunner in almost all branch and personnel efficiency indicators, with a Personnel Expenses/IEA ratio of 1% and an incomparably low Cost/Income ratio of 30%. The geometric mean of the C/I ratio for the banks in our coverage universe is 49% (Market Cap weighted C/I ratio is 60%). We have used the geometric mean instead of arithmetic to smooth over sharp edges. We bestow equal weightings to C/I and the below stated four personnel and branch efficiency figures to rank the managerial performance of the banks.

The average number of personnel per branch figure of 19 indicates a fine performance for the banks in our coverage universe relative to the banking system. Akbank branches have the lowest per branch employee number, whereas YKB's branches, with 24 employees in each, appear overstaffed. And yet YKB's branch efficiency figures are noteworthy.

Garanti Bank, on the other hand, is the leader in almost all per employee and per branch indicators. (Akbank leads in deposits/employee) Although Garanti only has 14% of the big-four's aggregate number of branches, it accounts for 22% of their loans and 22% of deposits. Therefore, it is quite clear that a widespread branch network does not automatically constitute a deposit-magnet strategy.

We do not expect employee costs to rise significantly as they did subsequent to the 1994 crisis

Akbank's monthly cost per employee figure of US\$1,079 is the lowest in the peer group, whereas Garanti and Isbank have the highest monthly personnel costs of US\$1,349 and US\$1,642, respectively. We do not expect employee costs to rise significantly as they did subsequent to the 1994 crisis, since the mindset and structure of the sector have utterly changed. The number of banks leapt from 67 in 1994 to 81 in 1999. Thus, while huge demand for qualified personnel had continuously pushed up wages at that time, the current climate has affected a 180 degree swing.

The total number of banks has shrunk to 53, resulting in high sector unemployment. The banks consequently found themselves able to employ well-educated and experienced staff, even when offering virtually half of existing personnel's salary.

Efficiency Indicators of ISE Traded Banks

2002	Akbank	Garanti	Isbank	Yapi Kredi	Disbank	Finansbank	TEB	Geo. Mean
Cost/Income	30.3%	68.8%	55.9%	43.2%	56.7%	42.0%	53.9%	48.7%
Number of Personnel (2002/09)	8,829	7,089	15,054	9,958	2,602	2,526	1,611	
Number of Branches (2002)	626	304	839	419	147	126	75	
Employee/Branch	14	23	18	24	18	20	21	19
Monthly Cost*/Employee US\$	1,079	1,349	1,642	1,205	1,284	1,165	1,279	1,276
Deposit/Branch US\$	16,167,696	26,406,952	12,153,460	18,903,201	9,296,833	17,707,234	13,754,065	15,572,552
Deposit/Personnel US\$	1,146,333	1,132,418	677,345	795,385	525,225	883,259	640,320	798,923
Loans/Branch US\$	5,898,947	10,859,379	4,754,276	9,949,702	5,118,085	8,063,768	6,479,951	6,983,911
Loans/Personnel US\$	418,251	465,686	264,969	418,651	289,146	402,231	301,674	358,298

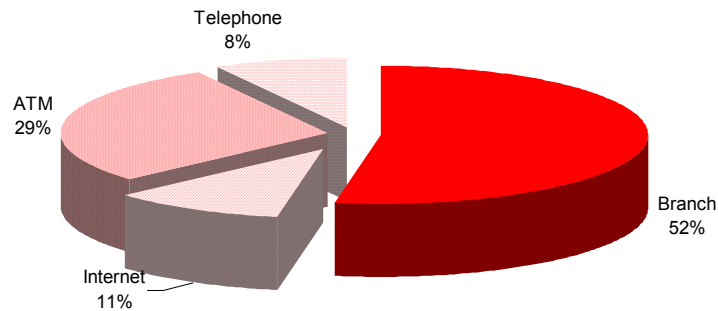
* Annualized 3Q02 figures

Source: Bank Financials, The BAT, Ak Securities

The bulk of banking sector transactions is still being realized via branch networks

The bulk of banking sector transactions is still being realized via branch networks. The ATM is the leader throughout the alternative distribution channels, whereas only 11% of transactions are performed via the internet. Nevertheless, we expect the weight of internet banking to rise substantially on the back of rising GDP and education. Branch transactions, on the other hand, are likely to decline to below 50% of the total in subsequent quarters, due to the increased aggressive marketing of alternative channels.

Breakdown of Distribution Channels in the Banking Sector



Source: AC Nielsen

The main reason why banks are insistently marketing alternative channels lies in associated costs

The main reason why banks are insistently marketing alternative channels lies in associated costs. Although there are many different approximations, we estimate cost/transaction at 3 cents for internet, 44 cents for ATMs, 74 cents for telephone banking and 107 cents for branch transactions. A transaction done through a branch is, therefore, roughly 36 times more expensive than one exercised via the internet. And herein lies the core reason why banks do not charge for internet transactions, but for electronic fund transfers. Among the large banks, only Akbank does not charge for the Interbank fund transfers of its customers. Ultimately, all players will start generating fees on internet banking services. At that time, Isbank stands to be the principal beneficiary, followed by Garanti.

Isbank, which accounts for 22% of total banking system transactions, is the leading bank in this aspect. It only lags in telephone banking, leaving the stage to Yapi Kredi. Garanti, on the other hand, is the second strongest in the internet transactions segment of the banking sector.

Share in Banking Transactions - November 2002

	Total	Branch	ATM	Telephone	Internet
Akbank	13%	16%	7%	12%	15%
Garanti Bank	14%	11%	17%	16%	21%
Isbank	22%	21%	24%	20%	26%
Pamukbank	4%	4%	5%	3%	2%
Vakifbank	6%	6%	9%	2%	2%
Yapi Kredi Bank	17%	14%	22%	26%	9%
Ziraat Bank	7%	9%	7%	0%	0%
Other	17%	20%	9%	22%	25%
Total	100%	100%	100%	100%	100%

Source: AC Nielsen

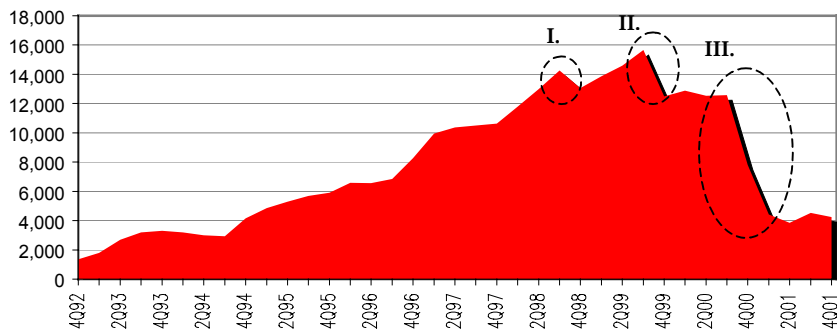
d. EARNINGS & PROFITABILITY

Fueled by the continuous financing needs of the government, the banking system displayed a magnificent performance in raising its net income until 1998. The first hit registered in 1998 during the Russian Crisis, with the second following at the end of 1999.

The immense February 2002 crisis eroded all gains accumulated since 1994

Following two devastating earthquakes that hit the most industrialized regions of the country, aside from indirect effects, banks were obliged to set aside additional provisions that would eventually pull down their bottom-line performances. And finally, the immense February 2002 crisis eroded all gains accumulated since 1994.

Cumulative Banking System Net Income Since 1992 (US\$mn)



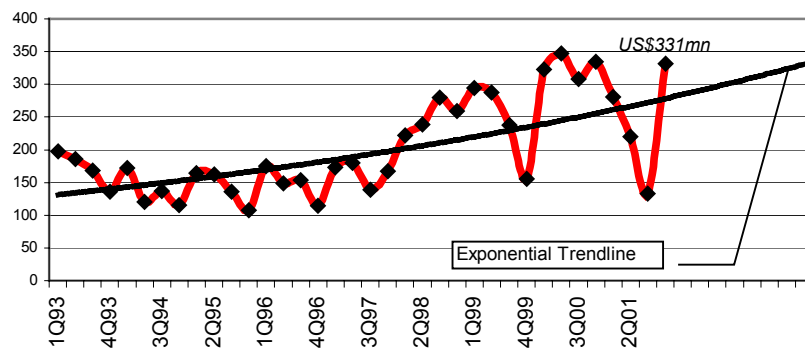
Source: The BAT

The increased interest rate risks on securities and default risks on loans limited the income potential of the banks

The increased interest rate risks on securities and default risks on loans limited the income potential of the banks, prompting them to place more emphasis on commissions and fee income to sustain profitability. As seen in the chart below, were we to omit the downswings in periods of crisis, quarterly commission income follows a rising trend.

The exponential black line indicates that the sector’s quarterly C&F income will continue its rise at an increasing pace. The aggregate net C&F income of the banks in our coverage universe rose more than 23% in 2002 over 2001.

Quarterly Net Commission and Fee Income (US\$m)



Source: The BAT

Akbank is the most profitable bank, with its incomparable ROE & ROA figures

Even though the damaging effects of the crisis are still hurting the banks' financials, a plodding recovery can be observed, and net interest spreads are wholly on positive ground. Akbank is the most profitable bank, with its incomparable ROE & ROA figures, strong NI margin and spreads, whereas Isbank beats each peer in terms of NI spread, which separately takes into consideration the effects of IEA and IBL. Isbank's demand deposits, which make up 25% of the total, provide the core reason boosting its spread.

The total adjusted NII of the six banks is not even twofold that of Akbank's

Yet when it comes to net interest income, no other bank does it quite like Akbank. The total adjusted NII of the six banks is not even twofold that of Akbank's, which operates via an enormous US\$1.5bn free capital. Yapi Kredi on the other hand, which is the leader in credit card transaction volume, also leads in net commission and fee income. The Bank's commission income corresponds to 32% of the coverage universe banks' total. YKB's net C&F/IEA ratio of 3% is six times higher than that of Akbank.

Profitability Gauges

2002 BRSA Inf. Adj.	Akbank	Garanti Isbank	YKB	Disbank	Finansbank	TEB	
Adj. Net Interest Income	1,107	414	667	590	109	81	
Net Commission Income	67	170	159	234	11	10	
Net Profit	418	75	190	672	50	11	
NI Spread	7.6%	6.0%	8.5%	9.5%	3.8%	7.6%	10.5%
NI Margin	9.4%	4.8%	7.6%	5.3%	6.2%	7.5%	10.8%
Net Comm. Income/IEA	0.5%	1.9%	1.6%	3.0%	0.5%	3.0%	1.0%
ROE	24.8%	8.0%	8.2%	n.m.	16.7%	44.7%	8.0%
ROA	3.1%	0.7%	1.5%	6.1%	2.4%	4.3%	1.6%

Source: Bank Financials, Ak Securities

Yapi Kredi Bank is the leader in annual credit card revenues, with a hefty 30% market share, followed by Garanti, which surpassed Isbank in 2001 with the start of the Bonus Card Scheme. Akbank on the other hand, unable to place much emphasis on this segment in previous years, is currently seeking market share. Good-old Isbank is facing the prospect of an eroding credit card volume market share. Monthly acquisition volume per POS is the highest at Garanti Bank, which also leads in per branch and per employee efficiency indicators.

Credit Card Intensity of the Big Four

Credit Card Market Share (CC Revenues)				
	Akbank*	Garanti	Isbank	YKB
2000	6.4%	7.8%	13.6%	28.1%
2001	6.8%	14.1%	14.6%	24.6%
2002	7.9%	18.5%	12.9%	29.9%
Credit Card Market Share (CC Issued)				
	Akbank*	Garanti	Isbank	YKB
2000	5.4%	8.9%	9.0%	19.3%
2001	7.5%	12.7%	11.8%	19.1%
2002	11.1%	14.7%	12.3%	18.6%
Monthly Acq. Volume/POS2002 (US\$)				
	2,564	3,677	2,504	2,746

Source: Bank Data

* Excluding Amex

e. LIQUIDITY

The most perilous hazard risking a bank's existence is lack of liquidity

The most perilous hazard risking a bank's existence is lack of liquidity. And while a bank can continue its operations for years without even feeling that its capital adequacy ratio is below 8%, a sudden loss of funds can rapidly erase the business set. The fund outpouring may result from a macro event, such as war or heightened talk of an involuntary domestic debt consolidation. Alternatively it may be a consequence of a bank-only factor, such as rumors of a bank's possible takeover by the BRSA.

If inadequate liquidity is a result of weakened confidence towards a particular bank, then cash may be obtained via liquidating the securities in the active secondary market

If the liquidity crisis takes as its basis an unfavorable macro development, rather than a bank-only reason, the banks require adequate ready money to repay the savings of those depositors seeking to withdraw. Only cash can save a bank during such a catastrophe, since the values of securities would find themselves flat on the ground. If inadequate liquidity is a result of weakened confidence towards a particular bank, then cash may be obtained via liquidating the securities in the active secondary market.

Of the big four, Akbank is the most solid bank in terms of liquidity, with liquid assets making up 14% of the total. The ratio even exceeds 58% when we take aggregate securities into consideration. Although YKB's liquidity ratio provides room to cover only 9.8% deposit outflow, we do not expect it to face serious liquidity problems unless confronting a major individual shock. And since there is still a full blanket guarantee on deposits; low liquidity banks are able even to circumvent bank-only shocks. The Central Bank on the other hand, is ready to provide cash to the system during a general liquidity crisis.

Disbank and TEB are the two most cash-rich banks. Via its core liquid assets, Disbank is able to meet up to a 28% potential deposit depletion, whereas the ratio is a huge 69% for conservative TEB. Akbank on the other hand, which meets 21% of deposits with is cash, is the most liquid bank of the big-four.

Liquidity Indicators

2002 BRSA Inf. Adj.	Akbank	Garanti	Isbank	YKB	Disbank	Finansbank	TEB
LIQUIDITY							
I. Liquid Assets/Assets (Core Liquidity)	14.1%	8.9%	7.9%	6.8%	16.3%	5.0%	49.0%
II. Liquid Assets (Including Marketable Securities)/Assets	33.4%	15.9%	12.5%	22.3%	31.7%	5.0%	50.2%
III. Liquid Assets (Including Investment+M. Sec.)/Assets	58.2%	47.0%	39.8%	29.1%	49.1%	42.7%	52.4%
DEPOSIT COVERAGE OF LIQUID ASSETS							
I. Liquid Assets/Deposits	20.7%	13.2%	11.2%	9.8%	28.4%	6.8%	68.7%
II. Liquid Assets (Including Marketable Securities)/Deposits	49.3%	23.6%	17.8%	32.4%	55.1%	6.8%	70.4%
III. Liquid Assets (Including Investment+M. Sec.)/Deposits	85.8%	69.9%	56.5%	42.2%	85.3%	57.5%	73.5%

Source: Bank Financials

Maturity gap analysis also provides us a picture of the banks' vulnerability to liquidity-based market risks

Maturity gap analysis also provides us a picture of the banks' vulnerability to liquidity-based market risks. In our maturity gap analysis we have attempted something rather different. For the maturity intervals, we have used the arithmetic mean of the maturities in months to arrive at an aggregate average maturity structure for the assets and liabilities separately, as usual. What we have done as an add-on, is to eliminate the fixed assets and affiliates from the shareholder equity and deduct the incremental amount from other long-term assets. This adjustment means that the long-term loans, for example, are financed via equity, rather than deposits.

This process reduces the maturity gaps of those banks operating with positive free capital, such as Akbank, Disbank and TEB. The banks with negative free capital (that finance their long-term assets such as buildings with deposits) are negatively affected by the practice.

Maturity Gap 2002

Maturity (months)	Akbank	Garanti	Isbank	Yapi Kredi	Disbank	Finansbank	TEB
Assets	5.5	10.9	8.5	28.9	5.0	9.6	1.4
Liabilities	3.0	2.4	2.6	1.7	2.0	1.8	1.8
Maturity Gap	2.5	8.6	5.9	27.2	2.9	7.9	-0.4

Source: Bank Financials

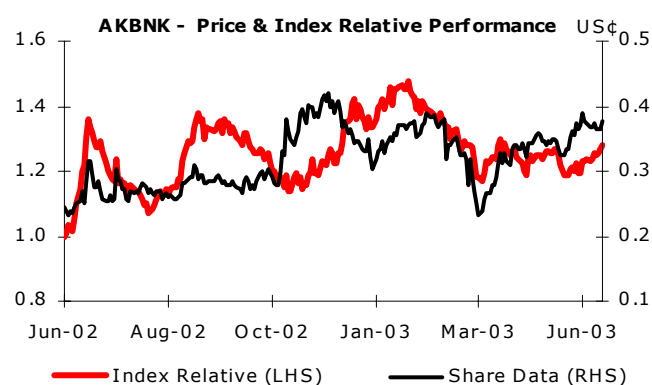
TEB is the only bank, whose maturity of liabilities is higher than the maturity of the assets

Akbank has the most squeezed maturity gap among the big four, whereas TEB registers an outstanding performance in matching the maturities of assets and liabilities. TEB is the only bank, whose maturity of liabilities is higher than the maturity of the assets (albeit by only 12 days).

Yapi Kredi, which restructured its group loans that constitute around half of its total lending to nine years with a three year grace period, has the highest mismatch, of an incredible 27 months. Therefore, a rising trend in interest rates would significantly hurt the Bank's earnings and erode capital. Garanti Bank also has a large 8.6-month maturity mismatch that stems from the long-term securities received through the internal debt swap.

- Akbank's TR GAAP based 1Q03 capital adequacy ratio is a huge 41%, almost all of which, furthermore, is Tier I. This is the highest among the peer group.
- Due to its low percentage of equity participations and fixed assets, Akbank has the highest free capital. Elevated free capital fuels interest margins and raises long-term growth prospects.
- Akbank is the most sensitive bank to changes in TL bonds, with the largest portfolio in that segment. Therefore the Bank stands to be the primary beneficiary of declining bond yields.
- The Bank's loans that had constituted 40% of assets in the mid-98 have declined to 25% due to lack of loan demand, and high real interest rates on bonds.
- Due to its exceptionally conservative lending strategy, only a mere 1.7% of the Bank's loans are under follow up. This ratio is even lower than 1/10 of the sector average.
- The key to Akbank's success in achieving outstanding asset quality, while continuing to grab market share in loans, is that the Bank directs 34% of the lending to Treasury-guaranteed project finance deals, and 54% to large blue-chip companies. Only 12% of Akbank's loans are directed to high risk SME's.
- The Bank pulled down its Cost/Income ratio from more than 40% in 1Q02 to 26% in 1Q03, which is the lowest level among the banks in our coverage. Akbank's deposits and loans per employee figures significantly exceed the sector average.
- Akbank is the most profitable bank, with its incomparable ROE & ROA figures, strong NI margin and spreads.
- The Bank stands to be one of the foremost beneficiaries of a probable utilization of inflation-adjusted financials in tax accounting in 2004.
- We value Akbank at US\$4,156mn, which corresponds to an upside potential of 35% from its current market capitalization. The Bank's 2003P core business P/BV multiple of 1.2x displays a significant discount to the benchmark 1.7x.

Price (TL / US¢)	5,300 / 0.38
Price Range (1 Year, TL/US¢)	3,681 / 0.23 - 6,323 / 0.42
Number of Shares (mn)	816,000
Market Cap. (US\$mn)	3070
Free Float	23%
Daily Vol. (3 Month, US\$mn)	7.7



PERFORMANCE	1 Week	1 Month	3 Month	1 Year
US\$	2.0%	9.2%	17.8%	53.7%
Index Relative	3.4%	0.8%	0.2%	28.0%

SUMMARY FORECASTS

(Inf. Adj. Unconsolidated BRSA, US\$mn) & VALUATION

	2001A	2002A	2003F	2004F
Assets	11,772	14,912	17,152	21,349
Sh. Equity	1,392	1,981	2,564	3,052
Net Profit	-10	418	484	518
ROE	n.m.	25%	21%	18%
P/B	2.2	1.5	1.2	1.0
P/E	n.m.	7.3	6.3	5.9

SHAREHOLDING STRUCTURE

Sabancı Holding	32.87%
Publicly Owned	23.00%
Other	44.13%

VII. BANK UPDATES

a. AKBANK

We maintain our ‘Market Outperformer’ rating for Akbank, which trades with a 35% upside potential to its target value of US\$4,156mn. And with its leadership position in terms of capital adequacy, asset quality, liquidity and profitability, Akbank is set to continue solidifying its current market position in the long-run.

