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APPRAISAL OF

TURKIYE SINAI KALKINMA BANKASI A.S.

TURKEY

December 7, 1972

Development Finance Companies Division
Europe, Middle East and North Africa Region

CURRENCY EQUIVALENTS

Prior to August 9, 1970

US $1.00	=	LT 9.00
LT 1.00	=	US $0.11

August 9, 1970 to December 22, 1971

US $1.00	=	LT 15.00
LT 1.00	=	$0.067

After December 22, 1971

US $1.00	=	LT 14.00
LT 1.00	=	US $0.07

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This report is based on a visit to TSKB in October 1972, and was prepared by Messrs. Jacques Coudol and Edgar C.H. Su.

LIST OF ANNEXES

TURKIYE SINAI KALKINMA BANKASI A.S.

Basic Data

1. Year of Establishment: 1950

2. Ownership

	Amount of shares (LT million)	% of Total
Domestic	167.9	86.8
IFC	20.8	10.8
Other Foreign	4.7	2.4
Total	193.4	100.0

3. Bank Group Financing

a. IFC Investment in TSKB's Share Capital

Investment Number	Date approved	Number of shares	Cost per share	Total investment of cost
64-TU	Sept. 18 1963	15,000	$ 61.11	$ 916,667
122-TU	March 28 1967	4,500	75.00	337,500
149-TU	March 4 1969	10,514	39.68	417,222
220-TU	April 18 1972	11,917	35.71	425,607
		41,931		2,096,996
Less Sales		6,180		366,827
		35,751		1,730,169

b. IBRD Loans (October 31, 1972)

Loan No.	Date of Effectiveness	Rate of Interest	Net Amount ($'000)	Authorized ($'000)	Disbursed less repai[d] ($'000)
Credits					
33-TU	Feb. 27, 1963	5½%	5,272	5,272	5,272
66-TU	Dec. 1, 1964	5½%	5,369	5,369	5,369
75-TU	July 9, 1965	5½%	10,806	10,806	10,806
91-TU	Nov. 10, 1966	5½-6½%	16,214	16,214	16,214
Loans					
34-TU	Feb. 28, 1951	3 3/4%	8,676	8,676	-
85-TU	Feb. 17, 1954	4 7/8%	8,967	8,967	-
461-TU	Nov. 10, 1966	5½-6½%	9,995	9,995	7,212
589-TU	May 29, 1969	6½%	24,806	24,806	22,797
713-TU	Feb. 9, 1971	7¼%	40,000	33,262	14,826

4. Operations (millions of units)

Net Approvals		1969	1970	1971	Jan.-Sept. 1972
Foreign exchange loans	$	13.6	21.4	21.6	24.4
Local currency loans	LT	5.0	16.7	140.6	170.5
Equity investments	LT	12.7	5.9	24.7	30.5
Bond issues guaranteed	LT	30.0	50.0	35.0	18.0
Total ($ equivalent)	$	18.9	29.0	35.0	40.1
Disbursements	$	27.1	30.0	28.6	32.4

5. Financial Data (LT million)

		1969	1970	1971	Jan.-June 1972
a.	Total assets	1,278	1,927	2,140	2,207
	of which loan portfolio	1,015	1,535	1,675	1,758
	equity portfolio	116	110	126	134
	Total equity	184	209	234	271
	Long-term debt	1,038	1,625	1,789	1,843
	of which				
	Conventional lira loan	42.6	64.7	89.3	104.4
	Foreign currency loans	627.1	1,192.2	1,331.1	1,370.8
	Lira subordinated loan	368.1	368.1	368.1	368.1
	Total debt/equity	5.6:1	7.8:1	7.7:1	6.8:1
	Long-term debt/equity as defined in Bank Loan Agreement	1.7	2.9	3.1	3.0
	Guarantees	74	101	148	146
b.	Earnings before interest, tax and provision as % of average total assets	7.4%	7.2%	8.5%	8.6%
	Profit before tax and provision as % of average net worth	28.6%	33.2%	35.9%	31.5%
	Profit after tax and provision as % of average net worth	19.0%	17.4%	18.2%	18.9%
	Profit after tax and provision as % of year-end share capital	27.1%	31.0%	36.5%	38.3%
	Administrative cost as % of average total assets	1.4%	1.2%	1.6%	1.0%

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SUMMARY

i. Turkiye Sinai Kalkinma Bankasi A.S. (TSKB), established in 1950 is the oldest and one of the largest development finance companies assisted by the Bank. As of June 30, 1972, TSKB's assets reached LT 2.2 billion ($158 million). Its local currency resources have been largely provided by the Government and the foreign exchange resources by the Bank/IDA, USAID, and KfW. The Bank and IDA have made nine loans and credits totalling $128 million. IFC is presently holding 10.8% of TSKB's share capital.

ii. TSKB continues to make a significant contribution to the Turkish economy in providing long-term finance to the private manufacturing sector. It has financed around 8% of total investment in private manufacturing industry during the period from 1968 to mid-1972. Its financing would have been greater if resources in lira and foreign currency had not been the limiting factor. The level of commitments was about the same in 1969 and 1970 (approximately $30 million equivalent per year, including bond issue guarantees), but declined in 1971 to $26 million equivalent due mainly to the fact that the Government during the six month period from May to October, 1971, completely suspended issuing industrial investment certificates involving imported equipment. But this situation has now changed. There is a considerable upswing in new investment demand. In the first nine months of 1972, TSKB's commitments reached $ 37.9 million, which is 95% higher than the level reached in 1971. TSKB's equity operations while not rising as much as expected, have been helpful in broadening the securities in which the investors can invest. Its bond guaranteeing and underwriting activities have contributed to the development of a capital market in Turkey. However, much remains to be done in this field.

iii. As a consequence of the devaluation of the lira in August 1970, TSKB's arrears increased sharply. The situation has improved since then and it is expected to return to the normal and satisfactory pattern early in 1973. In the meantime, adequate provisions have been set up for possible losses. TSKB's portfolio is well-diversified and sound. TSKB is a profitable institution. In 1971, the return on average equity reached 18.2%, compared with 17.4% in 1970. In 1972, it is is expected to rise to 19%.

iv. TSKB's management and staff are capable and experienced. After reorganization of the appraisal departments in early 1971, TSKB's appraisal work showed further improvement. Follow-up procedures are thorough. During the past two years, TSKB has given more attention than in the past to its developmental role, and has taken steps to identify and finance more projects in the under-developed regions in Turkey. In financing projects, TSKB has given priority to export-oriented projects.

v. TSKB's business outlook is bright. TSKB's commitments are expected to rise from $43 million equivalent in 1972 to $112 million in

1974 and $166 million in 1977. For the two calendar years 1973 and 1974, TSKB would need LT 2.6 billion to finance its commitments. To meet its foreign exchange needs of $120 million equivalent, TSKB expects to obtain loans from EIB and KfW totalling $46 million. At the end of 1972, TSKB will have uncommitted foreign currency resources amounting to $2 million. TSKB is making an effort to raise funds in the Euro currency market and partly with the help of IFC, TSKB expects to be able to raise at least $25 million from such sources in the next two years, thus leaving a net resource gap of around $48 million. A Bank loan of $40 million will enable TSKB to meet the major part of the remaining gap and at the same time provides an incentive for TSKB to raise even more funds elsewhere.

vi. Local currency resources needs would be LT 900 million. Net cash generation for the two years would amount to LT 250 million and other firm resources, including re-use of EIB loan repayments, would be LT 325 million. The net local currency resource gap is around LT 325 million, of which LT 175 million would be for tourism financing. This gap takes into account industrial long term financing needs of Turkey's private sector which TSKB would not realistically expect to finance by guaranteeing enterprises' bond issues. However, TSKB's access to domestic resources, other than capital on concessionary terms from the Government, is limited to bond issues at a cost above TSKB's own authorized lending rate. Barring any rapid changes of the policy of the Government which would result in a better adjustment between certain interest rates and market forces, TSKB should be prepared to float bond issues at a negative spread to the order of LT 150-200 million over the next two years. These borrowings would cover a substantial part of TSKB's resource gap. The balance of the gap, i.e. about LT 150 million could be financed either with borrowings from commercial banks which could become substantial and attractive for TSKB if the Government agreed to forego the tax it charges on inter-bank transfers or, indirectly, with a possible increase in bond guarantees. The matter of the use by TSKB of the interest earned on Bank funds to cover borrowings at a negative spread and the waiving of the inter-bank transfers tax have been discussed during negotiations. For the major part of tourism financing, TSKB has to rely on resources to be made available by the Government on concessionary terms.

vii. TSKB continues to be a suitable and creditworthy borrower from the Bank. It has good business prospects. The bank should make a loan to TSKB in the amount of US$40 million equivalent which would enable TSKB to meet an important part of its resource gap in the two-year period ending December 31, 1974. A loan in that amount will not meet all of the forecast resource gap in this period and therefore should provide enough additional incentives to TSKB to raise more foreign resources than it currently plans to do.

viii. The terms of the loan should be those normally applied to loans to development finance companies, including the standard commitment charge. In recognition of TSKB's recent upgrading of its project appraisal work, an increase in the free limit appears justifiable. It should be set at

$1 million, as compared to the $750,000 applicable to present Bank loans to TSKB. Even with a $1 million free limit, the Bank could expect to receive for approval sub-loans totalling about 65% of the proposed loan. An aggregate free limit should be set at $12 million. TSKB's debt limit, as now defined, should be set at five times equity.

ix. With its present foreign exchange lending rate at 12% TSKB would enjoy a spread of 4 3/4% on the proposed Bank loan. During negotiations, TSKB has agreed to forego some of the benefits it would receive from such spread by undertaking to mobilize lira resources from the market as indicated above, and to prepare and implement a special program, in consultation with the Bank, designed to promote industrial enterprises in less developed regions of Turkey and tourism projects. For the latter purpose, TSKB will set aside annually not less than 25% of the spread earned on the proposed loan for meeting promotional and other costs resulting from the execution of the program.

x. Within the framework of the Bank's economic work in Turkey, the Bank intends to initiate a dialogue with the Government before the end of 1973 concerning the need to bring lending and borrowing rates into better balance with a view to facilitating at an early date TSKB's and other term financing institutions' resource mobilization efforts at home and abroad. As part of this dialogue, there should be an examination of the possible advantage of abandoning the 25 percent expenditure tax on inter-bank borrowings.

xi. Arrangements have also been made with TSKB to review in detail with the Bank the findings of the Bank's Special Studies Mission with a view to reaching understandings concerning the operational conclusions to be drawn from the Special Studies Mission's work.

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I. INTRODUCTION

1.01 Turkiye Sinai Kalkinma Bankasi A.S. (Industrial Development Bank of Turkey, or TSKB) was established in 1950. It is the oldest and one of the largest of the World Bank's clients among development finance companies. The Bank and the Association have made five loans and four credits to it, totalling $128 million. IFC became a shareholder in 1963 and presently holds 10.8% of TSKB's share capital.

1.02 This report reappraises TSKB in connection with its request for a new Bank loan and focuses on developments since the previous Bank loan was made in November 1970. Because of the Bank's familiarity with TSKB, history and general description of the institution are kept to a minimum. Such information can be found in the preceding Appraisal Reports. A detailed review of the economy of Turkey is contained in "Current Economic Developments and Prospects of Turkey", R-72-236, dated September 18, 1972.

1.03 In October and November, a Special Studies Mission visited TSKB to review in depth the actual economic merits and impact of the Bank support of Turkish industry through TSKB. The conclusions of this mission are likely to be available some time in March 1973.

II. THE ENVIRONMENT

2.01 Over the past decade, Turkey has demostrated its ability to sustain an ambitious rate of economic growth, but with continuing reliance on external aid on favorable terms. Efforts have been made to transform a predominantly traditional agricultural economy into one based to a much greater extent on manufacturing. These efforts rested in part on Government intervention and the activity of State enterprises. The devaluation and stabilization program introduced in August 1970 reflected the Government's aim to develop exports with a view to accelerating progress towards external viability. Indeed, following the devaluation in August 1970, exports and workers' remittances increased sharply. Exports were also favored by higher cotton prices and textile exports to the EEC. In 1971, Turkey's gross exchange reserves increased by about $350 million, bringing their level to a record $772 million at the end of 1971. They were around $1 billion at the end of September 1972.

2.02 In 1971, GDP increased by about 7.8% in real terms, compared with 4.9% in 1970 and an average growth of 6.3% during 1962-1971. Agriculture, industry and transportation were the main growing sectors; construction growth declined. While agriculture still accounts for 60% of total employment and 70% of the value of all exports, its contribution to GDP declined from about 50% in the early 1950's to around 27% in 1971. During the same period, the contribution of manufacturing increased from 11% to 23%. The high share of manufacturing is likely to be maintained in 1972.

2.03 Turkey experienced its sharpest price rises in 1971 for more than a decade. Wholesale prices rose 16% compared with 6% per year on the average in the previous five years. The cost of living index showed a larger increase, over 20%. This was principally attributable to demand pressures resulting from higher incomes, and partly to cost increases resulting from devaluation and from wage increases under collective bargaining agreements. Moreover, major upward adjustments were made in the prices of various State Economic Enterprises' products and in agricultural support prices. The inflationary trend does not appear to have been arrested in 1972. In the first half of 1972, wholesale price index rose 7%, and the estimated rise for the whole year is around 15%.

Industry

2.04 During the first 5-Year Plan (1963-1967), industrial growth in real terms averaged 11% per year. The second Plan (1968-1972) fixed an annual growth target of 12%, which was nearly attained during 1968 and 1969. In 1970, however, industrial growth slowed down sharply to 2%, mainly due to curtailed imports of raw materials, spare parts and equipment resulting from shortages of foreign exchange and delays in coming into production of projects in the public sector. Value added in manufacturing industry in 1971 is estimated to have come 40% from the public sector and 60% from the private sector. Although some Government-owned industrial enterprises (SEEs) have shown good operational results, quite a number are considered inefficient. Indeed, overall average annual rate of return for all SEEs including the large deficit of the railways, was only 0.9% during the period of 1969-71.

2.05 Industry is highly protected through both quotas and tariffs. (Customs duties on industrial products are about 40-60%, and 75% or more for such commodities as artificial fibers and fabrics, glass, leather products, machinery and vehicles, etc..) Protection measures coupled with investment incentives 1/, available since the late sixties, have encouraged private investments in industry, particularly in food, textiles, chemicals, cement, non-metallic products, metals, machinery and vehicles. Recently,

1/ These include providing or guaranteeing foreign exchange for equipment imports, deferral or exemption of import duties, rebates on import duties and indirect taxes paid on products exported. Following devaluation in August 1970, special funds were set up at the Centrl Bank to promote export-oriented manufactuturing activity.

and particularly since an Interim Agreement was signed with the EEC in 1971, customs duties on imports from EEC have decreased by 5-10%, as a first step of liberalization of duties. The Interim Agreement with the EEC provides that over the next two decades, all tariff barriers on imports from EEC countries will be eliminated and considerable reduction across the board will also be applied to imports from other countries. In 1971, fixed investment in manufacturing in the private sector was LT 4.9 billion, representing 53% of total industrial investment. This amount is higher than the annual volume achieved in 1970 (LT 3.9 billion), but is inflated because of the intervening devaluation. Also, in the first half of 1971, there was some evidence of a slow-down in new investment decisions due, in large measure, to the suspension of investment incentives following the Government change in March 1971. Industrial investment started picking up more recently since, in early 1972, investment incentive schemes 1/ were revived and expanded. Total fixed investment in manufacturing in the private sector is estimated by TSKB to reach LT 6.7 billion in 1972. Besides a general encouragement of private investment in industry, these incentives aim at directing investments into large-scale projects, to export-oriented activity, and into the under-developed regions.

