

FINANSBANK**Market Underperformer***Comment on 2005/6 Consolidated BRSA Financials***Unsatisfactory Deposit and Loan Performance in 2Q05**

In line with our YTL225mn (US\$168mn) forecast, Finansbank announced a YTL221mn (US\$165mn) net profit in its 1H05 BRSA consolidated financials (YTL6mn or US\$4.5mn to minorities). The quarterly net interest income reached an all-time-high figure of US\$199mn whereas the annualized net interest margin remained unchanged at 7.7% QoQ in 2Q05. Even though the TL deposit cost of the Bank is one of the highest in the sector with 16.4%, its spreads are above that of the sector due to 29% interest obtained on TL lending, highest level in the sector by far. The 6.3% interest on FX deposits is again the highest level among the peers, as the Bank has a niche market in FX denominated long term fixed rate lending in SMEs of emerging cities of Turkey. US\$72mn net fee generation of the Bank in 2Q05 remained below the previous quarter's performance but is still significantly (26%) higher than the 2Q04 figure of US\$57mn. Therefore, the Bank maintained its high ROE generation and posted an annualized 29% ROE for the second quarter that is adjusted for the US\$10mn (YTL14mn) capital gain on the sale of 23% Finans Leasing stake in June 2005.

Finansbank's loans increased by only 2.6% in 2Q05 in its consolidated financials that is significantly lower than the sector's 12% growth. Bank-only Finansbank's loans rose by 6.3% in the second quarter, therefore we perceive that the loans of the subsidiaries that constitute 30% of the total actually declined by 5% in that period. The share of loans in assets contracted from 63% to 60.5% in 2Q05, as the share of core liquid assets jumped from 14.4% to 17.5%. The Bank obtained a US\$450mn syndicated loan in late June and temporarily allocated the funds to other financial institutions boosting the liquid assets.

Finans is the only bank in our coverage that faced a deposit slide in the second quarter. The Bank's deposits contracted by 0.2%, while that of the sector expanded by 7%. Around 60% of the Bank's deposits stem from unconsolidated Finansbank whereas the remainder comes from foreign affiliates. Just like the case in lending, the deterioration comes from the subsidiaries as bank-only Finansbank's deposits expanded by 3%, which corresponds to a 5% decline for that of the subsidiaries.

Fueled by the second quarter profit the shareholders' equity climbed by 8% to US\$990mn, corresponding to a current P/B of 2.6x that is incomparably the highest ratio throughout the peers. We keep our 'Market Underperformer' rating on Finansbank as we cannot justify the current price level.

Finansbank 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	141	123	106	95	-11%
Trading Securities (Net)	64	34	22	76	247%
Banks And Other Financial Institutions	985	821	764	1,303	70%
Money Market Securities	31	11	4	0	-88%
Investment Sec. Available For Sale (Net)	1,166	821	484	1,601	231%
Loans	3,304	4,134	5,240	6,933	32%
Investment Sec. Held To Maturity (Net)	1,133	1,186	1,267	-	-
Investments And Associates (Net)	10	6	5	6	1%
Subsidiaries (Net)	1	16	7	7	3%
Reserve Deposits	354	419	631	607	-4%
Miscellaneous Receivables	47	47	58	84	45%
Accrued Interest And Income Receivable	414	319	229	180	-22%
Property And Equipment (Net)	233	169	207	213	3%
Intangible Assets [Net]	27	23	20	13	-37%
Other Assets	72	73	162	130	-20%
Total Assets	8,141	8,368	9,368	11,448	22%
Deposits	6,318	6,115	6,691	6,948	4%
Interbank Money Market	156	44	321	110	-66%
Funds Borrowed	762	972	944	2,219	135%
Miscellaneous Payables	178	176	219	267	22%
Other External Resources	54	101	177	117	-34%
Taxes And Other Duties Payable	15	18	13	21	69%
Finance Leasing Payables (Net)	-	-	-	-	-
Accrued Interest And Expenses Payable	79	72	114	284	149%
Provisions	49	120	104	175	68%
Shareholders' Equity	489	710	718	990	38%
TOTAL LIABILITIES	8,141	8,368	9,368	11,448	22%
INCOME STATEMENT					
I. INTEREST INCOME	1,194	906	470	672	43%
1.1. Interest on loans	442	430	280	490	75%
1.2. Interest received from reserve deposits	12	12	6	9	54%
1.3. Interest received from banks	123	73	33	46	39%
1.4. Interest received from money m. transactions	35	7	3	1	-79%
1.5. Interest received from marketable sec. portfolio	551	343	131	107	-18%
1.6. Other interest income	30	41	19	20	6%
II. INTEREST EXPENSE	667	515	221	295	33%
2.1. Interest on deposits	586	433	196	239	22%
2.2. Interest on money market transactions	23	35	3	7	145%
2.3. Interest on funds borrowed	56	43	21	45	112%
2.4. Interest on securities issued	-	-	-	3	
2.5. Other interest expense	2	3	1	1	-30%
III. NET INTEREST INCOME (I - II)	527	391	249	377	51%
IV. NET FEES AND COMMISSIONS INCOME	159	132	94	148	58%
V. DIVIDEND INCOME	0	0	-	0	-
VI. NET TRADING INCOME	(12)	84	(57)	10	-117%
6.1. Profit/losses on trading account securities (Net)	10	15	(56)	(24)	-57%
6.2. Foreign exchange gains/losses (Net)	(22)	69	(2)	34	n.m.
VII. PROFIT/LOSS FROM HELD TO MATURITY M. S.	20	93	-	-	
VIII. OTHER OPERATING INCOME	35	131	44	23	-48%
IX. TOTAL OPERATING INCOME (III+IV+V+VI+VII+VIII)	728	832	330	558	69%
X. PROVISION FOR LOAN LOSSES OR OTHER REC. (-)	75	82	13	81	529%
XI. OTHER OPERATING EXPENSES (-)	318	434	191	244	28%
XII. NET OPERATING INCOME (IX-X-XI)	335	316	126	233	85%
XIII. PROFIT/LOSSES FROM ASSOCIATES AND SUBS.	0	1	0	-	
XIX. NET MONETARY PROFIT/LOSS	(50)	(40)	(31)	-	
XIV. INCOME BEFORE TAXES (XII+XIII)	286	276	95	233	145%
XV. PROVISION FOR TAXES ON INCOME (-)	(8)	(72)	30	68	127%
XVI. NET OPERATING INC./EXP. AFTER TAXES (XIV-XV)	293	204	65	165	153%
XX. NET PROFIT/LOSS	294	205	65	165	153%

Source: Company Data

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