

Turkiye Is Bankasi A.S.

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CREDIT RATING

BB-/Stable/B

Apr. 17, 2001 B-/B
Feb. 23, 2001 B/C
Sept. 7, 2000 B+/B

Outstanding Rating(s)

Counterparty Credit BB-/Stable/B
Certificate of deposit BB-/B

Sovereign Rating

Local Currency BB/Stable/B
Foreign Currency BB-/Stable/B
Turkey (Republic of)

Credit Rating History

Aug. 19, 2004 BB-
Oct. 21, 2003 B+
July 28, 2003 B/B

Major Rating Factors

Strengths:

- Strong business franchise in Turkey;
- Wide customer deposit base;
- Adequate liquidity and capital; and
- Strengthening revenues and profitability.

Weaknesses:

- High industry and economic risks;
- Large holdings of nonfinancial equity investments; and
- Asset quality remains vulnerable to systemic shocks, although loan quality continues to improve significantly.

Rationale

The ratings on Turkey-based Turkiye Is Bankasi A.S. (Isbank) balance the risky banking and economic environment in the Republic of Turkey (foreign currency BB-/Stable/B, local currency BB/Stable/B) with the bank's leading commercial position and adequate financial

profile and liquidity position. Benefiting from the improving operating environment, the bank's loan quality and profitability continue to recover strongly, and capital is satisfactory, after being negatively affected by the Turkish economic and financial crisis in 2001.

With total unconsolidated assets—adjusted for inflation—of New Turkish lira (TRY) 38.5 billion (\$28.5 billion at TRY1.351 to \$1) at Dec. 31, 2004, Isbank maintains a leading position in retail and corporate banking. It enjoys a 13% market share of both loans and deposits among private banks. The bank operates the second-largest branch network in Turkey, with about 850 outlets.

Isbank holds large equity participations, with a book value of \$3.6 billion at Dec. 31, 2004. The fall of the Istanbul Stock Exchange (ISE), after the lira devaluation in February 2001, dramatically reduced the bank's unrealized gains on the listed participations portfolio, although prices have now recovered significantly.

Isbank is a private bank, with an unusual shareholding structure made up of its pension fund (43.4%), the Republican People's Party (CHP; a political party; 28.1%), and private investors (28.5%), at year-end 2004. Unlike the other shareholders, the CHP does not receive dividends, having only voting rights.

Revenues continue recovering steadily, following the 2001 economic and financial crisis in Turkey. ROA improved to 1.88% in 2004, resulting from net profit of TRY693 million according to International Financial Reporting Standards (IFRS), compared with TRY354 million profit in 2003. In 2004, operating revenues rose 30% and provisioning costs halved, which more than offset a rise in the monetary position loss. The level of NPLs diminished sharply in 2004, with the ratio of NPLs to total loans declining to 8.3% at year-end (according to the bank). Previously, Isbank's loan quality had dramatically deteriorated as a direct consequence of the difficult economic situation in Turkey in 2001 and high interest rates during this period. Economic recovery and workout on bad loans should translate into further improvements. The bank's NPLs have been fully covered since year-end 2003. Isbank's capital ratios are adequate, with an adjusted common equity (ACE)-to-assets ratio of 15.4% at year-end 2004. The large holdings of nonfinancial equity investments constrain the bank's capitalization, however. The bank is addressing this issue by restructuring and consolidating its participations.

Outlook

The stable outlook on Isbank reflects that on the Republic of Turkey, as well as the bank's improving financial profile. If the positive economic developments continue, the bank will benefit from lower cost of funds and increasing business opportunities. Conversely, if confidence deteriorates, Isbank, along with other Turkish banks, will have to operate in a difficult and volatile financial environment with limited lending opportunities, making progress on asset quality and profitability much more uncertain.

Profile

Isbank is the country's largest private bank in terms of total assets, loans, deposits, and equity. It is a universal bank engaged in corporate and retail banking, capital market operations, and equity participations. As a result of its strong reputation in Turkey and its large branch network, Isbank has a large base of corporate clients: about 400 of the 500 largest corporations in Turkey are regular customers. To retain a leading position in retail banking, a customer-focused and market-oriented corporate culture was established within the bank.

