AKSecurities

YAPI KREDI BANK Market Performer

Comment on 2005/6 Bank-Only BRSA Financials and Valuation Downgrade

Strengthening Margins versus Huge Provisions

Even though Yapi Kredi Bank's (YKBNK TI) 1H05 operating performance is better than our forecast, higher than expected operating expenses and unexpected huge provision figure pulled down the bottom-line down to YTL124mn (US$93mn) in the red from a YTL80mn (US$61mn) positive figure in the first quarter. Our net profit forecast stood at YTL148mn (US$110mn) as we refrained from guessing the per quarter asset write-downs. The Bank that booked YTL87mn (US$66mn) of provisions in 1Q05 set aside a huge YTL272mn (US$200mn) reserve in 2Q05. Majority of the extraordinary part of 2Q05 provisions stems from the provisions to write down Tumteks, Boyasan and Enternasyonal Turizm.

The operating expenses figure that was YTL268mn (US$203mn) in 1Q05 is YTL420mn (US$310mn) in 2Q05. The incremental part again stems from provisions booked in opex. As it was explained in 1Q05 financials in details, an independent real estate appraisal company evaluated a YTL354mn book-valued property in the second quarter. We estimate the value of extraordinary reserves in opex as YTL150mn (US$112mn). On the other hand, that real estate appraisal Company valued YKB's YTL1,161mn (71% of net properties) book valued real estates as YTL506mn (US$378mn) in July. YKB applied to another appraisal company to re-evaluate the value of those properties in August and did not set aside any provision for those real estates in the second quarter (YTL655mn -US$489mn- potential write-off in the future).

Despite the provisions backed deterioration in the bottom-line, the Bank's operating performance on the P/L side is eye catching. Annualized quarterly net interest margin climbed from 6.6% in 1Q05 to 6.9% in 2Q05 that is even higher than that of Garanti Bank. Credit card loans backed high 27% interest on TL loans and FX gains are the key drivers of the solid interest margin. Net interest income (adjusted for provisions in opex) in 2Q05 is US$133mn versus US$107mn a quarter ago.

The loan book expanded by a mere 4% in 2Q05 that is the lowest expansion throughout the peers (sector 12.3%). 70% of the loans granted in 2Q05 is composed of consumer loans as the Bank is not as aggressive as its competitors in SME business. 29.2% of the Bank's loan books are directed to credit cards (28.7% in 1Q05), which is the highest proportion in the sector and it significantly surpasses that of Garanti that grants 22% of the loans to credit cards. Deposit growth in the same period was a modest 6.3% (sector 7.4%).

August 12, 2005

Mete Yuksel +90 212 334 9465
mete.yuksel@akyatirim.com.tr

The Bank's book value displayed an 8% slide in 2Q05 to YTL4,439mn (US$3,309.5). Coupled with the negative effects of the bottom-line loss, the YTL180mn mark to market loss on Turkcell was another figure that caused the book value shrinkage. We believe that the performance will improve as Koc Financial Services takes over YKB. We expect Koc Group to merge Kocbank under Yapi Kredi Bank and the new establishment should start generating a sustainable ROE of 20%.

Valuation & Rating Downgrade

We downgrade our rating on the Bank from 'Market Outperformer' to 'Market Performer'. Taking into consideration the upcoming additional write-offs to take place after the completion of real estate appraisals we revised our target value for YKB to US$3.46bn that corresponds to an upside potential of only 6%.