2.06 Foreign private investments in industry have not been an important element in the industrialization in Turkey because Government policy has not encouraged such investments. It is accepted only when there is a demonstrable need for transfer of technology and only in sectors which could not be developed with local resources. Foreign direct investments in 1971 amounted to $45 million, almost entirely for financing extensions of existing foreign-controlled enterprises.

Industrial Finance

2.07 In the three year period, 1969-71, private fixed investment in manufacturing totalled about LT 12 billion (about US$1.05 billion equivalent). About 65% of the investment 2/ was financed by internally generated funds of the companies and new share capital - which is a high percentage. These figures have to be viewed with caution and the trend is towards an increasing share of borrowed funds. The balance came 10% from tax credits, 5% from bond issues and the remaining 20% from financial institutions including TSKB, Sinai Yatirim ve Kredi Bankasi (SYKB) and commercial banks. TSKB's disbursements during the period amounted to $85.7 million, corresponding to about 8% of the total - a significant but declining share vis-a-vis earlier years. However, TSKB share could have been considerably more if it had had access to more resources, both local and foreign exchange.

1/ An important difficulty with the incentives, as now being awarded, is that they are accorded on a case-by-case basis, leading to complaints about the lack of objectivity and delays. A new bill is now being considered by the Parliament which would represent a comprehensive scheme for incentives, based on sectoral priorities making it possible to grant incentives automatically without the need to evaluate individual projects. This is a good approach.

2/ The source for this data is the State Planning Organization (SPO).

2.08 Financial Terms of the Market. Annex 1 gives an indication of current money market rates in Turkey. Maximum interest rates have been fixed by the Government for both credits and deposits. Before the devaluation, the maximum general interest rate was 10.5% and the maximum rate on loans to specified industries was 9%. (TSKB charged 9% on foreign exchange loans, 10.5% on free lira loans and 8% on loans financed by lira funds provided by the Government.) The rate on commercial deposits was 2% and the rates on time deposits ranged between 4 and 6.5%. In September 1970, the general maximum lending rate was increased to 11.5% and the rate on loans for specified industries to 10.5%. Rates on time deposits over 12 months were increased to 9%. Subsequently, the maximum lending rate on medium term loans was set at 12%. TSKB has been charging 12% on all its loans since then.

2.09 The Capital Market. There are few negotiable securities available in the Turkish financial system and fewer still which represent means for private industry to raise funds through intermediary channels. The various financial instruments now issued to raise funds for public and private use consist of savings bonds, government bonds, shares and bonds of private corporations and banks. Savings bonds are negotiable instruments but represent forced loans for finance of the public sector. In 1971, LT 1.1 billion of new savings bonds was issued, bringing the total to LT 7.4 billion. There is a narrow market for government bonds, confined largely to social security organizations and financial institutions which are required to hold them. In 1971, the net increase in government bonds outstanding amounted to LT 420 million, and total amount outstanding reached LT 3.2 billion at the end of 1971.

2.10 There had not been any bonds issued by private industrial corporations until 1967 when TSKB started to guarantee such issues. Up to end of Sept. 1972, 78 issues totalling LT 922 million have been floated, 17% of which was guaranteed by TSKB.

2.11 Share issues by private corporations to outsiders are very limited in number. In 1969-71, the net increase in equity capital by private corporations (other than financial intermediaries) amounted to LT 350 million. Since most corporations are closely held family concerns, only a small part of this sum would represent issues available to the market. The stock exchange in Istanbul is playing an insignificant role since the number of shares quoted is limited and the amount of trading is small (only LT 7.7 million in 1971). Great obstacles to widening the share market seem to be the aforesaid small supply of paper, and inadequate disclosure of data on companies.

2.12 The Banking System. Of the 43 commercial banks operating in Turkey, by far the largest is the Turkiye Is Bankasi with total assets two-and-a-half times larger than the next largest private bank, the Yapi ve Kredi Bankasi. Between them, they account for over half the total assets of private banks. In 1971, the commercial banks' liquidity improved considerably due to the revised interest rate structure, taking effect in September 1970. In early 1972, commercial banks were required to lend 10%

of their total commercial credits on medium term and since July, the Government has taken some monetary measures to curb inflation by increasing the reserve requirements of the banking system. Overall the record banking liquidity of the earlier part of 1972 is likely to be reduced somewhat as a result of these measures.

2.13 Besides TSKB, the only other institutional source of longer-term finance for private industry is the Industrial Investment and Credit Bank (Sinai Yatirim ve Kredi Bankasi A.S. or SYKB) which was founded in 1963 by six of the major commercial banks (five of them are also shareholders of TSKB) to provide working capital credit on medium and long-term finance. SYKB's long-term loans approved over the past two years amounted to about LT 250 million. At the end of 1971, SYKB had a loan portfolio of LT 599 million, of which LT 373 million, or 62%, represent long-term loans to industries. TSKB's portfolio was LT 1.7 billion. TSKB also has a far greater endowment than SYKB with resources usable for import financing.

III. THE COMPANY - ORGANIZATION, POLICIES, PROCEDURES AND RESOURCES

Shareholders

3.01 The list of TSKB's shareholders is contained in Annex 2a. There has been little change in the ownership of the company. Turkiye Is Bankasi remains the largest shareholder, holding 20.8% of the total; IFC holds 10.8% of the total. Trading in TSKB shares has not been significant; only 854 shares were traded in 1971, totalling LT 541,095 and 169 during the first half of 1972, totalling LT 91,250. Recent quotations over the counter were at 160 - 180% of par (ex-rights).

3.02 TSKB is currently increasing its share capital from LT 110.5 million to LT 193.4 million (LT 55.3 million in the form of a rights issue and LT 27.6 million as bonus shares). All the principal shareholders, including IFC 1/, exercised their rights. The payments are to be completed by the end of 1972. After the increase, the proportionate holdings of the principal shareholders will remain unchanged.

Board

3.03 There have been a few changes in TSKB's Board. Annex 2b shows the composition of the present Board. A significant change was the resignation, in June 1971, of Mr. Bulent Yazici, TSKB's Managing Director. He became Chairman of the Akbank, a large commercial bank. Mr. Yazici had been

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1/ IFC aims at selling the newly acquired shares, and others from its earlier holdings in TSKB. It has asked TSKB's support for sales in Turkey, and is on its own endeavoring to sell to foreign purchasers. It has just obtained indications of interest from a European and a Japanese bank.

associated with TSKB since its founding in 1950 and was an important factor in TSKB's growth to its present stature. There were two changes in the Board since the last Bank loan in that Mr. Dicleli, former Minister of Economics, was elected to the Board in July 1971, to fill the seat vacated by Mr. Yazici. In March 1972, 8 of the 9 directors were re-elected for another three-year term. The new Director is Mr. Nazmi Karakoc, formerly Commander-in-Chief for Land Forces in Turkey. Mr. Basmaci, General Manager of Turkiye Is Bankasi, the country's leading bank, continues to be the Board Chairman. The Board is an active one, meeting twice a month and considers all applications above $50,000 equivalent. Traditionally, TSKB's Board has paid particular attention to the financial soundness of projects to be financed by TSKB. Less efforts however were made in the Board to promote TSKB's developmental objectives which would have possibly implied taking a greater risk. This posture is changing now.

Management and Staff

3.04 Upon Mr. Yazici's departure, Mr. Resid Egeli, General Manager, became the top executive in charge of day-to-day operations. The position of Managing Director was then abolished. Mr. Egeli has also been associated with TSKB since its founding.

3.05 In January 1971, TSKB initiated organizational changes, especially in its appraisal work. There were two important changes: a widening and regrouping of the project appraisal set-up, the expansion of TSKB's Izmir office and establishment of new departments to carry out tasks of promotion and geographical diversification. The main effect of these changes is discussed in paragraph 3.08. TSKB's organization chart is attached as Annex 3.

3.06 TSKB's reorganization and its expectation that TSKB may in future have to cope with more business, resulted in some staff increases. TSKB has now a staff of 224, including 104 professionals, 80 non-professionals and 40 general services personnel. Generally, TSKB has been able to attract and to hold competent people; its staff turnover has been very low in the past and is expected to remain so in the future.

Policies and Procedure

3.07 TSKB's Statement of Policies is shown in Annex 4. TSKB has been operating almost exclusively in support of industry and under the same formally established policies for about five years, including all of the original general guidelines, set in 1950. TSKB's Board and management have in practice interpreted these policies by making, in general, prudent and profitable investments. TSKB has observed its policy limits, including, since share capital was increased, the maximum exposure it can take in a single enterprise (about $7 million equivalent). Now there is a proposal for TSKB to widen its operating scope: TSKB has never financed any tourism projects in the past. Following a comprehensive staff study, TSKB's Board decided on May 26, 1972 to start financing the tourism sector if TSKB could mobilize resources on appropriate terms and in sufficient volume to that end. This decision was influenced by the expectation that Turkey has a large potential in tourism which can be exploited in the coming years, and that the financing of this sector deserves more systematic efforts and action than has been made by private or public sector financial institutions to date. The sector's contribution has not yet, as far as we know, resulted in any significant action. Although TSKB's organization will easily incorporate an appropriate section of tourism experts, the availability of resources for this sector would at least for some time constrain TSKB's impact. Clearly, TSKB is not likely to become an important tourism financier in the near future.

3.08 Project Appraisal. TSKB's appraisal staff is performing competently; indeed its effectiveness has even improved since the 1971 reorganization. The earlier existing three appraisal groups (engineering, financial analysis and economic analysis) which had been operating separately from one another, though under one Assistant General Manager, now work together. For each project, a working party consisting of one staff member from each group, is formed. Instead of preparing separate reports covering the financial, engineering and economic aspects of the projects - as was done in the past - the working party now prepares a single integrated appraisal report for each project. Though TSKB experienced a few teething troubles in setting up the new system, there is already evidence that reports prepared since have shown greater internal consistency in presentation, and that earlier encountered shortcomings and duplications have been considerably reduced. In other words, there are signs that TSKB's good appraisal standards have been upgraded further.

3.09 Since early 1968, TSKB has been making an explicit economic review of the impact of the projects it finances. During negotiations for the 1970 Bank Loan, TSKB agreed to employ effective rate of protection calculations. Though several features during much of the recent decade, such as protection, the generous investment incentives available to Turkish industry, and relatively limited export results, would lead one to believe that Turkish enterprises would not be strongly compelled to operate efficiently, TSKB projects submitted to the Bank over the past two years showed only rarely an effective rate of protection of more than 15% 1/. Consequenly, TSKB has, in recent years, been financing reasonably competitive projects. Furthermore, TSKB has rejected over the past two years four projects because of the level of effective protection. But more importantly, TSKB has given considerable assistance to sponsors to improve the competitiveness of their projects so that their economic justification will become satisfactory. The Special Studies Mission is to review thoroughly this aspect of TSKB's work.

3.10 Altogether, since about a year or two, TSKB has pursued its developmental objectives in a more pronounced fashion. No statistical link can yet be established between the two phenomena, but TSKB has opened branches in

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1/ After adjustment to a notional maximum return on capital of 15% p.a. A number of TSKB projects presented to the Bank have considerably higher projected financial returns and therefore show higher rates of effective protection.

Izmir and Adana and it also has increased the proportion of total financing in these areas, as compared to earlier years. TSKB's management, at the request of its Board, is now actively considering the possibility of opening up another branch in the Eastern part of Turkey, for the sole purpose of financing projects in backward regions. Also, since the end of 1971, TSKB has been working on a systematic promotion program in Anatolia: Some twenty projects, in areas so far not served by TSKB, have already been identified and TSKB is now trying to interest prospective investors in sponsoring these projects; there are indications that TSKB will, in part, be successful. Although there is no tangible action as yet, TSKB, as noted in paragraph 3.07, has decided to finance tourism projects. And finally, there is an increasing emphasis in TSKB's project selection, not only on the financial viability, but also on the economic justification of its projects.

3.11 During negotiations in 1970, TSKB also agreed that it would give special attention to the identification and financing of projects which are export-oriented. In 1971, TSKB approved loans totalling $9 million corresponding to 29% of its total loan approvals, for financing 10 export-oriented projects. Eight of the projects will export more than 25% of their output at full production. During the first six months of 1972, TSKB approved nine export-oriented projects, calling for loans of $11.3 million which represent 44% of its total approvals. All these projects are to export more than 25% of their output. This is a welcome trend.

Project Supervision

3.12 TSKB's Follow-Up Department was not affected by the 1971 reorganization. It continues to concentrate on the end-use work with a staff of 8 financial analysts and 2 civil engineers. Apart from examining the reports regularly submitted by the borrowers, the staff visits, at least once a year 1/, all the borrowers and the companies in which TSKB holds shares. The Department's reports are adequate in presenting the progress of the projects and the conditions of the borrowers. They have been found a useful tool to TSKB's management, as well as an important source of information about TSKB's clients and operations, particularly by TSKB's creditors in the supervision of their loans to TSKB and in making sectoral studies. The Department's work is an input in the appraisal of repeat clients. This Department has served as a useful information source in the preparation of the Bank's present Special Studies Mission to TSKB.

3.13 Disbursements. TSKB has established disbursement procedures which are intended to ensure that payments are made for only approved construction, equipment and services, and against satisfactory evidence of procurement. Since the Follow-Up Department follows the progress of each project, disbursements on construction, machinery and installation are made after clearance with that Department. For imports of equipment, letters of credit are usually issued on behalf of the borrower by TSKB, after the pro-forma invoices have

1/ In 1971, a total of 540 reports were examined and 300 visits made, including 23 visits to companies in which TSKB is a shareholder.

been approved by the engineers. Overall, TSKB has a carefully run disbursement system.

3.14 Procurement. TSKB's clients are not required to follow international competitive bidding procedures in procurement. However, they are asked to submit offers (pro forma invoices) from different suppliers with an explanation of the reasons for their choice. TSKB's engineers review the offers carefully to ensure the procurement by its clients of suitable machinery most economically. In a number of cases, TSKB advise the clients as to the best sources of procurement, but the final decision is made by the cliients. For expansion projects, the range of choice is much narrower. Even in such cases, the clients are encouraged to compare offers. TSKB's procurement procedures seem appropriate and there is considerable evidence that it has contributed to the overall quality of TSKB's projects.

Resources

3.15 Annex 5 shows TSKB's resource position as of September 30, 1972. Since its founding in 1950, TSKB has raised resources totalling $201.3 million and LT 808 million. Calculated on the basis of the current rate of exchange, the total resources amounted to $259 million equivalent, with foreign currency loans constituting 78%, local currency loans 14% and equity 8% of the total. The Bank Group has provided 49% of the total resources of the company. As of September 30, 1972 TSKB's resources invested or available for investment were as follows:

	LT million
Equity	286.0
Outstanding Loans:	
Local currency	477.9
Foreign currency 1/	1,412.9
Loans not yet drawn down	536.4
	2,713.2

3.16 Foreign currency resources. Up to 1965, IBRD/IDA had been virtually the only source of foreign currency funds for TSKB. Since then the European Investment Bank, US AID and KfW have lent to TSKB. As of September 30, 1972, the Bank's share has dropped to 63.6% of TSKB's aggregate foreign currency borrowings as shown below.

	Amount (US$ million)	Percentage
IBRD/IDA	128.0	63.6
European Investment Bank	29.9	14.9
AID/DLF (US Government)	22.5	11.1
Kreditanstalt fur Wiederaufbau	20.9	10.4
	201.3	100.0

1/ As of June 30, 1972, the IBRD and IDA together accounted for 37% of TSKB's long-term resources on a balance sheet basis.

3.17 USAID discontinued making loans to industry in Turkey in 1968. In 1971, no new funds came from sources other than the Bank because of normal delays in executing loan agreements between the Turkish Government and the German authorities and EIB. In May 1972, a loan of DM 25 million was extended to TSKB by KfW. TSKB has applied for a new loan of US$15 million from EIB, but it is not expected to be available before mid-1973.