... And the legend continues

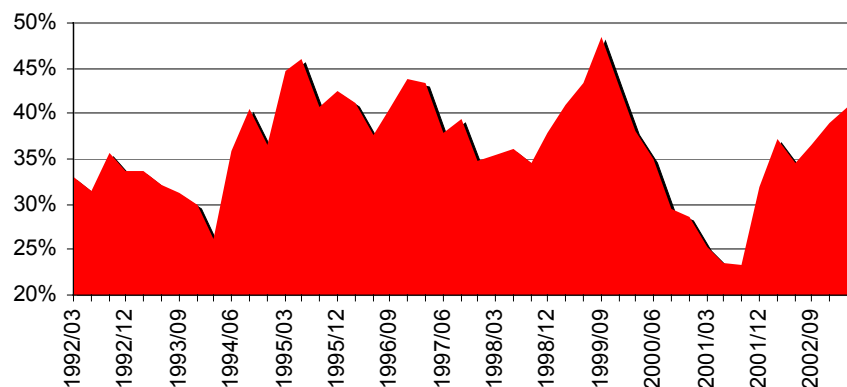
Subsequent to the February crisis, in which O/N interest rates soared in excess of 5,000% levels due to liquidity shortage in the system, Akbank, with its hefty liquidity base, emerged as the relative winner. The Bank generated a 39% flat return on its cash position in the five-day period from February 20 to 25, 2001. The Bank’s conservative and prudent management strategy too, left it a few steps ahead of its peers. Thus, although Akbank has always been the frontrunner in key banking indicators, the gap between itself and its competitors widened drastically, especially after 1Q01.

Exceptionally Concrete Capital Adequacy

Akbank’s TR GAAP based 1Q03 capital adequacy ratio is a huge 41%, almost all of which, furthermore, is Tier I. This is the highest among the peer group. According to our calculations on inflation adjusted bank-only financials disregarding market risk; after reaching all-time-highs in 1999, the Bank’s CAR¹ gradually slipped to below 25% in 2001 initially due to rising risk-weighted assets (especially loans), and then due to devaluation backed shareholder equity erosion. Through pulling down the share of loans in total assets, and with the gradual improvement of profitability that fed the capital base, the Bank’s CAR is again approaching its record highs. The high capital adequacy provides room to benefit from sudden opportunities via the reallocation of funds to assets with higher returns.

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Capital Base/Risk Weighted Assets



Source: Akbank bank-only Turkish GAAP financials. Inflation- adjusted as of 2001.
Ak Securities Estimates

¹ Derived from Turkish GAAP financials by Ak Securities. May vary from the actual figures.

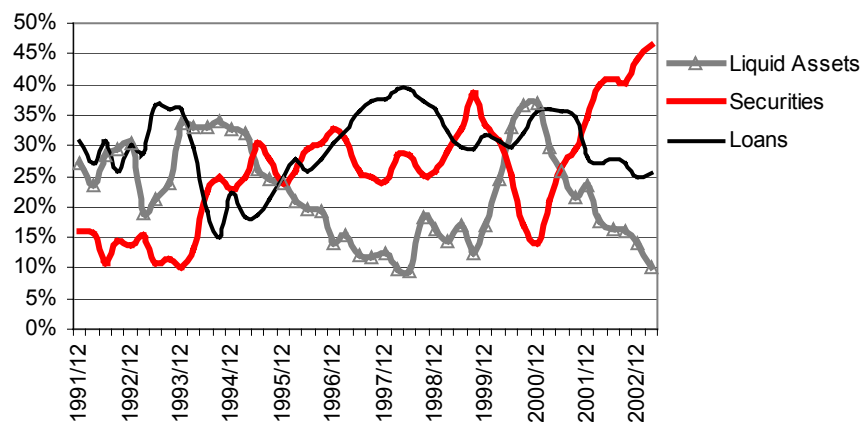
Due to its low percentage of equity participations and fixed assets, Akbank has the highest free capital. Elevated free capital fuels interest margins and raises long-term growth prospects. Besides its solid capital base, another primary factor behind the Bank’s strong CAR is its Government securities portfolio, which has a zero risk weighting. A hefty 46% of the Bank’s total assets comprise securities, whereas the peer group average is around 40%. Even though such a strategy insulates the Bank against non-payment risk, vulnerability to interest rate variations rises. The most sensitive type of security to such fluctuations is the TL-denominated marketable (marked-to-market) variety and marked-to-market Eurobonds.

Akbank is the most sensitive bank to changes in TL bonds, with the largest portfolio in that segment, whereas it is not as sensitive as Isbank on the Eurobond side.

Akbank is the most sensitive bank to changes in TL bonds, with the largest portfolio in that segment, whereas it is not as sensitive as Isbank on the Eurobond side. Akbank’s TL-denominated bonds booked in the available for sale and trading securities accounts make up more than 21% of assets, or nearly a half of the Bank’s aggregate securities portfolio. This US\$3,113mn amount is the highest among the private banks. The Bank’s minor US\$311mn Eurobond portfolio is the lowest among the big four. We estimate the Bank’s net income from marked-to-market securities reaching US\$86mn for the period between 1Q03 to mid-May, whereas the total return including the gains from available for sale securities booked under shareholder equity is estimated to reach US\$209mn. This aggregate return corresponds to a hefty 11% of Akbank’s shareholder equity, which is the highest ratio of the big-four banks. Therefore the Bank stands to be the primary beneficiary of declining bond yields.

Hence, we believe the asset allocation of the Bank to be viable given the level of interest rates under the existing economic climate. The Bank started switching from liquid assets to securities as of the end of 2000. Liquid assets are the major alternative to securities, bearing a –61% correlation. The Bank’s loans that had constituted 40% of assets in the mid-98 have declined to 25% due to lack of loan demand, and high real interest rates on bonds. Akbank has a long-term target of raising the share of loans in total assets to 50%. However, a strong hike seems unlikely for the foreseeable future.

Asset Allocation Moves in Favor of Securities

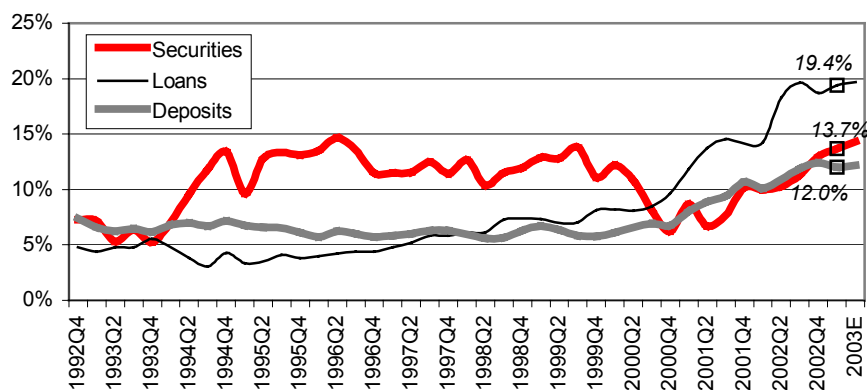


Source: Akbank bank-only Turkish GAAP financials. Inflation-adjusted as of 2001.

Akbank is the largest private bank in balance sheet-terms.

Akbank is the largest private bank in balance sheet-terms. The Bank’s market share in loans commenced its continuous and unstoppable climb in 1994, almost quadrupling its less than 5% share to date. Thus, while the Bank’s lending book in total assets has seen a slide, its emphasis on core banking follows an increasing trend relative to its peers. Akbank is the leader in overall securities with a huge 14% stake. We expect the Bank to preserve its dominance in the main segments fueled by its increasing reputation-backed projected rise in funding base. We project the Bank increasing its market share of deposit bank loans at a decelerating pace to 23% (currently 19%), and deposits to 15% (currently 12%), by the end of 2013. Being one of the frontrunner banks in supporting Government borrowings, we anticipate Akbank’s market share in securities soaring to 19% in the same period.

Market Shares* of Akbank in Major Balance Sheet Figures



Source: Bank Financials, The BAT, The CB, Ak Securities Estimates

* Market Share in Deposit Banks

Even though the Bank continually manages to increase its lending market share, especially over the past four years, it manages to preserve its superb asset quality. Due to its exceptionally conservative lending strategy, only a mere 1.7% of the Bank’s loans are under follow up. This ratio is even lower than 1/10 of the sector average. Another significant point is that the only Bank to fully provision for problematic loans is Akbank.

Provision coverage even falls below 40% for some of its main peers. This line of attack in provisioning leaves no room for negative surprises on the income statement stemming from asset quality deterioration. It is also worth noting that the Bank holds mainly second group collateral to cover 42% of non-performing assets.

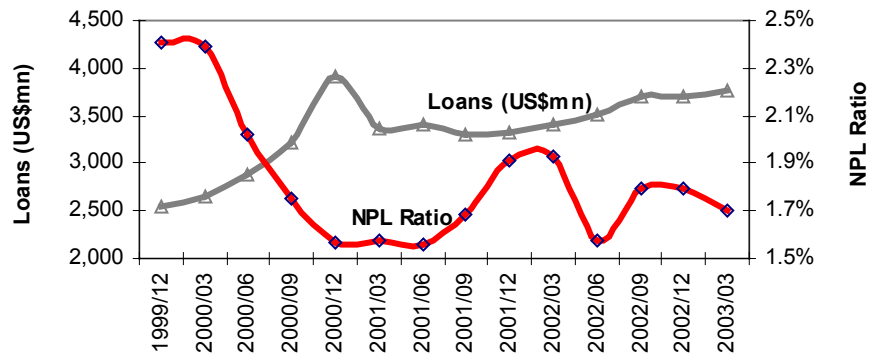
The Bank directs 34% of the lending to Treasury-guaranteed project finance deals

The key to Akbank’s success in achieving outstanding asset quality, while continuing to grab market share in loans, is that the Bank directs 34% of the lending to Treasury-guaranteed project finance deals, and 54% to large blue-chip companies. The Treasury-guaranteed loans also boost CAR, due to their low risk weightings. Only 12% of Akbank’s loans are directed to high risk SME’s. To increase bottom-line profitability, the Bank aims to raise the share of loans to SME’s to 20% levels going forward (in the following three years). This line of attack mainly takes its roots from hefty returns on loans granted to small and

² As of the end of 3Q02.

medium-sized companies. *Although the share of SME loans in the total does not make up a significant proportion, 36% of income derives from them. Lending to large corporates, which accounts for more than half of the loan book, generates only 31% of income.* Taking into consideration the growth prospects of the recovering economy, we expect this strategy to be highly constructive in leveraging the Bank's bottom-line.

Asset Quality of Akbank



Source: Bank Financials, Ak Securities Estimates

The Bank started to place greater emphasis on credit card and consumer loan markets

Increased Emphasis on the Retail Segment

Fueled by its crisis-backed comparative strength, Akbank turned to a much more assertive mode, especially in retail banking. The Bank started to place greater emphasis on credit card and consumer loan markets, offering the lowest rates available. Dominance in retail banking, both in the issuance and acquisition segments of credit cards, generates increased commission and fee income, thus widening the income base. And despite the relatively lower interest rates on its credit card loans, the Bank manages to generate hefty proceeds. Akbank's 7.25% monthly interest rate on credit cards corresponds to an annually compounded 132%. And while the real interest rate corresponds to a high 77%, it remains the lowest among the peer group, which averages at 88%.³

Akbank managed to be triumphant in increasing its existence in the credit card business

The spread between the annual interest rate on deposits and credit cards is 59%. Even though this spread is dramatically high as compared with international emerging peers, it is actually undersized relative to Garanti's 68%, or YKB's 90%. Via such comparative appealing rates, Akbank managed to be triumphant in increasing its existence in the credit card business. Thus, even though the Bank made a late start in the credit card business via its Axess scheme, it has claimed a strong 10% market share in transaction volume-terms. Launched in November 2001, Axess is a credit card with an integrated electronic chip, providing installment, instant cash bonus and redemption benefits. Coupled with American Express cards, Akbank's total number of credit cards reaches 2.4 million.

Historically strong in the credit card acquisition business, Akbank has increased its market share from 18.8% to 19.4% YTD, fueled by the extensive reach of its POS network. With more than 22% of the system's total POS machines, Akbank has the greatest POS presence. The number of the Bank's POS machines has reached 109,190, whereas the number of ATMs is at 1,328, corresponding to an

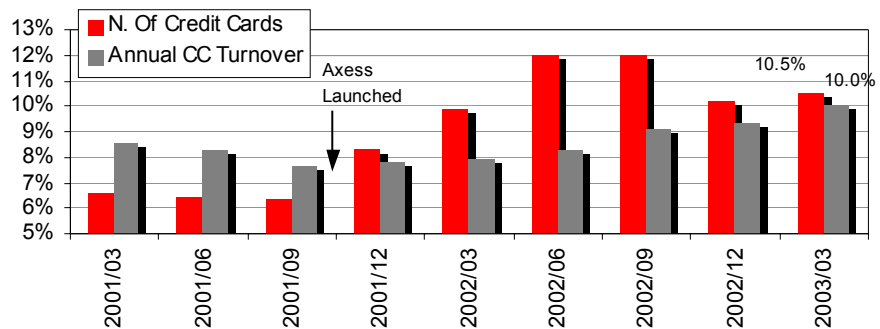
³ Interest rates are calculated considering the gross rates on deposits and our one year forward WPI forecasts.

11% market share. At the beginning of 2003, Akbank began to charge TL1,000,000 (US\$69 currently) per transaction to its customers using its ATMs under the sharing agreement. A 45% Y-o-Y increase in net commission income from ATM sharing was attained as of the end of 1Q03. The Bank aims to increase the share of fees & commissions to 20% of total income until 2005 through extending its presence mainly in retail banking.

56% of its aggregate transactions are done via alternative distribution channels

Over 90% of Akbank’s services can be accessed via the internet. Indeed, a significant 56% of its aggregate transactions are done via alternative distribution channels. It is worth noting that since the Bank operates via a huge network of 626 branches, the 56% share of alternative distribution channels in total transactions is highly significant.

Rising Market Share in Credit Cards

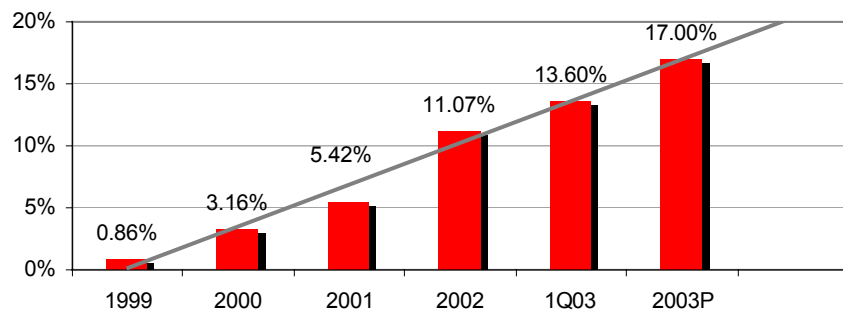


Source: Bank Financials, The BAT

The Bank aims to have attained a 17% market share in mutual fund volume by end-2003

The Bank displayed an exceptional performance in increasing its market share in mutual funds from below 1% in 1999 to 14% as of the end of 1Q03. The mutual fund volume of the Bank leapt from US\$191mn in 2001 to US\$703mn in 2002. The number of mutual fund customers, on the other hand, rose from 43 thousand to 130 thousand in the same period (160 thousand as of the end of 1Q03). The Bank aims to have attained a 17% market share in mutual fund volume by end-2003.

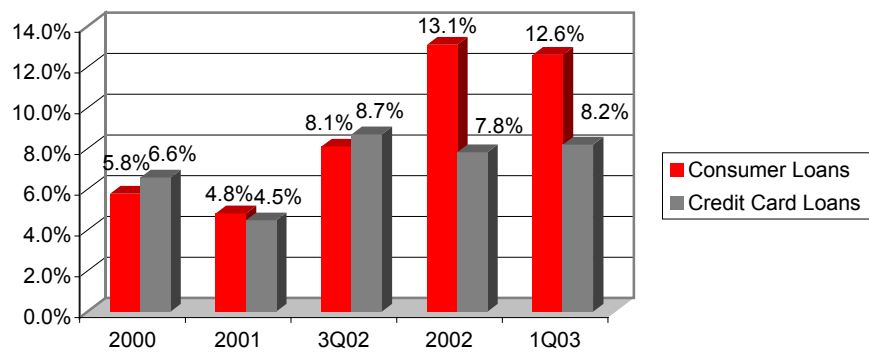
Soaring Share in Mutual Funds



Source: Company Data

The Bank managed to boost almost threefold its market share in consumer loans, and twofold its share in credit card loans as of the end of 1Q03, over the 2001 levels. The low level of consumer loans and credit cards in 2001 was beneficial for financial status and asset quality, since the NPLs on consumer loans were boosted due to job losses and wage cuts at that time.

Market Share in Consumer and Credit Card Loans



Source: Company Data

The Bank pulled down its Cost/Income ratio from more than 40% in 1Q02 to 26% in 1Q03

Improving Cost Efficiency

One of the long-term financial objectives of Akbank is to reduce its costs, and so far it is doing well towards achieving this target. The Bank pulled down its Cost/Income ratio from more than 40% in 1Q02 to 26% in 1Q03, which is the lowest level among the banks in our coverage. Akbank’s deposits and loans per employee figures significantly exceed the sector average, fueled by monthly per personnel cost of US\$1,079, the lowest of the peer group.

Even though Akbank is the largest in terms of asset size on a bank-only basis, it only employs 21.5% of the big four banks’ aggregate number of employees. (Isbank’s personnel head count is 70% higher than Akbank’s 8,829.)

We expect the Bank to continue cutting costs on the back of centralized loan and credit card applications

We expect the Bank to continue cutting costs on the back of centralized loan and credit card applications and approvals as well as centralization of major transactions and EFTs. The branches, on the other hand, will emphasize their focus on sales. Internet strength and solid reputation represent two further pluses for the Bank. According to a poll conducted by Taylor Nelson Sofres Piar in 2001 on 710 participants aware of internet banking, Akbank was selected the ‘Leader in Internet Banking’, and the Bank with the ‘Most Attractive Internet Banking Advertisements’.

Valuation

Our major tool in bank valuation is the core business Price/Book multiple, both the nominator and the projected denominator of which is adjusted for participations. Rather than simply adding up the hidden value of the affiliates on top of the consolidated book value projections, we have preferred to eliminate the book values of the participations from the bank-only shareholders' equity, and subtract their fair values from the Bank's current market capitalization so as to end up with a core business P/B multiple. Here we consider it advantageous to work through the unconsolidated financials for the sake of the analysis.

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. We have derived the core business ROE through dividend-deducted projected net income and average book value adjusted for affiliates. For the cost-of-capital calculations we have used CAPM, in which we took adjusted Beta as an estimation of the bank's future beta. Adjusted beta is derived from historical data, but modified by the assumption that a security's beta moves toward the market average of 1.0 over time. (Adjusted beta = $0.67 * \text{Raw beta} + 0.33 * 1.0$). We have also used *adjusted* betas for the cost of capital calculations of the banks subsequent to 2003.

We have derived the core business ROE through dividend-deducted projected net income and average book value adjusted for affiliates.

For the country risk premiums ($R_f - R_m$) we have subtracted the long-term US Government security's current yield from the yield on long-term Turkish Government Eurobond. This spread is valid for bonds. Since the stock market is empirically 1.5 times more volatile (standard deviation) than the bond market, we have multiplied the risk premium by this coefficient and then added the total to the US long-term risk-free rate to derive a cost of equity.

$$k = R_f + B * (R_m - R_f) * 1.5$$

Subsequent to reaching a benchmark P/B multiple, it is quite a straightforward process to reach a fair value for the core banking operations via projected bank-only shareholder equity. To attain a value for the Bank as a whole, we add the fair value of the subsidiaries. We simply consider the market values of the subsidiaries for the traded ones. For the remaining subsidiaries, we use target values calculated by analysts, or else attain fair values via market multiple comparisons.

