This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. Click here to link.

Analysis

TURKEY
Europe/M.East/Africa

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Turkiye Is Bankasi AS

CREDIT STRENGTHS

The main credit strengths for Türkiye Is Bankasi (Isbank) are:

- A diversified franchise with strong market positions in attractive/promising businesses underscores long term earning capacity
- Strong earning profile that is nevertheless overly dependent on interest income on government securities
- A strong and stable deposit base that supports the liquidity profile and earnings
- A high likelihood of support by the government, in a crisis situation, sustains the local currency deposit ratings

CREDIT CHALLENGES

The main credit challenges for Isbank are:

- Low 'free capital' despite good levels of regulatory capital
- Large equity participations dilute earning capacity and impose contingent liabilities
- Earnings and capital are exposed to a moderate level of credit risk
- Maturity gaps expose earnings and capital to interest rate risk

Moody's Investors Service
Global Credit Research

Broad Business Profile With Strong Market Positions, Underscores Long Term Earning Capacity

Isbank's 'D' FSR is supported by a broad and well established commercial banking franchise that generates healthy levels of income. With a strong presence in several retail and commercial banking business lines, the bank is also well positioned to function profitably in a lower interest rate environment, as Turkey's macroeconomic environment stabilises. We have identified the following factors that explain the strength and defensibility of Isbank's franchise.

i. Strong market shares in businesses which either currently generate high earnings or have the potential to do so in the near future. For example, with a market share of 12% in deposits, loans, mutual funds (20%) and credit card transactions and balances, Isbank is one of the top two or three banks in each of these businesses.
ii. A strong reputation within the Turkish market with positive historical/national associations
iii. A reasonably good presence internationally serving the Turkish community in Europe
iv. A very powerful distribution capacity with the largest branch network among private sector banks and well developed alternative distribution channels.
v. Healthy current profitability and good internal capital generation that enables the bank to continue investing in its business
vi. A good product development capacity, which helps achieve breadth and depth in the businesses in which it competes.
vii. The already highly developed nature of retail banking in Turkey that minimises the threat that new entrants or foreign banks might enter the market and steal market share.

We would expect Isbank to continue to improve the quality of its franchise by further leveraging its existing infrastructure and product base. The expected decline in interest margins should be partly compensated for by the consequent efficiency gains and by the opportunities for better risk assessment and pricing.

Strong Earning Profile That Is Nevertheless Overly Dependent On Interest Income From Government Securities

In 2003, Isbank generated strong recurring income of 4.22% of average assets, and is well on its way to improving on that figure in 2004. High earning capacity has enabled the bank to take large provisions and replenish its capital levels since 2002 and is an important factor sustaining the bank's 'D' FSR.

Isbank's earning capacity rests partly on the strong interest margins that are currently typical of the Turkish operating environment. The spread (loan yield minus deposit cost) on TRL business can be as high as 15%, while that on US$ business is closer to 3.5%. About half of Isbank's interest income comes from its government securities portfolio, The TRL portion of which currently yield about 10% above inflation. As the macroeconomic environment in Turkey stabilises we should see real interest rates on government securities come down while banks' ability to reallocate funds into other, healthy, revenue-generating assets will be a test of their franchise strength. We believe that Isbank is well placed to succeed in this expected transition.

GOOD NON-INTEREST INCOME GENERATION IS NEGATED BY HIGH OPERATING EXPENSES

Isbank also earns very high levels of non-interest income - amounting to 4.85% of average assets in 2003 — comparing favourably with both peer domestic banks and European banks more broadly. A large part of this income is fees and commissions from credit card transactions and from fund management services. We attach a high value to these income streams and term them 'good quality' because they are earned on a very large customer base and because they are not highly correlated with credit cycles. We believe that Isbank's fee-generating capacity is sustainable for the reasons cited in the previous section.

The bank's non-interest earning capacity is unfortunately negated by a heavy operating cost base. Although Isbank's cost-income ratio of 51% (2003) compares favourably with those of other European banks, this is kept low by the currently high interest spreads characteristic of the Turkish operating environment. As a percentage of assets, the operating expense ratio of most Turkish banks is weak compared to other European counterparts. Isbank's 2003 ratio came in at 4.42%. The high cost base is partly explained by the bank's broad branch network, extensive range of products and services, and the associated high marketing costs. We are not too concerned about this expense base because it relates to capabilities that can be significantly leveraged as the bank increases business volumes.