3.18 TSKB has had, since the last Bank loan, some discussions about the prospects of tapping private sources overseas. During the past year, it has contacted important banks in USA, Europe and Japan, as well as IFC, to raise appropriate resources. Two possibilities now seem open to TSKB. First, it could raise Eurodollar loans for 5-7 years at fluctuating interest rates from large U.S. and European banks. Also, following an IFC initiative and tentative offers from European and Japanese banks, TSKB might be able to raise Euro currency funds with fixed interest terms. These proposals are now under consideration by TSKB and the Government, and prospects are good that TSKB could borrow at least $5 - 10 million, in this market in the next 2 or 3 months (see para 5.13).

3.19 Local currency resources. The Government has been TSKB's principal source of local currency resources. However, since the Administered Funds totalling LT 368 million were converted into a subordinated loan in 1966, additional loans extended by the Government have been relatively small. Therefore, TSKB relied mainly on internal cash generation to finance its local currency operations. This situation has restrained TSKB's growth.

3.20 The only fresh local currency borrowing in 1971 was a new Government loan of LT 45 million which is the re-use of local currency counterparts of an EIB loan which TSKB had already repaid to the Government. As of September 30, 1972, eight loans from the Government, totalling LT 497.3 million, were still outstanding, they constituted 61.5% of TSKB's total local currency resources. By December 1972, TSKB will receive two-thirds, LT 55.3 million, of the share capital increase (see paragraph 3.02) which will then be paid by its shareholders in cash. (The remaining one-third of this increase will be in the form of bonus shares).

3.21 TSKB has also been trying to broaden its sources of supply of local currency resources. However, the ceiling on TSKB's lending rate has been a constraint to its borrowings in the domestic market. Although, following the change in the interest rate structure in 1970, TSKB's maximum lending rate allowed by the Government on its long-term loans was increased from 9% to 12% 1/, it is still lower than the cost of long-term bond issues, which has a coupon rate of 15% at present 2/. In such circumstances, TSKB has not attempted to sell bonds on its own account. However, it has endeavoured in recent years to mobilize resources for industry by

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1/ The effective cost to TSKB's borrowers is 15%, because they pay 25% expenditure tax on interest.

2/ If bonds are guaranteed by TSKB, the effective cost to the issuing companies is 18% not including advertising expenses.

underwriting or guaranteeing bonds issued by industrial firms. For itself, TSKB has raised funds by sales from its equity portfolio. As of June 30, 1972, the total bonds guaranteed amounted to LT 145 million (18 issues), while cumulative sales from its equity portfolio totalled LT 130.5 million. Bond issues guaranteed by TSKB dwindled since September 1971 until mid-1972 when the bond market remained stagnant. Since June 1972 however, TSKB's business in the field has picked up and TSKB expects to reach its LT 50 million underwriting target for 1972. The interest rate matter is discussed further in paragraphs 4.12 - 4.14 and 5.16.

IV. OPERATIONS, PORTFOLIO AND FINANCIAL POSITION

Operations

4.01 Annex 6 contains a summary of TSKB's lending, equity investment and guarantee operations in 1968-1971 and the first nine months of 1972. Equity operations are being discussed ahead of TSKB's lending activities. They accounted for 8% of TSKB's total annual commitments in 1971.

4.02 Equity Investments. On June 30, 1971, TSKB's equity portfolio consisted of shares of 31 firms at a total cost of LT 133.5 million (Annex 10). The largest investment, amounting to LT 31 million, is in the Karadeniz Bakir copper mine complex. This is within the limit set in TSKB's policy for equity investments in any one company - 5% of its equity and the Government subordinated loan, or LT 32.7 million at present. The industrial distribution of TSKB's equity investments is less diversified than its loans. Commitments in the metal industry totalled LT 50.2 million, corresponding to 37.6% of the portfolio. Commitments in the cement industry were the second heaviest, amounting to LT 17 million or 12.8% of its portfolio.

4.03 In 1971, TSKB made investments in three new companies and four existing clients, totalling LT 24.7 million, compared with LT 5.9 million in 1970. In the first half of 1972, TSKB subscribed shares of only one new company and exercised its preemptive rights in four existing companies, the total equity investments amounting to LT20.9 million. One factor which has tended to limit equity purchases is that TSKB will not give repurchase options to existing companies; i.e. it will only take equities that it can sell to the investing public later on.

4.04 TSKB's equity portfolio is somewhat less than one-half of its net worth as of June 30, 1972. This is a low percentage. The low level of equity investment is a reflection of industrial companies' preferences to sell to family members. But it would be surprising if there were not room for more TSKB equity purchases in a growing economy, were it not alone to shore up the borrowing base of new companies especially in outlying regions. The prospects for TSKB to operate more significantly in equity purchases are limited in the near future at least until TSKB succeeds in convincing family held corporations that its investment in their equity is to their advantage. Equity purchases, however, should become now an important objective in TSKB's financing. TSKB plans to intensify its efforts in this respect, and therefore agreed during negotiations to determine its limit on total equity investments in future as a percentage of its own net worth, rather than, as in the past, at a fixed level (LT 175 million since 1966).

4.05 Lending. Except for 1971, variations in the levels of TSKB's approvals and commitments in recent years have been more a function of the availability of funds to TSKB than the level of activity in the private sector. In 1969, when the investment climate was good, lending volume reached the lowest level in seven years. In 1970, foreign currency lending increased substantially but local currency lending remained at a low level 1/. In 1971, lira loan approvals increased sharply to LT 140.6 million, with the availability of funds. Foreign currency loans in 1971 totalled $21.6 million. While maintaining the level reached in the previous years, they were 40% below forecast, mainly because the Government then completely suspended issuing industrial investment certificates requiring foreign exchange for imported equipment. For the first nine months of 1972, foreign currency loans amounted to $24.4 million and local currency loans to LT 170.5 million. At an annual rate, this is 57% higher than the level reached in 1971.

4.06 Characteristics of lending operations. Analyses of loans approved in terms of industry, size and geographical distribution are included in Annexes 7, 8 and 9.

4.07 TSKB's lending is well diversified among various industries and reflects the pattern of investment activity of private industry. Given the high demand for TSKB's financing, in past years it appears that TSKB has merely reacted to projects coming its way and has chosen among them those it considered to be the better ones. But TSKB has had an influence on the nature of its projects. TSKB's technical staff have the expertise and experience in assisting the sponsors of projects to make improvements. In a number of cases, the sponsors revised their projects on the basis of TSKB's recommendations before financial assistance was made available to them. TSKB has also conducted sector studies and such studies shed more light on the overall conditions of various branches of industry. This has enabled the staff to give useful advices to the existing clients for rationalization of their plants as well as sponsors of new projects for installing the most appropriate equipment to produce competitive products.

4.08 During the 4-1/2 year period from January 1968 to June 1972, the textile industry received the largest amount of financing, about 30% of the total. (In the first six months of 1972, 75% of TSKB's foreign currency loans and 18% of its local currency loans were made to finance textile projects whose sponsors are investing heavily in view of good exports prospects.) Glass manufacturers received the second largest proportion, about

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1/ An important factor for the low lira loans in 1970 was TSKB's decision to build up a LT 70 million cash reserve in anticipation of the effect of a currency devaluation which was expected to strain its liquidity.

13%. Metal smelting, metal goods, chemicals took up each between 7 and 8%. Other industrial categories have each received less than 6% of TSKB's financing.

4.09 The average size of TSKB's loans approved increased from LT 2.4 million in 1969 to LT 5.6 million in 1971 and to LT 8.4 million in the first half of 1972. While the effect of the 40% devaluation in August 1970 needs to be taken into account, it is clear that TSKB's loans are on the average getting larger. In the past, the Bank had been concerned that TSKB's lending included a large number of small loans to relatively large companies, mainly based on the need for foreign exchange to procure replacement equipment rather than a legitimate credit need for increasing productive capacities. Since the last Bank loan was made, TSKB has tightened its criteria to ensure that its loans were in support of significant investment projects with real financing needs, eliminating the piece-meal financing as was done in a number of cases in the past. TSKB's efforts in this direction have been reasonably successful. They were helped partly by the greatly improved balance of payments situation in Turkey which enabled firms, just seeking foreign exchange, to obtain required allocations from the Government for importing capital equipment.

4.10 TSKB's business has been for years centered in the Marmara Sea region which includes Istanbul. The Bank has viewed the Istanbul orientation with great concern, and during the 1970 Loan negotiations, has pointed to Turkey's need for greater geographic dispersion of industry and urged that TSKB take more initiative in finding and preparing projects in other areas of the country. TSKB expanded its Izmir Office in early 1971 to enable it to identify and appraise projects in the Agean Sea Region. This office has now one full appraisal team. A second office in Adana has just been opened. Moreover, TSKB set up two new departments, i.e. Research and Regional Development and Promotion, which conduct studies and actively search for projects in the less developed regions. Since 1971, significant geographical dispersion has been achieved. Loans approved in the Marmara Sea Region accounted for 53.8% of total lending in 1971 and 57.7% in the first half of 1972 compared with an average of 81% in the previous three years. The promotional efforts by its expanded Izmir Branch appear already to yield results. During the first six months of 1972, TSKB's lending to Agean Sea Region increased to 19% from 8.5% in 1970 and 4% in 1971. However, many projects identified by the Branch are not big enough to be eligible for financing under TSKB's present policy of not financing projects below $50,000 or LT 250,000. Given TSKB's objective to diversify its geographic impact in Turkey, the policy limit of $50,000 may be too high outside Istanbul. However, TSKB is likely to consider some exceptions for financing granted through its branches in Izmir and Adana and in Turkey's backward regions.

4.11 In 1971, 68% of TSKB's loans were extended to eight new companies or to existing clients for making new products, compared with 46% in 1970. In the past three or four years, 3,500 - 4,000 new jobs have been created each year by the projects financed by TSKB, and the capital employed for jobs so created amounted in recent years to about $15 - 20,000 equivalent per job. TSKB projects accounted for about 5% of the annual increase in employment in the industrial sector.

4.12 Interest rates. TSKB has been charging interest at 12% p.a. on both foreign and local currency loans since early November, 1970. By agreement with the Government, TSKB is allowed to maintain certain spreads on loans from the Government (4-1/2% on the subordinated loan and 2-1/2% on other general purpose loans). Any increment on the spread resulting from interest rate adjustment has to be passed on to the Government. However, no Government agreement with TSKB in respect of Bank loans to TSKB include such a condition. Thus, after the interest rate structure was changed, TSKB's spread on the most recent Bank loan went up to 4-3/4%, compared with 2-1/2% under the previous loan. There is therefore the question about the appropriateness of a potentially very large spread earned by TSKB on a fresh Bank loan if the present Bank standard rate were maintained. For reasons further detailed in paragraph 5.16 it is proposed that TSKB be allowed to continue earning the 4-3/4% spread because such spread would help TSKB to develop and accelerate its promotional activities with respect to industry in underdeveloped regions and to tourism. On a weighted average basis, TSKB's spread on all its resources outstanding as of mid 1972 was 3.4% p.a.

4.13 Another feature of TSKB's interest rate is the continuing subsidy element in the cost of its long-term lira lending, even after the upward adjustment in 1970. Although this rate adjustment has helped to bring rates more in line with market conditions, the present regime which curtails TSKB's lending rates is still not a reflection of market forces. Considering the effect of the expenditure tax,1/ long-term funds (local and foreign exchange) lent by TSKB have an effective cost of 15% as against a cost of long-term funds in the Turkish market in the neighborhood of 18-19%. (Annex 1.) In fact, the cost of TSKB lira funds is, in the past two years, just keeping pace with general price increases. The Bank should therefore continue its efforts to bring about a greater reflection of domestic market forces in the Turkish interest rate structure.

1/ The tax system, which levies on the interest of loans to industry a 25% expenditure tax, also applies to borrowings of banks or financial institutions such as TSKB from other banks, thus preventing any sizeable expansion of an inter-bank money market. If the Government agreed to forego the tax on borrowings, TSKB would be able to borrow medium-term from commercial banks at a rate which would leave TSKB a small positive spread.
A withholding tax of 20% is levied on interest received by foreign lenders, and TSKB may have to assume this tax burden in order to make the yield to foreign lenders attractive. Given the lower rates prevailing at present for term money from foreign banks, TSKB's earnings prospects on euro-currency loans would be higher, if the Government permitted TSKB access to these resources and were to forego the withholding tax, and the incentives for TSKB to borrow in the euro-market at flexible rates of interest would be enhanced.

4.14 In any event, the cost of funds lent by TSKB is an incentive for industrial entrepreneurs to have recourse to term borrowings in liras. But Turkey's entrepreneurs also continue to seek actively, for economically attractive projects, foreign currency term loans from TSKB, which have an effective cost of 15% and for which borrowers have to carry the foreign exchange risk.

Quality of Portfolio

4.15 As of June 30, 1972, TSKB had a portfolio of LT 1.9 billion consisting of local currency loans amounting to LT 0.4 billion, foreign currency loans of US$96.2 million (LT 1.4 billion) and equity investment of LT 0.1 billion. Even taking account of a 21% exposure in textiles TSKB's portfolio is well diversified and overall seems sound. (Annex 7b gives the sectoral distribution of TSKB's portfolio.)

4.16 Loans in arrears. (Annex 11). After the August 1970 devaluation arrears on TSKB's loans went up sharply because many of its clients, especially the recipients of foreign currency loans, encountered liquidity difficulties. At the end of 1970, total arrears of three months or more amounted to LT 48.9 million. The total outstanding amount of the loans in arrears over three months was LT 240.7 million, about 15% of the loan portfolio. As of June 30, 1972, arrears in absolute amounts have worsened, despite TSKB's seemingly intensive efforts in collections. Total arrears of three months or more reached LT 77.7 million, including LT 48.7 million of principal arrears and LT 29 million on interest arrears. However, the outstanding amount of loans affected by arrears over three months was LT 181 million, representing 10.3% of the loan portfolio, a lesser percentage than at the end of 1970. TSKB's portfolio is sound and loans in arrears appear more than adequately covered by collateral. Overall provisions for possible losses on loans, amounting to LT 24.3 million at December 31, 1971, are adequate.

4.17 Equity portfolio. (Annex 10) Thirteen companies of the 31 companies in which TSKB has invested paid dividends in 1971. The dividend yield on the dividend-earning investments was 10.5% which does not seem high considering the great profitability of Turkish companies. The average dividend yield on the entire portfolio was 5%. As of June 30, 1972, investments in three companies totalling about LT 4 million were in difficulty. Adequate provisions have been made for possible losses on these loans. According to TSKB's estimates, the potential capital gains on other shares acounted to approximately LT 60 million.

Financial Performance and Position

4.18 Profitability. TSKB's earning performance has been good historically and has further improved since the allowable maximum rate on long-term loans was increased following the August 1970 devaluation. TSKB's profit and loss statements in recent years are included in Annex 12. In 1971 profits after tax and after provisions were equivalent to 18.2% on average net worth compared with 17.4% in 1970 and 19.0% in 1969.

4.19 Administrative expenses have been rising in recent years. The overall increase in 1971 was 17%. Personnel expenses alone rose 25%, which was attributable to salary increases taking effect on January 1, 1971 and the employment of new personnel. In 1971 the administrative expenses represented 1.6% of average total assets. In the first six months of 1972, personnel expenses showed an annual increase of 12.6%, due to further salary adjustment. Every year 2-1/2% and 5% respectively of undistributed profits have been paid to directors and employees as year-end bonuses, according to TSKB's Statutes.

4.20 TSKB has been paying a 12% dividend since 1954. In 1971, this amounted to a 38% distribution of earnings, compared with 43% in 1970. The present dividend yield on TSKB's shares at a market price is low namely about 7%. Average yields over time have been much improved by bonus shares in 1969 and 1972 and rights issues at subscription prices below market prices in 1967, 1969 and 1972.