The bank's equity participations portfolio consists of major companies operating principally in the financial, insurance, energy, telecommunications, petroleum distribution, iron and steel, and glass sectors. Isbank remains the leading shareholder in the insurance sector. The bank's largest nonfinancial equity participation is its 66% share in the Sisecam industrial group, which includes the world's third-largest producer of household glass products. To restructure these equity holdings, Isbank has embarked on a program under which subsidiaries operating in similar businesses are merged and nonstrategic subsidiaries sold. As a result, the number of subsidiaries decreased to 55 at year-end 2004, from 58 at year-end 2003 and 74 in 2002. Over the years, Isbank has worked on reducing its overhead expenses and number of employees. At year-end 2004, the bank had slightly more than 16,000 employees, down from more than 20,000 in 1989.

At year-end 2004, the bank's domestic network of almost 850 domestic outlets represented the second-largest network in the sector. In addition, Isbank has the largest ATM distribution capacity (2,413 at year-end 2004). Its interactive banking services allow customers to execute a wide range of transactions through ATMs, by phone, or over the Internet. Isbank has payroll agreements with about 14,000 organizations (covering more than 1.2 million employees). In total, the bank has more than 13 million individual deposit accounts. The bank holds a prominent position in the debit and credit card business. It had issued about 3.1 million credit cards at year-end 2004, representing 12% of the total Turkish credit card market, and ranking it the third-largest issuer in terms of number and turnover volume.

Isbank has a relatively limited presence abroad. Its largest foreign asset is its fully owned bank subsidiary in Germany (Isbank GmbH), which has 16 branches in Germany, Switzerland, France, and the Netherlands, and is mainly active in the trade finance and retail businesses. Isbank also has branches in London and Turkish-controlled northern Cyprus, as well as a financial services subsidiary in Dublin and an offshore branch in Bahrain. Isbank is particularly active in foreign-trade finance.

Isbank's accounts for 2004 were audited according to inflation-adjusted IFRS and audited by Deloitte Touche Tohmatsu. Standard & Poor's Ratings Services financial analysis is based on Isbank's unconsolidated inflation-adjusted accounts (in accordance with IAS29). Consolidated accounts do not permit a satisfactory analysis, as they fully consolidate banking, insurance, and industrial companies. Lower income at the group level reflects losses in manufacturing and other service sectors, except insurance and finance. As a result of lower inflation and greater market stability, Turkey's domestic currency was redenominated on Jan. 1, 2005; one unit of TRY is equal to one million units of old Turkish lira (TRL).

Ownership And Legal Status

Isbank is a private bank with an unusual shareholding structure. At Dec. 31, 2004, it continued to be owned by its own pension fund (43.4%), the CHP political party (28.1%), and by private individuals and institutional investors (28.5%). Isbank shares are listed on the ISE and are traded on the London Stock Exchange in the form of global depository receipts. The sole purpose of the bank's pension fund is to distribute retirement payments to former employees (of which there are about 25,000). The CHP is the main opposition party to the current ruling party and has no influence over Isbank. Unlike the other shareholders, it does not receive dividends for its participation in Isbank.

The board of directors consists of 11 members, including six representatives of the bank's pension fund and four representatives of the CHP. The bank is closely linked to its pension fund; for example, Ersin Özince, the bank's CEO and general manager, is also chairman of the bank's

pension fund. In addition, two of the seven board members of the pension fund are directors of Isbank.

Strategy

Management of Isbank believes that the bank needs to continue to build on its main strength—namely, its strong domestic franchise and solid reputation within Turkey. To this aim, it wants to grow its balance sheet, supported by its adequate level of capitalization and fund-generating capacity. Standard & Poor's considers that if economic development and modernization in Turkey is sustained, they will create enormous growth opportunities for leading Turkish financial institutions. Generally, there is a low level of market penetration with regard to many retail-banking services, but several developments point to potential expansion. Isbank is well positioned to benefit from the economic growth in Turkey, having one of the largest customer franchises. This should benefit from an increasing customer focus and market-oriented approach.