The Bank stands to be one of the foremost beneficiaries of a probable utilization of inflation-adjusted financials in tax accounting

The Bank stands to be one of the foremost beneficiaries of a probable utilization of inflation-adjusted financials in tax accounting, which we expect to be triggered at the end of 2003. For example, even though Akbank announced net losses both in its IAS29 accounts and in its TR GAAP inflation-adjusted bank-only financials for 2001, it booked a huge US\$185mn tax provision for the same period due to the adverse tax accounting scheme. The cash flows of the companies with large net cash positions will be the primary beneficiaries of this inevitable tax system. For example, we estimate that the Bank would pay more than US\$90mn less tax, were the official effective tax rate of 33% to be applied to inflation-adjusted financials. If we are to make a very rough estimation, using the 14.6% cost of capital, assuming no growth, the present value of the aggregate benefit from the new tax scheme would be US\$616mn.

We value Akbank at US\$4,156mn, which corresponds to an upside potential of 35% from its current market capitalization. The Bank's 2003P core business P/BV multiple of 1.2x displays a significant discount to the benchmark 1.7x.

Fair Value of Akbank via P/B Approach (US\$m)

Market Cap :	3,070
Book Value of Affiliates :	177
Market Value of Affiliates :	233
Market Cap (Adjusted for Affiliates) :	2,837
Book Value (Adj. For Book Value of Affiliates) :	2,387
P/BV (Core Business 2003E) :	1.19
ROE (Sustainable) :	18%
ROE Core Business (Sustainable) :	20%
g :	5%
Rf (Long Term Turkish Government Bond):	11%
Rf (Long Term US Government Bond):	5%
B :	0.98
Market risk premium :	6.0%
k :	13.9%
Benchmark P/B [(ROE-g)/(k-g)] :	1.66
Target Value of Banking Operations :	3,923
Current Market Value of Affiliates :	233
Target Value of the Bank :	4,156
Upside Potential	35%
<i>Source: Ak Securities Estimates, BRSA financials</i>	

We do not to give too much credit to assorted valuation techniques due to the wide range of assumptions used therein

A supplementary valuation model is the Dividend Discount Model. We have attempted to reach a target market value for the Bank via discounting the dividends using the CAPM approach, details of which are mentioned above, and via the Gordon growth model. To identify harmony throughout the banks in our coverage we have used a dividend distribution ratio of 10% for 2003, which gradually climbs to 50% in 5 years. Consequently, we end up with a target value of US\$4,528mn for the Bank, corresponding to an upside of 47%. It is worth noting that our major valuation tool is the P/B approach, whereas other methodologies stated herein are shown in order to provide a different view, or some means of a crosschecking. We do not to give too much credit to assorted valuation techniques due to the wide range of assumptions used therein.

Dividend Discount Model (US\$m)

	2002	2003	2004	2005	2006	2007
Net Profit	418	484	518	634	857	931
Dividend Distribution Ratio	6%	10%	25%	50%	50%	50%
Dividend to Shareholders	25	48	129	317	428	466
Turkish R _f (30yr Eurobond)	-	11.0%	10.5%	10.0%	10.0%	10.0%
Eq. Risk Premium	6.0%	6.0%	5.8%	5.8%	5.5%	5.5%
Asset Beta	-	0.98	0.99	0.99	0.99	1.00
Cost of Equity	-	13.9%	13.6%	13.6%	13.3%	13.3%
Discount Factor		1.00	1.14	1.30	1.47	1.66
Terminal Growth Rate	5.0%					
Terminal Value (PV)	3,550.8					
PV of Cash Flows (2003-2007)	977.5					
Target Value of the Bank	4,528.3					
Upside Potential	47%					
<i>Source: Ak Securities Estimates, TGAAP financials</i>						

Another alternative method is Residual Income Valuation

Another alternative method is Residual Income Valuation (Discounted Economic Profit approach), which aims to discount the incremental return between the projected net income of the Bank and the alternative return on average adjusted shareholder equity (Adjusted for the market value of affiliates). Long-term Turkish Eurobond yields are used to calculate the gain on alternative instruments. The annual discount and growth rates are similar to those we have used in the dividend discount model. This methodology presents a target market capitalization of US\$4,467mn, which matches an upside potential of 46%. It is worth noting that this valuation tool is not suitable for all banks in our coverage universe, due to the lack of positive adjusted shareholder equity figures.

Residual Income Valuation

US\$mn	2002	2003	2004	2005	2006	2007
Absolute Return on Adj. Sh. Eq. (Adj. For Affiliates)	-	230	275	317	385	467
Net Income (Excluding dividend income)	-	476	467	580	800	872
Economic Profit	-	247	192	263	416	406
Terminal Value of Economic Profit (PV)	3,092					
PV of Economic Profit (2003-2007)	1,143					
Market V. Of Affiliates	233					
Target Value of the Bank	4,468					
Upside Potential	46%					

Source: Ak Securities Estimates, BRSA financials

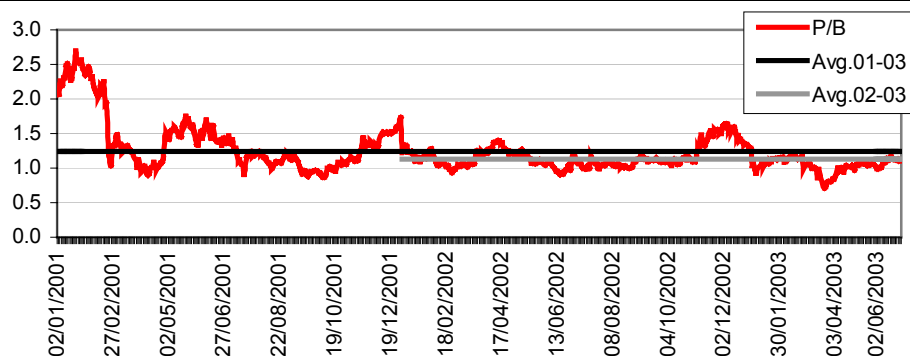
Consequently, all valuation methods stated herein confirm that the Bank is trading at a discount. We believe that the Bank’s capital power to take more risks would even cause relatively higher returns and greater growth than our projections. *Thus, we reiterate our ‘Market Outperformer’ recommendation for Akbank relying on its free capital, earnings potential, hefty liquidity and attractive valuation.*

Forward Looking P/B Multiple Analysis

Having had a historical average P/B multiple of 1.24x since 2001, the Bank is trading at a slight discount

We have used one year forward looking consolidated shareholder equity in the historic P/B multiple analysis stated below. Due to the highly challenging operation of deriving the past fair market capitalization of the participations, we have directly used the Bank’s market capitalization and IAS29 consolidated shareholders’ equity, instead of adjusting both the nominator and the denominator of the multiple for the value of affiliates. Having had a historical average P/B multiple of 1.24x since 2001, the Bank is trading at a slight discount with its 2003F IAS29 consolidated P/B of 1.1x.

1 Year Forward Looking P/B Multiple IAS29 Consolidated



Source: Ak Securities

We have displayed our Turkish GAAP-based unconsolidated inflation adjusted financials used in our valuations in the appendix at the end of this report. Besides the consolidation practice, the unconsolidated inflation adjusted TR GAAP financials are different from IAS, due mainly to the lack of IAS39 in the valuation of the securities. The Bank's IAS29-based inflation adjusted and consolidated financials, coupled with our projections, in brief are as follows.

IAS29 Consolidated Financials And Projections				
	2001A	2002A	2003F	2004F
BALANCE SHEET				
Liquid Assets	3,002	2,716	2,370	2,950
Securities	5,604	8,312	8,845	7,489
Loans	3,687	4,294	5,538	6,656
Subsidiaries	102	126	112	112
Fixed Assets	327	366	413	508
Other Assets	759	1,000	797	4,782
Total Assets	13,481	16,814	18,074	22,497
Deposits	9,612	12,015	12,186	15,384
Funds Borrowed	1,680	2,194	3,079	3,136
Other Liabilities	710	486	122	778
Shareholders' Equity	1,479	2,119	2,687	3,200
Total Liab.&Sh.Eq.	13,481	16,814	18,074	22,497
INCOME STATEMENT				
Interest Income	4,053	2,570	2,220	2,355
Interest Expenses	1,852	1,195	1,204	1,324
Net Interest Income	2,201	1,375	1,015	1,034
Net Commission Income	70	82	95	115
Net Trading Gain	188	96	204	240
Net FX Gain	-1,089	-3	140	110
Dividend Income	3	2	0	0
Net Other	-2,649	-1,141	-957	-967
Net Profit	-187	411	497	532

Source: Ak Securities Forecasts, Company Data

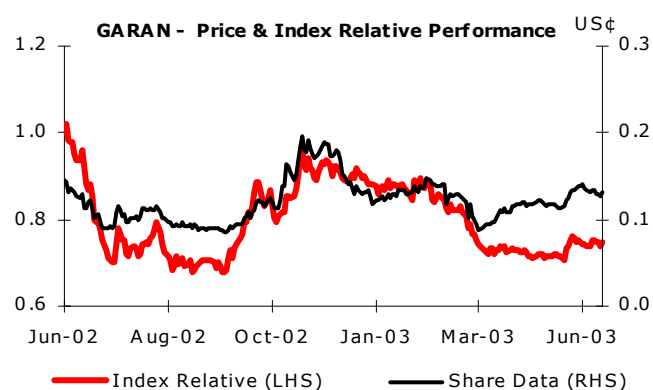
GARANTI BANK

Banking Sector

Market Outperformer
GARAN.IS

- The chief outstanding aspect of Garanti Bank is increased emphasis on alternative distribution channel-backed efficiency indicators. In particular, branch productivity and personnel efficiency figures are exceptionally better than the peer group average.
- Garanti Bank's monthly US\$3,677 volume generated per POS is the highest among the big-four and more than 30% higher than that of the closest peer.
- Garanti, which registered noteworthy success with its Bonus Card scheme, is one of the frontrunners in the credit card business, with its 18.5% volume market share in 2002 (from 8% in 2000).
- Number of credit cards increased through a four year CAGR of 36%.
- Net commission and fee income rose by 54% in 1Q03 compared with 1Q02, which is the highest percentage increase in the peer group. The growth rate was also an incredible 145% in 2002.
- While the primary objective of the Bank for 2003 is to raise efficiency, the secondary aim is to increase free capital by liquidating non-core assets.
- Three tracts of land with a value of around US\$150mn are planned to be liquidated. US\$75mn of the liquidation is targeted to be realized in the second half of this year.
- To prop up the capital adequacy ratio and benefit from the high interest rates on securities, Garanti had been moving from loans to less risky securities since 1996. The Bank's principle strategy on the securities front has been to purchase in order to sell on to customers and generate commission income, rather than using them as its own investment.
- We end up with a total value of US\$1,413mn for the Bank that corresponds to an upside potential of 37%. We have a 'Market Outperformer' rating for the Bank based on efficiency indicators, rising market share in credit cards and the upside to our fair value target.

Price (TL / US¢)	1,840 / 0.13
Price Range (1 Year, TL/US¢)	1,450 / 0.08 - 3,100 / 0.20
Number of Shares (mn)	791,748
Market Cap. (US\$mn)	1034
Free Float	31%
Daily Vol. (3 Month, US\$mn)	22.6



PERFORMANCE	1 Week	1 Month	3 Month	1 Year
US\$	-2.2%	12.4%	8.4%	-10.4%
Index Relative	-0.8%	3.8%	-7.8%	-25.4%

SUMMARY FORECASTS

(Inf. Adj. Unconsolidated BRSA, US\$mn) & VALUATION

	2001A	2002A	2003F	2004F
Assets	11,160	11,931	13,901	17,113
Sh. Equity	841	1,024	1,205	1,380
Net Profit	-157	75	111	175
ROE	n.m.	8.0%	9.9%	13.5%
P/B	1.2	1.0	0.9	0.7
P/E	n.m.	13.8	9.4	5.9

SHAREHOLDING STRUCTURE

Dogus Holding	55.08%
Publicly Owned	31.00%
Other	13.92%

b. GARANTI BANK

Simply Efficient

Branch productivity and personnel efficiency figures of Garanti are exceptionally better than the peer group average

The chief outstanding aspect of Garanti Bank is increased emphasis on alternative distribution channel-backed efficiency indicators. In particular, branch productivity and personnel efficiency figures are exceptionally better than the peer group average. The per branch deposits of the Bank amount to a huge US\$26mn, compared with a peer group average of US\$16mn, and deposits per member of staff stands at US\$1.13mn, compared with the competition's average of US\$0.8mn. Even though the Bank's market shares in loans and deposits are not meaningfully different from that of the other players of the big four, its branches are around 100 units fewer than the closest competitor. The number of personnel stands roughly at 3,700 units lower than the neighboring peer, Yapi Kredi, which has a staff count of 9,700. The loan efficiency features of Garanti also make for quite stimulating reading. Each Garanti branch holds US\$11mn worth of loans, which almost doubles the competitors' average of US\$7mn. Yet the Bank places greater emphasis on the marketing value of its employees. Thus it systematically focuses on staff awareness of customer needs, and of those products able to generate the highest revenues for the Bank. It is therefore no surprise that the Bank's number one priority for 2003 is to further boost already impressive efficiency.

One of the reasons behind the Bank's impressive efficiency figures is the acquisition of Ottomanbank

Coupled with its successful marketing effort, loyalty enhancing products and increasing presence of alternative distribution channels, one of the reasons behind the Bank's impressive efficiency figures is its acquisition of Ottomanbank, which had formerly merged with Korfezbank. Although Garanti kept low cost portions of the funding bases of those Banks' and non-problematic loan books, the branches were shut down and the majority of staff was laid off. As the economy started to recover, Humanitas, the human resources subsidiary of Dogus Group provided jobs to some of those laid off employees in various companies within the group. It is worth noting that Garanti used to be one of the leading banks in terms of efficiency even before the mergers.

The annualized personnel expenses to interest earning assets ratio of 1.0 is the second best following that of Akbank's 0.7, whereas the sector average is 1.4. This is not because the Bank's benefits provided to personnel are very low, but rather because its IEA base is relatively solid. The monthly per employee cost of the Bank is US\$1,349, that is, 5% higher than the peer group average. Another motive behind the robust efficiency performance is the Bank's penetration in non-branch distribution channels such as ATMs and internet banking. According to a recent survey conducted by AC Nielsen, only 11% of the banking sector's branch transactions are done through Garanti branches, whereas this ratio is 17% for Garanti's ATM banking and 21% for internet banking.

Internet banking on the rise

Garanti is the second largest in terms of internet banking market share, following Isbank, which realizes 26% of the sector's total internet transactions according to unofficial polls. Although before 2003 none of the banks had charged fees for transactions done via the internet, all of the players of the big four excluding Akbank started to cut TL500,000 (UScents37) for each transaction. Ultimately, internet banking is also becoming a profit center, and we expect Garanti to be one of the success stories of this new era. Although there is no hard data on the

banks' presence in internet banking Garanti Bank believes that they are the leading bank in terms of internet banking's share in total transactions relying on the unofficial talks they realized with the peer group banks. The Bank management states that their electronic fund transfer transactions through the internet branch both in unit and volume terms is about 1.5 to 2 times higher than that of Isbank's.

Garanti Bank's ATM market share has gradually risen from 3.9% in 1999 to 6.1%

The Bank also aims to increase its branch network in 2003. Having opened 17 branches in 2002, 25 more are planned for, depending on the economic outlook for this year. Garanti Bank's ATM market share has gradually risen from 3.9% in 1999 to 6.1% as of the end of 2002. Including cash-transactions, around 67% of Garanti's comparable transactions were realized through non-branch distribution channels in 2002, up from 60% in 2001. The share of internet banking in total comparable transactions, on the other hand, gradually rose from 15% in 2000 to 29% in 2002.

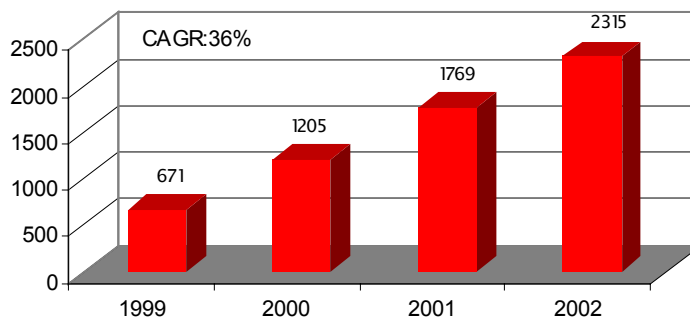
Currently the Net Commission Income/IEA ratio of 1.9 is one of the best figures among the peer group. Garanti, which registered noteworthy success with its Bonus Card scheme, is one of the frontrunners in the credit card business, with its 18.5% volume market share in 2002. Around 55% of commission and fee income stems from the credit card business (acquiring and issuing), 28% from loans and off-bis items, while other banking transactions comprise the remainder. This allows us to maintain that continuing success in the credit card business segment will further support commission and fee revenues.

The Bank aims to grab a 22% market share in credit card volume as of the end of 2003

The Bank aims to grab a 22% market share in credit card volume as of the end of 2003 to further strengthen its retail banking position. Garanti's market share in the number of POS machines gradually slid from 13.3% in 1999 to 13.2% in 2001, and then to 12.7% in the first 9-month period of 2002. Nevertheless, efficiency is on the rise. It is worth mentioning that Garanti Bank's monthly US\$3,677 volume generated per POS is the highest among the big-four and more than 30% higher than that of the closest peer. Therefore, the peer Banks seem to be spreading out the expensive POS machines for increased commission and fee income planned to be obtained in the long run, without consideration for current efficiency. You may find details of our credit card business analysis in our CAMEL section.

Another point to consider is that a 100% affiliate named Garanti Payment Systems is managing the marketing side of the credit card business of the Bank, whereas Garanti Bank enjoys the fee and commission proceeds generated from the cards.

Number of Credit Cards (thousand)

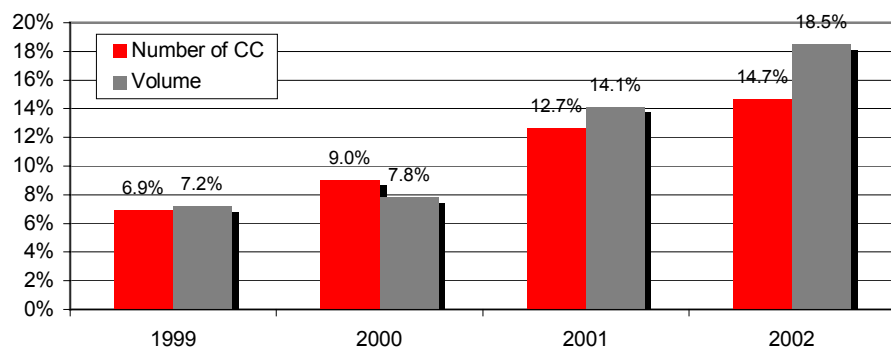


Source: Garanti Bank

Garanti Bank registers a magnificent performance in the credit card business with number of cards increasing through a four year CAGR of 36%

Garanti Bank registers a magnificent performance in the credit card business with number of cards increasing through a four year CAGR of 36%. Of the Bank's 2.32 million credit cards, 78% comprise Bonus Cards, whereas Shop&Miles has an 8% share of the total. The Bank holds second place (but is the fastest growing) in annual credit card spending volume, second to undefeated leader Yapi Kredi Bank. And with its continuing fierce marketing effort Garanti Bank is inevitably to claim the leadership slot. It would also serve Garanti's advantage were the ownership dilemma of the current leader to remain unsolved in the coming years.

Market Share in CC and Spending Volumes



Source: Garanti Bank

Sufficiently Capitalized for the Risks

The Bank's bank-only BRSA Capital Base/Risk Weighted Assets Ratio (CAR) is at 12.6% as of the end of 1Q03. The ratio had climbed to this level gradually from 11% as of the end of 2001. Although the Bank's capital adequacy ratio is sufficient relative to the legal minimum 8%, the lack of free capital is an issue just as in many banks in our coverage universe apart from a few examples such as Akbank and TEB. The Bank operates with a US\$644mn free capital shortage as of the end of 1Q03, which corresponds to one of the most exacerbated ratios in the peer group of -5.4% of assets.