Large Equity Participations Dilute Earning Capacity And Impose Contingent Liabilities

Its large equity participations constitute the major constraining factor on Isbank's 'D' FSR. At the end of June 2004 the bank's non-banking equity participations accounted for 10.0% of total assets and 56% of equity. The bulk of these equity investments are in industrial and service sectors, the three most important of which are glass manufacturing (Sisecam), petrol distribution (Petrol Ofisi) and mobile telephony (Avea). Glass manufacturing and petrol distribution have strong and defensible market positions in Turkey, while the telecoms subsidiary is a distant third player and is taking longer to establish itself. These assets were acquired by Isbank as part of a strategy to use the bank as a vehicle to create a diversified business conglomerate.

Moody's has negative view of banks' holdings of non-financial participations for three key reasons; it diverts management attention from developing the core banking franchise (there is little evidence of this at Isbank), it reduces 'free' capital, and it imposes contingent liabilities on the bank. Ownership of such participations increases the likelihood of related party lending and/or may lead to the financing of companies that the bank would otherwise have not lent to, particularly during periods of economic downturn. When Isbank converted some US$380 million of loans to its telecoms subsidiary in the first quarter of 2004 into equity, as part of a restructuring plan[1], it was an example of how these participations impose contingent obligations on the bank. Although Isbank could comfortably cope with this debt to equity swap in this case, it still represented a less than optimal fund allocation.

Though Isbank is seriously considering ways in which it can remove non-financial participations from its balance sheet and has commissioned consultant to assist it, it still seems quite a long way away from resolving this issue in a satisfactory way. The timing of any fundamental restructuring of Isbank's equity portfolio will partly depend on equity market conditions and on changes to the tax and commercial codes that would limit transaction costs. In the meantime, Isbank has sold some of its non-core equity participations raising some US$320 million over the last two to three years.

Low Free Capital Despite Healthy Levels of Regulatory Capital

Low free capital is a major factor constraining the bank's FSR. The large equity participations and quite significant fixed asset volumes together reduce Isbank's free capital to very low levels (TRL404.8 trillion, equivalent to 6.6% of total shareholders' equity and 1.2% of total assets at the end of June 2004, excluding financial participations). This means that Isbank's loans and other financial assets are essentially funded with third party funds and that there is little cash equity available to absorb unexpected losses. The bank's capital adequacy ratio (CAR), calculated according to BRSA[2] standards is currently around 30%".

HIGH LEVEL OF GENERAL PROVISIONING PARTLY ADDRESSING THE LOW FREE CAPITAL ISSUE

Current high recurring profitability has allowed the bank to start building general reserves of some US$400 million. These can be considered a form of quasi equity that would be the second line of defence against asset impairment after earnings, and before capital levels are impacted.

Earnings And Capital Exposed to a Moderate Level of Credit Risk

Isbank's asset quality has been on an improving trend since 2002 as existing non-performing lons (NPLs) are restructured or written off and new, better quality loans are added. The sharp reduction in gross NPLs and associated high level of provisioning has been one of the drivers behind Moody's recent action to change the outlook on Isbank's 'D' FSR to stable from negative. At the end of September 2004 gross NPLs accounted for 7.7% of gross loans and were fully provisioned.

RETAIL LENDING IS ACCOUNTING FOR THE BULK OF THE CREDIT GROWTH

Isbank has been rapidly growing its retail lending portfolio, which now exceeds one third of total loans. These loans currently exhibit a low default rate of 1.7%, which, because it is still a relatively young portfolio is not indicative of the longer term performance. The loans are primarily car loans, with the rest made up of credit card balances and instalment payments on white goods or other durables. Our concerns over the rapid growth in this lending are mitigated by a number of factors; the use of an up-to-date scoring system, the still low level of consumer lending in the Turkish economy the current benign economic performance.

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1. *In the first quarter of 2004 Isbank's telecoms subsidiary, Aria, merged with Aycell, the GSM operator owned by Turk Telecom to create a stronger player. The shareholding of the merged entity includes Turk Telecom (40%), the Telecom Italia Group (40%) and Isbank and its subsidiaries (20%). The US$380 million debt-equity swap was part of the restructuring that was undertaken, following the merger.*
2. *Banking Regulation and Supervision Agency of Turkey*

On the corporate side, beyond the bank's long term relationships with large groups, new lending is focused on small and medium sized enterprises (SMEs). We believe that there is a moderate level of credit risk associated with lending to this group. Smaller companies are less resilient to economic downturn than larger ones, but as a group they are far less concentrated. If the risk is properly assessed and priced, then lending to SMEs can become a valuable franchise for Isbank.