Yapı Kredi Bank Warranted Equity Valuation (US$mn)	
Sustainable ROE	20%
k	13%
g	3.0%
Benchmark P/B [(ROE-g)/(k-g)]	1.70
NAV Calculations	
1y FL Sh.Eq.	3,430
Write Offs	1,394
Haircut on Non-Core Assets (-)	1,193
Pension Fund Technical Deficit	72
Pension Fund Healthcare	48
Atel	242
Digiturk, Superonline, Fintur	43
Atasehir	18
Fiskobirlik	283
Real Estates	489
Unprovisioned NPLs (-)	201
1y FL Sh.Eq. (Collateral & Write-off adjusted)	**2,036**
Target Value	3,463
M Cap	3,281
Upside (downside)	6%

Source: Ak Securities

Shareholder Structure of the New Entity – Two Merger Scenarios (if Kocbank and YKB are merged)

We expect KFS to merge Kocbank under YKB following the acquisition of 57.4% stake. Under such a merger scenario, we worked through two methodologies in calculating the new shares to be issued for Kocbank shareholders and to reach a post merger book value for the new entity. In the book value method, we used adjusted book value figure for YKB and 1Q05 shareholders' equity for Kocbank. This method relatively works in favor of minority shareholders. The share of minorities in YKB slips down from 43% to 34% under this approach.

Under the valuations method, we used the transaction price of YKB and fair value of Kocbank through applying a 1.9x P/B on Kocbank's 1Q05 book value. This method is in favor of Kocbank's shareholders as the share of minorities in the new entity slides down to 30%. As the merger will take place under YKB, the stock price will maintain its former level, however the new market cap will be higher than the previous one as new shares will be issued for former Kocbank shareholders.

Merger Under YKB		
Method 1: Based on Book Values - Base Case		
	YKB	**KOCBANK**
Mcap (US$mn) BV for Kocbank	3,281	571
Number of Shares	752,344,693	430,000,000
Stock Price (YTL)	5.8	
Adjusted Sh. Eq. (YTLmn)	2,840	760
Total Book Value of merged entity (YTLmn)	3,600	
Pre merger Book Value/Share (YTL)	3.77	1.77
Share conversion ratio (Equity Method)	1.00	0.47
New shares to be issued for Kocbank's shareholders	201,316,648	
Total number of shares in new entity	953,661,341	
After merger Book Value/Share (YTL)	3.77	
After merger mcap (US$mn)	4,158.62	
After merger P/B	1.54	
Method 2: Based on Valuations		
Value (US$mn) *	2,526	1,093
Total Value of merged entity (YTLmn)	4,814	
Pre merger Value/Share (YTL)	4.47	3.38
Share conversion ratio	1.00	0.76
New shares to be issued for Kocbank's shareholders	325,581,165	
Total number of shares in new entity	1,077,925,858	
After merger Value/Share (YTL)	4.47	
After merger mcap (US$mn)	4,700.50	
After merger P/B	1.30	
Upside Potentials Based on Scenarios		
Target Value (US$mn)	3,463	1,093
Post Merger Total Target Value (US$mn)	4,556	
Scenario 1 Equity Method		
Price Per Share YTL	6.35	
Upside	10%	
Scenario 2 Based on Valuations		
Price Per Share YTL	5.62	
Upside	-3%	
TL/$:	1.33	
€/$:	1.25	
Peer Group P/B multiple geomean:	1.9	

* Transaction price for YKB, BV*Peer Group PB for Kocbank

Source: Ak Securities

Pre-merger shareholder structure	
Cukurova + SDIF (Potential KFS)	57.4%
YKB's minorities	42.6%

Post-merger shareholder structure	
KFS' stake in new entity	66.4%
Share of minorities in merged entity	33.6%

Post-merger shareholder structure	
Kocbank's stake in new entity	70.3%
Share of minorities in merged entity	29.7%