The secondary aim of the Bank is to increase free capital by liquidating non-core assets

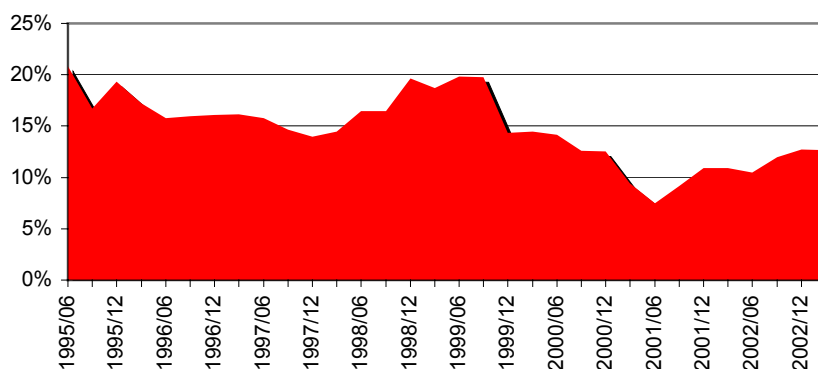
While the primary objective of the Bank for 2003 is to raise efficiency, the secondary aim is to increase free capital by liquidating non-core assets. The Bank has an unconsolidated net fixed asset size of US\$545mn, around US\$364mn of

Three tracts of land with a value of around US\$150mn are planned to be liquidated

which comprises of non-core premises and real estate. Garanti plans to liquidate those non-core assets in the near future.

By liquidating these excess assets, and with the help of projected profitability going forward, we expect the Bank to heal its free capital difficulties and generate much more meaningful interest margins. As far as we can learn from the Bank, three tracts of land with a value of around US\$150mn are planned to be liquidated. US\$75mn of the liquidation is targeted to be realized in the second half of this year. The Bank has even established a new department to handle those sales. Only US\$181mn (33% of the total) of Garanti Bank’s unconsolidated fixed assets are directly related to its banking business. Even the new headquarters are rented from 100% affiliate Anakonut.

Capital Base/Risk Weighted Assets



Source: Bank-only Turkish GAAP financials. Inflation-adjusted as of 2001. Ak Securities Estimates, Bank Financials after 2002

The negative free capital worsens

The negative free capital has worsened for the past two quarters, firstly due to subsidiary acquisitions from the parent company Dogus Group for paying more than US\$60mn in cash, and then due to the 7% slide in the Bank’s shareholder equity due to unfavorable banking environment. Thus, Garanti Bank’s free capital to shareholder equity ratio, which had stood at -3.2% in 3Q02, had deteriorated from -5.1% to -5.4% as of the end of 1Q03, Q-o-Q. Additionally, Garanti Bank recently acquired property from Net Holding for US\$18mn to compensate for its past-due receivables. And so while we have been waiting for the banks to liquidate non-banking assets in order to raise interest margins, it is disheartening to witness the opposite. Even though the Bank claims that they have added a valuable asset with hefty rent income to their books instead of writing it off, we see this transaction as a typical example of a loan to participation swap.

Free capital shortage pulls down interest margins

Free capital shortage does not cause much discomfort in regular daily operations, or to spreads. Yet what it does pull down is interest margins, and eventually ROEs and growth. Garanti’s annualized 1Q03 net interest spread is 3.2%, whereas its net interest margin is only 2.9%. While we do not believe that the current market climate would allow the Bank to sell off excess fixed assets to support margins, the second half of this year could hopefully provide some room for the process.

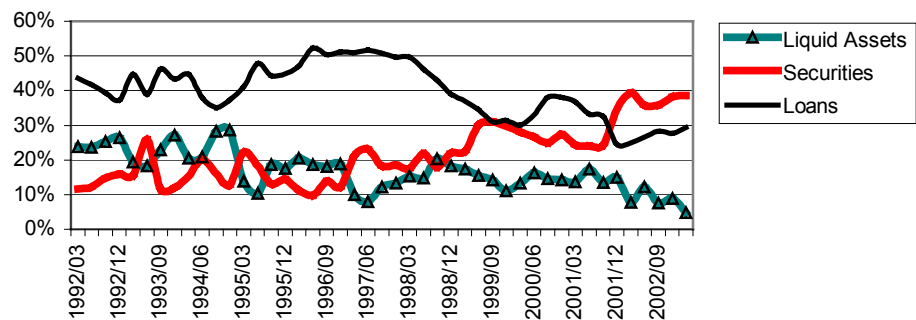
Garanti is moving from loans to less risky securities

To prop up the capital adequacy ratio and benefit from the high interest rates on securities, Garanti had been moving from loans to less risky securities since 1996. The Bank's principle strategy on the securities front has been to purchase in order to sell on to customers and generate commission income, rather than using them as its own investment. This is also parallel with the choice of the individual saving holders. As we have mentioned in our securities section, the real person deposit holders switch to Government Bonds, which offer higher returns and tax advantages. The weight of the loans in total assets has gradually been pulled down below 30% from all-time-high 50% levels.

The liquidity ratio had slipped to its historic low of 4.7% as of the end of 1Q03

And yet the weight of liquid assets is distressing. The liquidity ratio had slipped to its historic low of 4.7% as of the end of 1Q03. We are aware of the size and weight of the securities, and know that a large quantity could be liquidated in the secondary market. And yet this action would solve the liquidity crisis only in times of a bank-specific liquidity shortfall, or a bank-specific deposit outflow, and not during a general economic crisis. Interest rates skyrocket in times of crisis as we have experienced in both crises Turkey has already experienced. We know that there is no way of liquidating securities and also no demand at such times. However, the Central Bank announcements concerning the provision of liquidity at times of crisis to some extent reduce our doubts.

Asset Breakdown - Securities on the Rise



Source: Bank-only Turkish GAAP financials. Inflation adjusted starting from 2001.

The 8.6 month mismatch of the Bank surpasses twofold our coverage average

In addition to its relatively lower liquidity, what distresses us the most about Garanti Bank is its maturity mismatch. The maturity of the Bank's assets is 10.9 months, whereas the liabilities have a maturity of a mere 2.4 months. The 8.6 month mismatch of the Bank surpasses twofold our coverage average of 4.6 months¹. The major reason behind this relatively higher gap is the long-term government papers received in the internal debt swap amounting to a rough US\$1.8bn. Since the swap papers are made up of FX denominated papers or re-rated every three months the risks stemming from the maturity gap are minimized. Through the targeted fixed asset sales, the Bank is set to raise liquidity, strengthen free capital and reduce the maturity gap. Those liquidations are really crucial for the Bank's financial status. We would even downgrade our rating for the Bank if it fails to sell those assets.

The Bank's market shares in loans and mainly in deposits rose considerably with the ongoing intensive marketing effort and the Ottoman Bank merger. Garanti

¹ Excluding YKB, which has a 27 month maturity mismatch.

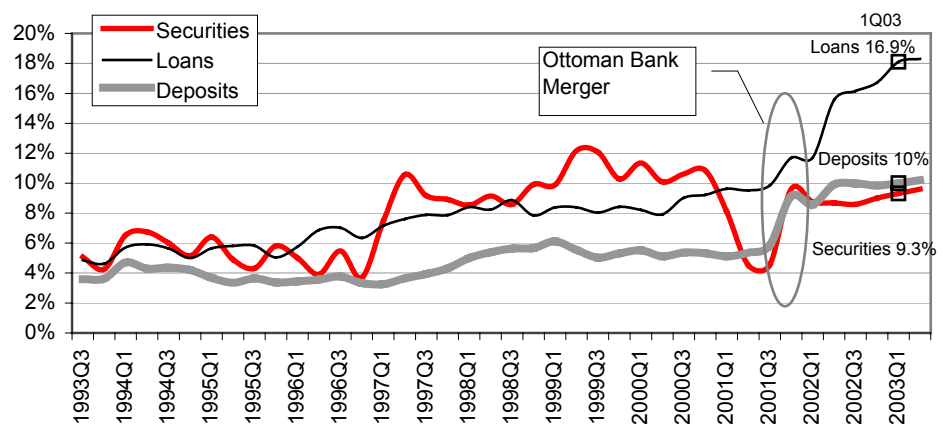
We project the Bank to continue increasing its market share in deposits

Since the FX deposit rates declined from above 10% to 3%, striving to raise syndicated loans has lost its meaning

Bank’s market shares in loans of deposit Banks rose from the 2001 figure of 9.2% to 18.1% as of the end of 1Q03. The market share of deposits also displayed a significant appreciation from 5.3% to 10% in the same period. We project the Bank continuing to increasing its market share in deposits at a decreasing pace, reaching 12% in the following ten years. The market share may expand surpassing our projection if the banking sector consolidation accelerates in favor of the Bank.

Another major element on the funding side is syndicated loans. Garanti has a €350mn and US\$325mn loan repayment in May and October, with 85% of each planned to be rolled over. Since the FX deposit rates declined from above 10% to 3%, striving to raise syndicated loans has lost its meaning. Coupled with the vanished cost advantage, there is also scarce demand on the asset allocation side. Therefore, the rollovers are done mainly to preserve relationships with foreign lenders. However, should deposits continue to slide, the banks would again resort to syndicated loans.

Market Shares* of Garanti in Major Balance Sheet Figures



Source: Bank Financials, The BAT, The CB, Ak Securities Estimates

* Market Share in Deposit Banks

Asset quality started to recover in 2002

Discretionary reserves provide the needed cushion

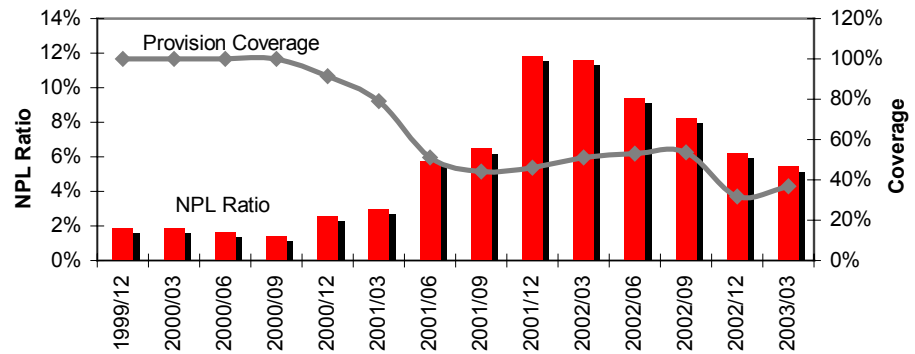
As the loan quality started to deteriorate by the end of 2000, Garanti discontinued its 100% NPL provision coverage policy so as not to lose bottom-line profitability. Parallel to the general trend in the banking sector, Garanti Bank’s problematic loans leapt YoY from 2% to 12% of total loans at the end of 2001. Asset quality started to recover in 2002. And the NPL ratio slipped to 5.4% as of the end of 1Q03 with the expansion in lending and past due loan collections. We appreciate the Bank’s asset quality, despite relatively high exposure to commercial lending and credit cards, which leads to higher margins. Consumer loans and credit card lending comprise around 20% of the Bank’s total loan book. The major sectors the Bank is fond of granting loans to are, textiles (10%), chemicals (9%) and services (8%).

Provision coverage for non-performing loans that seemed set to heal in 2002 by rising from 44% to 54% at the end of 3Q02, YoY, plummeted again to 37%. Although this size of coverage appears low, especially relative to the Bank’s former provisioning policy, the situation is not so awkward when we consider the US\$12mn of discretionary reserves. Another point to bear in mind is

The Bank is not set to experience significant contribution from the Istanbul Approach

collaterals received against problematic receivables. Where a bank has adequate collaterals, it may even choose not to book any NPL provisions. Garanti Bank has clinched collaterals for a huge 82% of its problematic receivables (3Q02 financials). Assurances of such an extent appear quite adequate, and are also the second highest among the peer group. The Bank is not set to experience significant contribution from the Istanbul Approach-backed provision reversal in 2003. Garanti prefers to reschedule problematic loans directly using its own incentive.

Asset Quality Indicators



Source: Bank Financials

Valuation

Since we have thoroughly discussed our valuation methodology in the Akbank section, we will not go over it in detail again. We have maintained our method of evaluating the banks on their unconsolidated inflation adjusted financials, and finally add up the value of participations. For TR GAAP projections, which you may find in the appendix section, we have used a margin-oriented model. For major balance sheet items, we first projected the system’s loan, security, deposit, and borrowing sizes depending mainly on regression and vertical analyses. Then we made our market share projections based on information gleaned in talks with Bank officials, and on our individual studies.

We separate the IEA and IBL into FX and TL components and applied our interest forecasts to each. We also take into account the net FX and net trading gains in order to reach an adjusted net interest income.

We have a ‘Market Outperformer’ rating for the Bank based on efficiency indicators, rising market share in credit cards and the upside to our fair value target

After adjusting both the nominator and the denominator for the affiliates, we end up with a 2003F P/BV of 0.7x for the Bank. Our ROE and cost of equity-based model indicates a benchmark P/BV of 1.5x. This leads us to a core business value of US\$673mn. With the addition of affiliates, we end up with a total value of US\$1,413mn that corresponds to an upside potential of 37%. *We have a ‘Market Outperformer’ rating for the Bank based on efficiency indicators, rising market share in credit cards and the upside to our fair value target.*

Fair Value of Garanti Bank via P/B Approach (US\$mn)

Market Cap :	1,034
Book Value of Affiliates :	622
Market Value of Affiliates :	740
Market Cap (Adjusted for Affiliates) :	294
Book Value (Adj. For Net 'Qualified as Loss' NPLs & Book Value of Affiliates) :	583
P/BV (Core Business 2003E) :	0.51
ROE (Sustainable) :	12.6%
ROE Core Business (Sustainable) :	20.0%
g :	5.0%
Rf (Long Term Turkish Government Bond):	11.0%
Rf (Long Term US Government Bond):	5.0%
B :	1.09
Market risk premium :	6.0%
k :	14.9%
Benchmark P/B [(ROE-g)/(k-g)] :	1.52
Target Value of Banking Operations :	673
Current Market Value of Affiliates :	740
Target Value of the Bank :	1,413
Upside Potential	37%

Source: Ak Securities Estimates, BRSA financials

We have used the Dividend Discount Model, as a supplementary valuation model. We have attempted to arrive at a target market value for the Bank by discounting dividends using the CAPM approach and Gordon growth model, details of which may be found in the Akbank section of this report. Consequently, we arrive at a target value for the Bank of US\$1,441mn, which corresponds to an upside of 39%. It is worth noting that our major valuation tool

is the P/B approach, whereas other methodologies are displayed to provide alternative views. We do not wish to give too much credit to diverse valuation techniques due to the wide array of assumptions entailed therein. And since the Banks do not have a track record of dividend distribution, these studies merely constitute “what-if?” scenarios.

Dividend Discount Model (US\$m)						
US\$m	2002	2003	2004	2005	2006	2007
Net Profit	75	111	175	202	260	309
Dividend Distribution Ratio	-	10%	25%	50%	50%	50%
Dividend to Shareholders	-	11	44	101	130	154
Turkish R _f (30yr Eurobond)	-	11.0%	10.5%	10.0%	10.0%	10.0%
Turkish Eq. Risk Premium	-	6.0%	5.8%	5.8%	5.5%	5.5%
Asset Beta	-	1.09	1.06	1.04	1.03	1.02
Cost of Equity	-	14.9%	14.2%	14.0%	13.5%	13.5%
Discount Factor	-	1.01	1.15	1.31	1.49	1.69
Terminal Growth Rate	5.0%					
Terminal Value (PV)	1,135.9					
PV of Cash Flows (2003-2007)	305.0					
Target Value of the Bank	1,440.8					
Upside Potential	39%					

Source: Ak Securities Estimates, TGAAP financials

Historic Forward Looking Multiples

Forward-looking multiples illustrate that the Bank is trading at a considerable discount. Through an average P/B multiple of 1.2x since 2001 and an average multiple of 1.0x since 2002, Garanti trades with a major upside potential with its current 0.83x IAS29 consolidated 2003F P/B ratio. It is worth noting that rather than separating the core banking business from the affiliates, we have used IAS29 consolidated shareholders’ equity and 2003 projections in our forward looking multiple analysis. This is due to the limitations of estimating the values of participations in former years.



We have presented IAS-based financials and projections, which are a derivative of the TGAAP accounts, and which do not appear in the valuation, as an addendum.

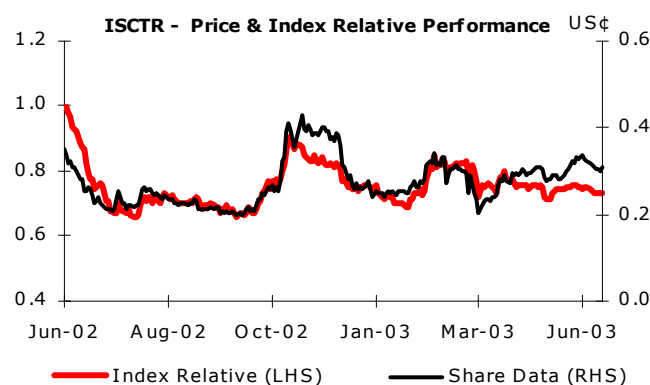
IAS29 Consolidated Financials And Projections

US\$m	2000A	2001A	2002F	2003F	2004F
BALANCE SHEET					
Liquid Assets	2,050	2,146	1,272	789	971
Securities	3,756	3,671	4,984	5,427	4,534
Loans	4,595	3,422	4,635	6,914	8,234
Subsidiaries	120	38	114	119	119
Fixed Assets	815	788	952	1,156	1,422
Other Assets	493	771	1,578	1,366	3,164
Total Assets	11,829	10,836	13,535	15,771	18,443
Deposits	6,758	7,391	10,074	11,355	14,152
Funds Borrowed	3,276	2,089	1,722	2,422	2,539
Other Liabilities	543	553	704	774	356
Shareholders' Equity	1,253	802	1,035	1,219	1,396
Total Liab.&Sh.Eq.	11,829	10,836	13,535	15,771	18,443
INCOME STATEMENT					
Interest Income	2,072	1,941	1,508	1,313	1,363
Interest Expenses	1,235	2,025	1,525	1,246	1,383
Net Interest Income	836	-84	-17	67	54
Net Commission Income	105	89	207	283	345
Net Trading Gain	305	184	216	324	437
Net FX Gain	-95	34	177	174	35
Dividend Income	0	0	0	0	0
Other	-974	-613	-566	-713	-656
Net Profit	177	-389	17	136	214

Source: Ak Securities Forecasts, Company Data

- Isbank is perceived as one of the most respected and solid banks in Turkey. Via its wide network of 839 branches, the Bank fuels its deposit base, 25% of which comprises demand deposits.
- Isbank's cash capital as of the end of 1Q03 stood at -US\$702mn corresponding to -4.8% of assets.
- Isbank started to aggressively liquidate its excess non-banking assets last year. The Bank generated a huge US\$119mn in cash in the last quarter of 2002.
- Asset sales have continued in 2003 as well, with the Bank liquidating US\$8.4mn worth of participations and real estate in 1Q03. Isbank also received bids for 463 of its 488 real estates put up for public auction on May 25. The value of the bids that make up a total of US\$72mn is projected to improve the Bank's free capital/assets ratio to -4.3%.
- Owing to their substantial real returns and lower risk weightings, the Bank started to switch to securities. Securities reached their all-time-high and constituted a huge 33.4% of total assets as of the end of 1Q03.
- It is worth noting that the Bank books the GSM operator Aria (IS-Tim), in which consolidated ownership reaches 51% (14% direct), at restated cost. According to our valuation on the basis of Turkcell's DCF, and without taking into consideration the projected additional US\$1bn investment requirement, Is-Tim has an optimistic market value of US\$0.
- In addition to totally writing off the GSM operator Aria, we have also given a US\$135mn haircut to the value of Is-Dogan's direct stake in the Bank.
- Consequently, we arrive at a target value of US\$3,095mn for the Bank, corresponding to a 24% upside potential. Yet despite the positive developments of the asset liquidation-backed enhancements on the free capital and interest margins, we issue a 'Market Performer' rating mainly out of consideration for the limited upside.