Isbank wants to diversify its revenue base by increasing the share of noninterest income. The focus will be on retail lending, which is characterized by good asset quality and higher returns. Isbank has launched an activity-based costing project with an external consultant to reduce costs and enhance efficiency. As the bank has already made significant investment into its distribution channels, efficiency is expected to improve in coming years.

Its historical mission to support industrial development in Turkey means that the bank still has significant shareholdings, despite moves to reduce their number in the past decade. The bank is restructuring and consolidating its participations to focus on core activities and optimize its capitalization.

Asset Quality

Loan growth is changing the structure of Isbank's assets. At Dec. 31, 2004, Isbank's balance sheet consisted of government securities (33% of total assets), although the share of net loans—particularly higher margin retail and small and midsize enterprise (SME) loans—is increasing and reached 34%, giving the bank a more diversified asset mix. The third-largest asset class was cash and bank dues, plus reserve deposits with the central bank (12%). Isbank's loan quality is improving rapidly, as demonstrated by its ratio of NPLs to total loans of 8.3% at Dec. 31, 2004, against 28.1% in 2001, which was due to restructuring, collections, and loan growth. This trend should continue, albeit at a slowing pace, as economic growth flourishes. The bank's equity participation risk remains relatively high, although the performance of these companies has been improving, in line with the economic recovery in Turkey.

Of total lending, 38% is to the SME sector, 27% each to retail and corporates, and the remaining 8% is made up of investment loans. Of total retail lending, consumer and credit card loans have equal shares, with only a small share of overdrafts. Auto loans represent 56% of consumer loans. Almost two-thirds of investment loans (or 5% of total loans) are in the form of treasury-guaranteed project finance loans.

Credit risk stemming from intragroup lending at year-end 2004 was low at 3.7% of total loans, but historically has tended to fluctuate at around 10%. Statutory limits on related-party lending have been tightening in recent years, and are due to reduce to 25% by 2006. Geographically, the loan portfolio is concentrated in the Istanbul and Ankara regions of Turkey. The bank's share of short-term loans represented 52% of the gross loans portfolio (excluding overdue loans), and medium- and long-term loans represented 48%. There is a shift toward local currency lending; the

majority of the bank's portfolio at year-end 2004 was local currency-denominated, with the remaining 44% denominated primarily in U.S. dollars (34%) and euros (10%).

Isbank's loan approval system is centralized to a large extent, although branches have a certain degree of lending authority. Prior to extending credit, each loan application is assessed initially at the branch level. The credit departments review all the largest credits. Decisions are also based, in the case of corporate borrowers, on industry sector reports and economic analyses prepared by other departments at the head office. Management regularly monitors the overall quality of the loan portfolio through the branches and their corporate loan, commercial loan, consumer loan, and credit card departments. Another department is in charge of the bank's problematic loans. Loan officers periodically visit clients, and the internal audit department regularly visits branches to prepare reports about loan portfolios. The credit information and financial analysis department also prepares financial analyses on a yearly basis using published financial statements. Standard & Poor's considers Isbank's credit risk management to be good.

Reported NPLs amounted to TRY1.1 billion at Dec. 31, 2004, compared with TRY1.2 billion one year earlier. However, included in NPLs are rescheduled loans, which reached TRY370 million and TRY421 million, respectively. The level of the bank's NPLs now compares more favorably with that of its direct private peers, but its NPLs-to-total losses ratio remains somewhat inferior to the bank sector average. The manufacturing sector accounts for by far the largest share of problem loans, followed by the textile and construction sectors. The coverage ratio was 100% in both 2004 and 2003, and rises to more than 170% when collateral is taken into account.

The other main source of asset risk is the equity participations portfolio. The bank's equity participations are the largest in the Turkish financial system. It represented 12.6% of total assets and 82.3% of ACE at year-end 2004. In addition to the banking and insurance sectors, the glass industry was prevalent among Isbank's holdings. Financial institutions are considered core business participations, and the telecoms, glass, and energy sectors are strategic noncore areas. The bank intends to reduce gradually the number of companies in which it invests, and to focus on its most important investments. It will also increase the free float of some of its majority-owned listed companies.

