

TEB*Comment on 2005/6 Bank-Only BRSA Financials***Market Outperformer****House and Car Loans Escalate**

TEB announced a YTL42mn net profit (US\$31.4mn) in its BRSA bank-only financials that is totally in line with our forecast. The Bank's net operating profit that was US\$27mn in 1Q05 moved up slightly to US\$28mn in the second quarter. The second quarter net profit of US\$11mn is less than that of the previous quarter as the Bank booked a US\$6mn profit from subsidiaries in the first quarter. Therefore the annualized quarterly ROE normalized to 15% in 2Q05 from 27% (adjusted 19%) a quarter ago.

The loan book appreciated by 12% in 2Q05, which was identical with that of the sector, whereas TL lending expanded by 21% higher than 17% increase of the sector. Loans now constitute 52% of the assets up from 41% a year ago. Despite strong loan growth, asset quality of the Bank keeps improving. The NPL ratio came down to its all-time-low level of 1.1% that is also the lowest problematic loan level in the sector. However the provision coverage of 56% (1H04:48%) is still relatively lower than the peers.

In line with the Bank's long-term target of increasing the share of retail loans in total lending to 30% in the following three years, the Bank managed to increase the share of retail lending from 6.1% to 8.2% in the second quarter. The most noteworthy growth appeared on the house loans. It is worth noting that BNP targets TEB to be a very active player in the upcoming mortgage market. TEB's house loans augmented by 107% just in the second quarter that is incomparably higher than the sector's 65% growth rate. Car loans also displayed an extraordinary performance by expanding 69% during the same period (sector 14%). TEB's market share in core consumer loans is just 0.8%, whereas its share in loans is 1.7% as the Bank used to service to corporate clients mainly in export financing before BNP Paribas acquired half of the shares.

TEB's deposits increased by 13% in 2Q05 fueled by the 21% rise in TL deposits. The Bank strives to finance the TL denominated retail loans with TL deposits, which would be wise in terms of diminishing the currency mismatch but it also increases the costs. The strategy increased the Bank's annualized quarterly TL deposit cost from 15.8% to 16.1%, QoQ. Even though the hike in deposit costs pulled down the unadjusted net interest income by US\$2mn to US\$40mn in 2Q05, FX gains that are a part of adjusted net interest income helped the Bank increase its operating profit.

Despite its strong performance in the last couple of months, we still keep our 'Market Outperformer' rating on TEB with a revised target Mcap of US\$728mn that corresponds to an upside potential of 15%. We reached our target through a one year forward looking consolidated shareholders' equity of US\$405mn and a benchmark P/B of 1.8x.

Unconsolidated Inflation Adjusted BRSA Financials US\$m						
	2002/12	2003/12	2004/12	2004/06	2005/06	YoY Chg
BALANCE SHEET						
Cash And Balances With The Cb	415	492	637	498	491	-1%
Trading Securities (Net)	27	23	7	52	56	8%
Banks And Other Financial Institutions	316	149	127	192	204	6%
Money Market Securities	392	366	71	411	-	-
Investment Sec. Available For Sale (Net)	16	0	248	120	346	189%
Loans	775	991	1,181	1,124	1,596	42%
Investment Sec. Held To Maturity (Net)	35	73	49	51	49	-5%
Investments And Associates (Net)	5	8	-	0	-	-
Subsidiaries (Net)	98	103	109	107	104	-2%
Reserve Deposits	127	125	142	132	153	17%
Miscellaneous Receivables	0	0	0	0	1	90%
Accrued Interest And Income Receivable	27	25	33	32	33	6%
Property And Equipment (Net)	36	31	30	30	32	6%
Intangible Assets [Net]	3	3	3	3	2	-22%
Other Assets	20	28	20	18	22	25%
Total Assets	2,294	2,417	2,657	2,769	3,090	12%
Deposits	1,635	1,677	1,684	1,932	1,958	1%
Interbank Money Market	22	13	118	12	175	1395%
Funds Borrowed	254	308	430	408	435	7%
Miscellaneous Payables	34	21	29	25	30	19%
Other External Resources	24	33	32	43	45	3%
Taxes And Other Duties Payable	6	6	7	5	8	55%
Finance Leasing Payables (Net)	7	4	3	4	3	-25%
Accrued Interest And Expenses Payable	14	26	22	31	27	-12%
Provisions	26	33	23	13	28	119%
Shareholders' Equity	247	277	294	279	317	14%
TOTAL LIABILITIES	2,294	2,417	2,657	2,769	3,090	12%
Income Statement						
I. Interest Income	315	275	304	153	161	5%
1.1. Interest On Loans	154	151	179	84	101	21%
1.2. Interest Received From Reserve Deposits	4	5	6	3	3	-7%
1.3. Interest Received From Banks	17	24	13	5	15	209%
1.4. Interest Received From Money M. Transactions	83	74	45	31	5	-85%
1.5. Interest Received From Marketable Sec. Portfolio	56	20	61	29	37	27%
1.6. Other Interest Income	0	0	1	1	0	-97%
II. Interest Expense	165	160	169	83	79	-5%
2.1. Interest On Deposits	107	118	140	71	53	-25%
2.2. Interest On Money Market Transactions	0	-	12	4	15	287%
2.3. Interest On Funds Borrowed	29	17	17	8	11	35%
2.4. Interest On Securities Issued	-	-	-	-	-	-
2.5. Other Interest Expense	29	25	0	0	0	77%
Net Interest Income	150	116	135	70	82	17%
Net Fees And Commissions Income	16	16	22	10	12	15%
Dividend Income	-	-	-	-	-	-
Net Trading Income	19	45	24	2	17	805%
Profit/Losses On Trading Account Securities (Net)	18	35	16	9	20	120%
Foreign Exchange Gains/Losses (Net)	1	10	8	(7)	3	-
Profit/Loss From Held To Maturity M. S.	-	-	-	25	-	-
Other Operating Income	12	14	13	9	4	-60%
Total Operating Income	197	190	194	92	115	26%
Provision For Loan Losses Or Other Rec. (-)	15	6	18	10	13	36%
Other Operating Expenses (-)	109	106	117	51	62	23%
Net Operating Income	72	79	58	31	40	27%
Profit/Losses From Associates And Subs.	7	11	5	5	6	27%
Net Monetary Profit/Loss	(40)	(22)	(23)	(14)	-	-
Income Before Taxes	39	68	40	22	46	109%
Provision For Taxes On Income (-)	21	25	15	6	14	135%
Net Operating Inc./Exp. After Taxes	18	43	25	16	31	99%
Net Profit/Loss	18	43	25	16	31	98%

Source: BRSA Financials, Ak Securities

This report has been prepared by Ak Securities Inc. (Ak Yatırım Menkul Değerler A.Ş.) by using the information and data obtained from sources, which are reasonably believed to be trustworthy. The statements indicated in the report should not be assumed to be sales or purchase offers under any circumstances. Ak Securities does not guarantee that the information contained is true, accurate and unchangeable. Thus, the readers are advised to have the accuracy of the information contained confirmed before acting by relying on such information and the readers shall bear the responsibility of the decisions taken by relying thereon. Ak Securities shall not in any case be responsible for incompleteness and inaccuracy of the information. Furthermore, the personnel and consultants of Ak Securities and Akbank shall not have any responsibility in any case for direct or indirect damage caused by such information. Moreover, Ak Securities shall not be held liable for any damage to the hardware or software of the receiver caused by a virus, detected transfer or any other technical reason in case of the receipt of the reports via internet or through e-mail.

© 2005 Ak Securities Inc.