Price (TL / US¢)	4,325 / 0.31
Price Range (1 Year, TL/US¢)	3,250 / 0.20 - 6,800 / 0.43
Number of Shares (mn)	810,543
Market Cap. (US\$mn)	2489
Free Float	27%
Daily Vol. (3 Month, US\$mn)	24.3



PERFORMANCE	1 Week	1 Month	3 Month	1 Year
US\$	-2.4%	6.3%	3.8%	-12.3%
Index Relative	-1.0%	-1.9%	-11.7%	-26.9%

SUMMARY FORECASTS (Inf. Adj. Unconsolidated BRSA, US\$mn) & VALUATION

	2001A	2002A	2003F	2004F
Assets	11,332	14,473	16,353	19,832
Sh. Equity	2,009	2,590	3,069	3,410
Net Profit	-527	190	269	341
ROE	n.m.	8.2%	9.5%	10.5%
P/B	1.2	1.0	0.8	0.7
P/E	n.m.	13.1	9.3	7.3

SHAREHOLDING STRUCTURE

Isbank Pension Fund	44.61%
CHP	28.09%
Publicly Owned	27.30%

c. ISBANK

We expect the Bank to maintain its solid image in the eyes of the community with its ongoing sturdy posture

Isbank, perceived as one of the most respected and solid banks in Turkey, smoothly attracts low-cost customer deposits. Via its wide network of 839 branches, the Bank fuels its deposit base, 25% of which comprises demand deposits. These low cost funds push up the Bank's interest spreads and core business ROE. We expect the Bank to maintain its solid image in the eyes of the community with its ongoing sturdy posture. With the planned disjoining of industrial and financial affiliates under an Isbank Holding, the Bank would be in a position to improve on the currently low level of branch and personnel productivity, as well as efficiency.

Adequate Capital Base, versus Lack of Free Capital

As you will notice, we are attempting to use Capital Base/Risk Weighted Assets instead of the Capital Adequacy Ratio in this report. Although they essentially denote quite the same point, we have preferred to differentiate them, since the contemporary CAR approach takes into account market risk, which our model does not consider for the years before 2002. Another issue is that an outsider is unable to accurately calculate CAR due to the wide variety of risk weightings for different assets.

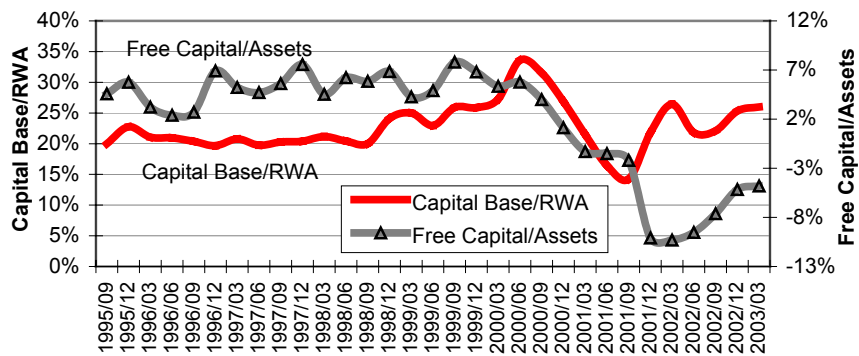
The core motive behind Isbank's asset sales was its intention to fuel-up its free capital

Even though Isbank has lost a large percentage of its capital base during the crisis, the inflation accounting scheme emerged as a savior to prop its CAR up to the 25% level. Isbank's cash capital as of the end of 1Q03 stood at-US\$700mn. This negative figure, which corresponds to -4.8% of assets, improved to this level from -7.5% in 3Q02 and -10% in 2Q02, which means that the Bank is achieving its target step by step. The core motive behind Isbank's asset sales was its intention to fuel-up its free capital. Isbank plans to move up to positive territory through the planned IPOs, SPOs and divestures in the upcoming periods. Yet we do not expect the current economic environment to allow the Bank to realize the bulk of these liquidations, and feel that it would probably take at least two years to register positive cash capital.

The lack of free capital does not damage operations, but does stand to squeeze profit margins

Coupled with supporting cash capital, asset sales also elevated the IEA/IBL ratio by two percentage points in 1Q03, YoY. The lack of free capital does not damage operations, but does stand to squeeze profit margins, and consequently shareholder value. Negative free capital means that the Bank allocates interest-bearing liabilities into frozen assets. The Bank states that such a huge book of fixed assets and participations were obtained to protect the balance sheet under such an inflationary environment.

Capital Base/Risk Weighted Assets



Source: Bank-only Turkish GAAP financials. Inflation-adjusted as of 2001.

Ak Securities Estimates before 2002. Balance sheet footnotes thereafter.

Isbank started to liquidate its excess non-banking assets in 2002

In particular in the last quarter of 2002, Isbank started to aggressively liquidate its excess non-banking assets. The Bank generated a huge US\$119mn in cash in the last three-month period of 2002, around US\$107mn of which stems from two glass-related affiliates, namely Pasabahce and Cam Elyaf, whereas the remainder was raised through real estate sales. Since most of these assets were accounted with their inflation-adjusted historic values, their market values generate substantial profits. A rough US\$94mn of this amount is booked as profit, and equity was buoyed up. As well as supporting free capital, these continuing asset sales are also expected to prop up the liquidity of the Bank, even if we do not yet see such an improvement due to the Bank's strategy of allocating the proceeds into securities.

Non-core Asset Sales

US\$mn	Purpose	Cash	Profit&Sh.Equity
7-Oct-02	Real Estate Sale	0.13	0.10
1-Nov-02	Real Estate Sale	0.81	0.19
4-Nov-02	Real Estate Sale	0.24	0.18
4-Nov-02	Real Estate Sale	0.24	0.05
7-Nov-02	Real Estate Sale	0.31	0.08
27-Nov-02	Real Estate Sale	0.45	0.28
10-Dec-02	Real Estate Sale	0.08	0.05
13-Dec-02	Real Estate Sale	1.61	0.86
24-Dec-02	Participation Sale	106.57	85.98
27-Dec-02	Real Estate Sale	6.86	6.05
27-Dec-02	Real Estate Sale	0.20	0.20
27-Dec-02	Real Estate Sale	0.64	0.03
30-Dec-02	Real Estate Sale	0.67	0.06
31-Dec-02	Real Estate Sale	0.05	0.02
Total 2002		119	94
15-Jan-03	Real Estate Sale	0.57	0.04
24-Jan-03	Real Estate Sale	0.29	0.07
31-Jan-03	Participation Sale	3.38	1.54
7-Feb-03	Real Estate Sale	0.57	0.37
25-Feb-03	Real Estate Sale	0.07	0.02
27-Feb-03	Participation Sale	3.33	1.59
13-Mar-03	Real Estate Sale	0.20	0.13
Total 2003		8.4	3.8
Subtotal		127	98

Source: ISE News

Isbank received bids for 463 of its 488 real estates put up for public auction on May 25

Asset sales have continued in 2003 as well, with the Bank liquidating US\$8.4mn worth of participations and real estate in 1Q03. Isbank received bids for 463 of its 488 real estates put up for public auction on May 25. The value of the bids that make up a total of US\$72mn is projected to improve the Bank’s free capital/assets ratio from –4.8% to –4.3% and enhance interest margins.

Asset Allocation Moves in Favor of Securities

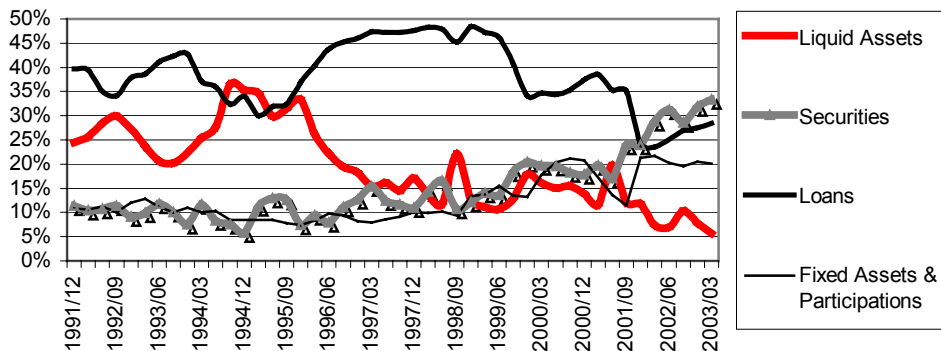
Owing to their substantial real returns and lower risk weightings, the Bank started to switch from loans and liquid assets to securities as of the end of 1998. This asset allocation strategy is a typical case for a Turkish Bank. As you may notice in the sequence of the Bank’s capital adequacy, the CAR of the Bank started to rise at the end of the same year, owing to the sliding denominator, rather than a significant rise in the capital base. Securities reached their all-time-high and constituted a huge 33.4% of total assets as of the end of 1Q03.

As may clearly be seen in the graph below, with the triggering of inflation accounting, the restated participations and fixed assets almost matched the size of the loan book, transforming the Bank into a kind of REIT, or portfolio basket, rather than a financial institution. However, the gap started to widen again after 3Q02, with the non-core asset sales.

TIM has already written down to zero the value of its 49 percent stake in Is-TIM

It is worth noting that the Bank books the GSM operator Aria (IS-Tim), in which consolidated ownership reaches 51% (14% direct), at restated cost. According to our valuation on the basis of Turkcell’s DCF, and without taking into consideration the projected additional US\$1bn investment requirement, Is-Tim has an optimistic market value of US\$0. If we were to eliminate the US\$120mn book value of Is-TIM, participations slide by 8% and shareholder equity falls by 5%. TIM has already written down to zero the value of its 49 percent stake in Is-TIM. The only chance for Aria would be the potential outcome from the merger with Turk Telecom’s GSM operator Aycell. According to announcements issued, a totally new company is to be formed, in which TIM and Turk Telecom will each have a 40% stake, with Isbank holding 20%. Currently we do not have sufficient information as to whether or not this formation would require Isbank to inject further capital. Details of the process are expected to be announced in late June.

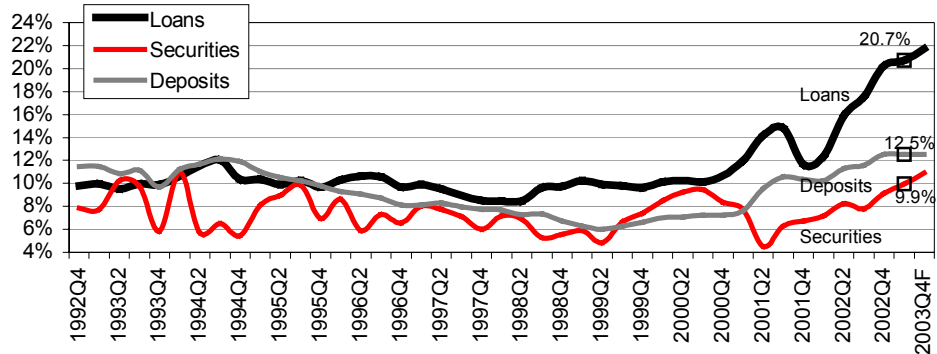
Asset Allocation - Soaring Share of Securities



Source: Bank-only Turkish GAAP financials. Inflation adjusted as of 2001.

With ongoing strong backing, especially from industrial borrowers, Isbank carried its loans market share from below 10% levels to 20% in less than four years. Indeed, we project the Bank carrying this market share to 22% by the end of this year, and stabilizing at around this level thereafter. The market shares of deposits and securities are also expected to sustain their gradual hike to touch 12.5% and 11%, respectively by the end of this year.

Market Shares* in Major Balance Sheet Figures



Source: Bank Financials, The BAT, The CB, Ak Securities Estimates

* Market Share in Deposit Banks

Isbank has always been an intimate supporter of the real sector

Strong Backing for the Real Sector Distorted Asset Quality

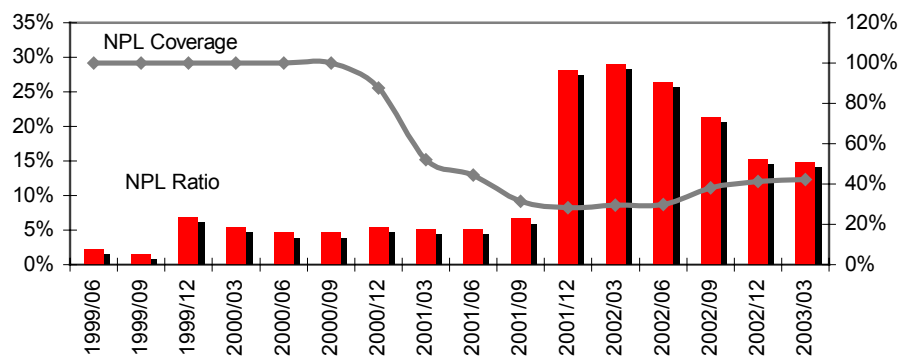
Isbank more than any other, has always been an intimate supporter of the real sector. Yet this strategy brought about a loan to participation swap over time, which eventually pulled down free capital and interest earning assets. The asset quality of this generous creditor, which traditionally used to be lower than that of its peers, made a significant leap subsequent to the three-stage audit process.

The problematic loans that used to make up around 5% of the total leapt to 28% levels at the beginning of 2002. A significant portion of the loan book was transferred to the NPL account. These questionable loans were misleadingly stated as live prior to the audits. We can now clearly state the size of the problematic receivables. Duly, with the Istanbul Approach-backed loan restructurings, the NPL ratio declined to 14.8%.

42% (and rising) of the Bank's loans are covered by provisions

The Bank changed its NPL coverage policy at the end of 2000, to lift bottom-line profitability just like many of its peers in the sector. Isbank, which used to set aside full provision for the loans under follow-up, pulled down the ratio to 28% levels at the end of 2001. Currently 42% (and rising) of the Bank's loans are covered by provisions. Even though this level of coverage may appear inadequate, the size and quality of collaterals must also be taken into consideration. A hefty 80% of the Bank's NPLs are collateralized, mainly through second group of collaterals, 75% of which are deducted from problematic loans as of the end of 1Q03. This percentage of collateral is very substantial compared with Akbank's 42%, or the 58% average of the medium-sized Banks. Even though the marketability of these collaterals may be questionable under current economic circumstances, we see little reason to panic over Isbank's NPL problem.

Asset Quality Indicators



Source: Bank Financials

The NPL ratio is projected to gradually slide at a decreasing pace to 11% until the end of 2003 from the current level of 15%

The per-branch and per-personnel efficiency indicators in terms of collecting deposits and granting loans are the lowest among the big-four

We expect the Bank to gradually lift its efficiency indicators via its ongoing internal restructuring

We do not expect the Bank to pull down its NPL ratio very significantly from now on, since the bulk of the restructurings have already been completed. The NPL ratio is projected to gradually slide at a decreasing pace to 11% until the end of 2003 from the current level of 15%. The Bank aims to pull down the NPL ratio below 10% by the end of this year.

Efficiency Low, but Improving

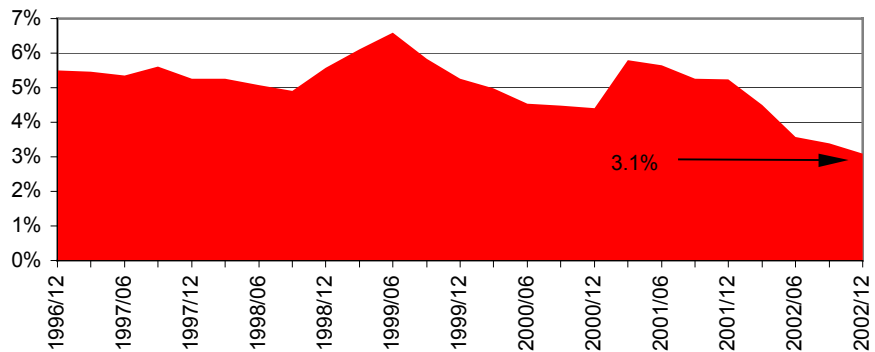
The efficiency figures of Isbank, which operates through an immensely wide distribution network of 839 branches, and with a staff headcount exceeding 15,000, lag those of its peers. The Bank’s monthly per employee cost of US\$1,642 greatly exceeds the sector average of US\$1,276. The per-branch and per-personnel efficiency indicators in terms of collecting deposits and granting loans are the lowest among the big-four. We believe that this inefficiency finds some of its roots in the major shareholder, the Bank’s own pension fund. Such a structure saddles a more social role on the Bank, and may on occasion impede rational action. Closure of inefficient and loss-making branches would solve this situation. The Bank ranks the branches every three months to spot the efficient and inefficient ones and 10-20 inefficient branches are closed each year. (Branch network does not vary from year to year because a parallel number of branches are also being opened) Complexity of internet banking and the demanding EFT process of the Bank’s internet branch make it harder for customers to rely on alternative distribution channels, which if used, would eventually enhance effectiveness and efficiency.

The Bank’s 67% 1Q03 Cost/Income ratio is lower than that of Yapi Kredi and Garanti. The market weighted C/I ratio of the traded banks is 60%. We expect the Bank to gradually lift its efficiency indicators via its ongoing internal restructuring. Isbank aims to reduce less value added expensive products, and targets greater reliance on human resource management, coupled with organizational reform. Yet the major restructuring of Isbank is set to be group-wise, and much more comprehensive. The industrial and financial affiliates are planned to be taken under the umbrella of a potential Isbank Holding, separately. Other major outcomes of this restructuring era will be IPOs, SPOs, divestures and strategic partnerships.

Due to high personnel costs and low level of interest earning assets (IEA) the personnel expenses/IEA ratio of Isbank is the highest among the ISE traded peer

group. Even though Isbank’s personnel expenses to IEA ratio of 3.1% is significantly higher than the sector average, it has been sliding from more than 5% levels (The historical average is 5.2%). The above-mentioned asset sales are expected to support the interest margins and fuel interest earning assets, so as to eventually pull down the C/I and Personnel Expenses/IEA ratios.

Trailing Annual Personnel Expenses/Interest Earning Assets



Source: Bank Financials

The Bank strives to relocate the transactions from branches to alternative distribution channels

The Bank also strives to relocate the transactions from branches to alternative distribution channels. Although we do not think that Isbank’s internet branch is as user-friendly as that of the leading retail banks, 26% of the system’s total number of transactions are performed through it. Alternative distribution channels have a 56% share in the bank’s total transaction volume, whereas 10% of the transactions are realized through the internet branch. It is also worth recalling that the Bank is also the leader in ATM and branch transactions.

The Bank has accumulated around US\$130mn in cash via asset sales

Will Trading Securities Remain Liquid?

Coupled with enhancing the free capital of the Bank, fixed asset sales also perk up liquidity. The Bank has accumulated around US\$130mn in cash via asset sales and continues to liquidate non-core assets. Isbank also plans to divest some of its participations in upcoming quarters, or once the markets recover. The core liquidity ratio of the Bank dropped to its historic low of 5.7% as of the end of 1Q03. Funds raised through asset sales are allocated to trading securities, rather than being used in the Interbank market, or being held as cash. Even though this line of attack does not cause much harm in a bank-specific liquidity crisis such as a rapid deposit outflow, which we do not expect to witness for Isbank, an environment of broad-spectrum panic could hurt the Bank. This is basically because there may not be a secondary market for those securities to be sold.

The Bank has accumulated around US\$130mn in cash via asset sales

The Treasury and CB are ready and willing to provide liquidity in times of crisis, but what would happen were they to become unable to do so? The Bank has cash & banks to meet 11% of the deposit and Interbank money market funds outflow as of the end of 2002. As seen in the asset allocation chart, the level of liquidity is at around the Bank’s all-time-lows. The quarterly average liquid assets/total assets ratio since 1991 is a high 20%. We would prefer the Bank to be somewhat more generous in setting aside liquidity, given the current political and socio-economic climate.