Unrealized capital gains on associates' and subsidiaries' shares listed on the ISE dropped sharply in 2001 with the general decline in the stock market, but are recovering; they rose to TRY1.6 billion in 2004, from TRY850 million in 2003. The unrealized gains, for the most part, were concentrated in Sisecam group companies, insurance companies, and other financial companies. The bank has not disclosed a market valuation of its unlisted participations.

Profitability

With an ROA of 1.88% in 2004, profitability is recovering strongly. Greater macroeconomic stability and forecast good sustained economic growth should support this positive trend. Among the main factors that would affect the economic environment and markets are an EU decision on starting accession negotiations, instability in Iraq, bank privatizations, interest rate hikes in the U.S., and oil price rises.

Isbank posted a non-inflation-adjusted profit of TRL418 trillion (\$250 million) in 2002 following the previous year's losses of TRL370 trillion (about \$251 million). Operating revenues continued to recover in 2003 and soared in 2004, due to an increasing volume of interest earning assets, and allowed net profit to almost double, to TRY693 million.

Before the 2001 crises, the bank had been highly profitable, with an ROA (adjusted for inflation) of about 2.5% in the period 1997-2000, as it benefited from wide net interest margins and a

favorable trading environment. The bank has benefited from the high real interest rate in Turkey during the past decade.

The larger volumes of higher margin lending are offsetting declining, but still high, local currency interest rates: net interest income of TRY2.1 billion in 2004 reflected a solid 68% annual increase, and the net interest margin recovered strongly to 7.3% from 5.7%. Noninterest income was virtually flat year on year: although fees and commission income developed well, it was offset by lower trading gains. Fees and commissions are among the highest in the banking sector, reflecting the bank's high involvement in core banking business and strong position in retail banking. However, they remain rather low by international standards, representing only 20% of total revenues in 2004. Nevertheless, they are growing rapidly, as expected, and show the bank's improving revenue diversification.

Costs rose 48% over the year, affected primarily by increases in other provisions. Productivity improvements are reflected by effective personnel cost management, for which costs dropped to 20% of revenues, compared with 25% in the two previous years. The expense incurred supporting the extensive infrastructure weighs on the cost-to-income ratio, which was 59% in 2004, according to Standard & Poor's. Operating revenues of TRY3.7 billion demonstrated a 30% annual improvement.

Asset-Liability Management

Isbank benefits from a solid customer deposit base, but is diversifying its funding via large-volume syndications and securitizations. The bank's liquidity position is adequate.

Customer deposits represent the main source of Isbank's funding and have increased substantially in recent years due to a flight to quality. Isbank's market share among private banks in total deposits grew to 12.8% at the end of the first quarter of 2005 from 6.8% at year-end 2000. The bank's nationwide branch network provides it with a wide deposit base. Total customer deposits (corporates and individuals, but excluding banks) stood at TRY23.8 billion at Dec. 31, 2004, and funded almost 62% of the bank's total assets. About 53% of these were denominated in foreign currencies (mainly U.S. dollars and euros). Demand deposits constituted a stable 26% of total deposits. These pay a much lower interest rate than time deposits and represent a major strength for the bank's profitability and liquidity.

After the 1994 monetary crisis, Isbank started to increase its borrowings from abroad. Since then, the bank has been able to secure several syndicated loans. In 2004, Isbank obtained two one-year syndicated loans of \$400 million and \$450 million, which was 60% more than funds raised by two syndicated loans the previous year. Also in 2004, it completed two securitization totaling \$750 million.

Almost all customer deposits in Turkey are short term. As such, Isbank's asset-liability management is primarily focused on liquidity management and pricing issues. Thus, the bank's policy has been to maintain a high degree of balance sheet liquidity. The trading and investment securities portfolio amounted to almost TRY13.4 billion at Dec. 31, 2004. This portfolio is made up of Turkish lira and foreign exchange-denominated and foreign currency-indexed Turkish government bonds and treasury bills. This situation provides the bank with a high return, but creates a direct link with the government's ability to repay its own domestic debt. The bank's current policy is to maintain closed currency positions.