4.21 Financial position. Balance sheets of TSKB in recent years are given in Annex 13. TSKB's total assets increased sharply (51%) during 1970, mainly due to the upward adjustment of foreign currency loans following the devaluation. (Without the devaluation, the growth would have been 14%.) Total assets further increased by 11% in 1971, and 3% in the first half of 1972. At June 30, 1972, the loan portfolio made up 80% and equity portfolio 6% of total assets. Liquid funds amounted to LT 149.5 million, or 6.8% of total assets. These yield 6-9% interest income. At this date total long-term borrowings and guarantees amounted to 7.3 times net worth, compared with 8.3 times at the end of 1971. The borrowing limit ratio calculated in accordance with the definition in the last Loan Agreement was 3.0:1 as against 4:1 maximum specified in the Agreement 1/. By the end of the year when the new shares issued have been fully paid up, TSKB's debt/equity ratio will drop further. Free reserves as of June 30, 1972, amounted to 8.0% of TSKB's total portfolio and outstanding guarantees. The book value of a TSKB share is 218% of par.

V. TSKB'S PROSPECTS

Growth Perspectives of Private Industrial Investment

5.01 Since early 1972 investors' interest has been resuscitated and fresh industrial investment decisions have picked up. This comes as a result of the recent encouraging attitude of the Turkish Government to private investments and the revival, early in 1972, of industrial investment incentive schemes. The total amount of private investment proposals submitted for approval to the Government increased from LT 5.5 billion at the beginning of February 1972, to over LT 40 billion by mid-1972. This should lead,

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1/ In calculating the debt/equity as defined in the Bank Loan Agreement, the maturities of the Government subordinated loan due prior to the last maturity of the latest Bank loan are treated as "debt" and the balance as "equity".

according to preliminary estimates, to actual industrial investment in 1973 at a total of LT 8 billion, compared with an actual LT 4.9 billion for 1971 and an expected, and well supported, LT 6.7 billion for 1972. A new bill covering the package of incentives to the private manufacturing industry is now being considered by the Parliament and is expected to be passed soon. Against this background, TSKB expects that there will be a rising trend in Turkey of substantial private industrial investment over the next few years.

5.02 Underlying TSKB's business projections is an expected increase in private industrial investment in the area of about 15-20% per year in the next few years. With better prospects for obtaining resources, TSKB expects to increase its share of total private industrial investment (on a disbursement basis) to 9.4% in 1973 and 13% in 1974 (compared with 8.5% in 1971 and an estimated 8.9% in 1972). This prospect is reasonable, but to achieve this growth TSKB would indeed have to have better access to resources than in the past. In past years, TSKB financed about 20% of capital equipment imported by Turkish industry, and plans on continuing as a principal institutional borrower of foreign credit lines for such purposes. TSKB expects to have access to substantial borrowings in lira, some at a negative spread and some from commercial banks particularly if the Government removes the tax payable on such borrowings. If TSKB obtains the resources it believes it needs, TSKB's expectations to do business at the projected level have good prospects.

Projected Operations

5.03 Over the next five years, 1973-1977, TSKB expects its total commitments to reach LT 8.6 billion. This figure includes LT 5.3 billion to finance imports and LT 3.3 billion to finance construction of plant buildings and purchase of local equipment. The level of projected commitments for the next five years represents an increase of 300% over the past five years. A forecast of operations for the period 1972-77 is shown in Annex 14. Loan applications which TSKB actively considered on October 15, 1972 amounted to approximately $22 million of foreign currency loans and LT 184 million for local currency.

5.04 Assuming no serious resource constraint and taking into account the possible up-surge in demand resulting from new incentive measures, TSKB's foreign currency loan commitments are expected to reach $28 million in 1972, $55 million in 1973 and $65 million in 1974. For comparison, the average annual commitments in 1969-1971 was around $20 million and that in the first nine months of 1972 was $25 million.

5.05 In the short run (1973-74), TSKB's program looks ambitious, but it is well supported by several factors. First, the economy and particularly manufacturing are expanding faster than in the past, thanks to good prospects in export-oriented industries and the important incentive packages which are likely to be approved by Parliament. Second, the curb that the Government intends to put on suppliers credits would automatically, as evidenced already in specific cases, benefit TSKB. Third, TSKB's decision to finance tourism would bring it new business which would be responsible for about 10% of the projected growth over the five-year period. Finally, although the share of such programs in TSKB's total forecast growth may not be very large in the first one or two years, TSKB's development programs in backward regions and through its new branches in Ismir and Adana would also provide a significant share of business. During the years 1975-1977, TSKB expects its commitments to rise further, though not as sharply. Given sufficient resources, TSKB should be able to increase its commitments by $10 million a year in this period.

5.06 As to local currency loans, commitments are expected to rise from LT 106.5 million in 1971 to LT 138 million in 1972, to LT 350 million in 1973 and then to rise to about LT 550 million in 1974 and to increase by LT 100 million a year during 1975-1977. Under the arrangements proposed in paragraph 5.15, TSKB should be able to raise starting 1973 lira funds in the local market to accommodate the projected increase in lira lending. In the latter, tourism financing is estimated to account for LT 75-125 million a year during the projected period, constituting, on the average about 17% of TSKB total lira commitments. 1/ The average annual increase projected for all loans would be about 18% for the five-year period, a percentage that would find support in the expected growth rate for industrial investment.

5.07 Equity investments are projected to rise at an average of 7% per year in the five-year period, reaching LT 40 million in 1977. The projected growth appears low but TSKB considers the estimate realistic. During negotiations TSKB has agreed to make particular efforts in this field.

5.08 Overall, in light of the volume of applications received in the past few months, and of the general outlook, TSKB's overall forecast operational volume appears feasible in terms of demand for TSKB's finance.

5.09 But a note of caution regarding TSKB's five-year projections is indicated. This concern relates not to a lack of aggregate demand for term lending, but to possibly competition from other sources of foreign exchange and a potential shortage of local currency resources at measurable costs. As for foreign exchange there is the potential of increased availability of suppliers' credits. However, the Government has indicated that it would wish to keep the annual inflow of such credits at about the same level as in 1972 ($30-40 million); this is, therefore, not likely to contribute to a significant decrease in demand for TSKB's foreign exchange lending. There is also, as a result of the large foreign exchange influx in 1971 and 1972, a source of foreign exchange for relatively short term loans extending from convertible foreign exchange deposits with Turkish commercial banks which aggregate about $200 million at present. But this capital is not available for long-term

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1/ Most hotel financing in Turkey will require local currency lending. The lending component average less than 10% of investment costs in hotels.

financing, needed most for industrial investment projects normally financed by TSKB. As to local currency financing, both the medium-term financing from commercial banks as well as the long-term loans of SYKB are likely to compete somewhat with TSKB. But the magnitutude of local long-term credit, required by the industrial and tourism private sectors suggests that TSKB would have no real difficulty to meet its project program if resources are forthcoming. Indeed, TSKB lira financing at an effective cost of 15% would remain attractive, as compared to commercial bank financing because of the longer term offered by TSKB on its loans. Also TSKB straight loan financing would be attractive to a large fraction of investors whose size and needs are not served by the bond market and because of the recognized quality of its appraisals which are often considered in Turkey as an insurance against misconception of a project. However, TSKB will have to increase its local borrowings at a negative spread until the Government reviews the interest rate structure. The volume of such borrowings, projected in Annex 17 (about LT 200 million at a 3% negative spread over the next two years), would still allow TSKB to retain a reasonable spread on the mix of its resources. On balance TSKB's projections appear realistic and it should be encouraged in its attempts to increase lending in new fields and further geographical diversifications.

Resource Requirements

5.10 To finance the volume of operations projected over the next five years, 1973-1977, TSKB would need a total of LT 8.6 billion, against which it would have LT 28 million uncommitted as of the end of 1972. TSKB's total resource gap, over the next five years, includes LT 5.2 billion to finance imports and LT 3.3 billion to finance local currency expenditures. The financing of these two resource gaps is considered in the following paragraphs.

5.11 Foreign Exchange. By the end of 1972, the uncommitted balance of foreign exchange resources would be approximately $2 million (USAID and KfW funds only). In 1973-1974, TSKB expects to obtain two EIB loans of $15 million each and two KfW loans of DM 25 M.($7.8 million) each. With projected commitments totalling $120 million for 1973 and 1974, the resource gap in foreign currency would be around $72 million.

5.12 To finance the entire gap with Bank funds would be inadvisable. The Bank's involvement in TSKB's foreign resources reached 64% at the end of September 1972. It is advisable to reduce this exposure in TSKB and to move TSKB more pointedly to private foreign financing sources. During the 1970 loan negotiations the Bank pressed TSKB to endeavor diversifying the sources of its resources. TSKB has not yet succeeded in this regard. However, TSKB's inability in the last two years to tap other sources did not harm its business significantly because its operations were affected by the general deterioration in Turkey's investment climate in 1971. But now, the general outlook is for a considerable rise in industrial investment. With foreign aid sources, other than the Bank, unlikely to come through in substantial amounts, TSKB needs to go to the international market.

5.13 TSKB started serious discussions with the Government about raising funds in the Eurodollar market more than a year ago. The Government is now prepared to permit TSKB to seek Euro currency funds from various foreign banks, either at a fixed or variable interest rates. IFC has offered to help TSKB raise capital in this fashion from a European syndicate of banks in which IFC plans to participate. Such financing in an amount of about $10 million would seem to be available at fixed or flexible interest rates for 5-10 years. Further operations of this kind could be envisaged over the next two or three years. Overall, TSKB expects to be able to raise $25 million from such sources in the next two years, thus leaving a net resource gap of some $48 million. In fact, the gap could be higher since there remains some uncertainty about the availability of the EIB loan expected in 1974, in which case the resource gap could increase to $63 million. Still, the Bank should not consider a loan in excess of $40 million, because, TSKB's intention to put more effort in developmental financing and to raise euro-currency capital have still to be tested Although the outlook is bright, the economic progress accomplished over the past months in large part following to Government's efforts to support industry, are still to be firmed up. In many ways, both Turkey and TSKB are in a transition period and while the Bank should maintain its support to TSKB, the proposed loan should cover only part of TSKB's needs over the next two years. A $40 million loan should thus enable TSKB to meet the major part of its resource gap in foreign exchange and to carry its foreign currency commitments through the latter part of 1974. Also, a loan of this size would put further pressure on TSKB to make efforts to raise funds elsewhere, particularly in the Euro-currency market, so that the potential foreign exchange resource gap can be met.

5.14 Local Currency. A major problem for TSKB continues to be to find enough lira funds on a sustained basis. Part of TSKB's role in financing industry in local currency has been met, however, in underwriting and guaranteeing bond issues of its clients. This type of financing is useful and it is likely to continue (ranging on the average about LT 70 million per year), but it is expensive to TSKB's borrowers. Direct local currency financing is important and TSKB needs to assure itself in the future of untrammeled access to lira resources for that purpose. The schemes reviewed in paragraph 5.15 should go a long way to provide TSKB with such resources.

5.15 TSKB's available local currency resources were fully committed by September 30, 1972. The share capital increase approved in May 1972 will this year result in new funds of about LT 55 million. Together with net cash generation, this amount should cover TSKB's local currency commitments in 1972. In 1973-74, TSKB expects to receive lira loans totalling LT 150 million from the Government representing re-use of repayments of EIB loans. Net cash generation for the two years would amount to LT 250 million. Other relatively firm resources for commitment would be LT 175 million. TSKB has already approached the Government for local currency borrowings to meet specifically the needs for tourism financing (LT 175 million over 1973-1974). It is not clear whether this request will meet with success. However, it is clear that without funds at concessionary terms for financing the tourism sector, TSKB's operations in this sector will have to be considerably curtailed because tourism projects are not yielding high profits, particularly during the initial period while their return to the economy is attractive.[1/] With projected commitments totalling LT 900 million for 1973 and 1974, the resource gap in local currency would be around LT 325 million. To meet the resource gap in its industrial financing, TSKB is prepared to float bond issues to the order of LT 150-200 million in the next two years at a cost which will be above its lending rate (approximately 15% p.a.). Given TSKB's prominent position in the bond market, there should be no problem to float its own bonds for the projected amounts.

Interest Rate

5.16 TSKB plans to mobilize a substantial amount of resources in lira to meet the expected rise in demand for local currency borrowings over the next two years. However, as TSKB's efforts to promote smaller, less foreign exchange intensive industries, and to diversify geographically succeed, resource needs in local currency must become very substantial indeed and TSKB cannot reasonably be expected to borrow local currency resources indefinitely at a large negative spread. It is thus urgent that the Government complete its review of interest rate structures in Turkey and adopt measures designed to bring lending and borrowing rates into better balance, and thereby facilitate TSKB's and other term financing institutions' resource mobilization efforts at home and abroad. During negotiations, the Bank has expressed its concern in this regard and intends to pursue this matter further with the Government. A satisfactory interest rate structure, which would enable TSKB and other institutions to mobilize the resources needed to accomplish their objectives, would be an important consideration at the time TSKB may request further financing from the Bank.

Prospects for Promotion

5.17 Under the prevailing interest rate structure TSKB would be left with a substantial spread on the Bank funds.[2/] Part of such a spread could either be turned away or earmarked for specific developmental purposes. The use of the spread has been reviewed with TSKB during negotiations and TSKB has agreed to set aside a substantial part it may earn on Bank funds for a special effort to promote industrial development in Turkey's backward areas and investment in tourism. While there may well be some pressure on TSKB's interest rates on foreign exchange, resulting in a possible reduction of the spread on the proposed Bank loan before it is fully committed, TSKB has nevertheless agreed to earmark at least 25% of the spread[3/] it would earn on the proposed

1/ Loans for hotel development granted by the State-owned Tourism Bank are charging a maximum interest rate of 9% p.a. (less in specific tourism development regions).

2/ For the Bank's position on interest rates of DFC's and profits derived from spreads on Bank funds see SEC M70-149, particularly paragraphs 9/10.

3/ At the present expected spread of 4.75% p.a., TSKB would thus set aside 1.19% p.a. If the spread decreased by 1% to 3.75% p.a. TSKB would set aside not less than 0.94% p.a.

loan to finance promotion expenses for specific and special development programs; these expenses would be in addition to TSKB's normal administrative and promotional expenses. The funds so set aside and used for promotional activities would be separately recorded in a memorandum account.

5.18 The program has yet to be formulated, but TSKB has agreed to review the scope for promotion in Turkey and to identify areas where its promotion efforts would be most useful (e.g., identification of projects in Eastern Turkey, creation of new branches, etc.). TSKB would prepare a full report to the Bank, including a detailed promotion program, and would seek the Bank's approval of such a program within nine months after the proposed loan is signed. This review would take place at a time when the findings of the Special Studies Mission would be available, thus providing a better measure of TSKB's potential for an increased developmental orientation of its activities.

5.19 The agreement reached with TSKB during negotiations on the use of the spread derived from the Bank resources provides a welcome opportunity to reinforce TSKB's intentions to engage in new developmental efforts. While TSKB will continue to pursue its present objectives to seek profits and to finance the large industrial companies in Turkey it does nevertheless wish to expand out of the Istanbul area, where it has been very successful, and to apply its experience to other parts of Turkey where it is badly needed. TSKB is prepared both to use part of the spread it would earn from Bank funds for said promotion and to finance said developmental investments, which are likely to require less foreign and more local currency, by borrowing at rates above its own lending rate. This is an encouraging indication of TSKB's readiness to assume larger developmental responsibilities. Through further consultation and review the Bank will closely follow implementation of the promotion program.

Projected Profitability and Financial Position

5.20 Projected income statements for the years 1972-1977 are included in Annex 15. TSKB projects that it will earn an average spread of 2½% on all future resources excluding the proposed Bank loan, and taking into account borrowings in 1973 and 1974 of about LT 190 million at 15% p.a., i.e., at a negative spread to TSKB. TSKB's overall spread, which would take into account resources acquired prior to 1973, would remain above 3% p.a. over the next five years.