Unconsolidated Inflation Adjusted BRSA Financials US$mn	2002/12	2003/12	2004/12	2004/06	2005/06	YoY Chg
BALANCE SHEET						
Cash And Balances With The Cb	395	221	300	279	281	1%
Trading Securities (Net)	2,835	2,112	2,502	2,811	2,295	-18%
Banks And Other Financial Institutions	559	439	489	101	512	409%
Money Market Securities	275	66	-	14	-	-
Investment Sec. Available For Sale (Net)	621	1,646	1,619	1,738	1,796	3%
Loans	6,849	6,778	7,493	7,584	8,048	6%
Investment Sec. Held To Maturity (Net)	618	531	119	136	118	-13%
Investments And Associates (Net)	568	675	1,087	770	993	29%
Subsidiaries (Net)	466	485	490	473	464	-2%
Reserve Deposits	903	806	835	738	699	-5%
Miscellaneous Receivables	27	41	66	96	64	-34%
Accrued Interest And Income Receivable	1,139	1,162	917	808	943	17%
Property And Equipment (Net)	2,198	2,050	1,790	1,951	1,614	-17%
Intangible Assets [Net]	38	80	74	75	52	-30%
Other Assets	279	276	181	222	225	1%
Total Assets	**18,194**	**17,754**	**18,347**	**18,181**	**18,488**	**2%**
Deposits	12,552	11,388	10,650	10,940	11,458	5%
Interbank Money Market	1,640	1,814	2,277	2,348	1,475	-37%
Funds Borrowed	614	612	649	848	634	-25%
Miscellaneous Payables	255	557	951	650	1,071	65%
Other External Resources	35	109	107	123	155	26%
Taxes And Other Duties Payable	44	47	36	35	28	-21%
Finance Leasing Payables (Net)	3	8	8	8	11	34%
Accrued Interest And Expenses Payable	219	165	134	150	173	15%
Provisions	184	70	79	71	174	146%
Shareholders' Equity	**2,647**	**2,986**	**3,457**	**3,009**	**3,309**	**10%**
TOTAL LIABILITIES	**18,194**	**17,754**	**18,347**	**18,181**	**18,488**	**2%**
Income Statement						
I. Interest Income	3,143	2,119	2,141	1,003	1,069	7%
1.1.Interest On Loans	1,950	1,289	1,349	651	716	10%
1.2.Interest Received From Reserve Deposits	57	68	48	24	22	-9%
1.3.Interest Received From Banks	109	29	9	4	6	28%
1.4.Interest Received From Money M. Transactions	112	9	1	1	0	-90%
1.5.Interest Received From Marketable Sec. Portfolio	915	723	734	323	316	-2%
1.6.Other İnterest İncome	0	0	0	0	10	6094%
II. Interest Expense	2,391	2,177	1,590	795	642	-19%
2.1.Interest On Deposits	1,885	1,704	1,130	553	498	-10%
2.2.Interest On Money Market Transactions	368	392	391	204	127	-38%
2.3.Interest On Funds Borrowed	138	82	68	37	17	-55%
2.4.Interest On Securities İssued	-	-	-	-	-	-
2.5.Other İnterest Expense	1	0	1	0	1	22%
Net Interest Income	752	(58)	551	209	427	105%
Net Fees And Commissions Income	372	363	357	172	184	7%
Dividend Income	9	8	7	27	12	-54%
Net Trading Income	35	407	98	(3)	29	-931%
Profit/Losses On Trading Account Securities (Net)	180	382	60	(1)	(10)	884%
Foreign Exchange Gains/Losses (Net)	(145)	25	38	(2)	39	-
Profit/Loss From Held To Maturity M. S.	-	-	-	-	-	-
Other Operating Income	894	144	47	20	47	133%
Total Operating Income	2,061	864	1,059	425	700	65%
Provision For Loan Losses Or Other Rec. (-)	483	98	361	55	268	386%
Other Operating Expenses (-)	910	818	811	406	514	27%
Net Operating Income	668	(52)	(114)	36	(81)	-324%
Profit/Losses From Associates And Subs.	45	43	18	21	2	-92%
Net Monetary Profit/Loss	148	147	83	53	-	-
Income Before Taxes	862	138	(12)	38	(80)	-308%
Provision For Taxes On Income (-)	(203)	-	32	12	13	9%
Net Operating Inc./Exp. After Taxes	1,065	138	(44)	27	(92)	-446%
Net Profit/Loss	**1,065**	**138**	**(44)**	**27**	**(92)**	**-446%**

Source: BRSA Financials, Ak Securities