Capital

İşbank's core capitalization ratios—as measured by Standard & Poor's ACE ratios—have stabilized at an adequate level of between 15% and 16% of total assets for the past three years. Its regulatory capital adequacy ratio continues to improve after being adversely affected by the financial crisis in 2001, and reached 29.0% at year-end 2004. This ratio allows for rapid asset expansion.

Although considered adequate at the current rating level, the large holdings of nonfinancial equity investments have to be taken into account. The bank has embarked on a restructuring project for its equity participations portfolio, together with an international consultancy firm, to increase the efficiency of the portfolio and enhance shareholder value.

The bank's dividend payout ratios were 32.4% in 2003 and 32.7% in 2004. However, almost all shareholders reinvest this money in the bank (through the purchase of rights shares). Thus, the bank is able to retain almost all of its profits (with the exception of bonuses paid to employees).

Table 1

Balance Sheet Statistics										
(Mil. TRY)	—Year ended Dec. 31—					Breakdown as a % of assets (adj.)				
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
<i>Assets</i>										
Cash and money market instruments	4,702	5,439	4,236	5,622	4,818	12.20	15.45	13.87	19.83	16.35
Securities	13,416	13,187	10,026	7,187	7,204	34.82	37.46	32.82	25.36	24.44
Trading securities (marked to market)	41	2,216	1,327	4,576	7,204	0.11	6.29	4.34	16.15	24.44
Nontrading securities	13,376	10,971	8,699	2,611	N.A.	34.72	31.17	28.48	9.21	N.A.
Customer loans (gross)	14,326	11,514	10,659	10,257	10,543	37.18	32.71	34.89	36.19	35.77
All other loans	14,326	11,514	10,659	10,257	10,543	37.18	32.71	34.89	36.19	35.77
Loan loss reserves	1,276	1,483	871	1,062	459	3.31	4.21	2.85	3.75	1.56
Customer loans (net)	13,050	10,031	9,787	9,195	10,084	33.87	28.50	32.04	32.44	34.21
Earning assets	29,727	27,568	22,225	20,693	20,837	77.15	78.32	72.76	73.01	70.69
Equity interests/participations (nonfinancial)	3,598	2,600	2,840	2,588	3,522	9.34	7.39	9.30	9.13	11.95
Inv. in unconsolidated subsidiaries (financial co.)	1,274	1,000	820	1,079	699	3.31	2.84	2.68	3.81	2.37
Fixed assets	1,916	2,511	2,592	2,509	2,811	4.97	7.13	8.49	8.85	9.54
Accrued receivables	N.A.	N.A.	66	107	117	N.A.	N.A.	0.22	0.38	0.40
All other assets	575	433	178	56	222	1.49	1.23	0.58	0.20	0.75
Total reported assets	38,530	35,200	30,546	28,345	29,478	100.00	100.00	100.00	100.00	100.00
Adjusted assets	38,530	35,200	30,546	28,345	29,478	100.00	100.00	100.00	100.00	100.00
Breakdown as a % of liabilities + equity										
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
<i>Liabilities</i>										
Total deposits	24,473	22,443	21,922	19,738	15,615	63.52	63.76	71.77	69.63	52.97
Noncore deposits	648	667	411	633	677	1.68	1.90	1.35	2.23	2.30
Core/customer deposits	23,825	21,776	21,511	19,105	14,938	61.84	61.86	70.42	67.40	50.67
Repurchase agreements	807	2,174	393	587	2,664	2.09	6.17	1.29	2.07	9.04
Other borrowings	4,138	3,407	2,114	2,473	3,017	10.74	9.68	6.92	8.73	10.24
Other credit reserves	365	233	304	177	334	0.95	0.66	0.99	0.63	1.13