5.21 On this basis, TSKB's profits after tax and provisions are expected to increase from LT 52.1 million in 1972 to LT 144.3 million in 1977. The return on average net worth would range from 15.7% to 21.6% during the projected period. Estimated capital gains increasing from LT 6.2 million in 1972 to LT 12.9 million in 1977 are included in the projections. Administrative expenses including retirement provisions, are forecast to increase at an average rate of 16% but would decline as a percentage of average total assets from 1.4% in 1972 to 1.1% in 1975 and to 0.9% in 1977. Special promotional expenses to be financed specifically by the spread earned on the proposed Bank loan are estimated to be LT 2 million in 1973 and to increase by LT 1 million a year thereafter. Annual provisions for possible losses would increase from LT 1.7 million in 1972 to LT 23.1 million in 1977. Given the past experience this should provide adequate protection. Dividends on TSKB's ordinary shares are forecast to remain constant at 12%. A 50% share capital increase, from

LT 193.4 million to LT 290.1 million, is projected for 1976 but TSKB has agreed to consider advancing the contemplated share increase by one year. The dividend pay-out ratio would increase from 35% in 1972 to 48% in 1973, mainly due to the share capital increase in 1972, but would decrease to 29% in 1977. The book value of a TSKB share would increase from 167% at the end of 1972 to 255% in 1977.

5.22 Projected balance sheets through 1977 are shown in Annex 16. On the basis of the projected volume of business, TSKB's total assets would more than treble in the period 1972-77, from about LT 2,366 million ($169 million equivalent) at the end of 1972 to LT 7,912 million ($565 million equivalent) at the end of 1977. TSKB's long-term portfolio is to increase from about LT 2 billion in 1972, 82% of total assets, to LT 7.3 billion, 92% of total assets, in 1977. On its projections, TSKB would exceed the present contractual debt limit of 4:1 sometime in 1973. The quality of TSKB's portfolio is sound and is covered by good guarantees as well as by adequate provisions. In addition, TSKB's follow-up of its projects is commendable and allows TSKB to keep on top of its clients' financial situation. Finally, TSKB is liquid and will be able to maintain a reasonable debt-service coverage. Therefore, a relaxation in the present debt limit would be justified. A prudent limit will be 5:1 as defined in the Loan Agreement 713-TU. A limit of that level would require TSKB to add about LT 100 million to its net worth in 1975, the equivalent of the amount by which it now plans to increase its share capital in 1976.TSKB's present and projected profitability should ensure that such an issue will meet with success. TSKB's ratio of long-term debt to net worth would then reach a potential maximum of between 8 and 10 in the years 1973-77. An increase in share capital earlier than planned would still maintain the present dividend ratio of 12%.

5.23 Provisions for possible losses would amount to LT 31.3 million at the end of 1972, representing 1.6% of TSKB's total portfolio. By the end of 1977, such provisions would have reached LT 116.6 million, and the percentage remains about the same; at that time free reserves would have reached LT 450 million, about 6% of TSKB's portfolio and guarantees.

5.24 Projected cash flow statements for the second half of 1972, and the entire years 1973 through 1977, are given in Annex 17. These and the projected income statements show that the debt service cover would be adequate during the forecast period. Annual interest payments throughout the period range from 60% to 70% of TSKB's annual profits before financial expenses. Principal repayments by TSKB range from 73% to 80% of its annual collections. The overall debt service cover will be 1.4 times in 1972-77. Principal repayments by TSKB in respect of the Government subordinated loan will start in 1981. The annual repayment of this loan will range from LT 6.4 million to LT 7.6 million during the first 10 years. It is expected that the debt service cover would not fall below 1.2 times by the time the proposed Bank loan is fully repaid in 1987, if TSKB maintains in the future the financial balance it has traditionally adopted.

VI. CONCLUSIONS AND RECOMMENDATIONS

6.01 TSKB continues to play an important role in Turkey for financing the private industrial sector. It has been financing about 8% of total private industrial investments and about 20% of imported equipment needed by private enterprise. Since the latest Bank loan was made, TSKB has given more emphasis in identifying and financing export-oriented projects, and in seeking geographical diversification of its activities. TSKB has moved forward in the right direction but continued efforts appear necessary. Equity purchases were modest, however.

6.02 The company made further efforts to improve its organization, aiming at increasing internal coordination among staff members responsible for project appraisal. As a result, the appraisal work has been further upgraded. With a competent staff, the good standard is expected to be maintained in the future. TSKB's portfolio is sound and adequate provisions have been made over the years to cover possible losses. Although TSKB has had higher arrearages since the August 1970 devaluation, it has been making progress in improving the situation. TSKB's earnings performance has been satisfactory. It has a good dividend record, and it has been able to build up its net worth base by periodic share issues.

6.03 With the improvement of the industrial investment climate in 1972, TSKB's outlook to carry a substantial volume of operations is bright. To diversify its operations TSKB has also decided to finance the tourism sector; TSKB also expects to do more underwriting and guaranteeing of corporate bond issues. Regarding its equity investments, increases will likely be gradual and no dramatic change is expected in the near future, but TSKB should be more active in this field than in the past. This aspect has TSKB's attention. The Bank should in any event put pressure on TSKB to provide an adequate contribution to this objective.

6.04 In order to do business on a substantial scale, TSKB needs fresh resources. To date, TSKB's resource mobilization has always been a difficult problem. TSKB has been successful in raising new equity capital and has mobilized some funds through sales from its equity portfolio. But these are not too significant compared to needs. TSKB continues to look to the Bank for a substantial portion of fresh resources, but the Bank's exposure in TSKB is already great and should be reduced as TSKB now seems to be able to diversify its resources. Since other official foreign sources will provide part of the needed amounts, TSKB has decided, following Bank advice, to move forward toward tapping private foreign sources. With the help of IFC and the approval of the Turkish Government, chances of obtaining credits in the Euro-dollar markets are good. These private foreign credits may be more costly than Bank funds but the projected financial position of TSKB is such that it would be able to pay market rates for foreign financial borrowings, particularly if the government agrees to waive the witholding tax on such borrowings. The picture is more bleak as to raising new local currency resources because market costs of long-term funds in Turkev are considerably higher than TSKB's lending rate which is fixed by the Government. Until this constraint is removed,or unless the Government provides funds at concessionary terms,TSKB will not be able to tap Turkish banking sources unless it can blend lower-cost foreign exchange borrowings, including a high spread on the proposed Bank loan, with lira bond issues and local borrowings at a negative spread.

6.05 With a lesser resource constraint TSKB should be able to increase its lending and equity investments considerably. TSKB expects its commitments in the next two calendar years, 1973-1974, to about double the level reached in the two years - 1971-72. To finance the resulting foreign exchange resource gap of $73 million, TSKB expects to raise at least $25 million in the Euro-dollar markets. A proposed Bank loan of $40 million will enable TSKB to meet the major part of the remaining resource gap, and provide an incentive for TSKB to raise more of the needed funds elsewhere.

6.06 TSKB continues to be a suitable and creditworthy borrower from the Bank. It has good business prospects. A Bank loan to TSKB in the amount of US$40 million equivalent is proposed which would enable TSKB to meet an important part of its resource gap in the two-year period ending December 31, 1974. A loan in that amount will not meet all of the forecast resource gap in this period and therefore should provide enough additional incentives to TSKB to raise more foreign resources elsewhere than it currently plans to do.

6.07 The terms of the loan should be those normally applied to loans to development finance companies, including the standard commitment charge. In recognation of TSKB's recent upgrading of its project appraisal work, an increase in the free limit appears justifiable. It should be set at $1 million, as compared to the $750,000 applicable to present Bank loans to TSKB. Even with a $1 million free limit, the Bank could expect to receive for approval sub-loans totalling about 65% of the proposed loan. An aggregate free limit should be set at $12 million. TSKB's debt limit, as now defined, should be set at five times equity.

6.08 While TSKB would have the use of the relatively high spread on the proposed new loan, the Bank has obtained TSKB's assurance to undertake special efforts to expand their development activities and to endeavor to mobilize lira resources from the market either in direct borrowings, or in guaranteeing bonds amounting to at least LT 350 million in 1973 and 1974. Under the present interest rate regime, TSKB will have to incur a loss in lending out their lira resources raised at market rates. TSKB has also agreed to initiate, within nine months of the date of the Loan Agreement, in consultation with the Bank, a program for the promotion of industrial enterprises in less developed areas of Turkey, and tourism projects, and review this program with the Bank yearly thereafter. TSKB will set aside annually not less than 25% of the spread earned on the proposed new loan for meeting promotional and other costs resulting from the execution of the program.

6.09 Within the framework of the Bank's economic work in Turkey, the Bank intends to pursue the dialogue with the Government concerning the need to bring lending and borrowing rates into better balance with a view to facilitating at an early date TSKB's and other term financing institutions' resource mobilization efforts at home and abroad. As part of this dialogue, there should be an examination of the possible advantage of abandoning the 25% expenditure tax on inter-bank borrowings.

6.10 Arrangements have also been made with TSKB to review in detail with the Bank the findings of the Bank's Special Studies Mission with a view to reaching understandings concerning the operational conclusions to be drawn from the Special Studies Mission's work.

TURKIYE SINAI KALKINMA BANKASI A.S.

Cost of Capital to Industry in Turkey.

The following is a sample of principal rates applying to credits given to individual enterprises in Turkey as of September 30, 1972.

Short-term Loans	Nominal Rate	Effective Cost, including charges, etc. to Borrowers
LT loans		
General Interest Rate	11.5%	16 - 19%
Credits to preferential industries	10.5%	7 - 9.5%
Foreign currency loans		
Convertible deposits	5%	8 - 12%
Medium-term Loans		
LT loans		
TSKB loans	12%	15%
Bond issues	15%	14.5-17% if not guaranteed by TSKB2/ 19.8% if guaranteed by TSKB
Commercial banks		
General Interest Rate	12%	15%
Export guaranteed credits	10.5%	6.5%
Foreign Currency Loans		
TSKB loans	12%	15%
Suppliers credits1/	5%	9 -10%

1/ Tied to specific procurement sources

2/ Limited to very few large companies in Turkey

EMENA/DFC
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TÜRKİYE SINAÎ KALKINMA BANKASI A.Ş.

List of Shareholders as of March 10, 1972 1/

	(LT 1000)	(% of total)
I. List of Shareholders		
A. Turkish (81)		
12, each holding 2% or more of total		
Türkiye İş Bankası A.Ş.	22,984.0	20.8
Osmanlı Bankası A.Ş.	8,369.0	7.6
Milli Reasürans T.A.Ş. (National Insurance Co.)	5,775.0	5.2
Anadolu Anonim Türk Sigorta Şirketi (Insurance Co.)	5,040.5	4.6
Istanbul Commodity Exchange	4,439.0	4.0
Istanbul Chamber of Commerce	4,418.0	4.0
Türkiye Garanti Bankası A.Ş.	4,178.5	3.8
Doğan Sigorta A.Ş. (Insurance Co.)	3,714.0	3.4
Türk Ticaret Bankası A.Ş.	3,306.0	3.0
Türkiye İş Bankası A.Ş. Retirement Fund	2,728.0	2.5
Istanbul Chamber of Industry	2,722.0	2.4
Yapı ve Kredi Bankası A.Ş.	2,220.0	2.0
	69,894.0	63.3
69, each holding less than 2% of total	14,250.7	12.9
Total Turkish shareholders	84,144.7	76.2
B. Foreign		
IFC	11,917.0	10.8
3 banks		
Banco Comerciale Italiana	936.5	
Banco di Roma	900.0	
Fidelity International Bank	850.0	
	2,636.5	2.4
1 insurance company		
Ünyon Hayat Sigorta Kumpanyası İşletmesi (French)	78.0	0.1
Total foreign shareholders	14,681.5	13.3

1/ Date of last Shareholders Meeting

C. Unknown Shareholders		11,673.8	10.5
	TOTAL	110,500.0	100.0

II. Classification of Turkish Shareholders

	Holdings		
	Number	(In ₺.1000)	(In % of total)
Türkiye İş Bankası A.Ş.	1	22,984.0	20.8
Privately owned banks and insurance companies	24	39,700.4	35.9
Private individuals	37	1,413.8	1.3
Chambers of Commerce and Industry and Commodity Exchanges	5	12,243.0	11.1
Privately owned commercial and/or industrial enterprises	8	2,706.5	2.4
Retirement Funds	5	4,743.0	4.3
Miscellaneous	1	354.0	0.3
Unknown	-	11,673.8	10.6
	81	95,818.5	86.7

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TURKIYE SINAI KALKINMA BANKASI A.S.

List of Board Members as of June 30, 1972.

	Year of Birth	
Chairman		
Ferid BASMACI	1911	Elected: February 24, 1969 General Manager of Turkiye Is Bankasi A.S. Formerly: Assistant General Manager of Turkiye Is Bankasi A.S.
Vice Chairman		
Resad AKSAN	1912	Elected: March 18, 1958 General Manager of Ottoman Bank Formerly: Assistant General Manager, Central Bank of the Republic of Turkey
Other Members		
Sadi BEKTER	1907	Elected: February 25, 1966 Formerly: Member of the Board, Turizm Bankasi General Manager, Turk Ekspres Bank General Manager, Central Bank of the Republic of Turkey
Lutfullah BUTUN	1907	Elected: February 24, 1969 Manager of Turkiye Is Bankasi A.S. Yenicami Branch-Istanbul Formerly: Assistant General Manager of Turkiye Is Bankasi A.S.
Emir SENCER	1909	Elected: February 25, 1966 Member of the Board, Akbank T.A.S. Member of the Board, Chamber of Commerce of Istanbul Formerly: Assistant General Manager, Manager of Istanbul Branch of Central Bank of the Republic of Turkey
Ihsan SOYAK	1909	Elected: July 16, 1960 Deputy Chairman, of the Board of Akbank T.A.S. Chairman of the Board, Atlas Copco Ticaret ve Sanayi T.A.S. Formerly: General Manager, Eregli Komur Isletmesi (Coal Mines)

	Year of Birth	
Fazil ZOBU	1915	**Elected: February 24, 1969** Former Chairman of the Board, Chamber of Industry of Istanbul **Formerly:** Manager of Turkey Endustri ve Ticaret A.S.
Vedad DICLELI	1912	**Elected:** July 16, 1971 **Formerly:** Member of Parliament Minister of Economics
Nazmi KARAKOC	1909	**Elected:** March 10, 1972 **Formerly:** Commander of the Land Forces

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1/ All terms end March 1975.