The Bank's maturity mismatch is a high albeit relatively moderate 5.9 months

The Bank's maturity mismatch is a high albeit relatively moderate 5.9 months. According to our calculations, Isbank's funds have a weighted maturity (WAM) of 8.5 months that are allocated to assets with a WAM of a mere 2.6 months. The banks in our coverage (excluding YKB) have an average maturity gap of 4.6 months, which means that this is a general problem for the domestic financial system. Isbank would benefit from a situation whereby there is a gradual slide in interest rates, whereas a crisis would hit the Bank heavily via a cropping of interest spreads.

Valuation

We observe a valuable Banking business when we eliminate the non-core proportion

Isbank is one of a kind, especially in valuation terms. Even though the bottom-line profitability indicators such as ROE are quite worrying, we observe a valuable Banking business when we eliminate the non-core proportion. However, the dilemma is that investors are also forced to participate in some of the Bank's unprofitable businesses when opting to invest. Our core business-adjusted P/B based valuation methodology, which eliminates the book value of the subsidiaries from the Bank's forecast shareholder equity, and fair values from the Bank's market capitalization, suits Isbank well. As mentioned in the Akbank section in detail, subsequent to reaching a target value for the banking business, we add the fair market capitalization of the affiliates to attain a total value for the Bank as a whole.

The hardest part of evaluating Isbank starts in the fair value estimations of the subsidiaries, especially Is-Tim (GSM 1800 operator that owns the Aria brand) and Petrol Ofisi. Were Is-Tim to continue its investments, hankering for further capital from shareholders, such an action would definitely hurt the Bank. Another point to note is that we have not taken into consideration the additional marketing and advertising expenses of Aria for the coming years stemming from its new entry status. We have simply used the Turkcell valuation, Aria's estimated net debt and subscriber data to attain our fair value figure. The effects of the Aria-Aycell merger on Isbank remain unclear. If Isbank is forced to provide cash capital for its 20% stake in the potential company to be formed for the Aria-Aycell merger, we could briefly state that it would not be particularly beneficial for the Bank. However, we prefer to remain on hold with our final decision until details are announced.

Petrol Ofisi's market value is not pinpointed due to low free float

Even though we have used the market values of traded affiliates, we abandoned the practice for Petrol Ofisi, whose market value is not pinpointed due to low free float. Isbank holds 48% of Is-Dogan, which owns 51% of POAS. In addition to totally writing off the GSM operator Aria, we have also given a US\$135mn haircut to the value of Is-Dogan's direct stake in the Bank, by considering our fair value estimate, instead of market capitalization. For the remaining participations, we have simply attained values through market multiples of ISE traded peers.

Consequently, we arrive at a target value for the Bank of US\$3,095mn, corresponding to a 24% upside potential. *Yet despite the positive developments of the asset liquidation-backed enhancements on the free capital and interest margins, we issue a 'Market Performer' rating mainly out of consideration for the limited upside.*

Fair Value of the Bank via P/B Approach (US\$mn)

Market Cap :	2,489
Book Value of Affiliates :	1,398
Market Value of Affiliates :	946
Market Cap (Adjusted for Affiliates) :	1,543
Book Value (Adj. For Book Value of Affiliates) :	1,671
P/BV (Core Business 2003E) :	0.92
ROE (Sustainable) :	13.8%
ROE Core Business (Sustainable) :	19.7%
g :	5.0%
Rf (Long Term Turkish Government Bond):	11.0%
Rf (Long Term US Government Bond):	5.0%
B :	1.11
Market risk premium :	6.0%
k :	15.0%
Benchmark P/B [(ROE-g)/(k-g)] :	1.46

Target Value of Banking Operations :	2,148
Current Market Value of Affiliates :	946
Target Value of the Bank :	3,095
Upside Potential	24%

Source: Ak Securities Estimates, BRSA financials

Although our major valuation tool is the above-stated core-business adjusted P/B based approach, we have also utilized the dividend discount model in order to present a wider perspective. For our DDM, we have worked through the BRSA financials and assumed a dividend distribution ratio climbing gradually from 10% to 50% over the next five years. This is the practice we applied to each and every bank in our coverage universe so as to maintain harmony. Since the domestic banks do not have a sustainable dividend payout history, we do not give much credit to this model. We recommend investors to continue relying on the good old P/B backed valuation methodology.

Dividend Discount Model (US\$mn)

US\$mn	2002	2003	2004	2005	2006	2007
Net Profit	190	269	341	499	690	726
Dividend Distribution Ratio	-	10%	25%	50%	50%	50%
Dividend to Shareholders	-	27	85	250	345	363
Turkish R _f (30yr Eurobond)	-	11.0%	10.5%	10.0%	10.0%	10.0%
Turkish Eq. Risk Premium	-	6.0%	5.8%	5.8%	5.5%	5.5%
Asset Beta	-	1.11	1.07	1.05	1.03	1.02
Cost of Equity	-	15.0%	14.3%	14.1%	13.6%	13.5%
Discount Factor	-	1.01	1.15	1.31	1.49	1.69
Terminal Growth Rate	5.0%					
Terminal Value (PV)	2,655.4					
PV of Cash Flows (2003-2007)	737.5					
Target Value of the Bank	3,392.9					
Upside Potential	36%					

Source: Ak Securities Estimates, TGAAP financials

The DDM results in a fair value of US\$3,392mn, which implies a 36% upside for Isbank. Isbank has a substantial amount non-core fixed assets, such as land and real estate. The values of these non-core (NC) and non-earning (NE) assets are not incorporated in the DDM. Yet how are we to extract these NC and NE assets?

If we are to use Akbank's fixed asset level and its branch network as a benchmark, US\$400mn of Isbank's fixed assets appears to be related to core banking. Let us make another rough assumption that the Bank generates some kind of revenues (let's say rental income) from half of the remaining fixed assets. These adjustments leave us with US\$400mn worth of NC and NE assets. Therefore, the bottom-line target value of the Bank via the DDM approach becomes US\$3,793mn, corresponding to a 52% upside potential.

Although partial usage does not conform to IAS29 accounting practice, Isbank announces its IAS financials without consolidation. Therefore, we have preferred to present the inflation-adjusted consolidated TR GAAP projections, rather than the unconsolidated IAS results. We display the detailed inflation-adjusted unconsolidated financials that we have relied on in the bulk of our analysis, in detail in the appendix at the end of this report.

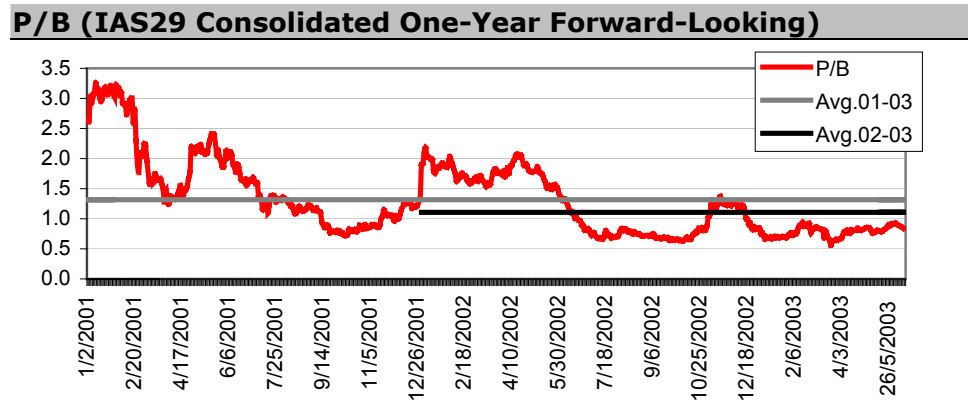
Consolidated Financials And Projections (Inf. Adj. BRSA)

US\$m	2001A	2002A	2003F	2004F
Liquid Assets	1,476	220	179	217
Securities	3,563	5,664	6,956	5,782
Loans	3,084	4,912	7,304	8,507
Subsidiaries	892	1,367	1,291	1,291
Fixed Assets	1,356	1,754	2,146	2,640
Other Assets	2,624	3,071	1,320	4,845
Total Assets	12,996	16,989	19,197	23,282
Deposits	8,060	10,317	11,268	13,906
Funds Borrowed	1,438	1,967	2,940	3,024
Other Liabilities	35	2,231	2,058	3,096
Shareholders' Equity	3,463	2,473	2,931	3,256
Total Liab.&Sh.Eq.	12,996	16,989	19,197	23,282
Interest Income	2,627	2,265	2,371	2,767
Interest Expenses	1,603	1,395	1,492	1,606
Net Interest Income	1,024	870	873	1,182
Net Commission Income	151	216	254	309
Net Trading Gain	-35	227	311	343
Net FX Gain	-492	-267	-185	-144
Dividend Income	23	18	23	24
Net Other	-1,170	-814	-922	-1,265
Net Profit	-498	250	355	449

Source: Bank Financials, Ak Securities Estimates

Historic Forward Looking Multiples

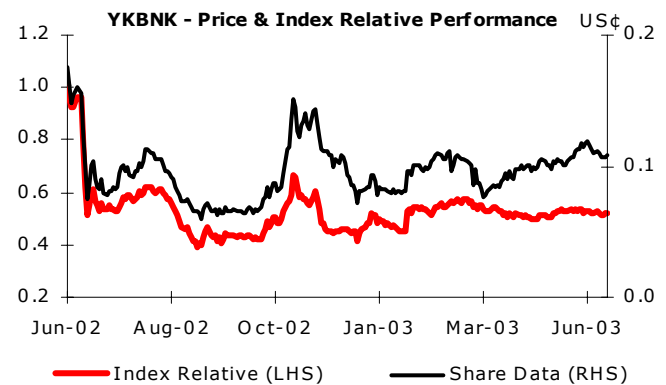
Forward-looking multiples illustrate that the Bank is trading at a significant discount. Through an average P/B multiple of 1.3x since 2001 and an average multiple of 1.1x since 2002, Isbank trades with a meaningful upside potential with its current unadjusted 0.84x BRSA consolidated and inflation adjusted 2003F P/B ratio.



Source: Ak Securities

- YKB is currently undergoing a sales process, which we believe could continue for up to four years. In the first two years, Cukurova Group will try to find a bidder, and should the group fail to mandate an investment bank to sell YKB, the BRSA would assign one in the third year. And should the Bank not be sold at the end of the third year, the BRSA would handle the entire sales process of the Bank.
- We expect the Bank, which is one of the leading players in the retail segment with a solid 30% market share in credit card spending volume, to attract strategic investors assuming rescheduled loans are liquidated.
- The Bank's capital adequacy ratio, which had slipped to its all-time-low level of 5.5% as of the end of 3Q02 with the ongoing slide in the capital base, leapt to 15.1% after Cukurova group-related NPLs were transferred from the problematic loans account into live loans.
- The SDIF has pledged to prop up the capital adequacy should it drop to below 10%. Yet even though we take this as a sign that the Bank's stocks would never face suspension, it is worth noting that existing shareholders' stakes would be diluted.
- Yapi Kredi has a cash capital shortfall of US\$597mn, which corresponds to about -5% of assets. This represents the widest free capital shortage in the Bank's history if we exclude the one-year period in which group loans were classified as non-performing.
- The Bank's assets have a 29-month maturity due to group loans that are rescheduled to a nine-year maturity, whereas liabilities have a weighted average maturity of 1.7 months. The average maturity of assets is the highest, whereas the maturity of liabilities is the shortest among the listed peers.
- Under highly conservative assumptions, YKB trades with a 14% upside potential to our fair value target of US\$929mn. We do not assign any rating for the Bank, due to its continuing blurred status.

Price (TL / US¢)	1,530 / 0.11
Price Range (1 Year, TL/US¢)	1,000 / 0.06 - 2,700 / 0.18
Number of Shares (mn)	752,345
Market Cap. (US\$mn)	817
Free Float	42%
Daily Vol. (3 Month, US\$mn)	23.4



PERFORMANCE	1 Week	1 Month	3 Month	1 Year
US\$	-2.8%	4.4%	7.9%	-37.9%
Index Relative	-1.4%	-3.6%	-8.2%	-48.3%

SUMMARY FORECASTS (Inf. Adj. Unconsolidated BRSA, US\$mn) & VALUATION

	2001A	2002A	2003F	2004F
Assets	10,611	11,481	12,671	15,198
Sh. Equity	1,053	1,670	1,666	1,779
Net Profit	-619	672	66	113
ROE	n.m.	49%	4.0%	6.6%
P/B	0.8	0.5	0.5	0.5
P/E	n.m.	1.2	12.4	7.2

SHAREHOLDING STRUCTURE

Cukurova Holding	45.00%
SDIF	13.00%
Publicly Owned	42.00%

d. YAPI KREDI BANK

Even though we are appreciative of the Bank's talented management team, we have doubts over the prospects for efficiency

We expect the Bank's interest margins, profitability and growth prospects to gradually slide with the rescheduling of the group loans under the Istanbul Approach scheme. Even though we are appreciative of the Bank's talented management team, we have doubts over the prospects for efficiency, since the Cukurova Group has lost its ownership rights, but receiving dividends. However no dividend distribution will be made until the selling process is complete. We are convinced that the BRSA aims to continue acting as a rational and a fiduciary owner, but that it will probably not be like it would have been had private hands controlled the Bank. The Bank is likely to lose profitability due to the rescheduling of group loans to nine-years with a three-year grace period through below-the-market interest rates. We expect cash generation capacity to inevitably decline, relative to the peers.

On the funding side, even though the blanket guarantee persists, we have witnessed gradual erosion in the market share of deposits in 2002. It is positive news that the deposit flood out halted in 2003. The aim of retaining deposits may raise the cost of funding if a Bank specific crisis takes place in the upcoming few years even if we do not see such a situation at the moment. Conversely, the Bank currently offers the lowest rates for TL deposits among the peers.

The SDIF has pledged to prop up the capital adequacy should it drop to below 10%

If the Bank fails to support the capital base via profitability (if its sustainable bottom-line turns to red) in the longer-run, a need for external support may emerge. Fortunately, the SDIF has pledged to prop up the capital adequacy should it drop to below 10%. Yet even though we take this as a sign that the Bank's stocks would never face suspension, it is worth noting that existing shareholders' stakes would be diluted.

We believe that the hefty 2002 year-end net profit was the last upbeat development the Bank stands to face in the foreseeable future. In other words, we do not see any impending catalyst fuelling the share price. One positive development would be a possible bid by a foreign financial institution for the majority stakes of the Bank sometime in the coming four years. However, it would not be unrealistic to expect negative news-flow to dominate the Bank's performance in the coming periods. The Group loans that are restructured through below-market¹ interest rates for their maturity, along with their credibility, are likely to pull down interest spreads and growth prospects. The funding side may also become challenging.

Even though the 100% blanket guarantee on deposits persists Yapi Kredi's deposits slipped 2% in 2002

Even though the 100% blanket guarantee on deposits persists Yapi Kredi's deposits slipped 2% in 2002, while the total deposits of the banking system climbed 7%. We expect the slide in the deposit market share of the Bank to cut pace in the coming periods. If faced with further deposit leakage, which we do not observe in the previous months, the Bank would be forced to lift interest rates on deposits in order to maintain liquidity, which would accelerate the decline in spreads. On the other hand, we believe that the international syndicated loan potential of the Bank, which also became very limited, would necessitate borrowing from the Interbank money market at a higher price. The

¹ Relative to Turkcell and Vestel bonds.

Bank's management states that the reason for not tapping into the international loan market is that they do not want to borrow at a higher price relative to the peers.

YKB is currently undergoing a sales process, which we believe could continue for up to four years

YKB is currently undergoing a sales process, which we believe could continue for up to four years. In the first two years, Cukurova Group will try to find a bidder, and should the group fail to mandate an investment bank to sell YKB, the BRSA would assign one in the third year. And should the Bank not be sold at the end of the third year, the BRSA would handle the entire sales process of the Bank. We believe that YKB, which is one of the strongest retail banking players, could undoubtedly attract in particular those foreign banks seeking a strong entry point to the Turkish market. The most significant obstacles at that point would be the group loans, which make up half of total lending and the US\$438mn receivable from Fiskobirlik. Both YKB and the BRSA are working on the collection of this receivable. The Bank management states that the collection of this amount is a pre-requisite for the Bank to be sold to a third party. The Bank also aims to liquidate its non-core assets beginning from the real estates. The initial portion of these asset sales would be made in the second half of this year. The sales of technology and tourism participations are also in the pipeline, waiting for further upbeat news from the macro side.

The annual interest rate for the restructured group loans has been determined as LIBOR + 3.5%

The annual interest rate for the restructured group loans has been determined as LIBOR + 3.5%. The interest payments will be due annually, at the end of each year. The principal payments will be made semi-annually as of June 2006 (3-year grace period), with the final payment being made at the end of 2011. The interest rate on these loans, which are rescheduled for a substantial 9 years, is less than half of the risk-free rate of return. Nevertheless, it would not be rational for the potential bidder to accept the group loans. Therefore, those loans must either be sold to a would-be asset management company via a certain discount, or else the bid price could be lowered to account for the low interest rate and extended maturity of rescheduled loans. We expect the Bank, which is one of the leading players in the retail segment with a solid 30% market share in credit card spending volume, to attract strategic investors assuming rescheduled loans are liquidated.

We project that the present value of economic loss approaches US\$300mn

Through an annual LIBOR rate of 1.3%, the interest rate on those loans that has 16% of Turkcell as a collateral is a mere 4.8%. When taking into consideration an 8% annual interest on loans (which is even lower than the 11.5% yield on Vestel's 2007 and 13% yield on Turkcell's 2005 eurobonds) we project that the present value of economic loss approaches US\$300mn. The economic loss even exceeds this figure considerably if we are to calculate the opportunity cost by relying on the Government's 2030 Eurobond yield projections, rather than the fair interest. The cost of acquiring YKB is not limited to the economic loss; we believe that the credit risk on the group loans may also be higher than the regular lending portfolio. We expect the negative effects of the restructured loan portfolio to be the worst, especially in the first couple of years (during the grace period), while as the proportion of group loans in total lending decreases, relative to the aggregate loan book, profitability would climb gradually in later years.

Rescheduled Group Loan - Interest And Principle Payments									
US\$m	Principle	Interest (US\$m)	Fair Interest (US\$m)	Economic	Rf	Discount	PV		
		4.8%	8.0%	Loss (EL)		Factor	EL		
2003	-	93	155	62	11.5%	1.12	56		
2004	-	93	155	62	11.0%	1.24	50		
2005	-	93	155	62	10.5%	1.37	46		
2006	250	93	155	62	10.0%	1.51	41		
2007	250	81	135	54	10.0%	1.66	33		
2008	300	69	115	46	10.0%	1.82	25		
2009	350	54	91	37	10.0%	2.00	18		
2010	400	38	63	25	10.0%	2.20	11		
2011	387	18	31	12	10.0%	2.43	5		
Total	1,937	630	1,055				286		

Source: BRSA, Ak Securities Estimates

Taking into consideration the unclear profitability prospects and debatable asset quality, we prefer not to rate the Bank under the current circumstances. And although we do not currently see much potential for downside at this price level, the projected downturn of ROE is likely to keep the Bank's market value depressed in the long run.

Istanbul Approach Lifted the CAR

The Bank's capital adequacy ratio, which had slipped to its all-time-low level of 5.5% as of the end of 3Q02 with the ongoing slide in the capital base, leapt to 15.1% after Cukurova group-related NPLs were transferred from the problematic loans account into live loans. That restructuring caused the reversal of the US\$587mn provisions back into the income statement and shareholder equity, healing the Bank's financial status fundamentally, at least on an accounting basis.