A Strong And Stable Deposit Base Supports Liquidity And Earnings

Isbank has the largest market share in deposits amongst private sector banks, with 12%. Its market share has grown significantly since 1999, reflecting two key attributes of the bank; its solid reputation as one of the largest and oldest banks in Turkey, and its broad branch network. The failure of a large number of private sector Turkish banks since 2000 has led to a flight to quality, and this has undoubtedly benefited Isbank more than any other bank. We believe that in times of macroeconomic stress, Isbank's deposit base will continue to be more resilient than those of most domestic peers, supporting the bank's liquidity profile. This phenomenon is likely to be reinforced following the lifting of the deposit guarantee by the Turkish financial authorities in June 2004.

Isbank's strong deposit market share is complemented by a favourable deposit composition, which serves to keep deposit costs down. The bank has a high proportion of non-remunerated demand deposits, mainly as a result of its payroll, bill payment and cash management business, while the size of the average deposit is also quite small, and consequently less prone to chase yield. This allows Isbank to remunerate deposits conservatively.

A TIGHTER LIQUIDITY PROFILE AS THE BANK PURSUES YIELD

Isbank's liquidity profile has tightened over the past two years. This trend is typical of most Turkish private sector banks as they attempt to maximise the yield on their assets. Core liquid assets, composed of cash and bank deposits accounted for about 11% of total assets at the end of 2003 (13% at the end of June 2004), which leave only slight margin for managing liquidity. The bank's large portfolio of government securities is not factored in the calculation of core liquidity since the trading of such securities becomes scarce during periods of instability. Nonetheless, we believe that in times of stress the central bank will extend liquidity to Turkish banks through the repo of government securities. Such liquidity assistance will be more forthcoming to the larger banks in the system, including Isbank. It should be noted, however, that in recent instances of banking sector liquidity crisis, for example in 2001, Isbank has not had to resort to central bank liquidity support.

Maturity Gaps Expose Isbank To Considerable Interest Rate Risk

Isbank is exposed to considerable interest rate risk due to the maturity mismatches in its assets and liabilities. The short tenure of deposits, in both TRL and US$ is typical of Turkish banks and means that Isbank is liability sensitive. The current trend towards lower interest rates therefore favours the bank, but it is still vulnerable to sudden spikes in interest rates in response to possible macroeconomic or political instability. Such events have manifested themselves in the recent past, when the asset liability structure of Turkish banks was even more fragile.

FOREIGN CURRENCY SHORT POSITION IS HEDGED THROUGH GOVERNMENT SECURITIES

While a large proportion of Isbank's deposits are in US$, the bulk of its lending is in TRL. To protect itself from adverse exchange rate movements, the bank hedges itself by investing in foreign exchange-denominated government securities. The exchange rate risk is therefore passed onto the government.

A High Likelihood of Support by The Government, in a Crisis Situation, Sustains The Local Currency Deposit Ratings

We believe that in a crisis situation, the government would extend support to Isbank. Given the bank's large domestic market share in deposits and its close association with the Turkish state, having been set up by modern Turkey's revered founder, Ataturk, it is highly unlikely that the bank would be allowed to fail. This likelihood of support pushes up the bank's local currency rating to Baa2/P-2, higher than would otherwise be implied by it's stand alone financial strength.

Related Research

Analysis:

Turkiye Is Bankasi AS, February 2003 (77374)

Issuer Profile:

Turkiye Is Bankasi AS, December 3, 2004

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Turkiye Is Bankasi AS

	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99
Summary Balance Sheet (TL billion)					
Cash & central bank	1,908,352	1,644,112	2,085,720	1,523,239	1,412,056
Due from banks	1,643,090	1,744,969	2,342,028	2,722,017	2,728,855
Government Securities	3,363,722	1,711,734	2,473,520	2,196,852	3,520,397
Trading Securities	8,443,357	5,509,956	3,064,386	3,566,962	766,759
Investment Securities	1,002,456	1,921,936	1,294,191	583,572	43,053
Other Liquid Assets	—	—	—	—	—
Gross loans	10,114,358	9,366,015	9,016,278	9,289,148	6,522,681
Loan loss reserves (LLR)	(1,302,719)	(765,573)	(933,156)	(480,828)	(464,848)
Net Loans	8,811,639	8,600,442	8,083,122	8,808,319	6,057,832
Equity in affiliates	3,161,948	3,216,080	3,223,891	3,719,497	2,224,948
Fixed assets	2,205,853	2,278,039	2,205,813	2,476,426	2,361,718
Other assets	380,310	214,214	143,783	298,630	1,885,941
Total assets	30,920,727	26,841,482	24,916,453	25,895,515	21,001,559
Total assets (USD billion)	22.14	19.22	17.84	18.54	12.78
Customer deposits	19,714,513	19,263,488	17,350,555	13,757,535	10,660,730
Due to banks	2,151	—	—	128,012	838,906
Borrowings	4,642,254	2,012,229	2,421,684	4,877,004	2,077,161
Other liabilities	930,126	918,650	744,818	1,191,386	1,966,062
Total liabilities	25,289,044	22,194,367	20,517,057	19,953,937	15,542,859
Subordinated loan capital	—	—	—	—	—
Minority interest	—	—	—	—	—
Supplementary Capital	(219,506)	(189,133)	129,633	1,232,252	556,741
Shareholders' equity	5,851,189	4,836,248	4,269,762	4,709,325	4,901,959
Total capital funds	5,631,683	4,647,115	4,399,395	5,941,577	5,458,699
Total liabilities & capital funds	30,920,727	26,841,482	24,916,453	25,895,515	21,001,559
Derivatives - notional amount	—	—	724,775	1,622,816	—
Derivatives - replacement value	—	—	—	—	—
Risk weighted assets (RWA)	—	—	—	—	—
Contigent liabilities	8,232,896	8,397,609	6,672,440	8,011,486	7,248,284
Summary Income Statement (TL billion)					
Interest income	3,664,745	3,799,065	4,779,545	3,715,055	4,621,947
Interest expense	(2,569,707)	(2,502,150)	(3,022,244)	(1,774,399)	(2,071,117)
Net interest income	1,095,038	1,296,915	1,757,301	1,940,656	2,550,829
FX income	(54,551)	(500,240)	(953,914)	(188,387)	(191,214)
Trading income	670,492	402,662	(97,092)	328,000	320,774
Fees & commissions	484,304	297,833	442,017	361,520	36,616
Other operating income	300,740	748,407	576,487	800,277	699,778
Total non interest income	1,400,985	948,662	(32,501)	1,301,410	865,954
Operating income	2,496,023	2,245,577	1,724,800	3,242,066	3,416,783
Personnel expenses	(640,903)	(601,354)	(718,566)	(722,061)	(698,252)
Other operating expenses	(549,231)	(537,143)	(652,144)	(690,068)	(365,465)
Operating funds flow	1,305,889	1,107,080	354,090	1,829,936	2,353,066
Amortisation/depreciation	(87,588)	(79,872)	(86,871)	(76,189)	(170,752)
Total non-interest expense	(1,277,722)	(1,218,369)	(1,457,581)	(1,488,319)	(1,234,469)
Preprovision income (PPI)	1,218,301	1,027,208	267,219	1,753,747	2,182,314
Loan loss provisions (LLP)	(763,182)	(402,070)	(872,630)	(225,453)	(495,899)
Non operating income	(39,962)	(84,158)	(139,208)	(445,315)	(514,236)
Pretax income	415,157	540,980	(744,620)	1,082,979	1,172,179
Taxes	(103,871)	(64,286)	323,242	(323,710)	(567,978)
Net income	311,286	476,694	(421,377)	759,269	604,201
Minority interests	—	—	—	—	—
Net income (group share)	311,286	476,694	(421,377)	759,269	604,201
Dividends	—	—	—	—	(324,883)
Transfers to capital reserves	(311,286)	(476,694)	421,377	(759,269)	(279,318)
Other adjustments	—	—	—	—	—