Table 1

Balance Sheet Statistics										
(cont.'d)										
(Mil. TRY)	—Year ended Dec. 31—					Breakdown as a % of assets (adj.)				
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
Other liabilities	986	699	524	364	1,105	2.56	1.99	1.72	1.29	3.75
Total liabilities	30,769	28,954	25,257	23,340	22,734	79.86	82.26	82.69	82.34	77.12
Total shareholders' equity	7,762	6,246	5,288	5,005	6,744	20.14	17.74	17.31	17.66	22.88
Common shareholders' equity (reported)	7,762	6,246	5,288	5,005	6,744	20.14	17.74	17.31	17.66	22.88
Share capital and surplus	1,641	1,427	814	814	559	4.26	4.05	2.66	2.87	1.90
Revaluation reserve	571	(251)	(215)	82	626	1.48	(0.71)	(0.70)	0.29	2.13
Reserves (incl. inflation revaluations)	2,542	2,527	2,788	2,740	3,457	6.60	7.18	9.13	9.67	11.73
Retained profits	3,008	2,543	1,902	1,369	2,101	7.81	7.22	6.23	4.83	7.13
Total liabilities and equity	38,530	35,200	30,546	28,345	29,478	100.00	100.00	100.00	100.00	100.00
Less revaluation reserve, intangibles	(571)	251	215	(82)	(626)					
Tangible total equity	7,191	6,497	5,504	4,923	6,117					
Tangible common equity	7,191	6,497	5,504	4,923	6,117					
Less equity in unconsolidated subsidiaries	(1,274)	(1,000)	(820)	(1,079)	(699)					
Adjusted common equity	5,917	5,497	4,684	3,844	5,418					
Adjusted total equity	5,917	5,497	4,684	3,844	5,418					

Data as at Dec. 31. Financial statements are audited, consolidated, presented according to International Financial Reporting Standards, and adjusted according to IAS29 inflation accounting. TRY—New Turkish lira. N.A.—Not available.

Table 2

Profit and Loss Statement Statistics										
(Mil. TRY)	—Year ended Dec. 31—					Adj. avg. assets (%)				
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
<i>Profitability</i>										
Interest income	4,493	4,172	4,323	5,437	4,217	12.19	14.45	16.71	21.40	18.07
Interest expense	2,400	2,925	2,847	3,438	2,014	6.51	10.13	11.00	13.53	8.63
Net interest income	2,093	1,247	1,476	1,999	2,203	5.68	4.32	5.70	7.87	9.44
Operating noninterest income	1,582	1,575	1,143	(93)	1,361	4.29	5.45	4.42	(0.37)	5.83
Fees and commissions	710	551	339	503	410	1.92	1.91	1.31	1.98	1.76
Trading gains	494	701	(111)	(1,196)	158	1.34	2.43	(0.43)	(4.71)	0.68
Other noninterest income	379	322	915	599	792	1.03	1.12	3.54	2.36	3.39
Operating revenues	3,674	2,821	2,619	1,906	3,564	9.97	9.77	10.12	7.50	15.27
Noninterest expenses	2,185	1,480	1,387	1,658	1,797	5.93	5.12	5.36	6.53	7.70
Personnel expenses	734	707	675	741	820	1.99	2.45	2.61	2.92	3.51
Other general and administrative expense	1,349	673	620	819	891	3.66	2.33	2.40	3.22	3.82
Depreciation and amortization-other	102	100	91	99	86	0.28	0.35	0.35	0.39	0.37
Net operating income before loss provisions	1,489	1,341	1,232	248	1,766	4.04	4.64	4.76	0.97	7.57
Credit loss provisions (net new)	381	869	617	1,095	537	1.03	3.01	2.38	4.31	2.30
Net operating income after loss provisions	1,107	473	616	(847)	1,229	3.00	1.64	2.38	(3.33)	5.27
Pretax profit	1,107	473	616	(847)	1,229	3.00	1.64	2.38	(3.33)	5.27
Tax expense/credit	414	118	73	(368)	367	1.12	0.41	0.28	(1.45)	1.57