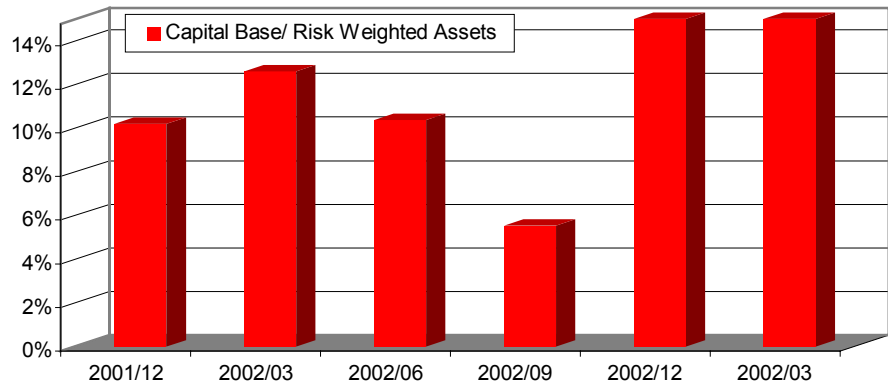
Although we expect profitability deterioration in the coming years, the Bank may well preserve its CAR at around this level if it switches to less risky assets. In 2002, a huge 47% of the Bank's loans were granted to group companies, and were all long-term. Of the non-group loans, 43% had maturities of less than three months, which means that the Bank would simply allocate the loan proceeds into cash and bonds if needed.

Besides Akbank, no member of the big four banks has a positive free capital. Yapi Kredi has a 1Q03 cash capital shortfall of US\$597mn, which corresponds to about -5.3% of assets. This represents the widest free capital shortage in the Bank's history if we exclude the one-year period in which group loans were classified as non-performing. Subsequent to the three-stage audit process starting from 2001 and running until the end of 3Q02, YKB's free capital shortage exceeded US\$2.5bn, or a huge -25% of the balance sheet. We expect the Bank's free capital shortage to squeeze gradually on the back of real estate and participation sales, which are expected to be triggered in the second half of this year.

Loan restructuring caused the reversal of the US\$587mn provisions

Besides Akbank, no member of the big four banks has a positive free capital

Capital Base/Risk Weighted Assets



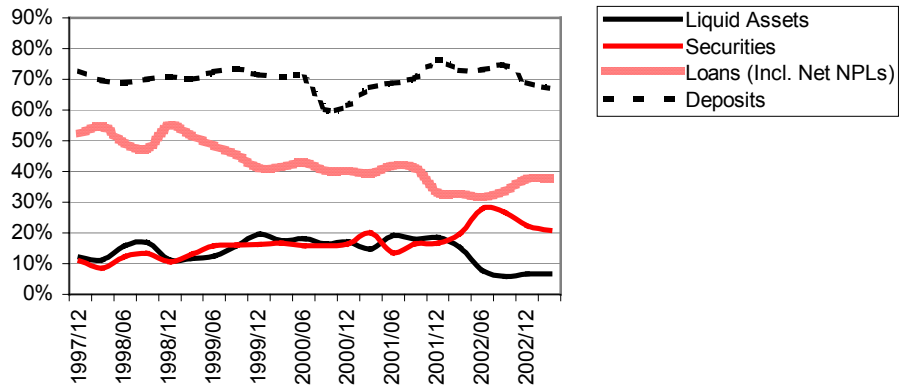
Source: Bank-only Turkish GAAP financials. Inflation adjusted as of 2001.

Quarterly figures are Ak Securities Estimates, year-ends and 1Q03 are from the balance sheet footnotes

The total share of less risky assets, such as core liquid assets and G-bonds, has climbed from 20% levels to 27% as of the end of 1Q03

The total share of less risky assets, such as core liquid assets and G-bonds, has climbed from 20% levels to 27% as of the end of 1Q03 over the past five years, supporting capital adequacy. As of the second half of 2002, YKB began to face a deposit outflow due to its 13% shareholder, Pamukbank's, seizure by the BRSA. Even though the 100% blanket guarantee on deposits persists, the man on the street preferred to withdraw his savings and allocate them in a safer haven regardless. However, the core liquidity ratio of the Bank remains better than that of its peers Garanti and Isbank.

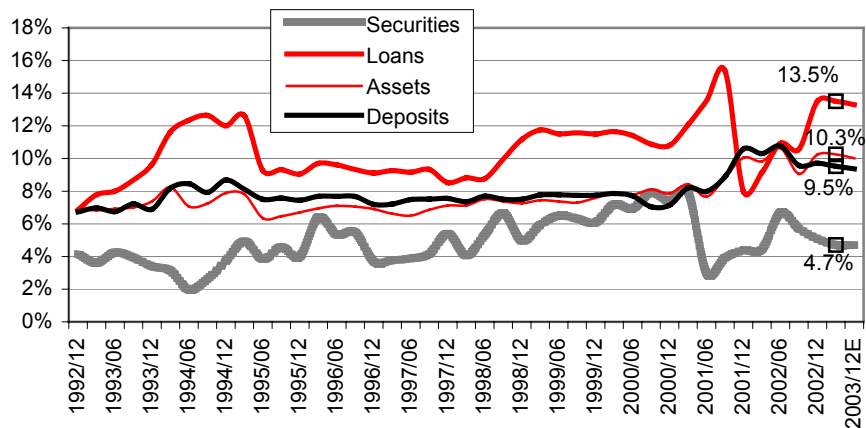
Fairly Stable Asset Allocation



Source: Bank-only Turkish GAAP financials. Inflation adjusted starting from 2001.

Since the loans of the aggregate commercial banks contracted 16% in 2002, YoY, Yapi Kredi's loan market share has grown from 8% to 14% during the same period, thanks to group-loan restructuring. Before the rescheduling, related party loans had been booked as non-performing. It is also worth noting that CB figures for the total banking sector are not inflation-adjusted, and that therefore market shares are not exact. We observe an upward bias in market shares of the banks in our coverage universe as of the end of 2001.

Market Share of Major BS Items in Commercial Banks



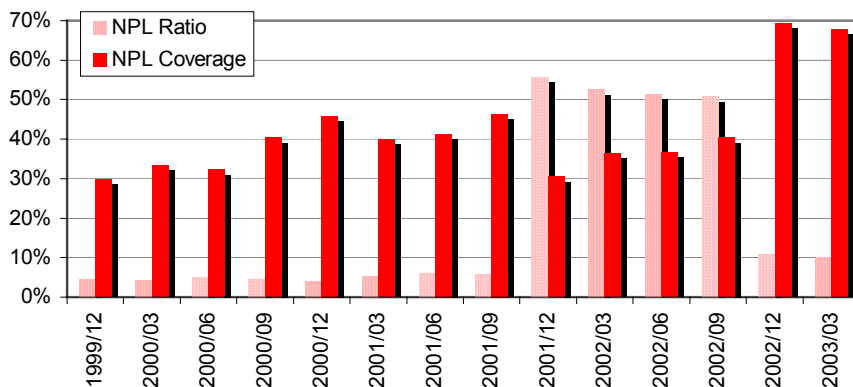
Source: The CB, The BAT, Bank-only Turkish GAAP financials (inflation adjusted after 2001).

Given prevailing circumstances, we project the Bank’s market shares in loans and deposits gradually contracting to 1.5 to 2 percentage points in the following 10 years. The securities portfolio, on the other hand, is expected to climb from 4.7% to 5.1% in the same period. The market share slide may be prevented if the Bank is sold to a third party able to support the capital base so as to turn YKB into a competitive solid Bank.

Asset Quality Remains Dubious

Due to the huge amount of group loans (2002: US\$1.94bn) that were classified as non-performing during the three-stage audit process at the end of 2001, the Bank’s NPL ratio exceeded 50%. After the restructuring of the group loans on the last day of 2002, the NPL ratio declined to 10.7% in the year-end financials, and then to 10% in 1Q03.

All-Time-High NPL Coverage



Source: Bank-only Turkish GAAP financials. Inflation adjusted as of 2001.

Although this level of NPL ratio seems fine relative to the sector average of 17%, the quality of the group receivables is questionable (Despite the 16% of Turkcell shares as collateral). Those borrowers extending their payables by up to nine years with a three-year grace period require the recovery of the domestic economy in order to repay them. Since we project GNP growth rates of 3.8% and

5.7% for 2003 and 2004, respectively, and 5% thereafter, we have not, for now, classified group loans as non-performing.

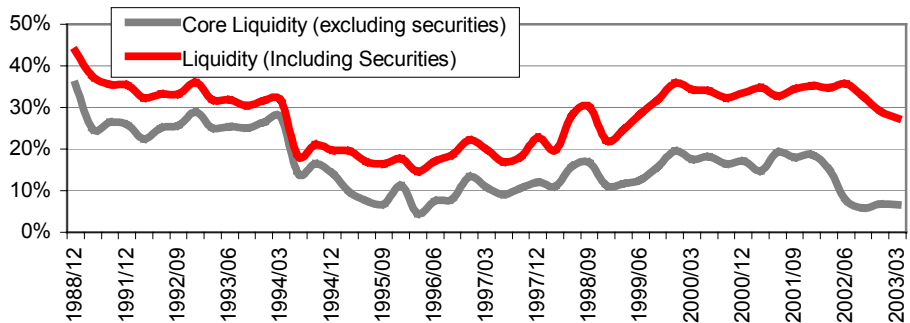
Core liquidity is utterly crucial for a bank's survival in times of crisis

Core Liquidity vs. Strong Bond Portfolio

Core liquidity is utterly crucial for a bank's survival in times of crisis. In a robust economy, on the other hand, holding excess cash would pull down the interest margins due to the relatively lower interest rates available on funds sold in the Interbank market. Although securities are also a source of liquidity, in times of wide-ranging macroeconomic difficulty, the secondary bond market would not enable the banks to raise cash. It is essentially the lack of liquidity that exterminates a bank.

As we have mentioned previously, YKB's core liquidity is at around its historic low levels. Even though the liquid assets including securities make up around 27% of total assets, the core liquidity barely registers at 7%. Since the deposits and Interbank funds are the most sensitive sources of economic volatility, it is much more meaningful to compare core liquid assets with these vulnerable liabilities. The 1Q03 financials indicate that the Bank is able to meet a 9% of deposit and Interbank money market deposit outflow. This level is relatively acceptable when compared with Garanti's 6% and Isbank's 8%. Indeed, the CB's commitment to providing liquidity when needed eases our doubts on this front.

Core Liquidity on the Slide



Source: Bank-only Turkish GAAP financials. Inflation adjusted starting from 2001.

YKB's implausibly high 27-month maturity gap, which is the widest mismatch of assets and liabilities among the big-four, is a source of concern

Aside from sliding liquidity, YKB's implausibly high 27-month maturity gap², which is the widest mismatch of assets and liabilities among the big-four, is also a source of concern. The Bank's assets have a 29-month maturity due to group loans that are rescheduled to a nine-year maturity, whereas liabilities have a weighted average maturity of 1.7 months. The average maturity of assets is the highest, whereas the maturity of liabilities is the shortest among the listed peers. Therefore, rising interest rates stand to adversely affect the profitability indicators and the financial status of the Bank. Nevertheless, an upturn in the economy and falling interest rates would serve to Yapi Kredi's advantage.

² Ak Securities estimates.

Valuation

Since we have discussed the details of our model in the previous bank updates, we will merely present the results in the current section. Our P/B based valuation model implies a fair value of US\$447mn for the bank-only target of YKB, whereas we reached a figure of US\$482mn for the affiliates, around 67% of which comprises Turkcell. We evaluated the traded participations at their market values, and the unlisted ones through conservative market multiples. As may be seen in the table below, our benchmark P/B multiple for the Bank is a mere 0.4x. The major reason behind such a stumpy ratio is the Bank's low bank-only sustainable ROE of 9%, which is even below the risk free rate of return.

Fair Value of YKB via P/B Approach (US\$mn)

Market Cap :	817
Book Value of Affiliates :	538
Market Value of Affiliates :	482
Market Cap (Adjusted for Affiliates) :	335
Book Value (Adj. For Book Value of Affiliates) :	1,127
P/BV (Core Business 2003E) :	0.30
ROE (Sustainable) :	9.4%
ROE Core Business (Sustainable) :	8.9%
g:	3.0%
Rf (Long Term Turkish Government Bond):	11.0%
Rf (Long Term US Government Bond):	5.0%
B :	1.36
Market risk premium :	6.0%
k :	17.3%
Benchmark P/B [(ROE-g)/(k-g)] :	0.41
Target Value of Banking Operations :	447
Current Market Value of Affiliates :	482
Target Value of the Bank :	929
Upside Potential	14%

Source: Ak Securities Estimates, BRSA financials

Under highly conservative assumptions, YKB trades with a 14% upside potential to our fair value target of US\$929mn. We do not assign any rating for the Bank, due to its continuing blurred status.

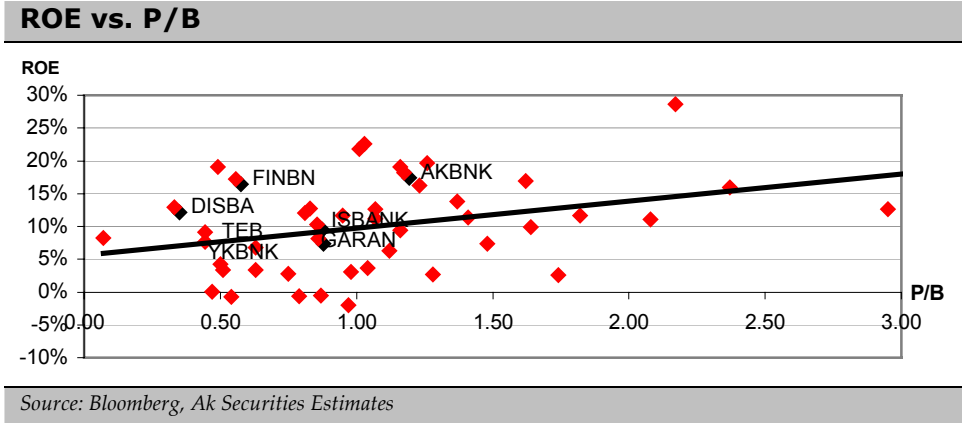
e. INTERNATIONAL PEER GROUP COMPARISON

Through a market capitalization weighted average (MCWA) P/B multiple of 0.91x, the Turkish banking sector trades at a sizeable discount to the emerging peer group MCWA of 1.59x (Arithmetic Mean 1.30x). The 8.1x MCWA P/E ratio of the domestic banks is also less than half that of the peers (16 June 2003). However, we perceive peer comparison merely as a rough tool via which to derive a brief notion. Direct multiple comparisons do not take into consideration either the ROE potentials or the value of affiliates. Thus, the valuations stated under our separate bank updates provide more satisfactory views.

Emerging Market Peer Group Comparison				
Country	Name	M. Cap (USD)	P/E	P/B
Brazil	Banco Do Brasil	3,657	4.79	1.03
Brazil	Banco Bradesco	5,552	6.51	1.23
Brazil	Banco Banestado	193		1.01
Brazil	Banco Estado De Sao Paulo	2,674	2.64	1.75
Brazil	Banco Sudameris Brasil	882	11.40	1.91
Brazil	Banco Mercantil De Sao Paulo	525		2.09
Brazil	Banco Alfa De Investimento	126	5.87	0.68
Brazil	Banco Itau Holding Financeir	7,390	7.47	1.98
Brazil	Uniao De Bancos Brasileiros	3,480	12.93	1.93
Brazil Market Cap Weighted Average :			7.23	1.62
Croatia	Privredna Banka Zagreb	429	4.26	0.84
Croatia	Zagrebacka Banka	630	5.33	0.93
Croatia Market Cap Weighted Average :			4.90	0.89
Czech	Komerčni Bank	2,741	8.13	2.06
Czech Market Cap Weighted Average :			8.13	2.06
Egypt	Commercial Intl Bank	426	6.66	1.30
Egypt	Delta International Bank	111	6.53	1.12
Egypt	Export Development Bk Egypt	114	2.97	0.51
Egypt Market Cap Weighted Average :			5.99	1.13
Greece	Alpha Bank	3,441	13.99	2.99
Greece	Aspis Bank	142	36.09	1.01
Greece	Agricultural Bank Of Greece	2,479	69.44	2.09
Greece	Egnatia Bank Sa	322	16.55	1.03
Greece	National Bank Of Greece	4,722	11.08	1.53
Greece	Efg Eurobank Ergasias	5,148	24.06	2.30
Greece	Bank Of Attica	418	12.48	1.61
Greece	Commercial Bank Of Greece	1,821	29.49	0.81
Greece	General Hellenic Bank	161		0.63
Greece	Bank Of Piraeus	1,424	19.43	1.99
Greece Market Cap Weighted Average :			24.78	2.00
Israel	Israel Discount Bank	827		0.68
Israel	First Intl Bank Israel	484		3.08
Israel	Bank Leumi	2,272	26.20	0.72
Israel	United Mizrahi Bank	674	10.95	0.81
Israel	Bank Hapoalim	2,632	19.02	0.83
Israel	Tefahot Israel Mortgage Bank	480	9.78	1.03
Israel	Union Bank Of Israel	135		0.56
Israel Market Cap Weighted Average :			20.08	0.93
Poland	Bank Amerykanski W Polsce	143		2.48
Poland	Bank Handlowy	1,874	40.33	1.17
Poland	Bank Ochrony Srodowiska	172	26.68	1.11
Poland	Bk Przemyslowo-Handlowy Pbk	2,098	41.44	1.47
Poland	Bre Bank	479		1.10
Poland	Ing Bank Slaski	1,097	42.27	1.49
Poland	Bank Zachodni Wbk	1,305	19.50	1.90
Poland	Kredyt Bank	433		0.97
Poland	Bank Millennium	614	11.59	1.28
Poland	Bank Pekao	4,285	21.71	2.18
Poland Market Cap Weighted Average :			29.63	1.68
Turkey	Akbank	3,070	6.35	1.20
Turkey	Garanti Bank	1,034	9.36	0.86
Turkey	Isbank	2,489	9.26	0.81
Turkey	Yapi Kredi Bank	817	12.37	0.49
Turkey	Disbank	146	2.37	0.33
Turkey	Finansbank	234	3.29	0.54
Turkey	TEB	76	5.25	0.47
Turkey Market Cap Weighted Average *:			8.11	0.91
Emerging Market - Market Cap Weighted Average			16.61	1.59
Emerging Market - Arithmetic Mean			15.90	1.30

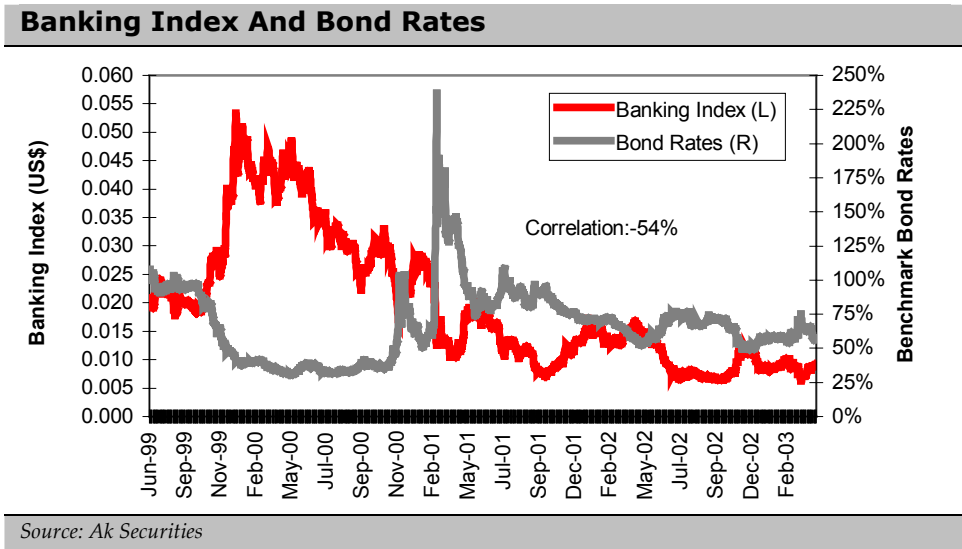
Source: Bloomberg, Ak Securities, Turkish Banks' multiples are derived from 2003 unadjusted BRSA unconsolidated forecasts, peer group multiples are 2002 figures.

In order to at least provide an idea on the ROE and P/B relationship we have illustrated this approach in the scatter graph below. It is worth recalling again that these figures are not adjusted for participation values. Turkish banks generally remain above the linear regression line, which leads us to conclude that their valuations are low relative to their ROEs.