Turkiye Is Bankasi AS

	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99
Summary Balance Sheet - Growth (%)					
Cash & central bank	16.07	-21.17	36.93	7.87	—
Due from banks	-5.84	-25.49	-13.96	-0.25	—
Government Securities	96.51	-30.80	12.59	-37.60	—
Trading Securities	53.24	79.81	-14.09	365.20	—
Investment Securities	-47.84	48.50	121.77	1,255.49	—
Other Liquid Assets	—	—	—	—	—
Gross loans	7.99	3.88	-2.94	42.41	—
Loan loss reserves (LLR)	70.16	-17.96	94.07	3.44	—
Net Loans	2.46	6.40	-8.23	45.40	—
Equity in affiliates	-1.68	-0.24	-13.32	67.17	—
Fixed assets	-3.17	3.27	-10.93	4.86	—
Other assets	77.54	48.98	-51.85	-84.17	—
Total assets	15.20	7.73	-3.78	23.30	—
Total assets (USD)	15.20	7.73	-3.78	45.11	—
Customer deposits	2.34	11.03	26.12	29.05	—
Due to banks	—	—	—	-84.74	—
Borrowings	130.70	-16.91	-50.34	134.79	—
Other liabilities	1.25	23.34	-37.48	-39.40	—
Total liabilities	13.94	8.18	2.82	28.38	—
Subordinated loan capital	—	—	—	—	—
Minority interest	—	—	—	—	—
Supplementary Capital	16.06	-245.90	-89.48	121.33	—
Shareholders' equity	20.99	13.27	-9.33	-3.93	—
Total capital funds	21.19	5.63	-25.96	8.85	—
Total liabilities & capital funds	15.20	7.73	-3.78	23.30	—
Derivatives - notional amount	—	—	-55.34	—	—
Derivatives - replacement value	—	—	—	—	—
Risk weighted assets (RWA)	—	—	—	—	—
Contingent liabilities	-1.96	25.86	-16.71	10.53	—
Summary Income Statement - Growth (%)					
Interest income	-3.54	-20.51	28.65	-19.62	—
Interest expense	2.70	-17.21	70.32	-14.33	—
Net interest income	-15.57	-26.20	-9.45	-23.92	—
FX income	-89.10	-47.56	406.36	-1.48	—
Trading income	66.51	-514.72	-129.60	2.25	—
Fees & commissions	62.61	-32.62	22.27	887.33	—
Other operating income	-59.82	29.82	-27.96	14.36	—
Total non interest income	47.68	-3,018.84	-102.50	50.29	—
Operating income	11.15	30.19	-46.80	-5.11	—
Personnel expenses	6.58	-16.31	-0.48	3.41	—
Other operating expenses	2.25	-17.63	-5.50	88.82	—
Operating funds flow	17.96	212.65	-80.65	-22.23	—
Amortisation/depreciation	9.66	-8.06	14.02	-55.38	—
Total non-interest expense	4.87	-16.41	-2.07	20.56	—
Preprovision income (PPI)	18.60	284.41	-84.76	-19.64	—
Loan loss provisions (LLP)	89.81	-53.92	287.06	-54.54	—
Non operating income	-52.52	-39.55	-68.74	-13.40	—
Pretax income	-23.26	-172.65	-168.76	-7.61	—
Taxes	61.58	-119.89	-199.86	-43.01	—
Net income	-34.70	-213.13	-155.50	25.67	—
Minority interests	—	—	—	—	—
Net income (group share)	-34.70	-213.13	-155.50	25.67	—