Table 2

Profit and Loss Statement Statistics										
(cont.'d)										
(Mil. TRY)	—Year ended Dec. 31—					Adj. avg. assets (%)				
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
Net income before minority interest	693	354	542	(479)	862	1.88	1.23	2.10	(1.89)	3.69
Net income before extraordinary items	693	354	542	(479)	862	1.88	1.23	2.10	(1.89)	3.69
Net income after extraordinary items	693	354	542	(479)	862	1.88	1.23	2.10	(1.89)	3.69
Core earnings	693	354	542	(479)	862	1.88	1.23	2.10	(1.89)	3.69
	2004	2003	2002	2001	2000					
<i>Asset Quality</i>										
Nonperforming assets	1,433	1,733	1,948	2,634	524					
Nonaccrual loans	1,133	1,312	1,534	2,630	524					
Restructured loans	300	421	413	4	N.A.					
<i>Average balance sheet</i>										
Average customer loans	11,541	8,706	8,340	8,471	7,425					
Average earning assets	28,647	21,873	18,857	18,247	15,870					
Average assets	36,865	28,881	25,875	25,405	23,334					
Average total deposits	23,458	19,489	18,304	15,533	12,350					
Average interest-bearing liabilities	28,720	23,041	20,750	19,373	16,098					
Average common equity	7,004	5,139	4,522	5,162	5,662					
Average adjusted assets	36,865	28,881	25,875	25,405	23,334					
<i>Other data</i>										
Number of branches	848	842	839	847	861					
Off-balance-sheet credit equivalents	7,551	9,372	9,556	7,761	9,093					

Data as at Dec. 31. Financial statements are audited, consolidated, presented according to International Financial Reporting Standards, and adjusted according to IAS29 inflation accounting. TRY—New Turkish lira. N.A.—Not available.

Table 3

Ratio Analysis					
—Year ended Dec. 31—					
	2004	2003	2002	2001	2000
<i>ANNUAL GROWTH (%)</i>					
Customer loans (gross)	24.42	8.03	3.92	(2.71)	63.48
Loss reserves	(4.35)	46.02	(5.17)	56.26	10.40
Adjusted assets	9.46	15.24	7.76	(3.84)	41.96
Customer deposits	9.41	1.23	12.59	27.90	41.71
Tangible common equity	10.67	18.05	11.80	(19.52)	26.21
Total equity	24.27	18.10	5.67	(25.79)	24.94
Operating revenues	30.23	7.74	37.41	(46.52)	26.19
Noninterest expense	47.66	6.74	(16.38)	(7.75)	47.25
Net operating income before provisions	10.99	8.86	397.52	(85.98)	10.16
Loan loss provisions	(56.09)	40.90	(43.68)	103.84	20.86
Net operating income after provisions	134.32	(23.23)	N.M.	(168.91)	6.05
Pretax profit	134.32	(23.23)	N.M.	(168.91)	6.05
Net income	95.69	(34.67)	N.M.	(155.62)	44.25