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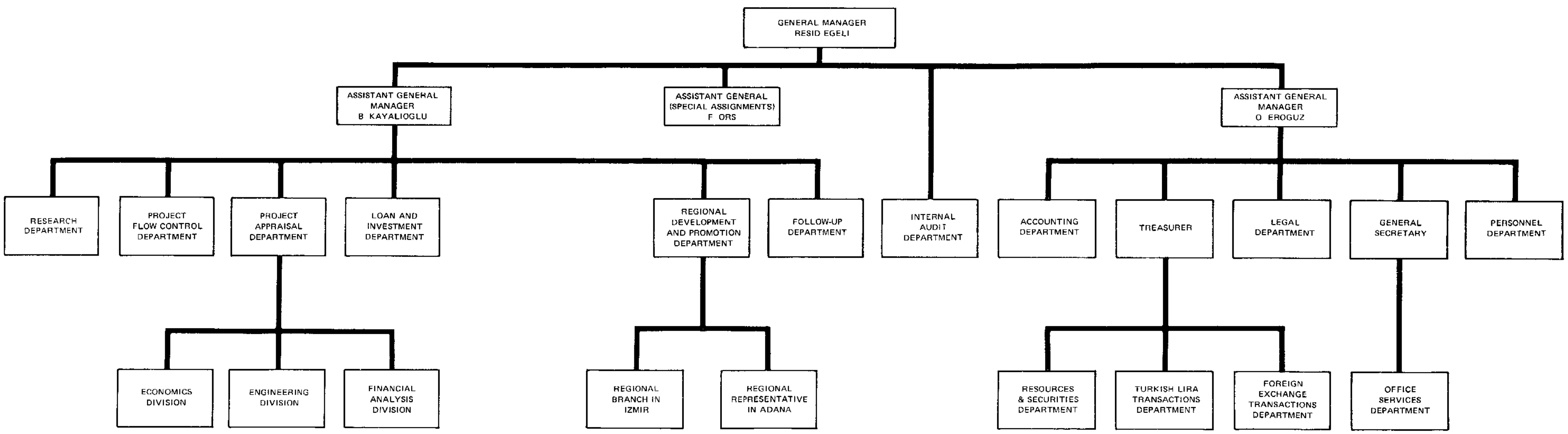
TURKIYE SINAI KALKINMA BANKASI A.S.
ORGANIZATION CHART



ANNEX 3

EMENA/DFC
October 18, 1972

World Bank–7143

INDUSTRIAL DEVELOPMENT BANK OF TURKEY

Statements of Policies

I. Statement of Operational Policies Adopted in June 1950

1. The Industrial Bank is a private institution which, though it will consider the Government's plans for the national economy, will make decisions on the basis of what is best for the health and activity of private enterprises.

2. The factor of primary importance in the Industrial Bank is not its financial resources but the technical services through which its financial aid will be made effective.

3. The Bank should have a first-class technical staff whose head and nucleus must be sought abroad. It will make investments only after full examination of applications by this staff.

4. In selecting enterprises to be financed, the Bank will observe the following criteria:

   a. Production of goods of benefit to the Turkish economy;

   b. Soundness of the enterprise;

   c. Quick realization and profitableness of the enterprise; and

   d. Desirability of geographical distribution of investment.

5. The Bank will keep its interest rate as low as possible consistent with the payment of its dividends and the accumulation of necessary reserves. It may also charge a percentage of the profits of the financed enterprise in return for the services of its technical staff.

6. The Bank's financing may be in the form of loans, participations, or both; the last is preferable in appropriate circumstances. Wherever possible, the client should provide at least 50 per cent of his capital.

7. The Bank will lend foreign exchange only for imports of equipment. In order to make best use of its foreign exchange, it should seek, insofar as possible, to apply for use of the Government's own foreign exchange resources.

8. The Bank will obtain adequate security on its loans; require the keeping of adequate records and the use of sound accounting procedures; and obtain rights of inspection and audit and, in the event of faulty management, of intervention in the enterprises it finances.

9. The Bank will seek to sell its participations to the widest public and at the earliest moment practicable.

10. The Bank will seek to interest foreign capital in investment in Turkey.

11. The Bank should use its influence in trying to improve government administration relating to business so as to better the working conditions and so the confidence of all private enterprise.

II. Policy Resolution Adopted in March 1963 and Amended on October 28, 1966

1. For the purpose of avoiding unnecessary duplications of investment in the public and private sectors the Bank will keep regular and continuous contact with the State Planning Organization through the Economic Research Department.

2. In order to ensure a widespread distribution of its investment risks the Bank will follow the following policies:

(a) Not more than 15% of the Bank's equity and outstanding balance at any time of the Government Loan, dated February 18, 1966, shall be committed to one single real person or corporate body for investment in the form of a loan, capital participation or under any other form.

(b) No participation shall be taken in the capital of one single company in an amount exceeding in the aggregate 5% of the Bank's equity and outstanding balance at any time of the Government Loan, dated February 18, 1966.

(c) The Bank shall not purchase the shares of any company corresponding to more than 25% of its subscribed capital; provided, however, that the purchase of the shares corresponding to 50% of the shares already subscribed for by the Bank in the event that the new shares to be issued by any company cannot be sold when the Bank acts as an underwriter shall constitute an exception to the provision of this paragraph.

(d) The total of the Bank's capital participations at cost price shall not at any time exceed TL 175 million.

(e) The Bank will try to find partners such as IFC or similar investors to participate in the financing of large manufacturing projects to be realized by private sector.

The provisions of b, c, and d, do not apply to shares received in exhange for debit in a liquidation or reorganization or to conversion of debt into shares necessary to protect the Bank's interests.

This resolution will not be amended without the prior consent of IDA.

3. The economic criteria to be applied on investment loans is amended as follows:

Priority shall be given to projects which:

(a) have a positive influence on the balance of payments of Turkey,or

(b) have a high ratio or value added to investment, or

(c) promise reduction in costs and selling prices and-or improvement in the quality of products, or

(d) are of importance from the standpoint of the realization of the production targets set forth in the Development Plan.

III. Policy Resolution adopted November 9, 1967 Amending the 1963 Resolution on Economic Criteria to be applied in Investigating Applications for financing

1. In order to avoid the creation of idle capacity in the economy and hence, a waste of capital, priority be given to projects with high rates of using the productive capacity.

2. Efforts be made for ensuring a harmony with the annual programs of the Development Plan in the outlines of the distribution of our resources among the branches of industry.

3. In the processing of the projects, the cost of the finished products which would be calculated at the rate of exchange as applied by the State Planning Organization in project evaluation be compared with the world prices and priority be given to those projects which show an export potential, which can survive without protective measures, and which can compete with the minimum protection, respectively.

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TURKIYE SINAI KALKINMA BANKASI A.S. ANNEX 5

Resources as of September 30, 1972.

	Local Currency Resources	Foreign Exchange Resources	Cost to TSKB	Last Maturity	Uncommitted at Sept. 30, 197
	LT mil.	LT mil.	%	years	LT mil.
Share capital paid-in	124.3				
Reserves and Provisions	161.5				
Equity	285.8				
Turkish Lira bonds (1951)	12.5		4½	15	
Turkish Lira bonds (1954)	12.5		5	15	
Long-term subordinated loans from Government (1966)	368.1		7½ 2/	35	
Other loans from Government:					
a. AID Lira loan (1967)	24.5		9½ 2/	15	
b. Capital market supporting fund (1968)	4.0 1/		-	10	
c. Capital market supporting fund (1969)	4.0 1/		-	10	
d. Development fund(1969) for cement industry	10.0		5½	15	
e. AID Lira loan (1969)	35.7		9½	20	
f. Export Credit (1970)	6.0		3	3	
g. EIB Lira loan (1971)	45.0		9½ 2/	10	
1st IBRD Loan (34-TU) (1950)		126.0	4-3/4	15	
2nd IBRD Loan (85-TU) (1953)		126.0	4-7/8	15	
3rd IBRD Loan (461-TU) (1966)		140.0	6-7	15	
4th IBRD Loan (589-TU) (1969)		350.0	6½	14	
5th IBRD Loan (713-TU) (1970)		560.0	7¼	15	126.0
1st IDA Credit (33-TU) (1962)		70.0	5½	15	
2nd IDA Credit (66-TU) (1964)		70.0	5¼	15	
3rd IDA Credit (75-TU) (1965)		140.0	5½	15	
4th IDA Credit (91-TU) (1966)		210.0	6½	15	
DLF Loan (1958)		140.0	5	10	
AID Loan (1964)		70.0	5½	15	
AID Loan (1968)		105.0	9½	15	18.5
EIB Loan (1966-1968)		418.6	5½-6½ 2/	15	
KfW Loan (1969)		40.6	9½ 2/		
KfW Loan (1970)		61.6	9½ 2/	15	0.7
KfW Loan (1970)		81.2	9½ 2/	15	1.1
KfW Loan (1972)		109.2	9½ 2/	15	79.5
Total long-term loans	522.3	2,818.2			225.8
Total funds	808.1	2,818.2			225.8

1/ For financing participation in Karadeniz copper project

2/ On November 9, 1970 TSKB increased the interest rate to 12% applicable to the new sub-loans. The difference between the fixed lending rates stated in the Loan Agreements signed between TSKB and the Government and the actual lending rate is paid to the Ministry of Finance. These rates show actual costs to TSKB because they include such differences.

TURKIYE SINAI KALKINMA BANKASI A.S.

Summary of Operations, 1968 -1971, Jan.-Sept. 1972
(millions of units)

		1968		1969		1970		1971		Jan.-Sept. 1972
Approvals (net of withdrawals)										
Loans: Foreign currency	$	15.2	$	13.6	$	21.4	$	21.6	$	24.4
Local currency	LT	125.0	LT	5.0	LT	16.7	LT	140.6	LT	170.5
$ equivalent	$	29.1	$	14.2	$	23.0	$	31.0	$	36.6
Equity Investment	LT	60.7	LT	12.7	LT	5.9	LT	24.7	LT	30.5
Guarantee of bond issues	LT	25.0	LT	30.0	LT	50.0	LT	35.0	LT	18.0
Total $ equivalent	$	38.6	$	18.9	$	29.0	$	35.0	$	40.1
Commitments (Contracts Signed)										
Loans: Foreign currency	$	12.8	$	22.5	$	22.1	$	14.8	$	25.0
Local currency	LT	130.4	LT	26.9	LT	14.7	LT	106.5	LT	135.1
$ equivalent	$	27.2		25.5	$	23.5	$	21.9	$	34.7
Equity Investment	LT	60.7	LT	12.6	LT	5.9	LT	24.7	LT	27.4
Guarantee of bond issues	LT	25.0	LT	30.0	LT	50.0	LT	35.0	LT	18.0
Total $ equivalent	$	36.7	$	30.2	$	29.5	$	25.9	$	37.9
Disbursements 1/										
Loans: Foreign currency	$	16.4	$	17.8	$	21.1	$	21.8	$	21.0
Local currency	LT	120.6	LT	53.2	LT	19.6	LT	79.7	LT	137.9
$ equivalent	$	29.7	$	23.7	$	23.2	$	27.1	$	30.9
Equity investment	LT	229.5	LT	30.7	LT	12.6	LT	22.3	LT	20.9
Total $ equivalent	$	33.1	$	27.1	$	30.0	$	28.6	$	32.4
Number of projects approved		101		73		62		84		79
Number of equity investments committed		7		9		3		7		6
Number of bond issues guaranteed		5		4		5		3		2

1/ All bond issues are disbursed during the year of issue.

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TURKIYE SINAI KALKINMA BANK A.S.

Loan Approvals by Industry 1968 - 1971 and January - June, 1972

	1968			1969			1970			1971			Jan.-June 1972			Total	Percentage
	No. of Loans	$ ('000)	LT (million)	No. of Loans	$ ('000)	LT (million)	No. of Loans	$ ('000)	LT (million)	No. of Loans	$ ('000)	LT (million)	No. of Loans	$ ('000)	LT (million)	US$ equivalent	
Food and Food Products	1	156	-	5	1,271	-	5	726	8.0	11	789	22.6	4	411	12.0	6,549	4.7
Beverages	1	-	.4	-	-	-	-	-	-	2	1,940	10.0	-	-	-	2,650	1.9
Textiles	26	6,258	29.6	11	1,548	-	15	2,281	-	22	8,217	32.4	17	16,968	27.0	42,521	30.3
Timber and Wood Pulp Products	2	54	1.1	4	1,922	-	4	2,391	-	2	2,440	-	1	225	-	7,154	5.1
Wood Pulp & Wood Pulp Products	4	2,702	3.8	1	169	-	-	-	-	2	388	1.0	2	780	4.0	4,794	3.4
Printing and Publication	1	165	-	1	99	-	1	186	-	-	-	-	-	-	-	450	0.3
Leather and Leather Goods	-	-	-	1	53	-	-	1	-	-	-	-	-	-	-	54	-
Chemicals	9	1,367	10.2	7	1,782	-	3	319	5.0	9	1,570	17.8	5	279	21.2	9,606	6.8
Coal and Petroleum Products	-	-	-	4	1,165	-	-	3	-	-	-	-	-	-	-	1,168	0.8
Stone, Earthenware, Glass etc.	19	1,376	53.4	7	1,926	10.0	9	1,815	2.0	6	1,718	10.3	7	837	37.1	18,098	12.9
Metal Smelting	9	827	5.5	10	2,089	-	10	9,951	3.0	4	445	5.0	6	751	12.1	16,147	11.5
Metal Goods	9	919	6.1	11	3,414	-	8	1,204	-	14	1,539	23.4	5	1,115	8.0	10,961	7.8
Machinery and Mechanicals	13	749	18.0	5	984	-	4	1,251	-	3	772	3.0	1	161	-	6,117	4.4
Vehicles	1	660	5.0	7	2,227	-	1	989	-	6	3,051	11.5	2	530	9.0	9,379	6.7
Other Industries	7	768	3.6	1	22	-	3	804	-	8	642	7.1	6	464	18.5	4,807	3.4
Gross Approvals	102	16,001	136.7	75	18,671	10.0	63	21,921	18.0	89	23,511	144.1	56	22,521	148.9	140,455	100.0
Reduction	-	45	1.4	-	20	-	-	456	-	-	248	-	-	66	-		
Withdrawals	1	747	10.3	2	5,058	5.0	1	107	1.3	5	1,692	3.5	2	6,720	-		
Net Approvals	101	15,209	125.0	73	13,593	5.0	62	21,358	16.7	84	21,571	140.6	54	15,735	148.9		

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TÜRKİYE SINAI KALKINMA BANKASI A.Ş.

Outstanding Portfolio by Industry
(LT 000)

June 30, 1972

INDUSTRY GROUP	Number of Loans	%	Amount Outstanding	%
Food and Food Products	55	7.31	83.6	4.45
Beverages	4	0.53	9.3	0.50
Textiles	157	20.87	389.5	20.74
Clothing	1	0.13	3.0	0.16
Timber and Wood Pulp Products	24	3.19	93.2	4.96
Wood Pulp and Wood Pulp Products	11	1.46	61.8	3.29
Printing and Publication	6	0.80	4.0	0.21
Leather and Leather Goods	2	0.26	1.1	0.06
Rubber Goods	4	0.52	18.8	1.00
Chemicals	80	10.64	211.2	11.25
Coal and Petroleum Products	6	0.80	10.3	0.54
Stone, Earthenware, Glass and Ceramics	95	12.63	325.4	17.33
Metal Smelting	83	11.04	237.8	12.66
Metal Goods	87	11.57	165.6	8.82
Machinery and Mechanicals Materials	63	8.38	129.5	6.90
Means of Transport and Materials Therefor	17	2.26	70.9	3.78
Repair and Maintenance Shops	5	0.66	0.6	0.03
Other Industries	52	6.95	62.3	3.32
Total	752	100.00	1.877.9	100.00

TURKIYE SINAI KALKINMA BANKASI A.S.

Gross Approvals of Loans by Size

1968 - 1971, Jan. - June 1972.

	1968			1969			1970			1971			Jan.-June, 1972		
	No. of Loans	Amount of Loans (LT million)	%	No. of Loans	Amount of Loans (LT million)	%	No. of Loans	Amount of Loans (LT million)	%	No. of Loans	Amount of Loans (LT million)	%	No. of Loans	Amount of Loans (LT million)	%
Size Distribution (Combined local and foreign currency)															
Under LT 500,000	13	4.6	1.6	12	4.2	2.3	4	2.7	0.9	1	0.8	0.2	-	1.1	0.2
LT 500,001 - 1,000,000	24	17.3	6.1	12	8.2	4.6	12	9.2	3.1	3	2.4	0.5	1	2.1	0.4
LT 1,000,001 - 2,000,000	34	49.5	17.5	35	55.3	30.8	24	35.4	11.7	24	36.3	7.3	7	12.2	2.6
LT 2,000,001 - 3,000,000	6	15.6	5.5	3	7.9	4.4	7	19.1	6.3	27	67.1	13.4	14	39.0	8.3
LT 3,000,001 - 5,000,000	15	62.5	22.2	3	10.7	6.0	4	17.3	5.7	15	61.2	12.2	9	34.1	7.2
LT 5,000,001 - 10,000,000	4	31.0	11.0	7	53.4	29.7	7	54.2	18.0	9	72.2	14.4	16	106.5	22.6
LT 10,000,001 - 20,000,000	4	47.8	17.0	3	39.8	22.2	3	65.9	21.8	4	61.6	12.3	4	56.5	12.0
LT 20,000,001 - 30,000,000	1	21.0	7.5	-	-	-	-	-	-	3	71.5	14.3	2	58.6	12.5
LT 30,000,001 and over	1	32.7	11.6	-	-	-	2	98.3	32.5	3	127.2	25.4	3	160.9	34.2
	102	282.0	100.0	75	179.5	100.0	63	302.1	100.0	89	500.3	100.0	56	471.0	100.0
Average size		2.8			2.4			4.8			5.6			8.4	

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TURKIYE SINAI KALKINMA BANKASI A.S.