Turkiye Is Bankasi AS

	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99
Balance Sheet - % of Total Assets					
Cash & central bank	6.17	6.13	8.37	5.88	6.72
Due from banks	5.31	6.50	9.40	10.51	12.99
Government Securities	10.88	6.38	9.93	8.48	16.76
Trading Securities	27.31	20.53	12.30	13.77	3.65
Investment Securities	3.24	7.16	5.19	2.25	0.20
Other Liquid Assets	—	—	—	—	—
Gross loans	32.71	34.89	36.19	35.87	31.06
Loan loss reserves (LLR)	-4.21	-2.85	-3.75	-1.86	-2.21
Net Loans	28.50	32.04	32.44	34.01	28.84
Equity in affiliates	10.23	11.98	12.94	14.36	10.59
Fixed assets	7.13	8.49	8.85	9.56	11.25
Other assets	1.23	0.80	0.58	1.15	8.98
Customer deposits	63.76	71.77	69.63	53.13	50.76
Due to banks	0.01	—	—	0.49	3.99
Borrowings	15.01	7.50	9.72	18.83	9.89
Other liabilities	3.01	3.42	2.99	4.60	9.36
Total liabilities	81.79	82.69	82.34	77.06	74.01
Subordinated loan capital	—	—	—	—	—
Minority interest	—	—	—	—	—
Supplementary Capital	-0.71	-0.70	0.52	4.76	2.65
Shareholders' equity	18.92	18.02	17.14	18.19	23.34
Total capital funds	18.21	17.31	17.66	22.94	25.99
Income Statement - % of Average Assets					
Interest income	12.69	14.41	20.82	14.35	22.01
Interest expense	-8.90	-9.49	-13.16	-6.85	-9.86
Net interest income	3.79	4.92	7.65	7.49	12.15
FX income	-0.19	-1.90	-4.15	-0.73	-0.91
Trading income	2.32	1.53	-0.42	1.27	1.53
Fees & commissions	1.68	1.13	1.93	1.40	0.17
Other operating income	1.04	2.84	2.51	3.09	3.33
Total non interest income	4.85	3.60	-0.14	5.03	4.12
Operating income	8.64	8.52	7.51	12.52	16.27
Personnel expenses	-2.22	-2.28	-3.13	-2.79	-3.32
Other operating expenses	-1.90	-2.04	-2.84	-2.66	-1.74
Operating funds flow	4.52	4.20	1.54	7.07	11.20
Amortisation/depreciation	-0.30	-0.30	-0.38	-0.29	-0.81
Total non-interest expense	-4.42	-4.62	-6.35	-5.75	-5.88
Preprovision income (PPI)	4.22	3.90	1.16	6.77	10.39
Loan loss provisions (LLP)	-2.64	-1.52	-3.80	-0.87	-2.36
Non operating income	-0.14	-0.32	-0.61	-1.72	-2.45
Pretax income	1.44	2.05	-3.24	4.18	5.58
Taxes	-0.36	-0.24	1.41	-1.25	-2.70
Net income	1.08	1.81	-1.84	2.93	2.88
Minority interests	—	—	—	—	—
Net income (group share)	1.08	1.81	-1.84	2.93	2.88
Income Statement - % of Operating Income					
Interest income	146.82	169.18	277.11	114.59	135.27
Interest expense	-102.95	-111.43	-175.22	-54.73	-60.62
Net interest income	43.87	57.75	101.88	59.86	74.66
FX income	-2.19	-22.28	-55.31	-5.81	-5.60
Trading income	26.86	17.93	-5.63	10.12	9.39
Fees & commissions	19.40	13.26	25.63	11.15	1.07
Other operating income	12.05	33.33	33.42	24.68	20.48
Total non interest income	56.13	42.25	-1.88	40.14	25.34
Operating income	100.00	100.00	100.00	100.00	100.00
Personnel expenses	-25.68	-26.78	-41.66	-22.27	-20.44
Other operating expenses	-22.00	-23.92	-37.81	-21.28	-10.70
Operating funds flow	52.32	49.30	20.53	56.44	68.87
Amortisation/depreciation	-3.51	-3.56	-5.04	-2.35	-5.00
Total non-interest expense	-51.19	-54.26	-84.51	-45.91	-36.13
Preprovision income (PPI)	48.81	45.74	15.49	54.09	63.87
Loan loss provisions (LLP)	-30.58	-17.90	-50.59	-6.95	-14.51
Non operating income	-1.60	-3.75	-8.07	-13.74	-15.05
Pretax income	16.63	24.09	-43.17	33.40	34.31
Taxes	-4.16	-2.86	18.74	-9.98	-16.62
Net income	12.47	21.23	-24.43	23.42	17.68
Minority interests	—	—	—	—	—
Net income (group share)	12.47	21.23	-24.43	23.42	17.68