Table 3

Ratio Analysis		(cont.'d)				
		—Year ended Dec. 31—				
		2004	2003	2002	2001	2000
		2004	2003	2002	2001	2000
<i>PROFITABILITY (%)</i>						
<i>Interest Margin Analysis</i>						
Net interest income (taxable equiv.)/avg. earning assets		7.30	5.70	7.83	10.96	13.88
Net interest spread		7.33	6.38	9.20	12.05	14.06
Interest income (taxable equiv.)/avg. earning assets		15.68	19.07	22.93	29.80	26.57
Interest income on loans/avg. total loans		19.62	20.94	21.92	36.62	30.17
Interest expense/avg. interest-bearing liabilities		8.36	12.70	13.72	17.75	12.51
Interest expense on deposits/avg. deposits		8.33	13.06	13.61	20.35	14.72
<i>Revenue Analysis</i>						
Net interest income/revenues		56.95	44.18	56.36	104.90	61.81
Fee income/revenues		19.31	19.54	12.94	26.38	11.51
Market-sensitive income/revenues		13.43	24.85	(4.24)	(62.74)	4.45
Noninterest income/revenues		43.05	55.82	43.64	(4.90)	38.19
Personnel expense/revenues		19.97	25.06	25.78	38.86	23.00
Noninterest expense/revenues		59.48	52.46	52.95	87.00	50.44
Noninterest expense/revenues less investment gains		59.48	52.46	52.95	87.00	50.44
Expense less amortization of intangibles/revenues		59.48	52.46	52.95	87.00	50.44
Expense less all amortizations/revenues		56.69	48.92	49.47	81.82	48.01
Net operating income before provision/revenues		40.52	47.54	47.05	13.00	49.56
Net operating income after provisions/revenues		30.14	16.75	23.51	(44.45)	34.49
New loan loss provisions/revenues		10.38	30.79	23.55	57.44	15.07
Pretax profit/revenues		30.14	16.75	23.51	(44.45)	34.49
Net income/revenues		18.87	12.56	20.71	(25.15)	24.18
Tax/pretax profit		37.38	25.02	11.88	43.41	29.89
		2004	2003	2002	2001	2000
<i>Other Returns</i>						
Net income before minority interest/avg. adjusted assets		1.88	1.23	2.10	(1.89)	3.69
Net income/avg. assets + securitized assets		1.88	1.23	2.10	(1.89)	3.69
Personnel expense/branch (mil. TRY)		0.87	0.84	0.80	0.87	0.95
Noninterest expense/branch (mil. TRY)		2.59	1.76	1.64	1.94	2.09
Cash earnings/avg. tang. common equity (ROE) (%)		11.63	7.57	12.15	(6.89)	17.30
Core earnings/avg. tang. common equity (ROE) (%)		10.13	5.91	10.41	(8.68)	15.72
		2004	2003	2002	2001	2000
<i>FUNDING AND LIQUIDITY (%)</i>						
Customer deposits/funding base		80.99	77.71	88.05	83.80	70.15
Total loans/customer deposits		60.13	52.88	49.55	53.69	70.58
Total loans/customer deposits + long-term funds		45.35	41.09	39.77	42.54	48.63
Customer loans (net)/assets (adj.)		33.87	28.50	32.04	32.44	34.21
		2004	2003	2002	2001	2000

Table 3

Ratio Analysis	(cont.'d)				
	—Year ended Dec. 31—				
	2004	2003	2002	2001	2000
<i>CAPITALIZATION (%)</i>					
Adjusted common equity/adjusted assets	15.36	15.62	15.33	13.56	18.38
Adjusted common equity/adjusted assets + securitization	15.36	15.62	15.33	13.56	18.38
Adjusted common equity/customer loans (net)	45.34	54.80	47.86	41.80	53.73
Internal capital generation/prior year's equity	11.10	3.58	10.84	(10.31)	10.86
Adjusted total equity/adjusted assets	15.36	15.62	15.33	13.56	18.38
Adjusted total equity/adjusted assets + securitizations	15.36	15.62	15.33	13.56	18.38
Adjusted total equity plus LLR (specific)/customer loans (gross)	50.21	60.62	52.12	47.82	55.74
	2004	2003	2002	2001	2000
<i>ASSET QUALITY (%)</i>					
New loan loss provisions/avg. customer loans (net)	3.31	9.98	7.39	12.92	7.23
Loan loss reserves/customer loans (gross)	8.90	12.88	8.17	10.35	4.35
Nonperforming assets (NPA)/customer loans + ORE	10.01	15.05	18.27	25.69	4.97
NPA (excl. delinquencies)/customer loans + ORE	10.01	15.05	18.27	25.69	4.97
Net NPA/customer loans (net) + ORE	1.21	2.49	11.00	17.11	0.64
NPA (net specifics)/customer loans (net specifics)	1.21	2.49	11.00	17.11	0.64
Loan loss reserves/NPA (gross)	89.00	85.58	44.73	40.29	87.61

Data as at Dec. 31. Financial statements are audited, consolidated, presented according to International Financial Reporting Standards, and adjusted according to IAS29 inflation accounting. TRY—New Turkish lira. N.M.—Not meaningful.

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