ANNEX 9

Geographical Distribution of Loan Approvals
(LT'000)

	1968			1969			1970			1971			Jan.-June, 1972		
	No. of Loans	Amount of Loans	%	No. of Loans	Amount of Loans	%	No. of Loans	Amount of Loans	%	No. of Loans	Amount of Loans	%	No. of Loans	Amount of Loans	%
Mediterranean Sea															
Adana	3	6,300		1	340		1	1,811		5	124,034		6	68,782	
Antalya	-	-		-	17		-	-		1	1,800		2	5,650	
Gaziantep	1	525		-	-		1	2,484		-	-		-	-	
Icel	-	-		-	-		1	7,553		-	-		-	-	
Mersin	1	5,000		-	-		-	-		-	-		-	-	
	5	11,825	4.2%	1	357	0.2%	3	11,848	3.9%	6	125,834	25.2%	8	74,432	15.[illegible]
Black Sea															
Zonguldak	-	-					-	-		2	41,272		-	-	
Rize	-	-					-	-		1	1,200		-	-	
Trabzon	1	1,000					1	875		-	-		-	-	
Kastamonu	-	-					-	-		-	-		1	3,600	
	1	1,000	0.3%				1	875	0.3%	3	42,472	8.5%	1	3,600	0.[illegible]
Middle East															
Erzincan	1	700					-	-		-	-		-	-	
Kayseri	1	5,000					-	-		-	-		-	-	
Sivas	1	500					-	-		-	-		-	-	
Malatya	-	-					-	-		2	6,988		-	-	
Amasya	-	-					-	-		1	1,500		-	-	
Elazig	-	-					1	375		-	-		1	6,000	
	3	6,200	2.2%				1	375	0.1%	3	8,488	1.7%	1	6,000	1
Middle North															
Bilecik	-	-		-	-		-	-		1	2,400		-	-	
Ankara	3	6,396		2	17,174		1	1,045		2	12,147		1	6,500	
	3	6,396	2.3%	2	17,174	9.6%	1	1,045	0.4%	3	14,547	2.9%	1	6,500	1
Middle South															
Afyon							-	-		1	9,696		-	-	
Kayseri							1	3,762		1	9,212		1	4,174	
Nevsehir							1	700		-	-		-	-	
Konya							-	-		-	-		2	11,299	
							2	4,462	1.5%	2	18,908	3.8%	3	15,473	3
Aegean Sea															
Mugla	-	-		-	-		-	-		-	-		1	8,000	
Balikesir	-	-		-	-		-	-		-	-		2	20,000	
Manisa	-	-		-	-		-	-		1	4,500		1	4,763	
Aydin	-	-		-	-		-	-		1	600		1	42,903	
Isparta	-	-		1	10,896		-	-		1	770		-	-	
Izmir	9	41,919		3	2,842		4	2[illegible],822		5	14,308		3	14,106	
Denizli	1	1,750		-	-		-	-		-	-		-	-	
	10	43,669	15.5%	4	13,738	7.8%	4	25,822	8.5%	8	20,178	4.0%	8	89,772	19
Marmara Sea															
Edirne	-	-		-	-		-	-		1	5,298		1	56,473	
Bursa	5	15,781		2	4,917		5	27,208		6	32,649		1	62,010	
Canakkale	-	-		2	5,729		1	9,080		1	1,204		-	144	
Istanbul	72	186,220		60	127,164		41	146,782		49	184,892		29	134,591	
Kocaeli-Izmit	2	10,500		4	10,451		3	74,117		6	45,288		-	1,871	
Tekirdag	-	-		-	-		1	500		-	-		-	-	
Sakarya	1	400		-	-		-	-		-	-		2	16,652	
	80	212,901	75.5%	68	148,261	82.6%	51	257,687	85.3%	63	269,331	53.8%	33	271,741	57
South East															
Van	-	-		-	-		-	-		1	500	0.1%	-	-	
										1	500				
North East															
Kars	-	-		-	-		-	-		-	-		1	3,500	
													1	3,500	
TOTALS:	102	281,991	100.0%	75	179,530	100.0%	63	302,114	100.0%	89	500,258	100.0%	56	471,018	10[illegible]

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TURKIYE SINAI KALKINMA BANKASI A.S.

Equity Portfolio, June 30, 1972
(LT '000)

Year of Participation	Company	Industry	Shareholding (at cost)	Market or Estimated Value	Provision Made for losses	Company's 1971 net profit as % of Net Worth	Current Dividend yield(%)	Board Seats held by TSKB	Loan Outstanding
A. COMPANIES OPERATING PROFITABLY									
1956	Anadolu Cimentolari	Cement	8,790.6	8,790.6	-	0.64	-	2	21,420
1957	Rabak	Electrolytic copper	5,527.4	14,371.2	-	22.43	30	3	53,567
1957	Turk Demir Dokum	Cast iron	2,875.0	17,250.0	-	13.17	40	1	39,912
1958-61	Bayrakli Boya	Paint and varnishes	750.0	997.5	-	0.76	-	1	-
1959	Santral Dikis	Sewing thread	481.0	1,500.2	-	18.73	12.5	-	5,344
1961-64	Koruma Tarim	Pharmaceutical products	8,750.0	13,562.5	-	48.16	10	2	23,850
1962	Makine Takim	Machine tools	4,024.0	10,462.4	-	22.58	20	2	3,763
1962	Celik Halat	Wire robe	6,750.0	6,750.0	-	17.79	-	1	28,872
1963	Ytong	Light construction materials	3,000.0	4,200.0	-	2.51	-	2	3,308
1963	Yatirimlar Holding	Investment trust	500.0	500.0	-	-	-	1	-
1963-65	Gorbon Isil	Ceramics	490.0	757.5	-	15.64	10	2	2,899
1963-66	Turk Siemens	Electrical equipment	2,520.0	3,591.0	-	16.08	14	1	9,677
1965	Plastifay	Plasticizers	1,750.0	2,187.5	-	3.03	-	2	13,237
1965	Pimas	Plastic	233.0	1,642.6	-	17.19	25	1	14,519
1965	Kaleflex	Floor tiles	2,500.0	3,120.0	-	0.90	-	1	6,131
1967	Ileri Kimya	Perfume	1,250.0	1,465.0	-	8.09	7.5	1	81
1967	Mukavva Sanayii	Corrugated board	6,054.5	7,265.4	-	21.28	12	1	15,671
1967	Tamsan	Hardboard	1,285.5	1,290.6	-	8.13	-	1	1,057
1968	SASA	Synthetic fiber	6,325.0	10,537.4	-	36.91	45	1	57,375
1968	Nuh Cimento	Cement	8,250.0	9,281.2	-	20.52	25	1	37,683
1972	Ege Biracilik	Beverage	2,500.0	3,209.0	-	22.10	22.25	1	8,913
			74,606.0	122,731.6					347,279
B. COMPANIES UNDER CONSTRUCTION									
1968	Karadeniz Bakir	Copper complex	31,000.0	31,000.0	-	-	-	1	-
1971	Nasas	Metal ore smelting	8,250.0	8,250.0	-	-	-	1	49,011
1971	Cam Elyaf	Glass fiber	1,250.0	1,250.0	-	-	-	1	
			40,500.0	40,500.0					49,011

Year of Participation	Company	Industry	Shareholding (at cost)	Market or estimated value	Provision made for losses	Company's 1971 net profit as % of net worth	Current Dividend yield(%)	Board Seats held by TSKB	TSKB's Loans Outstanding
C. COMPANIES OPERATING AT A LOSS									
1968	Maden Bankasi	Investment on mining	375.0	375.0	-	-	-	1	-
1968	AKSA	Acrylic fiber	8,250.0	8,250.0	-	-	-	1	88,824
1969	Eaton Yale	Engine and parts	740.0	740.0	740.0	-	-	1	-
1971	KARTONSAN	Carton board	5,000.0	5,000.0	-	-	-	1	19,147
			14,365.0	14,365.0	740.0				107,971
D. COMPANIES IN LIQUIDATION									
1961	Safina	Matches	1,500.0	-	1,500.0	-	-	-	-
1961	Kursun Sanayii	Lead smelting	2,500.0	-	2,500.0	-	-	-	1,839
1969	Perkins Motolari	Engine and parts	45.0	45.0	45.0	--	-	-	45
			4,045.0	45.0	4,045.0				1,884
		TOTAL:	133,516.0	177,641.6	4,785.0				506,145

ANNEX 10
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TURKIYE SINAI KALKINMA BANKASI A.S.

Arrears

(LT million)

Length of Arrears	Total Loans Outstanding on which there are arrears	Principal Arrears	Interest Arrears	Total Arrears
		December 31, 1968		
Up to 3 months	460.5	9.0	9.6	18.7
From 3 to 6 months	0.1	-	-	-
From 6 to 12 months	3.9	0.5	0.9	1.4
From 12 to 24 months	8.2	3.1	1.6	4.7
Over 24 months	2.8	1.1	1.0	2.1
Loans in court	-	31.3	-	31.3
Total	475.5	45.0	13.1	58.2
Total portfolio	950.8	950.8		
Percentage of portfolio	50.0%	4.7%		
		December 31, 1969		
Up to 3 months	418.2	8.2	8.8	17.0
From 3 to 6 months	21.8	0.9	1.5	2.4
From 6 to 12 months	2.4	0.6	0.3	0.9
From 12 to 24 months	15.5	0.7	-	0.7
Over 24 months	13.5	3.0	5.4	8.4
Loans in court	-	23.5	-	23.5
Total	471.4	36.9	16.0	52.9
Total portfolio	1,051.1	1,051.1		
Percentage of portfolio	46.4%	3.6%		
		December 31, 1970		
Up to 3 months	763.1	17.4	18.4	35.7
From 3 to 6 months	207.6	6.6	11.1	17.7
From 6 to 12 months	2.2	0.8	0.1	0.9
From 12 to 24 months	4.6	2.7	0.1	2.8
Over 24 months	26.3	4.2	5.7	9.9
Loans in court	-	17.6	-	17.6
Total	1,003.8	49.3	35.4	84.6
Total portfolio	1,534.5	1,534.5		
Percentage of portfolio	65.4%	3.2%		
		December 31, 1971		
Up to 3 months	449.4	12.8	6.7	19.6
From 3 to 6 months	47.5	8.0	2.5	10.5
From 6 to 12 months	40.3	3.6	4.3	7.9
From 12 to 24 months	81.8	8.8	16.9	25.7
Over 24 months	.5	0.2	0.2	0.3
Loans in court	-	24.3	-	24.3
Total	619.5	57.7	30.6	88.3
Total portfolio	1,674.6	1,674.6		
Percentage of portfolio	37.0%	3.4%		
		June 30, 1972		
Up to 3 months	532.5	12.6	9.3	21.9
From 3 to 6 months	41.8	0.8	2.6	3.4
From 6 to 12 months	35.9	3.3	3.7	7.0
From 12 to 24 months	101.5	15.3	22.2	37.5
Over 24 months	1.7	0.1	0.5	0.6
Loans in court	-	29.2	-	29.2
Total	713.4	61.3	38.3	99.6
Total portfolio	1,758.3	1,758.3		
Percentage of portfolio	40.6%	3.4%		

EMENA/DFC
October 18, 1972

TURKIYE SINAI KALKINMA BANKASI A.S.

Income Statements, 1968-1971 & Jan.-June 1972

(LT million)

	1968	1969	1970	1971	Jan.-June 1972
	(--------- audited			-------------)	(unaudited)
Income					
Interest on liquid funds	5.8	2.1	5.4	11.3	6.1
Interest on loan portfolio	77.2	85.8	123.5	162.2	90.3
Commissions and other charges	7.9	7.9	12.4	15.9	6.9
Service fee on managed funds	-	-	-	-	-
Dividend income	6.1	6.3	6.9	7.4	6.0
	97.0	102.1	148.2	196.8	109.3
Gross capital gains	9.3	11.7	10.0	0.6	0.6
Other extraordinary income	2.4	2.2	5.4	13.6	-
Total	108.7	116.0	163.6	211.0	109.9
Expenses					
Personnel expenses	9.8	11.2	12.6	15.1	8.5
Directors and staff bonus	1.9	2.1	2.2	2.8	-
General administration expenses	1.8	1.8	2.3	3.8	2.3
Depreciation	0.2	0.2	0.2	0.4	0.2
Provision for retirement	1.2	1.3	1.5	10.0	-
	14.9	16.6	18.8	32.1	11.0
Taxes, dues, fees	5.6	5.6	7.1	6.4	4.0
Interest charges	43.7	49.9	74.0	103.1	56.6
Provisions for possible loss:					
loans	3.8	3.5	15.0	11.0	-
equity	1.4	-	-	-	-
	54.4	59.0	96.1	120.5	60.6
Total	69.4	75.6	114.9	152.6	71.6
Gross earnings	39.3	40.4	48.7	58.4	38.3
Taxation	12.2	10.4	14.5	18.1	14.5
Net profit	27.1	30.0	34.2	40.3	23.8
Appropriation					
Dividends	9.1	9.9	14.8	15.2	
Legal reserves	2.4	2.4	3.2	3.6	
Other reserves	15.6	17.7	16.2	21.5	
Total	27.1	30.0	34.2	40.3	
Ratios					
Net income as % of average equity	22.0	19.0	17.4	18.2	18.9
Net income as % of year-end share capital	41.7	27.1	31.0	36.5	38.3
Administrative costs as % of average total assets	1.4	1.4	1.2	1.6	1.0
Dividend as % of par value	12	12	12	12	12
Dividend as % of net income	33.6	33.0	43.3	37.7	

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TURKIYE SINAI KALKINMA BANKASI A.S.