Turkiye Is Bankasi AS

	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99
Profitability Indicators					
Return on Average Assets (%)	1.08	1.81	-1.84	2.93	2.88
Return on Shareholder's Equity - period end (%)	5.32	9.86	-9.87	16.12	12.33
Recurring Earning Power [1]	4.22	3.90	1.16	6.77	10.39
PPI (%) Avg Total Capital Funds	23.71	19.40	5.42	29.52	39.98
Interest Expense (%) Interest Income	70.12	65.86	63.23	47.76	44.81
Interest Income (%) Avg Interest Earning Assets [2]	16.35	19.68	30.09	20.24	34.03
Interest Expense (%) Avg Interest Bearing Liabilities [3]	11.26	12.50	18.12	9.46	15.25
Net Spread (%) [4]	5.09	7.18	11.96	10.78	18.78
Net Interest Margin (%) [5]	4.89	6.72	11.06	10.57	18.78
Non-Interest Income (%) Operating income	56.13	42.25	-1.88	40.14	25.34
Income Tax (%) Pre-tax Income	25.02	11.88	43.41	29.89	48.45
Efficiency Indicators					
Non Interest Expense (%) Avg Assets	4.42	4.62	6.35	5.75	5.88
Cost-to-income Ratio (%) [6]	51.19	54.26	84.51	45.91	36.13
Personnel Expenses (%) Avg Assets	2.22	2.28	3.13	2.79	3.32
Personnel Expenses (%) Operating Income	25.68	26.78	41.66	22.27	20.44
Personnel Expenses (%) Non Interest Expense	50.16	49.36	49.30	48.52	56.56
Liquidity Indicators					
Net Loans (%) Customer Deposits	44.70	44.65	46.59	64.03	56.82
Net Loans (%) Total Deposits [7]	44.69	44.65	46.59	63.44	52.68
Average Net Loans (%) Average Customer Deposits	44.67	52.72	50.48	64.03	56.82
Liquid Assets [8] (%) Total Assets	49.67	39.53	40.00	38.65	40.13
Customer Deposits (%) Total Deposits	99.99	100.00	100.00	99.08	92.70
Customer Deposits / Shareholders' Equity (Times)	3.37	3.98	4.06	2.92	2.17
Due from Banks (%) Due to Banks	76,387.26	—	—	2,126.37	325.29
Loan Portfolio Quality Indicators					
Average Net Loans (%) Average Assets	30.14	33.01	30.80	34.01	28.84
Problem Loans (%) Gross Loans	11.39	14.39	25.65	4.97	6.85
Problem Loans (%) (Shareholders' Equity + LLR)	16.10	24.06	44.44	8.89	8.32
(Problem Loans - LLR) (%) Shareholders' Equity	-2.57	12.04	32.30	-0.41	-0.37
Loan Loss Reserve (%) Gross Loans	12.88	8.17	10.35	5.18	7.13
Loan Loss Provision (%) Pre-Provision Income	62.64	39.14	326.56	12.86	22.72
LLP (%) (Loan Loss Reserve - LLP)	141.45	110.61	1,441.74	88.28	-1,597.07
Loan Loss Provision (%) Gross Loans	7.55	4.29	9.68	2.43	7.60
Related-party assets (%) Equity	71.93	95.81	106.20	109.75	17.24
Related-party liabilities(%) Equity	6.01	3.32	1.98	0.97	1.76
Related-party loan commitments (%) Equity	—	—	—	—	—
Capitalization Indicators					
Tier 1 ratio (%)	—	—	—	—	—
Shareholders' Equity (%) Total Assets	18.92	18.02	17.14	18.19	23.34
Shareholders' Equity (%) T. Assets + Contingent Liabilities	14.94	13.72	13.52	13.89	17.35
Total Capital funds (%) Total Assets	18.21	17.31	17.66	22.94	25.99
Total Capital (%) T. Assets + Contingent Liabilities	14.38	13.19	13.93	17.52	19.32
Shareholders' Equity (%) Total Capital funds	103.90	104.07	97.05	79.26	89.80
Contingent Liabilities (%) Total Assets	26.63	31.29	26.78	30.94	34.51
"Free" Capital [9] (%) Sharehoders' Equity	8.26	-13.60	-27.17	-31.57	6.43
Dividend Payout (%) [10]	—	—	—	—	-53.77
Internal Capital Growth (%) [11]	6.44	10.12	-8.60	—	—

[1] Recurrning Earning Power = Preprovision Income (%) Average Total Assets
[2] Interest Earning Assets = Central Bank + Due from Banks + Government Securities + Trading Securities + Investment Securities + Net Loans
[3] Interest Bearing Liabilities = Customer Deposits + Due to Banks + Borrowings + Subordinated Debt Capital
[4] Net spread = Interest Income (%) Avg Earning Assets - Interest Expense (%) Avg Interest Bearing Liabilities
[5] Net interest margin = Net Interest Income (%) Average Earning Assets
[6] Cost to Income Ratio = Total non interest expense (%) Operating income
[7] Total deposits = Customer deposits + Due to banks
[8] Liquid Assets = Cash & Central Bank + Due from Banks + Government Securities + Trading Securities + Other Liquid Assets
[9] Free Capital = Shareholders' Equity - Fixed Assets - Equity in Affiliates
[10] Dividend Payout = Dividents (%) Net Income
[11] Internal Capital Growth = Current period's Net income - Current period's Dividends (%) Last period's Shareholders' Equity

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