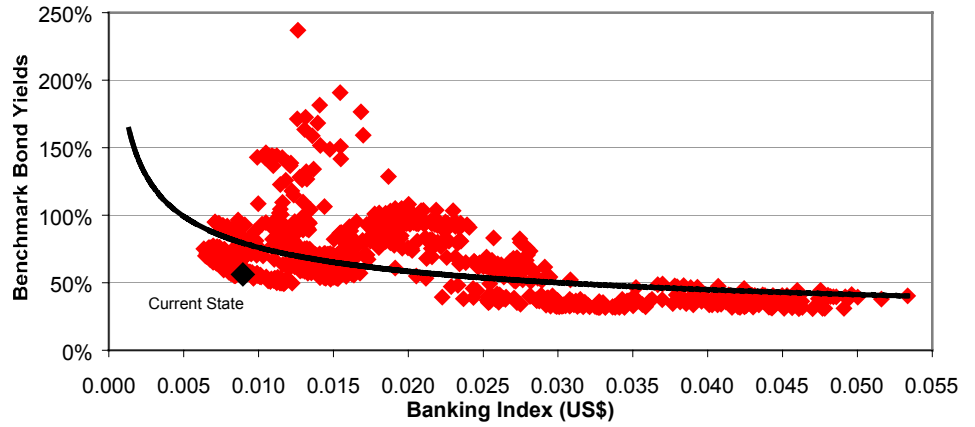
Banking Sector Index and Bond Yields

As seen in the chart below, the ISE banking index and benchmark bond yields move conversely to one other as the -54% correlation coefficient numerically states. The inverse relation comes as no surprise, and yet how are we able to use this as a valuation tool? To illustrate this point we again have recourse to use a scatter graph.



As seen in the graph, the current status of the banking index is too low given the level of benchmark bond yields. This aspect also justifies the fact that the banks in general trade at a discount.

Banking Index vs. Bond Rates



Source: Ak Securities

This report is dedicated to Bilge, my dearest love

APPENDIX

Bank Financials

Financial Indicators TR GAAP Bank Only US\$mn 1Q03							
	AKBNK	GARAN	ISBNK	YKBNK	DISBA	FINBN	TEBNK
Key Financial Figures							
Assets	14,714	11,939	14,552	11,298	2,308	3,245	1,331
Loans	3,759	3,515	4,145	4,255	750	1,241	511
Trading Securities	2,938	512	361	1,410	292	0	21
Investment Securities	3,896	4,101	4,495	935	373	999	26
Total Deposits	9,567	7,995	9,958	7,580	1,256	2,161	888
Sh. Eq.	2,073	1,035	2,615	1,671	352	347	160
Free Capital	1,562	-644	-699	-597	93	22	56
Profit	37	16	9	19	1	11	3
QoQ Change							
Assets	-1.3%	0.1%	0.5%	-1.6%	-2.8%	8.0%	-8.1%
Loans	1.8%	6.5%	3.9%	2.1%	-0.3%	22.2%	5.1%
Trading Securities	1.7%	-38.8%	-46.4%	-21.2%	-19.9%	-	23.6%
Investment Securities	5.3%	10.3%	14.0%	19.7%	-9.8%	-11.8%	-21.0%
Deposits	-5.5%	-0.4%	-2.3%	-4.3%	-8.1%	-3.1%	-13.9%
Sh. Eq.	4.6%	1.1%	1.0%	0.0%	1.5%	6.3%	2.6%
Profit	-70.6%	-49.5%	-92.9%	-98.0%	-92.0%	8.2%	-28.5%
Ratios							
Free Capital/Assets	10.6%	-5.4%	-4.8%	-5.3%	4.0%	0.7%	4.2%
IEA/IBL	106%	88%	92%	83%	109%	94%	90%
NPL Ratio	1.7%	5.4%	14.8%	10.0%	5.8%	6.9%	2.2%
NPL Coverage	100%	37%	42%	68%	82%	61%	74%
Cost/Income	26%	82%	67%	136%	58%	44%	43%
NI Spread	8.8%	3.2%	4.1%	8.7%	1.9%	3.9%	9.7%
NI Margin	8.1%	2.9%	4.4%	5.2%	3.7%	3.9%	10.3%
ROE	19.8%	6.3%	6.1%	45.6%	9.8%	15.9%	7.9%
CAR	40.7%	12.6%	26.0%	15.1%	11.8%	8.0%	14.0%
Fully Adjusted P/B 2003F	1.20	0.66	1.05	0.31	0.19	0.47	0.44
Benchmark P/B	1.66	1.52	1.46	0.41	0.56	1.00	0.70
Target M.Cap.	4,156	1,413	3,095	929	253	363	94
M.Cap.	3,070	1,034	2,489	817	146	234	76
Upside	35%	37%	24%	14%	73%	55%	23%
Trading Securities/Assets	20%	4%	2%	12%	13%	0%	2%
Core Liquidity Ratio	10%	5%	6%	7%	18%	8%	40%
Core Liquid Assets/(Deposits+Interbank MM)	15%	6%	8%	9%	32%	12%	59%
Cash/(Deposits+Interbank MM)	11%	3%	5%	7%	23%	4%	44%
Maturity Gap 2002	2.5	8.6	5.9	27.2	2.9	7.9	-0.4
Securities/Assets	46%	39%	33%	21%	29%	31%	4%
Loans/Assets	26%	29%	28%	38%	33%	38%	38%
Deposits/Assets	65%	67%	68%	67%	54%	67%	67%
100 Cash Loan Clients/Total Loans 2002	83.0%	57.3%	57.0%	62.0%	61.0%	68.0%	51.6%
Group Loans/Total Loans 2002	5.0%	12.5%	17.0%	47.0%	23.1%	0.3%	1.4%
Group Loans/Capital Base 2002	10.2%	57.2%	29.6%	136.8%	94.5%	2.5%	6.4%
BS FX Position	23	-88	231	23	-123	109	
Net FX Position	96	8	221	32	-46	-6	
Net Commission Income 1Q03	17	54	44	61	6	15	
Net Commission Income 1Q02	19	35	41	54	3	23	

Source: Bank Financials, Ak Securities Estimates

SEQUENCE OF FINANCIAL INDICATORS (TR GAAP Bank Only US\$mn)

AKBANK	2001/12	2002/12	2003/03
Free Capital/Assets	8.8%	10.1%	10.6%
IEA/IBL	106%	105%	106%
NPL Ratio	1.9%	1.8%	1.7%
NPL Coverage	100%	100%	100%
Cost/Income	28%	30%	26%
NI Spread (Trailing)	0.8%	7.6%	8.8%
NI Margin (Trailing)	5.2%	9.4%	8.1%
ROE (Trailing)	n.m.	25%	20%
Liquidity Ratio (excluding securities)	23%	14%	10%
GARANTI BANK	2001/12	2002/12	2003/03
Free Capital/Assets	-4.4%	-5.1%	-5.4%
IEA/IBL	89%	86%	88%
NPL Ratio	11.8%	6.2%	5.4%
NPL Coverage	46%	32%	37%
Cost/Income	99%	69%	82%
NI Spread (Trailing)	9.3%	6.0%	3.2%
NI Margin (Trailing)	3.5%	4.8%	2.9%
ROE (Trailing)	n.m.	8%	6%
Liquidity Ratio (excluding securities)	15%	9%	5%
ISBANK	2001/12	2002/12	2003/03
Free Capital/Assets	-10.1%	-5.2%	-4.8%
IEA/IBL	83%	91%	92%
NPL Ratio	28.1%	15.3%	14.8%
NPL Coverage	28%	41%	42%
Cost/Income	106%	56%	67%
NI Spread (Trailing)	13.8%	8.5%	4.1%
NI Margin (Trailing)	2.2%	7.6%	4.4%
ROE (Trailing)	n.m.	8%	6%
Liquidity Ratio (excluding securities)	12%	8%	6%
YAPI KREDI	2001/12	2002/12	2003/03
Free Capital/Assets	-23.8%	-4.7%	-5.3%
IEA/IBL	66%	84%	83%
NPL Ratio	55.6%	10.7%	10.0%
NPL Coverage	30%	69%	68%
Cost/Income	n.m.	43%	n.m.
NI Spread (Trailing)	16.5%	9.5%	8.7%
NI Margin (Trailing)	-1.8%	5.3%	5.2%
ROE (Trailing)	n.m.	49%	46%
Liquidity Ratio (excluding securities)	19%	7%	7%

Source: Bank Financials, Ak Securities Estimates

AKBANK

SUMMARY FINANCIALS	Inf. Adj. Unconsolidated TR GAAP, US\$m			
	2001A	2002A	2003F	2004F
Balance Sheet				
Cash	145	147	164	204
Banks	1,466	797	491	612
Interbank	1,147	1,154	1,093	1,360
Securities Portfolio	1,091	2,888	3,192	2,703
Loans	3,323	3,693	5,304	6,375
Past Due Loans (Net)	0	0	0	0
Participations	69	112	112	112
Affiliates	46	75	87	87
Investment & Available For Sale Sec.	2,979	3,701	4,233	3,584
Fixed Assets	244	295	359	442
Other	1,262	2,051	2,116	5,870
TOTAL ASSETS	11,772	14,912	17,152	21,349
Deposits	8,154	10,121	10,845	13,691
Interbank	0	286	423	527
Funds Borrowed	1,837	1,966	2,977	2,936
Other Liabilities	389	558	360	1,182
Shareholders' Equity	1,392	1,981	2,547	3,014
TOTAL LIABILITIES	11,772	14,912	17,152	21,349
Income Statement				
INTEREST INCOME	3,567	2,146	2,153	2,288
Interest income on loans	1,207	522	656	959
Interest income on loans TL	585	309	454	663
Interest income on loans FX	613	205	191	280
Interest income on other loans	8	9	11	17
Interest income on reserve deposits	8	31	42	51
Interest income received from banks	784	27	77	113
Interest income on interbank operations	397	459	441	524
Interest income on marketable securities	1,168	1,106	937	640
Other interest income	3	1	0	0
INTEREST EXPENSES	1,108	1,142	1,133	1,248
Interest paid for deposits	977	916	918	993
Interest paid for interbank operations	16	155	144	171
Interest paid for funds borrowed	111	68	71	84
Interest paid for securities issued	0	0	0	0
Other interest expenses	4	2	1	0
NET INTEREST INCOME	2,459	1,004	1,020	1,040
Non-Interest Income	-1,137	773	699	834
Fees and commissions received - Net	37	67	73	89
Income on capital market operations - Net	263	643	546	617
Income on FX operations - Net	-1,494	-172	18	15
Dividends from participations	10	48	8	51
Extraordinary income	0	0	0	0
Other operating income	48	57	54	62
Non-Interest Expenses	466	544	472	580
GAIN / LOSS ON NET MONETARY POSITION	-681	-368	-485	-581
PROFIT / LOSS BEFORE TAX (III+VI)	857	737	762	713
Tax Provisions	185	318	295	218
NET PROFIT	-10	418	467	495

Source: Bank Financials, Ak Securities Estimates

GARANTI BANK

SUMMARY FINANCIALS	Inf. Adj. Unconsolidated TR GAAP, US\$m			
Balance Sheet	2001A	2002A	2003F	2004F
Cash	248	670	323	398
Banks	1,143	389	333	410
Interbank	280	0	0	0
Securities Portfolio	1,267	837	550	460
Loans	2,744	3,301	4,925	5,865
Past Due Loans (Net)	198	150	153	149
Participations	81	136	128	128
Affiliates	501	597	634	634
Investment & Available For Sale Sec.	2,587	3,717	4,408	3,682
Fixed Assets	547	747	907	1,116
Other	1,564	1,387	1,539	4,270
TOTAL ASSETS	11,160	11,931	13,901	17,113
Deposits	6,972	8,028	9,048	11,277
Interbank	329	674	920	1,133
Funds Borrowed	2,299	1,561	2,225	2,164
Other Liabilities	719	644	503	1,159
Shareholders' Equity	841	1,024	1,205	1,380
TOTAL LIABILITIES	11,160	11,931	13,901	17,113
Income Statement				
INTEREST INCOME	1,970	1,860	1,594	1,655
Interest income on loans	866	587	723	939
Interest income on loans TL	568	409	487	625
Interest income on loans FX	293	175	216	287
Interest income on other loans	5	3	21	27
Interest income on reserve deposits	6	35	40	50
Interest income received from banks	240	91	41	52
Interest income on interbank operations	52	66	9	12
Interest income on marketable securities	774	1,051	765	589
Other interest income	34	30	16	12
INTEREST EXPENSES	1,507	1,500	1,226	1,360
Interest paid for deposits	1,245	1,229	1,032	1,141
Interest paid for interbank operations	60	56	113	147
Interest paid for funds borrowed	199	211	81	73
Interest paid for securities issued	0	0	0	0
Other interest expenses	2	4	0	0
NET INTEREST INCOME	463	412	368	294
Non-Interest Income	142	228	389	700
Fees and commissions received - Net	69	170	233	283
Income on capital market operations - Net	174	185	277	373
Income on FX operations - Net	-265	-198	-195	-40
Dividends from participations	85	36	16	17
Extraordinary income	0	0	0	0
Other operating income	78	35	58	66
Non-Interest Expenses	771	45	669	820
GAIN / LOSS ON NET MONETARY POSITION	-69	16	63	78
PROFIT / LOSS BEFORE TAX (III+VI)	-166	82	151	252
Tax Provisions	-78	7	46	77
NET PROFIT	-157	75	111	175

Source: Bank Financials, Ak Securities Estimates

ISBANK

SUMMARY FINANCIALS	Inf. Adj. Unconsolidated TR GAAP, US\$mn			
	2001A	2002A	2003F	2004F
Balance Sheet				
Cash	220	206	308	373
Banks	444	545	317	384
Interbank	669	387	301	365
Securities Portfolio	1,681	674	397	330
Loans	2,736	3,989	5,931	6,908
Past Due Loans (Net)	767	423	410	389
Participations	269	514	405	405
Affiliates	1,205	1,182	1,197	1,197
Investment & Available For Sale Sec.	1,029	3,944	5,275	4,384
Fixed Assets	912	1,219	1,492	1,835
Other	1,398	1,388	322	3,263
TOTAL ASSETS	11,332	14,473	16,353	19,832
Deposits	7,903	10,197	11,137	13,744
Interbank	0	185	283	343
Funds Borrowed	870	875	1,302	1,287
Other Liabilities	550	625	563	1,049
Shareholders' Equity	2,009	2,590	3,069	3,410
TOTAL LIABILITIES	11,332	14,473	16,353	19,832
Income Statement				
INTEREST INCOME	2,183	2,033	2,129	2,484
Interest income on loans	1,232	860	1,233	1,764
Interest income on loans TL	913	650	1,059	1,536
Interest income on loans FX	305	178	166	215
Interest income on other loans	15	32	9	13
Interest income on reserve deposits	14	44	42	45
Interest income received from banks	37	16	14	16
Interest income on interbank operations	188	76	66	76
Interest income on marketable securities	695	1,016	760	573
Other interest income	18	22	14	11
INTEREST EXPENSES	1,396	1,343	1,436	1,546
Interest paid for deposits	1,283	1,176	1,264	1,353
Interest paid for interbank operations	4	0	117	135
Interest paid for funds borrowed	98	50	52	58
Interest paid for securities issued	0	0	0	0
Other interest expenses	11	117	3	0
NET INTEREST INCOME	788	690	693	938
Non-Interest Income	-22	417	515	593
Fees and commissions received - Net	197	159	188	228
Income on capital market operations - Net	-45	216	296	326
Income on FX operations - Net	-442	-268	-185	-145
Dividends from participations	67	68	84	89
Extraordinary income	8	0	50	0
Other operating income	194	242	83	94
Non-Interest Expenses	1,151	260	756	955
GAIN / LOSS ON NET MONETARY POSITION	-141	29	-93	-112
PROFIT / LOSS BEFORE TAX (III+VI)	-385	161	413	577
Tax Provisions	1	0	90	124
NET PROFIT	-527	190	269	341
<i>Source: Bank Financials, Ak Securities Estimates</i>				

YAPI KREDİ BANK

SUMMARY FINANCIALS	Inf. Adj. Unconsolidated TR GAAP, US\$m			
	2001A	2002A	2003F	2004F
Balance Sheet				
Cash	137	249	290	348
Banks	1,582	353	201	241
Interbank	258	174	340	408
Securities Portfolio	1,151	1,789	1,464	1,184
Loans	1,873	4,169	5,831	6,647
Past Due Loans (Net)	1,635	153	180	167
Participations	536	358	295	295
Affiliates	236	294	281	281
Investment & Available For Sale Sec.	608	781	976	790
Fixed Assets	1,171	1,411	1,584	1,676
Other	1,423	1,750	1,228	3,161
TOTAL ASSETS	10,611	11,481	12,671	15,198
Deposits	8,086	7,920	8,318	9,951
Interbank	0	1,035	1,155	1,385
Funds Borrowed	1,013	387	811	789
Other Liabilities	458	468	671	1,227
Shareholders' Equity	1,053	1,670	1,716	1,847
TOTAL LIABILITIES	10,611	11,481	12,671	15,198
Income Statement				
INTEREST INCOME	1,758	1,983	1,479	1,650
Interest income on loans	1,012	1,230	914	1,158
Interest income on loans TL	577	895	638	775
Interest income on loans FX	395	296	246	347
Interest income on other loans	41	39	30	36
Interest income on reserve deposits	10	36	42	47
Interest income received from banks	119	69	26	28
Interest income on interbank operations	117	71	8	9
Interest income on marketable securities	498	577	489	408
Other interest income	2	0	0	0
INTEREST EXPENSES	1,599	1,509	1,428	1,485
Interest paid for deposits	1,320	1,190	1,019	1,024
Interest paid for interbank operations	98	232	326	371
Interest paid for funds borrowed	181	87	83	90
Interest paid for securities issued	0	0	0	0
Other interest expenses	1	0	0	0
NET INTEREST INCOME	159	474	51	165
Non-Interest Income	-62	332	525	576
Fees and commissions received - Net	245	234	264	321
Income on capital market operations - Net	31	113	210	127
Income on FX operations - Net	-525	-92	-135	-81
Dividends from participations	79	35	34	36
Extraordinary income	0	0	0	0
Other operating income	108	564	152	173
Non-Interest Expenses	972	879	608	792
GAIN / LOSS ON NET MONETARY POSITION	224	94	199	228
PROFIT / LOSS BEFORE TAX (III+VI)	-876	544	166	178
Tax Provisions	32	128	42	47
NET PROFIT	-619	672	116	131

Source: Bank Financials, Ak Securities Estimates

Research Team

Erkan Savran, Head of Research	<i>erkan.savran@akyatirim.com.tr</i>
Hakan Aklar, Economist Macroeconomy, Politics	<i>hakan.aklar@akyatirim.com.tr</i>
Berna Kokter, Assistant Manager Telecom & Defense Electronics, Conglomerates	<i>berna.kokter@akyatirim.com.tr</i>
Mete Yuksel, Assistant Manager Banking, Insurance	<i>mete.yuksel@akyatirim.com.tr</i>
Engin Yegul, Senior Analyst Power & Utilities, Retail, Food & Beverage	<i>engin.yegul@akyatirim.com.tr</i>
Banu Uzgur, Senior Analyst Media, Glass, Cement, REITs	<i>banu.uzgur@akyatirim.com.tr</i>
Korhan Bilek, Analyst Automotive, Consumer Durables	<i>korhan.bilek@akyatirim.com.tr</i>
Petek Kutucuoglu, Analyst Oil & Gas, Iron & Steel, Chemicals, Textiles	<i>petek.kutucuoglu@akyatirim.com.tr</i>
Goksel Sismanlar, Analyst Database Management, Technical Analysis	<i>goksel.sismanlar@akyatirim.com.tr</i>

research@akyatirim.com.tr

+ 90 212 334 9494

Institutional Sales & Trading

Attila Penbeci, Head of Institutional Sales & Trading	<i>attila.penbeci@akyatirim.com.tr</i>
Can Oksun, Assistant Manager	<i>can.oksun@akyatirim.com.tr</i>
Pinar Aras, Assistant Manager	<i>pinar.aras@akyatirim.com.tr</i>

sales@akyatirim.com.tr

+ 90 212 334 9545

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