Balance Sheets, Year-end 1968-1971 & June 30, 1972
(LT million)

	Dec. 31 1968	Dec. 31 1969	Dec. 31 1970	Dec. 31 1971	June 30 1972
	(------------ audited			------------)	(unaudited)
ASSETS					
Cash	59.6	93.5	152.4	180.8	149.5
Temporary Investments	1.0	-	26.1	22.2	12.5
Receivables	39.1	40.6	74.7	83.0	93.0
Short-term loans	4.1	2.6	2.3	2.3	2.3
Long-term portfolio					
Local currency loans	401.2	398.2	362.1	368.5	411.4
Foreign currency loans	549.6	616.9	1,172.4	1,306.1	1,346.9
Equity participations	96.6	116.0	109.8	125.8	133.5
Provision for losses	(29.1)	(28.4)	(31.8)	(29.6)	(29.6)
Net fixed assets	11.2	16.6	33.4	46.1	51.5
Government bonds required by law	18.3	21.7	25.8	34.6	36.1
Total Assets	1,151.6	1,277.7	1,927.2	2,139.8	2,207.1
Administered Funds	37.0	37.2	37.2	37.5	37.5
LIABILITIES					
Current liabilities	74.4	55.6	93.7	117.6	92.5
Long-term debt:					
Lira bonds	1.5	-	-	-	-
Subordinated Government loan	368.1	368.1	368.1	368.1	368.1
Other lira debt	24.6	42.6	64.7	89.3	104.4
IBRD	84.9	117.3	335.2	530.9	594.4
DLF	-	-	-	-	-
IDA	255.9	231.8	316.9	228.4	193.5
USAID	38.5	37.2	69.8	54.9	72.2
EIB	171.6	227.7	419.5	394.4	363.9
KfW	-	13.1	50.8	122.5	146.8
	945.1	1,037.8	1,625.0	1,788.5	1,843.3
Share capital	65.0	110.5	110.5	110.5	124.3
Reserves	67.1	73.8	98.0	123.2	147.0
Total liabilities	1,151.6	1,277.7	1,927.2	2,139.8	2,207.1
Administered funds	37.0	37.2	37.2	37.5	37.5
Contingencies					
Loans committed					
L/C opened	12.6	44.6	137.2	167.7	185.6
L/C not yet opened	68.8	93.6	160.1	78.5	170.8
Equity Commitments	38.3	20.2	5.4	7.8	20.6
Guarantees of bonds	39.3	73.9	100.8	148.0	146.2

	Dec. 31 1968	Dec. 31 1969	Dec. 31 1970	Dec. 31 1971	June 30 1972
	(---------------- audited			----------------)	(unaudited)
Long term debt/equity	7.2	5.6	7.8	7.7	6.8
Long term debt & guarantees/ equity	7.5	6.0	8.3	8.3	7.3
Debt/equity as defined in Bank's Loan Agreement	1.6	1.7	2.9	3.1	3.0
Reserves & provisions as % of portfolio	9.2	9.0	7.9	8.5	9.3
Book value as % of par	203	167	189	211	218

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TURKIYE SINAI KALKINMA BANKASI A.S.

Forecast of Operations 1972-1977
(millions of units)

	Jan.-Sept. 1972 (actual)	Oct.-Dec. 1972	Total 1972	1973	1974	1975	1976	1977
		- - - - - - - -	- - - - - - - -	- - - F O R E	C A S T - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -
Approvals								
Loans: Foreign currency	$ 24.4	$ 10.6	$ 35.0	$ 60.0	$ 70.0	$ 80.0	$ 90.0	$ 100.0
Local currency	LT 170.5	LT 29.5	LT 200.0	LT 500.0	LT 600.0	LT 700.0	LT 800.0	LT 900.0
$ equivalent	$ 36.6	$ 12.4	$ 49.0	$ 95.7	$ 112.9	$ 130.0	$ 147.1	$ 164.3
Equity investment	LT 30.5	LT 0.4	LT 30.9	LT 30.0	LT 35.0	LT 35.0	LT 40.0	LT 40.0
Guarantee of bond issues	LT 18.0	LT 32.0	LT 50.0	LT 60.0	LT 70.0	LT 80.0	LT 90.0	LT 100.0
Total $ equivalent	$ 40.1	$ 14.5	$ 54.6	$ 102.1	$ 120.4	$ 138.2	$ 156.4	$ 174.3
Commitments (Contracts signed)								
Loans: Foreign currency	$ 25.0	$ 3.0	$ 28.0	$ 55.0	$ 65.0	$ 75.0	$ 85.0	$ 95.0
Local currency	LT 135.1	LT 2.9	LT 138.0	LT 350.0	LT 550.0	LT 650.0	LT 750.0	LT 850.0
$ equivalent	$ 34.7	$ 3.0	$ 37.7	$ 80.0	$ 104.3	$ 121.4	$ 138.6	$ 155.7
Equity investment	LT 27.4	LT 3.5	LT 30.9	LT 30.0	LT 35.0	LT 35.0	LT 40.0	LT 40.0
Guarantee of bond issues	LT 18.0	LT 32.0	LT 50.0	LT 60.0	LT 70.0	LT 80.0	LT 90.0	LT 100.0
Total $ equivalent	$ 37.9	$ 5.4	$ 43.3	$ 86.4	$ 111.8	$ 129.6	$ 147.9	$ 165.7
Disbursements 1/								
Loans: Foreign currency	$ 21.0	$ 7.0	$ 28.0	$ 33.1	$ 53.9	$ 66.3	$ 77.5	$ 87.5
Local currency	LT 137.9	LT 42.1	LT 180.0	LT 244.1	LT 399.8	LT 550.0	LT 700.0	LT 800.0
$ equivalent	$ 30.9	$ 10.0	$ 40.9	$ 50.5	$ 82.5	$ 105.6	$ 127.5	$ 144.6
Equity investment	LT 20.9	LT 4.3	LT 25.2	LT 28.6	LT 32.5	LT 35.0	LT 37.5	LT 40.0
Total $ equivalent	$ 32.4	$ 10.3	$ 42.7	$ 52.5	$ 84.8	$ 108.1	$ 130.2	$ 147.5

1/ All bond issues guaranteed are disbursed during the year of issue

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TURKIYE SINAI KALKINMA BANKASI A.S.

Projected Income Statements, 1972-1977.
(LT million)

	1972	1973	1974	1975	1976	1977
Income						
Interest on liquid funds	11.5	16.0	16.2	14.3	14.3	14.7
Interest on loan portfolio	186.1	232.8	330.9	468.0	631.7	816.1
Dividend income	11.6	12.8	12.3	13.6	14.7	15.6
Extraordinary income	5.5	1.0	1.0	1.0	1.0	1.0
Commissions and other charges	15.2	21.1	27.9	32.6	37.3	42.2
	229.9	283.7	388.3	529.5	699.0	889.6
Gross capital gains	6.2	4.3	6.5	8.6	10.8	12.9
Total	236.1	288.0	394.8	538.1	709.8	902.5
Expenses						
Personnel expenses	18.0	20.7	23.8	27.4	31.5	36.2
Director and staff bonus	3.7	3.2	4.3	6.4	9.0	10.9
General administrative expenses	7.0	7.5	8.0	8.6	9.2	9.9
Special promotional expenses	-	2.0	3.0	4.0	5.0	6.0
Depreciation	1.3	1.3	1.3	1.3	1.3	1.3
Provision for retirement and dismissal	1.6	1.8	2.0	2.2	2.4	2.6
	31.6	36.5	42.4	49.9	58.4	66.9
Expenditure tax	8.4	7.1	7.6	7.9	8.6	9.5
Interest charges	117.6	160.1	232.4	323.8	437.3	579.1
Total	157.6	203.7	282.4	381.6	504.3	655.5
Gross earnings	78.5	84.3	112.4	156.5	205.5	247.0
Provision for losses	1.7	8.4	14.5	17.7	21.6	23.1
Taxation	24.7	22.9	33.0	48.7	66.3	79.6
Net Profit	52.1	53.0	64.9	90.1	117.6	144.3
Appropriations						
Dividends: Regular	15.7	23.2	23.2	23.2	23.2	34.8
Founders Shares	2.5	2.2	3.0	4.2	5.8	6.8
Legal Reserve	4.4	5.1	6.0	7.9	9.4	12.2
Reserve for future losses	2.5	2.5	3.1	4.3	5.8	6.6
Contingency reserve	27.0	20.0	29.6	50.5	73.4	83.9
Total	52.1	53.0	64.9	90.1	117.6	144.3

	1972	1973	1974	1975	1976	1977
Ratios						
Net income as % of average equity	18.7	15.7	17.6	21.4	21.6	21.0
Net income as % of year-end share capital	26.9	27.4	33.6	44.6	40.5	49.7
Administrative costs as % of average total assets	1.4	1.3	1.2	1.1	0.9	0.9
Administrative Costs and special promotional expenses as % of average total assets	1.4	1.4	1.3	1.2	1.0	0.9
Dividend as % of par value	12	12	12	12	12	12
Dividend as % of net income	35	48	40	30	25	29

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TURKIYE SINAI KALKINMA BANKASI A.S.

Projected Balance Sheets, Year-end 1972-1977

(LT million)

	Dec. 31, 1972	Dec. 31, 1973	Dec. 31, 1974	Dec. 31, 1975	Dec. 31, 1976	Dec. 31, 1977
ASSETS						
Cash	27.0	42.6	34.0	28.7	39.5	42.1
Temporary investments	243.4	413.6	342.7	313.7	427.9	467.4
Receivables	88.9	88.9	88.9	88.9	88.9	88.9
Short-term loan	2.3	-	-	-	-	-
Long-term portfolio:						
Local currency loans	395.5	568.9	891.4	1,350.5	1,932.0	2,569.5
Foreign currency loans	1,409.8	1,668.1	2,212.2	2,880.7	3,680.9	4,531.9
Equity participations	144.2	162.8	180.3	195.3	207.8	217.8
Provision for losses	(31.3)	(39.7)	(54.2)	(71.9)	(93.5)	(116.6)
Net fixed assets	50.3	49.0	47.7	46.4	45.1	43.8
Government bonds required by law	36.1	40.1	44.9	50.7	58.3	67.3
Total	2,366.2	2,994.3	3,787.9	4,883.0	6,386.9	7,912.1
LIABILITIES						
Current liabilities	107.5	112.1	127.6	150.7	178.7	214.5
Subordinated Government loan	368.1	368.1	368.1	368.1	368.1	368.1
Other lira debt	121.4	458.8	656.0	1,008.0	1,504.8	2,044.2
Foreign currency loans	1,434.8	1,691.5	2,231.8	2,886.9	3,678.3	4,523.0
Provision for Pension Fund	11.5	13.3	15.3	17.5	19.9	22.5
Share capital	193.4	193.4	193.4	193.4	290.1	290.1
Reserves	129.5	157.1	195.7	258.4	347.0	449.7
Total	2,366.2	2,994.3	3,787.9	4,883.0	6,386.9	7,912.1
CONTINGENCIES						
Long-term loan commitments	69.1	174.9	224.8	325.5	375.0	425.0
Foreign exchange loan commitments:						
L/C opened	132.9	297.1	384.9	453.6	509.4	565.2
L/C not yet opened	180.2	326.7	398.2	453.9	504.3	555.3
Equity commitments	13.6	15.0	17.5	17.5	20.0	20.0
Guarantee of bonds	225.3	292.7	370.1	445.3	517.6	591.2

	Dec. 31, 1972	Dec. 31, 1973	Dec. 31, 1974	Dec. 31, 1975	Dec. 31, 1976	Dec. 31, 1977
RATIOS						
Long-term debt/equity	6.0	7.2	8.4	9.4	8.7	9.4
Long-term debt & guarantees/equity	6.7	8.0	9.3	10.4	9.5	10.2
Debt equity as defined in Bank's Loan Agreement	3.0	4.1	5.0	6.1	6.4	7.1
Reserves & provisions as % of portfolio	8.2	8.2	7.6	7.5	7.6	7.7
Book value as % of par	167	181	201	234	220	255

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TURKIYE SINAI KALKINMA BANKASI A.S.

Projected Cash Flow, 1972-1977
(LT million)

	1972 July-Dec.	1973	1974	1975	1976	1977
Sources						
Increase in local currency debt	21.2	340.0	200.0	355.0	500.0	545.0
Increase in foreign currency debt	165.2	471.4	766.5	942.9	1,102.3	1,248.8
Increase in share capital	69.1	-	-	-	96.7	-
Local currency loan collections	39.2	70.7	77.3	90.9	118.5	162.5
Foreign currency loan collections	102.3	213.1	222.4	274.4	302.1	397.8
Equity sales	6.8	10.0	15.0	20.0	25.0	30.0
Decrease in short-term credits	-	2.3	-	-	-	-
Decrease in fixed assets	2.6	-	-	-	-	-
Decrease in fixed assets (depreciation)	1.1	-	-	-	-	-
Increase of provision for possible losses	1.7	-	-	-	-	-
Increase of provision for retirement and dismissal	1.6	-	-	-	-	-
Decrease in bond and stocks	-	-	1.0	1.0	1.0	1.0
Decrease of sundry receivables	4.2	-	-	-	-	-
Decrease of savings bonds	-	0.4	0.4	0.4	0.4	0.2
Earnings before tax and provisions	42.2	90.6	120.0	166.4	218.2	261.8
	457.2	1,198.5	1,402.6	1,851.0	2,364.2	2,647.1
Applications						
Decrease in current liabilities	7.2	-	-	-	-	-
Local currency loan disbursements	23.4	244.1	399.8	550.0	700.0	800.0
Foreign currency loan disbursements	165.2	471.4	766.5	942.9	1,102.3	1,248.8
Equity disbursements	17.5	28.6	32.5	35.0	37.5	40.0
Local currency debt repayments	4.2	2.6	2.8	3.0	3.2	5.6
Foreign currency debt repayments	101.2	214.7	226.2	287.8	310.9	404.1
Increase in government bonds	-	4.4	5.2	6.2	8.0	9.2
Increase in fixed assets	2.5	-	-	-	-	-
Decrease of extraordinary reserves	27.6	-	-	-	-	-
Increase in bonds of stocks	2.5	-	-	-	-	-
Tax, dividends	-	46.6	51.5	63.5	82.5	104.3
	351.3	1,012.4	1,484.5	1,888.4	2,244.4	2,612.0

	1972 July-Dec.	1973	1974	1975	1976	1977
Balance Available						
Cash, near cash beginning of period	149.5	255.4	444.6	366.8	335.6	463.4
Net change	105.9	185.8	(81.9)	(37.4)	119.8	35.1
Cash, near cash end of period	255.4	441.2	362.7	329.4	455.4	498.5

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TURKIYE SINAI KALKINMA BANKASI A.S.

Projection Assumptions

1. Interest rates on new sub-loans (both foreign exchange and local currency loans) starting November 9, 1970 is 12% per annum.

2. An average 2½% spread on all future resources is assumed, with the exception of the new IBRD Loan which will have a spread of 4.75%. For local currency resources, a negative spread of 3% is assumed for bond issues and a spread of 1% for other LT funds.

3. Administration expenses were increased by LT 1 million in 1972 and hence will increase 7% per year, while salaries will increase by 15%. (This takes into consideration the cost of living adjustment.)

4. Foreign exchange and Turkish Lira commitments for the years 1972-77 are assumed to be as follows:

	$ million	LT million
1972	28	138
1973	55	350
1974	65	550
1975	75	650
1976	85	750
1977	95	850

5. It is also assumed that TSKB will start financing tourism projects during the years 1973-1977.

	LT million
1973	75
1974	100
1975	125
1976	125
1977	125

6. 50% of approvals will be committed in the current year; the remaining 50% will be committed in the following year.

7. 50% of commitments will be disbursed in the current year; the remaining 50% will be disbursed in the following year.

8. Foreign currency operations will be financed by (1) IBRD loan, (2) KfW loans, (3) E.I.B. loans and (4) funds from other sources.

9. Local currency operations will be financed by (1) repayments, (2) retained earnings, (3) share capital increase (It is also assumed that the share capital will be increased by 50% in 1976 and fully paid at the end of the year.) and (4) Ministry of Finance loan (E.I.B. and KfW LT loans).

10. Tourism projects will be financed by (1) AID, KfW, E.I.B., LT loans, (2) TSKB's own resources and (3) funds from other sources.

11. Provisions for losses to be made in 1972-1977 will represent around 1.5% of the loan portfolio at the end of each year.

12. Provision for retirement and dismissal were considered to be 1.5 times of the total amount of monthly salaries.

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TURKIYE SANI KALKINMA BANKASI A.S.

Schedule of Estimated Disbursements of the Proposed Loan

		(US$ '000)
1973	January - March	-
	April - June	1,500
	July - September	1,700
	October - December	1,700
1974	January - March	1,800
	April - June	1,800
	July - September	2,000
	October - December	2,000
1975	January - March	2,500
	April - June	3,000
	July - September	3,500
	October - December	3,500
1976	January - March	4,500
	April - June	4,500
	July - September	3,000
	October - December	3,000

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