

DENIZBANK*Comment on 2005/6 Consolidated BRSA Financials***Market Performer****Strong Rise in Operating Profit**

In line with our YTL132mn (US\$99mn) forecast, Denizbank announced a YTL129mn (US\$96mn) net profit in its BRSA consolidated financials. Adjusted operating profit rose 83% to US\$100mn in the first half of 2005 compared to same period last year. Although the Bank's net interest margin declined from 8% to 7% in the past one year, the 36% appreciation in interest earning assets (IEA) mainly towards high margin retail lending and increased net fees (US\$34mn vs US\$51mn) fueled the profit. Also, the Bank managed to increase its ROE from 16% in 1H04 to 26% in 1H05 (adjusted for the one-off profit from Zorlu Enerji stake sale in 1Q05). However, it is worth mentioning that the quarterly ROE slipped down from 27% (adjusted) to 24% in 2Q05 QoQ, as the interest rates on TL loans contracted from 27% to 20%, whereas interest on FX loans slipped from 5.7% to 5.1%. These contractions especially deteriorated the TL spreads. TL spread of the Bank came down from 9% in 1Q05 to 5% in 2Q05.

Adjusted quarterly net interest income to IEA ratio (annualized), which we believe is the best way to judge a bank's operating performance is 3.5%. This level is just at the trailing 4q average, which means that the Bank preserves its profitability despite falling interest rates.

Denizbank is laying great emphasis on house loans. Its house loan book soared by 95% in 2Q05 that corresponds to a monthly CAGR of 25%. This is the highest house loan growth rate throughout the banks that announced their first half financials, and it is significantly above the sector's 65% expansion. Aggregate consumer loans of the Bank that make up 18% of the lending climbed by 40% in the second quarter. Due to fierce competition, the rates on core consumer loans (especially house loans) slipped down below the banks TL interest bearing liability costs for the initial year. As core consumer loans are fixed rate, sliding funding rates should bring higher margins in the longer run.

The balance sheet expanded by 21% (US\$1,150mn) during the second quarter as loans increased by 21% thanks to a 34% rise (US\$460mn) in TL loans and as loans to foreign banks surged 160% (US\$580mn). As the Bank received a US\$300mn foreign borrowing in late June, the amount is temporarily granted to foreign banks as loan. The rising assets are financed mainly through a 16% rise (US\$613mn) in deposits and a 56% rise (US\$435mn) in foreign borrowings. The share of loans in balance sheet remained stable at 50% and NPL ratio is also stable at 2.7%.

The Bank trades with a 2005F P/B of 2.1x and a 10x P/E. We keep our 'Market Performer' rating on Denizbank that trades at a 6% upside potential to our US\$1,544mn target value.

Denizbank Consolidated BRSA US\$mn	2002/12	2003/12	2004/06	2005/06	04/06-05/06 Chg
BALANCE SHEET					
Cash And Balances With The Cb	124	172	146	220	51%
Trading Securities (Net)	1,052	1,234	183	249	36%
Banks And Other Financial Institutions	329	617	1,075	1,129	5%
Money Market Securities	145	175	150	110	
Investment Sec. Available For Sale (Net)	2	18	966	1,088	13%
Loans	1,017	1,446	1,874	3,705	98%
Investment Sec. Held To Maturity (Net)	187	155	130	116	-11%
Investments And Associates (Net)	112	109	104	69	-34%
Subsidiaries (Net)	8	9	9	6	-32%
Reserve Deposits	149	137	136	200	47%
Miscellaneous Receivables	6	3	10	27	159%
Accrued Interest And Income Receivable	99	116	82	115	40%
Property And Equipment (Net)	61	62	72	90	26%
Intangible Assets [Net]	7	8	9	11	22%
Other Assets	24	14	30	93	209%
Total Assets	3,323	4,275	4,975	7,450	50%
Deposits	2,609	2,866	3,234	4,593	42%
Interbank Money Market	41	554	644	344	-47%
Funds Borrowed	180	272	440	1,356	208%
Miscellaneous Payables	29	32	67	160	140%
Other External Resources	26	48	54	83	52%
Taxes And Other Duties Payable	9	10	9	11	27%
Finance Leasing Payables (Net)	8	6	8	0	-99%
Accrued Interest And Expenses Payable	35	44	40	93	132%
Provisions	25	41	49	78	58%
Shareholders' Equity	349	401	431	720	67%
TOTAL LIABILITIES	3,323	4,275	4,975	7,450	50%
INCOME STATEMENT					
I. INTEREST INCOME	463	490	280	349	25%
1.1.Interest on loans	176	193	129	215	67%
1.2.Interest received from reserve deposits	8	10	4	5	19%
1.3.Interest received from banks	7	49	11	7	-30%
1.4.Interest received from money m. transactions	40	21	7	3	-55%
1.5.Interest received from marketable sec. portfolio	231	214	127	99	-22%
1.6.Other interest income	1	2	2	19	712%
II. INTEREST EXPENSE	(318)	345	150	160	6%
2.1.Interest on deposits	(307)	326	135	124	-8%
2.2.Interest on money market transactions	(0)	2	2	5	127%
2.3.Interest on funds borrowed	(8)	12	8	25	217%
2.4.Interest on securities issued	(0)	-	0	-	
2.5.Other interest expense	(3)	6	5	7	29%
III. NET INTEREST INCOME (I - II)	144	144	129	189	46%
IV. NET FEES AND COMMISSIONS INCOME	34	54	34	51	48%
V. DIVIDEND INCOME	-	-	0	0	276%
VI. NET TRADING INCOME	(0)	99	1	4	313%
6.1.Profit/losses on trading account securities (Net)	58	70	13	(7)	-155%
6.2.Foreign exchange gains/losses (Net)	(58)	29	(12)	11	n.m.
VII. PROFIT/LOSS FROM HELD TO MATURITY M. S.	1	1	-	-	
VIII. OTHER OPERATING INCOME	48	25	44	61	39%
IX. TOTAL OPERATING INCOME (III+IV+V+VI+VII+VIII)	227	323	208	304	46%
X. PROVISION FOR LOAN LOSSES OR OTHER REC. (-)	(48)	36	33	40	21%
XI. OTHER OPERATING EXPENSES (-)	(124)	158	110	144	31%
XII. NET OPERATING INCOME (IX-X-XI)	55	130	65	120	85%
XIII. PROFIT/LOSSES FROM ASSOCIATES AND SUBS.	-	-	-	0	
XIX. NET MONETARY PROFIT/LOSS	55	(17)	(16)	-	
XIV. INCOME BEFORE TAXES (XII+XIII)	(37)	113	49	120	144%
XV. PROVISION FOR TAXES ON INCOME (-)	(1)	(30)	16	25	58%
XVI. NET OPERATING INC./EXP. AFTER TAXES (XIV-XV)	17	83	34	96	185%
XX.NET PROFIT/LOSS	17	83	34	96	187%

Source: Company Data

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